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The Impact of the Financial Crises on East Asian Regionalism

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The first part of paper reviews the main economic features, factors and implications of the East Asian financial crises of 1997-1999. Two probable long-term implications are outlined: a reinforcement, contrary to the conventional wisdom, of the East Asian developmental and state-led model of capitalism; and an enhancement of the prospects for an "East Asian" (as opposed to a "Pacific") understanding of the region. The second part lists the distinctive features of East Asian regionalization (as an economic process) and regionalism (as a political project) up to the beginning of the crises. As closer economic ties between countries in the area have greatly expanded in the last decade, economic regionalization has proceeded in a much more dynamic fashion than regionalist projects. The latter have been restricted by their "informal" character, e.g., their limitation to economic issues (and their focus on "open regionalism" and sub-regional zones) and their strict respect, in inter-state relations, of non-interference. Finally, the third part is intended to suggest that the East Asian crises might perfectly reduce the speed of economic integration on a short- and medium-term basis and also bring about, among political leaders, a much reduced interest in the "open" and informal regionalist project. If those trends will result in a "pure" East Asian and more political regionalism is a question that remains to be seen and that is certainly open to debate.

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1. Introduction

The novelty of the East Asian financial crises lies in the fact that they were related to non-conventional adverse macroeconomic fundamentals: imprudent financial liberalization, overindebtness in short-term liabilities, and excessive domestic investment in manufacturing sectors with excess capacity and in non-tradables sectors. Of course, herd-like behavior in international capital markets played also a prominent role in the onset of the crises.

As they might be defined as crises due to an excessive liberalization (including both domestic deregulation and external opening), the crises may have two long-term implications: a reinforcement, contrary to the conventional wisdom, of the East Asian developmental and state-led model of capitalism; and an enhancement of the prospects for an "East Asian" (as opposed to a "Pacific") understanding of the region.

As closer economic ties between countries in the area have greatly expanded in the last decade, economic regionalization in East Asia has proceeded in a much more dynamic fashion than regionalist projects. The latter have been restricted by their "informal" character, e.g., their limitation to economic issues (and their focus on "open regionalism" and sub-regional zones) and their strict respect, in inter-state relations, of non-interference (although non-interference is beginning to be replaced by "constructive engagement").

The crises might perfectly reduce the speed of regional economic integration on a short- and medium-term basis and also bring about, among East Asian political leaders, a much reduced interest in the informal and "open" regionalist project. If those trends will result in a "pure" East Asian and more political regionalism is a question that is certainly open to debate.

2. Financial Crises: Features, Origins and Implications for East Asia

2.1. Main Features

The East Asian financial crises in 1997-1999 were, to an extent which is difficult to understand today, unanimously unpredicted. Academic specialists on currency crises, debt-rating agencies, and even the Asian Development Bank (ADB) and the International Monetary Fund (IMF), failed to predict not only the crises but also any kind of major economic or financial disturbance (however, a praiseworthy exception was Korean economist Park Yung-chul; see Park, 1996). In fact, the background in 1990-1996 of the later distressed East Asian economies featured generally sound conventional macroeconomic fundamentals (ADB, 1999): high savings and investment rates, robust growth, moderate inflation, fiscal surpluses or balances, limited public debts, substantial foreign exchange reserves and high and apparently sustainable net capital inflows. The international economic and financial environment was also benign: low interest rates in developed countries (especially in Japan), reasonable growth of GDP in the US and the EU and of world merchandise trade, and stability in world commodity markets. The crises came then as a total surprise. Also unanticipated were their deep impact and their prolonged duration.

The East Asian financial turmoils were also heterogeneous. Southeast Asia suffered from a balance-of-payments crisis, although with distinctive features respective to similar episodes in the past, such as the Exchange Rate Mechanism (ERM)'s crisis in Western Europe during 1992-1993[1] and the Mexican crisis in 1994-1995[2] and also with

[1] The ERM episode in 1992-93 was related to previous restrictive monetary policies firstly in the European periphery and later in Germany, while interest rates were considerably lower, in 1994-96, in the troubled East Asian economies and also in Japan and the US.

[2] The Mexican crisis of 1994-95 was a consequence of a large decline in the private savings rate (that is, of overconsumption), while the Asian episodes were related to excessive investment and overproduction. See a comparative analysis of the Mexican and Asian crises in Palma (1998).

several important differences between each of the countries concerned[3]. In Northeast Asia, on the contrary, South Korea suffered initially only from liquidity problems of domestic banks and companies (and not from a severe currency overvaluation and/or a high current account deficit). These problems were associated with domestic overinvestment and excessive external debt accumulation, but Korea finally had to face also sharp international solvency difficulties.

Besides, the East Asian crises have been tremendously controversial, both as respect to the explanations offered by analysts and specialists and as regards to the solutions implemented by the IMF in Thailand, Indonesia and South Korea and, against the tide, by Malaysia.

Moreover, due to the importance of East Asia in the world economy, the global impact of its crises was in 1997-98 very significant. For instance, the world was on the brink of a global recession in mid-1998, while several other developing and transitional regions (Latin America – especially Brazil, Argentina and Chile - and Russia) were affected and most of the developed economies are still suffering from the trade impact of the Asian crises, which is detrimental to their growth.

2.2. Main Factors

Although there are several schools of thought on the issue[4], a combined explanation of the crises is surely appropriate (see Bustelo, García and Olivié, 1999). An analytical distinction between common and specific factors is outlined below.

All East Asian economies (except Japan and, partially, China and Taiwan) displayed in 1996-1997 four main weaknesses.

First, the later troubled East Asian economies pursued, albeit in different degrees, a premature and indiscriminate financial liberalization in the 1990s, involving

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[3] Malaysia and the Philippines presented both high current account deficits and currency overvaluations, but Indonesia did not feature a large current account deficit, while Thailand did not experience a large appreciation of its currency.

[4] See a survey in Bustelo (1998). A similar view of the following discussion can be found in Glick (1998) and Chowdury (1999). For country-by-country analyses, see

both domestic deregulation and external opening. Financial liberalization included measures directed to increase the number of financial institutions and the scope of their activities, to allow the entry of foreign banks, and to authorize greater access of banks and non-bank financial institutions to international capital markets. Interest rate controls and restrictions on corporate debt financing and cross-border borrowing were lifted. A salient feature was that liberalization proceeded without an adequate prudential supervision and regulation of financial activities. Moreover, governments simultaneously abandoned policy coordination of investments and borrowings. Therefore, the crises might be well characterized as "crises of under-regulation" (Chang, 1998). Under-regulation allowed banks and non-bank financial institutions to overlend to private firms, to overborrow from abroad, to engage in risky activities and to present a growing maturity and currency mismatch between assets and liabilities.

Second, a salient feature was overindebtedness in foreign liabilities (mainly private, denominated in foreign currencies, short-term, and unhedged). According to World Bank's data, total foreign debt (respective to GNP) amounted in 1996 to 64% in Indonesia, 56% in Thailand, 52% in Malaysia, and 51% in the Philippines and in South Korea, that is, higher proportions than the respective figures for Argentina, Brazil and Mexico in 1982, when the Latin American debt crises unfolded. Bank lending, financed to a great extent by foreign borrowings (as borrowing abroad at low rates to relend domestically at high rates was profitable), to the private sector increased, from 1990 to 1996, more than 30 points of GDP in Thailand and the Philippines and more than 20 points in Malaysia, and reached sizeable levels in Thailand and Malaysia (102% and 93% of GDP in 1996). The debt structure displayed a high proportion of liabilities in Japanese yen and US dollars, as borrowing in Japan and the US, at low interest rates, to lend in developing East Asia, which had substantially higher rates, was obviously a very lucrative operation. Moreover, short-term foreign debt, as a percentage of total foreign liabilities, reached in mid-1997 high levels in South Korea (67.8%), Thailand (65.5%) and the Philippines (65.6%). Furthermore, most of the debt exposures were unhedged, as a result of the underdevelopment of domestic hedging products, because purchasing

Arndt and Hill, eds. (1999), Jackson, ed. (1999), Jomo, ed. (1998) and McLeod and Garnaut, eds. (1998). See also Agénor *et al.*, eds. (1999).

offshore them would have increased the cost of borrowing abroad, and as a consequence of the perceived insurance of the currency pegs as respect to the exchange rate risk. Therefore, the East Asian economies featured an increased vulnerability to liquidity problems and balance of payments crises: short-term foreign debt respective to official foreign exchange reserves was very high in Korea (204% in the second quarter of 1997), Indonesia (170%) and Thailand (145%), while the ratio of narrow money (M2) to reserves surpassed 400% (the level attained in Mexico in 1994) in the all five economies.

Third, another weakness was overinvestment, especially in manufacturing sectors with excess capacity, inflated real estate and booming stock markets. Investment rates surpassed in the mid-1990s 40% of GDP in Thailand and Malaysia and 35% in Indonesia and South Korea. The incremental capital-output ratio (ICOR) displayed an upward tendency in the early 1990s in South Korea, Thailand and Malaysia, indicating a process of declining investment efficiency and falling capital profitability. An increased share of bank lending was directed to speculative investment in real estate, equities, and other financial assets. For instance, real estate exposure of domestic banks was very high (30-40% of total bank lending) in Malaysia and Thailand.

Fourth, herding behavior in the global financial markets (e.g., financial panics) prompted massive currency depreciations and a tremendous fall in stock indexes. According to the Institute of International Finance, net private capital inflows to the five troubled East Asian economies (Indonesia, Malaysia, the Philippines, South Korea, and Thailand) increased from US$ 37.9 billion in 1994 to US$ 102.3 billion in 1996, but registered a figure of only US$ 0.2 billion in 1997 and of *minus* US$ 27.6 billion in 1998 (IIF, 1999). The bulk of this reversal (amounting to more than 10% of their combined GDP) was related to swings in commercial bank lending and portfolio investments. The ensuing liquidity squeeze, as foreign creditors were less willing to rollover their loans, was intensified by domestic residents' reluctance to hold deposits in domestic currencies. Meanwhile, manufacturing companies presented a high financial leverage (high ratios of borrowing to investments and of debt to equity) and many financial institutions (both banks and non-bank institutions) were undercapitalized, and had few liquid assets and a high level of collateralized lending. In a context of persistent speculative attacks, a vicious circle appeared, as hikes in interest rates created defaults and credit crunches and as falling asset prices reduced collateralized lending, prompting companies to sell land and other assets, which further depressed their prices.

Specific factors in Southeast Asia, on the one hand, and in South Korea, on the other, were the following. First, sharp currency real appreciation and/or high current account deficits in Southeast Asia. Massive capital inflows and pegged nominal exchange rates to the US dollar (which provoked an important swing in real effective exchange rates following the sharp appreciation of the US dollar since mid-1995) led to currency real overvaluation. Between December 1990 and March 1997, currency real appreciation amounted to 47% in the Philippines, 28% in Malaysia, 25% in Indonesia and Thailand, and 6% in South Korea (Radelet and Sachs, 1998, table 10). On the other side, slowing exports, due to overproduction in semiconductors, the stagnation of Japan, and the shift of trade advantages towards China, led to high current account deficits (an average, in 1995-1996, of 8% of GDP in Thailand and Malaysia, 5% in the Philippines and 3% in Indonesia). Therefore, only Thailand and the Philippines featured both weaknesses, while Indonesia did not present a high external deficit and Malaysia did not experience a severe overvaluation. Second, a high proportion of portfolio investments in total foreign capital inflows in South Korea (54% versus 41% in Thailand and 18% in Indonesia in 1996). As mentioned earlier, Korea’s problems were not related to a sharp currency appreciation or associated to a high current account deficit. In the two years preceding the crises, currency real appreciation amounted to 4.4% in South Korea (while it surpassed 15% in the Philippines and Thailand and 12% in Malaysia and Indonesia (Esquivel and Larraín, 1999). The Korean current account deficit was in 1996 and 1997 low and declining (4.7% and 2.0% of GDP, respectively).

2.3. Main Implications

The East Asian crises seem to have two main implications for the political economy of the region.

First, and contrary to mainstream assertions, the crises did not represent the demise of the East Asian developmental and state-led model of capitalism. For instance, Alan Greenspan, chairman of the US Federal Reserve, argued then that the Asian crises would have the [allegedly beneficial] effect of moving the East Asian economic practices closer to those associated with the US or Anglo-Saxon model. Michel Camdessus, managing director of the IMF, saw in the crises a "blessing in disguise". In fact, the crises were not due to a specifically Asian "crony capitalism" but quite to the opposite. Conventional approaches contend that the East Asian political economy certainly rendered in the past higher growth and fewer social ills than Anglo-Saxon political economy, but that it was also plagued with "cronysm" (collusive state-private relations), limited political competition, and a staunch nationalism. The time should now be, it is argued, for a total reassessment of state-led models, "Asian values" theories and exclusive Asian regionalism tendencies. Contrary to this view, the Asian recent experience represents in fact a crisis of Western low-growth and market-led (or liberal) model of capitalism (and also of globalization). The post-crises intellectual environment is exhibiting two distinct, although related, tendencies: (1) on a general level, we are witnessing the first post-Cold War serious and widespread questioning of the current model of globalization and, more specifically, of the wisdom of unregulated financial markets (Higgott and Phillips, 1999; Bustelo and Olivié, 1999); (2) in East Asia, a renewed skepticism over the Anglo-Saxon model of capitalist development is under way. The latter is surely related to a growing dissatisfaction with mainstream Western explanations of the Asian crises (as epitomized in most IMF publications, from *Finance & Development* to the *World Economic Outlook*), whose central tenet has been blaming excessive state interferences. Most Asian (and some Western) scholars would instead emphasize, as the main culprits of the crises, premature and imprudent financial liberalization and the abandonment of the traditional institutional structure of collaboration between governments, banks and firms and, more precisely, of borrowing and investment coordination by the state (Chang, 1998; Jomo, ed., 1998; Wade, 1998). Moreover, there is a growing resentment in East Asia over the IMF's handling of the crises, which is perceived (in a rather simplistic but not totally incorrect manner) as having aggravated the recession, and as having been designed to allow more Western banking investments and trade inroads and to protect foreign creditors at local expense. Although governmental practices in Asia will surely (and they should), as a result of the crises, become leaner, more transparent and less receptive to rent-seeking behavior, “it is unlikely that all elements of the ‘developmental’ statist model will be torn up in the interests of a purer Anglo-American neo-liberalism” (Higgott, 1998: 17). Rather, the Asian turmoils may reinforce the attractiveness of the East Asian style of regulated capitalism, in its historical mould of the 1970s and 1980s (before the global economic environment distorted it, in the benefit of more liberalized practices).

Second, the crises may enhance the prospects for the continued development of an “East Asian” (as opposed to a “Pacific”) understanding of the region. Policy responses to the crises have already led to more regional economic and political coordination. For instance, the Association of South East Asian Nations (ASEAN) has developed mutual surveillance mechanisms and has abandoned its traditional non-interference policy in order to adopt “constructive engagement” or “involvement” in other members’ economic and even political internal affairs. Moreover, IMF’s prescriptions, although swallowed in the short run, will not be appreciated in the long run. Furthermore, the crises have sent into practical irrelevance the Asia-Pacific Economic Cooperation (APEC) “consensus” on creating a liberal free trade area across the Pacific in 2020. However, as explained below, some perceptions may run against a new effort geared at a “pure” East Asian regionalism (such as giving birth to an East Asian Economic Caucus - EAEC - instead of pursuing current APEC’s objectives). Regional integration (or regionalization) has intensified crisis-contagion between national economies. ASEAN (and also APEC, by the way) was unable to deliver a quick and effective response to the crisis in Southeast Asia. Regional trade and investment integration is now looked at as reducing the domestic effects of national expansionary policies, as the case of Malaysia in 1998-1999 suggests. In the post-crises environment, East Asian governments may have second thoughts on the benefits of trade and financial liberalization (both regional and global), which they vigorously (and imprudently) pursued in 1990-1996.

In short, the Asian crises certainly highlighted the dangers associated with unfettered global financial markets but also the shortcomings of spreading the Western type of liberal capitalism into a radically different context. Moreover, while it may be fair to conclude that the crises have also sent APEC into irrelevance, if they will benefit or harm the East Asian process of regionalization and projects of regionalism is something that remains to be seen.

3. East Asian Economic Regionalization and Regionalism

3.1. Regionalization and Regionalism

Regionalization represents a process involving mainly non-state actors (private companies exporting to, importing from, and investing in neighboring economies). Regionalism is related to a project calculated by states in order to promote a political framework for regionalization (Fawcett and Hurrell, eds., 1995; Gamble and Payne, 1996).

In East Asia, economic regionalization (or integration) has pursued in a very dynamic fashion over the last decades. But East Asian regionalism (excluding the ASEAN process) remains informal, in stark contrast with formal regionalism in Western Europe through the Economic and Monetary Union (EMU) and, to a lesser extent, in Northern America through the North American Free Trade Area (NAFTA)[5]. As a consequence of the legacy of European and Japanese imperialism in the area prior World War Two and of the central role of the US in shaping East Asia during the Cold War, many regional states remain concerned that institutionalization will lead APEC (and also an eventual EAEC) to domination by the big powers: the US and Japan in the former case; Japan in the latter (Mitchell, 1996). The main implication of this informal or "loose" regionalism (Higgott, 1997) is that there are no clear spillovers from economic aspects to other functional areas, even in ASEAN.

[5] For a review of regionalism in the world economy, see Ito and Krueger, eds. (1997) and Frankel, ed. (1998).

3.2. Economic Regionalization in East Asia

The growth of intra-East Asian trade and investment has been a salient feature of the world economy since the early-1980s (Boyd and Rugman, eds., 1998).

For instance, the share of intra-East Asian exports in total East Asian exports has grown from 21.1% in 1980 to 24.4% in 1985, to 31.1% in 1990 and to 40.5% in 1994. The share of intra-East Asian imports has increased from 17.8% in 1980 to 20.1% in 1985, to 28.8% in 1990, and to 34.2% in 1994[6]. For Japan, the share of its exports to East Asia has risen from 21.9% in 1980 to 22.3% in 1985, to 24.3% in 1990, and to 38.9% in 1994. The share of its imports from East Asia has increased from 20.8% in 1980 to 23.0% in 1985, to 23.2% in 1990, and to 37.2% in 1994 (ADB, 1996, tables 3.1 and 3.2).

In fact, intrarregional export shares have grown faster in Asia in 1984-1994 (from 26% to 39%) than in the EU (54% and 56%) and in North America (42% and 48%) (*ibidem*, figure 3.4).

As far as cross-border investments are concerned, foreign direct investment (FDI) from Japan and the ANIEs in narrowly defined East Asia represented 30% of their total outward investments in 1982. The figure for 1993 was a high 50% (*ibidem*, figure 3.5).

3.3. East Asian Regionalism

Regionalism in East Asia[7] has been mainly informal and "elusive" (Ojendal, 1997), except in the case of ASEAN (which, after the Hanoi Sixth Summit in 1998,

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[6] East Asia is here narrowly defined and comprises Southeast Asia, the Asian Newly Industrializing Economies (ANIEs: Hong Kong, Singapore, South Korea and Taiwan) and China.

[7] General studies on East Asian regionalism prior to the crises are Palmer (1991), Garnaut and Drysdale, eds. (1994), Ross, ed. (1994), Mack and Ravenhill, eds. (1995), Bora and Findlay, eds. (1996) and Herman and Pyle, eds. (1997).

already includes the ten countries in Southeast Asia). Regionalism in the area has been much more a *de facto* process than a *de jure* one.

First, East Asian regionalism has been limited to economic issues, with no effective projects on political and security matters (except, in the latter case, the ASEAN Regional Forum, ARF). Moreover, this economic regionalist stance has featured two important aspects. On the one hand, it seeks an "open regionalism" or a "regional multilateralism", as it rejects discrimination against the rest of the world, that is, it is opposed to a "closed" trading bloc. On the other hand, it has proceeded mainly in Southeast Asia (trough the project of creating an ASEAN Free Trade Area, AFTA) and in subregional economic zones (Pomfret, 1996): the Johor-Singapore-Riau (JSR) growth triangle, between Malaysia, Singapore and Indonesia; the Indonesia-Malaysia-Thailand growth triangle; the Brunei-Indonesia-Malaysia-Philippines area (also called East ASEAN Growth Area, EAGA); the South China Growth Triangle (Taiwan, Hong Kong, and the Southern provinces of China); and the Tumen River Area Development Project (China, North Korea, Russia, Mongolia, South Korea, and Japan).

Second, East Asian regionalism has been especially scrupulous in respecting states' sovereignty. It has been based, up to the present, on the adherence, in inter-state relations, to the principle of non-interference in political and even economic affairs, in stark contrast with, for instance, the European Union.

Both features reflect a choice for a pragmatic regionalism, as East Asian leaders decided to reject political decisions encompassing all the region or creating external common borders and also to respect ongoing economic processes and flows across nation-states, without even thinking of dismantling or blurring the latter (Domenach, 1998, p. 158). This had several *a priori* advantages: East Asian informal regionalism had in fact more ambition than NAFTA (limited to trade issues) and more political consistency than the EU (with has difficulties in harmonizing domestic economic policies).

The decision to pursue regionalism (although following rather than preceding economic processes) was surely intended to articulate an effective response to the increased globalization and deregulation of world markets (and the consequent erosion of national economic control), to the "Western" or liberal form that economic globalization was adopting, and to “closed” regionalism in other parts of the world (mainly NAFTA and EMU, which involve dangers of mercantilist economic rivalry).

“Open” regionalism, as embedded, for instance, in the “APEC vision”, was intended to secure access to the US market for East Asian exporters. For instance, in 1995 the percent share of the US market in total exports was 35.8% in the Philippines, 23.7% in Taiwan, 21.8% in Hong Kong, 20.7% in Malaysia, 19.3% in South Korea, 18.3% in Singapore, 17.8% in Thailand, 16.7% in Indonesia, and 16.6% in China (ADB, 1997, table A12). Only China and Indonesia exported more to Japan than to the US. Moreover, “open” regionalism also reflected the East Asian desire to maintain US military presence in the area, in order to defuse tensions between Japan and China (over regional hegemony), Russia and Japan (over the Kuril islands/Northern Territories), South Korea and North Korea (over the reunification issue), Japan and South Korea (over the Tokto islands), Taiwan and China (over respective political identities), Japan and China (over the Senkaku/Diaoyu islands), the Spratlys dispute, and other regional rivalries.

However, while most observers have lauded this pragmatic regionalist project, some have highlighted its shortcomings. For instance, a larger normative project may be needed in order to transform East Asia into a region with more cohesion, larger distinctive identity, greater capacity for autonomous action in the world scene, and more effective institutions. The main limitations of the East Asian current “loose” regionalism are associated to the difficulty to separate economics from politics and to the desirability of subordinating economic activity to socially and regionally defined objectives. Moreover, a more formal kind of regionalist project might also help in overcoming the logic of geopolitical rivalries and thus in creating a more effective program of comprehensive regional security, beyond the actual consultations in the ARF framework.

In short, while “open” regionalism might be ineffective in a world of increasingly inward-oriented trading blocs, some kind of strictly East Asian formal integration might be also desirable. For instance, the proposal of creating an EAEC has been receiving more and more support among East Asian social, economic, and political actors in recent times.

4. Financial Crises and the Regional Process and Project in East Asia[8]

Before the crises erupted in mid-1997, economic integration in the region was perceived as having strong synergistic effects, as it spurred industrial growth and exports, trough intrarregional trade, investment, and technology flows. After July 1997, the crisis spread rapidly from Southeast Asia (Thailand, Indonesia, Malaysia and the Philippines) to Northeast Asia (initially Taiwan and Hong Kong, and finally South Korea), in a contagion which also aggravated Japan's recession.

Regional economic integration was then beginning to be perceived as harmful for the eventual recovery of the battered economies. Four main reasons might be listed for this changing attitude.

First, regional integration has clearly intensified crisis contagion. Pure contagion can be distinguished from spillover effects (Masson, 1998). Pure contagion refers to the fact that institutional investors, such as mutual funds, insurance companies, pension funds and hedge funds, tend to lump together sub-regions and countries in emerging markets, regardless of the specific economic soundness of the respective sub-regions and countries. Spillover effects are mainly three: (1) some countries have to apply competitive devaluations to remain competitive respective to similarly-exporting and currency-battered countries; (2) intrarregional trade and investment interdependencies mean that crisis are transmitted through less exports, more imports and less investments to and from the region; and (3) foreign investors tend to make portfolio adjustments due to the fact that losses in one market lead funds to liquidate investments in other regional markets.

Second, regional responses to the crises have been dismal at best. Japan's early proposal for an Asian Monetary Fund (AMF) was dismissed due to strong resistance from the US and the IMF. ASEAN was unable to deliver a quick and effective response to the crisis in Thailand and Indonesia (Lin and Rajan, 1999; Soesastro, 1998). The

[8] For further information and analyses, see the papers on East Asia presented at the CSGR 3rd Annual Conference, "After the Global Crises. What Next for Regionalism'", University of Warwick, September 1999.

1997 Summit of APEC in Vancouver, besides including US President Clinton's assessment that the crises were simply "a few glitches on the road", endorsed plans to support further financial deregulation in the area and approved a controversial proposal for an Early Voluntary Sectoral Liberalization (EVSL) scheme in nine sectors: environmental goods and services, fish and fish products, forest products, medical equipment and instruments, energy, toys, gems and jewelry, chemicals, and telecommunications. The 1998 Summit of APEC in Kuala Lumpur simply transferred responsibilities in trade liberalization to the World Trade Organization (WTO), due to strong opposition from Japan and Malaysia, and awarded the management of the crises to the IMF and the Group of twenty-two (G22). The 1999 Summit of APEC in Auckland emphasized even more liberalization as a contribution to the East Asian recovery. Direct initiatives from APEC to confront the crises should have been contemplated, although it is true that the Forum was not planned for crisis management. Japan's and Japan-US' initiatives in late-1998 featured also excessive delay and involved insufficient amounts of financial assistance.

Third, regional economic integration, in a context of a general slump, strictly limits the domestic effects of national expansionary macroeconomic policies. For instance, as Malaysia departed from the IMF prescriptions, while Thailand and Indonesia did not, its expansionary fiscal and monetary policies tended to translate themselves into more imports from neighboring economies, into a higher trade deficit and therefore into additional restrictions on economic recovery. A viable alternative should have been a regional concerted effort to decrease interest rates and to provide fiscal stimuli, as suggested by the World Bank (1998).

Fourth, the post-crises scenario might be one of national governments having second thoughts on further trade and financial liberalization, as its premature and indiscriminate implementation in 1990-1996 was a major factor of the turmoils. This may provoke a fatal blow not only to the opening trend respective to the global economy but also to the ongoing process of trade-barriers dismantling and financial opening in ASEAN (and, of course, in APEC).

As a conclusion, while the short- and medium-term effects of the financial crises might involve a backlash against regional and trans-Pacific economic integration, it remains to be seen if they will counterbalance one of the long-term effects of the turmoils: an enhanced prospect for a pure “East Asian” (as opposed to a “Pacific”) understanding of the region, that is, a real East Asian regionalism.

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