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Responding to the Global Financial Crisis: The Evolution of Asian Regionalism and Economic Globalization

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Abstract

This paper examines the evolving dynamics between economic globalization and Asian regional interdependence, and asks whether and how the global financial crisis impacted Asian regionalism. The analysis suggests that the global crisis did trigger advances in regional policy cooperation from 2007 onwards, especially in the area of financial and monetary cooperation. Although the first order response of Asian countries was to join the broader global effort to contain financial freefall at the world level, there emerged a second order response at the level of regional institutional building, specifically to “multilateralize” the Chiang Mai Initiative, and to develop a regional trust fund to help strengthen Asian bond markets. This finding reconfirms the theoretical proposition in historical institutionalism that financial crises have a catalytic effect in stimulating regional innovation. At the same time, we see evolution in the pattern of Asian regionalism in two respects: first, the recent advances in Asian regionalism are being driven primarily, at this stage, by the rise of the PRC and India—although each in their own way, and to varying degrees. The current advance in regionalism also builds on momentum provided by pre-existing programs of regional financial cooperation, namely the Chiang Mai Initiative, and “regional connectivity” programs that have also been championed by Japan and ASEAN countries, such as the GMS, CAREC, and BIMSTEC initiatives. Second, Asian economies appear to be pursuing inclusive regionalism, which attempts to strike a balance between helping themselves and helping the global economy. Asia is striving for modes of regional cooperation that are, on balance, complementary with the current global macroeconomic rebalancing agenda of the G20, and supportive of global integration and openness. The main policy findings are that Asia’s future standing in an increasingly multi-centered world economy will be determined by its effectiveness in advancing a multi-layered international cooperation agenda. Yet achieving such international gains will depend on Asia’s willingness to make serious advances in regional collective action and global leadership, especially in areas of financial and monetary cooperation.

JEL Classification: F15, F33, F36, F51, F53, F55, F59, H87, O53

Contents

1. INTRODUCTION

Was Asian regionalism affected by the global financial crisis that started in 2007, and if so, how, and to what degree? The crisis and the ensuing downturn did not originate in Asia. Asian economies were generally better positioned to weather the crisis, compared to other parts of the world. They responded by taking insulating measures at the national and bilateral levels, and by joining the global effort—through the Group of Twenty (G20) process—to help contain the global financial freefall (Chin 2010a). However, Asian governments are also aware that the ongoing recessionary effects in other regions are highly contagious, and they have become increasingly conscious that their sustained growth and development is dependent on their willingness to implement measures that simultaneously reduce their vulnerability to ongoing global economic instability, while also contributing to growth inside the region and elsewhere.

This paper examines linkages between the evolution of economic globalization and regional interdependence in Asia, situating the analyses against the backdrop of reactions to the global financial crisis, starting in 2007, and within the emerging scholarly debate on the remaking of the international financial architecture in response to the ongoing crisis (Helleiner 2010; Chin 2010a; Cooper and Subacchi 2010; Chin and Thakur 2010; Chin and Wang 2010). In so doing, the paper builds on established approaches in the political economy of regionalism that focus on the evolving policy preferences and capabilities of the relevant state and corporate actors, how distributive conflicts (endogenous and exogenous) shape the core of emerging regional arrangements (Haggard 1997), and the role of crises as critical junctures (Kuroda and Kawai 2002; Calder and Ye 2004).

The analysis suggests that the global financial crisis did trigger advances in regional policy cooperation from 2007 onwards, especially in the realm of financial and monetary cooperation in Asia. Asian states responded initially to the global financial crisis at the national, bilateral, and global levels. However their second order response was to give increased attention to regional institution building, specifically to "multilateralize" the Chiang Mai Initiative, and to develop a regional trust fund to help strengthen Asian bond markets. This finding suggests the need, conceptually, to disaggregate the international response of Asian states to the global crisis along both temporal and spatial dimensions. The study offers two further empirical findings. First, the increased attention to Asian regionalism has been driven primarily by the rise of the People's Republic of China (PRC) and India—however, each in their own way, and to varying degrees. The current advances in regionalism also build on momentum provided by pre-existing programs of regional financial cooperation, namely the Chiang Mai Initiative, and regional connectivity programs in which Japan and the Association of Southeast Asian Nations (ASEAN) have played key roles in championing, such as the Greater Mekong Subregion (GMS), the Central Asian Economic Cooperation (CAREC) forum, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Second, that Asian economies are pursuing inclusive forms of regionalism, which attempt to strike a balance between helping themselves *and* supporting balanced and sustainable growth of the global economy. Asia is searching for modes of regional cooperation that are complementary with the current global macroeconomic rebalancing agenda of the G20, and supportive of global integration and openness.

The findings reconfirm the theoretical proposition in historical institutionalism that financial crises have a catalytic effect in stimulating regional innovation, as seen after the 1997–1998 Asian financial crisis (Calder and Ye 2004; MacIntyre, Pempel, and Ravenhill 2008; Chin and Stubbs 2011; Henning 2002). Capannelli's (2011) comparison of the results from the ADB surveys (in 2008 and 2010) of opinion leaders in Asia and the Pacific on the international architecture shows that Asia's opinion leaders (including government representatives) have grown increasingly in favor of further regional economic integration. This paper shows that Asian economies are responding to the current global crisis, in part, by pushing ahead with regional cooperation. Asian countries are responding to growing exogenous pressure to undertake fundamental structural, financial, and monetary reforms (Arner and Schou-Zibell 2010; Adams, Jeong, and Park 2010), as well endogenous distribution tensions, by taking gradual steps particularly to strengthen regional financial cooperation. These measures within and even across regions are also reshaping economic globalization. The main policy recommendation is that Asia's future standing in an increasingly multi-centered world economy will rest on its ability to advance a multi-layered international cooperation agenda. Yet achieving such international gains will depend significantly on Asia's willingness to make serious advances in regional collective action and global leadership, especially in areas of financial and monetary cooperation.

2. GLOBAL CRISIS AS A CATALYST: FIRST AND SECOND ORDER RESPONSES

It is understandable that during the height of the global financial freefall in the third quarter of 2008, economies in the Asian region sought direct bilateral and unilateral tools to immediately stem the damage from the crisis (Chin 2010a). They also quickly joined the world community in a globally coordinated response through the upgraded G20 leaders' summits in Washington DC in November 2008 and in London in April 2009—to try to contain the potential spread of contagion. The Asian members of the G20 (the PRC, Japan, Republic of Korea (henceforth Korea), Indonesia, Australia, Turkey, and arguably Russia) made important contributions to the G20 leaders' process at the Washington and London meetings (Chin 2010b).

In hindsight, we can now see that combined unilateral, bilateral, and global responses to the global financial crisis were the first order response of economies in Asia and elsewhere. However, and equally important, there was also a second order response from Asian governments, at the regional level. Even within the G20 level, a new regional dimension has emerged. To prevent the spread of financial crisis, the G20 leaders gave their support to new lines of rapid financing, to be organized and disbursed by regional development banks, to support developing and low-income countries to enact countercyclical policy.

At the London Summit in 2009, G20 leaders instructed the International Monetary Fund (IMF) to greatly increase its emergency lending capacity to support the emerging economies and developing countries in preventing financial contagion. The "20" agreed to triple the resources of the IMF to US$750 billion. At the same time, the IMF was told to undertake a major overhaul of how it lends money by offering larger amounts and tailoring loans to countries' varying strengths and circumstances. This included introducing more flexible and rapid funding facilities to meet the needs of developing countries. At the London meeting, the G20 also set a target of more than doubling the concessional lending to the world's poorest countries.

Strong lobbying from the emerging countries also led to the agreement to support the recommendations of the G20 Working Group 4—for multilateral development banks to provide support to countercyclical efforts to offset capital flight and maintain demand by providing financing for fiscal expansion, support to social safety nets, trade financing, bank recapitalization, and infrastructure investment in emerging markets and low-income countries (G20 2009). Most importantly, the G20 leaders agreed (in London) to support an Indonesian proposal to devolve a portion of the new commitments for the IMF to the Asian Development Bank (ADB), to finance flexible, fast-disbursing, and front-loaded instruments that provided rapid assistance to ("well-governed") developing countries in the region that were facing financing gaps because of the global crisis. With the G20 backing, ADB rapidly introduced a new countercyclical instrument—the Countercyclical Support Facility—to provide budget support of up to US$3 billion to crisis-affected developing countries in Asia (ADB 2009). Regional development banks in other parts of the developing world quickly followed the ADB example, and also drew on a portion of the new funds committed to the IMF to establish new regional-level lending facilities to promote rapid countercyclical financing support within their regions.[1]

Prior to the global crisis, ADB was already lending more than the World Bank inside the region, similar to the Inter-American Development Bank (IDB) and Fondo Latinoamericano de Reservas (FLAR) that were providing more crisis-related financing in South America than the IMF. However, the new temporary, rapid countercyclical funding facilities that were created at the regional level during the recent crisis represent an expansion of the role of regional development banks beyond longer-term development assistance and poverty reduction programs in Asia, Africa, and Latin America.

At the same time, the global crisis also provoked advances in already existing regional initiatives in Asia, alternative modes of international cooperation—at the regional level—that until recently, were distinct from the global summit process. The warnings from the Obama administration, in statements by Lawrence Summers, the White House economics director and Treasury Secretary Timothy Geithner that the "US is going to be less the consumer importer of last resort", and that "other countries are going to need to be in a different position as well", have weighed heavily on Asian governments (Summers 2009). This sentiment was reinforced when US President Obama followed up at the APEC Summit in Yokohama in November 2010 by emphasizing that the economic crisis had shown the limits of depending on US consumers and Asian exporters to drive growth: "Going forward, no nation should assume that their path to prosperity is simply paved with exports to America" (Obama, B. 2010). At the same time, the actual recovery of the advanced economies from the financial turmoil of 2007-2009 has been fragile. With US unemployment still above 9% in late 2010, Europe facing massive debt problems, and the possibility of a decade of high unemployment and potential social unrest looming in advanced economies, Asian authorities recognized that they needed to rely less on the US and European consumer for final demand, and to put more attention on domestic and regional demand.

Even as the world economy started to teeter in 2007–2008, due to the US subprime mortgage crisis, economies in Asia decided to further strengthen the Chiang Mai Initiative (CMI), to increase the regional pool of emergency funds from US$90 billion to

[1] I thank an Indonesian participant at the G20 summits in Washington and London for sharing this information.

US$120 billion. Although the total amount of funds of what became CMI "multilateralized" (CMIM) (US$120 billion) is a small percentage of Asia's accumulated reserves (around US$5 trillion), and pales in comparison to the amounts that were deployed for national self-protection in response to the crisis (for example, the PRC's domestic stimulus package, announced in November 2008 in response to the global crisis, was valued at US$586 billion), significant steps have been taken in developing a regional safety net.

The advances in financial regionalism have entailed political and diplomatic breakthroughs. The PRC and Japan in particular, but also Korea, made political breakthroughs in the sensitive area of financial and monetary cooperation as "co-equal contributors." It was agreed that Japan and the PRC (including Hong Kong, China) would each contribute 32% of the total to the CMIM, or US$38.4 billion of the US$120 billion pool.[2] In this equation, the PRC and Japan share the status of the largest co-equal contributors, and Korea secured a diplomatic gain with the next largest contribution at US$19.2 billion (16%), followed by ASEAN's combined US$24 billion contribution (20%).[3]

Some analysts see the CMIM co-equal agreement as symbolizing the PRC's eclipse of Japan's influence inside the region (Rathus 2009). However, this is a shortsighted interpretation. The co-equal agreement arguably provides the PRC with a degree of status in the regional financial system that exceeds its actual financial contributions to date, or even its capabilities when compared to the current reach of Japanese finance within the region. The agreement does not reflect Beijing eclipsing Tokyo's influence *per se*, but rather that the two sides reached a new diplomatic milestone in shared leadership by way of the co-equal arrangement. This outcome has only resulted from unprecedented political compromises between the governments of Japan and the PRC; calculations that go beyond short- to medium-range nationalist economic calculations. Such longer-range and broader geo-strategic considerations can be conceptualized in terms of a "regional economic-security nexus." For a region that has been marred by deeply held and long standing inter-economy tensions, the necessity for such geo-economic preconditioning cannot be overlooked (see also chapter 2). For Tokyo, the decision to agree to co-equal contributions is tantamount to conceding financial leadership in the region, and accepting co-leadership. This was a significant short- to medium-term concession by Japan, given its actual financial capabilities, relative to those of the PRC, to secure longer-term economic stability in the region. In this sense, it was an act of far-sighted regional diplomacy and leadership.

One of the major political stumbling blocks for the multilateralization of the CMI has been whether neighboring Asian economies would agree to peer review and surveillance of their individual macroeconomic policy and national budgetary decisions. A significant development since the global crisis has been the agreement that was reached among the ASEAN+3 (ASEAN countries, plus the PRC, Japan, and Korea) members to create the ASEAN+3 Macroeconomic Research Office (AMRO). The AMRO was opened in

[2] The PRC's contribution consists of US$34.2 billion and US$4.2 billion from Hong Kong, China.

[3] Within ASEAN, Indonesia, Malaysia, Singapore and Thailand contributed US$4.77 billion each, the Philippines US$3.68 billion, Brunei Darussalam US$30 million, Cambodia US$120 million, Lao People's Democratic Republic US$30 million, Myanmar US$60 million, and Viet Nam US$1 billion.

Singapore in May 2011 to serve as an independent regional surveillance unit.[4] The creation of the AMRO, and progress on its staffing and technical competencies could prove to be the important "second step" on the way to a gradual loosening of the CMIM's link to the IMF, and a de facto Asian Monetary Fund (AMF).

The need to drive more demand from within the region—since the global crisis—has also translated into more interest in developing regional bond markets. Local currency bond market development, seen as key to strengthening the resilience of national financial systems to economic shocks, has been a policy priority since the 1997–1998 crisis. Asian countries made progress before the global crisis with the Asian Bond Market Initiative (ABMI) and two Asian Bond Funds (ABF1 and ABF2). The deployment of the region's large reserves for regional investment had started before the global crisis. As the subprime mortgage crisis worsened in the US, ASEAN+3 finance ministers in May 2008, launched renewed efforts to develop deeper and more liquid local currency debt markets. Once the global response had coalesced heading into the G20 London meeting, ASEAN+3 finance ministers reconvened in May 2009 in Bali, Indonesia, and approved the creation of a Credit Guarantee and Investment Fund (CGIF) mechanism—as an ADB trust fund—with an initial capital of US$700 million (ADB 2010).[5]

The CGIF supports the further development of Asian bond markets by providing guarantees for investors to make it easier for investment firms to issue local currency bonds with longer maturities. My discussions with investment bankers in Hong Kong, China, whose banks are involved in the funds, confirmed that ADB's role in providing such risk mitigation support is key to the experimentation.[6] The longer-term local currency bonds are expected to help channel Asia's savings to finance longer-term investment in local currencies for regional infrastructure and other key areas. The encouragement of the growth of these investment products, and their accompanying institutional infrastructure, are aimed at supporting the formation of more liquid, deeper, and regionally integrated financial markets. Such an outcome would arguably make Asia less vulnerable to external shocks, as well as boost long-term growth potential from within, by recycling capital within the region, rather than have it flow to New York or London.

From the standpoint of the politics of regional integration, it was equally important that the most economically powerful economies in the region reached agreement in Bali that Japan and the PRC would each contribute US$200 million to the CGIF fund, ADB US$130 million, Korea US$100 million, and the ten ASEAN countries US$7 million each (ADB 2010). The establishment of the CGIF trust fund can be seen as another ground-breaking step in preconditioning further regional multilateral cooperation between the most powerful economies in the region. The growth prospects for Asian bond markets are tremendous, as emerging East Asia currently accounts for less than 7% of local currency bonds outstanding globally. Government bonds account for 70% of the total

[4] AMRO will (i) monitor, assess, and report on the macroeconomic situation and financial soundness of the ASEAN+3 countries, (ii) assess macroeconomic and financial vulnerabilities in any of the ASEAN+3 countries and provide assistance in timely formulation of policy recommendations to mitigate such risks, and (iii) ensure compliance of swap requesting parties with the lending covenants under the CMIM agreement (ASEAN Secretariat website, http://www.asean.org/25193.htm).

[5] The CGIF was approved by ADB's Board of Directors in April 2010.

[6] Author's discussions in Hong Kong, China, November 2010.

bonds outstanding, and corporate bond markets remain small (except in Korea), but have been growing rapidly in the wake of the global crisis. Primary bond markets have grown rapidly, however secondary markets have grown more slowly. There is much to be done to improve the institutional infrastructure to support the development of bond markets in Asia.

The global crisis appears to have brought some adjustment in the mindset, national interests, and policy preferences of key economies in the region. The global crisis has encouraged Asian countries to give further consideration to how to foster synergies across the issue areas. Foremost is the growing recognition inside Asia that achieving further and sustained increases in national growth will require regional integration beyond the realm of trade, stretching into financial cooperation. The global crisis has also put global coordination on their discussion agendas. The global crisis seems to have catalyzed a shift in ideas, changes in concrete national interests, and most importantly, changes in international behavior in the region.

3. PRECONDITIONING THE POST-2007 REGIONALISM

The post-2007 advances in Asian regionalism build on a pattern of rising regional inter-governmental cooperation that preceded the global financial crisis. Capannelli, Li, and Petri (2009) note that the forms of regional cooperation have varied across and within world regions, "ranging from formal agreements designed to lead the integration process, to informal measures to manage the consequences of integration." It has entailed increasingly frequent consultations on regional issues, across all levels of government. That, increasingly, most heads of state have multiple, regularly scheduled opportunities to meet regionally, each year, and their ministers and other leading officials of national agencies also meet frequently at various forums. In Asia, this growing pattern of regional policy cooperation can be seen at forums at the regional level, such as the Executives' Meetings of East Asia-Pacific Central Banks (EMEAP), to more formal organizations such as ASEAN, ASEAN+3, Asia-Europe Meeting (ASEM), or Asia-Pacific Economic Cooperation (APEC), and in regional dialogue arrangements that are embedded within global institutions such as United Nations (UN) agencies and the Bank for International Settlements (BIS).

Other sources of momentum for growing regionalism in Asia—that precede the global crisis—are the regional connectivity programs involving infrastructure projects that were initiated to link subregions in Asia.[7] Some of the initiatives, such as the GMS, the CAREC forum, and BIMSTEC, were launched over the past two decades by member governments, and then received additional support from multilateral development banks, including ADB. Infrastructure investment facilitates regional integration that in turn, further encourages regional cooperation, including cooperation on infrastructure development. The work of the ADB Institute found that investment in infrastructure for regional cooperation can create a "virtuous cycle" that supports development (Bhattacharyay 2010). Development banks have played a particularly active role in supporting the building of Asia infrastructure, especially infrastructure that promotes

[7] One other factor that has also reinforced the trend toward to increased regional cooperation in Asia has been the effective regionalized coordination on health crises and containing trans-boundary diseases such as avian influenza and SARS, over the past decade. I thank Giovanni Capannelli and Sabyasachi Mitra for highlighting this point.

regional growth, trade, and investment cooperation, ranging from transport infrastructure to the governance and financing of infrastructure.

Whereas the GMS is a more established program of regionalism, the CAREC forum and BIMSTEC are at the frontline of expanding regionalism between East and Central Asia, and East and South Asia, respectively. The CAREC program, started in 2005, is a partnership of eight countries (Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan, Turkmenistan, and Pakistan) and six multilateral institutions (ADB, European Bank for Reconstruction and Development, IMF, Islamic Development Bank, United Nations Development Programme, and the World Bank). CAREC works to promote "development through cooperation, leading to accelerated economic growth and poverty reduction" (ADB CAREC Program). It promotes subregional cooperation in the priority areas of transport, trade facilitation, trade policy, and energy, and especially in transport cooperation that is seen as crucial to promoting sustainable economic growth and rapid poverty reduction among the member countries. CAREC also aims to help its members and neighboring countries realize their potential in an increasingly integrated Eurasia. In 2009, the program mobilized US$3.9 billion for projects in the transport, trade, and energy sectors.

ADB has been a key coordinating force behind the CAREC program, and has provided guidance and support to its development. ADB research has indicated that improved connectivity, efficient sharing of natural resources, shorter transit times, and clear, consistent trade regimes will bring large dividends. A 2005 ADB Policy Brief for CAREC suggests that increased regional cooperation, along with key economic reforms, could help double per capita incomes in the CAREC region and reduce poverty from more than 40% to less than 25% by 2015 (ADB 2005). These research findings have provided momentum for subregional integration.

The other case of subregional collective action—BIMSTEC—covers Bangladesh, India, Sri Lanka, Thailand, Myanmar, Bhutan, and Nepal. According to the description on its official website, BIMSTEC was initiated in 1997 to:

"…create an enabling environment for rapid economic development, accelerate social progress in the sub-region, promote active collaboration and mutual assistance on matters of common interest, provide assistance to each other in the form of training and research facilities, cooperate more effectively in joint efforts that are supportive of, and complementary to national development plans of member states, maintain close and beneficial cooperation with existing international and regional organizations, and cooperate in projects that can be dealt with most productively on a sub-regional basis and which make best use of available synergies." (BIMSTEC website)

The foreign policy goal of BIMSTEC was to link the "Look West" policy of the Southeast Asian members of BIMSTEC and the "Look East" policy of the South Asian members. BIMSTEC thus bills itself as a "link between ASEAN and SAARC" (BIMSTEC website). The seven members of BIMSTEC cover 13 priority sectors, which are led by member countries in a voluntary manner: trade and investment, technology, energy, transport and communication, tourism, fisheries, agriculture, cultural cooperation, environment and disaster management, public health, people-to-people contact, poverty alleviation, and counter-terrorism and transnational crimes. BIMSTEC provides an institutional link between South Asia and Southeast Asia that encapsulates 1.3 billion people, or 21% of the world population, a combined GDP of US$750 billion, and a considerable number of complementarities. A study commissioned by BIMSTEC shows the potential for US$43 billion to US$59 billion trade under a BIMSTEC free trade agreement (FTA). The priority at the 16th meeting of the BIMSTEC Trade Negotiating Committee (TNC), held from 17–21 March 2008 in India, was the negotiation of the “List of Goods” related to the Framework Agreement of the BIMSTEC TNC that was signed in 2004. These negotiations aim to culminate in an FTA (BIMSTEC website).

Both the CAREC and BIMSTEC subregional initiatives make the case for the importance of institutions for Asian connectivity. The idea is that economies in the region need to be rebalanced toward regional demand- and trade-driven growth through increased regional connectivity, in order for Asia to be more economically sustainable and resilient against external shocks (Bhattacharyay 2010).

The effectiveness of connectivity, according to Bhattacharyay, depends on the quality of hard and soft infrastructure. In terms of soft infrastructure—which supports hard infrastructure—the facilitating institutions that ensure connectivity are appropriate government policies, systems, and procedures, and effective regulatory coordination and cooperation. Asia currently has numerous overlapping subregional institutions involved in national and regional energy, transport, and telecommunications infrastructure connectivity; however their effectiveness appears constrained. They lack clear and binding system of rules and policies, and are overly informal.

Seamless connectivity within the region requires reforms to foster a more effective, formal, and rules-based institutional framework. ADB has put concerted efforts into institutional reforms for Asian connectivity and meeting the financing challenges including developing institutional options for regional infrastructure financing.

4. RISING MULTILATERAL ACTIVISM OF THE PRC

Asia is now examining whether the PRC can play an even greater role in driving demand and growth within the region, based on exports of final goods where the PRC is the consumer of finished goods, rather than processing trade. Such a shift would signal the PRC’s evolution into more of a consumer and less of an assembler that would provide grounds for optimism that the PRC can serve as a source of resilience against exogenous demand shocks in the short to medium run, and be a sustained source of growth in the long run (Park and Shin 2010). However, many countries in the region already enjoy significant trade surpluses with the PRC, and for some economies in Northeast Asia, their interests will continue to be closely bound with producing within the PRC via production networks, for export to the rich end-markets of the US and Europe, and now elsewhere, even with growing demand from the PRC.

For Asia, the PRC is key for diversifying growth options. The call from the US to reduce reliance on the US market means that Asian countries need to find new options for driving demand, diversifying their export markets, and fostering new sources of growth from within the region. The PRC has realized that it needs to take conscious policy measures to adjust its own growth model (Wang 2007). Meanwhile, Asian economies recognize that they cannot wait for market-led solutions from the “natural evolution” of the markets in the PRC and India, and that some coordinated action is necessary at the regional level.

The PRC, Japan, Korea and some other Asian economies have amassed large foreign currency reserves, which have recently shown their value for national economic security when deployed to insulate their economies in a time of global financial volatility and currency instability (Chin 2011). Reserve accumulation is, however, inherently inefficient, and Asian authorities are increasingly aware of the need for regional solutions that are integrated with national and global initiatives. Already established regional trade mechanisms such as ASEAN's separate trade agreements with the PRC, Japan, and Korea provide an institutionalized platform for increasing intra-regional trade links, to further expand regional production networks, and to stimulate growth from within the region.

As other scholars have correctly pointed out, the current momentum behind enhanced trade regionalism is also bound up with the global level, with problems of the global multilateral trading regime, with the ongoing impasse of the Doha Round of world trade negotiations (Chin and Stubbs 2011). Regardless, indications are that "negotiated liberalization" is increasingly the preferred path for market opening. Asia is setting precedents for creating new regional and potentially global norms and rules, with its managed opening, and controlled liberalization via preferential trade agreements. The PRC–ASEAN Free Trade Agreement (CAFTA) reflects such an approach to trade and investment liberalization (Chin and Stubbs 2011). CAFTA is calibrated to the differing levels of development of countries in the region, and allows for controlled opening, by allowing countries to open gradually without having to face competition immediately from powerful external corporate actors.

Beyond trade integration, the global financial crisis and the extended downturn in key advanced economies have also altered national interests in the realm of finance and money, and spurred a succession of changes in the international behavior of Asian economies in regional financial and monetary cooperation. Since the start of the global crisis, as mentioned earlier, the bilateral swaps under the CMI have been multilateralized, enlarged to $120 billion, and operationalized since December 2009. However, the percentage of funds from this regional facility that can be immediately accessed is still limited to 20%, and the rest still requires IMF sanctioning. My own research has mapped how the previous limits in the regional emergency mechanisms led some vulnerable economies in the region to access national reserves, quickly establish a new set of bilateral currency swap arrangements with non-regional and regional governments, and work at the global (G20) level to prevent the contagion effects of the global financial fallout.[8]

The PRC is one of the countries where changes in national interests, and important breakthroughs on international financial and monetary behavior can be observed. Prior to the global crisis, the PRC authorities had already given their support to regional bond market development (ABMI, ABF1, and ABF2), although there continued to be some caution on the part of Beijing, if not hesitation, even in this initial period. During the height of the financial crisis, Beijing supported the previously noted Indonesian proposal to enhance ADB's role in crisis prevention countercyclical financing. At the Boao Forum for Asia (April 2009), the PRC's central bank governor stated that the IMF had failed in its crisis prevention responsibilities, and that "regional institutions such as the Asian Development Bank, could also alleviate the impact of financial crisis through increasing spending and boosting regional activities" (Xinhua Net 2009).

After global financial markets were initially stabilized, the PRC's finance ministry turned back to the development of regional bond markets. In the wake of the financial crisis, the

[8] For example, Korea arranged a one-year US$30 billion swap with the US in October 2008, and followed up with a three-year currency swap of CNY180 billion (US$26.3 billion) with the PRC, and a two-year US$20 billion swap with Japan. Singapore signed a US$30 billion currency swap with the US in October 2008 and followed up with another swap with Japan (Chin 2010a).

PRC's finance ministry gave policy support to ICT infrastructure development that is crucial to providing the enabling infrastructure that is needed for the CGIF, as well as the ongoing efforts to foster regional local currency bond markets in Hong Kong, China, via corporate bond guarantees that have their origins in a 1997 APEC-led initiative.[9] Beijing appears to have grown more comfortable with this aspect of regional financial policy cooperation, and endorsed moving ahead with building the institutional underpinnings, or key blocks for the emerging regional financial architecture. But the PRC authorities have continued to take a gradualist approach, that starts not from "grand" architecture but from the "bottom-up", in "bits and pieces", building new international consensus along the way, and eventually connecting the pieces.

These observations regarding the evolution in the PRC's thinking on regional interdependence appear to run counter to the predictions of a number of prominent analysts prior to the crisis, that the PRC would be unlikely to readily endorse moves toward financial and monetary integration (Drysdale 2007). On the sensitive issue of monetary cooperation, it is likely that Beijing is not ready to endorse the creation a regional currency basket, the immediate formation of an Asian currency unit that might serve as an index for measuring exchange rate deviations or, more ambitiously, to move toward a regional peg (Yu 2007). Chinese decision-makers have to decide whether the PRC is ready to make the yuan a part of a regional currency basket. But research in the PRC is being directed at this theme, including on cost-benefit analyses, and next steps.

The PRC leaders have given the "green light" in their official statements to proceed further with regional financial and monetary cooperation. The speech by central bank governor Zhou Xiaochuan that was published prior to the April 2009 London G20 meeting gave a key signal of the priority that Beijing was attaching to experimentation on alternative reserve asset options, including pursuing increased regional financial and monetary cooperation, and internationalization of the yuan (Zhao Xiaochuan 2009). Support from the most senior levels followed in remarks by the PRC President Hu Jintao on Asian regional cooperation in his speech to the General Assembly of the United Nations in September 2009, that since the outbreak of the global financial crisis, the PRC has "actively contributed to the building of an East Asian foreign currency reserve pool," and would "continue with its efforts to promote regional monetary and financial cooperation, maintain financial and economic stability, and push forward financial cooperation and trade within the region" (Hu 2009).

Hu Jintao and Wen Jiaobao's official announcements in 2009 that the PRC would support an enlarged and multilateralized CMI gave indication that the PRC leaders had made a shift toward the idea of an Asian currency unit. Influential new research groupings were directed to analyze the prospects for an Asian currency unit, and for greater regional financial and monetary cooperation more broadly, including the new "super think tank" (created in March 2009), the China Center for International Economic Exchanges (CCIEE), chaired by former Vice Premier Zeng Peiyan, a political heavyweight on economic policy.[10]

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[9] Author's discussions. Beijing, September 2010.

[10] Zeng Peiyan is the PRC's former leading state planner, and the CCIEE officially operates under the purview of the National Development and Reform Commission, the powerful planning organ of the PRC party-state. The CCIEE also has several current or former ministerial-level officials, prominent business leaders, and leading academics appointed as vice-chair to its board. (See Li 2009).

Beijing's increased support to regional financial and monetary innovation is rooted in concerns over what it deems is over-reliance on the dollar—and the inherent vulnerabilities in holding over US$2 trillion in currency reserves, on the one hand; and a desire to lay alternative monetary foundations for stable future growth over the longer-term, on the other (Wang 2007; Chin and Helleiner 2008).

5. BRINGING IN INDIA

India's rise and growing international activism provides another dimension of momentum toward pan-Asian economic integration. The question is how sustained is India's interest in linking to East Asia, as it entails some economic and political risks for India? India and the ASEAN countries have entered into a framework agreement on comprehensive economic cooperation. India is not (yet) a full-fledged member of the ASEAN+3 network, but does hold regular summits with ASEAN. Some analysts envisage that, in the years ahead, India's ties with the ASEAN network will strengthen via an ASEAN+3+3 (ASEAN+3 countries and India, Australia, and New Zealand) (Sinha and Pradhan 2008). They moreover suggest that such a regional network would help India to cooperate in regional financial programs, similar to the present network of ASEAN+3 (the feasibility of such developments is addressed below). For now, India is becoming increasingly engaged in the institutionalized policy dialogue and some programs of East Asian regionalism.

Delhi has also recently worked on FTA-type arrangements with Korea, and is currently negotiating economic partnership agreements (EPAs) with Japan and the PRC. Such EPAs have been consciously pursued by Delhi and Tokyo (and Beijing) as a strategic goal, as building blocks for an even larger regional economic integration. At the same time that India has been reaching more toward the East, Delhi has also been driving intra-regional trade and investment links within South Asia, via its South Asian Association for Regional Cooperation (SAARC) arrangements. It has recently added building more ties with Central Asia to its expanding international agenda. India was the primary driver behind the SAARCFINANCE, established in September 1998, as a regional network of the SAARC central bank governors and finance secretaries. The goal is to give further momentum to the SAARC by elevating the cooperation to international finance and monetary issues. Unlike its recent outreach to East Asia, which at times has been partial and cautious despite the increased priority, India has participated actively in SAARCFINANCE activities (Sinha and Pradhan 2008).

Sinha and Pradhan argue that it is important for India to forge a closer relationship for mutual trade and investment within the Asian region and also to adopt a proactive role vis-à-vis the ASEAN economies. They suggest that India has already demonstrated its strength in the services sector, especially software. If this can be complemented by the hardware and manufacturing base of East Asia, then India and the region can "prosper together in the new global scenario." According to these two Indian analysts, the rapid

The CCIEE reportedly formed a research partnership with influential Japanese counterparts to investigate the Asian currency unit. The author's discussion with a senior representative of a leading Japanese international policy think tank: Rome, May 2009.

change that has taken place in Asia provides new opportunities that “must be seized” by each side (Sinha and Pradhan 2008). The BIMSTEC arrangements (discussed above) are one institutional platform for forging such regional linkages.

The reality is that India’s share of exports to the Asian region have remained somewhat sluggish and below optimal projections. India’s FDI openness, despite increasing, is still much lower than that of other Asian emerging economies. As India’s services exports are increasing at a rapid pace, the country is confronting challenges emanating from the uncertainty of access to cross-border exports of services and barriers to the movement of people. At the same time, it is useful to note that the latest wave of Indian integration into East Asian regionalism is being driven by the activities of Indian companies, which have come to recognize their complementary strengths, and have become increasingly linked with East Asian production networks. In turn, East Asian companies have also begun to utilize India’s strengths in research and development (R&D), and software and design, and some have relocated their global R&D centers to India. Several Indian companies have also begun to take advantage of lower manufacturing costs for hardware in the PRC, and have invested there in order to rationalize their production.

The above trends may become more entrenched as the emerging free trade arrangements between India and Southeast Asian countries come into effect. The BIMSTEC arrangements may serve to support the crucial micro-decisions at firm-level. ADB became a development partner with BIMSTEC in 2005, to undertake a study that helps promote and improve transport infrastructure and logistics among the BIMSTEC countries. ADB completed an initial scoping and feasibility project called the BIMSTEC Transport Infrastructure and Logistic Study (ADB 2006). The project issued an initial report in August 2006 that was conveyed to all members. ADB then commissioned a more extensive technical assistance report for BIMSTEC in August 2006, and the team of consultants delivered a final report in January 2008 (ADB 2008). The final report included: (i) review of present trade patterns and identification of the main transport and logistics constraints and their impact on transaction costs and trade; (ii) a framework of policies and strategies to overcome the constraints; and (iii) an outline of possible financing modalities and sources (including ADB).

It is also possible that India could eventually assume a greater role in helping to forge financial cooperation in the Asian region. Such a move would likely be motivated not only by trade integration, but as well by the structural shift that is resulting from India’s co-integration with stocks markets in Hong Kong, China and Singapore (though less with the Japanese stock market) (Raj and Dhal 2008). The prospects for India’s cooperation with East Asia on monetary policy are more complicated. It is unsure whether Delhi would support the fundamental reform of the global reserve scenario that is entailed in the creation of an Asian currency unit.

In terms of central banking cooperation, India attends the informal meetings of the Asia Cooperation Dialogue (ACD), attended by participant central banks. The Government of India has committed to participating in the ABF2 for a total of US$1 billion. While these moves are promising, one would want to be mindful that India may have a different set of national interests than other key emerging economies in Asia, specifically with respect to the international monetary system. Delhi and Indian business appear more willing to work within the dollar order despite the volatility in the value of the dollar.[11] This speaks

[11] I thank Manmohan Agarwal, former Dean of the School of International Studies and professor at the Centre for International Trade and Development at Jawaharlal Nehru University in India, for highlighting this point.

to more fundamental differences in exchange rate regimes as the starting point for regional monetary cooperation. An interesting question is whether India would be in a similar position relative to a future East Asian monetary union, as the UK and the European Monetary Union. Such distinctions are alluded to in Suman Bery's analyses (Bery 2010).

It is in this light that one can appreciate ADB Vice President Zhao Xiaoyu's statement that "as Asia moves toward economic integration, the PRC and India will undoubtedly be central in its evolution" (Zhao Xiaoyu 2010). One can also see the logic in the view that the PRC and India "need to take steps to help forge an integrated pan-Asian free trade zone, which is free of restrictions on regional flows of goods, services, and capital." (Zhao Xiaoyu 2010) That these two Asian giants also "need to provide deep and liquid financial markets" (Zhao Xiaoyu 2010) that are open to cross-border financial flows and services—and with strong oversight standards and effective protection for national and foreign investors. If India and the PRC can cooperate in forging the necessary frameworks for greater regional coordination on macroeconomic and exchange rate policies, they would likely do so by making new breakthroughs on achieving balances between meeting differing national developmental needs *and* global challenges, simultaneously. Such cooperation, as Prime Ministers Singh and Wen have each expressed, would have a transformative impact for the world. The Indian Prime Minister emphasized, for example, in his speech at the Chinese Academy of Social Sciences (January 2008) that he looked forward "with optimism to the future and the role which India and China are destined to play in the transformation of Asia and the world" (Singh 2008).

6. SUMMARY: CONCEPTUAL AND POLICY IMPLICATIONS

This chapter draws on established methods in the literature to provide preliminary thoughts on the key links between economic globalization and regional interdependence for Asian countries, especially with the backdrop of the global financial crisis and the ongoing downturn of many advanced economies. Further analysis is needed to determine the factors that are driving regionalism in Asia, beyond benefits of reducing transaction costs and overcoming diseconomies of scale at the global multilateral level.

The above discussion has integrated fundamental considerations such as the evolving policy preferences and capabilities of the relevant actors, and has analyzed how distributive conflicts (endogenous and exogenous) are shaping the core of emerging regional arrangements, and the role of crisis as critical junctures. It has also given preliminary attention to how spatial, institutional, and aggregator-technology factors may be combined to overcome the constraints on regional collective action (Sandler 2010).

Although the momentum for regional cooperation was gradually building in Asia prior to the global financial crisis, there has been an increase in regional cooperation since the onset of the crisis in 2007. I suggest that, since 2007, Asian regional integration is being shaped and enhanced by four key emerging trends. These trends highlight the links between economic globalization, regional interdependence, and national considerations. First, the drop in export demand from the US and European markets has reemphasized to Asian leaders that their economies are vulnerable due to their heavy reliance on these external markets for export-oriented growth, and that they need to seriously consider how to adjust their growth strategies, and undertake the necessary restructuring.

Second, the Obama administration's statement that the world can no longer rely on the US to be the consumer of last resort further pushes Asian economies to address their economic security needs by developing supplemental (or alternative) options for self-sustainable growth. Third, the PRC's continuing economic rise, and specifically Beijing's growing interest in promoting regionalism and pursuing regional cooperation and coordination, is part of a multi-tiered strategy in which the PRC is addressing its economic security vulnerabilities through a combination of national (unilateral), regional, and global measures. For example, in the area of international monetary affairs, Beijing is now moving ahead with experimentation on yuan internationalization, regional financial and currency experiments, and seeking adjustments to the global monetary system (Chin and Wang 2010).[12] The PRC's growing support to regionalism is, however, preconditioned by new regional cooperative arrangements between the PRC and Japan. Japanese foresight in fostering elements of regional co-leadership with the PRC has been crucial in supporting the evolution in Beijing's positioning. Fourth, India's continuing economic rise and its growing interest in regional collective action with East Asia is adding another new qualitative dimension to Asian regionalism. In recent years, Delhi has expanded its strategic vision, most noticeably in Asia, and Indian authorities are giving greater priority to their Look East policy, and strengthening ties with East Asia (Rajamohan, Rahut, and Jacob 2008). The PRC has become a major trading and economic partner to India. At the same time, also in response to the PRC's rise, India has broadened its security agenda, and strengthened ties with Japan, ASEAN, and Korea. Nevertheless, these bilateral anchors provide momentum for India's increased involvement in regional multilateralism as well. The convergence of these four dynamics are providing impetus to regional cooperation in Asia, since the onset of the financial crisis.

This concluding section also outlines preliminary policy recommendations for Asian governments—especially with respect to the balance of global, regional, and national initiatives that Asian countries need to consider when promoting economic development and growth. The immediate challenge for Asia is how Asian economies can strengthen themselves while simultaneously helping, to the extent possible, the broader task of avoiding a second round of recessionary pressure on the global economy. The global question that frames the regional discussion is, "if US leadership is weakening, as the major emerging economies outpace the rich countries in rates of economic growth, will destabilizing pressures also extend into global finance and trade?" If so, are there institutional reforms that could mitigate these pressures and help to maintain economic and financial stability? To be precise, in addition to the regional institution-building that Asian countries have already undertaken for emergency liquidity provision and bond market development within the region, which gaps in regional cooperation should Asia concentrate on filling that simultaneously allow Asia to link more effectively to a new global role?

Both those for (Sheng) and against (Bery) greater Asian regional coordination accept that increased regionalism is the likely reality for Asia's future, and believe that it will be a relatively open form of regionalism. For Sheng, increased regionalism in Asia will be the outcome of the global financial crisis, and that within the next two decades the global monetary and financial architecture will be radically different from today. By then, there

[12] Beijing's monetary diversification efforts are also fuelled by the variation in Washington's policy response to Japan and the PRC on exchange rate interventions and currency policy.

will be at least three global reserve currencies contending for attention, of which an Asian currency, national, or regional will be in operation.

It is suggested here that Asian countries appear to be on a path toward greater collective action. If Asia remains on the path of dynamic fast growth, in order for growth in the region to be stable, a move toward *de jure* monetary coordination is inevitable. In terms of a shared vision for emerging Asian regionalism, it is realistic to suggest that Asian countries should—to the maximum extent possible—ensure that emerging Asian regionalism is complementary to, rather than competitive with, global multilateral initiatives. In so doing, Asian countries need to identify their common interests, forge a shared strategic vision, and advance their shared solutions at regional meetings, and at global level discussions—by strengthening their shared voice and representation in the G20 process, at the IMF, World Bank, Financial Stability Board (FSB), and Basel Committee.

One platform that would be especially useful for encouraging regional financial cooperation would be the creation of an FSB arrangement for Asia, where finance ministries, central banks, and financial regulators meet regularly within the region (Sheng 2010; Drysdale 2010). The regional discussions would aim to develop a shared regional mechanism for financial crisis prevention—and to ensure that this regional arrangement is supportive of deliberations of the FSB, the Basel Committee, and the G20 at the global level. Such an institutional arrangement may take a decade to unfold, but would be an important counterpart to the CMIM liquidity crisis mechanism, in terms of providing Asian countries with a more comprehensive regional financial and monetary crisis management mechanism.

Regionally active FSB, Bank for International Settlements (BIS), and International Organization of Securities Commissions (IOSCO) type institutions do not necessarily have to be antithetical to greater global coordination, and could be supplements within a stronger global architecture. Such Asian regional financial stability arrangements could become necessary if the world is in fact heading toward more a multi-layered and decentralized global architecture, driven, in no small part, by the emergence of stronger financial stability instruments for Europe at the regional level.

Another channel for increased Asian financial cooperation, especially the coordinated use of Asia's combined foreign exchange reserves (over US$5 trillion), is the financing of infrastructure modernization, both in the region and in other regions. Modernizing physical connectivity, and the accompanying soft infrastructure that supports transport and transit facilitation for the smooth movement of people, capital, and knowledge, is an important priority for Asian countries. Asia also has much to offer, in terms of resources and expertise, to help others to strengthen highway and trans-regional railway and port networks.

Within Asia, ASEAN has developed a master plan on connectivity (adopted at ASEAN's Hanoi Summit on 28 October, 2010) with the support of ADB and UNESCAP. According to Nagesh Kumar, the deficit for investment in infrastructure in the less developed parts of Asia runs into trillions of dollars (see chapter 8). One ADB–ADBI working paper estimates that the annual investment needed to close the infrastructure gaps in Asia is US$800 billion, and that this amount cannot be met by existing arrangements (Fan Zhai 2010). New collective mechanisms are needed to marshal Asian currency reserves to finance infrastructure development on this scale.[13] At the same time, Asian countries need to consider how they can share the benefits of their growth with other developing regions, especially through their support to infrastructure modernization.

Is Asia ready to play such an enhanced regional and global role? The consensus seems to be "not yet." Asia is still in catch-up mode in comparison with Europe, or the Group of Seven (G7) traditional powers. However, recent advances in leaders summitry that entail senior-level coordination between economies and key government ministries, the PRC, Japan, and Korea have initiated a regularized process of trilateral summits. This northeast Asian trilateral arrangement builds on top of the increasingly dense ASEAN+3 arrangements (for example, CMIM, AMRO, China-ASEAN FTA), and provides further momentum to pan-Asian coordination. Preparation for the regular leaders' meetings necessitates frequent exchange between officials in the bureaucratic machinery, in order to pave the way for agenda setting and leaders' decision-making. The cumulative effect is a further overall deepening of institutionalized ties within and across the Asian region.

A significant challenge to Asia becoming an anchor for peace and shared prosperity in the world economy is the extent to which the traditional powers are willing to support such changes in the global *status quo*. There are reasons to be somewhat skeptical here. The next phase of Asian regionalism would need to go beyond the "open regionalism" concept, which focused on minimizing discrimination against non-members—and a term that carries specific connotations related to the Asia-Pacific Economic Cooperation (APEC) process, and its limited achievements in trade liberalization (Ravenhill 2001). The goal should, nonetheless, be to strive for a mode of regional coordination that is deeper and more globally aware. In other words, forms of regional coordination that entail new measures to strengthen collective action within the region, but also simultaneously incorporate cost-sharing and refund measures that Asian countries could offer as trade-offs to external interests, at the global level. Such trade-offs would be essential for overcoming exogenous impediments to regional collective action, or, potentially, external resistance to Asian inspired options for more effective delivery of global public goods.

[13] Author's notes for the presentation by Nagesh Kumar, ADBI Annual Conference, Tokyo, 3 December 2010.

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