Introduction: governing the Asia Pacific—beyond the ‘new regionalism’

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ABSTRACT This paper provides a broad introduction to the special issue and examines the main contours of regional governance in the Asia Pacific. It suggests that prevailing theories of regional co-operation in the Asia Pacific fail to pay due heed to the manner in which regional integration is rooted in domestic coalitions, economic strategies, and state forms that prevailed in the boom years of the ‘Asian Miracle’. The paper then goes on to argue that the collapse of the developmentalist project has given way to the new regulatory state, which in turn spawns new forms of regulatory regionalism that place a heavy accent on policy co-ordination and harmonisation.

This special issue seeks to examine, within the Asia Pacific, the dynamics and nuances of the new regional co-operation. A critical idea which underlines this analytical overview and exploration is that this regional co-operation has to move beyond the ‘new regionalism’, characteristic of trade liberalisation in the 1990s. With the advent of the Asian economic crisis, the new forms of regional governance that emerged are firmly located within the broader framework of social and political changes that occurred across the region. Against this background, the articles in this issue must be seen as filling a much neglected gap in the literature on East Asian regionalism. Earlier accounts have been preoccupied with providing a descriptive accounting of institutional trends and features which rarely lifted itself beyond a ringing triumphalism about the prospects for regional institutions and the economy during the period of the ‘Asian miracle’.

In contrast, a guiding motivation here is the need to understand the new regional and political (dis)order that has been bequeathed after the Asian crisis. However, this requires a fundamental analytical ‘retooling’ to sharpen the analysis of the dynamics of this new regional order.

One reason for the analytical hubris in several studies of regionalism in East Asia is the overemphasis on formal regional ‘institutions’, which has been to the detriment of the understanding of the domestic political mainsprings of regional governance. This problem, however, is not unique to the study of East Asian regionalism. Indeed, it only serves to draw attention to a major shortcoming of the broad literature on international relations, which is replete with set piece...
debates between realist, institutionalist and constructivist agendas.³

For instance, the realists tend to suggest that national interests drive regional co-operation, and are often persuasively sceptical of the viability of regionalism. This scepticism flows from a view of the state as a black box with a clearly identifiable set of interests. In the final analysis, this thesis is hard to test empirically because of its inherent circularity: the view that if institutions break down it is because of the play of interests; and if they persist it is also because of the play of interests.

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

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

Moreover, we need to deal with a regionalism that in practice is much more multifaceted and multidimensional than in the past. States now engage in any number of overlapping regional endeavours without feeling that there may be contradictions in such a process (Breslin & Higgott, 2000: 339).

**Constituting and governing the Asia Pacific: from open regionalism to economic crisis**

In sum, then, much of the international relations literature fails to take proper cognisance of the fact that institutions are embedded in a deeper structural context which includes domestic coalitions, a particular set of ‘growth strategies’, and a set of permissive international conditions. No wonder then that, after the advent of the Asian crisis, theories of regional economic and political co-
operation proved poor explanations of regional (dis)order. This explanatory failure can largely be attributed to the inability of prevailing accounts of regional co-operation to adequately theorise the relationship between the crisis in the domestic political economy and the capacity to pursue certain kinds of regional projects such as the Asia Pacific Economic Co-operation (APEC) strategy of open regionalism, which was an Asian variant of the new regionalism of the 1990s. Therefore, adopting a ‘political project’ perspective on regionalism allows us to look at institutions not as abstract entities but more or less as coherent projects of regional governance. Regional governance projects, in turn, embody particular constellations of power and interests—a framework that has the virtue of locating the dynamics of regional governance within the broader context of domestic political projects.

The distinct advantage in conceiving regional institutions as political projects is that it provides a way of relating these regional projects to periods of economic crisis and transformation. Economic crisis unsettles prevailing entrenched interests and regional projects while at the same time providing opportunities for new reform coalitions to form around new kinds of political projects. As Rodan et al (2001) point out:

The crisis, then, is critical to the degree that it makes it possible for entrenched elites to be weakened as a result of threat to the existing institutional arrangements that previously benefited those elites. It is also important to the extent that it creates opportunities for reformist coalitions to exert greater influence. (p 26)

Before discussing the impact of the crisis on regional governance, let me briefly outline how regional economic strategies—if you like, a particular regime of accumulation—were entrenched in Southeast Asia. I have described this as ‘embedded mercantilism’ (see Jayasuriya, this issue) to characterise the export-orientated industrialisation strategies pursued by Southeast Asian economies. An illustrative example is the manner in which Malaysia during the 1980s developed a whole gamut of heavy industries, ranging from steel to a nascent automobile industry. In varying degrees other countries too pursued similar strategies (see the various country chapters in Rodan et al, 2001). And herein lies the nub of the argument, namely, that this regime of accumulation is sustained by a set of permissive international financial and productions structures abroad, and very distinctive developmentalist state forms and coalitions at home. Hence, domestic and foreign economic strategies are intertwined and, more importantly, cannot be divorced from the broader political and ideological projects of dominant coalitions in Southeast Asia.

Southeast Asian economic developmentalism, unlike in the newly industrialising countries of East Asia, relied on rapid inflows of Foreign Direct Investment (FDI), especially from Japan. Furthermore, much of the industrial transformation in Southeast Asia was spurred by the international agreement to appreciate the yen—the Plaza Accord. As Beeson (2002a) succinctly points out:

Japan has been a crucial source of investment for the rest of the region, especially in the wake of the so-called Plaza Accord, which saw a fundamental restructuring of Japanese industry as a consequence of the yen’s appreciation. The massive outflows of Japanese capital that intensified at the end of the 1980s had an important global
impact, but were especially influential among the smaller Southeast Asian economies. (p 553)

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

this money-currency form suited the export oriented region in two ways. On the one hand, since most of East Asian imports and exports are/were invoiced in dollars, it reduced currency risks involved in trading with major markets in the US or elsewhere. And, on the other hand, the dollar pegs anchored their domestic monetary policies. (Sum, 2001: 149)

Sum is persuasive in her explanation of how this financial order underpinned the ‘embedded mercantilism’—to use an analytical term developed by Pemzel (1998) in the study of Japanese Political Economy—of Southeast Asia. Although Sum calls this ‘exportism’, it could be argued that what sustained the currency pegs, even when they started to affect export competitiveness, was the benefit provided to the non-tradeable sector by an overvalued currency. At the same time, it also facilitated the flows of short-term capital that sustained the politically connected cartels.

Most importantly, the changes in the global political economy, and the developmentalist regimes that it spawned, underpinned a distinctive set of social and political coalitions. The strategy of ‘embedded mercantilism’ depended on a set of trade-offs between economic segments or sectors, which were composed of distinct capitalist groupings with differing linkages to the state (Jayasuriya, this issue). Foreign investors drove the tradeable sector, while the non-tradeable sector was largely under the control of enterprises or corporate groups closely linked to the apparatus of political power. But this was not, in some sense, a coalition outside the state because these alliances and contests were enmeshed within the state (Jayasuriya, 1994a). Indeed, much of the increasing policy conflict in the period immediately before, and after, the crisis—over exchange rate policy or fiscal policy—reflected brimming tensions within the coalitions. Nevertheless, during the boom period of Southeast Asian economies enough growth was generated by the tradeable sector for these tensions to be adequately managed.

Therefore a key feature of the developmentalist coalitions of East Asia was the emergence of a set of vertical relationships between state and business players, and indeed, in the Southeast Asian context, these business interests were located within the state. In fact, it may well be said to constitute a kind of ‘nomenklatura capitalism’, a term which highlights the intertwining of elements within the state be they party-led companies in Malaysia, Suharto’s presidential cronies in Indonesia, or groups allied to powerful politicians in Thailand—and political elites. This ‘nomenklatura capitalism’ and developmentalism remained much more imbricated with the state forces than did the clientelism of Northeast Asian capitalism.

Let me provide some examples to illustrate this point. Open regionalism—a strategy of unilateral trade liberalisation—provided for a set of policies that
simultaneously enabled the protection of politically linked business groups in the non-tradeable sector of the economy while benefiting the export sector through the pursuit of an open economic policy (see Jayasuriya this issue). Hence open regionalism did not lead to the kind of regional market making evident in the EU single market policy; it had all the hallmarks of a mercantilist strategy that leaves vested interests in the domestic economy untouched. Similarly, the implementation of the Washington consensus policies of deregulation and privatisation in the context of the close relationship between political elites and business was to result in the effective capture of public infrastructure by politically protected conglomerates (see Rodan et al 2001). For many a neoclassical economist before the crisis these twin policies of free trade overseas and domestic deregulation were the capstone of the Asian economic miracle (Jayasuriya & Rosser, 2001). Yet taking these policy strategies out of the context of the broader relationship of the tradeable and non-tradeable sector simply obfuscates the underlying context of power in the broader political economy. The point is that various projects for regional integration meshed with the broader strategies of Southeast Asia’s dominant coalition.

However, over time domestic economic strategies served to tip the balance in favour of the non-tradeable sector, providing an important contributory factor to the economic crisis which engulfed Asia in 1997–98. One of the most arresting developments, well illustrated by the country studies of Southeast Asia in Rodan et al (2001), is the increasing entrenchment of the power of the non-tradeable sector within the domestic political apparatus.

From this angle, the Asian crisis may be seen as an outcome of a growing contradiction between an increasingly untenable set of domestic and external forces. On the one hand, there was an external economic imperative which placed constraints on the competitiveness of the tradeable sector. On the other hand, domestic pressures piled on the increasing power of the politically connected non-tradeable sector which, while benefiting from the increased flows of short-term capital, was more vulnerable to the reduction of these flows. In consequence —and this is the critical point—the very social and political structures that had underpinned various political projects of regional integration, such as the APEC strategy of open regionalism, became untenable. However, while several articles in this special issue deal with aspects of this crisis of regionalism, what needs to be underlined is that this is not simply a question of an institutional crisis which can be attributed to a failure of institutional design, or lack of political will. Rather, it is a crisis that is deeply rooted in the kinds of economic strategies, political coalitions, and state forms that underpinned the developmentalist regimes of Southeast Asia.

Finally, apart from these coalitions and associated policy strategies, the early dirigiste and developmentalist regimes were associated with highly centralised and authoritarian political structures. In Indonesia these structures reached their zenith during the height of the New Order period in the 1970s. But as the balance between the tradeable and the non-tradeable sectors increasingly shifted during the 1980s, there was a more polycentric distribution of power within the state. It needs to be recognised that the more assertive role played by domestic non-tradeable capital was not a weakening of the state; rather this amounted to a
relocation of power within the state, reflected in the increasing fragmentation and polycentric distribution of power within the state (Jayasuriya 1994a).

**Crisis, regionalisation and the restructuring of capital**

The contribution by Nicola Phillips in this issue not only brings a comparative dimension to these processes but also provides an innovative theoretical framework from which to analyse this emerging new regionalism. Phillips proceeds by making a crucial conceptual distinction between the formal inter-governmental regionalism and market-driven process of ‘regionalisation’. She argues that a deep-seated transformation of regionalisation has been under way within Mercosur which cannot easily be grasped within the framework of state-driven regionalism. Hence we need to analyse the complex regional corporate strategies of firms, domestic as well as transnational capital, resulting in the construction of new regional economic space which overlaps, but is not identical, with that represented by Mercosur. Governing this new regional economic space requires a redefinition of the strategies of national economic management and regulation.

Paralleling Phillips’ argument, Helen Nesudurai draws attention to the role of domestic capital in the construction of the ASEAN Free Trade Area (AFTA). She argues that while the AFTA was stimulated by external pressures, the specific form that it took was mediated by conflicts at the domestic level, in particular, those segments of domestic capital that were closely connected with political elites. According to Nesudurai, AFTA exemplifies a model of developmental regionalism that reflected the interests of domestic capital to a greater extent than did the APEC policy of open regionalism. Nesudurai’s thesis lends support to the argument that both the crisis as well as the resulting tension within the regional projects of integration need to be located in patterns of economic governance within the ensemble of class interests that sustain developmentalist regimes in Southeast Asia.

In similar vein, Greg Felker pursues this key theme of market-driven regionalisation by focusing on the regionalisation and restructuring strategies of multinational corporations (MNCs). He contends that these regionalisation strategies will prove to be critical in the evolution of the new regional division of labour in East Asia. While this analysis focuses on international production networks, it is clear that, just as in Mercosur, external pressures have forced MNCs to adopt new strategies of regionalisation that have, in turn, led to the emergence of new projects of regional governance. The point here, as Phillips notes, is to regard these regionalisation strategies as articulating and reshaping a new regional division of labour; it is one in which firms increasingly operate in regional, rather than national, economic space. This, as Felker notes, will result in this case in the MNCs co-locating within the region and seeking to build special nodes within the production and technology network. For this reason, Felker remains sceptical about the impact of China on Southeast Asia, and suggests that the most important effect may lie in integrating China into a new regional division of labour. Hence, one of the significant consequences of such an integration may not be so much in luring FDI away from Southeast Asia, but in the relative success of various ‘governance’ arrangements in attracting high-end investment.
INTRODUCTION

Overall, the articles by Felker, Phillips, Nesudurai and Jayasuriya strongly point to the fact that the external imperatives of globalisation are to be located not in terms of the changing dynamics of inter-governmental relations, but rather in the way the activities and operations of domestic and foreign capital are restructured. It is this internal process of restructuring that creates the new dynamics of regionalisation, which, in turn, lead to the formation of new regional economic spaces. But this is the rub: markets, national or otherwise, do not arise spontaneously; they need to be politically constituted and governed. In short, they are the products of political projects of key actors.

Towards regulatory regionalism

Crucial to this new market governance is the emergence of the regulatory state. As the developmentalist regime and its associated economic strategies have faltered, it is clear that new forms of state organisation and political rule are emerging—although this is a process that is likely to be highly contested (Jayasuriya, 2001a). Consequently, in identifying signposts of the emerging regional order in the Asia Pacific, some degree of emphasis needs to be placed on the manner in which the process of globalisation is transforming domestic as well as regional governance. This new form of state organisation, identified as a ‘regulatory state’, is at the heart of attempts by multilateral organisations such as the World Bank to promote ‘good’ governance. These attempts signal the emergence of regulatory state forms markedly distinct from the interventionist state forms so clearly associated with the Asian economic miracle. For this reason alone, the new regulatory state reflects a more general transformation of the state from one which performed numerous allocative and interventionist functions to one which has acquired a more regulatory role as a guardian of the market order. In brief, the main features of this regulatory state provides for:

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

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

outcomes that first appear as mere ‘side effects’ of an unsuccessful attempt to engineer an economic transformation become legible in another perspective as the
unintended, yet instrumental elements in a resultant constellation that has the effect of expanding the exercise of a particular sort of state power while simultaneously exerting a powerful depoliticising effect. (p 21)

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

However, these regulatory state structures are enmeshed with various forms of regional governance that in turn are distinguished by an emphasis on the development of policy co-ordination and harmonisation. This is a form of regulatory regionalism that should not be viewed as a departure from the disciplines of the global economy, but as an attempt to instantiate the disciplines of neoliberalism within a regional framework. In this context, Phillips (2001) argues persuasively that, in effect, the relaunching of Mercosur in June 2000 provided the basis for a new programme of regional integration based on a system of policy harmonisation in areas such as monetary policy and surveillance programmes. She makes the highly significant point that:

subregionalism in the Mercosur has come to rest on a principle of policy co-ordination which implies, in the long term, the articulation of a new form of market governance. This form of market governance rests in the first instance on a significant regionalisation of governance mechanisms. While this process does not imply the wholesale elimination of more ‘national’ forms of economic governance, progressively the trend is towards convergence upon a set of regionally coordinated policy norms and objectives and the location of market governance at the sub-regional level. (Phillips, 2001: 580, emphasis in the original)

A similar dynamic discernible in the process of regionalisation in East Asia is the mesh between emerging regulatory states and new patterns of regional governance that were embedded within national or domestic state structures. This is to be understood in the sense that there is a simultaneous recognition that region-wide regulatory frameworks such as monetary co-ordination and macro-economic policies can be implemented and policed at a local level. From this
perspective the regulatory state is not a state form confined to the territorial boundaries of the national state. Rather, it should be seen as a system of multi-level governance, which connects international organisations such as the IMF with regional entities such as the Asian Development Bank (ADB) and various national agencies, and even sub-national or local entities. One nascent example of the emergence of this system of regional multilevel regulation is the ASEAN regional surveillance process (ASP), which was endorsed by ASEAN Financial Ministers in December 1998 (Manupipatpong, 2002). Manupipatpong argues that:

Another gap that the ASP can potentially fill has to do with current efforts to encourage countries to adopt internationally agreed standards and codes in order to enhance the effective operation of market forces and the resilience of financial systems. These standards and codes include the IMF code of good practices on transparency in monetary and financial policies, the IMF code of good practices on fiscal transparency, and the OECD principles of corporate governance. (pp 114–115)

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

To this end, close collaboration with national and other levels of governance is established to implement these standards and mechanisms of policy co-ordination; the regulatory regime—or significant parts of it—are both internationalised and regionalised in the sense that the standards and mechanisms of policy co-ordination are instantiated within the political apparatus. The regional governance of this regulatory infrastructure goes beyond a mere focus on trade liberalisation, and constitutes the raison d’être of the new regionalism. In other words, the development of a global market economy and the increasing vulnerability of economies to financial crisis requires the development of a type of regulatory regionalism that is able to provide some degree of regional policy harmonisation. In short, we need to move beyond the new regionalism of the 1990s. However, in this context, Dieter (2000) offers a provocative and highly stimulating argument, namely, that regional integration projects driven by trade liberalisation have only a limited viability for the newly industrialising countries (NICs) of East Asia and Latin America. Instead, he proposes a shift towards what he terms ‘monetary regionalism’ that will offer a degree of protection to increasingly vulnerable national economies. He argues that:

[countries] participating in a conventional integration project do not enjoy additional protection against financial crises. Neither with regard to the stabilization of the exchange rate of their currencies nor with regard to the stabilization of capital flows do conventional integration schemes strengthen the economies of their member countries. (Dieter, 2000: 2)
In the proposal for an Asian Monetary Fund, Dieter plausibly sees the development of a putative East Asian monetary regionalism. Some movement in this direction was made with the establishment of the Chiang Mai Initiative (CMI), which provided emergency funds for currency stabilisation. (Manupipatpong, 2002). Natasha Hamilton-Hart’s essay in this issue refers to this question of monetary regionalism, and observes that monetary cooperation remains at a very early stage. Hamilton-Hart provides a detailed analysis of the benefits for East Asia of monetary cooperation, especially regarding the process of crisis prevention and management but, during the Asian crisis, the Japanese proposal for an Asian Monetary Fund was quickly taken off the diplomatic agenda. Yet the CMI provides some evidence that a nascent ‘monetary regionalism’—of the sort that Dieter (2000) advocates—may be developing in East Asia. Interestingly, Hamilton-Hart notes that the obstacles to the development of a comprehensive system of monetary co-ordination are considerable, including external political differences between countries such as China and Japan as well as the resistance of powerful domestic interests.

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

Regulatory regionalism has a number of implications for the relationship between regional governance and globalisation. The recent spate of financial crises, not just in East Asia but also in Latin America, has effectively underlined the importance of developing a regulatory framework for the global economy and a new regulatory state that is enmeshed in regional, national, and sub-national governance. Furthermore, this regulatory regionalism differs from the ‘new regionalism’ of the 1990s in the emphasis given to integration through regulation rather than simply through trade liberalisation. Consequently, it may be the case that strategies such as that pursued by APEC, which focused on trade liberalisation, may have run their course (Bowles, 2002). Even in the case of trade liberalisation, important changes are underway that suggest the putative emergence of new governance structures.

John Ravenhill (this issue), focuses on the rapid growth of bilateral trade agreements policy since the Asian crisis and contends that the increasing pursuit of bilateral agreements in trade liberalisation stands out as one of the most important developments in trade policy. In explaining these developments he identifies significant external determinants of the ‘new bilateralism’, in particular, the inefficacy of APEC-driven regional initiatives. In addition—reinforcing a key feature of the theme of this special issue—he argues that the push for bilateral agreements can also be located in sources that originate in the domestic political economy. For example, he notes that business groups have pushed for bilateral agreements because they have strong interests in not being
disadvantaged in markets where other competitors enjoy preferential access because of bilateral trade agreements. Equally, bilateralism offers advantages to more domestically inclined protectionist interests in that bilateral trade agreements have wide latitude to include exclusion clauses that can take the sting out of trade liberalisation. But, on balance, the overall impact of bilateralism is to strengthen the position of liberalising interests within the political economy. Ravenhill’s argument is consistent with the overall argument of several contributors to this special issue: the new bilateralism and similar phenomena are closely linked to a more fundamental restructuring of the corporate strategies of domestic and foreign capital that is driving the new regional governance of the Asia Pacific.

The rapid growth of these trade agreements indicates a marked departure from ‘APEC models’ of trade liberalisation. Less clear, however, is whether these arrangements will in some way form a distinctive set of governance arrangements much in the way that NAFTA has developed in North America; or, in fact, whether these trends are indicative of a continuing and unresolved crisis of the regional order. It also needs to be said that associated with these trade agreements are attempts to construct an ‘East Asian regionalism’. Hence, one of the unresolved questions is how these moves towards an East Asian regional order are compatible, or in conflict, with the growth of bilateral trade identified by Ravenhill.

Nevertheless, any shift to a form of regulatory regionalism in East Asia remains embryonic. For instance, it remains to be seen how the surveillance processes envisaged by the ASP will be effectively implemented at the national level. The ASP initiative, as with most ASEAN programmes, leaves a gap between rhetoric and policy broad enough to drive through another major financial crisis. There is also the danger that these new arrangements will be erroneously understood as enabling a high degree of regional autonomy to protect some version of ‘Asian capitalism’. A closer look at the kind of regulatory standards and policy harmonisation on the agenda makes clear that they provide a mechanism for embedding the disciplines of a neoliberal economy rather than protecting some imaginary Asian capitalism. A striking illustration of this point is provided by Hamilton-Hart in this issue with regard to the CMI. She notes that China and Japan succeeded in linking all but 10% of these funds to IMF conditionality. In other words, regional regulatory governance provides a mechanism for fleshing out global standards in a regional context rather than providing a means to pursue a project of Asian capitalism.

There is, then, no simple functionalist passage to a new form of regional regulatory governance. Rather, the path is likely to cross into politically problematic areas because it will need to trespass on grounds that are usually conceived as being within the domestic prerogatives of Southeast Asian states. The stark reality is that the ASP process and the CMI remain highly limited and of symbolic rather than substantive value. We should not underestimate the high degree of co-ordination required by the monetary regionalism advocated by Dieter (2000). Any move towards a monetary regionalism can only work via a high degree of regional policy co-ordination and surveillance through the provision of a regional infrastructure of regulatory governance. This will prove
difficult in a region where there is scant evidence of a history of policy co-
ordination and, moreover, where levels of economic development and the
organisation of financial systems differ considerably.

Ample evidence for this resistance to reform can be found in Andrew Rosser’s
article, which convincingly makes the point that there is no high road from a
developmentalist to a regulatory regime. His argument is based on an analysis of
recent changes in Indonesian systems of corporate governance, bearing in mind
that bringing about deep-seated changes to corporate governance practices was a
prime objective of the international financial institutions. Rosser notes that
the Asian economic crisis substantially reduced the power of the entrenched
politically linked cartels, while at the same time increasing the political clout of
mobile capitalists and international financial institutions such as the IMF.
This was reflected in a number of initiatives to reform systems of corporate
governance.

However, he notes that powerful entrenched interests from the New Order
period have been able to keep key economic institutions such as the Indonesian
Stock Exchange excluded from any reform programme. Furthermore, Rosser
observes that even in areas where reform has been accomplished, a substantial
gap exists between formal policy pronouncements and their subsequent imple-
mentation. It seems clear that the war on terrorism and the Bali bombing of
October 2002 will have deep ramifications for the prospects of full Indonesian
economic recovery and reform. One possible scenario is that these events will
strengthen the hands of military and other interests broadly hostile to the political
and economic reforms in the post-New Order era. Overall, Rosser strikes a
justifiably cautionary note on the prospects for reform, suggesting that, while the
Asian crisis stimulated a number of reforms, the emergence of robust regulatory
frameworks will prove to be a politically hazardous process.

**Sovereignty and regional governance**

In tandem with the emergence of the regulatory state, recent developments
have rendered problematic the taken-for-granted assumption about the nature of
sovereignty in Southeast Asia, in particular the emergence of an increasingly
fragmented and complex sovereignty. We have noted the way in which the
policy-centric distribution of power within the state reflected the greater political
assertiveness of the non-tradeable sector. In the post-development regimes of
Southeast Asia, this fragmentation of the state will become much more
pronounced, setting the stage for the emergence of a form of ‘complex
sovereignty’. For example, fragmentation is evident in the fact that international
standard associations are now having a major impact on rules and procedures of
corporations and states, particularly in areas connected to the global economy.
It is also evident in the rapid growth of arbitration that operates alongside the
traditional legal domain of the state. Further examples can be seen in the
increasing importance of trade associations, ranging from insurance to account-
tancy, in shaping domestic governance (Cutler *et al*, 1999). Private authority in
the international system is only one aspect of these developments. Of equal
significance is the increasingly important role played by domestic regulatory
agencies such as independent central banks, which operate relatively autonomously and independently of the structures of political accountability. Ong (1999) presents a related perspective on the transformation of sovereignty in Southeast Asia, particularly as a concept of graduated sovereignty. In this view:

the state flexibly manages different population segments located in various zones of sovereignty, or a system of graduated sovereignty that is superimposed on the conventional arrangements of national states in Southeast Asia. In varying degrees, Southeast Asian states have responded to globalisation by assigning ‘different social destinies’ to their populations according to the roles that those populations play in making their countries competitive and profitable. (Ong, 1999: 224)

For Ong ‘graduated sovereignty’ implies the differential governance of distinct zones of economic and social life. Indeed, there is much in Southeast Asia to support this view. Take, for example, the growth of cross-border zones such as the Indonesia, Malaysia, Singapore growth triangle, the governance of cities such as Kuala Lumpur or Singapore as international centres competing to be international financial and service centres, and the new regional technological zones such as the Malaysian Multi Media Corridor. Further examples are the ways countries such as Singapore treat foreign skilled workers, who have the red carpet laid out, and illegal workers who are subject to a highly intimidatory and punitive regime of political and social control.

Mark Beeson (this issue) takes a somewhat different tack on the question of sovereignty. For Beeson the capacity for independent policy autonomy in Southeast Asia has been decisively limited by the operation of a range of domestic and foreign actors such as international financial markets and transnational corporations. In such a context, according to Beeson, the notion of sovereignty might not make much analytical sense. It is time, he argues, to move on from sovereignty. While we can argue the toss on sovereignty—and it is possible that sovereignty is not so much being eroded as transformed—it is clear that these developments pose thorny questions for the analysis of regionalism in Southeast Asia. Beeson challenges the taken-for-granted assumptions on sovereignty that underpin various theories of regional economic and political co-operation.

Furthermore, it needs to be underlined that it is this conception of statehood which determines the form and character of regionalism. Southeast Asian state actors, for instance, have often conceived state power in terms consistent with the ‘reason of state’ understanding of authority. Indeed, from this position, the question theorists should pose, as does Amitav Acharya (this issue), is not whether realism is an appropriate framework for understanding regional politics, but why the self-understanding of political actors—the practical consciousness of actors—has constantly been understood in a way consistent with realism. It is these notions—what Bourdieu (1977) might refer to as the ‘habitus’—that have animated regionalism in Southeast Asia. However, the Asian economic crisis and the democratisation of state structures have dented this realist understanding of the world.

This is a question that is at the heart of Acharya’s paper, as he suggests that the transformation of the form of political regime has had important consequences for regionalism in Southeast Asia. He points out that the retreat from
post-colonial liberal democracies in countries such as Malaysia and Singapore contributed in important ways to the development of ASEAN. However, the more recent opening up of the political system in some countries, such as Thailand and Indonesia, poses important questions about the future of traditional modes of regional governance. Acharya is optimistic about the prospects for regional order, which, he argues, is moving in the direction of participatory regionalism. He places emphasis on the heightened tolerance among ASEAN governments of intervention in areas traditionally thought to be domains of domestic governance, and also on the increasing openness of regional institutions to non-state actors within the region. In this respect, there are parallels between Nesadurai’s ‘developmental regionalism’ and Acharya’s ‘participatory regionalism’. Both seek to identify the contours of the emergent regional governance in terms of changes in the underlying dynamics of the domestic political economy and regime form, which serve to identify one of the innovate features of this special issue, namely, the emphasis on the domestic foundations of regional governance.

However, we need to enter a caveat here: the recent US-led ‘war on terror’, as well as the more general and prevailing mood of insecurity, have emboldened regimes to cut back on the political reforms that began at the end of the past decade. On this score at least, it is well to remember that the notion of emergency and exception powers has long been central to the political functioning—even the constitution—of East Asia states (Jayasuriya, 2001a). The war on terror reinforces these reflex attitudes towards emergency powers across the region but, as yet, the impact of these events on regional co-operation remains uncertain. Clearly, the war on terror has militarily re-engaged the USA in Southeast Asia to a degree unprecedented since the Vietnam war, and it is clear that evolving trade and economic agreements will mesh with the broader strategic concerns of the USA. It is no coincidence that many of the bilateral economic agreements being negotiated are with key US allies like Singapore and Australia. At the same time there is an emerging Southeast Asian regulatory network of intelligence, security agencies and even ‘think-tanks’, broadly likened to US agencies, that cut across the mainstream regional fora. In this sense, such a network reinforces the kind of regulatory regionalism outlined earlier.

Conclusion

In shaping the new research agenda on Asia Pacific regionalism, this special issue points to the urgent need to wrest the said agenda from academics and practitioners—categories which are difficult to disentangle in East Asia—who view the process of regional integration as one of institution building. Institution building is clearly an important part of this process, but to view it as somehow an independent external process remains problematic. In contrast, the standpoint adopted in these articles suggests the need to locate the development of regionalism within the framework of broader political projects of market making in individual countries. These, in turn, are underpinned by a distinctive set of domestic coalitions, state forms and permissive international strategies. A broad convergence of these political projects would facilitate a parallel process of
The strength of this approach lies in locating the dynamic of region making within the broader structures and processes of the restructuring of domestic and foreign capital and the state forms that underpin such restructuring strategies; regional processes are embedded within domestic structures. Accordingly, it would appear that the impact of the deep-seated structural changes in the global economy have unsettled previously dominant coalitions and growth strategies. In particular, the various forms of embedded mercantilism are difficult to sustain in the context of a more competitive global economy and a rather robust framework of transnational economic law implemented through organs such as the IMF (see Jayasuriya, this issue).

It also needs to be emphasised that new regional projects are not simply about the creation of new forms of governance strategies but also entail the production of new forms of spatial organisation. One of the important insights of the analysis of space and power by social theorists such as Lefebvre (1991) and Harvey (1999) is that spatial structures are not just given, but are constantly produced and reproduced. The production of space points to the manner in which spatial configurations are inextricably linked to the manner in which certain forms of growth strategies are aligned with a particular configuration of space. Given that political projects bring with them a particular spatial organisation, the developmentalist regimes of Southeast Asia are particularly associated with a highly centralised spatial structure and organisation.

Nevertheless, one of the most important features of recent trends in Southeast Asian political economy has been the weakening of the centralised organisation of space. For example, a number of observers have pointed out the localisation of power—sometimes through state-sponsored decentralisation schemes or through pressure from the local regions—within the state. In turn, this localisation is associated with the growth of a new assertiveness of provincial business and political elites. Clearly, these trends have important ramifications for regionalisation and need to be comprehensively explored. They include the development of sub-national linkages between and within states.

Regional space is not just produced but, as Lefebvre (1991) so perceptively notes, it is also a system of representation. One area of future research is to explore not just the way a region is imagined, but to go beyond current constructivist notions by specifically relating these systems of representation to projects of regional and domestic governance. In this respect it is interesting to note one of the major differences between the EU project of a single market and the APEC model of open regionalism. Whereas the EU’s representation of the region is as an independent economic space to be governed through a range of regulatory mechanisms, the APEC’s representation of the region has a predominantly cultural sense, which makes a liberal project of regional market making difficult (Beeson & Jayasuriya, 1998). In the post-crisis period these cultural conceptions of space have not disappeared—although they are now less tied to economic programmes of developmentalism—suggesting that a project of regional market making is fraught with difficulties.
Notes

This special issue is mainly comprised of edited and fully refereed papers first presented at an international symposium on the theme, ‘Running on empty? Markets, politics and regional governance in Southeast Asia’ organised by the South East Asia Research Centre (SEARC) at City University of Hong Kong. My thanks to Kevin Hewison, Director of SEARC, for his support in the organisation of this symposium and also in the preparation of this special issue. I also wish to acknowledge the help and assistance of the staff of SEARC. My thanks to Shahid Qadir, the Editor of Third World Quarterly, for his invaluable editorial guidance. Thanks also to Herbert Dieter for his incisive editorial comments, which have greatly helped in compiling this publication. The co-operation and assistance of the contributors in preparing their respective papers for publication in this special issue is much appreciated. However, I am solely responsible for the comments and observations on the papers referred to in this Introduction.

1 For an analysis of how the crisis shattered some of the prevailing orthodoxies of trade liberalisation that had dominated the region see Higgott (2000) and Higgot & Phillips (2000).
2 Of course, there are several exceptions that have managed to avoid some of the pitfalls of the international relations literature. Stubbs (1999) on the relation of war and export-oriented industrialisation is an exemplar of the complex interweaving of domestic and international politics. Ravenhill (2001) on APEC provides an illustration of such an approach with respect to a pivotal institution of regional economic co-operation in the Asia Pacific. Recent papers that have highlighted the way in which the crisis challenged dominant policy ideas and coalition would include—though this is by no means an exhaustive list—the essays in Robison et al (2000), Katzenstein et al (2000), Higgott & Phillips (2000), Bowles (2002), Beeson (2002b) and Dent (2002).
3 For a comprehensive overview of the implication of the Asian crisis for these theories of regional co-operation see Acharya (1999).
4 A point that has been made forcefully by Gamble and Payne (1996). See also Breslin & Higgott (2000).
5 Beeson (2002a) provides a good account of the rise and fall of the Southeast Asian economic miracle. Stubbs (1994), writing before the onset of the Asian Crisis, provides an essential overview of the broad contours of Southeast Asian political economy. Bernard and Ravenhill (1995) provide a broader East Asian perspective on industrialisation and regionalisation in East Asia.
6 For an initial approach to these issues in an East Asian context see Jayasuriya (1994b).

References

Beeson, M (2002b) Theorising institutional change, in: M Beeson (ed), Reconfiguring East Asia: Regional Institutions and Organizations after the Crisis, pp 7–30 (London: Curzon).


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