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# RSIS COMMENTARIES

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No. 112/2010 dated 14 September 2010

## **Asian and Global Financial Crises: Implications for East Asian Regionalism**

By Ralf Emmers and John Ravenhill

### **Synopsis**

*The consequences of the Asian and global financial crises for East Asian regionalism were divergent. This generated contrasting expectations of how regional institutions should respond. This in turn has led to diverse perceptions on the need for institutional change.*

### **Commentary**

#### **Reshaping East Asia's Response**

THE ASIAN financial crisis that started in July 1997 with the collapse of the Thai baht triggered a financial and currency meltdown across the entire East Asian region. The inter-connectedness of East Asian economies was such that the resulting contagion left virtually no country untouched. Regardless of whether one believes that the crisis was primarily the fault of poor policies pursued by governments or a consequence of the behaviour of international speculators, the impact of the crisis was felt overwhelmingly within East Asia. The catastrophic events of 1997/98 consequently were viewed as a crisis "internal" to the region.

Whereas 1997/98 was a regional crisis; the recession of 2008/09 was truly global in scope as well as being extra-regional in origin. For the most part, financial systems in East Asian economies escaped largely unscathed. Even though the recent recession was the most severe for the global economy since the Second World War, the negative impact on East Asia considered collectively was less than that of the Asian financial crisis and only slightly greater than that associated with the bursting of the dot.com bubble in 2001. Economies quickly returned to growth in the second half of 2009. The relatively mild impact of the global recession combined with its extra-regional origins has played a major role in shaping East Asia's response to the recession.

#### **Impact on East Asian Regionalism**

Vulnerability caused by the Asian financial crisis prompted perceptions that regional institutions needed to be changed. The events in 1997/98 highlighted the weaknesses of regional institutions, especially the Asia Pacific Economic Cooperation (APEC) forum and the Association of Southeast Asian Nations (ASEAN). The financial crisis also played a crucial role in fostering a stronger regional identity in East Asia.

The Asian financial crisis underscored the need for new overlapping arrangements capable of better defending

the region against future financial instability. This shift in perception led to the institutionalisation of the ASEAN Plus Three (China, Japan and South Korea) grouping or APT. This constituted an ASEAN attempt at widening the scope of cooperation in East Asia by linking the 10 Southeast Asian countries to the larger Northeast Asian economies. It broke the institutional status quo by bringing the two East Asian sub-regions under the auspices of an embryonic unified economic and financial architecture. In particular, the expectation was that the APT would tackle the economic sources of insecurity in the wider East Asian region through financial and other forms of cooperation.

In contrast to the events of 1997/8, the global financial crisis of 2008/09 has had little impact on East Asian regionalism, its primary influence being indirect. Despite the US origins of the recession, it has not deepened a sense of East Asian identity and community. Moreover, rather than triggering major institutional innovation (comparable to the APT), the response to the global financial crisis was a modest tinkering with existing institutions, most notably through the multilateralisation of the Chiang Mai Initiative (CMI).

### **Rise of G-20**

Interestingly, the strengthening of the processes for regional financial cooperation in East Asia has occurred at a time when developments at the global level might be considered to have reduced the need for such regional financial institutions. At the broadest level, the elevation of the G-20 to the role of “premier institution” for global economic governance has given East Asian countries an unprecedented voice in managing global economic regimes. And the increased funding that the G-20 has mandated for the International Monetary Fund (IMF), the change in voting rights within the Fund, and the new mission it has been given in promoting crisis avoidance as opposed to ex post crisis containment, are all developments that address some of the most important concerns of Asian countries.

The global financial crisis has, however, prompted a re-thinking of the architecture of regional institutions within East Asia. The rapid recovery of East Asian economies has underlined the region's role as the principal engine of the global economy and has reinforced perceptions that a shift of economic power to the region is under way. The apparent relative decline of the United States has encouraged policymakers to rethink the institutional architecture in East Asia so that it can better reflect a shift in the global power distribution. Various proposals have called for a stronger Asian voice in global affairs and a more coordinated regional representation at the G-20 and other global institutions.

### **Trilateral Cooperation and ASEAN's Leadership**

Two dimensions of this reconsideration are particularly notable. The first is the reinforcing of trilateral cooperation among the three major Northeast Asian powers — the People's Republic of China (PRC), Japan and the Republic of Korea (ROK). Organized in May 2010, the Third Japan-China-ROK Trilateral Summit Meeting welcomed the launch of a Joint Study for a trilateral free trade agreement (FTA) and the establishment of a secretariat in Korea in 2011. The second, the centrality of ASEAN in East Asian regionalism, came into question. Nonetheless, it has so far been preserved because the Association has succeeded in merging divergent ideas into common initiatives placed under its immediate leadership.

Despite deeper trilateral cooperation among the major Northeast Asian powers, Beijing, Tokyo, and Seoul seem content for now to let ASEAN lead, at least nominally, East Asian regionalism. Despite its shortcomings, the Association still shapes organisational and membership matters as well as rules. Its emphasis on consensual decision-making processes remains acceptable to all. The Plus Three countries have thus not yet questioned ASEAN's managerial role in the cooperative process and remained sensitive to the views taken by their Southeast Asian neighbours. And the failure of the Hatoyama and Rudd initiatives has also reinforced the centrality of the ASEAN Plus Three grouping in Asian regionalism.

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