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**The Asian Financial Crisis and
ASEAN's Concept of Security**

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ABSTRACT

The Asian financial crisis (1997–1998) led the Association of Southeast Asian Nations (ASEAN) to critically examine its approach to regional security issues. As a result, the ASEAN way has been transformed from its total respect for the principle of non-interference to the formula of “enhanced interaction”, which would allow qualified intervention into the domestic affairs of the member states. The examination of the documents of ASEAN Ministerial Meetings from 1998 to 2004 reveals this change in strategic concept. However, the revision of ASEAN’s concept of security reveals the fundamental contradiction between ASEAN’s original identity based on the principle of non-interference and the need for intervention to effectively deal with issues of regional ramification. How ASEAN reconciles the existing contradiction between its identity and the necessity to intervene in the domestic affairs of its member states will determine ASEAN’s future as a regional organization.

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The Asian Financial Crisis and ASEAN's Concept of Security

Introduction

In 1997, an economic crisis that began in Southeast Asia spread to the rest of East Asia, threatening to plunge the world economy into a global recession. While the global economic ramifications of the economic crisis have been hotly debated, there has been relatively little attention to its impact on regional security. This essay attempts to fill that gap by offering an account of how the crisis altered the Association of South East Asian Nations' (ASEAN) concept of regional security.

This paper argues that the financial crisis led ASEAN to critically examine its approach to regional security and, as a result, two changes have occurred. First, ASEAN began to downplay the principle of non-interference in domestic affairs, and hence the ASEAN way was transformed into the formula of "enhanced interaction", which would allow qualified intervention into the domestic affairs of its member states. Second, the previously non-existent linkage between economic instability and regional stability emerged, thereby broadening the scope of the concept of security. This change represents a move away from the traditional focus on military conflict as a source of regional instability. The examination of the documents of ASEAN Ministerial Meetings from 1998 to 2004 reveals this change in strategic concept.

However, the revision of ASEAN's concept of security reveals the fundamental contradiction between ASEAN's original identity based on the principle of non-interference and the need for intervention to effectively deal with issues of regional ramification. The ASEAN identity has been so firmly grounded in the principle of non-interference that any erosion of that principle would significantly undermine its identity. Herein exists the fundamental contradiction between ASEAN's identity and its new "enhanced interaction" approach to regional security issues. The problem is more serious, if one realizes that a regional organization cannot be meaningful and effective while still jealously guarding the principle of non-interference and state sovereignty. For ASEAN to be a truly regional organization, it needs to transform its traditional organizational identity based on excessive emphasis

on state sovereignty. How ASEAN reconciles the existing contradiction between its identity and the necessity to intervene in the domestic affairs of its member states will determine ASEAN's future as a regional organization.

This paper is organized in four parts. I will begin with discussion of the Asian financial crisis of 1997, followed by that of the ASEAN's traditional concept of security. The next section will present the analysis of the impact of the Asian financial crisis on ASEAN's concept of security. Finally, I will analyse the contradiction between the ASEAN way and ASEAN as a regional organization, which sheds much light on the future of ASEAN.

Asian Financial Crisis: Causes and Impact

The Asian financial crisis unfolded in several overlapping phases, beginning in Thailand and spreading first to other Southeast Asian countries, and then to the Northeast Asian economies. The first warning signs came on 2 July 1997, when Thailand changed its policy on exchange rates from a fixed to a floating regime. On 11 July, the Philippines followed the suit, and for the remainder of the year, all the Southeast Asian currencies were allowed to float its currency on 17 October 1997. While Hong Kong resisted the speculation that it would also float its currency, South Korea suffered a severe liquidity crisis in the wake of Hong Kong's stock market crash, and was forced to abandon support for the South Korean won.

The surprising announcements of the exchange regime changes were a flashing red light for international investors in the region, whose entire game plan was predicated upon stable exchange rates pegged to the U.S. dollar.¹ It was this moment that the latent vulnerability to high external exposure, especially to private and short-term bank debt, became explosive for countries without any built-in sure protectors.

¹ C. Harvie and T. V. Hoa (Ed.) (2000), *The Causes and Impact of the Asian Financial Crisis* (p. 127). London: Macmillan Press Ltd. . Also, for more details, see P. R. Agenor, M. Miller, D. Vines and A. Weber (Eds.) (1999), *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge, U.K.: Cambridge University Press.

Table 1. Rates of Depreciation of Southeast Asian Currencies from July 1997 to January 1998

	Exchange Rate to US Dollar		Total Rate of Change
	(local currency unit / US dollar)		(percent)
	1 July 1997	24 January 1998	
Indonesian rupiah	2,432.00	14,800.00	- 83.6 %
Malaysian ringgit	2.52	4.58	- 44.9 %
Philippine peso	26.37	43.50	- 39.4 %
Singaporean dollar	1.43	1.76	- 18.8 %
Thai baht	24.53	54.00	- 54.6 %

Source: Institute of Southeast Asian Studies, Singapore, p. xv

In the months that followed, several countries in Southeast Asia endured devaluation in their currencies averaging more than 50%, as shown in Table 1. Scores of millions of workers and managers were laid off from companies that either went bankrupt or had to scale back their operations because economic growth rates were suddenly much lower, imported components were much more expensive or major government projects were cancelled or postponed. The hardest hit was Indonesia, which lost approximately 80% in the value of its currency. Moreover, in Indonesia, the economic crisis led to the intensification of ethnic conflict between Muslims and Christians, and Indonesians and ethnic Chinese.

Many factors worked together to cause the financial crisis. Broadly speaking, these factors can be grouped into two categories. The first explanation emphasizes the common structural problems in the Asian countries as the primary cause, and regards the currency crisis as an inevitable disaster that finally happened. This explanation focuses on the macroeconomic fundamentals and policies in the crisis economies. A commitment to fixed or highly managed exchange rates, combined with a weak financial sector and increased export competition from the developing countries in the region, especially China, created vulnerabilities to currency overvaluation, particularly when external debt was skewed toward the short run.²

² See G. Corsetti, P. Pesenti and N. Roubini (1998), *What Caused the Asian Currency and Financial Crisis? Part I and Part II. A Macroeconomic Overview*, NBER Working Paper Series #6833. Cambridge, MA; and Haggard and MacIntyre in G. W. Noble and J. Ravenhill (2000), *The Asian Financial Crisis and the Architecture of Global Finance*. New York: Cambridge University Press.

While there is much to be said about “crony capitalism” and inefficient allocation of financial resources in many East Asian countries, this line is insufficient to explain the timing of the crisis, as the crisis-hit economies had been the fastest growing economies in the world, with essentially the same macroeconomic structures. In light of this, the second explanation focuses on the flaws of the supply side by emphasizing the self-fulfilling prophecy of capital flight and financial contagion in the crisis. Just as the external investors had been excessively optimistic about economic prospects earlier (in 1994–1996), they became overly pessimistic at the end of 1997.³ Greater emphasis is placed on the self-fulfilling speculative attacks of international capital and its contagion. In this explanation, creditors are not responding to the fundamentals of the economy, but to the actions of other creditors, thereby constituting what Radelet and Sachs have labelled “rational panic”. The prima facie evidence of the panic-driven nature of the crisis includes the fact that it was largely unanticipated and the substantial overshooting of exchange rate adjustments that followed its onset.⁴

There is no doubt that the financial crisis was the function of interaction between both demand and supply factors—the fatal combination of large and volatile international capital interacting with fragile domestic financial sectors and ill-formed macroeconomic policies. However, as Wade explains, both explanations neglect the international variables, especially the role of the United States. According to Wade, the United States played two crucial roles in the crisis. It played the structural role of generating excess Asian liquidity and the instrumental role of effecting a quick financial liberalization in Asia, making it easier for foreign capital and foreign financial services firms—especially U.S. capital and financial services firms—to enter Asia and reap higher benefits.

Such U.S. policy also reflected the fundamental change that took place in the international environment due to the end of the Cold War. The systemic change in the international environment brought to the fore trade issues between key Asian

³ See J. D. Sachs, K. Schwab and W. T. Woo (Eds.) (2000), *The Asian Financial Crisis: Lessons for a Resilient Asia* (pp. 18–20). Cambridge, MA: MIT Press.

⁴ See S. Radelet and J. Sachs (1998), *The Onset of the East Asian Financial Crisis*, NBER Working Paper Series #6680. Cambridge, MA.

economies and the United States, as the strategic significance of the region declined.⁵ Bilateral capital inflows, for instance, were replaced by private capital flows that were not tied to any other arrangements, such as security requirements. The United States began to insist that market access be a two-way street and employed increasingly tough tactics to convince recalcitrant countries that it meant business. This meant separating the state from the private sector, lowering protective barriers, breaking up monopolies in the name of promoting fair competition, and liberalizing access particularly for financial capital.

Therefore, it can be argued that the seed of the crisis was planted in the early 1990s, when the inflow of foreign capital into Asia dramatically increased from 1990 to 1996, with a sudden drop in 1997. Table 2 shows the external financing of five Asian countries (Korea, Indonesia, Malaysia, Thailand and the Philippines). Due to the high performance of Asian economies, international investors invested heavily in the region for handsome returns in the 1990s. Indeed, the success of the Asian economies provided the initial vulnerability to exogenous shocks and ultimately to the financial crisis in 1997.

Table 2. External Financing of Five Asian Countries, 1994 – 98

Item 1998b	(billions) 1994	1995	1996	1997
External financing (net)	47.4	80.9	92.8	15.2
Private inflows (net)	40.5	77.4	93.0	- 12.1
Equity investment	12.2	15.5	19.1	- 4.5
Direct	4.7	4.9	7.0	7.2
Portfolio	7.6	10.6	12.1	- 11.6
Private creditors	28.2	61.8	74.0	- 7.6
Commercial banks	24.0	49.5	55.0	- 21.3
Nonbank	4.2	12.4	18.4	13.7
Official Inflows(net)	7.0	3.6	- 0.2	27.3
Int'l institutions	- 0.4	- 0.6	- 1.0	23.0
Bilateral creditors	7.4	4.2	0.7	4.3

Source: Institute of International Finance, "Capital Flows to Emerging Market Economies," Jan. 29, 1998.

a: Table entries are sums over data for Korea, Indonesia, Malaysia, Thailand, and the Philippines.

b: Forecast

⁵ See Winter in T. J. Pempel (Ed.) (1999), *The Politics of the Asian Economic Crisis* (pp. 79–101). Ithaca and London: Cornell University Press.

While the causes and economic impact of the financial crisis have been well documented and hotly debated,⁶ there is a surprising lacuna in analysing the implications of the crisis for ASEAN's concept of regional security. This is even surprising because most analyses of the crisis recognize the interconnection between politics and economics, and the political ramifications of the economic crisis. While some attempts have been made to look into the domestic political consequences of the crisis,⁷ they tend to pay little attention to the effect of the crisis to issues relating to international relations, such as the concept of security.

ASEAN's Traditional Concept of Security

ASEAN was created in 1967 at a meeting in Bangkok between the foreign ministers of five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand. It was the institutional product of domestic political instability produced by the communist insurgency as well as of regional conflict, especially the *konfrontasi* between Malaysia and Indonesia. It was aimed at achieving the security goal of managing and overcoming regional disputes, and more deep-seated mistrust through forging an institutional structure of special relationships between its member states.⁸ This approach to regional security in its external dimension was later joined to the instrumentality of economic development and cooperation as a means of coping with the twin problems of economic growth and the legitimacy of the political regime.⁹

The key concept in ASEAN's approach to regional security is the so-called ASEAN way, which constitutes the Southeast Asian pattern of diplomacy. It is a consultative process that is primarily motivated by the desire to create a stable

⁶ See, for an example of studies on the effect of the financial crisis to the East Asian economies, M. Beeson, K. Jayasuria, H. R. Ki and R. Robinson (Eds.) (2000), *Politics and Markets in the Wake of the Asian Crisis*. London and New York: Routledge. See also A. J. Lukauskas and F. L. Rivera-Batiz (Eds.) (2001), *The Political Economy of the East Asian Crisis and its Aftermath: Tigers in Distress*. U.K.: Edward Elgar.

⁷ See S. Haggard (2000), *The Political Economy of the Asian Financial Crisis*. Washington D.C.: Institute for International Economics. See also M.F. Montes (1998), *The Currency Crisis in Southeast Asia*. Singapore: Institute of Southeast Asian Studies.

⁸ See Michael Leifer (1989), *ASEAN and the Security of Southeast Asia* (pp. 2–3). London: Routledge.

⁹ For the earliest expositions on ASEAN, see K. S. Sandhu et. al. (1992), *The ASEAN Reader*. Singapore: Institute of Southeast Asian Studies.

intramural environment in the region.¹⁰ Practising cautious diplomacy, ASEAN deals with conflicts by “postponing difficult problems, [and] compartmentalizing an issue, so that it does not interfere with other areas of cooperation, and quiet diplomacy”.¹¹ Values such as personalistic, informal, non-contractual and little institutionalized style of politics and diplomacy are said to be the core values of the ASEAN way, which defines ASEAN as a regional organization *sui generis* and makes it at variance with other forms of regional groupings, especially the European Union.¹²

Thus, in a similar fashion to China’s Five Principles of Peaceful Coexistence, ASEAN member states publicly and explicitly announce that the fundamental premise on which the organization is based is the respect for the principle of non-intervention and of state sovereignty. No doubt, much of this is due to its colonial past and mistrust of any outside powers, especially the involvement of the three major regional powers—the United States, the Soviet Union and China—in the Indo-China.¹³

The principle of non-interference and respect for state sovereignty has meant that ASEAN generally avoids criticizing its member states for their domestic policies, including issues relating to democracy and human rights.¹⁴ However, as some critics suggest, ASEAN is so obsessed with the norm of non-interference that it often winds up paralysed and ineffective.¹⁵ The oft-cited example of ASEAN’s inability to deal with regional issues is the Asian financial crisis of 1997. ASEAN member states took individual actions to alleviate their own situations, without consultation with the other members, leading to the complete neglect of ASEAN during the crisis period.

The financial crisis not only showed the ineffectiveness of ASEAN to deal with regional issues but also provided a powerful catalyst for the emergence of a new concept of regional security by pressing its member states to critically examine the

¹⁰ See Michael Antolik (1990), *ASEAN and the Diplomacy of Accommodation* (pp. 9–10). London: M. E. Sharpe.

¹¹ See Shaun Narine (2002), *Explaining ASEAN: Regionalism in Southeast Asia* (p. 31). Colorado: Lynne Rienner.

¹² See Jurgen Haacke (1999), “The Concept of Flexible Engagement and the Practice of Enhanced Interaction”. *Pacific Review* 12(4), p. 584.

¹³ See Herman J. S. Kraft (2000), “ASEAN and the Intra-ASEAN Relations: Weathering the Storm?”. *The Pacific Review* 13(3), p. 457.

¹⁴ See Peter Eng (1999), “Transforming ASEAN”. *The Washington Quarterly* 22(1), pp. 51–52.

¹⁵ Antolik. *ibid.* p. 171.

old concept of security. This is so in two respects. First, ASEAN is now more willing and able to discuss the domestic policies of its member states, insofar as they have regional ramifications. And ASEAN now makes the explicit link between economic instability and regional security. I discuss each aspect of ASEAN's new concept of security in the ensuing paragraphs.

ASEAN's New Concept of Security

In this section, I examine how ASEAN's concept of security has evolved to be more expansive and less state-centric. My claim is twofold. First, the post-crisis ASEAN concept of security pays more attention to domestic issues and their regional ramifications. This shows that ASEAN is moving away—albeit slowly—from the narrow state-centric focus of the traditional security concept to the more encompassing view that takes into account internal insecurities, leading to a de-emphasis of the principle of non-interference and state sovereignty. Secondly, the post-crisis ASEAN concept of security frees itself from the narrow definition of threat in the traditional concept. It is now more expansive in that economic issues are regarded as threats. Economic issues now feature prominently in ASEAN ministers' thinking about regional security. I contend that a direct linkage is made between economic instability and regional security and peace. For the first claim, I rely mostly on government and ASEAN publications and academic writings. For the second, I employ two research methods—content analysis and cognitive mapping—to show that in the post-crisis strategic thinking of ASEAN, a strategic-economic nexus exists.

(a) Downplaying the principle of non-interference

The economic impact of the financial crisis on ASEAN was immense. Equally immense was its political impact, as the crisis clearly showed the disunity and lack of a political will among the member states to make ASEAN a truly meaningful regional organization. Instead, the popular perception became that ASEAN was but a mere instrument for economic benefits, having failed to create an imagined Southeast Asian community. The affected member states met the crisis on their own without region-wide policy coordination. Thailand and Indonesia turned to the IMF for bailout

assistance, while Malaysia placed controls on its short-term loans without consulting the other member states.

Furthermore, although it was obvious that “the financial crisis ... has brought home to all of us the need to forge a stronger sense of unity in ASEAN if our most serious problems are to be addressed”,¹⁶ the actual actions of ASEAN states suggested that the feeling in the statement was not shared by all member states. The excessive emphasis on state sovereignty and the principle of non-intervention meant that ASEAN could not intervene to affect domestic policymaking.

The principle of non-interference in ASEAN was first stated in the 1967 Bangkok Declaration and was later reiterated in numerous official documents of ASEAN, such as the Zone of Peace, Freedom and Neutrality (ZOPFAN) Declaration of 1971, the Treaty of Amity and Cooperation adopted in 1976, and annual ASEAN Ministerial Meetings Documents. The vehement adherence to the principle must be understood against several historical facts: the history of colonial intervention in Southeast Asia; great-power military intervention during the Cold War; and interstate disputes between its member states, compounded by their own internal problems. Furthermore, the principle helped the formation of ASEAN by bringing reluctant Malaysia and Indonesia to form a regional grouping, with a semblance of a quasi-security community.

Upon the outbreak of the financial crisis, there was an immediate challenge to the ASEAN way, especially the principle of non-interference. Malaysian Deputy Prime Minister Anwar Ibrahim made a bold remark in *Newsweek* magazine, suggesting that the traditional “constructive engagement” approach of ASEAN be replaced by “constructive intervention” in order to prevent domestic events in a member country from spilling over to other neighbouring countries.¹⁷ At the 31st ASEAN Ministerial Meeting in Manila in July 1998, Thai Foreign Minister Surin Pitsuwan, supported by the Philippines, also proposed to substitute the principle of non-interference with a new approach called “flexible engagement”, which would

¹⁶ See Rodolfo Severino (1998), “Weathering the Storm: ASEAN’s Response to Crisis”. Available at www.asean.org.

¹⁷ *Newsweek*, 21 July 1997.

allow for open discussion of the member states' domestic affairs, provided that they might have a regional ramifications.

In the end, because of the fear of too much intervention, the proposal was rejected in favour of the formula of “enhanced interaction”, which would make it acceptable for individual ASEAN states to comment on their neighbours' domestic activities if those activities may have regional ramifications. Although the compromise was to keep non-interference as ASEAN's cardinal principle but to adopt a flexible engagement approach when dealing with particular issues, the proposal suggested that (at least some) member states saw the potential adverse effect of the traditional concept of security in dealing with issues of regional ramification. The new approach of “enhanced interaction” was designed to: (i) allow ASEAN to respond to the increasing interdependence faced by the region; (ii) confront new security threats such as economic disruption; and (iii) enhance the democratization and human rights in the ASEAN states.¹⁸

As part of the new approach of “enhanced interaction”, ASEAN created the ASEAN Surveillance Process, which could function effectively if and only if a peer review process was allowed to take place to monitor developments in ASEAN member countries that could affect ASEAN economies and the region. The Surveillance Process was to provide recommendations on possible actions that could be taken at the country and regional level before an economic crisis—or crisis of other kinds—could get out of control. It was also to compliment (or supplant) the global surveillance of the IMF.¹⁹

The surveillance mechanism is the most concrete step ASEAN has taken in the financial realm. The rationale for the establishment of the mechanism is that the contagion and systemic risks facing the region has made it necessary for ASEAN to develop such a mechanism. Moreover, given the regional ramifications of domestic economic instability, the grouping hope that such a mechanism would give early

¹⁸ Haacke, *ibid.*, pp. 586–587.

¹⁹ H. W. Arndt and H. Hill (Eds.) (1999), “Southeast Asia's Economic Crisis: Origins, Lessons and the Way Forward”. *ASEAN Economic Bulletin* 15(3), p. 162.

warnings about a potential crisis so that ASEAN could form appropriate and effective regional responses to the crisis.²⁰

Another initiative that ASEAN undertook also ran the risk of breaching the principle of non-interference. Shortly after the onset of the financial crisis, ASEAN suggested measures to address questions of social safety nets and the construction of “ASEAN as a caring society”.²¹ On 30 October 1998, the ASEAN Secretariat announced the creation of an ASEAN Action Plan on Social Safety Nets.²² Other initiatives that ASEAN has taken in the aftermath of the financial crisis include economic and technical cooperation in the financial area, measures to strengthen the IMF’s capacity to respond to financial crises, and the development of cooperative financing arrangements to supplant the resources of the IMF and other international financial institutions (Soesastro, in Arndt and Hill, 1999: 163).

ASEAN’s linkage politics with respect to Cambodia, tying the latter’s human rights improvement with its membership into the organization, should be understood in this light. When Cambodia’s Second Prime Minister, Hun Sen, initiated a violent process of leadership change in early July 1997, putting an end to the coalition government that resulted from UN-administered elections in 1993, ASEAN postponed the entry of Cambodia into the organization and demanded that Hun Sen resolve the issue by peaceful means while respecting the 1991 Agreement on a Comprehensive Political Settlement to the Cambodian conflict.²³ In the subsequent meeting between Hun Sen and ASEAN representatives, key issues were discussed: the continued hostilities between Ranariddh and Hun Sen loyalists; the organization of free and fair elections; and the restoration of a coalition government.

Thus from the Cambodian example, it can be seen that ASEAN has in fact widened its state-centric focus to consider domestic issues that having potentially adverse effects on regional security. The need for wider policy coordination has made

²⁰ Severino, *ibid.*, p. 3.

²¹ See Michael Wesley (1999), “The Asian Crisis and the Adequacy of Regional Institutions”. *Contemporary Southeast Asia* 21(1), p. 59.

²² Narine. *ibid.* p. 162.

²³ See Charles Thayer (1999), “ASEAN: From Constructive Engagement to Flexible Intervention”. *Harvard Asia Pacific Review* at www.pol.adfa.edu/resources/asean.html.

some leaders and analysts realize the necessity and inevitability of intervening in the domestic affairs of the member states, as they have regional ramifications.

(b) Emergence of Economic-Strategic Nexus

While a shift away from the external threat perception to the realization of internal threats constitutes an important change in ASEAN's traditional concept of security, it is only one half of the change in strategic thinking. The other half has to do with the expansion of the definition of security to include non-military issues, especially economic ones.

But this aspect has been almost totally ignored by analysts of ASEAN. The ASEAN case represents a clear example of the connection between economic consequences and regional strategic thinking, and how the former alters the latter. In this section, my aim is to show that after the Asian financial crisis, ASEAN's definition of threat widened to include economic issues, not just military concerns, by testing the following hypothesis:

The Asian financial crisis broadened ASEAN's concept of security to include economic issues in addition to military issues.

In order to test the hypothesis, I apply two research methods, namely, content analysis and cognitive mapping. I employ content analysis²⁴ to discern the impact of the Asian financial crisis on ASEAN's strategic thinking, with respect to both military and economic issues. For this method, I analyse the official documents of the ASEAN Ministerial Meetings (AMM) from 1988 to 2004, controlling for the effect of the end of the Cold War. The words that were selected as denoting the military concept and the economic concept of security were as follows:

- For the traditional, military-oriented concept of regional security, I looked for “weapon” and “military” as well as their synonyms, such as “arms” and “alliance”.
- For the changed concept of regional security, I looked for words such as “economic” and “finance” as well as words with associated meanings such as “volatility”.

Thus assumption is that if there has been any change in the strategic thinking of the ASEAN, it would appear in the AMM documents by means of an increase in

²⁴ For more details, see Philip Weber (1990), *Basic Content Analysis*, 2nd ed. Los Angeles: Sage.

the frequency of certain words that denote either the economic or military concept of security.

Then I examine more closely the change in ASEAN's strategic thinking by comparing pre- and post-crisis cognitive maps²⁵ and discern the new strategic thinking in the organization. Here, I use different documents, namely, official documents published by the ASEAN Regional Forum (ARF).²⁶ The examination of different documents is necessary because the ARF documents seemed to be more relevant to ASEAN's strategic thinking. It will also give us greater confidence in the robustness of the findings, if we end up discovering the same results. Once again, the assumption is made that change in ASEAN's strategic thinking would be captured—implicitly or explicitly—by official documents published by the organization.

Figure 1 on the next page shows the results of the content analysis.²⁷ The upper line represents the frequency of words associated with the economic concept of security, while the lower line shows the frequency of words that denote the military concept of security. The period here covers the years well before the Asian financial crisis. This is necessary to control for the effect of the end of the Cold War.

The graph reveals some interesting results. First, the end of the Cold War seems to have impacted the lower line but not the upper line. What this suggests is that while the perception of military threat declined in importance, economic issues did not emerge as threats yet in ASEAN's strategic thinking after the end of the Cold War. Second, as shown by the upper line, the Asian financial crisis seems to have a large impact on making economic issues more salient. Although it is not a surprising finding, it is nevertheless an important finding that more economic issues are mentioned in ARF discussions of regional security. Lastly, there is little variation apart from the initial drop of the lower line in 1988 and the jump of the upper line in 1997. This suggests that the cause of the effect was the event preceding the variation, the end of the Cold War in the case of the former, and the financial crisis in the latter

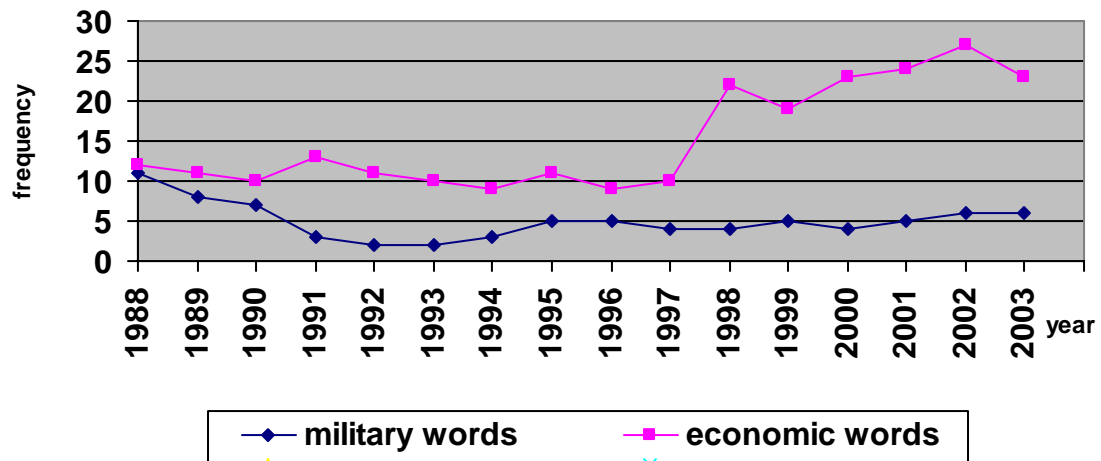
²⁵ For more details, see Robert Axelrod (Ed.) (1976), *The Structure of Decision: The Cognitive Maps of Political Elites*. Princeton, NJ: Princeton University Press.

²⁶ For the original documents, visit the ASEAN's official website at www.aseansec.org.

²⁷ For the raw data, see the appendix of this paper.

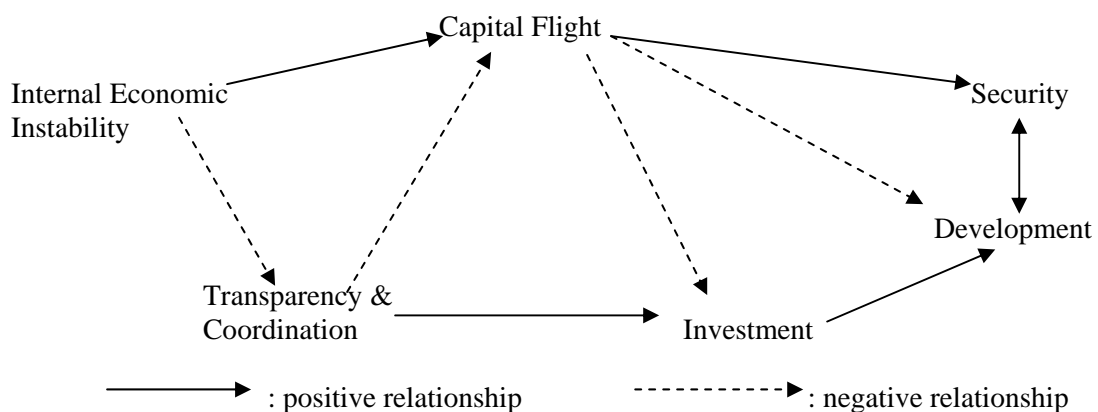
case. These findings collectively suggest an expansion of ASEAN's definition of security to include economic issues.

Figure 1. Frequencies of the Selected Words in the ASEAN Ministerial Meetings, 1988-2003



The comparison of the two cognitive maps lends more support to the hypothesis. To draw the cognitive maps, every sentence in the ARF documents is first analysed as a causal relationship and then aggregated into a simpler diagram. I present in Figure 2 the difference between the two cognitive maps. The key finding of the comparison is that, in the post-AFC regional concept, there is one more line of strategic thought that connects economic instability to security and development, as presented in Figure 2.

Figure 2. The Cognitive Development in ASEAN's Concept of Regional Security



There are two major goals that the ASEAN nations seek to achieve, namely, security and development. Both goals are mutually reinforcing, i.e. the enhancement of security is conducive to development, and vice versa. In the pre-crisis period, there was no linkage between economic instability and the twin goals of security and development, while the post-crisis cognitive map reveals the emergence of this new economic-security nexus. Having internal economic stability is thought to lead to capital flight and to negatively affect transparency and policy coordination. Capital flight in turn leads to insecurity, while transparency and policy coordination is conducive to development by increasing investment.

Figure 2 shows that after the Asian financial crisis, in the discussion of regional security, there occurred an explicit inclusion of economic instability as a factor affecting both security and development, and as a potential catalyst for the adverse impact on the security and development. This linkage is absent in the pre-1997 ASEAN thinking on security and development, as shown in the Pre-1997 Cognitive Map. Moreover, it also shows ASEAN's sensitivity to international investment and capital flight. The figure lends more support for the hypothesis that the Asian financial crisis has the impact of changing traditional regional security conceptions. Hence both analyses suggest an expansion of ASEAN's definition of security conceptions to include not only military issues but also economic concerns.

In sum, both empirical analyses support the hypothesis that the Asian financial crisis has led to the redefinition of threat, which includes both military and economic issues. Coupled with the new approach to regional problems labelled "enhanced interaction", this redefinition constitutes ASEAN's new concept of security. The new concept of security differs from the traditional counterpart in that it avoids both the narrow state-centric focus and the narrow military definition of threat by expanding its concept to take into account internal insecurities as potential threats to regional peace and security.

ASEAN's Organizational Identity

While all seems well that ASEAN has a new concept of security that enables the organization to deal with regional issues more effectively, the overall picture is not all that rosy and the road ahead is going to be bumpy. The most crucial issue is the inherent contradiction between ASEAN's organizational identity, which is founded upon the principle of non-interference, and its new concept of regional security. On the one hand, ASEAN defines itself mostly in terms of the ASEAN way, as an organization that respects the principle of non-interference and state sovereignty. On the other hand, ASEAN strives to be a meaningful organization that can deal with regional issues more effectively by achieving policy coordination among its member states. But, alas, both are contradictory and irreconcilable goals. This is because, by their very nature, regional organizations seek to undermine state sovereignty, while any regional organization that jealously guards state sovereignty and the principle of non-interference simply cannot be an effective international actor.

In its more recent history, ASEAN has also strived to create a regional identity based on the concept of the ASEAN way, thereby feeding the constructivist empirical case-box. The ASEAN way has been the behavioural norm of ASEAN, which is derived from Southeast Asian political culture. Based on the shared faith of its member states in the ASEAN way, ASEAN can indeed be often called as a quasi "imagined community",²⁸ one that has a common bond of belonging, a sense of "we" feeling and a common cultural approach to regional conflict and community building. As such, one writer regards Southeast Asia as "an important laboratory for enhancing our conceptual and theoretical understanding of the importance of ideas in identity formation and policy learning".²⁹

However, if the ASEAN identity is based on the ASEAN way, then promoting the new approach of "enhanced interaction" will necessarily undermine the ASEAN identity. In other words, the ASEAN member states are caught between the need to strengthen ASEAN as an organization, which necessarily involves weakening

²⁸ See Amitav Acharya (2001), *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*. London: Routledge.

²⁹ See Richard Higgot (1994), "Ideas, Identity and Policy Coordination in the Asia-Pacific". *The Pacific Review* 70(4), p. 377.

Westphalian sovereignty norms, and the desire to adhere to the ASEAN Way based on the principles of non-intervention and state sovereignty. This represents a fundamental contradiction existing within ASEAN.

The 1997 linkage politics of ASEAN with respect to the Cambodian problem—intervening in Cambodia’s internal political problems, for example—contravened the principle of non-interference and state sovereignty. Moreover, such violation of its core principle threatens the organization’s survival, as several important states such as Indonesia vehemently reject ASEAN’s involvement in the domestic affairs of its member states.

Thus, the Asian financial crisis was more than a crisis in the economic sense. It was a crisis of the ASEAN identity, with far-reaching repercussions not only in the realm of economics but also in the field of security. So with the financial crisis and its region-wide impact, ASEAN faced the difficult choice between transforming itself into a new identity, which runs the risk of the elimination of the organization, and adhering to the old principle of non-interference, which leads to an ineffective organization, the tag of “regional organization” only in name. While the principle of non-interference is still maintained as a core value of ASEAN, the organization has undergone the partial transformation of altering its approach to regional security problems from the pure ASEAN way to an adulterated version of the ASEAN way that is in between the principle of non-interference and intervention.

So where ASEAN go from here? For ASEAN to continue as a meaningful and effective organization, it can learn from the path set by the European Union. It needs to discard the principle of non-interference and incrementally transfer various aspects of state sovereignty to the regional organization. This is not because the EU is what ASEAN should strive to be, nor is it because the experience of EU can be applied wholesale to ASEAN. It is because any regional organization necessarily needs to assume some functions of sovereignty traditionally resided in the hands of the state in order to be a meaningful actor in international affairs. Otherwise, the effectiveness as well as the scope of activities of a regional organization depends on the whims of its member states. Simply stated, the locus of sovereignty needs to shift from the state to the regional organization, if the latter seeks to play meaningful roles in a world of

national states. In this sense, the EU provides a good example from which other regional organizations can learn.

But will the member states of ASEAN do this in the near future? The answer is unclear. On the one hand, there is still too much mistrust and disunity among its member states. One example is the rivalry between the three countries that form the hub of the region (Malaysia, Singapore and Indonesia), constitutes a real obstacle for the development of ASEAN as a genuine regional organization with the capability to override its member states' jurisdiction and implement its own policies designed to reap collective benefits. Since the Asian financial crisis, Malaysia-Singapore relations have blown hot and cold, while Indonesia-Singapore relations have been tainted by the anti-Chinese riots in 1998.³⁰ Furthermore, individual actions taken by its member states to deal with the financial crisis has deeply reduced the confidence of the members about their ability and will to foster a regional organization while at the same time clearly demonstrating the institutional and structural weaknesses of ASEAN.

Another important variable is the increased number of member states in the organization, which has arguably decreased the unity of ASEAN. Now that the three Indochinese states are also in the organization, it will be even more difficult to achieve cooperation and consensus among the member states. For example, some authors worry that Vietnam's inclusion might lead to the resurrection of the old rivalry with Thailand as well as and generate conflict with Indonesia for regional leadership.³¹ The inclusion of Myanmar and Cambodia will also inhibit the promotion of the "enhanced interaction" and "flexible engagement" approach to regional issues. These countries, with their own long history of human-rights violations, are long-time supporters of state sovereignty and the principle of non-interference and are likely to make it harder to form effective regional approaches to regional issues.

The recent signing of the ASEAN Charter provides strong evidence that there is a growing level of trust among its member states, however. The regional countries

³⁰ See Zakaria H. Ahmad and Baladas Ghoshal (1999), "The Political Future of ASEAN after the Asian Crises". *International Affairs* 75(4), pp. 760–765.

³¹ Narine. *ibid.*, p. 368.

have committed themselves to a more rule-based way of conducting regional interstate relations and strengthen ASEAN as a legal and international entity. Hence, for instance, the ASEAN Secretariat now has the power to report non-compliant behaviour of a member state and the matter will then be referred to the ASEAN Summit for a decision (Article 27 of the ASEAN Charter). The signing of the ASEAN Charter will give greater weight to the incurrence of reputational costs as a factor in interstate relations in the region.

It is also quite common nowadays to hear talk an increased “comfort zone” among ASEAN leaders. For instance, the former Deputy Prime Minister of Malaysia, Tun Musa Hitam, stated that regular interaction among regional leaders has led to greater trust, which resulted in the ASEAN Charter. The regional states are less sensitive than before about discussing their internal matters. While not stepping beyond the boundary, some regional countries have openly criticized Myanmar’s junta government for its forceful crackdown of demonstrators in October 2007. Moreover, the resolution of some regional territorial disputes through international arbitration adds to the fact that the regional countries increasingly see their futures as part of the same region.

One fundamental weakness of ASEAN, which is recognized by regional leaders, is that ASEAN has been and still is an elitist organization. While the “we” feeling may be shared by political leaders and the business community, it is pretty much non-existent at the grassroots level. Unlike in Europe, there are no real interest groups at the domestic level in Southeast Asia that have strong incentives to push for regional integration. Much of the integration incentive has been initiated by national governments rather than domestic interest groups. Of course, the governments’ initiatives may create pro-integration interest groups over time but it is still uncertain whether such groups have emerged and, if so, to what extent they could drive the process of integration. At this point in time, it is fair to say that regional integration in Southeast Asia will remain a government-driven policy initiative at least in the next five years.

Much of ASEAN’s future depends on how the grouping’s new approach to regional problems as embodied in the ASEAN Charter will be implemented in practice. But given the increased disunity and diversity in the organization, it will take

effort and policy-bargaining skills as well as many a compromise to guide ASEAN to the path of being an effective regional organization and a meaningful international actor.

Conclusions

I have shown in this paper that the Asian financial crisis has provided the powerful catalyst to ASEAN to critically examine its concept of security. The traditional concept of security, defined in terms of the ASEAN way, has to give way to a more encompassing view that transcends the narrow state-centric and military focus of the traditional concept of security. While the new approach to regional security—known as “enhanced interaction”—is a better way to approach regional issues than the traditional ASEAN way, it can undermine the ASEAN identity. This is because the ASEAN identity is so closely connected with the ASEAN way, especially the principle of non-interference and state sovereignty.

ASEAN is at a crossroads today. Three roads diverge before it. One leads to the path of a long march to regional organization that resembles the European Union. Another leads to the more or less pre-financial-crisis ASEAN. And the last one leads to the complete meltdown of the organization and a return to the self-help system where the imperatives of international anarchy—more often than not—dictates the behaviour of the states. The last path is unlikely to be taken, as too much has already been invested in ASEAN and its member states clearly have various incentives to form and sustain a regional organization such as ASEAN. If the second path is chosen, then ASEAN will have to face the fundamental contradiction inherent in its current identity and the goal of deeper economic and political integration. Simply stated, it will not be possible to promote both simultaneously. Choosing the current identity will undermine the organization’s goal of economic and political integration; promoting the greater power of ASEAN will undermine the current ASEAN identity and hence threaten the existence of the organization.

So it seems that there is only one path left that is reasonable for ASEAN to take, that is, transforming its identity to be an effective regional organization. The exact shape this path will take, should it be chosen, depends upon what normative values the formula of “enhanced interaction” will have and how the formula is

implemented in practice. The importance of ASEAN's future is not just limited to the region of Southeast Asia. Given the involvement of three Northeast Asian countries—China, Korea and Japan—the successful development of ASEAN can hold the key to the creation of an East Asian security community. ASEAN's future is likely to be East Asia's future.

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