Asian Financial Regionalism – Gaps and Continuities

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The candidate confirms that the work submitted is their own, except where work which has formed part of jointly authored publications has been included. The contribution of the candidate and the other authors to this work has been explicitly indicated below. The candidate confirms that appropriate credit has been given within the thesis where reference has been made to the work of others.

Iwan J. Azis and S. Mitra. (2012). Why Do Intraregional Debt Investments Remain Low in Asia? Office of Regional Economic Integration Policy Brief. No. 1. June. Manila: Asian Development Bank.

Azis, Iwan, J., Mitra, Sabyasachi, Baluga, Anthony and Dime. Roselle. (2013). "Threat of Financial Contagion to Asia's Local Bond Markets: Spillovers from the Global Crisis," ADB Working Paper Series on Regional Economic Integration, Asian Development Bank.

Within Chapter 5 ‘Political Economy of Regional Bond Market Cooperation’, section 5.5. ‘Asian Bond Markets- Progress So Far’, the Author cites the empirical findings and key conclusions of the above-mentioned publications.

The full list of authors include Anthony Baluga, Iwan J. Azis, Roselle Dime, Sabyasachi Mitra.

“An ounce of practice is worth a thousand words.”

Mahatma Gandhi

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Abstract

Asia's economic transformation in the past few decades and its re-emergence as an engine of global growth is now well established. But equally significant is that Asian economies together have the potential to re-shape the landscape of global financial architecture and the role Asian financial regionalism can play in such an exercise. This thesis traces the origin, progress, gaps and limits of Asian financial regionalism. The thesis employs the Historical Institutionalism (HI) Framework, mainly its core concepts of critical junctures, path dependency approaches and gradual modes of institutional changes. The thesis builds an eclectic framework of critical junctures to show that the 1997/98 Asian financial crisis and the 2008 Global Financial Crisis were critical junctures that opened a window of opportunity for the region's policy elites to put in place formal regional financial arrangements. The thesis applies HI and the eclectic framework of critical junctures to CMI, CMIM and the AMRO and the regional bond market initiatives, ABFs and the ABMI, to study the origin and development of Asian financial regionalism. The thesis shows that both successful and unsuccessful institutional outcomes had significant implications on governance-building. By building financial regionalism on the foundations of the ASEAN Plus Three, the region incorporated ASEAN norms in its governance framework. And by linking the regional safety net, CMIM and the AMRO, to the IMF, its regional financial governance framework remains nested within the global governance framework. The positive feedback loops generated through these processes has placed Asian Financial regionalism on a path-dependent process that maybe difficult to alter anytime soon. The thesis contends that contested and shared regional leadership between Japan and China constrains the agenda and pace of financial regionalism. The creation of AIIB reflects the China's potential to reorder the regional leadership hierarchy. The thesis concludes by saying that while there was an ideational shift after the 1997/98 Asian Financial crisis, the institutional outcomes of Asian financial regionalism has so far been sub-optimal.

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List of Abbreviations

Abbreviation	Full Form
ABC	Asian Bond Corporation
ABF	Asian Bond Fund
ABMF	ASEAN plus three Bond Market Forum
ABMI	Asian Bond Market Initiative
ACU	Asian Currency Unit
ADB	Asian Development Bank
AFC	Asian Financial Crisis
AFTA	ASEAN Free Trade Area
AHP	Analytical Hierarchy Process
AIIB	Asian Infrastructure Investment Bank
AMBIF	ASEAN+3 Multi-currency Bond Issuance Framework
AMF	Asian Monetary Fund
AMRO	ASEAN Plus Three Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three (APT)
AREM	ASEAN Plus Three Regional Economic Monitoring
ARF	ASEAN Regional Forum
ASA	ASEAN Swap Arrangement
ASEAN	Association for Southeast Asian Nations
ASEM	Asia Europe Meeting
BIS	Bank for International Settlements
BRICS	Brazil, Russia, India, China and South Africa
BSA	Bank Secrecy Act
CGIF	Credit Guaranteed Investment Facility
CMI	Chiang Mai Initiative
CMIM-PL	Chiang Mai Initiative Multilateralisation Precautionary Line
CMIM	Chiang Mai Initiative Multilateralisation
CMIM-SF	Chiang Mai Initiative Multilateralisation Stabilisation Facility

Abbreviation	Full Form
CPR	Committee of Permanent Representatives
EAEC	East Asia Economic Caucus
EAEG	East Asian Economic Group (EAEG)
EAS	East Asia Summit
ELDMB	Executive Level Decision Making Body
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks (EMEAP).
ERPD	Economic Review and Policy Dialogue
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GATT	General Agreement on Trade and Tariffs
GFC	Global Financial Crisis
HI	Historical Institution
HKEX	Stock Exchange of Hong Kong
HKMA	Hong Kong Monetary Authority
HST	Hegemonic Stability Theory
IFC	International Finance Corporation
IIMA	Institute of International Monetary Affairs
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relation
JMOF	Japanese Ministry of Finance
LAO DPR	Lao People's Democratic Republic
LCY	Local Currency
MFG	Manila Framework Group
MNC	Multinational Corporation
MOF	Ministry of Finance
NIC	Newly Industrialised Countries
OBOR	One Belt One Road Strategy
OECD	Organisation for Economic Cooperation and Development

Abbreviation	**Full Form**
PAFTA	Pacific Free Trade Area
PAFTAD	Pacific Trade and Development Organisation
PAIF	Pan Asian Bond Index Fund
PBOC	People's Bank of China
PECC	Pacific Economic Cooperation Council
PRC	People's Republic of China
PT BCA	Bank Central Asia
QAB	Qualified ASEAN Banks
QFII	Qualified Foreign Institutional Investor
RCEP	Regional Comprehensive Economic Partnership
RQFII	Renminbi Qualified Foreign Institutional Investor
RSI	Regional Settlement Intermediary
SEACEN	South East Asia Central Banks Research and Training Centre
TPP	Trans Pacific Partnership
UN	United Nations
US	United States
WTO	World Trade Organisation

Chapter 1 Introduction

1.1 Asian Financial Regionalism Matters for Asia and the World

Asia looms large in any discussion on global economy and international financial architecture. The region's growing economic clout in terms of its rising share in global output, as the epicentre of global manufacturing, holders of the largest foreign exchange reserves and high savings that allow it to be the creditor to the US and other developed economies are well known. But equally significant is the region's potential to re-shape the global financial architecture and the role that Asian financial regionalism can play in any such exercise. Asian financial regionalism has progressed through collective initiatives to put in place institutional frameworks that seek to protect the growth and stability in the region and support the rising intra-regional trade and economic integration.

The motivation for Asian financial regionalism is complex. Asian financial regionalism took roots during the 1997/98 Asian financial crisis as the region came together to build cooperative frameworks in the face of delayed response from multilateral agencies, that remain dominated by the United States and Europe, and to mobilize resources to protect itself against future crisis. While there is a lingering effect of the distrust in Bretton Woods institutions, the demand for financial regionalism reflects the increasing trade and economic interactions and integration within the region (Brouwer 2003). It is also to ensure growth and stability in the face of regional and global volatility and to build open and stronger financial markets and institutions that enhances productivity and competitiveness of the economies. Most importantly, Asia's financial regionalism initiatives are taking shape within a rapidly evolving global economic landscape. Asian financial regionalism is a response to financial globalization, managing growing economic interdependence and financial regionalization and an ideational clash between the “IMF-Wall Street-Treasury complex” (Bhagwati, 1998; Katada, 2014). It was also the beginning of an initiative to form a coalition through socialization and building a sense of “regionness” to reflect the region’s growing economic strength in the evolving global financial architecture (Acharya 1997). The 2008 global financial crisis (GFC) and the European sovereign debt crisis has reaffirmed the region’s agnostic view of global governance frameworks and also led other parts of the world to look at alternative institutional forms emerging in Asia.

While the overall process of regional institutional building has been slow, incremental and gradual, the 1997/98 crisis opened up a window of opportunity for Asia to embark on a distinct path of regional financial integration as compared to trade-led integration in Europe (Dieter and Higgott 2003). The multilateralization of the Chiang Mai Initiative (CMIM) and subsequent creation of ASEAN Plus Three Macroeconomic Research Office (AMRO) as a formal institution, the development of the Asian Bond Market Initiative (ABMI) and the absence of any regional monetary arrangement provides us with case studies to study the development of financial regionalism in Asia, its relationship with global financial architecture, role of domestic coalitions and preferences, leadership and rivalries and above all, the influence of “critical junctures” like the 1997/98 and the global financial crisis. The developments have been gradual and been driven by factors that exert both centripetal and centrifugal pressures.

Earlier studies on Asian regionalism, understandably so, largely focused on market-led production networks that were backed by unilateral tariff liberalization as part of countries’ outward trade-oriented development strategies (Ravenhill 2009) (Baldwin 2006). This strategy or the regionalization process helped Asia to improve national competitiveness; come together closely through market mechanisms and not through institutional structures of any regional organization; and more importantly facilitated integration with the global economy. This framework, often overemphasized by neo-liberals, was more aligned to "new regionalism" theories and promoted what has been come to be known as "open regionalism" (Hurrell and Fawcett 1998). But integration with the global economy did not lead to "deeper integration" of the region or lead to any major power rebalancing as often predicted by realists (Johnston 2012). On the other hand, the 1997/98 crisis exposed limits of the process of regionalization and lack of and depth in existing institutions, as measured by formal rules and laws governing them. However, increased intra-regional trade among East Asian nations, defined to include Northeast Asia and Southeast Asia, driven by their incorporation in the global economy did provide a stable security environment in the region. While the United States provided a security umbrella through the San Francisco system[1] (Calder and Ye 2004) and served as an "offshore balancer", the increased economic inter-dependence raised the cost of conflict. In some ways, the configuration supported the neo-realists' ideas that economic regionalism can thrive within political military alliances (Mansfield and Bronson 1997) and that a regional hegemon is neither necessary nor sufficient for creation of regional institutions (Grieco 1997). The existing institutions like ASEAN (Association for Southeast Asian Nations),

[1] The San Francisco system refers to the Treaty of San Francisco signed between Allied Powers and Japan and the Security Treaty between the US and Japan that allowed US to set up bilateral security pacts with its allies in Asia, conferred rights to set up military bases on the territories of its allies, and allow the allies to integrate on preferential terms into the global trading and financial order that was set and led by the US.

while still lacking depth and strength, have played a greater role in conflict avoidance than conflict resolution (Acharya 1997, Stubbs 2002).

Financial regionalism, on the other hand, offered Asian economies to come together to build regional initiatives and new institutions that have the potential to challenge existing global governance framework. Given Asia's growing economic influence, these regional initiatives (a) building regional safety nets (b) local capital markets and (c) looking to reduce dependence on the dollar -- have implications for major economies and global financial architecture. My thesis will provide a comparative narrative of these initiatives and try to delineate factors that are likely to influence the content and trajectory of not only Asian financial regionalism but potentially reshape global governance framework.

Like most studies in this area, I note at the outset the debate surrounding the definition of regionalization, regionalism and region. It is now commonly agreed that both "regionalism" and "region" are elusive and contested concepts (Mansfield and Milner 1999) and (Grimes 2008). Their definition is often constructed keeping in mind the context in which they are being looked at and changes are often made to fit in the evolving regional cooperation architecture. We define regionalism as government-led policy initiatives focusing on regional integration and promoting regional cooperation. Regionalism occurs at a macro level and lies at an intermediate level between nationalism and globalism. Regionalization, on the other hand, is defined as undirected process of social and economic interaction at the micro level among agents such as businesses or civil society groups (Dent 2008). Regionalism is a top-down, policy driven approach to push forward cooperation and integration to achieve shared objectives while regionalization is a bottoms-up approach driven by social, political and market forces.

This chapter is organized as follows. The next two sections chart the transition from regionalisation to regionalism. They trace evolution of regionalisation, Asia's growing engagement with global markets through trade and subsequent development of regional production networks and finally formalisation of trading relationships through a spurt in free trade agreements. The fourth section focuses on emergence of financial regionalism and the fifth section provides an outline of the analytical framework of historical institutionalism adopted in the thesis. Sections 6, 7 and 8 highlight the main research questions, explain the research methodology, data collection methods and sources. We conclude the introductory chapter by laying out the structure of the thesis.

1.2 From Regionalization to Noodle-Bowl

The success of Japan's early industrialization in the 19th century, the rise of the US after World War Two and growth of capitalism is important in understanding the evolution of regionalisation and Asia's integration into the global economy and subsequent revival of inter-regional trade.

Modernization of Japan was an integral part of the Meiji restoration when the country faced the threat of Western invasion and colonisation. Japan's victory in the first Sino-Japanese War and later its triumph over Russia redefined the hierarchical structure in Asia. Japan emerged as a powerful military nation in its neighbourhood. Japan implemented its "Greater East Asia Co-Prosperity Sphere" project by colonisation of its neighbours to establish economic integration (Katzenstein 1996) (Pempel 2000). However, unlike other colonial powers, it also undertook state-led industrialisation in Korea, Taiwan and China. Petri (1993) argues that this sowed the seeds of industrial and infrastructure development for later industrialisation in these economies. "The colonial-style exchange of manufactures for raw materials gave way to a concerted effort to develop independent bases of industrial strength in several parts of Japan's economic empire. The new strategy led to substantial industrial investments outside Japan proper, and eventually gave rise to increasingly sophisticated economic linkages among Japan, Korea, Taiwan, and eventually China." Petri (1993; 33).

Prior to the official proclamation of the "Greater East Asia Co-Prosperity Sphere", a Japanese economist, Kaname Akamatsu, developed the "flying geese" model to demonstrate how through economic integration, industrialisation can be spread from developed to developing economies. This model is still analysed and debated to look at the patterns of regionalization and more broadly, Asian economic integration. The underlying hypothesis is that a community of economies can come together and progress despite being at various levels of economic development by tapping their distinct natural endowment and supported by division of labour (Okita 1985) (Kumagai 2008). "Because there is such great variety in the Asian nations' stages of development, natural resource endowments, and cultural, religious, and historical heritages, economic integration on the EEC model is clearly out of the question. Yet it is precisely this diversity which works to facilitate the flying-geese pattern of shared development as each is able to take advantage of its distinctiveness to develop with a supportive division of labour" (Okita 1985; 21). In this model of regional economic development, Japan is the leader of the pack of geese flying in tandem with other economies layered in different tiers. This model has been subsequently challenged by showing that the production relations in the region were more complex than based on simple comparative advantage (Bernard and Ravenhill

1995). Japan’s defeat in the Second War signified the end of the flight of the first gaggle of “flying geese”.

The end of the War and the 1951 San Francisco Peace Treaty between the Allies and Japan provided Asian countries with a unique institutional mix of bilateralism and multilateralism. Calder and Ye (2004; 213) attribute the Korean War - “a war-driven critical juncture” that changed the bargaining structure and the preference patterns of the US and its allies in the region. The pact allowed Japan to resume trading with Southeast Asia, which provided for raw materials and intermediates, and in turn offered U.S. allies access to U.S. markets in exchange of bilateral security pacts. In other words, the pact established US as the core, Japan as its semi-periphery and freedom for economic re-engagement in Asia and integration of US allies into the global economy. There were three outcomes of this evolving global and regional trading architecture. First, it allowed Japan’s “flying geese” model to resume its flight and this also aligned with the strategic policies of the United States for Asia-Pacific. It established the “structural power” of the Washington in Asia-Pacific. By providing a security umbrella, military aid and access to global markets, the United States was able to define and shape the role of Japan and other East Asian allies in its alliance as well as allowed it to control the global institutions. Second, East Asia economies embarked on unilateral trade liberalisation to expand trade and moved away from import substitution strategies, a move that supported the trend towards liberal global market regime and strengthening the capitalist bulwark against the rising threat of communism. Lastly, these trends, cultural diversity and bitter memories of Japanese Occupation and Western colonialism reinforced East Asian economies’ preference against formal regional institutions (Aggarwal and Koo 2005).

In the post-war period, US aided reconstruction in Japan along with its own national policies helped it to regain the position on an industrial leader in Asia. Japan's rapid re-industrialisation and focus on technical innovations allowed it to export cheap manufactured products to global markets. As Japan graduated from lower value-added products like textiles to chemicals and later to sophisticated electronic products, countries like Taiwan, Korea, Hong Kong and Singapore started to move into the value-chains that were no longer occupied by Japan. These four Newly Industrialised Countries (NICs) developed a triangular trade relationship with Japan and the United States. These NICs were dependent on the US market for exports of their products and leaned on Japan as a major supplier and source of capital goods, intermediate inputs, technology, and management know-how (Doner 1993). Japanese firms were leading the multinationalisation of manufacturing in the region. This trend along with triangular relationship created a powerful centripetal force of closer economic cooperation and trade integration centred around Japan.

The expansion in global trade along with regional economic expansion continued unabated until the oil shock of 1979/80. The global recession, trade wars and consequently the signing of the Plaza Accord in 1985 and the articulation of the Fukuda Doctrine that laid the foundation of Japan's ASEAN policy led to major structural changes in the regional economy (Hwee 2006). The massive appreciation of the Japanese yen and the trade barriers against Japanese exports in the western markets led Japanese multinationals and export-oriented SME to shift their production bases to NICs and ASEAN. Hatch (2002; 2004) and Yamamura and Hatch (1997) present compelling explanations of how a strong alliance between the Japanese government and businesses and use of private investment and official aid helped Japanese multinational companies to build strong production networks across Southeast and East Asia. “Since the mid-1980s, Japanese multinational enterprises (MNEs) have been building vertically integrated production networks (i.e., parent-subcontractor networks) that they dominate in and across Asian economies. These networks, which have made a decisive contribution to the growth of manufacturing industries in Asia, are replications of or close facsimiles of the keiretsu in Japan,” Yamamura and Hatch (1997; 8). This process allowed the newly industrialised countries (NICs) to move up the technology ladder with skill upgradation, better research capabilities and management techniques from Japanese firms. In fact, NICs were competing with Japan in the global markets.

Beginning 1980s, Japanese firms began to pump in massive investments in ASEAN 4 – Indonesia, Malaysia, the Philippines and Thailand. Akrasanee and Prasert (2003) highlight this phenomenon as the second stream of Japanese FDI to East Asia and describe it as the process of market recycling and next flight of the flying geese model. These trends led many scholars to offer the product cycle explanation of rapid industrialisation of East Asia. Cumings (1984) argued that that the East Asian economic model cannot be understood outside the context of "the fundamental unity and integrity of the regional effort" that began with Japanese colonialism. Bernard and Ravenhill (1995) argued that the “flying geese” model fails to “capture the complexity of the regional political economy, which is increasingly dominated by the regionalization of industrial production.” They cogently put forward that globalization of production networks and technological progress are primary factors driving regionalisation of industrial production in East Asia.

1.3 From Flying Geese to Global Production Networks (GPNs) and From Regionalization to Regionalism

Indeed, a structural change was underway in early 1990's in Asia's trading pattern driven by the emergence of global production networks, the entry of China in the global trading system and the move towards regionalism from market-driven regionalisation, a process that accelerated after the 1997/98 Asian financial crisis.

One of the most significant features of international trade in Asia is the emergence of global production networks and rise of global value chains. Economic activity across the region has been fostered by the creation of industrial clusters through a unique trade-investment nexus that led to the progressive formation of regional and global production networks (Kimura and Ando 2005). Global production sharing in the manufacturing sector has been the key driver of shift in manufacturing exports from developed to developing countries in the past two decades. Baldwin (2011) calls this as the "second unbundling" as production networks[2] reflect the internationalization of supply chains, which first started among developed economies.

The changing economic geography led to a shift in GPNs from industrial economies to emerging economies, particularly towards East Asia (See ***Table 4*** in Appendix Chapter 1). Global network trade accounted for about two-thirds of the total increment in the global manufacturing exports in the past two decades (Athukorala, 2012). Trade liberalization

[2] In the global production network process, companies slice the manufacturing process across borders, both intra-firm and inter-firm, and situate them at locations where they can produce most competitively. While the production structure is spread spatially across and beyond national borders, they also integrate disparate parts of "national and subnational territories" (Coe et. all 2008). Athukorala (2012) highlights that rapid technological development, advances in ICT, transport, logistics and distribution and unilateral trade liberalization has spurred the growth and structural shift of GPNs.

lowered trade barriers and reduction in transportation and communication costs driven by rapid growth of technology has been a key driver of network trade. This has led to regionalization of value chains as in the case of “Factory Asia” (Baldwin, 2008) and even globalization as in the case of the iPod (Dedrick, Kraemer, and Linden, 2010).

This changing economic landscape has been more pronounced in the emerging economies, particularly amongst the East Asian countries. Hong Kong and China have led the way in East Asia with share of network exports in total manufacturing exports along with South Korea, Malaysia, Thailand, Singapore and the Philippines. In the last two decades, East Asia has been one of the fastest growing and dynamic economic regions in the world. Its share in world manufacturing trade increased to more than a third and some economies, such as China, have become leading exporters in the world. A large proportion of East Asian trade in manufactures is intra-regional and this is due largely to the predominance of production networks across the sub-region (Athukorala 2010).

Another factor behind this structural shift was the rise of the PRC and other countries in the region like Taiwan, Korea and ASEAN who have also increased their market shares in intra-regional and global trade. The opening of Chinese economy and its integration in the global economy, including its membership in the World Trade Organisation (WTO), transformed regional trade. While the share of Japan in intra-regional trade was declining, by mid-1990s China’s share of trade and investment increased sharply (ADB 2008). China was both a trade rival and also a large market for the region’s raw materials, intermediates, particularly parts and components and manufactured products. While there were difficult adjustments to be made by other economies, the new trading linkages with China helped to galvanise the production networks and was crucial in revival of regional trade after the 1997/98 financial crisis. East Asia emerged as "Factory Asia" and China the assembler of final products for sale in domestic markets or exports to the United States and Europe. In effect, a new triangular trading relationship was emerging in Asia where China was replacing Japan as the core with ASEAN and other economies remaining as peripheries.

The region's high economic growth accompanied by unfettered liberalisation in 1990s, particularly lifting of controls on capital account, opening up of domestic capital markets in the absence of necessary regulations led to massive inflows of short-term volatile foreign capital and inflated asset prices in the region (Griffith-Jones, S., Cailloux, J. and Pfaffenzeller, S., 1998). The inflows and outflows of volatile foreign capital facilitated by financial globalization along with weak domestic financial systems and negative investor perceptions triggered the crisis in 1997/98 (Kawai 2002a). The crisis crippled East Asian economies and the lack of timely support from multilateral institutions along and the absence of regional safety nets led economies in the region to strengthen national policies as well as demand for regional cooperative arrangements to protect against future crisis.

The failure of APEC and ASEAN to respond to the crisis drives home the institutional weakness in regional economic architecture, a feature that continues despite the mushrooming of institutions and arrangements since 1997/98. ADB's study (2011; 3) Institutions for Regional Integration: Toward an Asian Economic Community captures this phenomenon by observing that Asian regionalism remained "institutions-light" and there was "a lack of formal rules and legal structures". Ravenhill (2001) explains that APEC's weakness stemmed from (a) lack of consensus over its goals and ways to achieve them

(b) lack of an institutional structure and (c) failure to engage with civil society. ASEAN, on the other hand, did not even have a forum or mechanism to convene a meeting of finance officials to discuss let alone look for resolutions. Rodolfo Severino (2002; 157), former secretary general of the ASEAN Secretariat laments: “Because of inadequate consultation among ASEAN members, no ASEAN country was sufficiently aware of the problems building up in others or of the imminent impact of those problems on themselves. There was no institutionalized mechanism for ASEAN members to compare notes on developments in their economies, particularly in their financial sectors, but in the real economy as well.” This statement vividly captures the failure and inadequacies of existing regional and international institutions to respond to the 1997/98 financial crisis. The creation of ASEAN Plus Three, the East Asia Summit and host of other regional forums along with demands to restructure global financial architecture were the outcome of such regional demands and products of interactions with extra-regional players. Sohn (2005) postulates that East Asia is searching for counterweight strategies that will allow them not to surrender their sovereignty to regional institutions while collaborating and gaining more voice within global financial institutions like the IMF, BIS, World Bank and others.

1.3.1 Bilateralism and Noodle-Bowl Effects

The other trend after the 1997/98 crisis was the proliferation of Free Trade Agreements (FTAs) which became the defining characteristic of the region’s trade and foreign diplomacy. FTAs first began to spread in developed economies with the signing of NAFTA in 1994 and marked a shift in US trade policy towards regionalism and Asia was largely confined to the margins (Postigo 2013). Both trade regionalism and FTAs were not new in Asia. Japan's earlier attempt to create Pacific Free Trade Area (PAFTA) in the 1960s floundered and APEC pursued an "open regionalism" principle during its early years. However, attempts to impose rule-based and legal structures within APEC were opposed by ASEAN and adoption of voluntary approaches to liberalisation and using peer-pressure as a mechanism to pursue liberalisation did little to lend credibility to its institutional character. Washington accepted this approach to keep Asia-Pacific nested within the global trading arrangement. The only FTA in force was the ASEAN Free Trade Agreement (AFTA), which was conceived to promote intra-ASEAN trade and attract foreign investment (Postigo 2013).

There were other ambitious competing proposals for region wide FTAs floated by the United States and China but failed owing to political rivalries. In 1998, apart from AFTA the region was bereft of any meaningful FTA. China's declaration in 2000 to form a FTA with ASEAN and the swift counter-reaction of Japan in 2002 kicked off the Asia's headlong rush into the FTA race. By mid-2014, Asia-Pacific[3] had signed 278 FTAs, out of which 119 were under implementation.

While the earlier lack of regionalism or regional institutions was premised on political rivalries, economic and cultural diversity and US hegemonic political and security interests (Katzenstein and Shiraishi 2006), the emergence of trade regionalism in the late 1990s is explained by many scholars through foreign policy, political and security factors and not just based on economic rationales (Postigo 2013). The neo-realists argue that proliferation of FTAs reflect the anarchic inter-state competition with each state pushing

[3] This definition includes East Asia, ASEAN, South Asia, Central Asia and Pacific Islands

forward its national interest to gain economic, political and security position relative to others (Dent 2008). The neo-liberal approach, which is expounded in the works of neo-classical trade economists attribute the spurt in FTAs to the need to support market-led integration of regional supply chains, response to intensification of FTAs in Europe and the Americas and the stalled WTO Doha Trade talks (Kawai and Wignaraja 2013). Neo-liberals argue that regionalism is derived from regionalization. Kawai (2005; 30) argues that “[the] most fundamental rationale behind the emergence of recent economic regionalism is the deepening of regional economic interdependence in East Asia.” However, data on the low use of FTAs by businesses weaken the hands of neo-liberals[4]. But even some neo-realists worry that FTAs bestow preferential treatment and distort global trade. Prior to the global financial crisis, some even went to the extent of hypothesizing that increased regionalisation supported by growing regionalism has led to increased intra-regional trade and reduced the export dependence of the region on the United States and Europe – a process which has been labelled as “de-coupling of Asia” (Kawai 2004). This over exaggeration of intra-regional regional trade was exposed by the sharp contraction of Asian exports in the aftermath of the global financial crisis and (Athukorala and Kohpaiboon 2009).

Attempts have also been made through social constructivist approaches to highlight the role of shared ideas and identities among political elites in supporting trade and economic integration. Acharya (1997) argues that institution building in the region is process oriented and not an outcome of global and regional structural changes. He invokes four

[4] ADB and ADBI surveys of enterprises using FTAs

key concepts -- ‘cooperative security’, ‘open regionalism’, ‘soft regionalism’, and ‘flexible consensus’ facilitating regional institution building and supported through adoption of the consensual decision-making approach of ASEAN. In this regard, constructivists argue that FTAs are more than technical and legal constructs as they reflect the shared political economy values of states’ increased trading with one another. Dent (2008) argues that FTAs can be viewed as a new norm of common trade policy that could lay the foundation for a future regional FTA project. If successful, as we will see later, these region-wide FTAs reflect an attempt to form a pan-regional arrangement based on a shared understanding of open-trading regimes and willingness to be bound by a common set of rules (Terada 2003).

The global financial crisis was transmitted to East Asia both through the financial market and trade channel. The impact on the real economy was larger through the trade channel. There was a large fall in Asian exports as demand from G3 – United States, Europe and Japan – contracted sharply. Asian economies have been riding on China’s rapid economic progress and thriving as a supplier of raw materials and intermediates. The global financial crisis exposed the vulnerability of China and rest of the region and underscored their continued dependence of the G3 export markets. This reflects Asia’s strong global integration as well as the vulnerability of its economies to volatility in the mature markets.

These trends bust the de-coupling myth of neo-liberals and reinforce Katzsenstein’s (1996; 129) assertion that “continued dependence of the East Asian and Southeast Asian economies on the American market also militate against a relatively closed Asian economic bloc.” A logical follow-up, in the absence of a successful completion of the Doha round of WTO negotiations, has been to craft region-wide competing mega FTAs led by states with competing visions and national strategic interests. The now defunct United States led Trans-Pacific Partnership (TPP) and the ASEAN-led and China centred Regional Comprehensive Economic Partnership (RCEP) are examples of such region-wide FTAs. ASEAN economies formed the core of both these initiatives. On November 15, 2020, ASEAN and its five regional members – Japan, Korea, China, Australia and New Zealand – signed RCEP, which is set to be effective from early 2022.

The US President Donald Trump in January 2017 withdrew US from TPP saying it would lead to a loss of jobs in the manufacturing sector and widen the trade deficit. China and India were not part of the TPP negotiations while the United States has been kept out of the RCEP talks. The TPP was an attempt by the US to keep the markets of some of the fastest growing economies to its businesses, not allow the markets to be captured by newly emerging rivals like China and at the same ensure that these markets adopt norms and rules in areas like intellectual property, labour, environment etc. In addition to economic and commercial benefits, it was aimed to allow the United States to re-engage itself in a region that is critical to its security and prosperity[5]. The TPP-11, which replaced TPP after US withdrew from it, has been signed by 11 countries - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam – which represent nearly 13.4 percent of the global gross domestic product. It is the largest trade agreement after the North American Free Trade Agreement.

[5] http://csis.org/files/publication/131113_Conversation2_TTP.pdf

RCEP, which covers 40% of the global GDP and over 42% of world's population, is another venue for contest and negotiation between Japan and China ranging over key issues of membership and agenda and deviates from the practice of "open-regionalism". Countries, such as the US, which do not have a FTA with ASEAN cannot participate in RCEP negotiations. The issues of membership and control of agenda reflects the leadership tussle between Japan and China (Hamanaka 2014) and at the same time provides ASEAN with yet another opportunity to play a central role in Asian trade regionalism. More broadly, the rivalry and the competing visions of the United States and China of securing their economic, political and security interests in Southeast and East Asia will shape the evolving regional economic architecture. However, trade negotiators[6] and policy researchers interviewed for the thesis assert that ratification of RCEP in legislatures of individual countries is facing strong headwind in the Philippines and also yet to be ratified by Malaysia and Indonesia as domestic industries fear being swamped by imports from larger economies like China. The interviewees also pointed out that he absence of discussion on labour, environment and state-owned enterprises, which are dominant in some ASEAN economies, in the RCEP has diluted its quality.

1.4 Is Financial Regionalism leading Regional Integration?

The 1997/98 financial crisis shattered the myth of the "East Asian Miracle", exposed the deep structural flaws in the Asian growth model and drove home the point that globalization that facilitated Asia's integration with global markets presents both opportunities and threats (Beeson 2011). The crisis fostered a shared sense and

[6] Interview with a former senior trade negotiator from the Philippines and a policy researcher from a leading Malaysian think-tank.

perception of “neglect” by the IMF and the United States among the region’s policy elites. Debates on the ontology of the Asian crisis centered on the vulnerabilities of the state-led development models of East Asia versus the market-led democratic Anglo-Saxon model, “crony capitalism” -- the relationship between states and powerful family business conglomerates to foster growth and the dominance of US and Europe in global financial institutions (Wade 2000; Radelet, Sachs, Cooper and Bosworth 1998).

The dissonance between East Asia and the West on the unequal exchange in financial globalisation was neither new nor did it only surface after the crisis. The year 1990 can be identified as the year when Asia began to formally articulate and lobby for regional institutions led by and comprising only Asian economies. Hamanaka (2009) traces Japan as leading the financial regionalism projects in 1990 by setting in motion the creation of a central bank forum that was later institutionalized as the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). Interestingly, the US was kept out of EMEAP, reflecting the dissatisfaction of Asian economies with international financial institutions and their dominance by the US and Europe. In the same year, in December 1990, Malaysian Prime Minister, Mohamad Mahathir proposed the creation of the East Asian Economic Group (EAEG) to establish a regional trading group to counter similar arrangements in North America. In 1991, ASEAN adopted his proposal and renamed it as East Asia Economic Caucus (EAEC). But interest in EAEC waned as Japan and China remained cautious and showed little interest in it. However, EAEC can be seen as the forerunner of ASEAN Plus Three which emerged after Japan, China and Korea were invited to join the informal ASEAN leaders meeting in middle of the brewing financial crisis in December 1997

(Kawai 2007). ASEAN Plus Three (APT) was formally launched in 1999 and its membership overlapped that of EAEC.

Hamanka (2009) states that in the early 1990s, Japan, under the initiative of vice-minister for finance, Tadao Chino, pushed for Asian nations having a voice in global financial affairs in proportion to their national capacities. Japan convened informal meetings of senior finance ministry officials, particularly from ASEAN. In 1994, this was upgraded to a ministerial level meeting, way ahead of ASEAN convening its formal congregation of finance ministers. Another initiative launched by Japan's Ministry of Finance was the Four Markets Group – comprising of economies hosting large financial markets like Japan, Hong Kong, Singapore and Australia. The primary objective was to foster stronger network among regional financial officials and to exchange market information, particularly with respect to foreign exchange markets (Hamanaka 2009). The Four Markets Group was later expanded to Six Markets Group with the inclusion to China and the US. Korea viewed this newly expanded group with suspicion as they considered themselves more developed than China at that time. There were other regional financial projects like The South-East Asia Central Banks Research and Training Centre (SEACEN) set up in 1966. These were largely networks and capacity building forums without any broad regional agenda.

The most ambitious financial regionalist initiative was the effort by Japan in mid-nineties before the crisis hit the region to create an Asian Monetary Fund (AMF). Former Japanese Ministry of Finance officials, Haruhiko Kuroda and his boss Eisuke Sakakibara pushed forward the Japanese proposal of AMF and were supported by studies on regional monetary arrangement by the Institute of International Monetary Affairs (IIMA). The group finalized the study and produced the preliminary paper for creation of the AMF by early 1997 (Shinohara 1999). There was a strong backlash from the US as it directly challenged US hegemony and offered an alternative to global financial architecture (Hennings 2009). The US opposed the AMF highlighting (a) moral hazard – provision of external liquidity will lead to postponement of much needed structural reforms in crisis-hit economies and (b) duplication of efforts by IMF and AMF[7]. Japan's bilateral support and mobilization of funds to bailout Thailand, the epicenter of the 1997/98, can be seen as the turning point and perhaps forging of an "Asian Consensus" on creating a regional liquidity mechanism and establishing Japan's leadership role. US adopted a "hands-off" policy in the initial phase of the Asian crisis (Lipsey 2003). One reason put forward behind's Japan's support to Thailand was its large trade surplus with Thailand, exposure of Japanese banks and its position was the largest foreign direct investor in the Southeast Asian nation. The AMF issue reached its highpoint at the November 1997 at a meeting of the regional finance ministers in Hong Kong, which was also attended by the US and the IMF. While all Southeast Asian economies and Korea supported AMF, US opposed it and China was indifferent to the proposal. This put a brake and stalled the AMF in its path (Henning 2009). Instead, US proposed and others agreed to setup the "Manila Framework Group" (MFG) – a cooperative arrangement for regional surveillance and complementing IMF's global surveillance, strengthening domestic financial and regulatory systems, boost IMF's capacity to respond to crisis and a financing mechanism to supplement IMF's resources. The MFG failed to provide the kind of support that ASEAN was looking for and the latter set up its own surveillance mechanism in 1998 and later when the meeting was upgraded

[7] Discussions with officials involved in these engagements reveal the stiff opposition of the US to the AMF.

to Asean Plus Three Finance Ministers Meeting in 1998 it expanded regional surveillance as an Economic Review and Policy Dialogue (ERPD) to include Japan, Korea and China (Harris 2000).

Asia responded to the crisis through radical domestic reforms and state-led financial regionalism. The region's efforts to build financial regionalism drew support at home but were met with cautiousness by extra-regional players. Asia focused on creating regional safety nets to offset the impact of any future crisis through first creation of bilateral currency swaps and later multilateralising the arrangement, building domestic bond markets to intermediate the region's vast savings for productive investment and setting up forums for regular exchange of information and review of economic policy environment (Kawai 2005).

Following the crisis, APT launched several initiatives aimed at the early detection and management of financial and economic vulnerabilities and ensuring economic stability. The focus to strengthen and improve the resilience of the financial sector through national reforms and regional cooperation was understandable as financial sector weakness was identified as a major contributor to the crisis. Three key initiatives were launched: (i) introduction of a regional economic review and policy dialogue (ASEAN+3 ERPD); (ii) establishment of a web of bilateral currency swap arrangements to supply liquidity during crisis, which came to be known as the Chiang Mai Initiative (CMI)[8]. (iii) development of local currency bond market markets through the Asian Bond Market Initiative (ABMI) and

[8] The CMI was launched at a meeting of APT finance ministers in Thailand in May 2000. They announced a broad set of objectives for financial cooperation, involving policy dialogue, the monitoring of capital flows, and reform of international financial architecture.

Asian Bond Funds (ABF) 1 and 2 (launched by EMEAP). The design of these arrangements was focused to address financial vulnerabilities and meet short-term liquidity needs in case of any future crisis. Of particular importance is the Chiang Mai Initiative (CMI), launched in 2000 to assist countries with short-term liquidity needs by creating a network of foreign reserves bilateral swap arrangements between the central banks of the PRC, Japan, Korea, and those of the five largest ASEAN economies (Indonesia, Malaysia, Philippines, Singapore, and Thailand). In 2008, ASEAN+3 Finance Ministers decided to multilateralise the CMI by collectively managing a single pool of reserves (CMIM) and announced the creation of a new regional agency to conduct macroeconomic and financial surveillance. The ASEAN Plus Three Macroeconomic Research Office (AMRO) was set up in 2011 as the surveillance unit of APT, monitoring regional economies, early detection of risks, recommendation of corrective policies and as an effective decision-making of the Chiang Mai Initiative Multilateralisation (CMIM).

A notable omission from these developments toward regionalism is the lack of any regional initiative on exchange rate arrangements despite the massive runs on currencies that have taken place (e.g., the Thai baht in July 1997) and currency devaluations. On the other hand, countries were accumulating large holdings of foreign exchange reserves that were seen as the first line of defence against crisis (Emmers and Ravenhill 2011). Nonetheless, initiatives like ABMI and ABF laid the foundations for building stronger domestic financial systems and ERPD provided APT with a venue to exchange views on economic developments and policies.

Asia’s moves were largely defensive and reactionary in response to the neoliberal policies imposed by the multilateral agencies in the wake of the 1997/98 crisis. Asia’s attempts to reform the global financial architecture met with little success. Asia’s swift recovery from the 1997/98 crisis, aided mainly by significant national reforms and unwavering faith in open trading regimes and commitment to international global institutions kept its regional financial institutions nested within the global financial architecture (Grimes 2003). Progress on financial regionalism both in terms of institution building and financial market integration has been limited. ASEAN Plus Three took several years to multilateralise the bilateral currency swap arrangements and there are concerns over its limited use if crisis hits the region (Hill and Menon 2014; Azis 2012). While the national authorities have built successful domestic markets, the Asian Bond Market Initiative (ABMI) has not led to a regional market or significantly increased cross-border investment in domestic bonds.

Asia’s response to the global financial crisis, the evolving and ongoing restructuring of the global economic governance structure and loss of faith in neoliberal economic principles have raised questions on the future of Asian financial regionalism (Katada 2011). Most economies leaned on domestic stimulus packages to boost economic recovery and countries like Singapore and South Korea which were confronted with short-term liquidity crunches used the swap lines provided by the US Federal Reserve instead of the regional safety net. China implemented a massive stimulus package in a “China first” policy and later along with Japan were willing to play the role of lenders of last resort in Asia and Europe (Goh 2013). China was keen to use GFC as an opportunity to raise its voice and representation in global financial institutions. Japan was early off the block in its support to US and Europe and sought to maintain the status quo in the global order. Japan and China have different strategic interest, and both seek to increase or maintain, depending on the configurations, their relative positions in existing and emerging global institutions and arrangements. In doing so, there is a potential for them to leverage their relative bargaining power and strength in regional financial arrangement to increase their and Asia's collective representation in global financial architecture.

1.5 Analytical Framework

Given the historical backdrop and the inter-play of factors, the key question is to understand how the dynamics of demand and supply interact over time to create cooperative financial arrangements – formal and informal -- or how they achieve an institutional equilibrium. From the demand perspective, the analysis will focus on factors driving the demand for regional financial cooperation and under what conditions. Here the key variables are antecedent conditions, domestic preferences, local stakeholders and local politics. On the supply side, capacity and willingness of political and policy elites to accommodate the demand for regional financial cooperation is crucial. It is important to ask what factors – demand as well as supply -- are critical of holding it back or pushing it to lower or higher equilibrium level.

Most studies of financial regionalism begin by asking why states cooperate regionally. They seek answers from the prevailing wisdom offered by IPE frameworks of (a) neo-realism (b) neo-liberal institutionalism (c) constructivism (d) Marxist approaches and (b) World Order/neo-Gramscian approaches. Attempts have been made to understand the conditions under which differing schools of thoughts can have different explanatory powers to explain the rise and progress of financial cooperation in Asia (Grimes 2008). Dieter and Higgott (2003) have also explored the asymmetry between trade cooperation and financial cooperation and the reasons behind it. These approaches and their limitations in explaining the origin and development of Asian financial regionalism are discussed in detail in Chapter 2. Citing the case of the 2008 global financial crisis, for example, Drezner (2010) and Moseley and Singer (2009) highlight the limitation of IPE frameworks in explaining variations and weaknesses in the domestic and international financial regulation and the global governance architecture. Drezner (2010; 793) argues that realists, neo-liberal institutionalists and other extant approaches believe that once power relations, preferences, ideas and institutions are crystallized they will result in a stable equilibrium with little incentive to “deviate from the global status quo policy”. Mosley and Singer (2009) highlight the fact that the global financial crisis may have a significant impact on the trajectory of IPE just as the break-up of the Soviet Union shaped the scholarship on international relations and great-power conflicts towards mid-range from grand theories. They argue that “the financial crisis, then, poses a test not only of the efficacy of existing global governance institutions, but also of existing theories of international cooperation” state Mosley and Singer (2009; 420).

I employ an HI (Historical Institutionalism) framework to understand the evolution and trajectory of Asian financial regionalism. The HI framework as a distinct tradition of institutional analysis allows us to focus on the temporal dimension of evolution of formal and non-formal institutions, including both events, like economic crisis, that open windows for institutional changes as well as historical contingencies. HI’s roots are entrenched in political science to study the origins, evolution and consequences of political institutions from local to global level. It lays emphasis on the temporal dimensions of politics -- sequence, time, and timing in the causal process, recognises the origin and the process of preference formation to create an institution and the role played by random events in driving policy changes (Thelen,1999; Fioretos, Falleti, and Sheingate 2016). Drawing upon the HI framework, the thesis establishes that the timing of the two crises and their subsequent impact on national economies and their domestic and collective response played a critical role in shaping the trajectory and form of Asian financial regionalism.

Historical Institutionalism examines how temporal processes and events such as wars, revolutions, economic crisis, have an impact on origin and transformation of institutions that are big and small and are local, national and global (Fioretos, Falleti, and Sheingate, 2016; Pierson and Skocpol 2002). We can broadly examine HI's engagement with causality and time through three core concepts that form the bedrock of its analytical framework: critical junctures, path dependency and gradual change. The critical juncture framework is often described as the "heart" of the HI framework as it has been developed to examine the sequencing and timing of interaction of different processes and impact of these on institutional outcomes (Mahoney, 2000; Capoccia and Kelemen 2007). Critical junctures are seen in the literature as events or episodes that trigger institutional changes or outcomes among alternatives. Collier and Collier (2002), who developed a framework of critical junctures to explain incorporation of labour in the national arena of politics in Latin America, define it as a period of significant change which occurs in the units of analysis and produce distinct legacies. "The critical juncture may involve a relatively brief period in which one direction, or another is taken or an extended period of reorientation. Some analyses stress underlying societal cleavages or crises that lead up to the critical juncture, whereas others focus primarily on the critical juncture itself," highlight Collier and Collier (2002: 27). For both Mahoney, 2016; Capoccia and Keleman, 2007), researchers examining critical juncture should pay attention to its temporal components. "A critical juncture is a relatively short period in time during which an event or set of events occurs that has a large and enduring subsequent impact," underline Mahoney, Mohamedali, and Nguyen (2016; 78).

Perhaps no other concept is as intrinsically linked with historical institutionalism and critical junctures as path dependency. While the concept of path dependency originated in economics (David 1997; Arthur 1994), it has been applied extensively in HI frameworks to seek answers as to why institutions persist even when they are not efficient. A core view in the literature looks at critical junctures and path dependency in terms of positive feedback or increasing returns. "With path dependence, each step in a particular direction makes it more likely that a unit will continue to follow that same direction. Over time, it becomes harder and harder to reverse course. Typically, with this conception of path dependence, the early steps are crucial in leading a unit down a particular path," Mahoney, Mohamedali, and Nguyen (2016; 83).

Thus, following this line of reasoning, it can be argued that critical junctures can mark the beginning of path dependent processes in some units of analysis. In fact, some scholars do establish that critical junctures can be explained with reference to institutions or antecedent conditions and the degree of agency that arises during these periods (Slater and Simmons 2010). Capoccia and Kelemen (2007; 348) argue that critical junctures are periods of time that are much shorter than the path dependent processes arising out of them.

Ikenberry (1994) captures the essence of historical institutionalism approach to path dependence in his characterisation of political development as involving critical junctures and developmental pathways. The discussions in HI literature focus on a dual mode of institutional development where there is a long period of path dependent institutional stability and reproduction that are occasionally punctuated by “critical junctures” that provide an opportunity for institutional change (Capoccia and Kelemen 2007). Pierson (2004) emphasizes that “junctures” are “critical” since they place institutions on paths which are difficult to alter. Thelen (2004) has demonstrated that the objectives for which an institution was created may differ or conflict with the needs that they are confronted at a later historical juncture. Therefore, it will be difficult to alter the self-reproduction mechanism after institutional choices have been made. Past choices define the bounds and offer limited policy space to actors responding to a different set of problems or significantly different environment – either evolving through gradualism or brought about by a sudden event. However, it is important to note that many HI scholars also apply the concept of path dependence to sequences that do not exhibit increasing returns and positive feedback. This approach focuses on the role of historical contingency (Mahoney 2000). Here the path dependence is shaped by reactive sequences where random events lead to final outcomes.

Critical junctures and path dependent processes are not the only source of institutional innovations and changes. Streeck and Thelen (2005) show that change can be gradual and incremental and still lead to institutional transformation. They identify four modes of gradual change: (a) layering (b) displacement (c) conversion and; (d) drift. While these modes of change are explained in detail in Chapter 2, it may be underscored that the modes of gradual changes highlight the importance of political contests, from ranging from small amendments to significant changes, in structuring institutions over time (Fioretos, Falleti, and Sheingate 2016). Pierson (2004) argues that gradual changes rather than historical events may be the sources of radical institutional changes. “Studies of events that have been characterized as sudden ruptures, such as the global financial crisis of 2008, suggest that these may best be understood as the cumulative outcome of processes of incremental change over several decades," state Fioretos, Falleti, and Sheingate (2016; 15)

The application of Historical Institutionalism in the international political economy framework has so far been limited. For example, [bring up the text of footnote 9 here and then list in the footnote any other sources that use HI in IPE so that you can show you know the field][9]. There are only few studies, however, that adopt HI to explain the origin and evolution of Asian regionalism. While Beeson (2011) provides an excellent overview of institutional change in Asia, Calder and Ye (2004) and Komori (2009) employed the "critical juncture" and HI framework respectively to explain the overall evolution of Asian regionalism.

I co-opt the HI framework, particularly the concept of critical junctures and the punctuated equilibrium[10] notion and in Chapter 2 build an eclectic framework of critical junctures to explain the emergence of financial regionalism and new institutional mechanisms. I argue that the 1997/98 Asian financial crisis and the 2008 Global financial crisis were critical junctures that have influenced both demand and supply to create new institutional mechanisms as vehicles for regional financial cooperation. It is now widely accepted that the 1997/98 crisis marks a watershed – though there are ontological debates on whether

[9] Farell and Newman (2010) applied the HI framework in IPE to examine international market regulation putting forth the rational that HI can provide us with tools to explain genesis of key actor's preferences and also how domestic institutions can shape international interactions in which states seek to realize their preferences in formal and informal bargains.

[10] The notion of "punctuated equilibrium" is borrowed from evolutionary theory to explain how long periods of stasis are broken by short episodes of rapid speciation.

it was result of development models adopted by East Asia or crisis in global capitalism or a synthesis of various national and global structural deficiencies. The thesis establishes that irrespective of the origin of the AFC, the crisis was a "critical juncture" that set-in motion the process of Asian financial regionalism. I build on the framework of Calder and Ye (2004) and establish that the crisis provided the region's policy elites with an opportunity or a wider set of policy options to develop formal regional arrangements for financial cooperation and perhaps for the first time voice their dissonance with the existing global financial architecture. It must be emphasized that pre-existing institutions – ASEAN and later ASEAN Plus Three – and their governance framework were critical in the development of financial regionalism.

But the 1997/98 Asian financial crisis as a "critical juncture" alone cannot explain the evolution of regional financial cooperation. The HI framework with its power to explain both incremental and gradual changes as well as unexpected exogenous events allows me to understand the evolution of financial regionalism, functionalities as well as the distributional impact reflecting power configurations, ideas and domestic preferences in the region to highlight the discontinuities, lags and limits of financial regionalism. I adopt the four modes of gradual change from Streeck and Thelen (2005) to understand the evolving structure of Asian financial regionalism. The intersection and interaction of different modes of gradual change produces "collusion", "gaps" and "lags" to influence institutional development that are difficult to anticipate (Pierson 1996). The insertion of the HI framework, or more specifically the critical juncture framework and later theoretical developments, will allow me to answer why and how some units of Asian financial regionalism have evolved while others are stuck at a low-level equilibrium.

1.6 Research Investigation and Research Questions

Asia is keen to protect its hard-won economic gains, ensure stability of its financial markets and achieve inclusive, rapid and sustainable growth. While these objectives are mainly being pursued through national policies, it has also put together regional institutional arrangements that can help the region to collectively protect itself against the vulnerabilities and volatility emerging from both within and outside the region and reduce its reliance on global institutions.

As discussed in the earlier section, the core research on Asian financial regionalism has so far adopted the main IPE frameworks to explain the rise of Asian financial regionalism (Grimes 2011).

The focus of this thesis is to explain the origin and evolution of Asian financial regionalism through the HI framework that will allow me to move beyond the IPE approaches and establish the role of 1997/98 financial crisis as a critical juncture in creation of Asian financial regionalism. The HI framework will help me to understand how the 1997/98 crisis and the later incremental and gradual changes in the newly created institutions, like CMI and ABMI, triggered further institutional innovations after the 2008 global financial crisis. The thesis attempts to establish that the 1997/98 crisis was a critical juncture that along with certain antecedent conditions, including the existing institutional frameworks of ASEAN, APEC, set in motion Asian financial regionalism along a path that was further reinforced by decisions taken by the members of the newly created institutions like CMIM and AMRO.

My research investigation will begin by exploring the origins of Asian financial regionalism, its evolution and whether its path is defined by the choices made in the past as well as influenced by the evolving political, security and economic landscape, market forces, collective action of states or combination of all these forces. An inquiry into these issues will allow me to chart the progress, accomplishments and understand where and why there are gaps and what are the limits of Asian financial regionalism. The thesis focuses on (a) creation and evolution Asian financial regionalism institutions – here we will look at formal and networked regionalism that produce policy frameworks to facilitate financial cooperation and (b) the critical role of regional leadership in shaping Asian financial regionalism.

This exercise will allow me to seek insights into the relationship between Asian financial regionalism and the ongoing discussion to renegotiate the global governance framework. The 2008 global financial crisis and the later European sovereign debt crisis has exposed the vulnerabilities of the western-led global financial order and led to exploration of alternatives and seek solutions in regional forms of economic cooperation and governance (Goh 2013). The rise of China and its engagement in the region along with Beijing initiatives to re-shape regional and global order is another key factor that is likely to influence Asian regionalism.

The main units of analysis in my thesis are (a) the CMIM and AMRO (b) ABMI i.e. building of local and regional bond markets. The two crises provide us with unique longitudinal data points to examine the dynamics – evolution and progress - and test both the resiliency and limits of Asian financial regionalism.

The thesis sets out four key questions (a) How have the 1997/98 Asian Financial Crisis and 2008 Global Financial Crisis – defined as “critical junctures” -- shaped Asian Financial Regionalism? (b) Has the Global Financial Crisis shifted Asia’s focus to national and global priorities? (c) Has the emerging regional financial architecture remained nested in the evolving global financial architecture or does it pose a challenge and provides an alternative to western-led global economic order? and, (d) How the changing dynamics of regional leadership impacted Asian financial regionalism, particularly the agenda and pace of its implementation.

1.7 Methodology Issues and Sources

HI researchers focus on case-oriented questions that provide explanations on outcomes shaped by causal conditions located in multiple points of time. Mahoney, Mohamedali and Nguyen (2016; 5) suggest that “adequate explanation requires taking seriously the unfolding of causal processes over time. As a result, HI work is almost inherently process-oriented and mechanism-oriented.” As discussed earlier, causality and temporality are umbilically linked in HI framework and research investigations must inevitably focus on both. By focusing on timing and sequence of events, HI frameworks can trace the origin and evolution of institutions and their impact on policy choices and distribution of political authority. Focusing on temporal phenomena, like critical junctures and path-dependent trajectories, has helped scholars reveal the far-reaching consequences that institutions may have for the nature of political power and for the strategies, preferences, and identities of actors over time. Historical Institutionalists focus on multiple institutional outcomes rather than a single institution as it helps them to locate “temporal and contextual factors that shape agency, including how and when actors exploit the tensions and contradictions between overlapping institutions or institutional layers to promote new or defend existing forms of power and authority," highlight Fioretos, Falleti, and Sheingate, (2016; 12)

Building on these core issues, Capoccia and Kelemen (2007) state that the analysis of critical junctures is essentially an analysis of decision making under conditions of uncertainty. The key components of any method to study a critical juncture and its impact on institutional framework should trace how the decisions were taken with respect to the institutions -- the choices that were available and feasible under conditions of heightened uncertainty. Capoccia and Kelemen (2007) identify several methods to employ to study critical junctures: process tracing, systematic process analysis, analytical narratives and structured, theory guided narratives. Mahoney (2012) defines process tracing as a methodology of using causal process observations together with generalizations. It can be employed to evaluate hypothesis about the causes of a specific outcome within a case. Thus, process tracing helps to identify causal mechanism that link explanatory variables with outcome variables (Mahoney 2000). This method is useful for researchers who work with a small number of cases.

It is important to remember that during a critical juncture, the normal institutional constraints are unshackled, and decisions taken in a period of uncertainty. Capoccia and Kelemen (2007) lay out two methodological tools to analyse critical junctures: (a) counterfactual analysis – and (b) theory guided narrative. Mahoney (2000) emphasizes that any analysis adopting the counterfactual methodology should focus on the antecedent that was available during a critical juncture period and should have been adopted.

The use of narratives to explain institutional outcomes have also received wide attention in the literature on research methodology. While historical narratives have traditionally focused on long-term processes, they are equally important to explain critical junctures. Focusing on theory-guided narratives, Capoccia and Kelemen (2007) highlight that any analysis of critical junctures should focus on two issues. First, the narratives should not only account for decisions taken but also plausible actions that were considered but not adopted. Second, narratives should reconstruct both the consequence of the actions taken as well as those that could have been taken but were not. Capoccia and Kelemen (2007) also underline that a focus on the role of political actors and their decisions during critical junctures is amenable to plausible counterfactual thought experiments that can be supported by the historical record.

The thesis adopts a theory-guided narrative focusing on select case studies. The case study approach has been widely used in qualitative research in comparative politics. Mahoney (2007) identifies (a) within-case analysis and (b) cross-case analysis as techniques of causal assessment that can be used to study critical junctures. Within-case analysis has ben employed in qualitative methodology to test hypotheses in view of the multiple feature of the cases. It allows researchers to delineate the causal mechanism that links explanatory variables to outcomes (Mahoney, 2007); George and Bennett, 2005). "Although different authors use different labels to designate within-case analysis, all describe techniques in which hypotheses are evaluated by elucidating intervening processes and other observable implications of arguments," states Mahoney (2007; 131). Process tracing and causal narratives, that combine within-case and cross-case analysis to compare processes and events to trace outcomes, are some of the widely adopted methods in within-case analysis. In cross-case studies, hypotheses are evaluated through comparisons across units of analysis. I use the theory-guided narrative in the two key units of analysis in the thesis, i.e. the CMIM and AMRO and, the ABMI to establish that the 1997/98 Asian financial crisis and the 2008 global financial crisis were critical junctures.

1.7 Data Collection and Sources

Data Collection and Sources

To validate the research questions using the HI framework, the thesis draws on documents, communiques from ASEAN and ASEAN Plus Three, the AMRO, statements, materials and reports housed in the websites of finance ministries and central banks and secondary data sources. The thesis also uses a primary survey of investors conducted by the researcher in a published work, perception surveys of Asian regionalism and discussions with policy elites. Bowen (2009), Merriam (2002) and Yin (2005) argue that documents play a critical role in any data collection for conducting case studies. Bowen (2009) argues that documents help researchers to unearth and discover new insights about the research problem. “In sum, documents provide background and context, additional questions to be asked, supplementary data, a means of tracking change and development, and verification of findings from other data sources. Moreover, documents may be the most effective means of gathering data when events can no longer be observed or when informants have forgotten the details,” Bowen (2009; 30). Merriam (2002) highlights that use of documents and reports strengthen qualitative research as they do not impinge upon or change the context as compared to the in-built biases of research investigators. She argues that entire studies can be “built around documents”.

Bowen (2009) elaborates that documents provide researchers with the necessary background and context, additional information that can be used to further investigate the research problem, a means for tracking developments over time and verify findings. Thus, it is clear as a research tool, document analysis is critical for case studies. Merriam (2002) defines case studies as an in-depth analysis of a phenomenon or a unit of analysis. While document analysis as a method of data collection is efficient, cost-effective, 'unobtrusive" and provides a broad coverage over a longer period, it can also lead to biased selection if the process is incomplete (Yin 1994). "Given its efficiency and cost effectiveness in particular, document analysis offers advantages that clearly outweigh the limitations," Bowen (1994; 32). The data and information collected through documents need to be triangulated with interviews, academic literature, and empirical investigations on similar topics to verify and corroborate the findings.

Research based on reports and statements released by ASEAN, ASEAN Plus Three, AMRO and other regional forums, reports and statements from finance ministries and central banks along with interviews were used to reinforce findings from document analysis. I also draw upon studies that have measured the overall trade and financial integration, the impact of the crisis and more specifically use them to gauge the progress and depth of financial integration. A key data source to understand the development of regional financial markets is the Coordinated Portfolio Investment Survey of the International Monetary Fund (IMF) that provides an insight into flow of portfolio funds within and across regions. I also use some unique data sets that I have created through primary surveys of regional investors for published research. This data set will be used to highlight the progress and hurdles in regional capital market integration. The thesis also draws upon perception surveys conducted by researchers at ADB and other think-tanks. Lastly, the thesis draws upon the academic literature to complement document analysis and discussions with policy elites to verify the research findings.

To understand the motivations behind decision making and preferences of key stakeholders in development of Asian financial regionalism, I interviewed 20 officials from the ministries of finance, central banks and regional institutions and think tanks (See ***Table 5:*** **List of Interviewees** in Appendix Chapter 1**)** to understand how preferences evolved and negotiations conducted both domestically and regionally to arrive at decisions that shaped Asian financial regionalism. I note that there can be considerable fluidity between these groups through exchange of ideas and beliefs that shape the preferences and form the cornerstone of negotiations in formation of institutions as well as formal and informal networks.

The discussions with policy elites provide us with insights about events and activities that take place behind closed doors (Lilleker 2003). It allows us to understand the interplay between political actors and sequencing of events that lead to outcomes over time. While there is no precise definition of policy elites and given its broad application across social sciences, researchers have adopted different approaches. I define policy elites as decision makers or experts, who have inside knowledge of the institutions and subjects under consideration either through their proximity to power or through their research exert influence on decision making. Goldstein (2002) outlines that researchers should have three basic objectives while conducting elite interviews (a) gathering inside information on decision making in order to generalise claims (b) discovering information or getting hold of documents and; (c) guiding work that uses other sources of information.

The selection of relevant participants constituted the first and the most critical step. The target interview population in the thesis were officials who occupy or have occupied positions in regional institutions like ASEAN, AMRO, ADB etc., worked in national ministries or agencies that participate or engage with regional institutions and researchers from think-tanks who have provided inputs to policy making. The interviews were conducted through telephone or other electronic platforms. The location of participants in different countries across the region and the travel constraints following the COVID 19 pandemic necessitated the use of telephone interviews. While the literature on interview methods mention the power gap between the interviewer and the interviewees (Goldstein 2002), particularly due to the status of elite participants, I did not encounter any difficult situations. Extensive research preparation and my prior work mainly as a policy researcher on regionalism at the Asian Development Bank from 2008-2013 helped to position me as a subject expert and maintain a balance during the interviews.

In-depth semi-structured interviews were chosen as the main data collection method. I had a set of pre-determined questions that were used to conduct the interviews. These were mainly open questions that were designed to allow the participants to mainly explore the temporal dimensions of Asian financial regionalism apart from gathering insights on how ideas, power relations and preferences shaped institutional outcomes. However, as emphasized earlier, the discussions with the policy elites were used to supplement findings from collection of data from documents and relevant academic literature.

The interviews were conducted in accordance with the regulations of the University of Leeds. The interviews were conducted on a voluntary basis. The participants were made aware of the potential topics that are likely to be discussed at the start of the interview.

On an average the duration of the interviews was about 45 minutes. The participants were assured about the confidentiality and the use of the information gathered during the discussion. The records of the discussion have been stored with the researcher.

1.8 Thesis Structure

This thesis is structured around seven chapters. After the introduction, chapter 2 begins with an overview of the main theoretical approaches that are used to explain economic crises. It briefly discusses the four structural crises in the modern capitalism era and introduces standard economic theories, mainly Keynesian economics and neo-classical school, and Marxian approaches, which maintain that capitalism is inherently contradictory and crisis-prone, to explain them. It summarizes three main Marxist theories of crisis – underconsumption, profit squeeze and the tendency of falling rate of profit – and highlights their limitations. The following section in Chapter 2 outlines the domestic institutional structures that were in place prior to the crisis. The chapter summarises the main IPE approaches and explains why these are constrained in explaining the origin and evolution of Asian financial regionalism. The chapter explains the historical institutionalism framework and fleshes out the three building blocks (a) critical juncture (b) path dependency and (c) gradual change as modes of HI methodologies to explain Asian regionalism. Drawing on these concepts, an eclectic framework of critical juncture is built to explain why and how the 1997/98 Asian Financial Crisis led to the development of financial regionalism and how the 2008 global financial crisis shaped its trajectory.

Chapter 3 contextualises the research and lays out the critical antecedent conditions and the causal forces during the critical junctures to trace the evolution of Asian financial regionalism. It focuses on the role of antecedent conditions in critical junctures and their influence in shaping pathways and outcomes (Soifer 2012). It emphasises the role of pre-existing conditions and institutions, i.e., the political and security environment, economic development models, regional governance structures and their relationship with global and bilateral frameworks and their interaction with causal forces during the crisis in shaping Asian financial regionalism. This approach distinguishes historical institutionalism from the approaches employed by IPE scholars. The chapter demonstrates how the two major economic crises impacting the region's economy and financial markets within a decade provided a window of opportunity and set in motion processes to shape Asian financial regionalism. It focuses on the 'genetic moment' when new institutional structures were put in place or initiated – some significant and successful and others unsuccessful. The chapter focuses on the antecedent conditions, timing of critical junctures, sequencing, reproduction and feedback loops. These factors of the HI framework are applied to the units of analysis, i.e. CMIM and AMRO and ABMI. It also discusses the growing economic clout of China and its impact on regionalism.

While Chapters 2 and 3 firmly establish the link between the critical juncture of AFC and CMI and CMIM and similarly later between GFC and multilateralization of CMIM and institutionalisation of AMRO, chapter 4 begins by focusing on political economy challenges confronting the creation of regional safety nets, i.e. CMI and it also examines the contests between Japan and US, backed by the World bank and the IMF, over Tokyo's proposal to create the AMF, which was eventually dropped, and the demise of the Manila Framework. The dropping of the AMF proposal provides us with an example of a regional initiative which could have been taken but was not. Similarly, the failure of the Manila Framework provides us with an example of an unsuccessful attempt to create a regional financial arrangement. The examples of AMF and Manila Framework provide us with counterfactuals that highlight important insights into the contests and preferences shaping financial regionalism. The chapter traces the evolution of CMI, CMIM and AMRO, key units of analysis in the thesis and finally concludes by focusing on the challenges and tasks ahead.

Chapter 5 focuses on regional initiatives to develop a local currency regional bond market, which can play a critical role in mobilizing long-term funds for both governments and companies from local and regional markets. Applying our model of critical junctures and HI framework, we demonstrate that AFC was the critical juncture that exposed the vulnerabilities of financing of state-led development models adopted by East Asian economies. The crisis provided the policymakers with the opportunity to undertake domestic regulatory reforms to promote capital markets for diversified and efficient funding. The temporal dimension of the HI framework allows us to better understand the unfolding political dynamics of regional bond market and efforts to create an arrangement to promote the use of regional savings to fund the region's financing needs instead of parking them in low yielding financial instruments in global markets.

In chapter 6, the thesis explores the role of regional leadership in shaping Asian Financial regionalism. The chapter attempts to define the role of regional leaders and their role in shaping regionalism during critical junctures. It applies the Historical Institutional framework to understand the contest between Japan and China to assume the leadership role. It also examines the role of the US and its relationship with regional leaders in influencing Asian financial regionalism.

Finally, Chapter 7 – the conclusion to the thesis – brings together the analytical framework and the discussions on the units of analysis, CMIM, AMRO and the ABMI, along with the role of regional leadership to establish the role of critical junctures, path dependence and modes of gradual changes in shaping Asian financial regionalism. The chapter, based on the institutional outcomes and innovations, highlights the gaps and limits of Asian financial regionalism. Key policy issues are highlighted drawing upon the learnings emerging from the thesis. It outlines the main academic contributions of the thesis and identifies future areas of research.

Chapter 2 Economic Crises and Asian Financial Regionalism – Towards an Eclectic Framework of Critical Juncture Analysis

Economic and financial crises in different regions have shaped initiatives for regional cooperation and integration in different ways. Crises have been described in the literature as triggers, catalysts, turning points, tipping points, critical junctures, and historical episodes creating intense time pressure to act quickly and forge a collective response to a common threat (ADB 2011). They can either help or hinder the development of regionalism. Crises, either exogenous or endogenous, can both be a centripetal and a centrifugal force for cooperation and integration (ADB 2011). But whatever the specific events, crises have historically played a critical role in shaping the trajectory of regionalism in various regions as the Latin American crisis, the 1992 currency crisis in Europe, and the 1997/98 Asian financial crisis all demonstrated. However, it is important to note that a crisis or an abrupt change may not be the only source of institutional innovation. Following Streeck and Thelen (2005), it can be also argued that the process of change can be incremental and yet produce transformative results in institutional changes. A build-up of gradual and incremental changes can create a tipping point resulting in transformative changes in institutions.

The thesis by focusing on financial crisis seeks to understand the role of the 1997/98 Asian financial crisis and the 2008 Global financial crisis in the origin, creation and evolution of Asian financial regionalism. It looks at factors that trigger the demand for and supply of cooperative financial arrangements and examines the process through which institutions evolve. The thesis seeks to provide explanations to two key issues. First, what factors catalysed successful institutional innovations in Asian financial regionalism during the 1997/98 AFC and why other efforts failed to materialise? Secondly, the thesis analyses how Asian financial regionalism has evolved over time and what was the impact of the 2008 GFC. From the demand perspective, the analysis seeks to explain the forces driving the demand for regional financial cooperation and under what conditions. Here the key variables are domestic preferences, local stakeholders and local politics. On the supply side, leadership, capacity and willingness of political and policy elites to accommodate the demand for regional financial cooperation is crucial. The thesis also examines whether political, historical, social as well as economic factors, are holding back or pushing for new cooperative arrangements to emerge. Most studies of Asian financial regionalism use the international political economy framework, employing the traditional tools of realism, functionalism, liberalism, constructivism, Marxism or world order approaches or an eclectic framework drawing upon the features of their explanations to explain the emergence of Asian financial regionalism. However, these approaches have their limitations and fail to tell us why and how government backed financial cooperative arrangements in East Asia emerged during the 1997/98 financial crisis and how they have evolved in the past two decades. This inherent weakness of IPE theories was also revealed during the 2008 GFC as they were unable to explain the variations in domestic and international regulations in responding to the crisis (Drezner 2010). This thesis incorporates the Historical Institutionalism framework to develop an eclectic framework of critical junctures and adopt gradual modes of institutional change to analyse role of economic crisis in shaping financial regionalism in Asia.

This chapter begins by briefly highlighting the three global structural crises in the past hundred years and presents the main theoretical approaches that are employed to understand economic crisis under capitalism. Section 1.2 briefly outlines the domestic institutional structures that were in place prior to the crisis. The following sections summarise the main IPE approaches, explain how historical institutionalism framework can be employed to understand the evolution of Asian regionalism and then develop an eclectic framework of critical juncture to explain why and how the 1997/98 Asian Financial Crisis led to the development of financial regionalism and how the 2008 global financial crisis shaped its trajectory.

2.1 Global Systemic Crises

While the focus of the thesis is on the role of crises as critical junctures in the development of Asian financial regionalism and not on the history of financial crises, we begin by briefly highlighting the three global systemic crisis under capitalism in the past century. The Global Financial Crisis in 2008 renewed strong interest among scholars to trace the history of financial crises and reassess the traditional and radical theoretical approaches to explain them. In the past century, the world economy has witnessed at least three global systemic crises, defined as a crisis that can be only resolved through major restructuring of the system (Kotz 2009). Panitch and Gindin (2011) state that crisis usually refers to interruptions in the process of capital accumulation and economic growth. They argue that the social significance of most crisis is limited if such interruptions are self-corrected through the devaluation of “excess capital” or if their impact is limited through state interventions like fiscal stimulus. Furthermore, “of greater significance is that some such interruptions do not simply come and go, but take on a much larger dimension," (Panitch and Gindin 2011: 5). Arrighi (1978) argued that crises are situated within specific historical contexts and should be studied within the class and institutional framework of that period. Arrighi (1978) stresses that crisis is intrinsically linked to capitalism and is an outcome of the conflict between the goal of capital accumulation and the means by which the goal is achieved.

The first systemic crisis of the twentieth century occurred after the bubble in the US stock market burst in 1929 as the earlier liberal form of capitalism went into a crisis. This was accompanied by a plunge in consumption and investment that ultimately in 1933 led to a total collapse of the banking system. It also must be noted that by 1930s, the workers through their right to form unions had garnered "democratic resources" that challenged the ability of states to impose austerity as required by the "discipline of the gold standard" (Panitch and Gindin 2011: 6). "This significantly contributed to the policies that led to the collapse of international trade and capital flows in the 1930s," Panitch and Gindin (2011: 6-7).

The New Deal and post-War expansionary economic policies in the US, the development of the welfare state along with new financial regulations and creation of the Bretton Woods agreements ushered in an expansionary economic phase of 30 years in the global economy. Dumenil and Levy (2011) contend that Keynesianism provided the foundations for implementation of the expansionary economic policies. This period of regulated capitalism that led to revival of capital accumulation is also described as the golden age of capitalism. The institutionalization of the state led to significant government expenditure on infrastructure development to stimulate growth as well for supporting welfare programs. Kotz (2009) argues that the growth of labour unions and their bargaining power subsequently played a critical factor in constraining rate of profits and capital accumulation. “The stagflation and profitability crisis of the 1970s was rooted in the basis established for trade union militancy by the achievement of near full employment and the expansion of state expenditures and services in the 1960s,” contends (Kotz 2009; 7), adding that regulated capitalism ceased working efficiently. Amin (2010) also concurs that the second systemic crisis of capitalism began in the 1970s with the collapse of the Bretton Woods system and decline in profit rates, investment and growth.

A new form of neoliberal capitalism emerged in the 1980s where financialization or finance-led capitalism was driving capital accumulation. The focus was on domestic and global deregulation of businesses and financial sector to make capital globally mobile. Dumenil and Levy (2011; 567) underline that financialization is “inherent in capital dynamics” but neoliberalism “opened new ways of achievement.” Sweezy (1997) had identified financialization as one of the key factors driving capital accumulation and economic expansion since the 1970s. Drawing upon the work of Magdoff and Sweezy (1972) and other scholars in *Monthly Review*, Lapavistas (2011) contends that financialization is an outcome of the rising asymmetry between production and circulation, mainly reflected through the financial activities of non-financial enterprises, banks and households and, the rise of profits through financial transactions. Financialization was a way to absorb investible surplus generated in a monopolistic capitalist economy and channelled to financial sector (Foster 2007). The financial deregulation along with lifting of barriers to competition led financial capital to indulge in excessive risk-taking activities. This was reflected in rapid expansion of mortgages to sub-prime borrowers in the US and the bursting of the US housing bubble that led to a meltdown in capital markets and damaged financial institutions. It started with the collapse of Lehman Brothers in September 2008 and triggered an international financial crisis. It produced the deepest structural crisis that the world experienced since the Great Depression.

2.2 Approaches Explaining Crises

The mainstream economic theories, particularly Keynesianism and neo-classical economics, and the Marxian approach, which maintains that capitalism is inherently contradictory and crisis-prone, are two broad and contending approaches that are usually invoked to explain the nature and causes of crisis (Dunn, 2011; Resnick and Wolff 2010; Burnham 2010). According to Dunn, “Marxists have always maintained that capitalism is a crisis-prone system. In late 2008 and early 2009, as financial markets crumbled and predictions of recession became increasingly dire, they once again appeared vindicated. The recognition of inherent tendencies toward crisis contrasts with most mainstream accounts, which are repeatedly surprised by capitalism’s difficulties,” (2011; 524).

2.2.1 Orthodox Economic Approaches

Standard economic theories postulate that every crisis is different and is either caused by an exogenous event or factors and endogenous factors that result in disequilibrium of supply and demand and lead to instability in the real, trade and financial sectors (Reinhart and Rogoff 2008). Within this framework there are two contending theories (a) Keynesian economics and (b) the neo-classical school.

Keynesians, widely identified as those who draw upon the approach and writings of John Maynard Keynes, argue that unregulated markets create imperfections “arising from agents’ unequal and/or unfair access to information to a plethora of noneconomic causes typically grouped together as animal spirits" depress aggregate demand and create unemployment and produce cyclical crises (Resnick and Wolff 2010, pp. 170). Keynes advocated that state intervention is necessary to moderate the booms and busts in economic activities. "These periodically push the economy into inflations, recessions, or even depressions. Without intervention from outside, capitalism's private economy may remain depressed or inflated long enough to threaten capitalism itself," (Resnick and Wolff 2010; 170). The Keynesian approach gained legitimacy in the post-World War II period with its policy prescriptions focusing on increased public investment, government incentivization of consumption and state regulation. However, it got discredited in the wake of the 1973 oil crisis and subsequent global economic crisis in mid-1970s as the Keynesian approach failed to tackle rising unemployment and stagflation, a period of high inflation along with stagnant economic growth in the global economy. The collapse of the Bretton Woods agreement in the 1970s marked the beginning of exchange rate volatility, runaway inflation and trade conflicts.

The 1970s and 1980s witnessed the rise of neo-classical economics, whose roots can be traced to the classical economic liberalism of Adam Smith, which argued that all economic agents, individuals and firms, hold rational expectations and that markets are efficient and will clear by themselves by balancing demand and supply through flexible wages and prices (Mankiw 1990). Contrary to Keynesians, they believe that state interventions create market imperfections and that discretionary government policies are destablising (Crotty 2009; Resnick and Wolff 2010). The entrenchment of neo-classical economics led to a strong global push of laissez-faire policies through what has been called neo-liberal capitalism. This was reflected in deregulation of business and finance, privatization of services, eschewing fiscal policy to moderate business cycles, deep tax cuts for businesses and shift to employ more contractual and temporary labour among other market-led policies. Crotty (2009) also reiterates that the new or neo- classical economics dislodged the theoretical frameworks of Keynes and Minsky[11] and facilitated the rise of deregulated neo-liberal capitalism. While these two approaches and their variants outline the causal mechanisms of a crisis and policy prescriptions to resolve them, they do share a fundamental belief that markets are the best mechanism for efficient resource allocation in the economy. Greenwald and Stiglitz (1987) highlight that Keynes' seminal contribution was in synthesizing the two opposing views of capitalism. "One of Keynes' great contributions was, in effect, a reconciliation of the two opposing views of capitalism: rather than denying either the existence of the unemployment problem or its importance, he confronted it head on, argued that limited government intervention could correct this malady, and with this one malady corrected, the economy would once again operate in an efficient manner: the classical view would then be restored. Samuelson dubbed this, the Neo—classical synthesis," highlighted Greenwald and Stiglitz (1987; 2). Similar views about Keynesianism and new or neo-Classical economics are also expressed by Resnick and Woff (2010). "Indeed, the repeated oscillations between the two theories and their associate policy prescriptions emerge also from a fundamental perspective both sides share. They largely agree that the market system is the best of all known mechanisms to allocate resources efficiently," contend Resnick and Wolff (2010; 172). They go further to argue that such oscillation allows the two approaches to reinforce their firm belief in

[11] Hyman Minsky was an American economist and a Keynesian who rejected efficient market hypothesis in favour of what he termed as Financial Instability Hypothesis. For details see Minsky (1992).

efficiency of market and "prevents crises *in* capitalism from becoming crises *of* capitalism, when the system itself is placed in question." Resnick and Wolff (2010; 173). Thus, the two contending mainstream theories emphasize that markets will ultimately overcome crisis either through efficient state interventions in de-regulated markets or through more de-regulation in a state-controlled or directed markets.

2.3 Marxist theories of Crisis

Marxists have always insisted that capitalism is contradictory and prone to periodic systemic crisis (Kotz 2009; Dunn 2011; Burnham 2010). Dunn (2011) argues that Marxism's focus on contradictions within capitalism allows it to explain recurrent crisis as opposed to the orthodox theories. "Marxism's insistence on the inherently contradictory nature of capitalism remains an enduring strength compared with orthodox accounts, which are unable to explain recurrent crises," explains (Dunn 2011; 524). They appeared to be again vindicated as financial markets and economies were ravaged and the world economy contracted sharply during global financial crisis in 2008. Marxists argue that crisis reflects the dynamic interplay of accumulation of capital and class struggle (Burnham 2010). For example, Burnham (2010; 28) states that "In the radical tradition, in other words, crisis is integral to economic development – it is an aspect of the constitution of capital (a social relation based on class exploitation) and the process of the accumulation of capital itself that produce the characteristic expressions of crisis in terms of overproduction, under-consumption and disproportionality."

Marxists scholars argue that capitalist systems are contradictory in nature and are not capable of self-reproduction (Shaikh 1978). We can identify two broad categories within the Marxist theories of crisis. One group, focusing on relationship between production and consumption, emphasizes that capitalist systems need external stimuli to expand. “It must grow to survive, but it requires some external source of demand (like the non-capitalist world) in order to keep it growing. This means that its reproduction is ultimately regulated by factors outside of the system: the limits to the system are external to it,” argues Shaikh (1978; 220), adding that the Marxist theories of crisis that focus on under-consumption or those on lack of effective demand have their origin within this framework. The other Marxist approach, focusing on the relationship between production and profits, highlights the tendencies for the rate of profit to fall and overaccumulation of capital. These approaches argue that even if capitalist systems can self-expand, the process heightens the inherent contradictions that limit their growth and ultimately trigger a crisis. “This line is almost exclusively Marxist, and includes both "falling rate of profit" and "profit squeeze" explanations of crisis,” Shaikh (1978, pp. 220). The following section summarizes three main Marxist theories of crisis – underconsumption, profit squeeze and the tendency of falling rate of profit.

2.3.1 Three Approaches

Marxist approaches highlighting underconsumption or lack of effective demand argue that capitalist economies’ drive for over accumulation leads them to create excess productive capacities that generate output but cannot be absorbed due to low demand unless there are external stimuli (Baran and Sweezy 1966; Maniatis 2012; Dunn 2011).

> “The under consumption or lack of effective demand theories which claim that capitalist economies in their monopoly or monopoly-finance stage tend to create too much productive capacity so that if the potential output was produced not enough demand would be forthcoming to absorb that output, hence advanced capitalist economies in the absence of certain exogenous or conjunctural stimuli (railways, automobiles, military

spending, advertisement, waste expenditures in general, etc.) would find themselves in a state of chronic stagnation…, " Maniatis (2012; 7).

Marxist scholars claim that constrained demand is either due to low consumption demand, which reflects the squeeze on wages by capitalists, or low investment demand driven by over accumulation of capital. These dynamics lead to a stagnation in the economy. In other words, low wages emerge as a binding constraint on the market of consumption goods and acts as a barrier to capital's inherent need to expand. "Having separated production and consumption, capitalism's need to accumulate means that ever increasing surpluses have to be sold…The poverty, or relative poverty, of the working class limits consumption and appears to constitute a plausible cause of crisis," Dunn (2011; 532).

The profit squeeze theory sees rising wages as a cause for crisis. The proponents of this approach argue that increased power of the working class or the rising strength of labour leads to higher wages in the economy either through secular depletion of the reserve army or through the growth of the trade unions and the influence of the workers on the government policy (Boddy and Crotty 1975, Glyn and Sutcliffe 1972). Boddy and Crotty (1975) emphasize that Marx postulated that the drive for capital accumulation that leads to the struggle between labour and capital over wages and profits sows the seeds for cyclical booms and busts. "During economic expansions, the reduction of the reserve army of the unemployed strengthens the bargaining position of the working class in its labour market confrontation with capital. Workers can then struggle successfully for higher real wages and a greater share of the rising national income," state Boddy and

Crotty (1975; 2), adding that this leads to a profit squeeze and acts as a brake on reproduction of capital.

As discussed in the earlier section, the bargaining power of labour in the post-War period had indeed pushed wages higher, squeezed profits and slowed down capital accumulation. Glyn and Sutcliffe (1972) developed a framework resting on the rising strength of labour that is attributable to growth of the power of trade unions and influence on government policies to drive higher wages. Weisskopf (1979; 345) analysing the fall of rate of profit in the post-war period in the US, explains that the principal hypothesis behind the profit squeeze approach is that the capital accumulation can alter the balance of "political-economic power between labour and capital, in such a way so as to enable the working class to increase the wage share of national income." The profit squeeze can lead to fall in the rate of profit to a level that can threaten the reproduction of the capitalist system or in other words trigger a crisis (Maniatis 2012).

The other widely discussed and debated Marxian approach identifies systemic crisis within capitalism with a change in the composition of capital and a tendency of the rate of profit to fall (Moseley 1997; Mohun 2005). Crotty (1992) emphasises that the decline in the rate of profit is an outcome of the internal dynamics of capitalism which increasingly adopts labour saving technology to displace workers with machines. "The assumption that technical change destroys rather than preserves the value of the pre-existing stock of capital is a cornerstone of Marx's thesis that accumulation is a contradictory process," Crotty (1993; 8). Moseley (2011b; 4) quotes Marx saying "the true barrier to capital is capital itself". He adds: "Marx argued further that a decline in the rate of profit would eventually cause the rate of capital accumulation slowdown, which in turn would bring on a general recession or depression."

This dynamic of higher capital investment and progressive replacement of workers by machines pushes out labour, which in fact creates value, from the process of production. "The Marxian law of the falling rate of profit which emphasizes the unintended aggregate results of capitalist competition which by driving technical change in the direction of more and more mechanization and capitalization (i.e. a rising capital-output ratio) of the labour process expels value creating labour from the process of production," explains Maniatis (2012; 8). For Marx, surplus labour produces surplus value, which is the value in excess of the labour value rented by the capitalists at the start of the production cycle. And since profit is generated by workers, a reduction in labour in both absolute and relative terms, reduces the profit relative to the total capital employed in the production process.

However, many Marxist scholars emphasise that Marx himself underscored that it was a tendency towards falling rate of profit and not a collapse or a sudden crash. In addition, Marx highlighted that there are countervailing tendencies that can offset the general law of the falling rate of profit. We will briefly summarise one such key countervailing tendency, the increase in interest bearing capital during periods of expansion, which has emerged in the past few decades as the key to understanding of the 2008 global financial crisis (Moseley 2011a). As highlighted at the beginning of the chapter, financialization and consequent deregulation that facilitated capital to be globally mobile has been a key source in triggering not only short-term crisis but also deeper structural crisis. Volatile capital flows played a critical role in precipitating the 1997/98 Asian Financial crisis.

Many political economy analyses of the 2008 global financial crisis have placed the arguments within classical Marxist theory and highlighted the contradictions in stagnation of production along with explosive growth in finance. The shifting of the gravity of economic activities to finance from production has been referred to as “financialization”. While this term has been widely used since the 1990s, scholars attribute its origin to Magdoff and Sweezy’s writings in the *Monthly Review* in the 1970s (Foster 2007; Lapvitsas 2011). Sweezy (1997), writing in *Monthly Review*, stated that the period after recession in the 1970s, highlighted three trends in capitalism: (a) the slowing down of the overall rate of growth (b) the global proliferation of monopolistic or oligopolistic multinational corporations, and (c) the financialization of the capital accumulation process.

The phenomenon of financialization or finance-led capitalism has been explained through channelling of investable surplus through financial sectors. Capitalist systems have tried to deal with the issues of overproduction and lower profitability by stimulating demand through excessive debt financing. Marxist scholars like Kotz, Foster, Lapavitsas argue that capitalist systems have tried to overcome the declining profits in production by seeking financial profits. Lapavitsas (2011) argues that since the late 1960s overcapacity in production has intensified competition and put a downward pressure on profits. The capitalist enterprises have tried to protect their position and fend off crisis in the sphere of production. “Actual crisis has been evaded by palliatives, such as boosting demand through exchange rate manipulation and encouraging cheap credit. When the credit creation that was spurred by the Federal Reserve in 2001 had run its course, the underlying reality of problematic production manifested itself and the world was plunged into crisis," Lapavitsas (2011; 613). It is thus clear that the key Marxist approaches emphasise the inherent contradictory nature of capitalist structures that inevitably manifest in the form of both structural and cyclical crisis. This contrasts with standard economic approaches which firmly believe in efficient resource allocation and self-healing power of the markets. The 1997/98 Asian Financial crisis exposed the contradictions within the state-led development models of the region that were constructed with strong support from domestic businesses. The crisis also exposed the tensions between the development models adopted by the region and the neoliberal form of capitalism being pursued by the US and pushed by the IMF and the World Bank (Bhagwati 1998).

The next section briefly examines the broad structural features of the East Asian economies and their development trajectory prior to the 1997/98 Asian financial crisis and the 2008 global financial crisis. This will allow us to understand the architecture of regionalism prior to these crises and their subsequent transformation.

2.4 Structural Features of Regional Economies Prior to Crises

The important question is under what circumstances a crisis, or an accumulation of incremental changes will push governments to initiate or accelerate efforts to form or deepen regional cooperation and integration (where such arrangements already exist), and under what circumstances it will cause them to pull back or lead to the breakdown of existing institutions. Their response can be shaped by the source of the crisis (regional or global); national and regional factors, including domestic politics; leadership, intra-regional rivalries or historical trajectories, degree of regional economic interdependence; political leadership and the effectiveness of existing regional institutions; agenda of multilateral institutions; and the interests and role played by extra-regional players.

At the time of the 1997/98 crisis there were three diverse structural features characterising the institutional framework in Asia: (a) distinct national developmental models defining the structure and relations of production within domestic economies (b) integration of the national economy with global economy driven by the powerful wave of globalisation was also shaping the relations of production, particularly in the open, export-oriented economies of East Asia and (c) the banking sector remained the dominant intermediary in the financial system. This integration was primarily led by the private sector and facilitated by a liberal tariff regime and state-driven credit allocation through the dominant banking system that was not driven by market discipline or subject to prudent regulation (Dent 2008). The regional institutional architecture focused on nurturing economic interdependence, specifically trading relationships, among nations and the global markets. However, there was another process underway.

As the domestic and regional financial markets integrated through global financial markets, foreign portfolio capital flows of short-term nature began to pour into the region in search of higher returns (Pempel 2000). In the earlier phase of the integration of the regional economy with global economy, the foreign direct investment (FDI) was the dominant source of capital flows into the region. While Asia had so far gained from FDI, it was less aware of the contagion and spill-over impact of highly mobile and fickle portfolio capital inflows and the region did not have a strong regulatory structure or the safety nets to absorb impact of their sudden outflows. The timing of the crisis, its subsequent impact on national economies, the inadequacy of national and regional institutions, and a perceived lack of timely support from multilateral institutions like the IMF all played a critical role in shaping the ideational beliefs and domestic and collective response

(Ravenhill 2010) (Stubbs 2002). In other words, the existing development models, domestic governance structures and their relationship with global trade and financial architecture influenced the trajectory of Asian financial regionalism but not all responses led to institutional innovations or changes. First, the thesis examines what factors catalysed successful institutional innovations in Asian financial regionalism during the 1997/98 AFC and why other efforts failed to materialise? Secondly, the thesis analyses how Asian financial regionalism has evolved over time and what was the impact of the 2008 GFC.

From the demand perspective, the analysis seeks to explain the forces driving the demand for regional financial cooperation and under what conditions. Here the key variables are domestic preferences, local stakeholders and local politics. On the supply side, leadership, capacity and willingness of political and policy elites to accommodate the demand for regional financial cooperation is crucial. It's also important to ask what factors, political, historical, social as well as economic, are holding back or pushing for new cooperative arrangements to emerge.

This study argues that the 1997/98 Asian Financial crisis was a critical juncture in Asian regionalism leading to creation of regional financial arrangements, namely the Chiang Mai Initiative Multilateralisation (CMIM) and the Asian Bond Market Initiative (ABMI). The 2008 Global Financial Crisis (GFC) was another critical juncture in institutional changes in Asian financial regionalism as it pushed the region to formalise the transformation of CMIM into an organisation – the ASEAN Plus Three Macroeconomic Research Office (AMRO) (Katada 2011). The GFC also ushered in a major realignment in the agenda of ABMI from just focusing on the supply side of local bond markets to also incorporate the demand aspects of the market by formally including private participants to form the ASEAN Plus Three Bond Market Forum (ABMF). But perhaps, the most significant was the evolving role of China in Asian financial regionalism and the creation of the Asian Infrastructure Investment Bank (AIIB). The AIIB is first regional and multilateral financial institution that is not led by either the US or Europe but by China and supported by Asian economies.

I define critical juncture as a turning point, triggered by contingent events, where demand and supply converge to create or transform regional institutions. An eclectic framework is developed to provide a comparative analysis of the 1997/98 AFC and the 2008 GFC to highlight role of contingent events in driving cooperation efforts in financial and monetary regionalism in Asia. The next section is a summary of the international political economy approaches to explain the emergence of financial regionalism in Asia after the 1997/98 and their limitations in explaining the evolution and transformation in the past two decades. The following section introduces the Historical Institutionalism framework and discusses its relevance in the study of financial regionalism. Sections four and five outline the analytical framework and develop an eclectic model of critical junctures to understand the evolution of regional financial institutions. A brief conclusion is provided at the end.

2.5 IPE Approaches to Explain Asian Financial Regionalism

2.5.1 Introduction

Most studies of regionalism begin by asking why states cooperate regionally. They normally seek answers from the prevailing wisdom offered by (a) neo-realism (b) neo-liberalism and (c) constructivism (Grimes 2008; Dent 2008; Katzenstein 2000; Ravenhill

2010, 2010; Jones and Smith 2007; Katada 2017; Beeson 2003; Stubbs 2002). The majority of the studies on Asian regionalism have predominantly focused on trade regionalism and less on financial regionalism. This is mainly due to two factors. First, trade regionalization prior to the 1997/98 East Asian crisis was supported by bilateral, regional and multilateral relationships (Dieter and Higgott 2003). There was little financial cooperation among states to support trade, which was driven by the network of private enterprises. Second, much of the global research on regionalism had so far been shaped by the European model of trade-regionalism that envisages a higher degree of financial and monetary cooperation only after a certain level of market integration is achieved (Balassa 1962). The 1997/98 AFC and the subsequent development of regional financial arrangements exposed the limits of the existing regional institutional frameworks like the APEC and ASEAN. Attempts have been made to understand the conditions under which the existing IPE approaches can provide us with different explanatory powers to explain the rise and progress of financial cooperation in Asia. These frameworks have also explored the asymmetry between trade cooperation and financial cooperation. In this section, we summarise their key views and show that none of them are sufficient to account for creation of regional financial institutions.

2.5.2 Neo-Realism

Neorealism assumes that nation-states are sovereign unitary rational actors that interact in an anarchic international system and in the absence of any central authority their objective is to seek power for survival. They believe that in an anarchic world, the nation-state is the main actor and all other stakeholders are subordinate to its power and interests. The main concern of nation-states is relative power vis-a-vis other states and not just pursuit of absolute power. They argue that nation-states are ‘predisposed’ to conflict and reluctant to cooperate even when there are mutual gains to be achieved as they are power maximisers and power rivalry leads to inter-state anarchical relationship with the international system (Dent 2008). Hurrell (1995) argues that under the neorealism framework nation-states are engaged in pursuit of power and wealth accumulation vis-a-vis their rivals. “Neorealism focuses attention both on power-political pressures and on the dynamics of mercantilist economic competition,” Hurrell (1995; pp 340). Within the realist camp the debate between the defensive and offensive realists nuances the focus on power maximization. Defensive realists like Waltz (1979) argue that it would be unwise for states to maximise their share of world power as the system will penalise them if they seek to gain too much power. Therefore, they argue balancing of power will maintain the status quo among nation states than maximization of power. Offensive realists like Mearsheimer (1995) argue that the status quo among powerful nations is difficult to achieve as international anarchy creates conditions for states to seek power at the expense of their rivals. The ultimate objective of a nation-state is to be hegemon in the system and therefore accumulating material capabilities in the current period assumes primacy over postponing it to the future.

Drawing from these assumptions, neo-realism posits that cooperation among nation-states is a complex and difficult task and that management of the global and regional order is the domain of great powers. Neo-realists accept that inter-state coalitions can be put together, but the alliances reflect national interests and, more specifically preferences of the dominant power. Hurrell (1995; 341) stresses that economic regionalism, from the perspectives of neorealists, is a “strategy in the game of neo-mercantilist competition”.

And this strategy can be used as a bargaining tool in the negotiations to shape the global governance architecture. The neorealist approach accepts that cooperative arrangements between states in trade and finance can confer benefits, but states are wary of “any erosion of their relative capabilities, which are the ultimate basis for their security and independence in an anarchical, self-help international context…the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities” (Grieco 1988; 485-507). They believe that international institutions are a reflection of distribution of power in the world and matter only on the margins (Mearsheimer 1995). Thus, realists believe that “institutions may exist, but they do not mitigate in any way the anarchy of the international system. Institutions are created by the powerful to serve their interests, and they are dissolved when power and interest shift” (Stein 2008; 5). Under these assumptions, realists are likely to consider regional financial institutions as appendages to power-balancing behaviour and structured according to the objectives of needs of the dominant state. In other words, realist approaches primarily use hegemonic stability theory to explain economic relations.

There is a consensus among neo-realists that functioning of global and regional institutions requires the presence of a dominant power or hegemon. Kindleberger (1973 and 1981), the proponent of hegemonic stability theory, postulated that while all states seek to maximise their welfare, the provision of global public goods requires a single leader. This leader would act as a market maker – lender of last resort as well as act as a market when supply exceeds demand. The only necessary evil will be the ‘superfluity of free-riders’. Thus, the hegemonic stability theory postulates that the existence of a hegemon is a necessary precondition in the creation of international institutions (Krasner 1976). It further states that there is a correlation between power asymmetry and regional institutionalisation, whereby the higher the asymmetry, the higher the level of institutionalisation (Grieco 1997). Smaller and weaker states depend on the region's great power for the security it guarantees, as they are incapable of managing crises on their own. The emphasis on power asymmetry implies that US or Japan should have been able to lead the creation of Asian financial institutions and that the smaller ASEAN economies have little role to play in any institutional set-up. But the trend has been contrary to that postulated by the hegemonic stability theory. The new financial arrangements in the region do not involve the US and has been built on the platform of shared leadership provided by ASEAN and the Plus Three nations – Japan, Korea and China. This shared leadership model in East Asia regional institutions is more in alignment with the weaker version of the hegemonic stability theory put by neo-liberal institutionalists like Keohane. He argues that leadership is crucial to international cooperation but it may not be limited to a single leader and shared leadership is feasible (Keohane 1984; Axelrod and Keohane 1985).

There is another strand in the hegemony discourse which argues that if the global leader fails to fulfil its role in provision of global public goods or misuses its powers or acts against the interests of the smaller and weaker states, it can be replaced by a regional arrangement. Smaller countries could also use regionalism as a tool to engage and control a regional superpower or a perceived threat. Smaller nations will cooperate to increase their bargaining power or use multilateral institutional arrangements to hedge against any coercion or unpredictable behaviour by a hegemon (Bobrow 1999). We can draw two implications from this approach. One is the emergence of defensive regionalism where regional powers come together to shield themselves against any exploitation by the hegemon or protect themselves against vulnerability of the global order. This could explain the rise of Asian financial regionalism as a reactive response to the failure of global financial institutions to come to the rescue of economies in East Asia. This could also explain why in Asian regionalism, it was the ASEAN that initiated and sought to include the Plus Three countries in their regional cooperation efforts. But these views focus on the effects of institutionalisation not on conditions under which the institutions are created. And it also fails to address the question whether such arrangements are effective, stable and sustainable. Hurrell (1995) critiques neorealism saying that they shed no light on the evolution, impact of domestic factors, workings and transformation of regional institutions once they are established. “Neorealism, however, says little about the character of regional cooperation once established and the ways in which the habits of sustained cooperation may involve institutional structures very different from the traditional idea of a coalition, alliance, or traditional international organization. The workings of such institutions may lead to a new definition of self-interest, and perhaps to new conceptions of 'self’,” Hurrell (1995, pp 344). Neo-realists see Asian financial regionalism as a process driven by regional power politics and shifting economic dynamics. Under this framework, financial regionalism is an attempt to optimize relative power positions and as an instrument to enhance national wealth and security (Grimes 2008).

2.5.3 Neo-liberalism, Neo-liberal institutionalism

Neo-liberal theories premise their formulations on the liberal notions of utility maximization and laissez faire, and primarily differentiate from neo-realists by arguing that non-state actors such as international institutions, domestic interest groups, and multinational entities, policy elites etc. and not just nation-states play a defining role in shaping the global economic order. In this framework, the retreat of government and more active role of policy elites and technocrats are critical in pursuing a market-oriented economic policy agenda. State intervention leads to either distortions in outcomes or creates space for rent-seeking agents. Neo-liberalists believe informal networks among business executives or policy elites across regions can serve as a catalyst and "generate ideas and initiatives for cooperation", a trait that aligns with strands of constructivism (Dent 2008; 31). While neo-liberals strongly uphold the primacy of markets over state interventions, neo-liberal institutionalism stress that "states find that autonomous self-interested behaviour can be problematic, and they prefer to construct international institutions to deal with a host of concerns" (Stein 2008; 201-221). Neo-liberal institutionalists stress that increased level of interdependence among countries will led to demand for international institutions, which are seen as venues for solutions to collective action problems. Keohane and Nye (1974) says institutionalists do not place international institutions above nation states but create them to address coordination failures and other challenges emerging out of growing interdependence among nations.

Neo-liberal institutionalism maintains that states' interest in international cooperation is on individual absolute gains and they are indifferent to the gains of others. While this strand of thought agrees with realism on the anarchical international system and the primacy of states as key actors, it argues that the anarchical nature of the international system is exaggerated, and cooperation is still possible. They argue that institutions create the space for states to cooperate as they reduce the transaction costs for making and enforcing agreements that bring collective gains to all participating states. Keohane (1986; 1988) stress that institutions can facilitate cooperation by settling distributional conflicts and through assurances that gains would be evenly distributed over time. States cooperate to address market failures, coordination problems to provide public goods required for functioning of global and regional economic systems, to overcome collective action problems to arrive at mutually preferred outcomes, to lower transaction costs associated with autonomous decision making, facilitate information sharing and provide venues for peaceful resolution of conflicts (Stein 2008; Keohane 1986).

Drawing on neo-liberal institutionalism we can state that Asian financial regionalism – the creation of ASEAN Plus Three, CMIM or AMRO - can be explained through these neo-liberalist notions of cooperation. Keohane and Nye (1987) developed concept of 'complex interdependence' to highlight that in many situations independent response by nation-states to emerging problems may not be feasible. According to them, "complex interdependence refers to a situation amongst a number of countries in which multiple channels of contact connect societies (that is, states do not monopolize these contacts); there is no hierarchy of issues; and military force is not used by governments towards one another" (Keohane and Nye 1977; 24-25). The increase in cross-border activities such as trade, financial transactions and immigration as well as issues such as environment and resources create complex interdependence on states within a particular region. It was argued that this rising level of interdependence would set in motion a process that would lead to economic integration. It is assumed that market forces driving trade, investment and finance would reinforce themselves through positive spillover. Under these circumstances, neo-liberal institutionalists argue that it is in the self-interest of states to develop cooperative arrangements to consolidate and build upon the economic gains. Thus, liberalists contend that the increase in cross-border economic activities will create demand for regionalism. Cross-border flow of investment and expansion of trade through the regional production networks of East Asia since the mid-1990s led to rapid regionalisation and led to de facto economic integration (Postigo 2013). Prior to this there was absence of any meaningful government-led regional initiative to support trade and financial integration. This gap between de facto and de jure trade integration of the region was rapidly bridged as East Asian governments rushed to sign bilateral free-trade agreements to consolidate the gains from expansion of trade through the regional production networks despite limited empirical evidence supporting such agreements (Menon 2013). Reflecting upon the proliferation of bilateral FTAs, Dent (2016; 312) states they represent a new development in region's political economy and are "an important new phase in regional economic relations". Neo-liberal economists believe that a well-structured FTA that addresses hidden protectionist measures and development gaps can help the region to deepen production relations and contribute to expanding trade and investment. Thus, we see in East Asia what Cox (1981) calls as the "internationalisation of the state" where neoliberal reforms are pursued through vigorous privatisation and deregulation with national and global finance playing a critical role in consolidating these production relations (Grinspun and Kreklewich 1994).

Neo-liberal economists like Kawai and Wignaraja (2011; pp 8) argue that: “an increasing number of East Asia’s policymakers believe that FTAs, if given wide scope, can support the growth of trade and FDI through further elimination of cross- border impediments and facilitation of trade and FDI. Thus, FTAs can be regarded as part of a supporting policy framework for deepening production networks and supply chains formed by global MNCs and emerging East Asian firms”. In an attempt to keep these proliferating FTAs within a regional framework and reduce the transaction costs of economic interdependence, broader and region-wide free trade agreements like the tri-lateral FTA between Japan, China and Korea and more recently the Regional Comprehensive Economic Partnership (RCEP) – a FTA between ASEAN and Japan, China, Korea, India, Australia and New Zealand – have been proposed.

While the neo-liberalist literature has primarily focused on inter-governmental cooperation in Asia to manage the costs of economic interdependence, demands of businesses and other non-state actors also have been accommodated in this framework. As regional economic activities increase, this may foster the need for closer regional monetary co-operation as non-state actors push for regional solution to address problems with current cross-border transactions or to seek new transactions (Cohen 2003a). As Asian economies integrated with the global economy and among themselves through trade, they also liberalised their financial systems to facilitate flow of global capital to support growing trade and investment. In other words, since the beginning of 1990s, financial globalisation – defined as integration of national financial systems with global capital markets - was also shaping both production and monetary relationships within domestic economies. Proponents of neoliberalism, including international financial institutions, highlight that financial globalisation provides more capital to developing economies, ushers in market discipline and builds robust and resilient local financial markets to support domestic production, consumption and trade. However, increased interdependence between local and global financial markets also creates negative externalities and states seek to establish a regional organisation to solve this collective action problem (Pempel and Glen 2005). International institutions foster cooperation by improving communication, increasing mutual benefits and lessening mistrust between states.

In the case of East Asia, the 1997/98 financial crisis revealed the depth and extent of interdependence among the regional countries, as the crisis was quick to spread from Thailand to other countries. The increasing awareness that shocks are easily transmitted and economic health of countries in the region is dependent on one another demands the establishment of financial safety nets to internalise externalities, manage negative spillover and prevent recurrence of another crisis (Stubbs 2002). However, there are several shortcomings of this approach. It assumes a causal relationship between regionalization and regionalism. Increasing economic inter-dependence may not necessarily lead to institutionalism. This was evident before the 1997/98 financial crisis in East Asia. Secondly, while increased economic transactions may spur the demand for regional institutions, it may not be converted into supply of regional institutions (Mattli 1999). Hemmer and Katzenstein (2002: 576) usefully state on this point that "neoliberal institutionalism's central claim that institutions develop when states foresee self-interested benefits from cooperation under conditions that are propitious for overcoming obstacles to cooperation-remains in need of further testing and refinement". By focusing dogmatically on economic virtues, neoliberalism fails to give adequate recognition that markets are socio-political constructs and that domestic political support – that includes a range of diverse stakeholders – is needed for national liberalisation and globalisation. This shortcoming of neoliberalism was acutely exposed during the 1997/98 AFC and also later during the 2008 global financial crisis.

2.5.4 Constructivism

Constructivism emphasises that regionalism is more than just material processes and flows, and seeks to capture role of ideas, culture, norms and identity in driving regionalism. The literature on new regionalism in 1980s and 1990s highlighted the complexity and pluralism of regionalisation that went beyond the trade protectionism focus of old regionalism. Hettne (1998) argues that when different dimensions and processes of regionalisation converge, 'the distinctiveness' of a region increases and so does its impact on regionalisation. As beliefs and interests of actors with respect to a perceived region coalesce, the region itself can become a stakeholder in shaping global governance structure. Indeed, this was one of the roles of Asian financial regionalism envisaged by the governments in East Asia in strengthening the region's voice and presence in global financial architecture. According to Hettne and Soderbaum (1998; pp 6) the region itself emerges as an 'arena' for many actors apart from the government and "through the increasing cohesion of the region (regionness) as well as through its increasing capacity to act (actorness), the region itself is becoming an important actor, ultimately with the potential of shaping world order". Drawing on social constructivism, adherents of this framework argue that creation of international or regional institutions is dependent on the actors' perceptions of global or regional problems which are in turn shaped by their normative beliefs (Terada 2003). Constructivists like Wendt (1992) and Acharya (2012) believe that shared norms and beliefs are not just confined to institution building but such socialisation can transform actors' initial beliefs and lead to a new set of norms and rules governing such institutions. According to Wendt (1992; 417): "the process of creating institutions is one of internalizing new understandings of self and other, of acquiring new role identities, not just of creating external constraints on the behaviour of exogenously constituted actors…the process by which egoists learn to cooperate is at the same time a process of reconstructing their interests in terms of shared commitments to social norms". This implies that through socialization and discursive interactions the states can move beyond their self-interest to create new norms and interests transcending their original mandate. The evolving new norms will redefine shared beliefs and common interests in a manner that may 'eventually subsume' the identities of individual states within 'wider collectives' (Jones and Smith 2007). Constructivists argue agents cooperate when there is a convergence in values and interests. These interactions can be explained in the formation of shared understanding of issues and a belief of being a part of a community that has a shared purpose and trust.

In more practical terms, political leaders, policy elites, business leaders, academicians, and civil society activists through active interaction at regional levels and exchange of ideas can foster a sense of shared regional identity and can even engage in building a collective identity. Thus, through the lens of constructivists, regionalism can be seen as the emergence of a collective identity – formal or non-formal organisations - which determines how the region is defined in terms of who is included and excluded, primarily driven by culture, language and political discourse (Jayasuriya 2003). Constructivists reject the realist notion that states cooperate depending on their calculation of gains or losses (Acharya 1999). They acknowledge the importance of material forces but emphasise the primacy of ideational factors in calculus of state interests to cooperate with each other. Ruggie (1998; 33) states that “the building blocks of international reality are ideational as well as material”. The origins of an ideational process projecting Asia’s economic power started in early 1990s through the much-touted East Asian Miracle. Yeo (2010) argues the idea of an East Asian community emerged before the 1997/98 AFC as a reaction. “Even before the Asian financial crisis, an emerging ‘East Asianness’ was manifested by a new Asian cultural assertiveness in reaction to the triumphalism of the West. The common ground of opposing western arrogance and hegemony, and limiting the role of the West, was encouraging a sort of defensive regionalism,” Yeo (2010; 327). The much-touted East Asian Miracle was cited as an outcome of Asian values of hard-work, austerity and high propensity save in contrast to profligate West. However, the 1997/98 soon deflated these claims. But it was also during that crisis that Asia came together to articulate the idea of a regional economic bloc that was underrepresented in global financial institutions despite their rising market power.

The East Asian Miracle – which began in Japan in 1960s and was later reflected in the rapid growth of Asian Tigers: South Korea, Hong Kong, Taiwan and Singapore; and that of the three Newly Industrialised Economies (NIEs): Thailand, Indonesia and Malaysia – together with private-sector led expanding regional investment and trade rekindled ideas of ‘pan-Asianism’, ‘neo-Asianism’ and ‘an Asian Renaissance’ (Stubbs 2002). Political leaders and many scholars attributed economic success to the region’s unique social practices, values founded on respect for authority, hard work, frugality, discipline, social harmony, and the primacy of the group over the individual. New ideas of Asian regionalism – East Asia Economic Grouping (EAEG), East Asian Economic Caucus (EAEC) – were floated in response to emerging trading blocs elsewhere. Lee Kuan Yew, the former prime minister of Singapore, in 1992 described the EAEC as an idea that would not go away (Stubbs 2002). Katzenstein (2000) defined Asian regionalism as an idea whose time has come. The building block of this process was ASEAN, whose social practices of consensus based, non-legalised decisions and trust building through political interactions were cited as a unique way of pursuing regional cooperation and integration. Acharya (2012) offers a compelling argument on constructivism shaping Asian regionalism. He puts forward the case where weaker states working on a shared vision and norm-based action through cooperative institutions, like ASEAN, can resist the dominance of hegemons and power politics.

For constructivists, the 1997/98 AFC reinforced the feeling of oneness in the region primarily stemming from the actions of the IMF and the US. The IMF's initial refusal to lend to stem the crisis and subsequent reform measures under IMF packages, which prolonged the duration and intensity of the crisis made the crisis hit countries realise that the IMF lacks understanding of their economies and domestic situation. The IMF and US's disparaging remarks on Asia's economic growth model further alienated the Asian countries and created a sense of belonging among them. The IMF and actions of the US created a sense of helplessness and resentment in the region, and delineated the boundary between insiders and outsiders, which in turn compelled countries to seek regional solutions (Bowles 2002). According to constructivists, the creation of ASEAN Plus Three (APT) in 1999 helped the region to develop a shared identity and a common objective in regional institution building (Hidetaka 2005). Nabers (2003) shows that institutionalisation with ASEAN Plus Three is about community building that has been facilitated by dialogues on issues beyond security and economics. This optimism is not shared by all scholars. The same norms and values that were touted as factors contributing to the region's economic success were highlighted as some of the proximate causes contributing to the 1997/98 East Asian financial crisis. To the extent that the 1997/98 crisis was an effect of corruption and inadequate regulation and supervision of financial institutions in East Asia (Radlet et. al. 1998), the crisis did limit support for thesis of Asian values. Similarly, the 2008 GFC also exposed the vulnerability of the claims of constructivism in explaining Asian financial regionalism. As it will be revealed in the later sections, during the crisis, Korea and Indonesia were forced to look beyond ASEAN or ASEAN+3 for emergency funding to bridge their short-term liquidity needs. The other critique of the constructivist explanation of ASEAN or ASEAN Plus Three's ideational process is the exclusive character of these groupings. These groups have largely remained closed and refused to extend their membership to assume a larger pan-Asian identity. Lastly, this approach does not take into account the historical context – including the legacy of rivalry between Japan, China and Korea – and its impact on the timing and sequencing of regional arrangements unless it is used in conjunction with other approaches.

2.5.5 Marxist Approaches

The political economy of Marxism is rooted in the writings of Karl Marx. Various schools of thoughts have emerged that are directly inspired by his writings or whose legacy can be traced to them. While Marx was primarily focused on analysing the development of capitalism mainly in Britain, France and Germany and not on international political economy, it is possible to extract the key tenets of his core philosophy and connect them to either classical or contemporary neo-Marxist writings. The three key elements of Marxist thought are historical materialism, class conflict and the diminishing role of the state. Within this framework, economic dynamics and interests are key in shaping historical outcomes and that political systems and institutions reflect the material realities in the world system. It postulates that classes are dominant actors in the world system. Burnham (2001) underscores that class struggles are at the core of Marxist theory of capital accumulation as capital not only need to extract surplus value from labour but also must ensure “successful reproduction of the total social circuit of capital…”

Like neo-realists, Marxists argue that international economic relations are inherently unstable and conflictual because of the inter-class struggles that arise between labour and capital, and exploitation of labour by the capitalists. Oatley (2019) highlights that Marxists focus on the distributional conflict between labour and capital within domestic economies and distributional conflict between industrialised countries and developing economies in the international arena. Unlike neo-realists, who suggest that hierarchy in the global economic structure is shaped by the prevailing political and military power, Marxists argue that the hierarchy is determined by patterns of production and exchange determined by the global capitalist system. Dent (2016; 38) argues that “globalisation has further enhanced the power of capital, and consequently strengthened the influence of firms over state economic policy, a point that neo-liberals would also generally agree on in the context of the ‘states versus markets’ debate.”

The core of Marx's fundamental analysis is driven by three fundamental dynamics (Oatley 2019). First, competition among capitalists will drive them to enhance efficiency of capital and lead to concentration of capital in the hands of few elites. Second, capitalism is associated with a falling rate of profit as rising investments lead to oversupply of capital which reduces the rate of return on capital. As profits shrink, capitalists further exploit labour and drive down wages and widen inequality. Finally, capitalism generates overproduction and underconsumption that induces fluctuation in business cycles and undermines social stability. These internal causal mechanisms, i.e., underconsumption, falling rate of profit and overaccumulation of capital, are at the core of the Marxist crisis theory literature.

The beginning of the 20th century witnessed the development of Marxian frameworks that underscored the significance of capitalism's transnational characteristics. The most influential work in this regard was Lenin's work on Imperialism, which argued that capitalism had entered a new stage with the development of monopoly capitalism. In this framework of monopoly capitalism, economic relations in the world are structured with a dominant core exploiting a weaker periphery (Smith 1979). This theoretical development challenged Marx's postulation of harmony of interests of all workers. The capitalists in the dominant core could still improve the condition of their working class through exploitation of the workers in the periphery. These views were later expounded by the Latin American Dependency theorists like Andre Gunnar Frank and others who argued that the growth of less-developed economies was dependent on the expansion of the developed economies (Frank 1970, 2000), Cardoso (1977), Smith (1979). The countries in the periphery exported raw materials to developed core and suffered from declining terms of trade that locked them in a mode of production that structurally favoured the developed economies. It can be argued that dependency theory elevates the class conflict to a global level by emphasising the dichotomous economic relations between countries in the core and the periphery (Smith 1979).

Whereas dependency theorists had argued that developing countries were caught in a state of dependency within the global capitalist system, Wallerstein recognises the potential for movement between the economies of the centre and the periphery. The World Systems theory associated with the writings of Immanuel Wallerstein emerged from this framework. Wallerstein (1979) postulates that all institutions in the social world are constantly evolving and are being constantly created and recreated. Within the core-periphery structure, Wallerstein added a semi-periphery in the core-periphery structure. This semi-periphery shares some features of the core as well as some characteristics of the periphery but also has a strong industrial base. The newly industrialised economies (NIEs) of East Asia – South Korea, Taiwan and Singapore – broke out of the periphery dependency into the semi-periphery level as they were able to mobilise capital, technology and organise production linked to the global production networks (GPNs) but remained dependent on the market of the core economies of the US and Europe and also tied to the regional core, Japan (Dent 2016). According to the dependency theorists, these three layers of the world system were strongly linked together in draining wealth from the weak periphery to the dominant core.

Wallerstein's theory has been critiqued because of the focus on international exchange as the defining characteristic of global capitalism and the deterministic tendencies in the notion of a world-system (Berger 1994; Falkner 2011). According to Falkner (2011), the critics highlight that the concept of the semi-periphery over-emphasises the stabilising role of newly industrialised economies like Korea in the global economy. During the 1997/98 crisis, Korea and other NIEs were destabilised and were unable to provide either capital or put together any relevant regional framework to stave off the crisis. It was Japan, the regional leader, along with the US and international organisations that provided short-term capital to the crisis-hit countries.

While the application of Marxian frameworks to Asian regionalism is limited, there is a rich body of work on its application and interpretation of European integration which can be drawn upon to understand Marxist approaches to regionalism. Cocks (1980) in his article “Towards a Marxist Theory of European Integration” explains that integration in Europe evolved as a response to prevalent problems in capitalism. “Regional integration was a mechanism for accommodating and reinforcing the expansion of European capital while simultaneously protecting it from the possibly excessive rigors of international competition,” Cocks (1980; 39). He argues that integration in Europe has provided the “political infrastructure” for expansion of the “productive forces” and legitimatised the power necessary to maintain social relations integral to Europe. Like most Marxist thinkers, Cocks (1980; 39) emphasised that integration under capitalism is a process driven by elites, but the rest of the population also needs to be convinced of the benefits of cooperation. “The necessity of generating support for new integrational institutions, and thus legitimating the power that flows from them, is at the bottom of integration ideology,” states Cocks (1980; 39).

Applying this framework, we can argue that regional institutions are seen by Marxists as forms of consolidating gains that reflect the changing material base of the regional economies. Analysing East Asian regionalism, Dent (2016) highlights that in the post-colonial period, Marxist frameworks have placed greater emphasis on competition among multinational companies for global market shares and branded them as new imperialists actors or agents of neo-colonialism. “Following on from this argument, Marxists generally contend that state-led regionalist initiatives and frameworks such as ASEAN, APT, NATC and APEC are merely attempts by the transnational capital class (e.g. MNE executives, state policy-makers, international financiers) to consolidate or advance capitalist development in accordance with their interests,” Dent (2016; 38). Marxists frameworks fail to explain why trade regionalisation, driven by the government and business nexus in East Asia and supported by the US did not lead to formal regionalism in East Asia. Neither do they offer an explanation why the 1997/98 crisis led to the development of Asian financial regionalism. However, Marxist approaches are a useful tool in understanding the conflict during the 1997/98 Asian crisis between the state led development models of East Asian economies and neoliberalist policies of the US and the IMF and the World Bank.

2.5.6 Critical Approaches

A slew of critical IPE approaches to regionalism were developed since the 1990s which challenge the problem-solving theories of the traditional approaches. This section will focus mainly on the World Order Approach which draws upon the critical IPE approaches associated with Robert Cox (1981, 1983) and will also examine briefly the New Regionalism Approach (Soderbaum 2005).

2.5.6 a. World Order - Neo-Gramscian approach

The critical approaches move beyond the static approaches of the traditional IPE frameworks and question the existing world order. Soderbaum (2005) argues that critical theoretical frameworks construct a globalizing IPE of regionalism by challenging the dominant role of state, the importance of regional organisations and idea of trade/openness as a driver for economic development. "In doing so, the critical approaches integrate both top-down and bottom-up regionalisation, both formal and informal aspects, within the same analytical framework," note Soderbaum (2005; 225-245). Cox (1981) questions the "singular concept" of state in the traditional approaches and proposes to replace it by state/society complexes as the basic unit of analysis and emphasizes the need to pay attention to social forces and processes to understand how they relate to the development of the state and the world order.

The critical theory "does not take institutions and social and power relations for granted but calls them into question by concerning itself with their origins and how and whether they might be in the process of changing. … Critical theory is directed to the social and political complex as a whole rather than to the separate parts" (Cox 1981: 129). Bieler and Morton (2004) highlight that the critical theory of hegemony, world order and historical change dwell on how the existing social orders came into existence and therefore how norms and institutions evolve and what forces have the potential to transform the prevailing order. Cox draws on the writings of the Italian communist Antonio Gramsci to develop a framework of hegemony that is the bedrock of an analytical framework to understand historical world orders. Cox (1981; 128) famously asserted that "theory is always for someone and for some purpose." By doing so, Cox challenges the mainstream

IPE approaches, particularly neo-realism, and argues that these theories to cater to the interests of people who benefit from the existing order.

Cox outlines a framework that analyses the historical structures to understand the social and historical changes in a multi-dimensional way. He emphasizes that there is a close relationship between institutionalization and hegemony. In contrast to neo-realism, which situates hegemony in an unidimensional framework of dominance premised on economic and military capabilities of states, Cox's argues that hegemony is based on both coercion and consent, that manifests through acceptance of ideas and is mutually reinforced by material resources and institutions (Cox 1983; 132) (Bieler and Morton 2004). This concept of hegemony is first established by dominant social forces within a state but later projected outwards on a world scale. Cox (1981;137) cogently puts forth the view that "Institutions may become the anchor for such a hegemonic strategy since they lend themselves both to the representations of the diverse interests and to the universalisation of the policy."

Within the historical structure, hegemony is constituted on three domains of social power (a) social relations of production (b) forms of state and (c) world orders, which not only reflect the periods of stability and conflict but also allows to shape how alternative forms of world order may emerge (Cox 1981). He goes further to explain within these three spheres of activity three further elements combine to shape historical structures and these consist of "material capabilities, ideas, and institutions" which interact in a mutually constitutive and reciprocal relationship. Also, central to Cox's critical theory is the neo-Gramscian concept of "historical bloc". A historical bloc refers to the process through which leading social forces within a state establishes relationship with contending social forces. Bieler and Morton (2004) explain that hegemony can operate both by established an historical bloc within a form of state as well as “expanding a mode of production internationally and projecting hegemony through the level of world order.”

Cox argued that the economic crisis in the early 1970s challenged the US-led hegemony supported by the Bretton Woods systems and related international institutions. Cox and later the influential work of Stephen Gill (1991) contributed to develop the idea of “the rise of a transnational historic bloc and of a transnational managerial class in command of the global economy,” (Overbeek 2004: 113-41). Pistor (2004) states that the formation of the transnational historic bloc reflects the transformation of the class structure, mainly the rising domination of the transnational capital. “Neoliberalism represents the hegemonic ideology, the ideological glue that binds together the different elements of the transnational historic bloc,” (Pistor 2004: 117). The shift to transnational historic bloc from historic bloc is driven by the structural change in the global restructuring of production.

Gill departed from the Gramscian framework and argued that a historical bloc can be created without necessarily being hegemonic in character. He explained that the transnational historical bloc has a position of supremacy but not hegemony. Gill argues that supremacy can rule when hegemony is not established, and dominance can be pushed through an historic bloc over fragmented opposition. “This politics of supremacy is organised through two key processes: the new constitutionalism of disciplinary neoliberalism and the concomitant spread of market civilization,” (Bieler and Morton 2004) Neo-Gramscian scholars like Gill, Bastiaan van Apeldoorn, Magnus Ryner and others adopt a transnational historical materialist approach while analysing the politics of EU with respect to the changing structures of production. Gill (1998, 2003) has argued that the economic and monetary union has constitutionalized neo-liberalism in the EU and led to the creation of a neo-Gramscian transnational historic bloc that can fundamentally restructure the politics and the relationship between economic power and political decision making. van Apeldoorn (2002) opines that the European integration process is rooted in the neo-liberal framework and is being shaped by a transatlantic and transnational class.

These analyses which build on Cox's neo-Gramscian historical structures, state-society complexes and social forces engendered in production and world order attempt to understand globalization, regionalization and world orders. Soderbaum (2005) emphasises that globalisation has created a new context and forced us to re-think the role of regionalism. "It is emphasised that globalisation and the ideological power or even 'triumph' of capitalism has established a new context within which regionalism has to be rethought. The central question for the world order approach in this new context is to what extent states (and particular state/society complexes) respond to globalisation by building states-led regionalist schemes," Soderbaum (2005; 225-245). In this context, regionalism is seen as an attempt by the region's elite to manage globalization and the evolving world order where no single nation-state has the capacity or authority to establish its leadership (Gamble and Payne 1996). In other words, regionalism projects are led and negotiated by the policy elites and constituted as part of the hegemonic power of neo-liberal capitalism.

While regional cooperation initiatives can help the region to better manage globalisation, they are built by elites with little participation in these projects from the broader social groups.

"There is a potential for states-driven regional projects to mitigate the negative effects of globalisation and contribute to a new era of social regulation and community, especially if managed in an enlightened way and if opened up to the wider influences and interests of labour and civil society more broadly. However, the elites have devised these regionalist projects with little popular involvement or pressure for such projects," Soderbaum (2005; 225-245).

This is particularly true in Asia, where regionalist projects like CMIM or ASEAN Plus Three or ABMI evolved out of discussions and negotiations between the policy elites of Japan, Korea, China and ASEAN, particularly the core countries. Applying the Cox's neo-Gramscian framework, it can be argued these regional initiatives flow from the ideas generated by the region's elites and reflect their efforts to consolidate the gains accumulated through regionalization and more broadly by linking to transnational production structures and financial flows with little engagement of the broader community or concerns about their impact on the uneven development of the region. But Asian regionalism largely remains a top-down approach with little participation from the bottoms-up wider civil society or other social groups. As a result, discussions on regional public goods, like health, education or climate change, remain largely on the periphery of the agenda of regional institutions.

2.5.6. b. New Regionalism Approach

New regionalism approach starts from the premise that there is a need to understand the transformation of the world order where globalization and regionalization are interconnected (Hurrell and Fawcett 1998; Gamble and Payne 1996; Hettne 1998; Milner and Mansfield 1997). The global structural transformation after the end of the Cold war and the rise of globalization has paved the way for new innovative forms of regionalism that are more outward looking and open in nature reflecting the evolving multi-level governance structures in contrast to the introverted and defensive regional blocs that were established during the Cold war (Dent 2016). Hettne and Inotai (1994) assert that regional institutions that emerged after the Cold war were top-down and organized from outside the region. “The new regionalism is emerging in a post-Cold War context, in a situation where 'national' economies are outgrowing their national polities. It is, furthermore, a world-wide phenomenon, although, just like in the first wave, it started from Europe. It can be defined as a world order concept, since any particular regionalization process has systemic repercussions in individual regions throughout the world,” argue Hettne and Innotai (1994; 2).

New regionalism approaches are eclectic and draw upon contributions from IPE, political science, sociology and economic geography to understand the evolution and impact of regionalism. While admitting that regionalism is an “elusive contest” (Mansfield and Milner 1997), new regionalism scholars argue that regions are not created in a vacuum. Regionalism is a heterogenous and multidimensional phenomenon that is constructed by the state, market, society and external actors both within and outside of regional organisations (Soderbaum 2005).

Hurrell (1995) and Dent (2016) identify five kinds or levels of regionalism respectively. Hurrell (1995) identifies five kinds of regionalism that are analytically distinct but can interact with each other and form the core of the theory and practice of regionalism. These five varieties are (a) regionalization (ii) regional awareness and identity (iii) regional inter-state cooperation (iv) cohesion and (v) state-led regional integration.

Dent (2016) outlines five levels of regionness: (a) a regional space (b) a trans local social system (c) an international society (d) a regional community and, (v) a regionally institutionalised polity. Like social constructivists, both Hurrell and Dent emphasize that countries sharing similar ideas on identity and about building a regional community can shape regionalism regardless of their geographic location. Dent's (2016) trans local social system of regionalism reflects how transnational business are creating new regional or sub-regional spaces that span across national economies. The market-driven and state supported sub-regional initiatives that foster "growth polygons" like the Indonesia-Malaysia-Thailand Growth Triangle are examples of how regionalisation is linking sub-national economic spaces and transnational businesses to region-wide regional institutional frameworks. Scholars of new regionalism allay the fear of neo-liberal economists (Bhagwati 1992), who raised concerns about the trade distortionary impacts of rising preferential trading arrangements, by emphasising that regionalism is not an alternative to globalisation or any new form of protectionism. Bhagwati (1992) bemoaned that revival of regionalism in the 1980s was unfortunate but hoped that it will not undermine "the widely-shared objective of multilateral free trade for all." Neo-regionalism scholars argued that regionalism did not distort global trade or globalization. "Rather, it is an ineluctable part of it. Less a challenge to multilateralism, the new regionalism represents a meso level in an emerging structure of multi-level governance geared to fostering cooperation and trade creation," (Dieter and Higgott 2002, pp. 4).

The conjunction of globalization and regionalism also gave rise to the idea of open-regionalism which was credited as a factor contributing to industrial and trade transformation and growing economic interdependence in East Asia and the Pacific

(Drysdale et al 1998). The Asian Development Bank (2008), which supports many regional and sub-regional initiatives like the Greater Mekong Subregional, CAREC, SASEC, recognized that the challenge of emerging Asian regionalism is to support the growing integration of the region's production networks and at the same time remain committed to the goal of an open, rule-based global system of trade and investment. "Dynamic and outward-looking Asian regionalism, consistent with the region's diversity and mindful of its stake in open global markets, will help to stabilize and power the world economy. Such regionalism is in everyone's interest," (ADB 2008; 3). However, Jayasuriya (2003) argues open regionalism is not about creation and expansion of regional markets in East Asia but a political exercise undertaken by powerful domestic actors to maintain their export markets and strengthen coalitions within their domestic economies. "Open regionalism is not about regional market making but about maintaining export markets; and also about helping to cement the dominant coalition between domestic cartels in the non-tradeable sector and the tradeable sector. For these reasons, open regionalism may be seen as denoting a particular political project of regional integration undertaken by powerful domestic actors," Jayasuriya (2003; 341).

From the above summary of IPE research on Asian regionalism, it can be gleaned that studies adopting neo-realist assumptions treat Asian regionalism as an extension of the national interests of the participating states, power rivalries within the region reflected through market power and regulatory influences and the influence of extra-regional players like the US. The neo-liberal institutionalist literature emphasizes the role of economic interdependence in driving the demand for financial cooperation. Most studies applying the neo-functional approaches reduce regionalism to an economic phenomenon and see Asia as weakly institutionalised within this structure. Constructivists place great emphasis on ontology of regional community building without providing us with any theory of regional integration. Marxist approaches emphasise that regional integration is a process to accommodate expansion of capitalism and institutions reflect institutionalisation of power. Neo-gramscian approaches focus on roles of historical structures, state-society complexes and social forces in the world order to help us to understand the dynamics between globalisation, regionalisation and world orders.

However, these approaches do not tell us why government backed financial cooperative arrangements in East Asia emerged and were successful during the 1997/98 financial crisis and how they have evolved in the past two decades. This weakness of IPE theories was also revealed during the 2008 GFC as they were unable to explain the variations in domestic and international regulations in responding to the crisis (Farrell and Newman 2010). IR and IPE theories have made significant contributions to understand the relationship between domestic and international institutions, trade liberalization, regional economic integration and international market regulation (Farrell and Newman 2010). But they are unable to explain or explore many empirical puzzles related to international outcomes, including timing and sequence of institutional choices made in response to a contingent situation. Drezner (2010) more broadly argues that IPE theories of realism, liberal institutionalist, or rational choice institutionalist rest on the fundamental principal of equilibrium. He posits that there is a belief that once power, preferences, ideas and institutions are put in a “theoretical blender”, the outcome would possess properties of a Nash equilibrium. Fioretos (2010), in his study on international regulation of hedge funds, concludes that the key to a nuanced explanation of international outcomes lies in the ways which preferences of governments evolve and change over time.

In other words, IPE theories provide a static explanation of preferences of domestic institutions in evolution of international outcomes which through negotiations ultimately reach a state of equilibrium. These gaps can be overcome by using the HI framework, particularly critical junctures, path dependency and gradual modes of changes, which reinforce the salience of institutions, including the role of non-formal arrangements and their evolution over time. The temporal dimension, sequencing and feedback mechanism used in the HI framework as key variables can explain the sources and evolution of institutions over time. Keohane (2017) assert that the critical anomaly identified by HI is "the anomaly of institutional persistence". He adds that static theories cannot explain why institutions persist even after the conditions that created them have disappeared. "It is the greatest merit of HI to have identified this anomaly and to have pointed out its prevalence, especially with respect to institutions internal to states," argues Keohane (2017; 2). Farrell and Finnemore (2017) highlight HI research have not focused much on international institutions. The HI framework has so far not been applied to understand the origin and evolution of Asian financial regionalism. My thesis makes an original contribution by applying HI framework, particularly examining the role of critical junctures, path dependency and gradual modes of endogenous institutional changes, to understand the development of Asian financial regionalism.

The HI framework is rooted in political science to study the origins, evolution and consequences of political institutions from local to global level. HI in comparative politics literature explores the impact of institutions and political structures on politics and policy outcomes. This is reflected in the attention paid to role of timing and sequence to explain emergence of capitalism and evolution of western democracy shaping the trajectories of nation-states. The rise of ‘New Institutionalism’ in 1980s rekindled interest and led to the development of analytical tools to study how institutions evolved, their constitution and boundaries. This turn in institutionalism focused attention on how institutions structured political orders through a slew of mechanisms that can both facilitate initiatives of agents or constrain their behaviour (Fioretos et. al 2016). Following these developments, three types of institutional analysis can be distinguished in social sciences – rational choice, sociological and historical institutionalism. Within the rational choice framework, institutions are relevant as they shape strategic behaviour of interest driven actors. More broadly, actors cooperate because they feel that they benefit more from cooperation than without it. Viewing through the material calculus, rationalists argued the actor-driven cooperative mechanism would generate institutional stability and equilibrium. Thelen and Steinmo (1992) highlight that the central divergence between the rational choice framework and the HI framework is the issue of preference formation. Rational choice institutionalists assume that political actors are rational and make choices that maximises their self-interest in the context of a specific situation. “Thus one, perhaps the, core difference between rational choice institutionalism and historical institutionalism lies in the question of preference formation, whether treated as exogenous (rational choice) or endogenous (historical institutionalism),” Thelen and Steinmo (1992; 9). A key limitation with rational choice institutionalist approach is that it gives little credence to role of ideas, beliefs and politics in shaping norms and institutions. Thus, there is scepticism on how rational choice institutionalism explains origins and consequences of actor preferences.

Social institutionalist adherents do not see agents as rational or maximizing self-interest, they emphasize norms, culture and ideas govern interaction. In this context, ideas and beliefs among actors can lead to active engagement to cooperate on common objectives. Historical institutionalism distinguishes from these two traditions by focusing on how temporal processes and sequences within a context may drive actors' preferences, power relations and resource allocations. The HI framework is concerned with contingencies, unintended consequences of strategic actions and path dependency of institutional change (Hay and Wincott 1998).

2.6 Applying the Historical Institutionalism Framework

2.6.1 Introduction

To explain the origin, creation and evolution of regional financial institutions, this thesis employs a Historical Institutionalist approach. The analysis is firmly situated in national, regional and more importantly, global contexts as Asian financial regionalism presents the paradox of it being nested firmly in international financial architecture but also arising out of its inadequacy to address the region's needs. HI provides us with tools that can be adapted to study the creation and evolution of regional financial institutions and arrangements in Asia. Ikenberry (1994) argues that HI's foundation rests on three basic premises: (a) the core institutional configurations influence strategy as well as policy outcomes; (b) to understand how constraints and opportunities manifest, it lays emphasis on the temporal dimensions of politics -- sequence, time, and timing in the causal process, recognises the origin and the process of preference formation to create an institution and the role played by random events in driving policy changes and; (c) lastly, once created the institutions can facilitate or constrain the actions and behaviour of the groups or actors within them. As a result, Pierson (2000) argues that institutions may not be able to provide a complete explanation of policy outcomes that are intended to respond to when they were created. This offers us the space to assess the institutional outcomes along with other variables like cultural norms, ideas, social behaviour, political asymmetries etc. Hall and Taylor (1996) emphasise that HI attributes a prominent role to power and asymmetrical relations that can lead to institutions distributing gains unevenly across groups and also attempt to integrate institutional analysis with other factor such as ideas that can influence political outcomes. Thus, the HI provides us with a comprehensive tool kit that allows us to analyse the historical context along with events, endogenous or exogenous, preference formations, political contestation and other key factors, like ideas, to trace the evolution of financial regionalism and its impact on the region and outside.

2.6.2 Evolution of HI Framework

The development of HI theory has occurred in three phases. In the first phase of development of HI, the premise was that institutional configurations together with historical conditions shaped political outcomes. This accorded a static definition to institutions, seen as sticky or as ‘frozen residues’ and ‘crystallizations’ of previous political conflicts (Thelen 2004). An institutional dynamism approach was needed to account for institutional change. The second phase in development of HI focused on a dual dynamic mode of institutional development where there is a long period of path dependent institutional stability and reproduction that are occasionally punctuated by ‘critical junctures’ that provide an opportunity to push institutional change (Capoccia and Kelrmen 2007). This body of work emphasizes that increasing returns and feedback mechanisms sustain and reinforce institutions over time. Pierson (2004) emphasizes that ‘junctures’ are ‘critical’ since they place institutions on paths which are difficult to alter. Streeck and Thelen (2005) have demonstrated that the objectives for which an institution was created may differ or be in conflict with the needs that they are confronted at a later historical juncture. Therefore, it will be difficult to alter the self-reproduction mechanism after institutional choices have been made. Past choices define the bounds and constrain the policy space to actors responding to a different set of problems or significantly different environment. This implies that the cost of exiting any existing institutional arrangement is high and “the probability of further steps along the same path increases with each move down that path” (Pierson 2000a: 252). In other words, path-dependency creates self-reinforcing or positive feedback mechanisms for institutional reproduction. As a result, attention to timing and sequence becomes critical as the impact of actions or events in earlier period can be more significant than later actions or events. Mahoney et. al. (2016) examine two different kinds of sequences that exhibit path dependence (a) self-reinforcing, which has been discussed above; and more importantly, (b) reactive sequence that exhibit backlash dynamics. Reactive sequences are a chain of events where each event leads to the next event. “These sequences are ‘reactive’ both because they move quickly from one event to the next and because they are marked by backlash processes in which reversals can take place…These reversals and backlashes can be necessary ingredients in directing a case toward a specific final outcome of interest,” Mahoney etc. al. (2016, 84). We apply this reactive sequence in Chapter 4 to explain the failure of AMF, the Manila Framework and in the creation of CMIM. The key conclusions from the first two ‘waves’ of HI is that contingent events at certain historical junctures matter and institutions shaped by ideas emerging during this period are themselves transmitters of these “ideation values”. Thelen (1999) believes a shock to the material and ideational foundations of institutions creates opportunities for changes.

However, the overemphasis on critical junctures and path dependency has led HI to being characterized as a tradition that explains change by leaning more on the historical process that is sometimes punctuated by critical events followed by long periods of institutional stability (Fioretos et. al. 2016). “Such characterizations may accurately capture the emphases of specific studies, but overlook that scholars in the tradition have placed an emphasis on accounting for slow process of gradual change and overlapping structures of authority rather than on rapid changes and stable orders,” Fioretes et. al. (2016, pp 12). The unintended consequences of initial institutional choices have also been identified as one of shortcomings of the HI framework. Lindner and Rittberger (2003) attempt to overcome this hurdle by delineating institutional changes into two phases: institutional creation and institutional operation. In any attempt to reform or create a new institution, the trade-off is between a search for a collective solution to a common challenge and delivering distributive gains within the collective. This distinction allows us to postulate that in the aftermath of the 1997/98 AFC, the focus of the region’s policy elites was to search for a cooperative framework to respond to inadequacies of the global financial architecture and lower their dependence on global financial markets for funds to sustain their economic growth. Their key objective was to consolidate the gains achieved so far and protect the region from the vulnerabilities of the global markets. While distributive concerns were reflected in the rejection of certain kinds of arrangements, like the Asian Monetary Fund (AMF) and also in the leadership and issues placed on the agenda of new regional financial arrangements, the defensive regionalism of 1997/98 was built more on ideational foundations and on the institutional framework of ASEAN. In the operational stage, the conflicting policy ideas and domestic policy preferences led to distributional concerns to dominate and influence the transformation of the form and agenda of the regional financial institutions.

Later research on HI focuses on durability of institutions rather than change. This in turn focuses on differentiated patterns of institutional growth and the causal process that brings about the differences in gradual or incremental institutional changes. Streeck and Thelen (2005) highlight the five broad modes of gradual and transformative institutional change: displacement, layering, drift, conversion and exhaustion. Displacement can occur both endogenously and exogenously through response to new emerging situations or through diffusion of new ideas. In any institutional arrangement there are dominant discourses that coexist with other arrangements displaying an undercurrent of contradictions and tensions within systems. An institutional change can occur if the dominant logic is discredited or pushed aside by alternative emerging forms that have the support of a critical mass of actors (Streeck and Thelen 2005). I argue that displacement occurs during critical junctures when exogenous factors like economic crisis help to reinforce the endogenous factors to bring about institutional transformation.

Layering can take place through path altering institutional reforms, adding on new institutional activities or also through expansion of membership. While it may be difficult to root out the original mandate or objectives of an institution, addition of new mandates can progressively crowd out the older arrangements in an institution. “Layering occurs when new rules are attached to the existing ones in ways that affect how the old rules structure behaviour. In this way, even if it is not possible to replace institutions outright, change occurs through seemingly marginal amendments, revisions, or additions to existing institutions or rules that have downstream implications for how original institutions operate," (Conran and Thelen 2016). There will be a trade-off between the core and the new fringe, their degree of coexistence and ultimately of the new/fringe agenda are backed by sufficient actors to supplant the original mandate. Streeck and Thelen (2005; 18-30) argue that institutional stability is not a given even if there are positive feedbacks and increasing returns. Institutions require active maintenance through 'reset', 'refocus' or even renegotiation and recalibration to adjust to the evolving political economic environment in which they are embedded. Without such nurturing, institutions can suffer "erosion or atrophy through drift".

Conversion differs from layering and occurs when institutions are directed towards new goals, functions or purposes. This process can either happen in response to new emerging challenges as policymakers employ existing institutional resources to meet them. It can also be the result of changes in power relations as actors who were involved in the design of the original institution over time gain necessary strength to demand institutional changes to serve their interests. Streeck and Thelen (2005; 6) cogently argue that: "the redirection of institutional resources that we associate with conversion may occur through political contestation over what functions and purposes an existing institution should serve. Political contestation driving change through conversion is made possible by the gaps that exist by design or emerge over time between institutionalized rules and their local enactment." Exhaustion is defined as institutional breakdown rather than change that takes place gradually rather than abruptly. This process occurs when practices allowed under existing rules of an institution themselves undermine them, there is decreasing returns such that costs outweigh benefits and lastly, when limits to growth has been reached. “Different from institutional drift, in which institutions may retain their formal integrity even as they increasingly lose their grip on social reality, institutional exhaustion is a process in which behaviours invoked or allowed under existing rules operate to undermine these,” Streeck and Thelen (2005; 29). The third wave of HI moves beyond the critical junctures and path-dependency characterisations of institutional changes and puts agencies within a context and shapes plausible strategies but can allow them to change (Conran and Thelen 2016).

Critiques of the HI framework highlight that the approach is biased towards explanations of institutional continuity rather than factors that account for change. This bias can sometimes “obscure the actual drivers of broader dynamics of adjustment” (Farrell and Newman 2010; 609-638). The other criticisms focus on the explanatory versus predictive powers of the HI framework. The over-emphasis on path dependence leads HI scholars to overlook other causal process at work and “privilege middle-range theories over more ambitious paradigms” Drezner (2010; 791-804). The thesis takes into account these limitations of the HI framework and incorporates the underlying structural factors, particularly domestic preferences, policies and leadership issues, while analysing the progress of financial regionalism.

The three key building blocks of the HI framework (a) critical junctures to explain its origin of various forms of institutions (b) the phenomenon of path-dependency process creating positive feedback for institutional reproduction and (c) the mechanism of transformation in regional institutions and arrangements through incremental or gradual changes provide us with a useful framework to study the origin, creation and evolution of Asian financial regionalism. The institutionalist framework also provides with factors or what Pierson calls "gaps" between the time when an institution is designed and its actual implementation to understand how institutions change over time. Streeck and Thelen (2005) and Pierson (2004) highlight limits of institutional design, political compromise, passage of time, political contestation over time and the change in agenda or actors as sources where historical institutionalists will look to understand how institutions evolve over time. The thesis taps into the rich explanatory power of the HI framework. Beeson (1999; 17) sums this aptly by saying that HI illuminates, particularly in the context of possible transformation of East Asia "that the past matters and influences the present and that the future is not pre-ordained but will be shaped at least by contingent factors." The 1997/98 AFC and the 2008 GFC provides us with a unique longitudinal dataset to study institutional change, including creation, timing, sequencing and their self-reinforcing mechanism outlined in the HI framework.

2.7 Developing an Analytical Framework

2.7.1 Introduction

I co-opt the HI framework, particularly the concept of 'critical junctures' and the 'punctuated equilibrium' notion to explain the emergence of financial regionalism and new institutional mechanisms. I argue that the two economic crises are critical junctures that triggered responses to create new institutional mechanisms or institutional changes for regional financial cooperation. But this alone cannot explain the process of regional financial cooperation. The HI framework with its power to explain unexpected exogenous events and provision of space to account for other variables allows me to understand the evolution of financial regionalism, its functionalities as well as the distributional impact reflecting power configurations, ideas and domestic preferences in the region to highlight the discontinuities, lags and limits of financial regionalism. The intersection and interaction of different processes produces ‘collusion’, ‘gaps’ and ‘lags’ to influence institutional development that are difficult to anticipate (Pierson 1996). This thesis develops an eclectic framework of critical junctures and together with the HI framework, the later theoretical developments within HI attempts to answer why and how some units of Asian financial regionalism have evolved while others did not or are stuck at a ‘low-level equilibrium’.

2.7.2 Delineating the Critical Juncture theory

I define critical juncture as a turning point, triggered by contingent events, where demand and supply converge to create or transform regional institutions. Critical junctures can be considered as contingent events that lead to institutional innovations. These catalytic events expose the inadequacies of existing structural arrangements and institutions and provide a window of opportunity to agencies, particularly policy elites, to pursue alternative ideas and adopt an arrangement among many alternatives. The institutional choices made during the critical juncture can self-reinforce and influence the shape of future arrangements. This formulation defined as path-dependency is shaped by the order in which events unfold and affect how they happen and the trajectory of institutional evolution up to a certain point impacts the trajectory after that and the strategic choice made during the critical juncture eliminates a wide range of choices available after that (Hay and Wincot 1998). Thus, not only timing but sequencing of strategic actions or initiatives and feedback loops are also critical factors in shaping the evolution of regional cooperation institutions. However, Pierson (2004) argues that critical junctures should not be defined just as creating path-dependency as institutional stability can also be achieved through other processes. The focus on the path-dependency aspect of critical juncture can lead to biased attention on the reproduction and feedback process of institutional change rather than on the source and ‘genetic moments’ of institutional creation and their paths. This, Capoccia and Kelemen (2007) and Hogan (2006) argue, is the result of critical juncture frameworks being employed casually without developing a rigorous analytical framework.

Capoccia and Kelemen (2007) define a critical juncture as relatively short periods of contingencies during which agents’ choices will affect outcomes of interest. The criticality of the event implies that the probability of the actors being provided with alternative choices is higher than before. Collier and Collier (2000; 28-31) put forth an argument that a critical juncture is a period of significant change occurring in distinct units of analysis and which is “hypothesized to produce distinct legacies”, which in our analysis extends to institutional frameworks. Their framework underscores the importance of significant change, distinctness through which these changes affect the units of analysis, and the explanatory hypothesis about the consequences as core elements of a critical juncture. They later expand and suggest the inclusion of five more elements to the building block of a critical juncture. These are: antecedent conditions before the occurrence of a contingent event; the cleavage or crisis; the legacy that unfolds in the intervening period; rival explanations involving ‘constant causes’; and the eventual end of legacy. This thesis stresses the role of “critical antecedent conditions” which have a role in shaping the political dynamics of institutional outcomes. Slater and Simmons (2010) state that prior “factors or conditions” combine in a “causal sequence” with factors during a contingent event like crisis to create divergent long-term outcomes. “Because a critical antecedent produces the outcome of interest in combination with the causal force or forces operative at the critical juncture, it complements a critical juncture argument. It does not contradict it” (Slater and Simmons 2010, pp 889). Slater and Simons (2010), Soifer (2012), Falleti and Lynch (2009) emphasise that divergent post-critical juncture institutional outcomes are driven by antecedent conditions rather than events and actions initiated by agents during the critical juncture. Keeping this in mind, we detail the antecedent conditions while examining our main units of analysis, i.e. CMIM, AMRO, ABMI and role of leadership in the emergence and evolution of Asian financial regionalism.

Some scholars have cautioned that it is important to recognise the distinction between critical junctures and path dependency. Hogan, agreeing with Pierson (2004), emphasises that institutions can be a product of non-path dependent factors, adding the dimension that critical junctures may not be necessary to induce a path-dependent institutional outcome and there can be “other sources of institutional stability” (2006; pp 661).

Hogan (2006) believes that two discrete elements are needed for a critical juncture. The first is a generative cleavage that produces a critical juncture and the other is that change has to be significant, swift and encompassing. In some ways, this approach is aligned to Mahoney (2000) whose definition of path dependence seeks to separate critical junctures of historical institutionalism from long periods of institutional stability. He defines critical junctures as “choice points” when one or a set of alternatives are adopted. These decisions are usually shaped by historical antecedents. In the analysis, critical junctures are defined as moments when agencies through their policy preferences during periods of contingencies not only determine the institutional path but also constrain future outcomes. Reviewing the existing critical juncture frameworks, Capoccia and Kelemen (2007) point out four shortcomings. They say that the existing frameworks fail to specify the unit of analysis; provide little guidance on how to deal with the time horizons; identify critical junctures as moments of change; and obscure the role of power asymmetries. They elaborate by saying that the challenge confronting researchers is whether an event or a series of events defines a critical juncture. Therefore, analysis has to be anchored in a unit of analysis. However, it is noted that critical junctures would be different for different units and even related units of analysis. And it is not necessary to equate contingencies of “break points” as a pre-condition for identifying critical junctures. Often there is institutional continuity during contingent events and institutions can also face critical junctures during settled times (Capoccia and Kelemen 2007; Streeck and Thelen 2005). Secondly, the duration of the critical junctures must be brief relative to the duration of the path-dependency process generated by it. Capoccia and Kelemen (2007) emphasize the length of duration of a critical juncture has an impact on the actor’s ability to take decisions and on the outcome. If it is too long, then the ability of the political actors may be constrained by remerging structural hurdles. This definition of critical junctures encompassing a period of “substantially heightened probability” highlights the role of agency during this period. “This definition captures both the notion that, for a brief period, agents face a broader than normal range of feasible options and that their choices among those options are likely to have a significant impact on the path dependent development of an institution,” (Capoccia, 2016; 92). The expanded causal role of the agency leads Capoccia, 2016; 92) to define to contingency in the context of critical junctures “as the study of what happened in the context of what could have happened" (2016, 92). However, change is not the only outcome during a critical juncture. It is perfectly plausible that various options were considered during a critical juncture but rejected and the final outcome could be recalibration of a restoration of pre-critical juncture status quo. Recognition of this in the analysis of critical juncture would allow researchers with more freedom to identify actors, events, decisions and their mutual impact. And lastly, critical junctures are also defined as periods which provide actors with an opportunity to take decisions that enhance their own power. In other words, the critical juncture framework allows us to incorporate power asymmetries and the redistributive impact of decisions taken during a contingent event.

In our analyses the CMIM and AMRO, the ABMI and the AIIB are employed as specific units of analysis. The interregnum between the 1997/98 AFC and the 2008 GFC provide our analysis with a time horizon and the events themselves are investigated as triggers or tipping points catalysing Asian financial regionalism. The time horizon between the two crises also allows us to trace the evolution of institutional changes and stability during this period as well as incorporate factors influencing it including asymmetrical power structures and conflict of policy ideas. Thelen (1999) and others have argued that the critical juncture framework is weak in explaining how events translate into lasting political legacies. Incorporation of feedback loops, an idea proposed by Krasner (1988) and later expounded by Ikenberry (1994) provide us with better insights into institutional and policy changes. The first type of feedback mechanism focuses on the functional arrangements that kick in once institutions are set up and the other and perhaps more significant is the mechanism is that reflects the distributional effect (Ikenberry 1994). Here the feedback loops can be seen as reproducing and magnifying the power distributions in regional institutions. The thesis takes into account these feedback mechanisms by capturing both the functional and distributional impact of crisis.

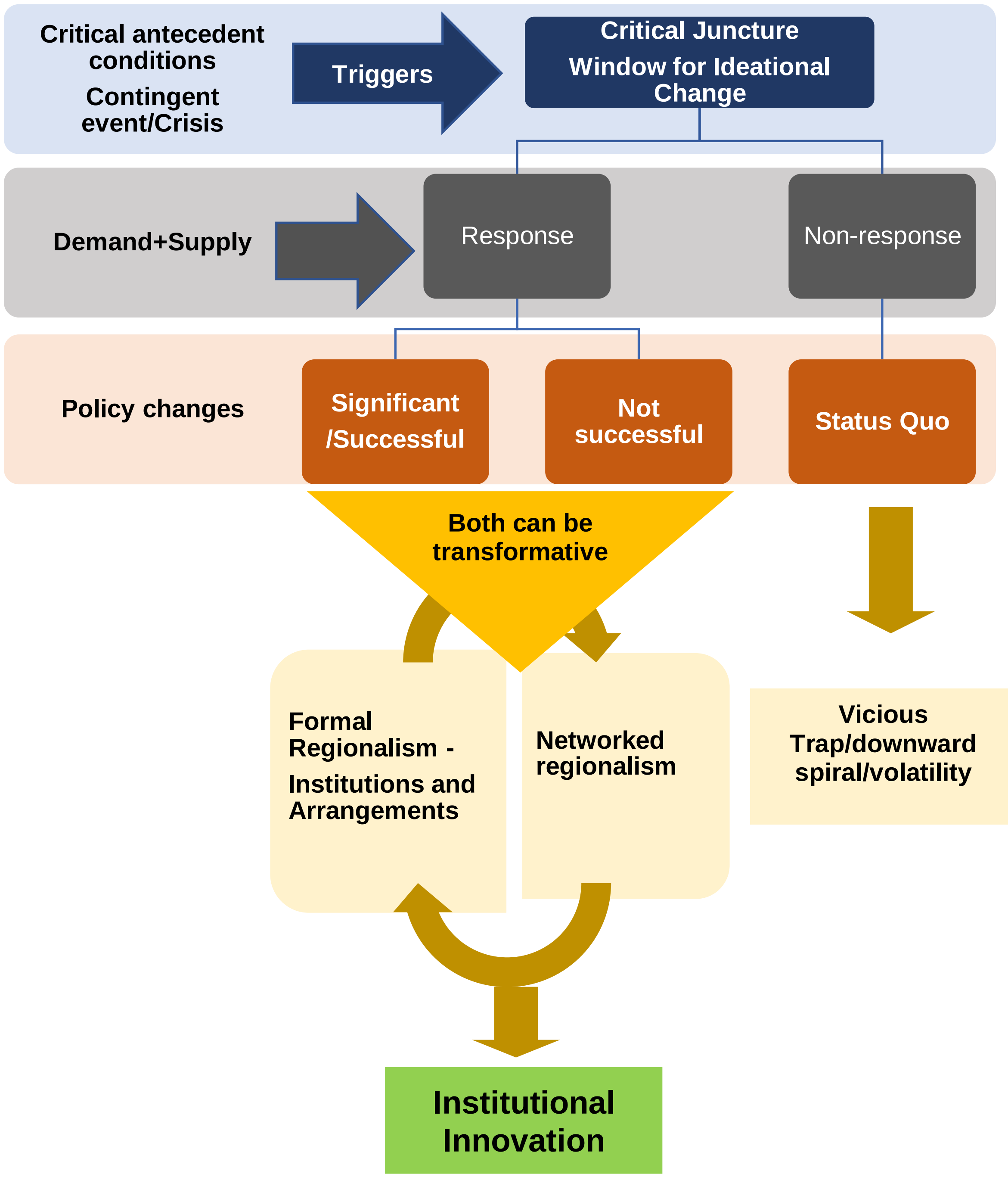
Application of the critical juncture framework to Asian financial regionalism is sparse as well as employed casually to explain the path dependency process of institutional formation. Calder and Ye (2004), Komori (2009) and Beeson (1999) have attempted to provide a conceptual framework to define a critical juncture or use HI to explain innovations in Asian regionalism. Calder and Ye employ critical junctures, differentiating it from HI, to explain the origin and narrowing of organization gap in Northeast Asia: Japan, South Korea and China. They identify the 1950-1953 Korean War and the 1997/98 AFC as critical junctures or catalysts in regional security and financial institutional building in Northeast Asia. The Asian financial crisis eased Northeast Asia's four collective action problems. They conclude that the critical juncture had three major consequences: (1) making common interests visible; (2) establishing personal networks among national leaders; and (3) developing political-economic mechanisms to counterbalance the United States. Calder and Ye's concept of a critical juncture emphasises the role of individuals and their decisions at critical historical points in shaping the ultimate institutional product of regional cooperation efforts. They acknowledge that domestic economic and political interests and foreign policy considerations also drive regional institutional building; pre-existing conditions alone cannot determine the final outcome. Rather, the process involves the interaction of events and 'parameters' that influence the 'incentives of decision makers' at the critical juncture.

Beeson (1999) emphasizes that an institutionalism framework permits us to understand the structural characteristics and political economy relationships within economies or the region as well as exogenous and endogenous forces that catalyse change or constrain them. Beeson further highlights the path-dependency aspect of institution building in Asia but does little to examine how economic crisis trigger institution building for regional financial cooperation. Komori (2009) crafts a framework that focuses on triggers for institutional change and factors driving demand and supply on regional institutions. There are few shortcomings in these studies. Calder and Ye (2004) focus on role of power of political actors and network regionalism in narrowing the organizational gap and institutional changes. Here the stress is on agencies and little emphasis on structures, mainly the pre-existing institutional framework like ASEAN that brought together Japan, Korea and China to build Asian financial regionalism. Komori's analysis cogently brings out the necessity of preference convergence for institutional innovations but does not explain under what conditions these preferences will be converted into a regional response. None of the studies offer any framework or formal tools to explain the impact of critical junctures on regional institutions. The key components of any method to study a critical juncture and its impact of institutional framework should trace how the decisions were taken with respect to the institutions -- the choices that were available and feasible under conditions of heightened uncertainty. Capoccia and Kelemen (2007) lay out two methodological tools: (a) counterfactual analysis – and (b) theory guided narrative. Mahoney (2000) emphasizes that any analysis adopting the counterfactual methodology should focus on the antecedent that was available during a critical juncture period and should have been adopted. Capoccia and Kelemen (2007) also underline that a focus on the role of political actors and their decisions during critical junctures is amenable to plausible counterfactual thought experiments that can be supported by the historical record. The thesis adopts a theory-guided narrative that allows us to construct a structure that focuses on key actors, their goals, preferences, decisions and events that influenced them. Following Capoccia and Kelemen, I reconstruct the implication of policies that were adopted and the likely consequences of those that were considered but not adopted during the critical junctures.

2.8 An Eclectic Framework of Critical Juncture Analysis

The thesis builds an eclectic framework that weaves together the different strands of HI Framework but places critical junctures at the core of the analysis (see **Figure 1**). In the HI framework, the 'dual mode' of institutional development is key to critical juncture analysis where brief periods of volatility and change alternate with long period of stability and pre-existing institutions shape future institutional innovations. My focus on critical junctures is to trace institutional development. Drawing upon the various strands of critical juncture theories, I argue that "critical antecedents" together with contingent events, in particular economic crises, can be triggers for critical junctures that lead to either creation of new institutions or even be the tipping point where accumulative incremental changes lead to transformation of existing arrangements.

Figure 1: An Eclectic Framework of Critical Juncture Analysis



I address the path-dependency aspect of the critical juncture theory by acknowledging that while contingencies can create new institutions or lead to new institutional outcomes, the future of these may or may not be constrained by past decisions. In other words, the stability of an institution after an event can be due to other factors – either endogenous or exogenous. However, it is important to consider both responses or actions initiated as well as the lack of it during a crisis as it allows us to study counterfactuals and more specifically the actors, their motivations and the power configurations that facilitate or hinder policy actions.

The thesis adopts a tree and branch structure with a focus on the branching point – the critical juncture where a short window of opportunity opens for the agency to push through ideas that lead to institutional changes. This framework provides us with the space to incorporate the process of positive feedback. During the initial stage of an economic crisis, the impact is greatest on the real sector (consumers and producers), trade flows and the financial markets. The inadequacies of pre-existing national, regional or global arrangements are exposed and provide policy entrepreneurs the space or window of opportunity to pursue alternative ideas and arrangements. This is the period where policy ideas for collective action at a regional level coalesce as national responses are inadequate and help from global institutions is not forthcoming. Crises create the space for agencies to pursue ideational changes that under right conditions stimulate responses – which can either be a radical shift from existing frameworks or policies or provide a tipping point to the incremental changes that have build up within the existing structures.

I demonstrate that both kinds of responses (a) significant and successful and (b) not so successful or unsuccessful responses can also lead to transformative changes in institutional architecture. Even the not so successful regional strategies can set in motion ideas, reinforce networks and provide lessons that help to reinforce the more significant and transformative institutional innovations. In fact, networked regionalism has been a key characteristic of Asian regionalism. The concept of networked regionalism as a process that links agents to interact and share ideas outside the formalized institutions has been highlighted by Katzenstein (1996), Mori (1999) and Yeo (2010). I describe network regionalism as a process which though loosely structured outside the formal arrangements can be a powerful venue to both officials and other actors like businesses and academics, civil society organisations to interact and share their ideas and even consult and coordinate on difficult issues that may not be part of the agenda of the formal institutions. The openness, consultations, coordination among multiple agents, government, academics, business and civil society organisations, within formal setting and outside have been the key features of networked processes in East Asia that have brought out significant institutional changes (Mori 1999). These resulting institutional changes can be at regional as well as at national level. National policymakers may take advantage of agreements reached at a regional level to breakdown resistance at national levels and push through reforms that were hitherto opposed by dominant interest groups. Thus, two crises provided the region’s policy elites with an opportunity or a wider set of policy options to reconfigure national policies as well as usher in an ideational framework for more formal regional collective action for financial cooperation. The 1997/98 AFC for the first time also provided an opportunity to voice their dissonance with the existing U.S.-led global financial architecture. Henning (2011) identifies four phases through which crises unfold (a) in the first phase, tranquillity marks the steady build-up of a crisis (b) then crisis hits and cripples economies and cripples financial markets (c) in the next phase policy makers struggle to respond and seek to build coalitions subject to domestic and global realignments (d) and lastly, the crisis is resolved and there is a new institutional equilibrium. Construction of regional institutions could occur during the response phase or in the new equilibrium phase (Henning 2011). During the 1997/98 AFC, institutional creation was in the response phase, while during the 2008 GFC the focus was on distributional aspects of institutional governance.

The framework presented in this section emphasizes the significance of regional institutional building in Asia. The thesis agrees with Calder and Ye (2004) that the relationship between critical junctures, particularly contingent events, and institution building is indeterminate. But my analysis differs from them in accounting for the process of change and institutional outcomes. In my analysis, the critical juncture framework remains embedded within the HI framework and weaves in the key elements of the path-dependency approach and later work on continuity and institutional changes. The thesis emphasises that pre-existing institutions can play a role in shaping future policy outcomes but are not the only source of influence. Calder and Ye (2004) argue that once the institutional outcomes of critical junctures are stabilized and codified, its form perpetuates until the next crisis. This assumes a static view of institutions and fails to appreciate that incremental policy changes between the interregnums of crises can also lead to transformative institutional outcomes. My analytical framework hypothesises that policy elites or key actors can either respond or remain constrained by earlier decisions or even prefer not to respond if they fear that gains from any new institutional arrangement may not accrue to them or threaten their dominance. So, even if an economic crisis stimulates demand for regional financial institutions, there is nothing automatic about supply. Soifer (2012) recognises the heavy focus on critical juncture as catalysts of change rather than what separates a juncture during which radical changes are possible from other historical moments in which continuity is preferred. He proposes a distinction between permissive and productive conditions in critical junctures. Permissive conditions are defined as necessary conditions that lift the constraints on structures and provide agencies to act within the time period of a critical juncture. However, not all permissive conditions lead to change. In other words, permissive conditions are necessary but not sufficient to increase the prospects of “divergence”. “Permissive conditions simply mark a window of opportunity in which divergence may occur, and that divergence may have long-term consequences,” Soifer (2012 pp. 1574). Productive conditions act within the context of permissive conditions and shape outcomes that diverge across cases. Therefore, for demand and supply to converge and lead to institutional innovation, both permissive and productive conditions must be met.

2.9 Conclusion

This chapter provides the theoretical underpinning for the thesis, which focuses on the role of crises in the origin and development of Asian financial regionalism. The 2008 Global Financial crisis rekindled interest to study the history of financial crises and the theoretical approaches to explain them. This thesis is about crises and regionalism and not about history of financial crises. However, we briefly summarise the three structural crisis that occurred in the past century and attempt to explain how standard economic theories, mainly Keynesianism and New Classical economics and, main Marxist approaches account for them. The three traditional Marxist approaches and the growing trend towards financialization of capital also show us that capitalism is inherently contradictory and will periodically undergo both cyclical and structural crisis.

Financial regionalism in Asia has mainly been explained in the literature by the traditional IPE approaches, mainly realism, neoliberalism and constructivism. The chapter also examines the Marxist approaches and the neo-Gramscian approach that provides a broader framework of historical structures, state-society complexes and social forces, supported by material capabilities and ideas, to understand regionalism (Cox 1983).

I show that these extant IPE approaches are useful in providing static explanations of certain aspects of regionalism, but they do not tell us why financial regionalism in Asia emerged during the 1997/98 crisis. The 2008 Global Crisis also exposed the limitation of the IPE theories in explaining the regulatory gaps in responding to the crisis (Farrell and Newman 2010).

I employ the HI framework, particularly its core concepts of critical junctures, path dependency and gradual modes of institutional changes, to establish the origin and trace the development of Asian financial regionalism. The HI theory's focus on temporality - time and timing and sequencing, feedback loops and path-dependency along with the flexibility provided to incorporate power, norms and ideas gives us a holistic framework to study Asian financial regionalism. Using the HI framework and placing critical juncture at the heart of the analysis, we build an eclectic framework that allows us to show that critical antecedent conditions can combine with causal forces during contingent events like financial crises to generate significant institutional outcomes. Keohane (2017) contends that the most distinguishing feature of HI is the ability of the path dependency approach to explain institutional persistence when institutions are no longer efficient.

However, HI has being criticized for overemphasizing critical junctures which produce institutional outcomes but are followed by long periods of stability. Thelen and Mahoney (2010) provide a framework to explain gradual change of institutional outcomes that emphasizes that critical junctures are not the only source of institutional innovations, incremental changes can also transform institutions. HI has been mainly used in comparative politics to study institutions within states and have been used sparsely in international context.

The thesis is an original academic contribution that applies the HI framework to explain Asian financial regionalism. I use CMI, CMIM and the AMRO and, the ABMI as units of empirical analysis to explain the origin and evolution of financial regionalism. The next chapter shows how the critical antecedent conditions along with permissive and productive conditions combine during critical junctures to generate demand for financial regionalism.

Chapter 3 Evolution of Asian Financial Regionalism

3.1 Introduction

The analytical framework of my thesis hypothesises crisis as a catalyst that generates critical junctures for institutional creation and innovation. In this chapter, we will demonstrate how the two major economic crises savaging the region's economy and financial markets within a decade provided a window of opportunity and set in motion processes to configure Asian financial regionalism. It firmly focuses on the 'genetic moment' when new institutional structures were put in place or initiated – some significant and successful and others unsuccessful. However, as Soifer (2012) and Slater and Simmons (2010) state critical junctures "do not begin with a blank slate". "Critical antecedent conditions" play a causal role in outcomes of the critical juncture. This chapter captures the critical antecedent conditions and the causal forces during the critical junctures to trace the evolution of Asian financial regionalism. We argue that demand for and supply of institutions hinges on the antecedent conditions, timing of critical junctures, sequencing, reproduction and feedback loops. We highlight how these structural factors of our eclectic framework of critical junctures and the gradual modes of institutional change can be applied to the units of analysis, i.e. CMIM and AMRO and ABMI. The empirical details of the process of change, evolution, organizational gaps and effectiveness of individual units of analysis will be examined in the later chapters. This chapter briefly outlines the critical antecedent conditions and summarises the key impact of the AFC and GFC on the emergence and outcomes of the regional financial cooperation initiatives.

Asia has been hit by two major economic crises in just over a decade. The 1997/98 AFC had its roots within the region, while the 2008 GFC stemmed from the sub-prime crisis in the United States and was later magnified through the sovereign debt crisis in the Eurozone. The 1997/98 crisis triggered significant government-led regional initiatives in East Asia to first manage the crisis and then set about implementing needed financial reforms. The two areas where regional policy ideas were clearly articulated and efforts were made to implement regional initiatives were (a) managing the liquidity crisis through creation of regional safety nets and (b) reforming the domestic financial system, more specifically moving away from over-reliance on the banking system to develop local currency bond markets to meet the funding needs of national governments and more specifically domestic companies. These resulted in the CMI and its later multilateralization, the so-called CMIM, and the other was ABMI. I look at the responses in these two different units of analysis of financial regionalism. In the other two areas, namely currency arrangements and regulations – which form the bedrock of the economy and financial system - there were no regional responses or at best a weak response. I argue that both formal and networked regionalism needs to be examined as these will provide us with insights on processes through which institutional arrangements take shape.

The 2008 GFC was a timely reminder that despite significant national reforms and regional cooperation efforts, Asia remains highly vulnerable to exogenous events. The 2008 GFC provided the stimulus for accelerating the institutionalisation of CMIM and creation of AMRO. It also created some trends, particularly the spurt in bilateral currency swaps, that could be counter-productive to regional initiatives. This time, crisis also thrust upon Asia the opportunity and responsibility to stabilise and lead global economic recovery, to reassess its role in the global economy and in re-shaping the global financial architecture. In the autumn of 2008, Japan was among the first among developed and emerging economies to commit US$100 billion to strengthen IMF resources to deal with the financial crisis in developed and emerging economies. The crisis discredited neo-liberalism and provided China with an opportunity to push for reform of the global financial architecture, reduce dollar dependence and push for internationalisation of the renminbi as well as its use in bilateral trade and put together a new institutional framework to meet Asia’s growing and unmet demand for infrastructure finance.

Keeping in line with the critical juncture framework, we note the critical antecedent conditions, particularly the political and security environment, economic development models and relationships within and outside Asia, the pre-existing institutional edifice and their interaction with the causal forces during crisis shaped the path of Asian financial regionalism. The later theoretical framework of gradual change in HI provides us with valuable methodological tools to look beyond exogenous factors or contingent events. It is this approach that distinctly distinguishes historical institutionalism from the approaches employed by IPE scholars. The following section lays out the antecedent conditions prior to the 1997/98 AFC and explains how these played a role in creation of ASEAN+3. Sections three and four trace the impact of AFC and GFC on financial regionalism. We then highlight the emergence of China as an economic power and its implications for regionalism. This aspect is further analysed in detail in Chapter 6 that focuses of regional leadership and financial regionalism.

3.2 Historical Context

It is imperative to understand the antecedent conditions prevailing in East Asia after the Second World War and its relationship with US bilateralism and multilateralism to understand the complementarity and tensions that led to the demand for financial regionalism. The end of the War and the 1951 San Francisco Treaty between the Allies and Japan gave rise to a unique institutionalism mix of bilateralism and multilateralism (Calder and Ye 2004, Pempel 2011). By providing a security umbrella, military aid and access to global markets, the US was able to define and shape the role of Japan and other Northeast and Southeast Asian allies in its alliance as well as allowed it to control the global institutions, including support from Asia. The pact also allowed Japan to resume trading with Southeast Asia, which provided for raw materials and intermediates, and in turn offered US allies access to US markets in exchange of bilateral security pacts. This relationship allowed Japan to pursue a mercantilist policy of being firmly focused on expanding its economy under the US security umbrella and join the bandwagon of multilateralism to show its commitment to global values and rules.

At the same time, Japan, backed by the US, started reconstructing its relationship with other East Asian and Southeast Asian nations through diplomacy but more importantly through pumping of massive foreign aid and rapid investment by its multinational companies. Petri (1993) states that while market forces led to increased regional trade and investment linkages, they were backed by official aid assistance from Japan. “The market forces that have helped to intensify regional linkages through trade and investment have been also supported by government aid policies. Japan's aid program has been always oriented toward Asia, but its growing scale has made it an important factor in recent economic linkages. Japanese aid flows to East Asia have been substantial compared to private investment flaws. These flows have helped to finance the infrastructure that supports private investment," Petri (1993; 42). However, Hatch (2002; 2004) argues that Japan's economic policies for the region were driven by its bureaucrats and businesses who cared more about "industrial harmonisation", i.e. extending the Japanese state-led development model to Southeast Asia, than trade liberalisation. "Rather than integrating markets through lower trade barriers, they are trying to expand and extend the Japanese domestic political economy into Asia by, for example, exporting Japanese industrial policies and business practices," argues Hatch (2004; 86-87).

The collapse of the Bretton Woods system in 1970s and the signing of the Plaza Accord in 1985 forced Japan enterprises to invest significantly to regionalise and globalise their production facilities in East Asia. Pempel (2011) highlights that by early 1990s, Japan was using its manufacturing strength to weave together production networks across East Asia that increased economic interdependence and boosted economic growth. This process also facilitated and encouraged participation of East Asian economies in multilateral institutions such as GATT (General Agreement of Trade and Tariff), WTO (World Trade Organization), and the IMF (International Monetary Fund), United Nations etc. These bilateral and multilateral arrangements, shaped by growth of neoliberalism in the West, co-existed along with the development state model in Northeast Asia and later emulated by Southeast Asian economies where the government donned the mantle of an entrepreneur, controlled the flow of credit to sectors that were picked up to support growth. The domestic banks, many of them private, in close relationship with the government supported this state-directed growth model and received protection and direct and indirect support for their expansion. Thus, there was an inherent contradiction between the development state model practiced in East Asia and multilateralism, the open trading regime advocated by U.S. and its allies (Higgott and Philipps 1999).

However, efforts were made to create institutions like Asia–Pacific Economic Cooperation (APEC) to reaffirm and commit the region's faith in an open trading regime to support growth. APEC is a joint Japanese and Australian initiative, based on their shared vision of developing a community in the Asia-Pacific region that emphasises on open multilateral trading. However, Asian leaders often 'parroted' the neo-liberal language at APEC gatherings but in fact opposed these principles in their domestic policies (Higgott and Philipps 1999, Ravenhill 2002, 2009). On the other hand, ASEAN created in 1967 agreed to pursue economic integration only in 1992 and prior to that it was more focused on keeping US and Japan engaged in Southeast Asia as a buffer against communist China and also to gain access to their markets for exports of primary commodities from the region (Severino 2007). As globalisation took root and there were increased flow of goods and capital, the vulnerability of the state-led government growth model and its contradictory relationship with open and mobile global capital was exposed. There was also a disconnect between regionalization of trade and global financial capital. And there was also no regional initiative to support or back the regional trade initiatives with formal financial arrangements. Higgott and Philipps (1999; 19) explain this dichotomy by noting that "regional economic trade liberalisation and financial de-regulation were the pay-off for a continued US security presence in the Asian region after the end of the Cold War.

Those socio-political practices of the so-called Asian model that were acceptable for security reasons during the Cold War -- exclusionary politics, nepotism and the blurred lines of authority between political and economic power -- now clash more violently with the interests of private capital aggressively in search of greater and quicker profits in an era of deregulation”. These underlying structural tensions were exacerbated during the 1997/98 AFC and reflected in the reluctance of the West to quickly come to the aid of the crisis hit economies and deepened the distrust of the region in the global financial architecture. The existing APEC and ASEAN frameworks failed to respond to the needs of the region.

In 1997, inter-governmental collaboration, either at a bilateral or regional level, on financial issues was virtually absent. ASEAN had a foreign exchange swap arrangement but that was small (US$200 million) and not tied to any surveillance mechanism (Amyx 2005). Prior to 1997/98, regional integration was market-oriented and trade-led, as the growth of multinational production networks were supported by unilateral tariff liberalization. The East Asian financial crisis highlighted the inability of government-led integrationist projects such as ASEAN and APEC forum to either offer policy advice or provide liquidity support. The APEC forum was focused mainly on trade related issues and the membership included non-Asian members, particularly the US. On the other hand, ASEAN neither had a put in place a vision of a regional economic community and nor it had the material capabilities to meet the short-term liquidity crisis faced by member economies. It was created in 1967 mainly as a bulwark against communism, reducing hostilities among Southeast Asian nations and promoting economic growth in the region. Given the background of hostilities and conflicts during its early phase of existence and the wide economic development gaps between its members, ASEAN adopted what has come to be known the "ASEAN Way", a phenomenon that emphasises on informality and avoidance of excessive institutionalization. Acharya (1997) highlights that this "ASEAN Way" greatly influences the governance framework of multilateral institution building in the region. "This approach involves a high degree of discreetness, informality, pragmatism, expediency, consensus-building, and nonconfrontational bargaining styles which are often contrasted with the adversarial posturing and legalistic decision-making procedures in Western multilateral negotiations," describes Acharya (1997; 329). Interviews with former senior ASEAN Secretariat officials reveal that this approach was critical in expanding the agenda and membership of ASEAN. They pointed out that the fragile political and security environment, conflicts and the shadow cast by the Cold War in the early years necessitated that ASEAN positions itself as a regional platform which through an informal and consensual approach builds confidence and trust among its members.

Using the HI framework, particularly the critical juncture and path dependency approach, the thesis establishes how the ASEAN Way is a "critical antecedent" in financial regionalism and together with the critical juncture of the 1997/98 Asian financial crisis shaped the path of financial regionalism. However, it must be noted that limitations of the informal, consensual, and non-interference approach that was the hallmark of ASEAN and APEC were also reflected in their inability to respond to the 1997/98 Asian financial crisis (Dieter and Higgott 2003). Pierson (2000) outlines four features that define the path dependency approach: (a) multiple equilibria, defined as a situation where a wide range or a number of outcomes are possible (b) contingency, defined as events that can have a large and enduring impact (c) importance of timing and sequencing in shaping outcomes and lastly, (d) inertia, defined as an equilibrium which once established will be resistant to change. The 1997/98 crisis, indeed, opened a range of options for the region's policy elites to put together regional arrangements to respond to the crisis in its immediate aftermath and also set up preventive mechanisms to counter future crisis. The proposals of Asian Monetary Fund, Chiang Mai Initiative, the Manila Framework presented the region with three distinct paths that could lead to different institutional outcomes. Thus, the crisis and the multiple potential outcomes fulfilled two of the four conditions of Pierson's definition of path dependency. Perhaps, the most significant temporal component was the timing of the creation of ASEAN Plus Three in 1997 that laid the institutional edifices for CMI, CMIM, AMRO and the ABMI.

While Japan was the first country to propose a regional arrangement, namely the Asian Monetary Fund (AMF) in September 1997, it lacked both support from US and some regional economies like China and Korea. The US-led Manila Framework failed to move forward as it focused heavily on IMF engagement in a regional arrangement and overlapped with other frameworks. The ASEAN Plus Three build a consensus among its members to create CMI in 2000 and later by linking the CMIM with the IMF provided assurance to the US of its intention to nest the regional financial arrangement within the existing global governance architecture and not emerge as an alternative to it in the region. As CMI moved forward to CMIM and later to AMRO, it leaned on some of key features of ASEAN Way, i.e. consensus building, pragmatic and non-confrontational bargaining styles in designing the governance structure of these institutions. This establishes that while the crisis brought an enduring institutional outcome, it was also influenced by the pre-existing institutional framework of the ASEAN. Thus, the 1997/98 crisis as the critical juncture and the creation of ASEAN Plus Three together with extant ASEAN principles influenced the development and the trajectory of Asian financial regionalism.

The 1997/98 financial crisis also showed for the first time the downside of economic interdependence - through contagion on one hand and the indiscriminate exit of foreign capital on the other - as investors reacted to the diverse region as if it were a single entity. That realization led to demand by policy elites for the creation of financial safety nets to internalize externalities, manage negative spill over, and prevent crisis recurrence (Stubbs 2002). The 1997/98 AFC brought into question the inadequacy of the international financial architecture, galvanized regional political elites and policymakers to act decisively in face of intense domestic economic and political shocks, and generated search for regional arrangements and institutions (Henning 2009). The initial lukewarm response by multilateral institutions to come to the rescue of Asian economies also exposed the region's limited influence of the region on shaping IMF's crisis resolution measures despite their growing economic clout (Sussangkarn 2010). The inherent contradictions in the state-led economic development strategies along with the failure of the international financial institutions to respond swiftly to the AFC provided the region's policy makers within a window of opportunity to push for much needed economic reforms and demand for regional cooperation initiatives that would cushion them against external shocks as well as reinforce their hands to implement domestic reforms. Placing this in the framework of our eclectic framework, the antecedent conditions of inherent contradictions in the development model adopted by East Asia and the absence of effective regional institutions interacted with the causal forces operating during the critical juncture to trigger demand for Asian financial regionalism. The permissive conditions i.e. the sharp contraction of the regional economies, collapse of the financial markets and lack of swift response from global institutions, opened the window of opportunities for agents to push through institutional change. ASEAN responded to this emerging demand for regionalism along with Japan, China and Korea to create institutional frameworks to deal with the crisis. The existing institutional framework of ASEAN and its willingness to take the lead can be defined as productive conditions within the overall permissive conditions that shaped the institutional outcomes (Soifer 2012). The most important of these regional frameworks was the creation of ASEAN Plus Three (APT).

3.2.1 ASEAN Plus Three – Bedrock of Asian Regionalism

The 1997/98 crisis led to the development of East Asian regionalism through the formalization of the APT, a level of cooperation difficult to imagine before the onset of the crisis. It was the shared experience of APT during the crisis that helped forge both collective action and a collective identity. Having experienced the financial crisis, Asian countries reached a consensus on the need to enhance their capacity to manage risks by building defences to protect against any future financial crises. The APT was formalized at an informal gathering of ASEAN leaders in 1997 in Kuala Lumpur. China accepted the offer of ASEAN to join the summit and forced Japan to show its hands as Tokyo was reluctant, but it did not want Beijing to assume leadership of the region (Stubbs 2002). This was perhaps the beginning of the contest between Japan, which was the incumbent leader, and China, the new challenger in the region. Interviews with former senior officials of the ASEAN Secretariat, reveal that Japan was keen to maintain the status quo of strong bilateral engagement with ASEAN, including providing emergency funds to countries to tackle the crisis. The officials pointed out that China saw the crisis as an opportunity to formalise its relationship with ASEAN and to counter the influence of the US in the region. China until then had been a passive participant in multilateral and regional arrangements. China's resilience to the 1997/98 crisis, its integration into the global economy, realization of complementarities with Southeast Asian economies and its growing conviction in a multi-polar world after the end of Cold War and sense of shared perception along with other regional economies of US domination in global economy and markets led Beijing to make regional cooperation as an instrument of its foreign policy (Ye 2005). These developments can be succinctly explained through our constructed eclectic framework. First, the 1997/98 AFC is indeed a critical juncture as it was a watershed event that triggered significant changes in the region and in the individual economies. It shook the material and ideational foundations of the existing institutions like the APEC forum and ASEAN, exposed the vulnerabilities of the global financial architecture and weakness in domestic policies and institutions. The response by ASEAN to expand into a pan East Asian entity in 1997 was swift and represented a significant step in the development of Asian regionalism. These developments neatly fit in the various definitions of critical junctures (Collier and Collier 1991; Hogan 2006; Katada 2012). "The AFC is undisputedly the major impetus that gave rise to East Asia's regional financial cooperation. From a historical institutionalist view, the AFC was the critical juncture that transformed the usually path-dependent regional institutional development (or a lack thereof) in the region," Katada (2012; 4). However, it is also crucial to understand that the APT was built on the existing ASEAN platform.

ASEAN's institutional framework and practices and the ideas of East Asian Economic Group and East Asian Economic Caucus (EAEC) promoted by some of the region's political leaders did indeed influence the shape of the emerging financial regionalism.

Terada (2013) points out that until the aborted proposal of EAEC, which was put forth by Mahathir Mohamad, former Malaysian Prime Minister in 1990s, there was "no strong conceptual framework for regionalism in East Asia as a whole". "Although Malaysia's EAEC concept was not realized, it contributed to the establishment of the APT meetings in that EAEC created the East Asian concept, without which the framework of connecting Northeast Asia with Southeast Asia – the regional setting in the APT meetings – could not have been accepted by the regional states" argues Terada (2013; 365-366). The ideas of East Asian Economic Group and East Asian Economic Caucus had not progressed further due to lack of what Soifer (2012) calls the permissive and productive conditions needed to generate the "critical juncture". The crisis created an opening for the region to act on the pre-existing ideational frameworks and innovate to create ASEAN Plus Three arrangement. However, it should be noted that while APT has been the bedrock of financial regionalism, it also identified the geographical boundaries that are necessary to define regional groups and upon which regional institutions are based (Terada 2013). Interviews with regional financial officials highlight that the delineation of the geographical boundaries of the APT later emerged a source of contestation among members and acted as a constraint to co-opt new members, particularly from South Asia.

As discussed earlier, the AFC was indeed a critical juncture that created conditions that led to a match between demand and supply of financial regionalism in the East Asia. The role of ASEAN in stepping up to meet the supply gap is significant and also influenced the future governance structure of APT and related arrangements as predicated by the HI framework. Applying the framework of Soifer (2012), we can also argue that the crisis was the critical juncture that provided the ‘permissive conditions’ for institutional changes and the creation of APT provided the ‘productive conditions’ that shaped the institutional outcomes. The timely ASEAN invitation to Japan, China and Korea provided the regional grouping with financial resources to stave off any potential near-term market speculation as well as medium-term liquidity crisis. The creation of APT reflected ASEAN’s growing normative role and influence in shaping up a regional order after the end of the Cold War as well as limits imposed by deep historical rivalries and competition for leadership between US, Japan and China (Acharya 2004, Goh 2007, Kim 2012). More importantly, creation of APT reflected the path-dependency formulation of institution building in line with the HI framework and that APT was more successful than other efforts to create new institutions. “The fact that APT began its cooperation mechanism with financial cooperation, such as CMI, indicated a salient feature of APT, as this initiative represented an atypical path for regional cooperation or integration process,” (Terada 2012; 367).

Applying our eclectic framework, we also provide two examples of initiatives that faltered (a) the Asian Monetary Fund and the Manila Framework and (b) a non-response i.e. lack of any regional initiative on currency management. These examples, which will be examined in Chapter 4 provide us with counterfactuals to other successful regional initiatives launched in the wake of the 1997/98 crisis. This methodology allows us to understand the conditions under which some regional financial arrangements are successful, and others are not.

Beeson (2003; pp. 259) and Hund (2010) remind us of the limitations of APT in forging a pan-regional cooperation vision. Beeson (2003) highlights that ASEAN which is an "antecedent" of APT is a product of decolonisation, Cold War and contest between regional powers and influenced by the US from the outside. "It is important to remember that ASEAN is composed of a number of small economies, the structure and development of which have been profoundly shaped by colonialism and latterly by the activities of more powerful economic and political forces from outside Southeast Asia," highlights Beeson (2003; 259-260). Similarly, Hund (2003) citing the underlying differences and tensions within East Asia argues that that most APT states only take a pan-Asia-Pacific perspective but not necessarily share a vision of "pan-East Asian regionalism". "Only Malaysia and China appear to be promoting more exclusive forms of East Asian regionalism. Within APT, China is aggressively pushing a strong China–ASEAN axis, whereas Japan is seeking to balance China's efforts and step up its political and economic cooperative profile in the region," Hund (2003; 383). Notwithstanding such scepticism, Terada (2013) notes that ASEAN provided the foundation for East Asia to forge collective initiatives not only in areas of economic cooperation but also in security and politics through creation of arrangements like the East Asia Summit. The ASEAN Plus Three has evolved into a "regional framework of diplomacy" spanning a range of policy issues that includes not just economics, politics, security but also the whole gamut of socioeconomic issues, including trade and investment, finance, energy, tourism, agriculture and forestry, environment, education, health, culture and arts. The subsequent addition of new cooperative arrangements in the APT framework is an example of institutional layering ((Streeck and Thelen 2005), where policy entrepreneurs incrementally add few features to alter the impact of an institution. In this case, APT ushered in financial regionalism but policymakers incrementally added new functions to transform it into a broader regionalism initiative. According to ASEAN Secretariat's latest update,[12] the ASEAN Plus Three process has also evolved into a full-fledged cooperation framework with 34 summit activities and 119 ministerial level engagements coordinating APT cooperation. The vast agenda and the frequency of meetings confirm that the ASEAN Plus Three has indeed emerged as the prime regional arrangement for fostering East Asian regionalism.

3.3 1997/98 AFC and Financial Regionalism

3.3.1 Three Key Regional Initiatives

We can broadly identify three successful regional initiatives catalysed by the 1997/98 AFC that have come to form the core of Asian financial regionalism: (i) introduction of a regional economic review and policy dialogue (ASEAN+3 ERPD); (ii) establishment of a web of bilateral currency swap arrangements to supply liquidity during crisis, which came to be known as the Chiang Mai Initiative (CMI)[13] (iii) development of local currency bond market markets through the Asian Bond Market Initiative (ABMI) and Asian Bond Funds (ABF) 1 and 2[14]. The design of these arrangements was focused to address monitoring and

[12] ASEAN Plus Three

[13] The CMI was launched at a meeting of APT finance ministers in Thailand in May 2000. They announced a broad set of objectives for financial cooperation, involving policy dialogue, the monitoring of capital flows, and reform of international financial architecture.

[14] ABF 1 and 2 were launched by **Executives' Meeting of East Asia and Pacific Central Banks**

surveillance of regional economies, financial vulnerabilities and to swiftly meet short-term liquidity needs in case of any future crisis. We will briefly dwell on CMI and ABMI in this section. One common and notable feature was the omission or exclusion of the US in all these arrangements. Cooperative momentum also brought the establishment in 2005 of a region-wide arrangement—the East Asia Summit—which brought together India, Australia, and New Zealand along with ASEAN+3 members. EAS is a regional leaders' forum focusing on strategic and key economic challenges facing the region, including health, environment, energy, and natural disasters among others. In 2011, the membership of EAS expanded to include the US and Russia.

3.3.2 Creating Liquidity Safety Net - CMIM

Perhaps the most significant regional financial cooperative initiative launched in the aftermath of the crisis was the Chiang Mai Initiative (CMI), which forms the core of the region's efforts for crisis prevention and resolution. It is clear from the discussion in the earlier sections that the 1997/98 crisis was the "genetic moment" that led to the creation of the APT forum and its subsequent consensual approach led to creation of the CMI. Grimes (2015) stresses that CMI is the "centrepiece" of Asian financial regionalism. "It embodied both a clear interpretation of what had gone wrong in 1997–1998 and an understanding of the need for institutions that would be politically viable despite Sino-Japanese rivalry," states Grimes (2015; 145). We employ the HI framework in the next chapter to show why and how CMI emerged and trace the sequencing of the initiatives put in place to create Asia's first regional financial institution. It is important to note that that CMI was built on the platform of ASEAN and that there was a similar small existing mechanism in place when the crisis hit the region. In 19977, the original ASEAN 5 had established a US$100 million currency swap arrangement among central banks in the form of ASEAN Swap Arrangement (ASA) to help economies facing liquidity problems. It was later expanded to US$200 million. The amount remained the same for the next two decades until 1997/98 crisis struck the region. Given the size of funds needed to pull the ASEAN economies out of the crisis, no effort was made to either augment or use it. The first step towards creating a regional liquidity arrangement was taken at the ASEAN+3 Finance Ministers meeting in Chiang Mai, Thailand, and named after the city itself. Pempel (2011; 265) considers CMI as the closest regional financial arrangement next to Japan's proposal for an Asian Monetary Fund (AMF), arguing that "CMI arose from a Japanese proposal to create an extensive network of currency swaps among the ASEAN countries along with China, Japan and the ROK." Putting this in the HI framework, we can argue that even though the Japan's AMF proposal failed to take root, it provided the region's policy elites with an ideational framework for the CMI. Thus, in keeping with the recommendations of the HI framework, we consider both unsuccessful and successful institutional outcomes to understand the origin and evolution of Asian financial regionalism. Amyx (2005) further highlights how Japan played a key leadership role in structuring the CMI. "Japan played the role of arbitrator as countries in the region negotiated the general terms for the swap arrangements," Amyx (2005; 3). The next chapter will highlight that while Japan played a key leadership role in structuring CMI after the 1997/98, its influence in this arena was contested by China after the 2008 GFC.

The Chiang Mai Initiative was made up of two components. The ASA was expanded to include all ASEAN economies in November 2017. The other and more substantial component was a web of bilateral swap arrangements (BSAs) between ASEAN and

Korea, Japan and China. These BSAs were led by Japan and laid the foundation for CMI. These were launched in 2002 and grew from US$17 billion to US$ 84 billion in 2008. The aim of these BSAs was to provide timely liquidity support to stabilize countries facing balance of payments (BoP) difficulties and supplement global financial arrangements. Ciorciari (2011) rightly states that bilateral currency swaps were an easy and politically pragmatic way to put together a bailout package in the aftermath of the 1997 AFC. The BSAs were also acceptable to the US which had similar arrangements in other parts of the world. "Swaps were politically easy because central banks did not need legislative approval to establish credit lines or disburse funds; executive orders generally sufficed. Swaps were inexpensive to maintain, requiring only that central banks keep some reserves on hand," Ciorciari (2011, pp. 930). But these arrangements were still bilateral in nature and negotiations were conducted outside the APT framework. Realising the limitations and ambiguities of bilateral swaps, the APT officials started working on multilateralization of the bilateral currency swap framework.

The ASEAN Plus Three also agreed to include regional surveillance mechanisms, monitoring of capital flows and research and training for policy dialogue and consultation. The process of development of CMI and its evolution into CMIM can be situated in the gradual model of institution changes of layering and conversion (Mahoney and Thelen 2010). The CMI built on the foundations of BSAs represented the pattern of gradual change of institutional layering. This is achieved by adding new elements to the institutional frameworks that incrementally alter their functions (Benz and Broscheck 2013). The multilateralization of CMI into CMIM can be described as what Mahoney and Thelen (2010) label in their gradual change approach as institutional *conversion,* where old institutions are equipped with new purpose. Benz and Broscheck (2013) highlight that conversion requires entrepreneurial agency to effectively tap into the institutional ambiguities. It can be argued that ASEAN Plus Three by setting up CMIM, recognized the limitations of CMI, and laid the foundations of future institutional pathways for a formal regional safety net. The move to convert these arrangements of bilateral swaps into a multilateral framework was the key step in institutionalizing the regional financing mechanism. This process was duly achieved in converting CMI into CMIM. APT first articulated the need to explore possible routes toward the multilateralization of CMI at its annual meeting in Istanbul in 2005. In 2007, at their annual meeting in Kyoto, APT[15] announced that a self-managed reserve pooling arrangement governed by a single contractual agreement is an appropriate form of multilateralization – Chiang Mai Initiative Multilateralization (CMIM). Multilateralization in this case meant the creation of formal reserve pooling arrangements, a weighted voting system for disbursement of funds, and enhancement of surveillance capabilities (Grimes 2011). Thus, the region took the first steps of creating a safety net to deal with liquidity shortages during balance of payment crises.

3.3.3 Developing Local and Regional Bond Markets

The other important component of the regional safety net was efforts to develop local and regional bond markets that would allow governments and firms to raise resources locally to finance infrastructure. It was also argued that these efforts would facilitate cross-border

[15] Joint Ministerial Communique of ASEAN Plus Three Finance Ministers issued in Kyoto on 5th May 2007 (http://www.amro-asia.org/services/view_file.aspx?f=/Files/Communiques/ASEANplus3/JMS-Kyoto-May-2007)

investment of region’s vast savings and offset the flow of Asian savings into the developed western capital markets. Initiatives like ABMI and ABFs laid the foundations for building stronger domestic financial systems with a venue to exchange views on economic developments and policies (Eichengreen 2006). While ABMI was initially focused on supply side measures to build the infrastructure for local bond markets, ABFs were launched to facilitate demand for local currency denominated bonds. ABMI was launched in 2003 with the aim of developing local currency bond markets to minimize currency and maturity mismatches and mitigate against the risks related to sudden reversals of capital inflows into the region. The region largely depended on the banking sector to intermediate its savings and as a source for domestic financing. This kind of financial intermediation was a product of the development state model adopted by East Asia and was tacitly supported by US and the multilateral institutions as long as the region backed their neoliberal policies. The 1997/98 AFC was the critical juncture that unravelled this contradictory relationship. A key lesson from the 1997/98 AFC was that well-developed local currency bond markets are important for maintaining a better balance within financial sectors, increasing resilience to economic shocks and for building financial stability in the region. During the crisis, the currency risk exposures of the region’s companies, whose liabilities were denominated in foreign currency, and their maturity mismatches could have been mitigated if there had been strong local currency bond markets and adequate bond market information flows (Asian Bond Monitor 2010, 2011, 2012). Developing Asia’s local-currency bond markets has since become a policy priority alongside reforming its domestic banking industry and putting in place robust regulatory and supervisory framework.

Eichengreen (2006; 1) highlight these efforts saying that the AFC "led to the restructuring of banking systems and to efforts at upgrading their supervision and regulation. But it also created an awareness of the need for better diversified debt markets and specifically for bond markets to supplement the availability of bank finance". The overall objective has been to tap the region's massive savings for meeting developing Asia's long-term productive investment needs in infrastructure, both physical and social. The creation of ABFs was the first initiative in which a regional organization contributed financial resources to set up actual bond funds. The ABFs were a path breaking initiative that allowed EMEAP to gain useful insight into identifying and removing any market impediments for local and cross-border investment. Gyntelberg, Ma and Remolona (2005; 90) point out: "One unexpected area of reform has been the legal accommodation of national jurisdictions so that a fund domiciled in one jurisdiction may be sold in another." Along with domestic regulatory reforms, the ABMI and ABFs have boosted East Asia's local-currency bond markets by aligning national policies with internationally adopted regulations and facilitating a better understanding of how to overcome market impediments. As a result, bond markets, which were either underdeveloped or even absent in some economies like Indonesia, began to play a more active role in East Asian countries' financial systems.

3.4 2008/09 Global Financial Crisis and Asian Financial Regionalism

3.4.1 Introduction

The CMIM and ABMI were in position when the US sub-prime crisis escalated into a global financial meltdown in September 2008. The governance framework of CMIM defined the hierarchy and the distribution of power through the contributions by member countries and voting arrangement for disbursements of funds (Huotari 2012). Capoccia (2016) draws upon the HI framework to argue that institutions are fields for contestations, “arenas of conflict’ where rule makers, defined as actors who through competition and cooperation, set rules or institutional norms and rule takers are actors who comply with those rules to meet their needs. Here, Japan, China and to a lesser extent Korea were the rule makers as their contributions to CMIM were bigger than those of the ASEAN economies. The mistrust between Japan and China, leadership contest between Tokyo and Beijing in regional institutions and the entrenched role of the US in global governance architecture influenced the institutional framework of both CMIM and AMRO (Grimes 2015). Given this background, I argue that while the 2008 GFC was a critical juncture in the creation of AMRO, the region’s policy entrepreneurs also incrementally negotiated the structure of the CMIM and AMRO (Streeck and Thelen 2005; Capoccia 2016; Grimes 2015; Katada 2017).

The GFC impacted Asia through two channels, namely the trade channel and through significant market spill over from the US into Asia, stoking fears of financial contagion (Azis et al 2013). Asian economies contracted in the wake of the global financial crisis as demand for the region’s developed markets contracted. The liquidity squeeze in global markets (i.e. lack of availability of funds in the short-term market) affected Asian asset markets. Episodes of severe dollar liquidity shortages were handled by Asian economies individually without any collective regional response. But the strengthening of network regionalism after the 1997/98 crisis led to frequent contact between relevant authorities during the onset of the 2008 GFC. Interviews with finance officials reveal that the APT forum and subsequent meetings on CMI provided them with a forum to socialise and discuss the key issues and challenges confronting the domestic and financial sectors. However, the 2008 GFC also exposed the limitations of CMI. The countries facing a crisis did not seek the help of region's emerging safety net, i.e. CMI. Korea and Singapore were offered a US$30 billion swap line by the US Federal Reserve. This was a big blow to CMI as Korea did not avail the facility due to its links to IMF and inbuilt conditionality that was not likely to be accepted by domestic political constituencies (Emmers and Ravenhill 2011). Thus, it is clear that while CMI was a significant step in Asian financial regionalism, it was not enough to prevent and resolve short-term liquidity problems faced by regional economies. The thrust of regional initiatives in the wake of the global financial crisis was on institutionalisation of regional safety nets and surveillance mechanisms, strengthening local capital markets, ensuring financial stability, reducing reliance on US$-denominated trade, and devising strategies to deal with proliferating free trade agreements.

While the 1997/98 AFC acted as a trigger for Asian financial regionalism and launch of several new arrangements like the CMIM and ABMI, the 2008 GFC was a critical juncture that ushered the institutionalisation of CMIM and creation of AMRO, the first regional financial institution, and pushed the region to search for a new agenda for ABMI. The 2008 GFC forced regional economies to push aside their political differences and accelerate the multilateralization of the CMI (CMIM) in 2009 and the establishment of an independent surveillance unit alongside it. Indeed, Grimes (2015) stresses that the GFC helped to break the political barriers and differences among ASEAN Plus Three for expansion of CMIM and institutionalisation of an independent surveillance unit. "While the ASEAN+3 finance ministers had agreed to multilateralization in principle in May 2008, negotiations on how to put it into practice were stalled. The global crisis swept away barriers to agreement, accelerated negotiations, and helped to justify a larger increase in scale and scope than might otherwise have been achieved," Grimes (2015;151). On 24 March 2010, the CMIM agreement came into effect and the APT finance ministers also reached a consensus on the AMRO, which was designed to serve as the regional macroeconomic surveillance unit of the CMIM. These marked the first concrete steps to institutionalise an essential fall back for East Asian financial stability. By agreeing on member contributions, voting rights, and an operational structure for CMIM and AMRO, APT established a workable precedent for addressing institutional priorities and other cooperation issues. Grimes and Kring (2020) highlight that CMIM is an inter-governmental agreement where decisions are taken by the finance ministers of the member countries. By adopting a rules-based and formal institutional structure, it departs from the ASEAN way of institution building. "As a highly formal, rules-based regime, CMIM is almost the opposite of the so-called Asian Way. This makes sense, given that vast sums of money are on the line, as well as the prospects for moral hazard. CMIM is a creditor-driven organization in which Japan and China have the most money at risk and the least potential need of rescue, so they highly value clear rules and enforcement mechanisms," state Grimes and Kring (2020). While CMIM is rule-based and formal, it still follows ASEAN's consensual decision-making style, where decision making is based on principles of consensus and non-interference. The AMRO only provide advisories through its regional surveillance and does not intervene or penalises any country for pursuing distortionary policies.

However, the adoption of a new rule based and formal governance framework by the AMRO can indeed be reinforcing and subject to "increasing returns". It can create a path-dependence framework leading to adoption of similar governance structure in other new financial regional institutions and make other alternatives less attractive. In 2014, the APT agreed to convert AMRO into an international organization. This marked the creation of an Asian financial institution without the involvement of the US. On 9th February, 2016, AMRO became an international organisation. Applying, our eclectic framework of critical junctures, we argue that the 2008 GFC was the tipping point for Asian financial regionalism as it ushered in institutional formalism, particularly in CMIM and later through creation of AMRO, that were otherwise being delayed because of institutional fatigue and regional leadership rivalry between Japan and China. However, the decade between the two crises, the financial cooperative arrangements provided the policy makers with venues for socialisation as well as exchange of information and ideas on the trajectory of Asian financial regionalism (Terada 2013). The foundation of the new arrangements was built of the edifice of ASEAN. As a result, the norms adopted by ASEAN, particularly consensus decision making, also shaped the decision-making mechanism with APT and AMRO and ABMI. Thus, some of institutional outcomes like APT and CMI were pre-determined by the existing institutional structures. However, the development of formal rule-based arrangements and institutions like CMIM and AMRO mark a watershed in institution building in the region.

In the case of ABMI, while there were structural and legal hurdles to expand intra-regional investment in bond markets, the national authorities discussed key global regulatory issue at the ABMI forums to drive reforms in national bond markets. A clear institutional ‘drift’ can be noticed in the ABMI agenda and this has forced the grouping to reset and refocus its objectives several times within a short time period to avoid ‘drift’ or ‘atrophy’ of the arrangement (Thelen 2004). Institutional drift occurs when there is a loss of relevance of an institution. A new ABMI roadmap was launched in 2008. However, one of the most important outcomes of this roadmap was the creation of the Credit Guaranteed Investment Facility (CGIF) in 2010 with an initial capital base of US$700 million. This institution, the first pan-Asian capital market institution, will provide credit enhancement to allow the region's lower-rated issuers to tap local markets and larger issuers to issue across national borders by overcoming the sovereign credit ceiling. Thus, it can be argued that 2008 GFC was a critical juncture which provided regional policy makers with a window to reset the focus of ABMI and create CGIF. In the same year, APT finance ministers endorsed the establishment of the Asian Bond Market Forum (ABMF), a common platform that actively promotes the engagement of private sector participants to foster standardization of market practices and harmonization of regulations relating to cross-border transactions in the region. The creation of the ABMF was an institutional layering where the private sector was brought in to work with the regional authorities through the ABMI to harmonise regulations that will allow domestic companies to explore opportunities to raise funds from the region's capital markets.

The empirical details of the timing and sequence and factors impacting the key units of analysis, CMIM, AMRO and ABMI would be outlined in chapters 4 and 5.

3.5 Emergence of China and impact on regionalism

The jury on the progress of Asian financial regionalism is still out but one key factor in the journey so far has been the critical role of China. China was a reluctant participant in multilateral forums and in the regional arrangements until the Asian financial crisis (Yuzhu 2011). Beijing restored diplomatic relations with Southeast Asia only in early 1990s. So, its embrace of regionalism was a major milestone in its foreign economic relations and security policy. Among several factors that influenced this turnaround, the most discernible were the end of Cold War and Beijing's insistence on multi-polarity, the Asian financial crisis and the response of US and multilateral agencies to the crisis, its growth as an economic powerhouse and its desire to maintain harmonious relationship with its neighbours, which form key trading partners, to sustain domestic growth. The 1997/98 AFC provided China with a window of opportunity to build on its earlier social interactions in APEC and ASEM (Asia-Europe Meeting) and join the regionalism bandwagon.

Gradualism is China's approach to development and reforms since 1979. The key to its domestic reforms and approach to regionalism and multilateralism remains gradualism, the process Deng Xiaoping called "crossing the river by feeling for the pebbles". This approach allowed Chinese authorities to participate in regional and global forums and through a 'positive feedback' process reinforce their ideas about regionalism and globalisation that shaped regional economic and financial diplomacy. Sohn (2008; 309-326) employing a learning thesis explains the collective learning of Chinese policy elites through "cognitive dissonance, feedback effects and transnational persuasion" brought about a positive shift in its foreign policy stance on regional cooperation. The 1997/98 AFC opened up fervent debates within China on whether East Asia's growth in the earlier two decades was a 'miracle or myth'. It also brought home the message that hasty and improper sequencing of financial liberalization and fickle capital flows could destabilize not only economies but lead to a regime change. China avoided the crisis and kept its exchange rate stable despite massive devaluations by its neighbours and sustained growth at 7-8%. But it was also worried about the rapidly spreading contagion and fear of it turning into a global crisis. Yunling (2010) notes that regional and international communities should work together to support economic recovery. Employing our analytical framework, I argue that the 1997/98 AFC gave Beijing an opportunity to demonstrate responsibility, potential to lead the region and pre-empt Japan from cementing its leadership role in Asian financial regionalism. The crisis was a moment of ‘genetic change’ in China’s foreign and economic policies towards its neighbours in East and Southeast Asia. Yeo (2020) argues that China’s growing economic cooperation with ASEAN and other East Asian economies helped to foster an environment for regional institutional building. “China’s openness to regionalism helped create a climate more conducive to institution-building and regional integration, thus feeding into the regionalism narrative driven by ASEAN,” highlights Yeo (2020; 461).

However, the 2008 GFC ushered in complexity in China’s relationship in the region. Wan (2010) argues that the 2008 GFC produced two opposing impacts on China’s policy stance on regionalism. On one hand, it continued its support to APT, CMIM and AMRO and on the other, it also exercised its rising economic strength to raise its profile in global governance architecture. This may result in weakening of its engagement in Asian regionalism. Wan (2010; 538) concludes that “The crisis has elevated China’s relative power in the world, which Beijing is using to advance its agenda on all fronts, bilateral, regional, and global.”

China went into the 2008 GFC from a position of unprecedented economic strength as the second largest economy in the world, the epicentre of global manufacturing and trading hub and holder of the largest foreign exchange reserves. China’s initial socialisation with regional forums, its success in asserting its influence in institutions like

APT and AMRO along with rising economic clout led to increasing realisation of the power of the region and regionalism. It seized regionalism as a foreign policy and economic diplomacy tool to hedge itself against the inherent imbalance and vulnerability of the existing global finance governance framework that continues to be dominated by the US. It deftly used financial regionalism – monetary and trade -- to create both political space and provide resources to play the role of the leader in the region and outside. The 2008 GFC was a 'critical juncture' that allowed China to discredit neoliberalism and the global financial architecture, highlight the risks of overdependence of dollar and push for internationalisation of the renminbi and create a new global financial institution as an alternative to existing regional and global multilateral institutions. This marks a radical shift from Deng Xiaoping's "24-Character Strategy" – which stressed on "…. maintaining a low profile, and never claim leadership"[16] (Acharya 2015). Hitherto, this has been the central tenet of Chinese foreign policy after it was put forward by Deng Xiaoping in the late 1980s following the Tiananmen Square crackdown. This trend can be illustrated by three examples.

First, within the region, China fought a bitter diplomatic battle with Japan to place a Chinese official as the first head of AMRO, the surveillance arm of CMIM. Even though Japan conceptualized and developed CMIM and AMRO, it failed to push its candidate as the first head of AMRO. By staking claim and winning the battle for the first chair of AMRO, China flagged its intention to lead and not be led by any other power in provision of

[16] Opinion piece by Acharya in Straits Times newspaper: "No Need to Fear the AIIB", The Straits Times, June 19, 2015: (http://www.straitstimes.com/news/opinion/more-opinion-stories/story/no-need-fear-the-aiib-20150619

regional public goods and regional institutions. But more significantly, its response to the global financial crisis and critical view of the US, seeking an alternative to the dollar as the reserve currency and push for governance reforms in international financial architecture has elevated its role at the global level. Zhou Xiaochuan, the governor of People's Bank of China (PBOC) opened this debate in 2009 by saying "what kind of international reserve currency do we need to secure global financial stability and facilitate world economic growth"[17]. Zhou suggested the global community assigns greater role to SDRs (Special Drawing Rights). Moves by China to internationalize the renminbi, and achieving reserve currency status as a possible long-term goal is seen by many as challenging the dominance of the dollar in the global financial system. This goal is dependent on China's ability to more towards freer conversion of its currency and building more liquid, deeper and open financial markets. The recent slowdown in economic growth and political reforms seem to have somewhat slowed down this process.

Last, but the most significant are the recent moves by China to set up the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund as part of its One Belt, One Road Strategy (OBOR). These have the potential to challenge the existing global financial architecture as well as change the landscape of regional and global cooperation on connectivity and trade. In October 2014, representatives from 24 Asian countries signed an agreement to establish the AIIB that will be led by China. Since then some 104 countries from Europe, Latin America, Middle East and Asia have joined the AIIB. The

[17] Statement released by Zhou Xiaochuan on 23rd March 2009. http://www.cfr.org/china/zhou-xiaochuans-statement-reforming-international-monetary-system/p18916

US has reacted negatively to this development and has put pressure on its allies to refrain from joining AIIB. China says the AIIB will help to bridge some of Asia's massive infrastructure deficit and allow it to share its successful development experience and create a community that pursues similar goals through international and regional cooperation. The OBOR initiative is a planned network of transport – road, rail, ports, energy and other infrastructure that will extend from Xian in central China through Central Asia and ultimately reach Moscow, Rotterdam and Venice. It will also connect port and coastal infrastructure projects in South and Southeast Asia to East Africa and Mediterranean Sea. However, this initiative extends beyond infrastructure and also includes initiatives to promote greater financial integration and use of renminbi by countries in these networks. The new institutions like AIIB and the New Silk Road Fund are designed to support the development of OBOR (Kennedy and Parker 2015). The creation of AIIB and OBOR mark the beginning of the first China-proposed and led multilateral financial institution and regional and intra-regional development strategy. The AIIB is important for the following reasons (a) it is an attempt to reshape the existing global financial architecture while at the same time making it compatible with the norms set by existing global and regional institutions (Sohn 2015) (b) decentralisation of global financial governance (c) challenges the principle of ASEAN centrality in regional institutional architecture (Acharya 2015) (d) a re-emergence of a Sino-centric economic order in Asia that can impact Asian cooperation.

Xiao (2016) asserts that AIIB was created in response to the reluctance of US-lead western economies to recognize China's growing economic strength and accord it with an appropriate representation in the global financial institutions. It also reflected China's desire to strengthen its regional economic cooperation objectives, particularly by providing funds for infrastructure development. “When an emerging power grows but is not embraced or even welcomed by the established powers and the global institutions they dominate, the former trying to create new institutions becomes something inevitable. Now the inevitable thing occurred in the real world,” Xiao (2016; 438). Both Xiao (2016) and Chan (2017) agree that China’s move to set up AIIB was also a strategy to counter the engagement of the US in the region.

It’s clear that 2008 GFC was a critical juncture that China seized to highlight forcefully the vulnerabilities of the global financial architecture and failure of the US to push through the intended reforms in international financial institutions. This along with the failure to provide China and other emerging economies with adequate voice and representation in existing global and regional financial institutions led Beijing to search for alternative institutional arrangements. Using HI framework, I argue this can be termed as an institutional displacement in the context of broader Asian financial regionalism that is occurring exogenously in response to transforming global and regional economic landscape (Thelen and Streeck 2005). Using its material power as well as through socialisation and diffusion of ideas on the need to transform the governance framework of international financial institutions, China is attempting to present an alternative arrangement through AIIB. The creation of AIIB also challenges the principle of ‘ASEAN centrality’ in Asian regionalism[18]. The key regional institutions so far have centred around or driven by ASEAN and China had little to contribute to their creation. ASEAN was created in 1967

[18] A Deputy Secretary General of ASEAN in an interview reiterated that China still respects the role of ASEAN and consults with the organisation while launching new initiatives.

as a bulwark against communism, reducing hostilities among Southeast Asian nations and promoting economic growth in the region. APEC, launched in 1989, was a Japanese-Australian initiative, the ASEAN Regional Forum in 1994 was created by ASEAN, Japan provided the impetus for the birth of ASEAN Plus Three in 1997 and Malaysia can be credited for pushing forward the idea and creation of the East Asia Summit in 2005. AIIB challenges the notion of ASEAN-led regional institutional architecture and does not guarantee that the interest of ASEAN would be intact or driven by it while conducting negotiations with rest of the region or the world.

Lastly, AIIB can also be perceived as an approach to create an infrastructure bank that knits Asia into a Sino-centric economic order (Koike 2015 [19]). In the post-war period, the economic order in Asia has been shaped by the US, as the core, and later together with Japan, as the periphery. However, the rise of China and creation of new institutions, an alternative model of economic development, new production networks and regional and trans-regional cooperation strategies like OBOR provides Beijing with necessary institutions and policies to recreate the Sino-centric order that prevailed in Asia prior to European expansion. These developments – regional and global ambitions, calls of internationalise renminbi, AIIB and OBOR – comes at the same time with the US strategic decision to re-engage, rebalance and "pivot" its foreign policy intentions and resources towards Asia in the 21st century. Beeson and Li (2012) argues that the GFC produced contradictory outcomes as China's rapid growth and political ascension within Asia pushed it to emerge as a regional leader as well as allowed it to play a greater global role.

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[19] Yuriko Koike is a former Japanese Defence Minister. Her reflections on AIIB were published in a column in Project Syndicate. https://www.project-syndicate.org/commentary/aiib-chinese-strategy-by-yuriko-koike-2015-05?

The competition, rivalry and quest for leadership among Japan, China and US will play a significant factor in shaping up Asian financial regionalism. These issues will be examined in chapter 5 of the thesis.

3.6 Conclusion

We broadly delineate four broad outcomes of the two financial crises and its impact on Asian financial regionalism. The financial crises of 1997/98 and 2008 were important critical junctures in institutional innovation – mainly creation of regional financial arrangements and later their institutionalization, particularly CMIM and AMRO, for closer financial cooperation. The crisis created 'productive' and 'permissive' conditions for creation of APT and later CGIF and CMIM and AMRO, the ABMI. While ideas and demand for Asian regionalism surfaced in early 1990s, the crisis provided the policy elites an opportunity to translate their ideas into action through specific institutional innovations. The institutionalization and governance structure of AMRO and setting up of the ABMI has laid out the roadmap for future regional cooperation. Using the HI framework, we can reiterate the "path-dependent" nature of this institutionalisation process and their reinforcing role in making future choices difficult. The focus on the antecedent historical conditions – political, security and economic – allows us to trace the evolution of these regional arrangements. The historical legacy, rivalry provides the backdrop to contestation between Japan and China over the leadership and governance and the resultant outcomes exhibit what Streeck and Thelen (2005) label as "layering and "conversion" of institutions. Secondly, the setting up of AIIB challenged the hegemony of US-led regional projects in Asia. The new institution has no explicit linkage with the US. More importantly, the GFC also gave a rising China an opportunity to stake claim to leadership in Asian financial regionalism and use it as a “counterweight strategy” to play a greater role outside the region. The creation of AIIB without the involvement of US and Japan and a relegated role for ASEAN can be viewed as an attempt by China to chalk out an alternative model of governance for international financial architecture. Third, the economic transformation in the region, particularly the rise of China and its willingness to participate and lead regional forums prepared ground for contestation of leadership of institutions. And lastly, we note that inter-governmental financial cooperation in Asia was forged ahead of formal trading arrangements within the region. This contrast with the European experience and challenges the traditional models of sequencing of regional integration (Deiter and Higgottt 2002). These unique features and changing dynamics would help us to trace the evolution of Asian financial regionalism. The next three chapters focus on detailed application of our analytical framework to the units of analysis – CMIM and AMRO, the ABMI – and the role of leadership in shaping the trajectory of Asian financial regionalism.

Chapter 4 Evolution of Regional Safety Net CMIM and AMRO

4.1 Introduction

The foundations of Asian financial regionalism were laid during the 1997/98 AFC. The bedrock of this foundation was an initiative by East Asian economies to create a facility that members can tap into to ward off any speculative attack on their currencies and cushion the impact of any sudden flight of capital. During the 1997/98 crisis, the region's high-growth economies succumbed to attacks on their currencies and faced a sudden shortage of funds to finance economic activities as foreign investors fearing an imminent economic collapse suddenly withdrew money from the region's banks and capital markets. The economies did not have enough foreign exchange reserves individually to stem the outflow of capital or to shore up their currencies. The global financial institutions, which viewed the origins and causes of the crisis differently than those from many Asian governments, insisted on bail outs linked to policy conditions that further delayed in tackling the rapidly deteriorating situation. Therefore, the core focus of regional financial cooperation has been to create an arrangement that provides emergency funds to economies facing balance of payments or currency crisis. This is the objective of the ASEAN+3 Chiang Mai Initiative and its later forms – the CMIM and AMRO.

Chapters 2 and 3 firmly established the link between the critical juncture of AFC and CMI and CMIM and similarly later between GFC and multilateralization of CMIM and institutionalisation of AMRO. This chapter focuses on the key elements of the HI framework, timing, sequencing and feedback loops that takes into account the constitutive nature of the institutional arrangements and role of contingent events that drive future institutional innovations. Using our eclectic framework of critical junctures and the HI Framework we establish that critical antecedent conditions, including pre-existing institutional frameworks and decisions taken between 1997/98 and 2008 contributed to the evolution of regional financial arrangements and generated path dependent processes that shaped many subsequent institutional outcomes. The first section of this chapter summarises the political economy challenges faced in creation of regional safety nets and the second examines the reasons leading to the demise of the AMF and the Manila Framework. The following three sections trace the evolution of CMI, CMIM and AMRO and finally conclude by focusing on the challenges and tasks ahead.

Asia's initiative to create a regional safety net were not the first attempts to insulate a region from a global financial crisis. The embryo of such regional initiatives across Europe, Asia, Middle East and Latin America was implanted in the wake of the demise of the Gold Standard in 1971. (See **Table 1**) The first generation of regional safety nets emerged at the end of the Gold Standard and the global economic crisis created by the oil shock in 1973/74 as doubts surfaced on the ability of Bretton Woods institutions to respond to global monetary instability (Rhee, Sumulong and Valee 2013).

Table 1: Features of Selected Regional Financial Arrangements

Key features	European Stability Mechanism	Latin American Reserve Fund	BRICS Contingent Reserve Agreement (CRA)	Chiang Mai Initiative Multilateralization (CMIM)
Year established	2012	1978	2015	2000 (CMI)
Headquarters	Luxembourg	Bogota, Colombia	Shanghai, China	None (AMRO in Singapore, 2011)

Key features	European Stability Mechanism	Latin American Reserve Fund	BRICS Contingent Reserve Agreement (CRA)	Chiang Mai Initiative Multilateralization (CMIM)
Fund size	Euro 704.8 billion	USD 3.9 billion	USD 100 billion	USD 240 billion
Member economies	19 (All Eurozone member countries)	8 Latin American countries (Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela)	5 BRICS countries (Brazil, Russia, India, China, and South Africa)	13 plus Hong Kong (10 ASEAN member states, China, Japan, the Republic of Korea, and Hong Kong)
Major Objective	Preserving financial stability of the Eurozone through temporary financial assistance to Eurozone members (only) facing exceptional problems beyond their control	Supporting members' balance of payments with credits and guarantees	Provision of liquidity and precautionary support to protect against short term balance of payment pressures	Provision of balance of payments and short term liquidity support through currency swaps
Independent surveillance	No independent surveillance (surveillance outsourced to the European Commission)	Independent surveillance	Surveillance relied on IMF Article IV consultation reports	Independent surveillance through ERPD (AMRO as a surveillance unit)
Relationship with the IMF	IMF participation sought "wherever possible." While not strictly required as a legal matter,	Not linked to IMF	Beyond 30 % of a member's borrowing limit, disbursements to be linked to an IMF program (never activated)	Beyond 30 % of a member's borrowing limit, disbursements to be linked to an IMF program (never activated)

Key features	**European Stability Mechanism**	**Latin American Reserve Fund**	**BRICS Contingent Reserve Agreement (CRA)**	**Chiang Mai Initiative Multilateralization (CMIM)**
	linked to IMF programs as a matter of Council policy and members' domestic politics			
Conditionality	Yes	Yes	Yes	Yes

Source: Junkyu Lee 2018. Discussions on RFAs in Europe and Implications for Asia. ADB Seminar on Strengthening Regional Surveillance and Financial Safety Net Mechanisms in Asia. Aug. 2018.

The Werner Plan in 1970 and subsequent decision of the Basel Agreement in 1971 to create a "Snake in the Tunnel" agreement led to the establishment of the European Medium-Term Financial Assistance initiative[20]. Similar responses emerged with the creation of the Arab Monetary Fund in 1976, the ASEAN Swap Arrangement in 1977 and the Latin American Reserve Fund in 1978. The ASEAN Swap Arrangement (ASA) was created by the central bank and monetary authorities of the original five ASEAN members – Indonesia, Malaysia, the Philippines, Singapore and Thailand – and aimed to provide liquidity support to economies experiencing balance of payments difficulties. The initial amount of ASA was just US$ 100 million and was intended to be in place for just one year. It was expanded to US$200 million and it did not involve a linkage with the IMF (Hill and Menon 2012). It remained dormant and when the AFC struck, the amount available was too meagre to respond to the needs of the crisis-hit economies. The second

[20] http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/551325/EPRS_BRI(2015)551325_EN.pdf (Accessed on 5/09/2016)

generation of regional safety nets germinated in 1997 when Japan sprang a surprise by proposing the creation of Asian Monetary Fund (AMF). The AMF failed to make headway, but it set in momentum regional financial cooperation initiatives that lead to creation of safety net – CMIM and ASEAN+3 Macroeconomic Research Office (AMRO) that leads surveillance and monitoring of East and Southeast Asian economies.

The proposal of AMF and its demise can be described as a reactive sequence within the path dependence framework of HI. Mahoney et al (2016) and Hanrieder and Zurin (2017) contend that not all path dependent processes are self-reinforcing. Mahoney et al. (2016; 77) defines reactive sequences as chains of events that “are marked by backlash processes in which reversals can take place.’ I argue that the AMF and the Manila framework were examples of reactive sequences in institution building in Asian financial regionalism. Both, the AMF and the Manila Framework failed, but they implanted ideas of regionalism and revealed the preferences and objectives of regional and extra-regional actors. Thelen (1999) notes that preference formation is endogenous in HI. She argues that interests and objectives are developed within institutional contexts and cannot be removed from them. Japan’s AMF proposal reflected not only its desire to lead a regional initiative but also the creation of an arrangement that keeps out the US and the IMF. But this vision was not shared by many regional economies that wanted flexibility to tap both the US and the IMF for funds and access any regional facility during crisis. On the other hand, the insistence of the US to accord the IMF a pre-eminent role in the Manila framework was met with suspicion and opposition from East Asian economies. The US wanted regional financial arrangements to remain nested with the global financial architecture. While both the AMF and the Manila framework failed, they revealed the preference of the region's elites to (a) create a regional safety net and, (b) not keep the IMF out of any regional arrangement. It is evident that the political economy of creating regional safety nets is complex. The next section examines these complex issues by analysing how traditional IPE approaches explain the creation of regional safety nets and why HI provides a more cogent explanation of the origin and evolution of regional safety sets.

4.2 Politics Economy of Regional Safety Nets

Regional financial safety nets are public goods that are created to offset the impact of negative externalities[21] like a financial market contagion or a currency crisis. As Asia integrates with itself and the world, it not only reaps the benefit of globalisation and regionalisation but also has sometimes to collectively bear the cost of economic mismanagement by its some of its economies or any exogenous global shocks. The existing global and regional financial institutions like the IMF, APEC and ASEAN failed in both anticipating and responding in an adequate and timely manner during the 1997/98 AFC. The smaller representation of Asian economies in the Bretton Woods institutions implied that their calls for global intervention and quick release of funds to stop speculative attacks on their currencies and stem the outflow of short-term capital flows went unheeded in the early phase of the crisis. Even Japan with the second largest quota in the IMF could not push through its call for greater global support for the crisis-hit Asian economies (Katada 2002). Asia remained sceptical of the promises made by the US and Europe to reform the international financial architecture to reflect the growing economic

[21] Negative externalities can be defined as costs borne by an economic agent that is not directly attributable to its own transactions or activities.

clout of the emerging economies[22]. Thus, a consensus emerged to create a regional fund that provides help to member economies during crises. However, setting up a regional financing facility involves a host of complex issues ranging from objectives of financial regionalism, leadership and provision of funds, the distribution of costs and benefits, setting of rules and standards and its relationship with global arrangements. These objectives must balance against cost of minimising moral hazard.

Traditional IPE approaches have been employed in the literature to explain the creation of a regional financial safety net and regional financial institution (Grimes 2015) (Krapohl 2015) (Katada 2011). The realists have attempted to explain the creation of CMIM and AMRO through the lens of political power relations involving Japan, China and the US. The neo-realists postulate that regional cooperation initiatives reflect national interests and preferences of the dominant power. Their focus on power rivalries imply that there are limits to regional cooperation and the institutional outcomes are 'shallow'. They argue that that significance of regional safety nets in emerging global financial architecture should not be overstated (Chin 2010). The trend of rapidly growing and developed Asian economies, like Korea, Japan, China, India, to accumulate vast foreign reserves as a first line of defence to insure any global volatility is cited as reluctance to cede any sovereignty of regional financial institutions. "The ability to access national solutions for financial crisis management will continue to be a 'core interest' of any state. The issue, for multilateralists, is to what degree the national solutions prevail over collective options, and whether it is possible to encourage states to shift a portion of their self-protection to

[22] It took more than five years for the US to finally approve a deal that it brokered with G20 in 2010 to double quotas with small reallocation towards China and other emerging markets.

collective insurance" (Chin 2010, pp 695). However, foreign reserve accumulation is also used to buy dollars to manipulate currency movements to boost exports and investment. Indeed, after the 1997/98 Asian crisis, East Asian economies used weaker currencies to boost exports and competitiveness. Ifzal Ali (2005)[23] argues that foreign reserves accumulation is "mercantilism as its worst". Indeed, mercantilism and realism may appear to go hand in hand as the East Asian economies focus more on consolidating national interests over regional stability. The unfolding of this power play in currency markets can be witnessed in often tense economic relations and accusations of competitive devaluation of currency levelled by China, Japan and Korea against each other. Katada (2014) counters this argument by saying despite the long-standing rivalry and changing power dynamics among Japan, China and Korea, CMIM and AMRO have become a reality without much resistance from either of them.

Grimes (2006, 2011) argues that while historical mistrust and rivalry pervades the relationship between Japan and China, the growing regionalisation of trade and investment have brought the rivals to support the objective of financial stability in the region. However, regionalisation of trade and investment was in full progress when the AFC struck the region and yet there was little effort to create a regional financial arrangement to act as a lender of last resort to economies caught in a crisis. Realists, like neo-functionalists and constructivists, fail to provide an answer as to what factors led to the creation of CMIM and AMRO during a particular period not during others. The 1997/98 crisis shook the foundations of mercantilists beliefs that large economies could put in

[23] https://www.nytimes.com/2005/05/04/business/worldbusiness/reserves-too-high-in-east-asia-adb-warns.html

place policies that counter regional and global financial instability. While the financial depth of the initial regional safety nets was not deep, it conveyed the region's collective will to act against such market volatilities.

Liberal institutionalist and neo-functionalist approaches highlight growing and complex economic and financial interdependence among Asian economies and the necessity of creating regional financial institutions to manage these relationships and provide collective solutions in times of crisis (Kawai 2015). While the creation of regional safety nets may meet some limited functional needs of the economies, they have done little to overcome embedded historical mistrusts or create positive political spillover for further regional integration. Neo-functionalists, like Kawai and Kuroda, hoped that creation of regional financial safety nets would allow East Asia to set aside its political rivalries and even nudge the region to move to some form of a regional currency basket to manage foreign exchange coordination and volatility. "Proponents of East Asian regional exchange-rate policy coordination, especially in the Asian Development Bank (ADB), thought to have found in CMIM a technocratic way to overcome the political-economic obstacles to cooperation, hoping for a neo-functionalist spill-over dynamics from CMIM to an Asian Currency Unit (ACU) basket, governed by an AMF-style institution." (Hassdorf 2010). Goh (2011) concedes that functionalist cooperation is not effective in East Asia as great powers are fundamentally suspicious of each other and give primacy to national interest over regional collective.

The political economy dynamics of creating regional safety nets can be examined by analysing three major initiatives launched after the 1997/98 crisis. These are the AMF, the Manila Framework and CMI, which subsequently transformed into CMIM and later was complemented by the AMRO. Using our eclectic framework of critical junctures and path dependent framework, the thesis demonstrates that it is important to study both successful and unsuccessful outcomes. The earlier unsuccessful attempts, i.e. the AMF and the Manila Framework, to construct regional funding mechanisms influenced the development of financial regionalism.

4.2.1 Rise and fall of the AMF and the Manila Framework

Following our eclectic framework of critical juncture and the HI framework outlined in chapter 2, we first present two cases of unsuccessful but transformative attempts to put together a regional financial and economic surveillance mechanism in East Asia. The first proposal for regional financial cooperation after the 1997/98 AFC was made by Japan at the G-7/IMF meeting in Hong Kong in September 1997 to set up an AMF. However, Japanese bureaucrats and researchers had started the groundwork to create a regional financial safety net in 1995 (Hamanaka 2009). We draw upon a series of articles in the newsletters of the Institute of International Monetary Affairs (IIMA) by former Japanese Vice-Minister Toyoo Gyohten[24][25] and Hajime Shinohara[26], Managing Director of IIMA, and speeches of Japanese officials to highlight the origin of the failed AMF. Shinohara (1999) reports that in 1994, B.W. Frazer, the governor of Reserve Bank of Australia, suggested setting up a regional organisation which will be an Asian version of Bank of International Settlements (BIS). "The Asian Monetary Fund could assume major functions of such an Asian BIS. Through the Asian Monetary Fund financial authorities in the region could

[24] http://www.iima.or.jp/Docs/newsletter/1998/NL-98-01_e.pdf
[25] http://www.iima.or.jp/Docs/newsletter/1999/nl99-07e.pdf
[26] http://www.iima.or.jp/Docs/newsletter/1999/nl99-03e.pdf

facilitate exchanges of information and experience and may strengthen mutual coordination in the supervision of banks, financial institutions, and financial systems. However, the Asian Monetary Fund should not force upon member countries ideas and standards developed by industrialized countries at the Bank for International Settlements in Basel, Switzerland. The Asian Monetary Fund should develop an original set of guidelines, based on 'Asian' values, and monitor compliance with such guidelines using a network organized by its members," argued Shinohara (1999, pp 14). The AMF was seen as an Asian forum that develops its own norms and standards and not those set by western nations. Japan was interested in positioning AMF as a regional organisation that is not nested inside the global governance architecture.

At the forefront of this initiative were Eisuke Sakakibara and Haruhiko Kuroda of Japanese Ministry of Finance (JMOF), and Gyohten and Shinohara of IIMA, which formed a study group on regional monetary funds (Hamanaka 2009). In the wake of the Mexican crisis in 1996, Shinohara and Gyohten came up with the idea of an Asian Monetary Organization based on the premise that the US/IMF may not show the same earnestness if a crisis hit Asia (Lipscy 2003). This sentiment was also supported by Sakakibara. "My point is that because of the asymmetry in the current global capitalism, countries at the centre are less likely to devote their resources to potentially regional crises…" (Sakakibara 2000). The Japanese officials wanted to present the AMF as 'Gyohten Initiative' at the May 1997 Annual Meeting of the ADB. But there was apprehension that some Asian economies like South Korea and Taiwan may not support the proposal (Lipscy 2003; Hamanaka 2009). However, by August 1997, Japan's position had strengthened after it showed strong bilateral financial commitment in IMF's rescue package for Thailand by pledging US$4 billion to the US$17.2 billion. In contrast, US was absent in the early stage of the Asian crisis. This reinforced the view of JMOF that US is likely to be less vigorous in its rescue efforts and created a sense of Asian identity and consensus for the region to create a self-help mechanism to tackle future crisis. More importantly, it to some extent it gave a momentum to Japan to stake its claim as a regional leader at the expense of the US (Katada 2014, Amyx 2002, Lipscy 2003). The IMF's failure to timely intervene, mobilise larger bailout funds, impose tight fiscal conditions, and insistence on structural reforms beyond macroeconomic issues led to widespread scepticism of the role of the US and Bretton Woods institutions. Kawai argued that, "Clearly, the IMF could have offered much better services for crisis-affected countries" (2015, pp. 7). There was a consensus among regional policymakers that the global financial architecture was inadequate to respond to the crises in the region and that the focus of any emerging regional institutions should be not just on crisis management but also on crisis prevention. It was agreed that economic surveillance and monitoring was important to detect early signals of any crisis. And lastly, a consensus emerged that a regional financial institution is better equipped to detect early signs of vulnerabilities and respond to crisis given the growing economic and financial interdependence.

However, the IMF and the US opposed the creation of AMF. This opposition was premised on three key factors. The US wanted to maintain the primacy of the IMF as the global lender of last resorts and did not want its role to be diluted in any emerging Asian financial institution. The emphasis on institutional linkage was crucial in shaping the relation between arrangements like CMI, CMIM and AMRO and the IMF. It also ensured that Western nations, through the IMF, continue to play a critical role in any future financial bailout of East Asian economies. It also places a constraint on CMIM or AMRO to emerge as a true regional institution. Placing this development in the HI Framework, we can state that US' insistence on IMF's key role made regional financial architecture "path-dependent" and ensured that it remained nested within the global governance framework. This linkage with IMF was what adherents of HI framework describe as a self-reinforcing sequence that was critical in ensuring that CMIM follows a particular path (Mahoney et.al 2016).

A key reason on insistence on IMF's role was the ideological division between the US and Japan on the origin, causes and solution to the Asian financial crisis. Japan's development state model was in direct contrast to the free-market ideology espoused by the IMF and the US. Japan, which had large exposure to Southeast Asia through its banks, viewed the crisis as a liquidity crisis and advocated that timely intervention through adequate provision of liquidity, could help the crisis-hit countries to put in place necessary reforms to get their economies on track. The US and the IMF, on the other hand, pushed for deeper structural reforms, free float of currencies and higher standards of corporate governance to root out crony capitalism from the corporate and banking sectors (McIntyre et al 2008). Lastly, the US felt that easy provision of funds to crisis-hit economies could lead to moral hazard – a situation where investors continue to undertake riskier investments without the government undertaking necessary reforms to put an economy on a stable growth path. Sakikabara (2000) has defended this criticism of moral hazard by saying "if the function of AMF is very narrowly defined as provision of necessary liquidity at the time of crisis with specific formula for private sector participation, for example, à la Korean model, it could complement the existing function of the IMF. Japan also failed to garner support from China, which was not consulted and saw it as a move by Tokyo to assume regional leadership and enforce regional hegemony of the yen". China was traditionally reluctant to participate in multilateral institutions and maintained a "passive approach towards regional cooperation" (Sohn 2008, pp 312). It was also unwilling to upset the United States ahead of its entry into the World Trade Organisation (WTO). The timing of the AMF and lack of consultations, preparatory work and arguments that it will lead of moral hazards versus the IMF, forced Japan to abandon it. But the AMF did catch the imagination of many Asian governments and once economic recovery took hold in the region, there were calls to mobilize Asia's vast savings to channel into productive uses within the region and use them to build defences against future crises (Pempel 2008). There were influential voices in Asia which refused to let the idea of a regional monetary fund die. IIMA's Shinohara in an article in March 1999 said: "Throughout 1998, Japan had not disavowed the scheme, nor had we accepted the Manila Framework as the last word, considering it just a step in the direction of its Establishment"[27]. Similarly, the former Malaysian Prime Minister Mahathir Mohammad during the World Economic Forum proposed to rename his earlier proposal of setting up an East Asia Economic Caucus as the East Asian Monetary Fund[28].

The Manila Framework[29] was proposed as an alternative to the IMF at the meeting of the ASEAN Finance and Central Bank Deputies in Manila in November 1997. One of the primary objectives of this arrangement was to build a new framework of regional

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[27] http://www.iima.or.jp/Docs/newsletter/1999/nl99-03e.pdf
[28] http://www.wsj.com/articles/SB940271940421782419
[29] https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/manila_framework/index.html. We have used the documents and speeches housed at the Japan's Ministry of Finance website to outline the evolution and key issues impacting the Manila Framework

cooperation for financial stability. However, under the Manila Framework, the IMF had a key central role. The key objectives of the framework included (a) a mechanism for regional surveillance to complement global surveillance by the IMF; (b) enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen the IMF's capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources.

The emphasis of IMF's role in regional economic surveillance and resource mobilisation to respond to crisis is not surprising given the presence of the US and other non-regional members in the groupings. Even after conceding ground on setting up of the AMF, Japan extended support to this complementary arrangement together with its call to reform the IMF. In 2000, Japan's Vice-Minister for International Cooperation Haruhiko Kuroda in a speech at the meeting of Deputy finance ministers of the Manila Framework said: "We must continue to intensify our efforts to prevent crises and find expeditious and appropriate measures for resolving them when they do occur, through reform of the global financial system as well as the enhancement of regional financial cooperation such as the Manila Framework" [30]. The Manila Framework was terminated at its 12th meeting in November 2003 without fulfilling its original mandate as both Asian and US policymakers felt that it had lost its relevance and overlapped with other initiatives. Under the HI framework, we can categorize the demise of the Manila Framework as institutional 'exhaustion' - institutional breakdown that takes place gradually rather than abruptly (Streeck and Thelen 2005). But both the AMF and the Manila Framework had set in

[30] https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/manila_framework/if011.htm

motion an ‘ideational process’ and an increased sense of ‘regioness’ or “regionalization of thinking” (Breslin and Higgott 2000). It accelerated East Asia’s search for regional financing arrangements and building regional surveillance mechanisms.

The failure of the AMF follows what has been described as a reactive sequence that led to a reversal in the path dependence process led by opposition from the US and reluctance from China that did not want to be locked into an arrangement where Japan established itself as a leader. However, as Grimes (2015) highlights that while the AMF died, it reinforced the region’s resolve to build its own financial safety net. “Although the AMF proposal died, the idea of a regional fund did not, and financial regionalism has deepened and expanded in the years since the crisis,” Grimes (2015; 146). Similarly, while the Manila Framework withered away, Washington’s insistence on according IMF a role in regional safety net and placing it within the global financial architecture did find acceptance among the region’s economies. Thus, the eclectic framework of critical junctures and path dependency used in this thesis shows that critical junctures can lead to unsuccessful outcomes but generate transformative ideas of regional cooperation. As shown later in the chapter, the next round of regional cooperation initiatives did not include the US or any western economy. The seeds for this significant transformation of regional financial architecture were sown in the failures of the AMF and the Manila Framework.

The dynamics of the AMF can also be examined by looking at the power relationships within the regional and international arenas. Pierson (2016) contends that the HI framework allows to analyse power inequalities by (a) paying attention to unfolding of processes over time and, (b) focusing on core institutional arrangements that reflect the preferences and interests of the political actors. Pierson (2016) outlines three dimensions of power inequalities. The open contestation of power in institutions is the first dimension. The second dimension focuses on situations where the competing interest are recognized but power asymmetries constrain open contestations. And one way to restrain conflicts is to note provide a forum or an agency that deals with power. The third dimension relates to the ideational framework of power. “Powerful actors can gain advantage by inculcating views in others that are to their advantage,” argues Pierson (2016; 129). I argue that Japan, while firmly believing in the AMF proposal, did not choose to contest the US as its security and economic dependence on US made it difficult for Japan to challenge Washington’s dominance in multilateral financial institutions. And the US was also unwilling to provide Japan with a regional platform to lead financial regionalism, a sentiment that was also shared by China. Thus, the conflicts arising out of the power inequalities were kept in check through non-contestation and then finally through the death of the AMF. But the strength of the idea of AMF, described as the third dimension of power, kept alive the region’s ambition to develop a regional financial safety net (Katada 2011).

While Japan made a “strategic retreat” by abandoning its pursuit of the AMF, it pursued its economic diplomacy by leading the rescue efforts in the crisis-hit economies in East Asia (Hook et al 2002). In October 1998, it launched the New Miyazawa Initiative to provide US$30 billion of financial support to the countries crippled by the crisis. Out of this US$15 billion was made available for medium to long-term funds needed to support economic growth and the remaining to provide emergency funds to meet near-term needs and support the implementation of economic reforms. Japan also set up a facility in the ADB to guarantee sovereign bonds issued by regional economies, the proceeds of which were intended to recapitalise ailing banks and companies. In addition, it also provided large amounts of export credits to shore up productivity and export competitiveness of East Asian economies. These facilities were availed by the Philippines, Thailand, South Korea, Malaysia and Indonesia. Perhaps, the most significant move under the New Miyazawa Initiative was the commitment given by JMOF to provide up to US$2.5 billion liquidity to Bank Negara Malaysia, the central bank, through swap transactions between the US$ and the Malaysian ringgit. A similar bilateral swap worth US$ 5.0 billion was signed between Japan and South Korea. These bilateral swap arrangements (BSA) were in many ways a pre-cursor what later came to be known as the Chiang Mai Initiative. The New Miyazawa Initiative in 1998 created a “regional-wide framework with each state in the region linked bilaterally to Japan at its core—an interesting parallel in the economic dimension to the ‘hubs and spokes’ of the US bilateral alliance framework in the dimension of security” (Hook et al 2005).

4.3 From AMF to Chiang Mai Initiative (CMI)

From the HI framework perspective, the 1997/98 AFC can be understood as the “critical juncture” that acted as a catalyst to match the demand for a regional financial safety net and the readiness of the region’s policymakers to supply it. The crisis created an opportunity for change and the region’s policy elites were ready to supply alternative regional institutional arrangements. The crisis was the critical juncture that brought together these three building blocks on the supply side to meet the demand for regional safety net and lay the foundation for East Asian financial regionalism. The timing and sequencing of events were critical in shaping financial regionalism. The 1997/98 crisis was the catalyst in generating successful outcomes like ASEAN Plus Three that provided the pathway for CMI, CMIM, AMRO and the ABMI. At the same time, the unsuccessful outcomes of the AMF and the Manila framework also played a significant role in emerging Asian financial regionalism. Thus, the timing of the crisis and sequence of unfolding outcomes played a significant role in development of regionalism. Katada (2002) highlights that under Japan's leadership, the New Miyazawa Initiative laid out a regional financial arrangement through a network of bilateral swap arrangements among central banks. "Although it does not establish a formal regional institution, Japanese policymakers are hopeful that it will create a basis for an institution like the AMF," stated Katada (2002; 97).

While the Japanese policy elites had played around with variants of CMI earlier, the crisis provided them with a window of opportunity to garner a consensus in the region and implement their ideas. The region's policymakers took a landmark decision at the ASEAN +3 finance ministers meeting in Chiang Mai in 2000[31] to strengthen its "self-help and support mechanism" and create a regional financing arrangement to supplement existing international financing facilities. The so-called Chiang Mai Initiative (CMI) built upon the existing cooperative arrangements among central banks and monetary authorities. There were two key components of the CMI: (a) an expanded ASEAN Swap Arrangement that would include all ASEAN economies, and; (b) a network of bilateral swap arrangements (BSAs) and repurchase agreement facilities among ASEAN and China, Japan and South Korea. The edifice of the fledgling regional financial safety net was built around three pre-existing institutional frameworks. The venue of the CMI was the ASEAN+3 framework that itself was created during the 1997/98 AFC and the existing ASEAN Swap Agreement

[31] I use the communiques issued by ASEAN and ASEAN Plus Three to track the development of CMI and CMIM.

and the two-bilateral swap agreement led by Japan with Malaysia and Korea under the New Miyazawa Initiative. The ASA was expanded to US$ 1 billion in November 2000 and now included all ASEAN economies. Under the ASA, members could draw up to twice its contribution to the arrangement without any pre-conditions and repay within six months with the possibility of rolling over for a maximum of another six months. The inclusion of ASA in the CMI maintained the centrality of ASEAN in the regional financing arrangements (Henning 2009). Perhaps, the most significant characteristic of the CMI was its linkage to the IMF, which ensured that Asian financial regionalism remained nested with the global framework and provided a key role to US and its allies in designing responses to any future crisis.

Japan forged BSAs with Thailand, South Korea and Malaysia. In 2001, the ASEAN+3 agreed to review the main principles of BSAs[32] in three years. The BSAs were an arrangement where a credit nation supplies US dollar in return for domestic currencies of participating countries. However, the BSAs inked by China provided renminbi for domestic currencies and hence were seen as of limited use during any financial crisis as the Chinese currency is not fully convertible. The repurchase agreements were an arrangement to provide emergency liquidity through sale and buyback of US Treasuries of less than five years maturity and government securities of countries facing a crisis. For the BSAs, the countries could draw upon 10% of total without any linkage to an IMF programme for 180 days. For the remaining 90% of the BSAs the country needed to be

[32] The growing literature on the use currency swaps during crisis has highlighted their beneficial impact (Aizenman and Pasricha (2010), Rose and Spiegel (2011). (Scheubal and Stracca (2016) highlight that the swap lines provided by US to some of the crisis hit economies during the 2008 facilitated the functioning of financial markets and ensured financial stability.

under an IMF programme. While the short-term funds would be provided quickly through CMI to meet near-term challenges, the countries need to be under an IMF programme for accessing medium to long term funds. The linkage to IMF was created to downplay fears of moral hazards and also to avoid any "potential conflict" with the Bretton Woods institutions (Sussangkarn 2010 and 2011).

The BSAs were the bedrock of the nascent Asian financial regionalism. A former senior official of AMRO[33] notes that Japan provided not only ideational leadership but also backed it by material resources through setting up the BSAs. He added that CMIM and AMRO are offspring of the BSAs. While the linkage of BSAs to the IMF programme addressed the issue of moral hazard, it also made CMI, CMIM and later AMRO path-dependent and ensured that the US and Bretton Wood institutions would continue to have an influential role in shaping Asian financial regionalism. Grimes (2006, 2011) argues that ASEAN Plus Three tried to lock in multilateral financing by "borrowing credibility" from the IMF. Grimes (2011) emphasised that the CMI had delegated decision making to the IMF, a move that shielded Japan from political risks and protected the credibility of the arrangement during a crisis. The other check against moral hazard was through the creation of a process known as Economic Review and Policy Dialogue (EPRD). The policymakers agreed that effective economic reviews and policy dialogues could strengthen surveillance of regional economies. This represented the first attempt of multilateral surveillance among ASEAN Plus Three. EPRD operated through information exchange, policy discussions and peer reviews on regional and global economic developments. The idea was to identify vulnerabilities and systemic risks and take

[33] Interview with a former senior official of AMRO.

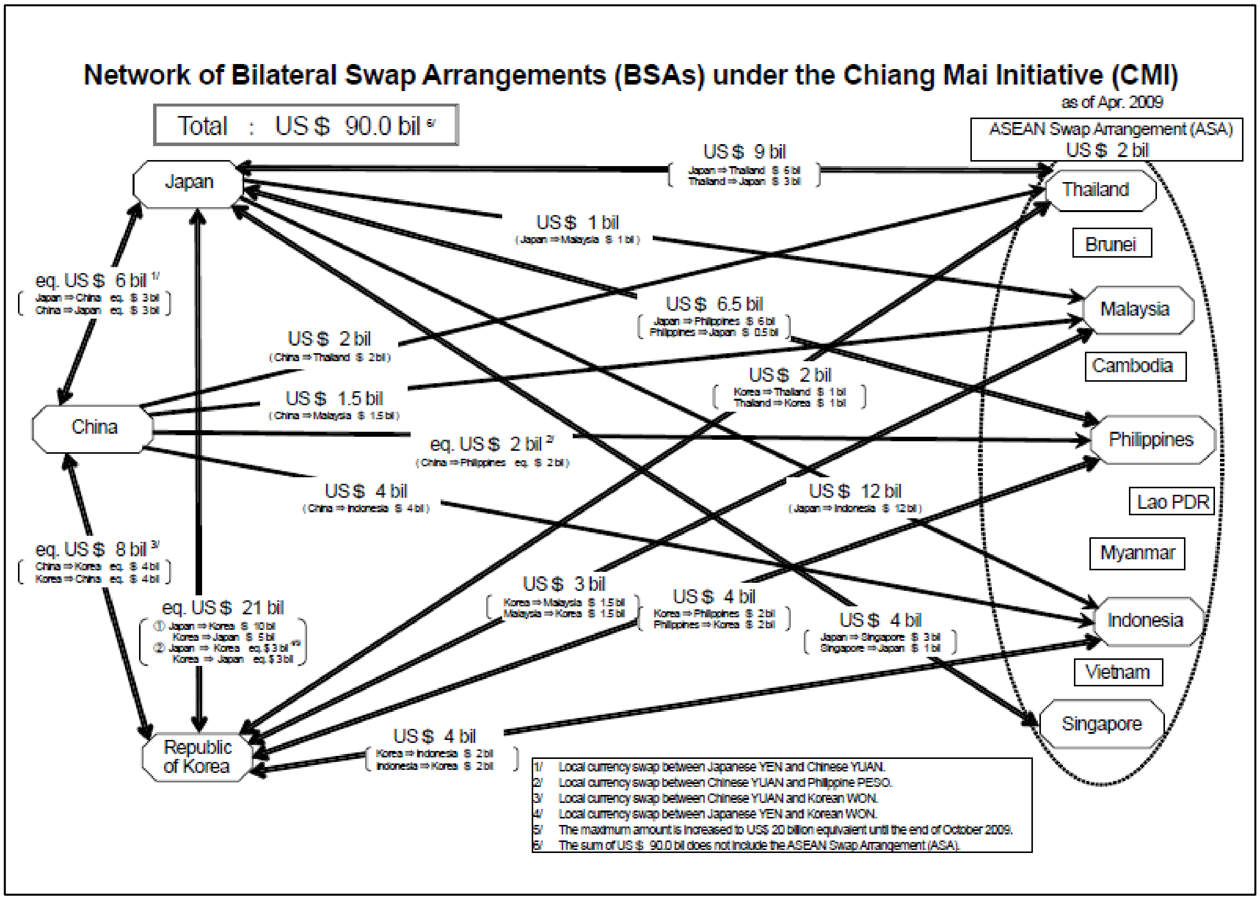
corrective policy actions. It was expected that peer pressure could lead countries to adopt better macroeconomic policies and regulations and could lead to more policy coordination and promote regional cooperation (Kawai and Petri 2010). Using the gradual mode of institutional change (Mahoney and Thelen 2010), the EPRD can described as a layering of CMI. It adds to the functions of CMI without effecting any formal change in the institution.

By 2004, the total number of BSAs rose to sixteen and the size jumped to US$ 36.5 billion. In 2005 at their Istanbul meeting, the ASEAN Plus Three Finance Ministers took some landmark decisions, including a study examining possible “routes” towards multilateralisation of CMI. The other decisions included integration and enhancement of economic surveillance into the CMI framework for early detection of vulnerabilities in member economies and measures to tackle them. However, the regional surveillance mechanism would only complement existing mechanisms of the IMF. As a step towards multilateralisation, they also decided to define the activation process of BSAs and established that the swaps could be collectively activated during a crisis. They emphasized on the need to significantly expand the BSAs to meet the funding requirements of economies during any emergency and advocated for transformation of one-way BSAs to two-way BSA. Following this, the size of ASA was expanded to US$ 2 billion. In response to demand from many member economies, it was also decided to the size of swaps that could be withdrawn without any IMF-support programme to be increased to 20% from existing 10%. These changes were reflected in the BSAs that were being renewed among ASEAN Plus three economies. For example, in the Japan-Thailand BSA, the swap requesting party’s participation in the ASEAN+3 Economic Review and

Policy Dialogue was now linked to the condition of swap activation and collective decision-making procedure for swap activation was also introduced. The total swap size nearly doubled to US$75 billion in 2006. In 2007, the ASEAN+3 agreed to put in place a self-managed reserve pooling arrangement governed by a single contractual agreement as an instrument to multilateralise the BSAs. This was a significant decision in the creation of a regional liquidity facility. In addition, the swap size increased to US$ 80 billion. In 2008, just prior to the GFC it was agreed that the minimum size of CMI would be US$80 billion and the proportion of the contribution between ASEAN and the Plus Three (China, Japan and Korea) would be 20:80.

While these developments represented the push towards greater regional financial cooperation, the pace of progress remained slow and the quantum of funds needed by the region to fight any future crisis was much higher than what was mobilised under CMI. The governance structure of CMI was opaque and complex (see **Figure 2**). There was still no single authority to activate and coordinate the BSAs. Thailand’s former Finance Minister Chalongphob Sussangkarn (2010) agreed saying that CMI was more symbolic and the need for liquidity support has become less as the region has recovered and also accumulated vast foreign exchange reserves that are likely to be used as the first line of defence in any crisis. It is clear that prior to the 2008 GFC, the region had lost momentum and was stuck in the web of BSAs that were not just inadequate but also difficult to administer.

Figure 2: Status of CMI in 2009



Source: Ministry of Finance, Japan.

https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/cmi/CMI_0904.pdf

4.4 The 2008 Global Financial Crisis (GFC) and CMIM

The 2008 GFC drove home the message to region's policymakers that it can no longer delay the institutionalization of multilaterlisation of CMI. While the key components of this multilateral framework were being explored since the 2005 meeting in Istanbul, there was lack of action on the ground. This inertia dented the credibility of CMI in 2008 when Korea and Singapore secured US$30 billion each through a currency swap agreement with the US Federal Reserve. Korea had tried to access BSAs before reaching out to the US Fed.

However, this was abandoned due to three factors. First, the size of funds that could have been tapped was smaller than the amount offered by the US Fed. Second, Korea did not want to activate CMI as it would trigger off an arrangement under the IMF. Lastly, Seoul quickly needed US dollars to calm down financial markets and repel any speculative attacks on the Korean won. The swap with US Fed calmed the Korean market and boosted confidence in the economy. “Japan was reported to have been reluctant to offer a yen-won swap line. It asked the Republic of Korea to approach the IMF if more liquidity was needed as a condition for the swap” (Park and Song 2011). Grimes (2015) emphasises that both the CMI and BSAs were not designed to address the dollar liquidity challenge faced by Korea and the procedures to activate them remained ambiguous. “The CMI was set up to provide funds first for bridge financing as a country negotiated with the IMF and then as a supplement to drawings from the IMF. What Korea nearly experienced was a different kind of crisis (i.e. confidence and liquidity) in a different kind of economy (i.e. large and globalized) than existing CMI procedures assumed. A Korean-type crisis was about confidence in global markets, which could only be resolved by providing certainty,” Grimes (2015, pp. 151). And the confidence to the financial markets was backed by a large line of dollar credit provided by the US Federal Reserve and not through any backstopping arrangement by the CMIM or any regional BSA.

Once again it took a crisis like GFC – a “critical juncture” to bring in a “sense of urgency” and expose the gaps in CMIM (Grimes 2015) (Ciorciari 2011, pp. 934). “The global financial crisis of 2007-08 added wind in the sails of the ASEAN + 3 effort, focusing attention on financial defenses and perhaps lowering bureaucratic hurdles,” (Ciorciari 2011; 934). The 2008 GFC pushed ASEAN+3 to agree on some of the contentious elements of CMIM – like contribution by individual countries, borrowing accessibility, voting power and the surveillance mechanism. They agreed to implement by the end of 2009 and also work out the legal arrangements to support the governance structure of the CMIM. The CMIM came into existence in 2010 after the country contributions, purchasing multiples, borrowing limits and voting shares were decided. The maximum amount that a participating country can withdraw from CMIM would be determined by its contribution times the purchasing multiple. The voting weights were decided by giving each country equal basic votes in proportion to their contribution to the total amount in the pool. The total amount of CMIM was increased to US$120 billion from US$80 billion and a decision was taken to strengthen the surveillance mechanism for activation of CMIM. It was decided to set up an independent surveillance institution to strengthen economic monitoring and after it was fully operational it was agreed to increase the IMF de-linked portion beyond 20 per cent. This was perhaps the first signal by ASEAN+3 of its intention to set up a truly regional financial institution and regional safety net that someday could break from its embryonic linkage with the IMF. It also agreed on key decision-making rules. A consensus, often described as the ASEAN way, was needed on fundamental issues while a two-thirds weighted majority vote would be needed for lending decisions.

Table 2: CMIM Contributions and Voting-Power Distribution

		Financial Contribution		Basic votes	Votes based on contribution	Total voting power	
		(%)		(no. of vote)	(no. of vote)	(no. of vote)	(%)
China	China (excl. HK)	32.0	28.50	3.20	68.40	71.60	25.43
	Hong Kong, China		3.50	0.00	8.40	8.40	2.98
Japan			32.00	3.20	76.80	80.00	28.41
Korea			16.00	3.20	38.40	41.60	14.77
Plus 3			**80.00**	**9.60**	**192.00**	**201.60**	**71.59**
Indonesia			3.793	3.20	9.104	12.304	4.369
Thailand			3.793	3.20	9.104	12.304	4.369
Malaysia			3.793	3.20	9.104	12.304	4.369
Singapore			3.793	3.20	9.104	12.304	4.369
Philippines			3.793	3.20	9.104	12.304	4.369
Viet Nam			0.833	3.20	2.00	5.20	1.847
Cambodia			0.100	3.20	0.24	3.44	1.222
Myanmar			0.050	3.20	0.12	3.32	1.179
Brunei			0.025	3.20	0.06	3.26	1.158
Lao PDR			0.025	3.20	0.06	3.26	1.158
ASEAN			**20.00**	**32.00**	**48.00**	**80.00**	**28.41**
Total			**100.00**	**41.60**	**240.00**	**281.60**	**100.00**

Source: AMRO website

Using the path dependency framework of positive feedback effects, it can be argued that the governance framework of CMIM reflect the distributional effects of institutions (Krasner 1988; Ikenberry 1994). Ikenberry (1994) outlines two kinds of feedback mechanisms. The first one is functional and is described as incentive structure or coordination mechanisms that are put in place to reinforce the functioning of the system. The second feedback mechanism reflects the distribution effects of institutions (Bordo and Eichengreen 2007). “The idea is that institutions are not neutral coordinating mechanisms but in fact reflect, and also reproduce and magnify, particular patterns of power distribution in politics,” Thelen (1999; 394).

The country contributions and voting weights were contentious issues as they reflected the economic power of the respective member countries, particularly for Japan and China. China had the world's largest foreign exchange reserves in 2010 while Japan was still the second largest economy in the world. While Japan had been the leader in financial regionalism and provided funds generously to countries hit by the 1997/98 AFC, China was now also keen to stake its claim as a regional leader. According to officials participating in the discussions[34] on governance structure, China wanted to contribute a larger sum than Japan in the overall capital structure. After long drawn negotiations, a political compromise was reached where Japan and China were allotted equal contributions of 32% in the pool. While Japan's individual contribution was set at 32%, China's contribution included 3.5% from Hong Kong (see **Table *2***). Korea's share was 16% or half of that of China and Japan and just 4 per cent less than the ten economies of ASEAN. Korea was facing an economic crisis when ASEAN Plus Three were negotiating the governance framework and individual contributions to CMIM and was unable to offer a larger amount fearing a backlash of public opinion at home[35]. However, Korea can emerge as a swing factor if there is a division between Japan and China.

The GFC as a critical juncture established a leadership hierarchy of Asian financial order. Huotari (2012) argues that ASEAN is no longer at the core of Asian financial regionalism. "Due to the basic agreement between Japan and China that there should be some kind of regional financial order and an increasingly structured implicit hierarchy in the related practices, ASEAN states find themselves on the receiving end of financial regionalism,"

[34] Interviews with officials participating in these negotiations.
[35] Interview with a former senior official of Korea's Ministry of Strategy and Finance

Huotari (2012; 24). These allocations in CMIM have set a structure that can be replicated in other regional arrangements.

In 2012, the size of the CMIM was doubled to US$240 billion from US$120 billion and the IMF de-linked portion was increased to 30% from 20% with a provision to raise it to 40% in 2014. It was also decided to lengthen the maturity and supporting period for the IMF linked portion from 90 days to 1 year and from 2 years to 3 years, respectively; and those for the IMF de-linked portion from 90 days to 6 months and from 1 year to 2 years respectively. This crisis resolution mechanism was named as CMIM Stability Facility (CMIM-SF). In addition, it created a crisis prevention facility called CMIM Precautionary Line (CMIM-PL). This precautionary line could be extended to members who faced shortage of funds during crisis without any strict conditions unlike the conditionalities imposed by the IMF. It is hoped that CMIM-PL can be activated during crisis to provide immediate assistance to countries facing liquidity crunch, like Korea during the 2008 GFC.

The ASEAN Plus Three established both crisis prevention and crisis management facilities. It mandated the CMIM Executive Level Decision Making Body (ELDMB) to apply five criteria ex-ante and ex-post conditionality after assessment of economic reports of the requesting country and assessment by AMRO, ADB and the IMF. These criteria include: (a) external position and market access; (b) fiscal policy; (c) monetary policy; (d) financial sector soundness and supervision, and; (e) data adequacy. It outlined the duration of access, arrangement period, maturity and monitoring. It also laid out the relationship between CMIM-SF and CMIM-PL. The total amount that a requesting country can draw from either of the two facilities would be capped by the maximum swap amount allotted to it. This limit protects the larger lenders from extending line of credit to weaker economies that do not demonstrate commitment to strong macroeconomic and fiscal management. But these limits also raise questions on the effectiveness and value addition of CMIM as a crisis management mechanism. Sussangkarn (2011) cites the example of Thailand, which under the CMIM-SF has a drawing quota of $22.76 billion but its IMF-linked quota is just $6.28 billion (See **Table 3**).

Table 3: Allocation of Financial Resources under the CMIM

Members	Financial Contributions (US $ billion)	Maximum Swap Amount (US $ billion)	IMF-Delinked Amount (US $ billion)
			IMF Link of 30%
Plus Three	**192.000**	**117.300**	**39.600**
People's Republic of China Total	76.800	40.500	16.560
People's Republic of China	68.400	34.200	10.260
Hong Kong, China	8.400	6.300	6.300
Japan	76.800	38.400	11.520
Republic of Korea	**38.400**	**38.400**	**11.520**
ASEAN	48.000	126.200	37.860
Brunei Darussalam	0.060	0.300	0.090
Cambodia	0.240	1.200	0.360
Indonesia	**9.104**	**22.760**	**6.828**
Lao PDR	0.060	0.300	0.090
Malaysia	9.104	22.760	6.828
Myanmar	0.120	0.600	0.180
Philippines	9.104	22.760	6.828
Singapore	9.104	22.760	6.828
Thailand	9.104	22.760	6.828
Vietnam	2.000	10.000	3.000
ASEAN + 3	**240.000**	**243.500**	**77.460**

Source: Ministry of Finance, Government of Japan

The 1997 IMF bailout package for Thailand was $17.2 billion which was much higher than the IMF-linked quota under CMIM. So, if another crisis hits Thailand, it is likely that a crisis resolution fund will be put together by contributors led by IMF and subject to IMF conditionalities. Sussangkarn (2018) laments that that the CMIM has not gained much ground in the past two decades. However, there is agreement that some progress has been made on crisis prevention through intense discussions among ASEAN Plus Three and work done at AMRO on crisis prevention. Countries now understand the risks of volatile capital flows, curtailing short-term debt, building local currency bond markets to reduce dependence on dollar borrowings, accumulating foreign reserves as a first line of defence, stabilising exchange rates, adopting macroprudential regulations policies[36] and pursuing prudent fiscal and monetary policies.

Despite the significant incremental improvements to the CMIM, concerns linger over its actual use by regional members during a crisis. Critics highlight that CMIM is still unusable as either a standalone facility or as a complement to IMF financing (Takagi, 2009; Menon and Hill, 2012). A key reason for this is that CMIM is a reserve pooling mechanism with a governance structure. It is not a fund but a web of agreements among the regional members with a promise to be activated when a member needs funds during a crisis. Menon and Hill (2012) contend that while this is not a problem but can emerge as one if there are no formal procedures to rapidly disburse funds during a crisis.

Currently, the focus of AMRO is to develop and operationalize the qualification assessment framework for member economies to access the CMIM-PL, enhancing the CMIM Operational Guidelines, conducting regular CMIM Test Runs under various

[36] Macropudential regulations refer to policies that are taken to monitor the vulnerabilities and risks to the overall financial sector and prevent them from spreading across the financial sector and to the broader economy. See ECB's guide: https://www.ecb.europa.eu/explainers/tell-me-more/html/macroprudentialpolicies.en.html

scenarios, and undertaking the CMIM peace-time preparation activities to ensure the operational readiness of the CMIM, including the activation process of IMF delinked portion. We are witnessing what can be described under the HI Framework as a gradual institutional change in the structure of CMIM (Thelen 2004). This process can be best described as “layering” whereby ASEAN+3 is incrementally improving the operational efficiency of CMIM through new institutional activities like CMIM-PL so that member countries can tap the facility during a crisis. These activities also align with what Ikenberry (1994) describes as improving the functional efficiency of the AMRO through the feedback loop of the path dependency process.

Creation of AMRO – Institutionalisation of Regional Surveillance

A key feature of regional financial cooperation initiatives, including CMI and CMIM, has been the emphasis on strengthening economic surveillance and monitoring for crisis prevention and also to deflect concerns of moral hazards. In 1999, the ASEAN+3 leaders agreed to strengthen policy dialogue, coordination and collaboration on the financial, monetary and fiscal issues of common interest, focusing initially on issues related to macroeconomic risk management, enhancing corporate governance, monitoring regional capital flows, strengthening banking and financial systems, reforming the international financial architecture, and enhancing self-help and support mechanisms in East Asia through the ASEAN+3 Framework, including the ongoing dialogue and cooperation mechanism of the ASEAN+3 finance and central bank leaders and officials (Government of Japan, Ministry of Foreign Affairs 1999). Immediately after the AFC, three initiatives were undertaken to fulfil these objectives. The ADB set up a Regional Economic Monitoring Unit (REMU) to support regional cooperation and integration efforts of ASEAN and ASEAN Plus Three. In addition, the ASEAN Surveillance Process (ASP) and the ASEAN Plus Three EPRD were established.

The EPRD assessed global, regional and national economic landscapes, monitored capital flows and currency movements, analysed macro-financial vulnerabilities and regulations governing banking and capital markets (Kawai 2015). The venue for EPRD is the meeting of the ASEAN+3 finance and central bank deputies where regional financial and monetary officials exchange views of global, regional and national economic conditions, emerging risks and policy options to tackle them. Chalongphob (2010), a former finance minister of Thailand, noted that “the current surveillance mechanisms are not very effective. The resources available to support the mechanisms are very limited and the officials involved in these processes only carry out the tasks on a part-time basis alongside many other regular jobs”. Other participants also echoed similar views. The lack of a secretariat and technical capacity of officials at many national governments impacted the quality of the EPRD. Recognising these aspects and the need for a solid surveillance framework to support any regional financing facility, the policymakers moved towards integrating EPRD first within CMI and then CMIM. Kawai (2015) and Chalongphob (2010) argued in the absence of effective surveillance it may not be feasible for lenders to assess risks before offering financial assistance to crisis-hit economies. “Liquidity support would require close economic and financial surveillance, as well as conditionality-triggering policy adjustments in the event of a currency crisis. Without such surveillance, it might be difficult for potential creditors to identify emerging risks in potential borrowing countries, to formulate effective conditionality, and to monitor the policies and economic and financial performance of the borrowing countries during the period of liquidity support" (Kawai 2015). As a result, the ASEAN Plus Three in 2011 established AMRO to oversee the economic and financial stability of the region through enhanced regional economic surveillance and supporting the implementation of the CMIM.

AMRO's key function is to monitor, assess and produce timely reports on economies and financial soundness of member countries. Through its surveillance, AMRO identifies emerging vulnerabilities and, if requested help in policy formulations to mitigate risks and as well as support in implementation of CMIM. (Siregar and Chabchitrchaidol (2013), a former AMRO officials, note: "The attainment of an effective CMIM strongly depends on the credible surveillance work of AMRO. During their deliberations, it was acknowledged that one of the key factors behind the doubling of the total swap facility and the rise in the de-linked portion is the recognition of the speedy establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) and the timely delivery of well-received AMRO surveillance reports…" AMRO submits quarterly surveillance reports focusing on bilateral (country) surveillance report and the ASEAN+3 Regional Economic Monitoring (AREM) report that surveys global economic developments and their impact on regional economies. The thrust of these reports is on near-term risks and less on medium to long-term structural challenges (Siregar and Chabchitrchaidol 2013).

A less documented aspect has been bitter power struggle between China and Japan over the leadership of the AMRO. Japan had so far led the design and creation of regional financial arrangements but was challenged by China in the contest for the leadership position of AMRO. In a political compromise, it was agreed that a Chinese national, Wei Benhua, would be the first head of AMRO in the first year and would step down instead of completing a three-year term. He would be replaced by Yochi Nemoto from Japan's Ministry of Finance. Nemoto worked as a counsellor since the beginning of AMRO. This symbolic victory marked China's ascension as a regional financial leader and also set the tone for regional leadership in other forums and institutions (Rathus 2011). A former senior official from Korea's Ministry of Strategy and Finance, who was involved in the intense negotiations to select the head of AMRO in an interview to me stated that there was a "gentleman's agreement" to nominate a Chinese official for the first term and a Japanese for the second term. There have now been calls to review the appointment process. Korea is now staking its claim and pushing ASEAN Plus Three to appoint a Korean as the next head of AMRO. ASEAN officials argue that the Plus Three - Japan, China and Korea are also unwilling to let go of the three Deputy Director positions to other ASEAN countries. The appointment of Ho Ee Khor, a former senior official from the Monetary Authority of Singapore, is seen as a move to provide ASEAN a representation in the management of the AMRO. Shinji Takagi[37] (2011), a former Bank of Japan and Ministry of Finance official, in a seminar at the Korea Institute of Finance lamented that the way the selection of the head of AMRO was politicised could affect the credibility and efficiency of the regional surveillance mechanism. He suggested that rivalry between Japan and China and the desire by China to dominate is not conducive to the spirit of regional cooperation. He advocates the expansion of AMRO's membership to Australia and India to offset the dominance by Japan and China. However, expansion of membership in CMIM and AMRO or more broadly in ASEAN Plus Three is firmly opposed by China which suspects these moves are pushed to curtail its importance and influence

[37] http://www.kif.re.kr/KMFileDir/129452486917992500_Shiji%20Takagi%20ABSTRACT.pdf

in these groupings. Yongding (2011) argues that any expansion of ASEAN Plus Three will dilute the focus of Asian regionalism. The leadership contest between Japan and China in the AMRO is a clear example of open contestation, described by Pierson (2016) as the reflection of the first dimension of power in institutions. China's opposition to Japan's suggestion to expand the membership of CMIM and AMRO also reflects its desire to maintain the status quo in power relations in these institutions.

Since 2012, AMRO has been engaged in developing the EPRD matrix, which consists of key economic and financial indicators of all ASEAN+3 members. The EPRD matrix will be used to develop qualification indicators for CMIM-PL. On 9th February 2016, the AMRO was established as an international organisation. "With this milestone, AMRO can function more effectively as the region's independent surveillance unit and contribute towards ensuring the macroeconomic and financial stability of the ASEAN+3 region (Communique of ASEAN+3 Finance Ministers and Central Bank Governors 2016). While the AMRO has made modest progress towards creating a surveillance framework, it needs to focus more on monitoring of member economies, their mutual interdependence and risks of spill overs from economic mismanagement and global shocks. And finally, for successful surveillance it is necessary to improve the capacity and have a strong cadre of professional economists to support the process Diwa C. Guinigundo (2018). The region needs to review and use new instruments for its surveillance framework and to make it more dynamic. He stresses that "…there is a need to enhance our framework for macro-financial surveillance that could identify, measure, and manage systemic risk with a review to effectively prevent the occurrence of a potential crisis" said Guinigundo (2018, pp 10). While the regional surveillance framework is still being developed, the question is whether and how it can evolve as a process that is not influenced by IMF's evaluation of the regional economies.

4.5 Conclusion

The 1997/98 AFC and the 2008 GFC were critical junctures in the creation and evolution of CMI, CMIM and the AMRO as regional financial safety nets and regional financial institutions respectively. The 1997/98 crisis led East Asia to search for regional financial safety nets to respond as well as insulate against future crisis. The failed proposal of the AMF and the collapse of the Manila Framework and subsequent emergence of BSAs pushed the region's policy elites to create the CMI in 2000. The region's rapid recovery from the economic crisis and the growing rivalry between Japan and China, delayed efforts to institutionalize the CMI. The 2008 GFC acted as a catalyst for the region to multilateralise the CMI and subsequently create the AMRO. We temporally trace the sequence of events to establish the role of crisis and critical antecedents, like the setting up of ASEAN Plus Three and the ASEAN Way, in the creation of Asian financial regionalism.

Using our eclectic framework of critical junctures and the HI Framework, I establish that both successful and unsuccessful regional initiatives influenced institutional outcomes. I argue that while the AMF and the Manila Framework were reactive sequences, the ideational power of the AMF and the feedback from the Manila Framework, provided significant inputs to the positive feedback loops generated by the emergence of BSAs and the creation of the CMI, CMIM and the AMRO. These temporally linked sequences of events together generated increasing returns to institution building in Asia that finally led to the creation of CMIM and the AMRO. Pierson (2000) also notes that increasing returns has intriguing features. These were highlighted by Arthur (1994) as (a) unpredictability (b) inflexibility (c) nonergodicity and, (d) potential path inefficiency. It implies that path dependency processes make it difficult to reverse decisions as costs are high and further steps on the same path will eventually lock-in one solution. However, such solutions may not necessarily lead to greater benefits in the future than forgone alternatives. The emergence of bilateral swaps, CMI, CMIM, their linkage with the IMF are clear examples of increasing returns to path dependency in Asian financial regionalism. The AMF and the Manila framework, though reactive, were sequential events and not just "noises" that provided critical feedback into future choices. The choice to link the regional safety net to the IMF and place it within the global financial architecture has set Asian financial regionalism on a path that maybe difficult to alter in the future. This can be described as a potential inefficient outcome as none of the region's economies, despite some experiencing severe crisis during the 2008 GFC, tapped these regional financial facilities. The limitations of rapidly activating CMIM during a crisis highlight sub-optimal institutional outcome.

The critical decision to nest CMIM and the AMRO within the broader global financial architecture is also somewhat paradoxical as the region had pushed for greater reforms of the Bretton Woods institutions. Nonetheless, the region came together overcoming divergent political interests to set up a financing facility, the CMIM, and an international organization, the AMRO. The unique features of HI framework allowed us to incorporate the role of ideas, preference formation and importantly, examine the distributional effects of institutions. The contribution and voting powers of economies in the CMIM reflects the economic power of member countries. CMIM also established a leadership hierarchy among Asian financial powers. The role of regional leadership and its impact on financial regionalism will be examined in detail in Chapter Six.

The next chapter focuses on creating regional safety nets through the development of local currency bond markets and regional initiatives to increase intra-regional investment in local bonds markets. It is argued that these initiatives will help the region to reduce its dependence on bank-led financing models of development, insulate it against volatility of global capital flows and reduce reliance on the dollar, factors that were identified as contributing to the 1997/98 financial crisis.

Chapter 5 Political Economy of Regional Bond Market Cooperation

5.1 Introduction

This chapter traces the evolution of regional initiatives to develop a local currency regional bond market, which can play a critical role in mobilizing long-term funds for both governments and companies. Applying our model of critical junctures and HI framework, the thesis demonstrates that the 1997/98 Asian financial crisis was the critical juncture that exposed the vulnerabilities of financing of state-led development models adopted by East Asian economies. The crisis also pushed policymakers to confront the challenge of managing national regulatory regimes in the face of growing interdependence among regional markets and increased global financial flows. Simmons (2001) and Farrell and Newman (2010) highlight that the rapid development of capital markets facilitated by liberalisation of financial markets have made it difficult for national regulators to regulate domestic financial systems. "Across the regulatory spectrum, from bank supervision to securities regulation, from accounting requirements to anti-money laundering efforts, national authorities are finding that the ability to achieve their objectives at a reasonable cost is influenced by the actions (or inaction) of their counterparts in foreign jurisdictions," highlights Simmons (2001; 9). The rapid spread of financial contagion across Asian markets during the 1997/98 crisis made the region's policymakers realise the importance of regional and global coordination to manage spill over risks.

Most importantly, the crisis provided the policymakers with an opportunity to push through difficult domestic regulatory reforms to promote domestic capital markets for diversified and efficient funding. Drawing upon Farrell and Newman (2010), I argue that HI framework through its stress on time and timing in causal process allow us to examine the key features of building national and regional bond markets and the role of crisis that catalysed the ideational shift to increased role of bond markets in domestic financial sector. I use secondary data from AsianBondsOnline website of ASEAN Plus Three, BIS, IMF's Coordinated Investment Portfolio Survey and a primary survey of regional bond investors[38] to analyse the development on bond market and intra-regional investment.

Development of regional and national bond markets has been a key focus of Asian financial regionalism after the 1997/98 financial crisis. A broad and deeper regional bond market would make the region less vulnerable to global volatility, reduce short-term borrowings from the banking sector, and reliance on the dollar, factors which contributed to the AFC. The region enjoyed one of the highest saving rates in the world and accounted for over fifty per cent of the world's foreign exchange reserves and yet Asia was unable to meet its funding needs during the AFC when foreign investors suddenly pulled out of the domestic markets triggering the spread of the financial crisis. Regional initiatives to develop local currency bond markets were on top of the agenda for discussions among policymakers. Amyx (2008) rightly points out that these initiatives aligned with the political imperatives of leadership in countries like Japan, Thailand and Korea and received broad support from ASEAN economies. "Regional moves towards establishing a bond market served domestic political interests in many countries in the region. All ASEAN+3 nations

[38] This primary survey was conducted for a co-authored article as cited in this thesis.

agreed that there were benefits in developing local bond markets but that actually doing so in individual nation-states was politically difficult," said Amyx (2004; 13). The political economy of bond market development is significantly complicated as it involves the critical role of the state in providing the necessary infrastructure and building a robust and transparent taxation and regulatory framework to meet the demand of private market participants, both domestic and foreign, and whose actions ultimately determine the success or failure of such an effort. Any effort to develop bond markets needs to be situated not only within the domestic macroeconomic and financial framework but is also significantly influenced by developments in global economy and financial markets. In other words, the development model adopted by an individual country influences its choice of financing its economy through allocation of scarce resources. This capital allocation primarily takes place through the banking sector, stock/equity markets and bond markets and its associated institutions.

In line with our critical juncture framework, we first outline the critical antecedent conditions prevailing in the decades prior to the AFC and how they combined with causal forces during the critical juncture in 1997/98 to trigger cooperative initiatives for regional bond markets. Prior to the 1997/98 East Asian financial crisis, much of the allocation of capital to productive sectors in the economy was directed through the banking system. This was a by-product of the development state model adopted in East Asia where the governments, serving as "surrogate entrepreneurs" (Evans 1989), controlled and directed credit to sectors or industries that supported its high-growth transformation strategy (Kohli 1994, Wade and Veneroso 1998). Banks provided the capital necessary to support growth and the government in return protected the interests of the banks by creating high entry barriers (Rethel 2010). This development model was first adopted by Japan and its variants followed by nearly all East Asian economies barring China. This model brought growth dividends to the region. The ‘East Asian miracle’ (World Bank 1993) and its associated investment boom were facilitated by financial liberalization and massive capital inflows into domestic markets in the region. The relative stability of exchange rates and lower cost of foreign borrowings by the domestic financial institutions and companies along with opaque lending practices led to massive misallocation of capital (Macintyre, Pempel and Ravenhill 2008). This was reflected in disproportionately bank lending to property sector in Thailand, Malaysia, Indonesia and Korea. In addition, Korean banks had substantial exposure to equities. As a result, the banks were saddled with bad assets (or high levels of non-performing loans) and in particular, the accumulation by non-bank financial intermediaries and the sudden withdrawal of capital by foreign investors triggered the initial speculative attack on the Thai baht and the contagion later spilled over across the region (Kawai and Lee 2015).

Compounding the troubles in the financial sector was the “twin mismatch” – namely the currency and maturity risks that accumulated in East Asia as large corporate financing was done through commercial banks via short-term foreign borrowing in the absence of well-developed bond markets. Myoung-Ho Shin, former Vice-President of the Asian Development Bank in his opening remarks at a bond conference[39], remarked that “The industry sectors in these countries have relied excessively for their long-term development resources on short-term borrowings from commercial banks. At the

[39] Opening remarks at the Conference on Government Bond Market Development and Financial Sector Development in Developing Asian Economies (28-30 March 2000) organized by ADB.

outbreak of the crisis in July 1997, in some crisis economies more than half of corporate debt was of maturity of less than a year". The companies accessed foreign borrowing as cost of capital in local markets were high relatively to global borrowing costs and the de facto peg of Asian currencies to the US dollar gave rise to the perception of lower currency risks for borrowers and lenders. The other feature was that the companies borrowed short-term in foreign currency for medium to long-term investments and assumed significant currency exposures through their foreign currency obligations and refinancing risks due to maturity mismatches. Asia's high growth rates also encouraged investors in developed markets to buy into local Asian assets as returns in regional markets were higher than in industrialized economies.

The 1997/98 financial crisis unravelled this financial arrangement. The spike in non-performing loans and the sharp depreciation of regional currencies led foreign investors to doubt the ability of regional banks to payback their foreign currency loans. Companies defaulted, and investors withdrew funds from local market and currencies collapsed causing market panic, volatility and financial stability. The companies that relied heavily on bank loans to finance their investment could not find alternative sources of financing. The lack of alternate source of long-term financing has been identified as one of the causes of the 1997/98 East Asian financial crisis. Using the HI and the critical juncture framework, I argue that critical antecedent condition was the prevailing state-led development models, which relied heavily on short-term bank finance. The regulatory structure underpinning these models conflicted with the causal forces, i.e. market volatility and capital flight, during the critical juncture and was unable to regulate the volatile capital flows that severely damaged the region's markets.

It has been argued that a well-developed regional as well as national bond market could have thrown a financial lifeline to companies and mitigated the impact of the crippling crisis on the broader economy. Reflecting on policy priorities that Asian policy makers could have put in place to mitigate the impact of the crippling Asian crisis, M. R. Chatu Mongol Sonakul, the governor of the Bank of Thailand in 2000, remarked: “If I can turn back the clock and have a wish, my list may be long. But high in its ranking would be a well-functioning Thai baht bond market.”[40] This view was further reinforced by Alan Greenspan, Chairman of US Federal Reserve Board, who argued in 1999 that the impact of the crisis may been far more benign if East Asia had a “spare tire”, i.e. well-functioning local capital markets. Donald Tsang, the Financial Secretary of Hong Kong Special Administrative Region went further to underscore the importance of regional cooperative efforts to create a regional bond market similar to that of a euro dollar market in Europe. “Asian markets must work together to overcome the deficiencies and create a deep, liquid and mature Asian bond market…..how is it that we in Asia have never been able to replicate the Eurobond market success in this part of the world?” (Tsang 1998)[41].

In the absence of an efficiently functioning bond market, the region’s vast savings and growing foreign exchange reserves have been invested in low yielding US Treasuries (Kuroda and Kawai 2002). The bulk of these funds were ploughed back into Asia in form of short-term bank loans denominated in US dollars. The bulk of these funds were ploughed back into Asia in form of short-term bank loans denominated in US dollars. This pattern of capital flows – exporting relatively safe domestic capital to the US and importing

[40] Speech at the Conference on Government Bond Market Development and Financial Sector Development in Developing Asian Economies (28-30 March) organized by ADB.
[41] https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb9808/qbsp01e.pdf

short-term volatile capital into the region posed threats to the region's financial stability. (Park and Park 2014). Therefore, a consensus among policymakers from the developing as well as mature markets in Asia and also among the supranational institutions, the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB) to foster the development of regional and national bond markets. This consensus contrasts with the divergent views that were emerging at the same time on creating an Asian Monetary Fund or even pooling the region's foreign exchange reserves to avert a future balance of payments crisis. "Following the Asian financial crisis, an official from the Hong Kong Monetary Authority (HKMA) proposed the idea of an Asian bond fund within APEC, seeing it as an opportunity to grow in stature as a major financial centre. The proposal elicited little enthusiasm, however, and other routes to decreasing the risk of crisis recurrence were pursued instead. The idea fared much better within EMEAP and ASEAN+3, after some progress had been achieved on the CMI," said Amyx (2004; 17).

5.2 Rationale for Developing Regional and National Bond Markets

5.2.1 Introduction

A key lesson from the 1997/98 Asian financial crisis is that well developed regional and local currency bond markets are important for maintaining a balanced domestic financing structure, efficient distribution of resources, improving financial stability, strengthening resilience to crisis, and reducing reliance on sourcing funds from global markets. During the crisis, the currency risk exposures of the region's companies, whose liabilities were denominated in foreign currency, and their maturity mismatches could have been mitigated if there had been strong local currency bond markets and adequate bond market information flows. Efficient domestic bond markets allow economies to diversify is financing needs and not rely heavily on bank finance. They can provide funds to finance government expenditure, households and companies. Above all, bond markets can mobilise long term funds for infrastructure financing (Gyntelberg, Ma, and Remolona, 2006; Gyntelberg, 2007; Jiang, Tang, and Law, 2002).

Turner (2012) attributes the swift recovery of emerging markets in the aftermath of the 2008 global financial crisis to the growth and resilience of local capital markets. Turner (2012) argues that development of local bond markets, particularly in Asia, has significantly reduced the currency mismatches – a key factor behind every emerging market crisis since the early 1980s. A heavy reliance on foreign borrowing in the past also made it difficult for policymakers in emerging markets to use macroeconomic policies as countercyclical tools (Turner 2012). As interest payments soared when exchange rates depreciated, governments were forced to tighten their belts through either reduced spending or raising taxes in face of an economic slowdown. At the same time, monetary policies primarily focused on propping up exchange rates rather than stabilizing the domestic economy (Turner 2009, 2012) (Mitra and Ng 2011). The situation often turned difficult if the foreign borrowings had short-term maturities. The development of local bond markets has led to improved financial intermediation and contributed to the stability of the domestic financial markets. The growth of emerging Asian bond markets since the 1997/98 Asian financial crisis is a reflection of the region’s willingness to raise local currency debt to meet its funding need, and reduce reliance on foreign borrowings.

5.2.2 Politics of Bond Market Initiatives – Key Issues

To understand the choices by made by governments in financing growth, it is important to understand the political stakes involved in such decisions (Grimes 2008). While national bond market initiatives are guided by political relationships between the state and the private participants, the regional initiatives are "permeated by international politics" and have significant implications for relationships between Japan, China and the US (Grimes 2008, p. 161). In a bank dominated financial system, credit is mobilized and intermediated by banks. There is no direct relationship between the lender and the borrower as banks act as intermediaries. The relationship is between the banks and borrower. In a development state model, relationship capitalism between the banks and lenders is fostered and the volume of credit is controlled and directed by governments towards sectors which are identified as key to economic transformation. The shift to a bond market-based disintermediation from bank-based intermediation changes the nature of distribution of funds between lenders, borrowers and intermediaries and liberalizes the allocation of credit from the shackles of the dominant state. It thus impacts the power relationships in finance. The relationship capitalism is replaced by "arms-length" capitalism, where lenders and borrowers have no relationship and act to maximize their self-interest and this affects the access to and distribution of capital (Rajan 1992) as the process is no longer controlled by the government. The 1997/98 Asian financial crisis marked a turning point in putting the development of regional and national markets firmly on the agenda of policymakers. The governments in East Asia assumed a more "entrepreneurial" role in ushering institutional innovations, like creation of rating agencies, settlement and clearing platforms etc., to support the development of bonds. Some of these roles are usually left to market participants in developed markets (Rethel 2010).

The political economy dynamics of bond market initiatives in East Asia should be seen both from regional and national perspectives. At the regional level, there were calls to develop an Asian bond market that can efficiently intermediate the region's large savings pool to meet its growing financing needs, particularly in infrastructure sector, as well as protect the regional markets against global financial contagion. While this objective is certainly desirable, there was an ambiguity from the beginning in the definition of Asian bonds and regional bond markets. Ito (2008) defines Asian bonds as bonds issued by Asian governments or companies, denominated in Asian currencies, issued, cleared and traded in an Asian financial centre, rated by a regional rating agency and bought mostly by Asian investors. This perspective is reflected in some early official documents of ASEAN+3 that also define regional bond markets as "By Asians, For Asians and In Asian currencies"[42]. However, prior to the 1997/98 East Asian financial crisis there were regional markets, the samurai bond market[43] in Tokyo and the Singapore dollar bond market where regional institutions had the flexibility of issuing bonds in regional currencies. Also, Hong Kong was developing clearing and settlement networks by linking them to other financial centres in the region. Thus, there were variants of regional markets but these lacked depth and breadth.

Hamada, Jeon and Ryou (2004) state that the important criterion in defining regional bond market is the ability of Asian governments and companies to issue local currency bonds

[42] Gleaned from official ABMI documents.
[43] A samurai bonds in a yen-denominated bond issued by a non-Japanese company in Tokyo and is subject to Japanese financial regulations.

within the region. Park (2004) defines Asian bonds as those issued by Asian institutions, public and private. I argue that the ability of Asian institutions to issue bonds in one's own currency or backed by a basket of regional currencies should be the defining criteria for a regional bond. This arrangement would greatly mitigate currency mismatches and address any shortage of dollar liquidity, factors that have identified in the literature as key sources of structural vulnerabilities of emerging markets afflicted by financial crisis in the past three decades (Turner 2012, Ito 2004).

The other related issue with respect to regional bond market initiatives is who leads as well provides the funds to develop standards and infrastructure to trade bonds regionally. Interestingly, Donald Tsang, the Financial Secretary of Hong Kong Special Administrative Region in 1999, suggested that Japan as the largest economy in the region and having substantial domestic savings and a significant domestic bond market should take a leading role in developing regional bond markets along with other financial centres like Hong Kong and Singapore. "Given the sheer size of Japanese savings and the Japanese bond market, I feel we cannot develop the Asian bond market without working with our Japanese friends," remarked Tsang (1998)[44]. There were two other factors lending support to Japan's eagerness to lead any regional cooperative efforts to develop regional markets. One was to shield Japanese investments in Southeast Asia, which had jumped significantly after the Plaza Accord in 1985, and, more importantly Japanese officials saw an opportunity in regional bond initiative to "locking China into a commitment to a liberal financial regime before it is able to throw its weight around" (Grimes 2008; 163). This contest between the two economic powerhouses of Asia has also shaped the trajectory

[44] https://www.hkma.gov.hk/eng/key-information/speech speakers/dyktsang/speech_060798b.shtml

of regional bond market initiatives. In the aftermath of the 2008 global financial crisis, China had stepped up buying Japanese government bonds to diversify away from the dollar and the euro. However, Asian economies had no access to its massive and growing domestic bond markets. In 2010, Japan’s Finance Minister Yoshihko Noda complained he felt ‘unnatural’ that China can buy Japanese bonds but Japanese investors are kept out of Chinese bond markets (Noda 2010). China only allowed limited foreign access to its domestic bond markets. It entered into agreements with foreign governments to use renminbi in bilateral trade and in return provided a quota for investment in Chinese bond markets. It must be noted that the bank dominated Japanese financial system and a relatively small domestic corporate bond market limited Japan’s ability to provide ideational leadership in the ABMI. In fact, smaller economies like Korea and Malaysia possessed a more dynamic and growing local corporate bond market than Japan during the AFC and were willing to take a greater role in regional initiatives in the wake of the financial crisis.

A key objective of regional bond market arrangements was to lower the region’s dependence on foreign currency borrowings, particularly the US dollar, and thus reduce vulnerability to swings in regional currencies against the dollar. However, creation of strong and vibrant local bond market hinges on financial liberalization and expansion of investor base, including purchase of local bonds by foreign investors to improve liquidity. Most regional markets in the aftermath of the 1997/98 East Asian Financial crises had imposed restrictions on portfolio capital flows and these controls were detrimental to the development of local bond markets (Eichengreen and Luengnaruemitchai 2004). The capital controls were later relaxed, leading to a sharp rise in foreign participation in local bond markets. The overall result of these liberalization measures was closer integration of local bond markets with global capital markets, but it also implied that the region's markets were vulnerable to any sharp fluctuations in external markets. In other words, development of stronger local bond markets will push national governments to globalize but also open them to greater risks of global contagion.

There are two other market infrastructure related issues that bring into focus the role of state power and the relationship between regionalization and globalization. One is the issue of standard setting. The rules governing local markets are aligned with global best practices and nested in global framework to ensure transparency, accountability, manage risks as well as to improve liquidity. These 'global standards' are a key to encouraging cross-border issuance of bonds within the region as well as promoting intra-regional investment and foreign buying of Asian bonds. These efforts to adopt global standards to harmonize regional markets highlight the ambiguous relationship between regionalisation and globalisation as the local bond markets locate themselves within the hub and spokes model of global markets. The other important issue is the location of financial market activities in Asia (Grimes 2008, Park and Wyplosz 2008). As the policymakers embarked to foster regional bond markets, there was also a realisation that creation of strong regional markets will eventually lead to a competition amongst major financial centres to attract businesses. Apart from the already established financial centres in Tokyo, Hong Kong and Singapore, there was pressure from China and Korea to develop Shanghai and Seoul as international financial centres. Park and Wyplosz (2008) highlight this contradiction saying competition among regional financial centres can lead to fragmentation and prevent Asian bond markets from integrating with global markets. "If individual Asian countries compete to attract a regional financial centre, bond markets in East Asia will remain separated from global financial markets. Unless their linkages with global financial markets are diversified and strengthened, Asian bond markets will not become efficient enough to compete on a global scale," Park and Wyplosz (2008, pp. 19).

5.3 Institutional Evolution

5.3.1 IPE Perspectives on Bond Markets

Past studies of Asian financial regionalism have attempted to emphasize on the balance of power and time-bound contest between Japan, China and the US to explain the evolution of national bond markets and its role in shaping regional financial architecture (Grimes 2009, Sohn 2005). The underlying assumption is that the nation-states as dominant actors will use cooperative mechanisms to increase relative economic strength not only for preserving and increasing national wealth but also to reduce economic vulnerability. Here regional or global cooperation is an outcome of political interaction and states' commitment to national development and security. Grimes (2009) points out in the case of financial market development where the long-run outcomes are unknown, the preferences and choices made in pursuing collective actions to develop regional markets can be used as a predictor of relative economic benefits accruing to the dominant players. In the case of bond market initiatives, we can identify the choices playing through two important policy preferences (a) market liberalisation versus (b) market development.

The US will be keen for East Asia to include market liberalisation as part of its national and regional bond market agenda as this will allow Asian investors to continue to fund its "twin deficits" -- that is, a growing budget deficit along with a growing current account deficit, which reflects increasing US borrowing from abroad – and maintain its global economic clout relative to its competitors. At the same time, stronger market infrastructure and regulatory frameworks in East Asia will allow US institutions to participate in regional markets and obtain higher returns on their investments. On the other hand, the regional players, at least in the initial stages, will be more interested in market development at the national and regional level to better balance their financial structure, improve stability and resilience to external shocks. This set of economies will seek control on the pace and sequencing of market liberalization. The latter objective is more aligned to the liberal approaches to economic cooperation. In the realist approach, Japan as the largest economy in the region in 1997/98 and also as a significant investor in Southeast Asia, had the biggest political stake in pushing regional bond market initiatives and providing material support as it stood to gain the most from stronger and stable regional bond markets (Grimes 2008). But as the chapter later highlights Japan did not play a hegemonic role in the regional financial arrangements to development bond markets.

In the neoliberal framework, the goal of collective action is to achieve higher efficiency through the provision of public goods and the benefits accrue to those who participate in this process. At a regional level, this process expands learning opportunities through adoption of standards and practices and augments capabilities for economies where capacities are limited. It is important to mention here that even before the crisis, Asia's development state model had jumped on the globalization bandwagon through adoption of liberal policies like unilateral trade liberalization, allowing foreign direct investment and dismantling the earlier import-substitution policy regime and protection of infant industries (Johnston 1987). However, the monetary and financial markets largely remained insulated and were under the stewardship of states to supply funds to make selected sectors globally competitive. Prior to the crisis, the adoption of liberal economic policies did not threaten the power structure and institutional framework of the developmental state model. The neoliberal initiatives primarily involve regime shifts and policy adjustments to push forward the agenda of market-led bond market growth. In the East Asian context after the Asian financial crisis, the state took upon an "entrepreneurial" role by facilitating the development of local bond markets through policy adjustments rather than any systemic transformation or regime changes (Rethel 2010). This state-led functional approach, in the case of national and regional bond market development, is aimed to promote better allocation of resources between banks and bond markets, efficient price discovery and better risk management for both borrowers and investors (Kawai 2007). The liberals also argue that creation of regional institutions or arrangements will help to face common challenges, like reducing vulnerability to contagions, ensure financial stability, and increase welfare through market efficiency.

Constructivists, on the other hand, move away from the neoliberal view of cooperation based on reciprocity and rational calculation of cost and benefit and instead use converging norms, legitimacy and identity to explain regional cooperation efforts or building of institutions (Acharya 2011). Constructivists argue agents cooperate when there is a convergence in values and interests. Nonetheless, constructivists believe that institutions or arrangements act as 'teachers of norms' and provide a venue for socialization which allows actors to internalize and shape their interests and preferences (Johnston 2001). This process allows institutions to change states interests and reconstitute their identities (Acharya 2011). In the case of bond market initiatives, we can identify two clear perspectives reinforcing constructivist's support for regional cooperation. First, is the regional identity argument that Asian government needs to protect themselves against financial globalization and bond markets can play a vital role in meeting this objective. They posit that the global financial architecture tends to favour the Wall-Street complex and dominance of the US and has little regard to the stability of regional markets. The reactive regionalism, in the aftermath of the 1997/98 crisis, therefore invokes regional identity as a cornerstone for building national and regional bond markets. The strong focus on regional identity is reflected in the early definition of Asian bond markets in the regional policy documents. The second stresses the utility of regional arrangements to support bond market developments as venues for socialization and diffusion of technical knowledge on market infrastructure, rules and standards. A prime beneficiary of this approach is China, which had a relatively closed and nascent bond market in early 2000s. In the early years, China participated in the ABMI to socialize and absorb technical inputs on market development, regulation, pace and sequencing of financial liberalisation before gradually opening its domestic bond market (Amyx 2004 and 2005). While this perspective resonates with neoliberal objectives of creation of regional institutions and arrangements to share information, reduce transaction costs and enhance efficiency, constructivists fail to identify when and how shared beliefs and identities will coalesce to create regional financial institutions or monetary arrangements.

5.3.2 Applying the Historical Institutionalism Framework

Keeping the limitations of the IPE approaches in explaining the origin of regional bond market arrangements and their evolution, I apply the Historical Institutional (HI) framework to provide a more robust explanation of the institutions created to support the development of regional bond markets. The HI framework allows us to identify the genetic moment of change, the structural relationships, in this case the economic model of development, that shape national and regional economic choices and the national, regional and extra-regional actors that promote or constrain institutional innovations. This framework also creates space for ideational entrepreneurs to push through transformation during periods of ‘Knightian uncertainty’[45] (Lewis and Steinmo 2010) (Blyth 2002). The crises can be characterized as Knightian uncertainty periods “where events have caused a fundamental questioning of conventional wisdom and new ideas have the opportunity to fit a new reality. Under these conditions politically-actionable ideas are innovations that deviate from the rules, and they may or may not offer the opportunity for greater future success” (Lewis and Steinmo 2010). The key tenet of HI approach is that there are critical junctures, like the 1997/98 East Asian financial crisis and the 2008 global final crisis, which provide a window of opportunity for institutional changes as they expose the inadequacies of the existing arrangements and legitimacy of stakeholders leading them. The probability of institutional changes being adopted hinges on how the emerging institutions or arrangements are “embedded in the wider networks of power and interest within the region” (Beeson 2002). But once these institutions are created, they set ‘historical trajectories’ that are ‘path dependent’. The five broad modes of gradual and transformative institutional change, displacement, layering, drift, conversion and

[45] Knightian Uncertainty refers to the distinction between risks and uncertainty made by economist Frank Knight. Knight argued that risks referred to situations where outcomes were unknown and where we can measure the odds. While under uncertainty, the decision marker does not have adequate information to measure the odds.

exhaustion, enumerated by Streeck and Thelen (2005) are applied to study the evolution of regional bond markets.

I use these elements of the HI framework to explain the origin and evolution of regional bond market initiatives. I argue that the developmental state model adopted by East Asian economies and supported by an underdeveloped financial sector that leaned heavily on the banking sector to finance growth was facilitated by the readiness of foreign portfolio investors to supply cheap short-term dollar denominated capital to domestic financial institutions to finance their long-term commitments. This was a proximate factor, among others, that triggered the 1997/98 crisis and called into question the legitimacy of the existing national and regional capital markets and institutions to prevent and resolve the crisis. The underdeveloped local bond markets hastened the sudden pull out of foreign capital thereby deepening the crisis. The crisis was thus a ‘critical juncture’ that led policy elites to believe that the existing arrangements, including the regional and global institutions like the APEC or the IMF, were inadequate and the region cannot rely on the global institutions and global capital to provide a safety net and to finance its growth respectively.

There were two parallel initiatives that were launched by the central banks and the finance ministers of the region. The first initiative, the Asian Bond Fund 1 was launched by the EMEAP in 2002, and the ASEAN+3 took up the challenge of creating regional bond markets through the Asian Bond Market Initiative (ABMI) in 2003. The pre-existing institutions, including informal networks, influenced the structuring of the agenda of the regional bond market initiatives (Mizen and Tsoukas 2010). The idea to create a regional bond market was not new. Amyx (2004 and 2005) highlights that the Asian Development

Bank in the early 1990s issued dollar denominated bonds in Hong Kong and Singapore targeted at Asian investors but these efforts received a lukewarm response due to lack of liquidity in local markets. In October 2002, Thaksin Shinawatra, the then Prime Minister of Thailand, was the first leader from the region to flag the need for a regional bond market. “Isn’t it time for Asia to explore the setting up of an Asian Bond market as a financial instrument to help in maximizing our continent’s potential and prevent exploitation of our reserves by others against the interests of ourselves?”, Thaksin proclaimed at a meeting hosted by the World Economic Forum in Kuala Lumpur in October 2002. He proposed the idea of setting up of a fund that buys bonds of Asian governments by voluntarily pooling together 1 percent of each country’s reserves. He also put forward the proposal to create a regional ratings agency (Shinawatra 2002). Amyx (2004) cites the political commitment of Thaksin as a clear example of mobilizing national backing of a regional initiative. “In Thailand, the establishment of a regional bond market resonates with numerous domestic political objectives. One of the bond market’s most ardent proponents has been the Thai Prime Minister, Thaksin Shinawatra. For Thaksin, taking the lead here helps rebut domestic criticism of his new economic model, dubbed ‘Thaksinomics’, as too inward looking,” Amyx (2004, pp 14).

At an unofficial session of ASEAN+3 in December 2002, Japan’s Ministry of Finance proposed the Asian Bond Market Initiative (ABMI) (Dieter 2008). The idea received strong support from regional financial officials. The proposals from Thailand and Japan built on the research done by informal networks of academics, notably Takatoshi Ito from Japan, Olarn Chaiprvat from Thailand and Jae Ha Park from Korea. Ito, Chaipravat and Park in 2003 recommended the fiscal authorities of Japan, Korea and Thailand and other countries willing to join the initiative to set up Asian Bond Corporation (ABC) in offshore market to purchase bonds of participating countries denominated in local currencies. These proposals to create a regional fund came around the time when the EMEAP announced its decision to set up Asian Bond Fund 1 in 2003. It later created Asian Bond Fund 2 which invested in local currency bond markets, including sub-sovereign bonds. These initiatives are discussed in detail in the next section of this chapter. However, what is important to observe that these regional initiatives to support a regional market came from within existing institutional frameworks, the EMEAP and ASEAN and underscored the path dependent nature of institutional evolution in East Asia. The timing and sequence, i.e. the temporal dimension is important in explaining the origin, creation and evolution of ABMI and ABFs.

Without the pre-existing institutional framework of EMEAP, and the experience of the Bank of International Settlements in managing investments of central banks, it would not have been possible to launch ABFs within few months of the germination of the ideas of a regional bond fund. Similarly, without ASEAN and later ASEAN+3, it would not have been possible to create ABMI. ABMI differentiated itself from the EMEAP as being an arrangement of only Asian economies, including economies like Cambodia, Laos and Myanmar that were defined as low-income and lacked formal financial sector. The EMEAP and ASEAN Plus Three were critical antecedents that shaped the path of development of regional bond markets. The EMEAP has an established governance structure, linkage to BIS and, a mandate to develop regional bond markets. Through its Asian Bond Fund (ABF) projects, the EMEAP have been able to catalyse regulatory and tax reforms and strengthened market infrastructure in its member countries. On the other, ABMI is still a regional arrangement where adoption of guidelines issued on various market regulations is voluntary.

The evolution of ABMI and ABFs in response to both the 1997/98 East Asian financial crisis and 2008 global financial crisis will be examined in detail in the next section by focusing on the institutional design, agenda, leadership, and ideas which are constantly evolving in response to events to reconstitute and reconfigure future institutional outcomes. The discussion through these case studies fits with the prescribed methodology for analysing the HI framework.

5.4 Regional Bond Market Initiatives

5.4.1 Asian Bond Funds 1 and 2

The creation of Asian Bond Funds (ABFs) in 2003 was the first initiative in which a regional organization, EMEAP[46], mobilised financial resources to set up actual bond funds. It was a landmark initiative that fostered cooperation among central banks of East Asia to address the demand side of regional bond market development. It was also the first effort in the region to pool the reserves of central banks for a regional initiative (Gyntelberg, Ma and Remolona 2005). The first Asian Bond Fund (ABF1) pooled $1 billion of international reserves from EMEAP central banks and invested in US$-denominated sovereign and quasi-sovereign debt issued in eight economies (Hong Kong, China; Indonesia; Korea; Malaysia; the PRC; the Philippines; Singapore; and Thailand).

[46] EMEAP (Executives' Meeting of East Asia and Pacific Central Banks and Monetary Authorities) comprises representatives of 11 Asian economies: Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. See https://www.emeap.org/index.php/about-emeap/

ABF1 was restricted to EMEAP central bank investment only and not open to other investors. The fund was structured and mandated to be managed by BIS (Bank for International Settlements) and was one of the first steps in fostering regional bond market cooperation. The objective was to re-invest a small share of Asia's vast and growing foreign exchange reserves into the region's bond markets as well as help in development of local markets. This initial fund traded in dollar-denominated Asian debt sold in the major financial centres. But as Gyntelberg, Ma and Remolona (2005) point out the operation of this fund allowed EMEAP to work together to build trust, foster regional cooperation and provided an opportunity to interact with the policymakers involved in reforming the region's bond markets. Following our eclectic framework of critical juncture, we argue that the 1997/98 crisis provided EMEAP with an opportunity to the region's central banks to move beyond currency and monetary policy issues to working closely to develop the region's capital markets. Japan, as the original proponent of EMEAP and Bank of Japan acting as de facto secretariat took the lead to use the ABF1 to develop the regional framework for central bank cooperation and also developed a regional financial product for management of their growing foreign exchange reserves. It's interesting to note that the US was kept out of EMEAP since its creation in 1991 as Japan was at that time keen on closer currency cooperation with rest of the region and establish as a major financial centre and did not want US to be a part of the discussions (Hamanaka 2009). However, at the same time we note that EMEAP was set up in collaboration with BIS and the ABFs were also structured and managed by BIS. Thus, the ABF1 were built on the existing institutional edifice of EMEAP and the US was kept out of the arrangement, the regional central banks felt comfortable for non-regional BIS to structure and manage the funds as it had greater technical expertise to manage funds like ABFs.

These objectives and outcomes are consistent with neoliberal and constructivist approaches of regional cooperation to recycle the region's high savings within regional capital markets as well as to pursue the shared belief of building national and regional markets as a bulwark against financial globalization. These goals were further reinforced through the setting up of ABF Bond Fund 2. Building on the success of ABF1, EMEAP extended the ABF concept to bonds denominated in local currencies. It announced the launch of the second phase of ABF (ABF2) in December 2004. The second Asian Bond Fund (ABF2) was started in 2005 with an investment of $2 billion in local-currency-denominated sovereign and quasi-sovereign issues in the same eight EMEAP markets. It has been allocated to the Pan-Asian Bond Index Fund (PAIF), which invests in local-currency sovereign and quasi-sovereign bonds. The remainder has been allocated to eight individual market funds that invest in their respective local-currency bond markets, including sovereign and quasi-sovereign issues. ABF2 was unveiled in two phases. In the first phase, investments in PAIF and single market funds were limited to the foreign exchange reserves of the 11 EMEAP central banks. In the second phase, PAIF and the eight market funds were opened up to other institutional and retail investors through public offerings, both within and outside the EMEAP. In others words, it also favoured integration of local and global bond markets. The ABFs were a path breaking initiative that allowed EMEAP to gain useful insight into identifying and removing any market impediments for local and cross-border investment. Some of the lessons learnt through creation of ABFs are cogently summarized in the writings of BIS economists. Gyntelberg, Ma and

Remolona (2005; 89) point out: “One unexpected area of reform has been the legal accommodation of national jurisdictions so that a fund domiciled in one jurisdiction may be sold in another.” Chan et al (2012) emphasizes that ABF2 played a significant role in kickstarting the process of harmonizing rules for reducing cross-border risks and improving market infrastructure. “The ABF2’s catalytic role included accelerating tax reforms to exempt withholding tax of non-resident investors; enhancing the regulatory framework for exchange traded funds (ETFs); further liberalising foreign exchange administration rules; improving regional market infrastructure and reducing cross-border settlement risk; promoting adoption of documentation in line with international best practices; and introducing a set of credible, representative and transparent bond indices” Chan et. al (2012; 36). In this aspect, ABF2 differed from ABMI and other approaches to strengthen regional bonds as it actually involved creation of funds to invest in local markets. Gyntelberg, Ma and Remolona (2005) also point there are a critical element of learning by doing in this approach both for EMEAP central banks in understanding the impediments to development of bond markets but also for individual economies participating in this process. Often market reforms in neighbouring economies, encouraged policymakers to fast-track their own initiatives. This was particularly true for China as well as for other smaller economies in the region. Amyx (2004 and 2005) pointed that China stood to gain the most from these measures to strengthen bond market initiatives as the tangible benefits accruing to China were higher than other regional initiatives.

Using the HI framework, I argue that the 1997/98 was a critical juncture that catalysed the launch of ABFs. The pre-existing institutional framework of EMEAP facilitated the launch of ABF 1 and set the arrangement on a path that shaped the launch of ABF2. This path dependency process created a positive feedback loop that stimulated legal and other institutional reforms within EMEAP's member countries. It provided a stimulus to speed up regulatory reforms by national authorities and also highlighted the need to harmonise cross-border regulations to promote intra-regional bond investment.

5.4.2 The Asian Bond Market Initiative (ABMI)

ASEAN+3 officials first met in December 2002 to discuss ABMI in recognition of the need to develop Asia's bond market. While ABFs were launched to facilitate demand for local currency denominated bonds, the ABMI was initially focused on supply side measures to build local bond markets. ABMI was launched with the aim of developing local currency bond markets to minimize currency and maturity mismatches, and mitigate against the risks related to sudden reversals of capital inflows into the region. In August 2003, ASEAN+3 Finance Ministers endorsed setting up of six voluntary working groups addressing issues related to (1) creation of new securitized debt instruments, (2) credit guarantee mechanisms and (3) foreign exchange transactions and settlement issues (4) issuance of bonds in local currencies by multilateral development banks, foreign government agencies and Asian multinational companies (5) strengthening domestic credit-rating agencies, disseminating information on national and regional bond markets and policies and (6) a technical assistance coordination group. The ABMI encouraged multilateral financial institutions including the Asian Development Bank (ADB) and International Finance Corporation (IFC) and multinational corporations to issue local currency debt. This increased the supply of highly-rated debt, supported the development of local markets through participation of a broader range of investors and improved transparency in terms of disclosure and standards. The ABMI agenda in the first five years was wide-ranging and focused on market development, mainly strengthening infrastructure to develop national and regional bond markets. The recommendations were not mandatory and participation in these working groups was voluntary in line with the ASEAN principles of arriving at decisions through consensus and non-interference. Thus, the historical trajectory and ASEAN's traditional norms of voluntary cooperation instead of setting mandatory rules set constraints on the institutional design and generated a path-dependency process for ABMI. ADB has served as the secretariat to provide technical assistance and logistical support to ABMI since its inception. ASEAN+3 policy makers meet five times a year to discuss the progress and assess the agenda under the various working groups. Again, keeping in line with the ASEAN agenda, ABMI does not specify any numerical target for development of bond markets or cross-border investment but encourage members to implement the agenda set in the road map. The policy makers review the roadmap every three to four years and based on their assessment decide whether to include any initiatives or cease any activities that need no support.

Park and Wyplosz (2008) claims that the progress report of the six ABMI Working Groups submitted to the ASEAN+3 Finance Ministers in 2005 suggest that the groups did not make much progress and needed fresh guidance. In response to the need to sustain the momentum of ABMI, ASEAN+3 introduced a new roadmap focusing on two key objectives: (a) issuance of Asian currency-basket bonds, and (b) Asian bond standards to develop international bond markets in the region through necessary market infrastructure and market policies recognized by global issuers and investors. It also acknowledged the merits of 'voluntary practical alternatives' for withholding tax treatment on bond holdings in promoting liquidity and cross border trading in the region (ASEAN+3, 2005). This implicitly acknowledged the varying levels of economic and financial sector development and reluctance of member economies to open their markets to both regional as well as foreign investors. In other words, the preference of domestic coalitions within national markets on treatment of cross-border trading of debts within the region was reflected in the acknowledgement of 'voluntary practical alternatives'[47]. It is to be noted that so far, the ABMI had focused on supply-side related measures to strengthen local capital markets. Using the HI Framework, I argue that the revealed preference of national authorities to develop and liberalise their domestic capital in a phased manner meant that the ASEAN Plus Three economies prioritised national objectives. Such an approach also reflected the diverse level of development in the financial sectors among the member countries. Recognising these issues, the ASEAN Plus Three tried to reset the agenda of building regional bond market by emphasizing the focus on demand side in the new roadmap. Adopting the gradual modes of changes, I argue that this can be described as institutional layering (Mahoney and Thelen 2010). The ABMI grafted new institutional elements alongside the existing ones without changing the core objectives of the institution.

There was a shared belief among a dominant group of developed economies within the ABMI that market liberalisation was critical to development of regional bond markets. As a result, they also endorsed three new research areas which would "collectively look at capital flow liberalization and institutional arrangements; capital market development

[47] http://asean.org/chairman-s-press-release-on-the-asian-bond-markets-initiative-3/

including fostering asset management industry; and policy coordination forward in the region" (ASEAN+3 Communique, 2005). The ABMI reorganized its agenda to focus on four areas (against original six working groups) of regional credit guarantee and investment mechanism, settlement system, credit ratings, and the Asian Bond Standards. After five years of the ABMI, it was realized that to accelerate the development of local bond markets the focus on supply side needed to be balanced by measures to improve demand for local currency bonds along with stronger regulatory framework. In 2008, Japan proposed a new roadmap[48] that changed the organizational structure by making ABMI more focused on functions and improving operational efficiency (Lee 2012). It created a Steering Group and for Task Forces. The ABMI implemented a new roadmap to create four task forces (a) promote issuance of local currency-denominated bonds (b) facilitate demand of local currency-denominated bonds (c) improve regulatory framework and, (d) improve related infrastructure for the bond markets.

For the first time, a group consisting of private market participants to discuss cross-border transactions and settlement was set up. The task forces explored the setting up of a regional credit guarantee and investment facility to facilitate issuance by regional companies in regional bond markets, creation of unified framework with a set of common documentation under a common law that can be used by companies to issue bonds in the regional market, diversification of investor base to promote use of local currency bonds, promote cooperation on improving regulations to improve cross-border transaction and dissemination of information and improvement of market infrastructure

[48] https://asianbondsonline.adb.org/publications/adb/2008/abmi_roadmap.pdf

for settlement, liquidity and improved credit rating practices (ABO website: https://asianbondsonline.adb.org/abmf/index.html).

5.4.3 CGIF- Underemphasised landmark

The 2008 global financial crisis acted as a catalyst in ushering in an institutional outcome that was conceptualized early on but had not been implemented. For developing local currency bond markets, it is necessary for domestic companies to have access to Asian bond markets. However, often there is a gap between the credit quality of domestic companies and credit requirements of investors. Policymakers identified this gap as one of the major hurdles in development of Asian bond markets. “To this end, it is necessary to develop a credit guarantee mechanism in the region to overcome constraints in local currency financing due to the lack of investor confidence in Asian bond markets,” Park and Rhee (2006;145). In 2010, ASEAN+3 announced the creation of the Credit Guarantee and Investment Facility (CGIF) as a trust fund of ADB with an initial capital of US$700 million to support the issuance of corporate bonds in the region. Japan and China contributed $200 million each, ADB $130 million, Korea $100 million and ASEAN $70 million. To avoid overexposure to any one country, industry or currency, CGIF set an upper limit of $140 million in guarantees to any one country.

The CGIF, in theory, allows lower rated corporate borrowers to obtain a guarantee that allows them to get a higher rating. This lowers the risk premium demanded in buyers of bonds. It also facilitates corporate borrowers to borrow long-term and reduce their maturity risks. These two advantages can potentially help the region to mobilise additional funds for financing its unmet infrastructure. Siackhachanh (2012; 10) adds such guarantees can also attract foreign investors to local corporate bond markets. She argued that CGIF, with its AAA international rating, would provide credit enhancements to domestic companies that will allow them to seek funds from the local markets. However, discussions with market participants and officials indicate that amount is too low compared to the number of companies and size of corporate bond markets in the region. An ADB official engaged in the research of regional market initiatives also pointed out that so far mostly stable and higher rated companies can access guarantees from CGIF (see Appendix 1). He cited examples of the Thailand's Nobel Group, Indonesia's PT BCA Finance and Aeon Credit Service of the Philippines as companies which are good credit quality and are already attractive to regional and foreign investors.

Nonetheless, the CGIF was the only tangible outcome in the first 10 years of ABMI, apart from the creation of the AsianBondsOnline - a one-stop portal to disseminate information on regional bond markets. The ADB played a key role in operationalizing the idea of CGIF and also contributed more than all economies except Japan and China. A Japanese official has headed CGIF from the beginning, unlike AMRO where the top position has so far been shared alternatively between Japan and China. In 2014, the guarantee capacity of CGIF was raised to US$1.75 billion.

Around the same time as CGIF was being created, the idea of another regional infrastructure financing facility was conceived by the ADB. In 2012, ADB and ASEAN member nations set up another facility, the ASEAN Infrastructure Fund (AIF) to meet the region's infrastructure development needs by tapping into domestic savings and foreign exchange reserves. AIF aims to provide $300 million funds every year to infrastructure projects in transport, urban, energy sectors and social infrastructure. The initial equity of the fund was $485 million. ASEAN member nations contributed $335 million and ADB contributed the remaining $150 million. However, slow offtake of projects has been slow and can be attributed to the lack of project preparation and preparedness in ASEAN economies.

However, a former senior official of the ADB involved in setting up of AIF in an interview revealed that one of the underlying reasons behind setting up the facility was to “forestall” the creation of AIIB by China. US and Japan were unwilling to accommodate or offer China with a larger capital share in ADB in line with its growing economic strength. China was already exploring the potential to create AIIB. While the idea of creating AIF as a counter balance to AIIB was a sound strategy by Japan, most larger ASEAN nations were unwilling to contribute any large sum to a regional facility. Japan also hesitated to step in to contribute any substantial amount to AIF. As a result, the scope and breadth of AIF remains limited compared to the infrastructure needs of the region.

5.4.4 Harmonising Standards to Promote Cross-border Transactions

In 2010, the ASEAN+3 renewed its original mandate of developing regional bond market through improved cross-border transactions and endorsed the creation of ASEAN+3 Bond Market Forum (ABMF) as a common platform to standardise market practices and harmonise regulations to facilitate regional cross-border bond trading. The most significant step taken under the ABMF is to develop ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)[49], which puts together a standardized set of documents and information disclosure requirements that will allow bond issuers in regional economy

[49] https://www.adb.org/sites/default/files/publication/31222/proposal-asean3-multicurrency-bond-issuance-framework.pdf

to sell bonds in any participating economy. It is hoped this will facilitate intra-regional investment in local currency bond markets.

Faced with the pressure to keep up the momentum, the ABMI in 2012 unveiled a new Roadmap Plus that read like the wish list of its members with little emphasis on outcomes. The ABMI sought to maintain its relevance and credibility through sharper focus on infrastructure financing, helping small and medium enterprises to access capital markets, harmonization of regulatory policies, market infrastructure and regional ratings system.

Three years later in 2013, a tectonic shift was taking place in the global and regional development finance landscape that also spilled over to the ABMI. In October 2013, the Chinese President Xi Jinping during a visit to Southeast Asia announced the creation of China-led Asian Infrastructure Investment Bank (AIIB), that is closely related to its 'One Belt One Road' strategy to export the China's excess investment through infrastructure projects, a move that will also boost its trade and foreign policy influence[50]. In 2013, the ABMI endorsed an initiative "Fostering Infrastructure Financing Bonds Development", to promote both issuance and demand of infrastructure financing bonds. This proposal was initiated by China and received backing from member economies[51]. This focus on tapping the region's vast savings for infrastructure development followed a 2009 report by the Asian Development Bank Institute (ADBI) that estimated developing Asia needed US$ one trillion every year for the next two decades to meet its infrastructure demand. A year later, the guarantee capacity of CGIF was boosted and work was accelerated under the guidance of Japan for developing ASEAN+3 Multi-currency Bond Issuance Framework

[50] http://spfusa.org/wp-content/uploads/2015/07/AIIB-Report_4web.pdf

[51] Discussions with officials attending ABMI meetings.

(AMBIF) to facilitate issuance of bonds by Asian institutions through a standardized platform in any of the participating bond markets. Japan's Mizuho Bank, backed by the Japan's Ministry of Finance, is the first Asian institution to sell bonds in the Thai baht bond market. This marked a small but an important milestone in developing and streamlining regional regulatory standards in line with global best practices.

It is evident that after the 2008 global financial crisis, two clear streams of activities are evident in the ABMI. One is developing financial instruments to mobilize savings through regional bond markets to finance infrastructure growth and the other is creating infrastructure and establishing procedures to facilitate cross-border issuance of bonds. While China led the infrastructure initiative, Japan is pushing for creation of strong regional bond markets. The remaining activities identified by the ABMI, particularly the creation of a regional settlement and clearing mechanism continue to elude a regional consensus and issues like liberalisation of capital flows are not beyond its mandate. ABMI has limitations as it covers bond markets only and focuses on crisis prevention by reducing double mismatches. To pursue broader development of local capital markets, Korea in 2010 proposed a new initiative – the Asian Capital Market Initiative. But this initiative lacked broad support. Japan's response was lukewarm while others, mainly ASEAN, wanted to implement the new ABMI roadmap rather than expanding its scope. Meanwhile, ASEAN was also fostering sub-regional capital market integration for the achieving ASEAN Economic Community (AEC) by 2015 and was not keen to take on other initiatives[52]. A Deputy Secretary General of ASEAN Secretariat in Jakarta in an

[52] ASEAN's capital market integration focuses on harmonizing disclosure standards for cross-border sale of equities and bonds. While the individual ASEAN markets are smaller in size, market integration can help it to project as a distinct asset class to both regional and foreign investors. Singapore, Malaysia and

interview said that regional capital integration under aegis of the ASEAN Capital Market Forum is moving slowly. There is a broad agreement on the key milestones, including national regulatory and supervision frameworks needed to achieve integration. In 2011, ASEAN central banks also approved ASEAN Banking Integration Framework ABIF). Under this framework, regional banks meeting certain criteria – Qualified ASEAN Banks or QAB are provided access to other ASEAN markets. According to the Deputy Secretary General of the ASEAN Secretariat, QAB agreements are gaining momentum and two such agreements are already in place and another five are expected to be signed soon. Thus, ASEAN is moving ahead with its own regional capital integration at the same time engaging with ASEAN Plus Three on expanding regional bond markets through the ABMI.

In 2016, the ABMI once again reoriented its agenda in line with the new sustainable development goals and endorsed yet another medium-term roadmap to promote green bonds, covered bonds, prime collateral for repo markets, and for the first time focused on municipal finance in selected member economies to help meet the demand for urban infrastructure with the local currency-denominated bonds. ASEAN+3 policymakers are also exploring options to promote green local currency bonds to support sustainable infrastructure development in the region.

Thailand have agreed to implement the ASEAN Disclosure Standards in their respective markets. However, its attempts to create an ASEAN e-trading link to allow cross-border trading of securities has failed to take off. In 2011, ASEAN central banks also approved ASEAN Banking Integration Framework ABIF). Under this framework, regional banks meeting certain criteria – Qualified ASEAN Banks or QAB are provided access to other ASEAN markets. Source: h ttps://asean.org/wp-content/uploads/images/2015/October/outreach-document/Edited%20Capital%20Market%20Development%20and%20Integration-1.pdf

Officials engaged in setting the agenda for ABMI highlight that the key challenge facing ABMI is leadership and coordination amongst the co-chairs of the voluntary working groups. In the early stages of ABMI, Japan, which was home to the largest government market in the region provided material resources and ideational direction to the member countries. Korea and Thailand strongly backed Japan's proposals. However, in the early 2000, China's bond market was closed to foreigners and Beijing participation in the ABMI was directed towards understanding and gathering information about international financial regulation. This was also true for other smaller economies in the region whose funding requirements were limited. The focus and pace of implementation of the agreed agenda is largely dependent on the motivation of the co-chairs of the working groups. At times, the national interests of the co-chairs conflicts with the regional objectives. The setting up of ABMF and inclusion of central banks and market regulators has led to more technical discussions within ABMI. However, most countries are represented by officials from the international division of their ministries of finance and they may not possess the requisite technical knowledge to participate in the discussions with the private sector, central banks and regulators. "I have to say that the MOF (ministry of finance) officials are sometimes completely lost in these discussions," said a former Japanese central bank official, also currently engaged in supporting the ABMI, in an interview. But ABMI and its arrangements do serve a key role in bringing together officials across sectors to discuss key challenges facing financial markets. Rethel and Hardie (2017) emphasise the role of ABMI as a venue for socialisation through which regional policymakers learnt about how to create local currency bond market and integrate with global markets. "ABMI has played a crucial role in bringing Asian financial policymakers closer to each other in a region where sovereignty is still jealously guarded, and acts as an increasingly important mechanism for the diffusion of best practices and technical expertise with regard to bond markets," Rethel and Hardie (2017; 13).

5.5 Asian Bond Markets - Progress So Far

5.5.1 Development of National and Regional Bond Markets

This section reviews the progress in the development of national and regional markets. It focuses on key issues relevant to trace the dynamics of regional bond market development. It examines whether bond markets have indeed emerged as an alternate source of finance, whether the growth has been driven by the government or whether companies are able and willing to borrow from bond markets, the level of openness – measured by intensity of foreign participation and intensity of regional integration of bond markets. Overall, the local currency bond markets are grown since the 1997/98 crisis though there are variations among the countries.

While the national bond markets have grown significantly, measured as a percentage of gross domestic product, the banking sector continues to be a dominant supplier of credit to the private sector. This represents an emergence of a more diverse and balanced financial sector in the region, a key objective of regional and national initiatives after the crisis.

We can delineate two phases of development of bond markets. In the first phase starting from 2000-2010, the growth in government bonds outstripped the growth in corporate bonds (***Table 7*** and ***Table 8*** in Appendix Chapter 5) This higher government bond issuance was witnessed in the wake of the 2008 global financial crisis as government sold more debt to fund their economic recovery. A growing and maturing government bond market lays the foundation for the growth of the corporate bond market. There was a steady growth in the size of domestic corporate bond markets in the region. In the aftermath of the 2008 global financial crisis, domestic companies were raising funds from local bond markets as banks were reluctant to lend in the wake of the crisis and the global markets were still volatile. Thus, 2008 crisis was a critical juncture that pushed the governments to promote domestic corporate bond markets and demonstrated that local bond markets can be a conduit for fund allocation and a haven during global market turmoil (Asian Bond Monitor 2010-2012).

This trend demonstrates that the 1997/98 crisis was a critical juncture that ushered a significant change in the state-led development financing models in the region. The countries acknowledged the gaps and vulnerabilities in their financial sector and undertook regulatory reforms to build or strengthen government bond markets. The 2008 global financial crisis catalysed the growth of domestic corporate bond markets.

The development of domestic bond markets has also attracted foreign investors. In particular foreign investors' holdings of local currency bonds increased significantly over the past few years as authorities opened local capital markets . Foreign investors buy Asian bonds to gain higher returns, benefit from Asia's high economic growth, and capture capital gains from the appreciation of Asian currencies (See ***Figure 4*** in Appendix Chapter 5). However, national financial market regulators have cautiously opened their markets as they are more aware now about the volatility of global capital flows. The discussions at the ABMI forums and research on capital flows have sensitised regional policymakers about the importance of developing macroprudential norms to regulate capital markets.

5.5.2 Intra-Regional Debt Investment

Apart from developing national bond markets, one of other key objectives was to encourage intra-regional bond investment so that the region's vast savings is used to finance regional infrastructure instead of being parked in low-yielding financial instruments in New York or London. However, even as Asia's intra-regional trade grows, the region's investors still prefer to invest most of their savings in either their respective home markets or park the bulk of their funds in global financial centres (Azis and Mitra 2012). While recent trends are encouraging, the share of intra-regional debt investment remains low (Eichengreen and Luengnaruemitchai 2006) (see ***Table 9***, ***Table 10***, ***Table 11*** in Appendix Chapter 5). Existing studies on determinants of cross-border capital flows discovered a host of factors, including economic, geographical, demographical, and informational frictions, contribute to the lagged financial integration in emerging Asia (Portes and Rey 2005; Park and Shin 2013). Transaction costs of cross-border capital flows are also higher in Asia compared to other regions due to institutional restrictions (Park and Shin 2013).

Similar results were revealed in an analysis based on a primary survey of regional investors conducted by Azis and Mitra (2012). To further discover the rationale behind the lack of an Intra-Regional Bias (i.e., a relative preference for Asian bonds outside their home country), they conducted an actual survey[53] of Asian investors to ascertain how

[53] Seventy-eight participants responded to the survey, representing 10 Asian markets. Total assets under management of those surveyed are over US$ 5.3 trillion. Most respondents came from Japan (22% of the

Asian investors prioritize various factor-considerations affecting their offshore bond investment decisions (Azis and Mitra 2012). The survey results were modelled by using the analytic hierarchy process (AHP)[54]. The analysis done by Azis and Mitra (2012) shows that increasing overall return on investment is the primary motivation of Asian investors but risk minimization is a factor closely considered (see ***Figure 3***). This highlights the cautious behaviour among Asian investors in considering intra-regional investment. Investors attach high significance to economic and political stability while making investment decisions in regional markets. This provides a partial explanation as to why Asian investors prefer to invest in their home markets over other regional bond markets. The emphasis on stability is primarily a function of familiarity and knowledge (Azis and Mitra 2012). Lack of familiarity raises doubts about the perceived stability of a country from the foreign investor's point of view. Since market familiarity is highest in domestic markets, perceived stability is greatest in the investor's own country. Consequently, intra-regional bond investment becomes less attractive.

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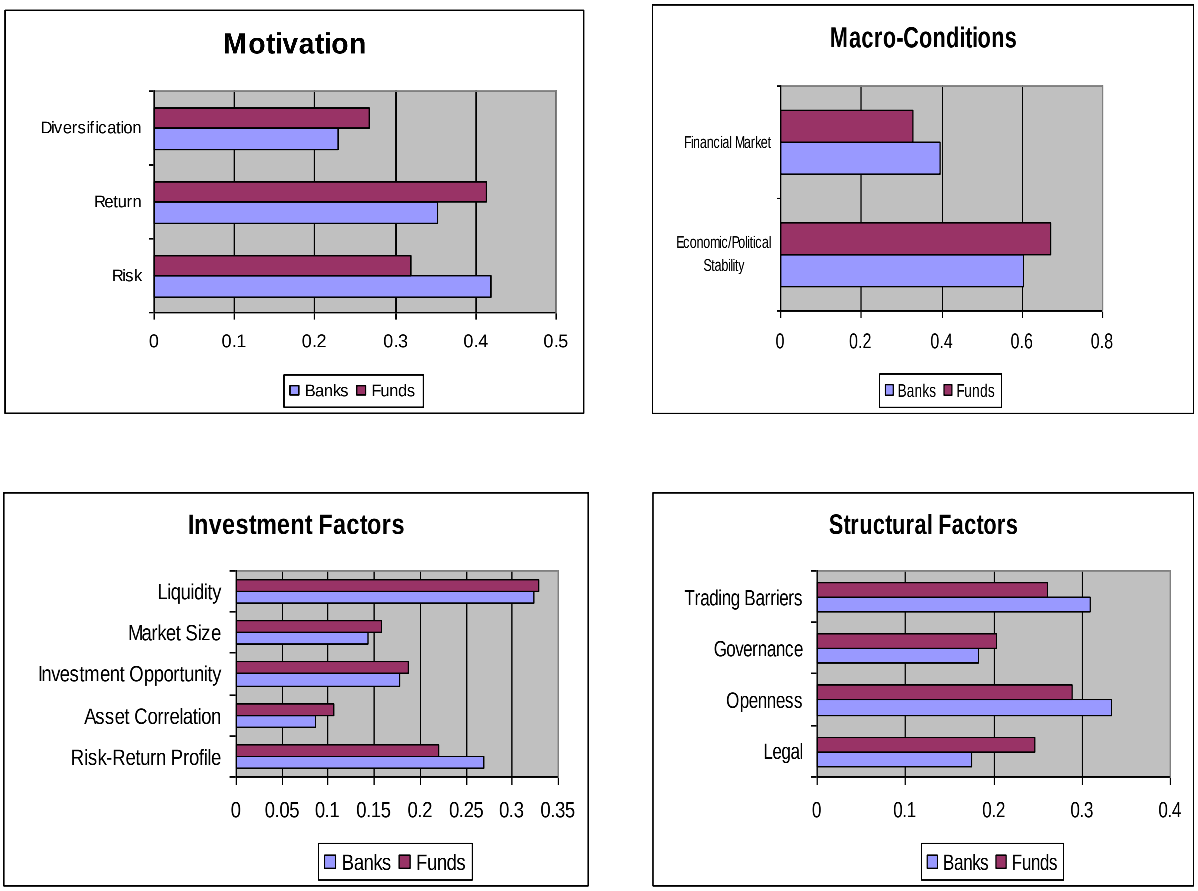
total), followed by the Republic of Korea and Singapore (13% each). Respondents based in investment grade sovereigns accounted for 77% of the total with sub-investment grade sovereigns covering 23%.

[54] The AHP is a structured technique for organizing and analyzing complex decisions. Based on mathematics and psychology, it was developed by Thomas L. Saaty in the 1970s and has been extensively studied and refined since then.

Figure 3: Results of Investor Survey



Source: Azis and Mitra (2012)

The benefits of increased intra-regional debt investment, through development of deeper and liquid bond markets and lowering of cross-border barriers, can foster greater financial integration in the region. However, the benefit of higher regional financial integration has to be weighed against the costs (Azis and Shin 2013; Park and Shin 2012). The global financial crisis has demonstrated that the opening and liberalization of capital markets must be balanced and calibrated against the cost. These positive feedback loops that reflect both the preferences of the region’s investors as well as the national regulators shape the path of bond market development in the region. As cross-border financial flows increase, the financial markets are also getting integrated and domestic regulations in one market can have impact on the other (Farrell and Newman 2010). Harmonising regulations to facilitate cross-border financial flows in a manner that minimises transactions costs as well as manages the downside risks of interdependence is a key challenge confronting the policymakers.

Expanding and deepening debt markets, especially corporate bond markets, can provide alternative financing with minimum risk of currency or maturity mismatches (Azis et al. 2013). But at the same time, it is also evident that globalization of local bond markets has also meant that they are vulnerable to external influences. Azis et.al. (2013; 2) show that in some countries the shock and volatility spill overs to local bond markets from the global financial crisis are “significant, real, and need to be addressed before they create new vulnerabilities and exacerbate economic imbalances”.

5.6 Conclusion

This chapter demonstrates that the 1997/98 Asian financial crisis exposed the vulnerability of the region’s state-led development models, particular their dependence on bank financing. The crisis provided an opportunity for the region’s policy elites to (a) introduce reforms that promoted the development of local currency bond markets and, (b) put together regional arrangements that will encourage intra-regional debt investment and reduce the region’s dependence on global markets for funds.

Situating these developments within the HI framework, I argue that while the 1997/98 crisis was a catalyst that led to the development and strengthening of government bond markets in the region. The 2008 global financial crisis stimulated the growth of corporate bond markets. Emerging East Asia’s local currency bond markets showed great resilience during the global financial turmoil and emerged as a key funding source for governments looking to finance their fiscal stimulus packages. More significantly, it was the lifeline for many domestic companies in the region as liquidity evaporated in global markets, particularly after the collapse of Lehman Brothers in 2008, and banks were reluctant to lend to corporates. The temporal dimension of the HI framework also allows us to trace the sequence and explain the unfolding dynamics of regional bond market development in Asia.

The first crisis spurred the region's policymakers to launch the Asian Bond Funds and the ABMI, while the second led to creation of the Credit Guarantee and Investment Facility (CGIF) and Asian Bond Market Forum (ABMF). These institutional innovations were driven by pre-existing institutional frameworks of the EMEAP and the ASEAN+3 but their agenda remain constrained by the path-dependent processes of these arrangements. The launch of ABFs by EMEAP led to tax and other legal reforms to strengthen market infrastructure, a process that can be described as a positive feedback loop that provided impetus to similar reforms in other countries in the region. The creation of ABMI and its shift to focus on demand side issues from supply side and the creation of the ABMF can be described as institutional layering, a process where new elements are supplanted with altering the formal structure of the institution. The creation of CGIF is indeed a major institutional outcome of the ABMI. The pre-existing framework of ASEAN Plus Three and ABMI facilitated the creation of CGIF. Thus, CGIF and ABFs are the two successful institutional outcomes of regional bond market initiatives.

Officials interviewed expressed that the progress of ABMI has been slow and faced challenges in moving forward the agenda of development of regional bond markets.

However, the ABMI's value as a forum for socialisation that allows less developed economies in the region to understand key market risks and structure regulations to manage them is acknowledged by the participants. But marked difference in the level of development of the financial sector among the countries in the region and a phased approach to gradually open local capital markets has led economies to focus on prioritising development of national bond markets over increasing intra-regional debt investment. This is also reflected in the rising but still low intra-regional debt investment. These revealed preferences are a significant feedback to the ABMI forum. Opening domestic capital markets and raising intra-regional debt investment needs to be carefully weighed against the costs of managing the growing intra-regional and global financial flows. The ABMI has formulated guidelines for standardisation and harmonisation of bond market related regulations but the norm of voluntary commitments means that these guidelines are more advisory in nature and their adoption will be influenced by national priorities.

Recognizing the differences in the stages of development of the financial sector and regulatory structures among ABMI member countries, some developed economies which have more mature capital markets have come together under APEC to promote a new regional financial cooperation instrument. Japan, Korea, Australia, New Zealand and Thailand launched the Asia Region Funds Passport (ARFP) initiative to streamline the regulations for cross-border to promote the regional fund management industry by enabling mutual recognition of fund licensing[55]. The open arrangement of the ARFP reflects the desire by developed economies to forge alliances to build regional markets.

[55] https://fundspassport.apec.org/

A senior researcher at a Korean think tank, who has been engaged with the ABMI, argued that this two-track approach, where developed economies lead and others join as and when they are ready, is a pragmatic approach to regional financial cooperation.

Drezner (2010) argues that a key determinant of international regulatory outcomes will be “constellation of great power preferences.” However, Japan and China, despite their economic strength, are unable to shape regional regulatory outcomes as their domestic bond markets remain constrained. China’s capital markets, though growing, have still placed high barriers to foreign investment and, Japan’s corporate bond market is small compared to the size of its economy. Korea and Malaysia have the most developed corporate bond markets in the region.

The national priorities, preferences of the investors along with the significant divergence in the level of development of capital markets among the countries and institutional barriers have kept intra-regional bond investment still at relatively low levels. However, the future institutional outcomes are not pre-ordained and can be shaped by contingent events. Collective efforts to promote a regional bond market has met with limited success and needs stronger leadership and clarity among the larger economies on the future agenda of ABMI. The dynamics of contest for political leadership in ABMI, CMIM and AMRO will be analysed in the next chapter.

Chapter 6 Role of Regional Leadership

6.1 Introduction

It is now well accepted that geography alone does not shape the locus of regional cooperation. Regions are socio-politically constructed and their “variable geometries” are being continually being reconfigured and contested by both endogenous and exogenous factors. Asia is no exception. The contours of an integrating Asia are being increasingly moulded by economic, business, political, social and cultural relationships that connect its constituents and by the commitment that their governments make to foster and deepen cooperation (ADB 2008) (Acharya 2007). This development is referred to as regionalism and its trajectory is greatly influenced by who leads the collective effort in organising this vast and diverse region. The role of a regional leader is significant in understanding the evolution of Asian regionalism. Who makes regions and who determines their shapes? This question is more significant while studying the evolution of Asian financial regionalism.

Asia’s economies have expanded at a rapid pace in the past four decades and are keen to preserve this economic momentum. The expansion has been led by an open-export oriented policy framework and through deepening of business led production relations across the region. As a result, Asia today is the fastest growing region in the world, contributes to over 40% of global growth and its economies have massive foreign exchange reserves. It’s in the region’s interest to maintain national and regional stability and shield itself from volatilities spilling over from the global economy and markets. Asia’s growing economic clout in the global economy also demands more ambitious and coherent regional cooperation. Therefore, to safeguard national and regional stability and to increasingly play a greater role in addressing global issues, the region must act together not only out of self-interest but to maintain national, regional and global prosperity. By pooling its strength, Asia could influence rules and norms that shape global financial architecture. But who leads Asia to organise itself, its institutions and arrangements and sets collective agenda both at the regional and global level? Asia's established, and newly emerging economic powerhouses have many common priorities but also have competing and conflicting interests. And at times, these differences are magnified by political and historical legacies. This chapter explores the role of regional leadership in shaping the trajectory of Asian Financial regionalism. The first section attempts to define the role of regional leaders. The next section dwells on role of leadership during critical junctures. The following two sections trace the sequence of events to understand the evolution of leadership during the 1997/98 Asian Financial Crisis and the 2008 Global Financial Crisis. And, finally, we conclude by examining how the evolving regional leadership impacts upon Asian financial regionalism.

6.2 Defining Regional Leadership

The literature on regional leadership in Asian financial regionalism is relatively sparse. However, in the broader literature, discussions over emergence of regional powers, their role in regionalism and global governance has grown in recent decades. We draw from the analytical frameworks in IR and IPE theories to develop concepts of regional powers and regional leadership and apply the theoretical framework developed in this thesis to understand the evolution of leadership in Asian financial regionalism. The focus of the theoretical discussions is mainly on how we define regional powers, do all regional powers assume the role of regional leaders and what role regional power hierarchies play in regional cooperation and governance of regional institutions. Nolte (2010) rightly argues that a major difficulty in defining regional powers is that it is made up of two terms – regional and power that are conceptualized quite differently in IR theory.

> "Therefore, most approaches to conceptualizing regional powers combine elements of different IR approaches; they include internal power base (liberal), the power resources (realist) and their application (realist), role definitions and strategies (constructivist), and interaction patterns in the region with a special emphasis on the role of regional institutions," (Nolte 2010; 884).

The mainstream literature was initially built around realist and neo-realist framework of international leadership outlining the role and influence of a global hegemon or in the case of Asia, the regional power that performs the role of defining the region within a multilateral or regional institutional framework (Dent 2008, Park 2012). In the traditional hegemonic stability theory (HST), a regional leader is seen as a nation-state that possess dominant material capabilities in the region. Beeson and Broome (2010) state that while theories of hegemony dwell on power and dominance, there is much less agreement on what it involves, or its consequences are. They argue that there are those who see "hegemony as necessary and beneficial, and those who see it as potentially predatory and self-serving," Beeson and Broome (2010; 509). Kindleberger (1973), one of the original proponents of HST), provides a benign explanation of a hegemon providing public goods and stability in the world order in the absence of a global government. Thus, the presence of a dominant power in the global and regional politics is premised to lead desirable collective outcomes for all constituents within the multilateral or regional framework. The role of the U.S. in creation of Bretton Woods institution to facilitate global financial governance and Marshall plan that later played an integrative role in Europe can be cited as examples of a hegemon providing public goods and monetary and financial stability. However, Grieco (1999) argues that the hegemon can play either a facilitating or a constraining role depending on its objectives – policy preferences and strategies -- and material resources at its disposal (Grieco 1999). Grieco (1999) comparing the German and Japanese policy preference to shape regional institutions argues that absolute material power is not the sole factor in the calculus but the impact of asymmetries in interdependence on national influence and political-military conditions affect the range of economic relationships that states pursue. Gilpin (1981), analysing the conditions under which the international economy attains equilibrium, argued that states will always try to pursue their national interests through maximisation of their marginal utility. Within this approach, weaker states may be willing to accept the leadership of a strong hegemon and even contribute to provision of public goods if they feel that benefits are greater than the costs of confronting it (Destradi 2010). "And if we were thinking about desirable possible worlds, we might choose not a strong hegemonic power but a weak hegemonic power, one that has greater incentives to provide benefits to subordinate states in order to preserve its legitimacy. Only weakness will constrain a despot to act benevolently," (Snidal 1985, pp 588).

Dent (2008) argues that this mainstream strand focusing on hegemon assumes that the nation-state is the only unitary actor in the international order that can perform a leadership role and other non-state actors like multinational corporations, multilateral institutions, civil society organisations lack the wherewithal to perform these functions. Similarly, Snidal (1985) points out the limits of the hegemonic stability theory and shows using a game theoretic approach that cooperation can not only be sustained in the face of declining hegemony but also enhanced. Pedersen (2002) builds on this by constructing a theory of cooperative hegemony that rests on ideational-institutional realism and not on structural realist theory. This framework hinges on three pre-conditions i.e., the capacity for power sharing, power aggregation by the dominant states and commitment to a long-term regional strategy. However, Snidal warns that hegemonic cooperation should not be a "panacea" as collective leadership can have virtues of moderating idiosyncratic behaviours of individual leaders but can also lead to a coalition of interests among the dominant group to the detriment of the wider community. Nabers (2010) argues that hegemony – based not just on material or security foundations – is critical to exercise of leadership as "it circumscribes the domain of intelligibility in which leadership processes occur. Both hegemony and leadership are essentially political; both rest on power, but not necessarily on the observable form of material power alone" (Nabers 2010 pp.940). He sees hegemony as a discursive struggle between dominant political actors over their visions constituting a region that has a "universal significance".

But not all scholars conceptualise power through the lens of a dominant actor. Acharya (2007) argues that "power matters, but local responses to power may matter even more in the construction of regional orders. Regions are constructed more from within than from without." In this constructivist framework, social relations, ideas, mutual learning and persuasion can shape behaviour and expectations of agencies, including leaderships. Nye (2004) has championed the projection of "soft power" as legitimizing the actions of dominant states. He defines soft power as the ability to wean over followers through attraction rather than coercion or favours. Soft power rests on the ability to shape the preference of others (Nye 2004).

The greatest challenge to these mainstream approaches to hegemony came through the work of Robert Cox, who drew upon the writings of Gramsci to develop a framework of hegemony. Cox employs Gramsci's concept of hegemony and historical blocs to provide an alternative to state-centric power-based explanations. As highlighted in Chapter 2, Cox provides a framework that examines historical structures to understand social and historical changes. Cox (1983, 164) argues that power reflects a combination of both consent and coercion and, as long the "the consensual aspect of power in the forefront, hegemony prevails." He contends that coercion is always "latent" and only applied in "marginal, deviant cases".

In this framework of historical structures, the concept of hegemony is first grounded by dominant social forces within the state and later extended externally. Hegemony is constituted not just by social power but through material capabilities, ideas and institutions, which mutually reinforce each other (Cox 1981). However, central to Cox's critical theory is the concept of a historical bloc which is formed when the extended state and the civil society come to form a 'solid structure' (Kelly 2001). Bieler and Morton (2004) explain that hegemony can be established by a historic bloc by expanding a mode a of production globally and projecting it through the world order. However, Cox (1983) posits that global hegemony is not just about a hierarchy among states that is built on a dominant mode of production which extends to all countries and links to other subordinate modes of production. "World hegemony is describable as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three," asserts Cox (1983; 171-172). Cox further argues that international organisations are a mechanism through which institutions of hegemony are established and its ideology expounded. Extending the neo-Gramscian framework, it can be argued that regional institutions are also embodiments of hegemony that constitute not just material power but reflect social power, ideas and the political dynamics both within and outside the region.

Gill (1991), referring to Europe, highlights that the structural change in the post-war period generated the rise of a transnational bloc and a transnational managerial class that is in command of the global economy. “The new world order provided some of the key geopolitical conditions for the rapid expansion of the world market, a more integrated and increasingly globalized capitalism, and the emergence of powerful transnational interests that favour the coordination of capitalist economies on an increasingly global scale,” asserts Gill (2017; 636). In this context, European integration is seen as embedded in the neo-liberalism and shaped by a transnational class (van Apeldoorn 2002).

Kelly (2001) contends that the neo-Gramscian framework of hegemony and world order is a dynamic construct as opposed the state-centred static approach of neo-realists. He argues that the structures envisaged by Cox are being constantly shaped by the actions of the agents that generate new structures replacing the old. However, Kelly (2001) laments that despite developing a persuasive framework of hegemony, Cox failed to provide tools need to adopt the method of historical structures. To fill this gap, Kelly draws upon the structural power framework of Susan Strange. Strange (1988) identifies four structures of power – production, finance, security and knowledge. Kelly (2001) synthesises the work of Cox and Strange to analyse how hegemony is manifested on the domestic and at the international level.

It is evident that hegemony is a multidimensional concept that needs to be extended beyond the “narrow” realist and neo-realist analysis as power does not necessary lend itself to the role of leadership. While hegemony is about pursuing self-interest and realisation of the goals of the hegemon, it can be presented to the followers as a collective objective (Destradi 2010). The neo-Gramscian framework, reflected in the works of Cox, highlight that historic structures together with material incentives and ideologies can shape historical blocs which can be both embodiments and manifestations of hegemony in the world order (Kelly 2001).

Drawing on the above discussions, I argue that regional powers do not always lead to or facilitate regionalism. Only those which possess material power, ideational frameworks to construct a regional community through shared beliefs, norms, rules and can bring together governments, businesses and the broader civil society, will be accepted as regional leaders.

So, the question emerges why and under what conditions regional powers assume the role of regional leaders? Within the cooperative hegemony framework, Pedersen (2002) lists four reasons why regional powers promote regional institutional arrangements: (a) advantages of scale (b) advantages of stability (c) advantages of inclusion (d) advantages of diffusion. Dent (2008) contends that a regional leader should be able to provide public goods, resolve collective action problems, lead the community building initiatives and represent the interest of the regional community in the global governance architecture. This echoes the views of Flemes (2007) that a regional power must first stake claim to leadership, possess the necessary “power resources”, employ foreign policy instruments and should be accepted as a leader by the followers. However, a regional power cannot just proclaim itself to be a regional leader. Nor it is enough to be accepted as a leader by extra-regional powers. A regional power that aspires to be a regional leader must be accepted by its neighbours as a leader. In other words, supply of regional leadership must be matched by corresponding demand from followers who would look to the leader to integrate their interests and ideas in the leadership project. And most importantly, credibility and legitimacy of the leader is the bedrock upon which the follower-leader model is predicated. Therefore, a regional leader can be identified as a state which is willing to shape and lead the region and uses its material and ideational resources to incorporate the interests of its followers in its leadership initiatives.

The above frameworks provide explanations why regional leaders promote regional institutions, but they do not tell when and under what conditions a regional power decides to stake claim to regional leadership. Kelly's (2001) synthesis does provide us with a framework to examine how much power it takes to achieve hegemony *"in that situation and at that moment*", but it does not specify what motivates a hegemon to lead the region at a critical juncture.

This chapter employs the Historical Institutionalism (HI) Framework to trace the evolution of regional leaders. It puts forth the hypothesis that the two "critical junctures" – the 1997/98 Asian Financial Crisis (AFC) and the 2008 Global Financial Crisis served as catalysts for the region's economic powers – Japan and China to assume, cooperate and compete for the leadership of Asian financial regionalism. The contest and cooperation also established a hierarchy within these regional institutions and have been a motivating factor in shaping financial regionalism.

6.3 Critical Junctures and Leadership

Historical Institutionalists believe that critical junctures provide extraordinary opportunities to powerful states to shape international orders. Ikenberry (2016) argues that constraints on old orders are loosened, at least in the near-term, for the large and powerful states to "rethink and rebuild the international order. "International order-building exhibits critical junctures logic. Moments open-up giving powerful states the opportunity to lay down the "tracks" along which inter-state relations run" Ikenberry (2016, pp. 541). While looking at the evolution of Asian financial regionalism we can identify three critical junctures, including one which can used to explain the absence of regional leadership prior to 1997/98 AFC.

The advent of Cold War and the subsequent San Francisco Peace Treaty between the Allies and Japan are critical junctures that allowed US to shape the regional order and place barriers to regional cooperation. Two key features of the treaty were (a) dense bilateral security between the US and Japan, Korea, the Philippines and (b) it allowed Japan to resume trading with Southeast Asia, which provided for raw materials and intermediates, and in turn offered US allies access to US markets in exchange of bilateral security pacts. The pact established US as the core, Japan as its semi-periphery and, allowed Tokyo's economic re-engagement in Asia and integration of other US allies into the global economy. Thus, through its economic resources, security powers and ideational framework for global governance, the US as an extra-regional or a long-distance hegemon shaped the regional order and made any regional cooperation efforts difficult to initiate. This emerging order confirms Ikenberry's (2016; 514) assertion that “the great post-war junctures share a set of characteristics that make them unusually important in providing opportunities for leading states to shape international order.”

The San Francisco Treaty also influenced the development paths adopted by East Asian economies. Beeson (2018) attributes the success of the so-called East Asian Miracle to the US leadership in the region after the War. “While the ‘East Asian Miracle’ may have happened, eventually perhaps, it is clear that it owes a great deal to the fortuitous and supportive environment created by American leadership,” said Beeson (2018; 144). The access provided to regional economies to global markets and facilitation of their entry into global institutions pushed East Asia to adopt an open-economy model that derived its core strength from competitive exports. This integration of East Asia with the global economy along with the investment of Japanese companies in the region gave impetus to the rise of regional production networks, which form the backbone of the region’s economies. As mentioned earlier in this thesis, this trend of regionalization was supported by unilateral reduction in tariffs and provision of credit through state-dominated banking systems. Thus, the critical juncture of the Cold War and the San Francisco Treaty in 1951 provided the US with an opportunity to shape both the security and economic order in the region for the next four decades (Calder and Ye 2004). It also handed Japan an opportunity to re-engage with Southeast Asia and through its successful economic transformation provide large official aid and facilitating private investment in the region.

6.4 Absence of Regional Leadership Prior to the 199/78 Asian Financial Crisis

The success of Japan's state-led development model along with the flying geese model also contributed Japanese capital and technology to newly emerging economies in East Asia. This was also partly built on the neo-liberal economies policies pushed by the US, mainly promotion of open-trade and integration into global markets.

The economic transformation in East Asia created a hierarchical structure where Japan always remained at the top as the undisputed economic hegemon on the region. Japan was the key driver and would stay in the top, but the fundamental process was one of an orderly movement up the ladder (MacIntyre and Naughton 2002). However, adoption of Japan's state-development model adopted by other East Asian economies were also bringing them in conflict with more transparent and market-oriented reforms advocated by Bretton Woods institutions and the US. Despite accumulating economic power, Japan remained a reluctant regional leader and was unwilling to confront or annoy US and allies. It let its corporations supported by a liberal trade policy and pro-active foreign policy support Japanese businesses to deepen market-based relationships in East and South East Asia. This trend intensified after the 1985 Plaza accord and articulation of the Fukuda doctrine that laid the foundation of its ASEAN strategy and led to a significant shifting of its outbound foreign direct investment to the region. This deepened the development of production networks linking Japanese companies

Hatch and Yamamura (1996) argue that Japan put in place hierarchical production networks that inevitably pushed the East Asian economies to depend on Japanese technology and on the US as their market for exports of manufacturing products.

Despite these dominant market-led relationships in the region and being the sole major power in the region, Japan did not push itself to assume the role of a regional leader or lead any regional cooperation initiatives. Kelly (2001) argues that Japan's economic strength allowed it to confront material and ideational power of the US in the area of trade and multilateral institutions, Tokyo's historical relationship with Washington and dependence of its military power allowed the US to maintain its dominance in the production structure.

Meanwhile, there were several initiatives to promote regional cooperation efforts since the late 1960s through creation of informal networks of business, academics, think tanks and research institutions. These institutions like the Pacific Trade and Development Organisation (PAFTAD)[56], the Pacific Economic Cooperation Council (PECC)[57] and the Pacific Basin Economic Council (PBEC)[58] were mainly promoted by Japan and Australia and backed by other countries in the region. Nonetheless, Japan remained reluctant to lead and transform these initiatives into formal regional arrangements. Instead, it joined the US and Australia in creation of APEC in 1989 – the first government-led Asia-Pacific multilateral institution. Japan sees APEC as a platform that simultaneously allows it to promote regional cooperation but also remain firmly engaged with the global order.

[56] PAFTAD was created in 1968 as an academic network to discuss economic policies relevant issues in the Asia-Pacific.

[57] PECC was set up in 1980 as a partnership between business and industry, academics and policy makers to discuss policy issues related to Asia-Pacific.

[58] PBEC is an association created in 1967 to facilitate business in Asia-Pacific.

"The consultation at one venue with major players in the Asia-Pacific region, which are crucial to Japan's economic relations, has been increasingly important in the promotion of regional cooperation. Even more importantly, APEC advocates open regional cooperation. This means placing importance on global-scale cooperation and promoting regional cooperation in a manner that supports this cooperation, thereby preventing regional divisions in the world," Japan's Ministry of Foreign Affairs (2003).[59]

Terada (2001) argues that Japan provided "directional leadership" to ASEAN through institutions like PECC and APEC and eschewed "hegemonic leadership". He highlights that Japan incorporated ASEAN interests into PECC and APEC through launching blueprints and conducting diplomacy that later led to APEC[60] as an "organisation with a legally non-binding force". "…Japan's leadership was not 'hegemonic leadership', which imposes leaders' intentions on followers by force, but 'directional leadership' which promotes collective goals by directing followers' behaviour," Terada (2001 pp. 214).

There were some attempts by Japan to lead monetary and financial cooperation. Notable among these were the creation of a central bank forum in 1990 that was later institutionalized as the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). Japan kept US out of this cooperative arrangement among central banks that is primarily aimed to monitor economic and financial stability in the region. However, EMEAP did not have any pan regional vision or roadmap for economic cooperation until it was tapped during the AFC to build the region's domestic bond markets.

Around the same time as Japan joined APEC, a new region imagined East Asia was being envisioned by the former Malaysian Prime Minister Mahathir Mohammad. This

[59] https://www.mofa.go.jp/policy/economy/apec/what.html
[60] Terada (2001) acknowledges the key role played by Australia along with Japan in creation of APEC.

proposed arrangement was labelled as East Asia Economic Group (EAEG) and later as East Asia Economic Caucus (EAEC). These proposals were significant as concept of East Asian regionalism was promoted was the first time and it excluded all non-regional members, particularly the US and Australia. However, these proposals did not receive support from Japan as Tokyo was keener to continue with it mediating role between the US and rest of the region while accumulating economic power. Japan's asymmetrical trade dependence on the US made it reluctant to support EAEG and EAEC in case this led to a confrontation with Washington. Grieco (1999) argues that Japan had more symmetrical relationship with the US in money and finance but did not feel necessary to these leverages in non-trade areas to support EAEG and EAEC. Mahathir's proposals were also rejected by Indonesia which hosted the landmark APEC summit in 1994. The Bogor Goals facilitated the plan to establish a free trade in the Asia-Pacific region by 2010 in the developed economies and by 2020 in the emerging economies. Jakarta's interest in APEC signalled its intent to promote trust and stability in the region and promote a pro-business investment climate in the region. This sentiment soon spread and was shared by other Southeast Asian nations and led to the development of the ASEAN Free Trade Area (MacIntyre and Naughton 2002).

Meanwhile, even after the normalisation of diplomatic ties between China and Japan in 1972, bilateralism rather than regionalism or multilateralism shaped Tokyo's relationship with Beijing. China did not participate even in any formal regional networks as it saw them as a part of a "US-Japanese strategy for regional dominance and imperial conspiracy against Communist China," Deng (1997; pp 374). Indeed, one of key objectives of US engagement and shaping of the regional order in East Asia was to contain and limit

China’s ideological influence. China remained sceptical of global and regional economic relationships and it did not have a concept of the region but focused on the neighbourhood concept. “China’s hostility towards attempts at regional cooperation at the time represented a significant brake on Japan’s interest and explains in a great measure why initial Japanese interest in regional multilateral arrangement subsided throughout much of the 1970s,” Deng (1997; 374).

China’s journey to emerge as a regional and global economic power began with the opening of the Chinese economy in 1978 by Deng Xiaoping. As China embarked on economic reforms to open its economy, the “three circle” strategy was at the core of its integration into the world economy (Hu 1996). The largest circle comprised the industrial powers of the world, the second circle represented economic relationships with Asian countries and the inner circle focused on Taiwan, Hong Kong, Macau, Singapore and the Chinese diaspora in the region. It was clear that primarily it was economics and not security or political arrangements would be the driving factor in these relationships. China was keen to build business relationship with its neighbours and used its vast diaspora to deepen its production network in the region.

China’s initial diplomatic push included signing security agreements with its neighbours and starting in 1991 sending representatives to the ASEAN Post-ministerial conference where China participated as a consultative partner. This relationship was expanded when China started participating in the trade and technology groupings of ASEAN. China joined APEC in 1991 and in 1994 accepted the decision to be a part of the proposed free trade zone by 2020. These decisions were influenced and dictated by the pace of its domestic economic reforms and ‘Open Door’ foreign policy. Incidentally, China’s emergence as a regional economic power and its entry into APEC also coincided with the end of the Cold War. In the post-Cold War period, China took steps to normalize its relationship with Southeast Asia and other neighbours. “In the process, China accepted the ASEAN model and its principle of non-intervention in domestic affairs. On the other hand, China also participated in both track one and track two institutions of APEC and ARF and supported APEC and ASEAN’s role as agenda setters. Beijing’s gradual re-entry into East Asia generated the base for further interactions between China and ASEAN,” (Tsai and Liu, 2013; 543). China was using these forums to socialise and understand the workings of market economies as part of the preparations to join the World Trade Organisation (WTO) in 2001.

It is clear from the above that Japan, as an incumbent regional leader possessed both material resources and ideational frameworks but was constrained by its dependence on US military power and more importantly, remained committed to participating and contribution to global governance institutions. Pempel (2015) recalls that Japan was the most powerful influencer in the region after the US for four decades since early 1950s. “…Japan’s stunning economic performance from 1950s to 1990s catapulted the country into a premier position as the most important US economic and security partner in East Asia while simultaneously positioning Japan as the unchallenged economic hegemon in East Asia,” Pempel (2015; 362). Following Destradi, Pedersen and Flemes, I argue that Japan was a regional power but did not stake a claim for regional leadership. China was just emerging as an economic power and consolidating its gains and still in the process of integrating in the global governance structure. Meanwhile, ASEAN stepped in to provide “entrepreneurial and intellectual leadership” to bring together the East nations to address selectively key economic and security issues (Stubbs 2014, pp 529). Most important of these initiatives was to set up the ASEAN Plus Three arrangement that eventually emerged as the bedrock of Asian regionalism.

ASEAN gained reputation and legitimacy as a group that intervened effectively in international forums, ideational entrepreneur that promotes new ideas and could gather nations in the region for effective consultations. However, it remained constrained by its lack of military power and relatively weaker economic resources compared with Japan and China and was reluctant to provide leadership across the board. It also remained constrained by its subordinate relationship to the US, which continued to provide global market access to products from ASEAN and an overarching security umbrella against any threat from communist China. Thus, applying the framework of regional leadership set out in the earlier section, we can conclude while ASEAN was emerging as an “entrepreneurial leader” and as the only regional institution, it was not a regional leader (Dent 2008). Again, it was the 1997/98 crisis that was the critical juncture which created conditions for ASEAN to rise as an entrepreneurial leader. Time and sequence of events played a critical role in pushing ASEAN to unleash its ideational leadership.

For nearly a decade after the end of Cold War, Asia lacked a regional leader despite growing trade and business relations among its members. Stubbs argues that region’s economic powers, Japan and China, were unable to provide leadership to the region. “East Asia was increasingly being knit together by economic linkages of region-wide production networks created by Japanese firms relocating throughout the region and by expansion of ethnic-Chinese business networks. However, the major economic powers of the region, Japan and China, were unable to fill the regional leadership void,” (Stubbs

2014, pp 527). The US through its role as global hegemon continued to influence all emerging regional arrangements. Beeson (2013) highlights the contrasting role played by the US in supporting European integration and regional cooperation in Asia. “Unlike Europe, where US hegemony underpinned European integration, in East Asia it had precisely the opposite effect. Unsurprisingly this had the result of isolating China from many of its neighbours and reinforcing fears about the negative impact of ‘American hegemonism’,” (Beeson 2013, pp 238). Thus, the lack of a regional leader prior to the 1997/98 Asian Financial Crisis can be cited as a significant factor behind the slow development of Asian financial regionalism.

6.5 Asian Financial Crisis and Emergence of Regional Leaders

The 1997/98 AFC called into question existing global and regional institutional frameworks, weakened the dominant discourse on global governance and opened the window to reconstitute existing arrangements and create new institutions. As mentioned earlier the crisis shook both the material and ideational foundations of existing frameworks and opened the possibilities for change. Nabers (2010) states that during a crisis period competing forces will attempt to ‘hegemonise’ the space to exercise leadership through provision of material resources and alternative ideas in this situation. This is similar to Ikenberry’s (2016) postulation that crisis provides opportunities to powerful states to shape international orders. Applying the HI framework, the thesis argues that crisis allows alternate discourses to interpret the root causes of crisis but ultimately the dominant discourse would prevail that once implemented would place institutions on paths that are difficult to alter (Pierson 2004). The 1997/98 Asian Financial Crisis was a catalyst that provided Japan the opportunity to assume a leadership role in promoting economic recovery of the region. But its leadership role was contested by China, which was an emerging power and remained suspicious of Tokyo's intentions of promoting financial regionalism. However, China's stake to claim regional leadership was not backed by any material contribution and its less developed financial markets were a constrain on conferring it any meaningful role in discussions on crisis management or building of local and regional capital markets.

Japan initially joined international efforts, led by the IMF, to help ASEAN during the AFC in August 1997, a month after the crisis hit Thailand, by providing $4.0 billion. A month later Japan unveiled its proposal of the Asian Monetary Fund (AMF) at the G7-IMF meetings in Hong Kong. This was the most ambitious financial regionalist project proposed by any Asian country until then. There was a strong backlash from the US as it directly challenged US hegemony. China was also suspicious of Japan's AMF proposal and firmly opposed it as it viewed it as an attempt to increase financial clout. While China was not in a position to lead the region, it tried to neutralise Japan's leadership credentials. However, China's policy stance changed quickly as it realised that financial contagion can spill over to its economy and that its fortunes are intrinsically linked to the economic situation in the region. In the face of strong opposition from the US and its allies and China, Japan withdrew its proposal to set up AMF. Katada (2002) argues that Japan's withdrawal was also partly due to domestic economic and financial troubles. Two major Japanese domestic financial institutions collapsed in November 1997 rocking the foundations of its financial sector.

Hughes (2000) highlights the fact that Japan's AMF proposal was perceived as a bid by Tokyo to establish a platform for regional financial dominance and to blunt the influence of the US. The failure of the AMF proposal has been interpreted as Japan's failure to provide leadership to the region (Rapkin 2001). However, Hughes (2000) argues that it will be a misinterpretation to consider the rejection of AMF as an outcome of Japan's failure or its attempt to keep the US out of the proposed regional financial arrangement. "But arguably this is a misinterpretation which distorts the true nature of Japanese policy and the setbacks that it suffered. Undoubtedly, Japanese policy makers did see the AMF as a means to enhance their status in East Asia, but this does not necessarily imply the exclusion of the US or IMF from influence in region," argues Hughes (2000). He highlights that even before floating the AMF proposal, Japan supported the IMF conditionalities for stabilising the currencies.

Meanwhile, the contagion was spreading across the region and inflicting heavy losses on the economies and markets. The US and other Western economies expressed their scepticism over Japan's efforts to stimulate the regional economy (Yoshida 2004, Katada 2002). Japan staunchly defended its policy measures and in October 1998 it unveiled the New Miyazawa Initiative – a $30 billion package for medium to long-term financial support to the crisis-hit economies[61]. Around half of the this was provided in form of short-term liquidity support. Lipscy (2003) notes that Japan broke away from the IMF's orthodox conventions and provided support to Malaysia which opposed IMF's recommendation and imposed capital controls and pegged the ringgit currency to the dollar. In two years, Japan

[61] https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/new_miyazawa_initiative/e1e042.htm

provided $80 billion to crisis-hit economies in the region and unlike the IMF it did not attach any conditionalities[62].

It is now clear that Japan, stung by the criticism of its rescue efforts, differentiated its economic interests in the region from its security alliance with the US and decided to lead financial rescue efforts in Asia. As the world's second largest economy and holder of the largest foreign exchange reserves, Japan had the material resources and ideational framework to lead the region. By putting forward the proposal of AMF, it also showed its willingness to be an ideological entrepreneur of financial regionalism. Japan's generous bilateral support and swift mobilisation of funds to bailout Thailand, the epicentre of the 1997/98, and its efforts to forge an "Asian Consensus" on creating a regional liquidity mechanism provided legitimacy and credibility to Japan's leadership role. Japan transformed itself to a "pro-active" state from a "reactive" state in defining the form and shape of Asian financial regionalism. "Japan announced it would play an active leadership role to counter the crisis. The starting signal was given for a quest for leadership in the region that turned out to be the dominant feature of East Asian international relations in the years to come," contends Nabers (2010; 942).

The question arises why Japan decided to lead the region and what led to its successful emergence as a regional leader. Katada (2002) argues that there are both material bases and political bases for Japan's reactive role in taking the lead to establish a framework for regional financial cooperation. First, the Japan's economy was deeply impacted by the crisis and its banking system had a high exposure to Asian economies. Another

[62] https://www.mofa.go.jp/policy/economy/asia/crisis0010.html

associated factor was that after instability in the region threatened Japanese FDI in the region, which had accelerated after the Plaza Accord and established efficient global and regional production networks. “Second, in addition to its purely material interests Japan has had a large political and ideational stake in the recovery and stability of the region,” Katada (2002). Japan had a differing explanation of the root cause of the crisis and did not agree with the massive fiscal tightening and flexible foreign exchange management approach advocated by the IMF and the World Bank. Japan felt the crisis was due to the massive outflow of capital triggered by the activities of hedge funds and institutional investors. It advocated quick provision of liquidity by either the IMF or a regional lender. The US and the IMF were focused on structural, market-oriented economic reforms. Tokyo saw IMF proposals as a direct challenge to its state-led development model and attempts to discredit it. In other words, the ideational foundation of Japan’s development paradigm that was adopted by other East Asian economies was being challenged. Japan took the lead in putting together a regional framework for management and resolution of the crisis by providing both funds through the Miyazawa Initiative, creation of BSAs and through CMI to lay the foundations of financial regionalism (Pempel 2011). These ideas and initiatives were embraced by crisis-hit ASEAN, which provided legitimacy and credibility to Japan’s leadership in Asian financial regionalism after the AFC. Thus, the

China also tentatively started to project itself as an emerging leader in the wake of the Asian Financial Crisis as it emphasized its role as a responsible power and a stakeholder in promoting stability by supporting regional self-help mechanisms initiated by Japan. Beijing increasingly realised that financial cooperation to ward off future crisis was in its own self-interest, especially if regional institutions can mitigate the need to rely on US dominated financial institutions and global governance architecture (Breslin 2011). The Asian Financial Crisis was the critical juncture that led the emergence of Japan as a regional leader and gave China an opportunity to project itself on the regional economic landscape as an emerging power.

However, the development of East Asian regionalism came through the formalization of the ASEAN+3 process, which was facilitated by an already pre-existing of ASEAN. By doing so, it also set an institutional path and a governance structure that was difficult to alter in later years. The creation of ASEAN Plus Three (APT) laid the foundation of Asian financial regionalism and pushed regional cooperation to a level that was not seen before the onset of the crisis. It was the shared troubled experience of the economies during the crisis that helped forge both collective action and a collective identity. Having experienced the financial crisis, Asian countries reached a consensus on the need to enhance their capacity to manage risks by building defences to protect against any future financial crises. The ASEAN Plus Three was formalized at an informal gathering of ASEAN leaders in 1997 in Kuala Lumpur. China accepted the offer of ASEAN to join the summit. Japan was initially reluctant, but it did not want to Beijing to assume leadership of the region (Stubbs 2002). “Sino–Japanese cooperative competition acted as centripetal forces for developing the APT as a core institutional framework” (Park 2012). There were two key outcomes of the APT initiative. First, it placed ASEAN in the driver’s seat of Asian regionalism. Second, it was perhaps the beginning of the contest between Japan, which was the incumbent leader, and China, the new challenger in the region. “The Asian crisis is widely considered as the primary source of a new Sino-Japanese struggle for leadership in the region,” highlights Nabers (2010).

China until the crisis had been a passive participant in multilateral and regional arrangements. China's resilience to the 1997/98 crisis, its integration into the global economy, realization of complementarities with Southeast Asian economies and its growing conviction in a multi-polar after the end of Cold War and sense of shared perception along with other regional economies of US domination in global economy and markets led Beijing to make regional cooperation as an instrument of its foreign policy (Ye 2012). In 2001, China and ASEAN agreed to implement a free trade agreement, a move that spurred Japan to come up with a plan for broader East Asia FTA in 2002. The emerging rivalry and contestation for leadership would be later reflected in the structural changes within various regional arrangements. However, in the aftermath of the Asian Financial Crisis, both Japan and China agreed on the need for regional institutions that provide liquidity during balance of payments crisis. Jiang (2010) feels that China realised Japan's growing influence in the region after the Miyazawa Initiative and was keen to jump on to the regional cooperation bandwagon to check Tokyo's further dominance in the region. Chinese policymakers discovered that Japan's New Miyazawa Initiative in 1998, a US$30 billion financial assistance package for the region, was welcomed by Southeast Asian countries, and that Japan's influence in East Asia increased. "This realisation, together with the positive response China received from ASEAN for keeping the value of RMB, prompted China to adopt a more committed stance in regional cooperation," Jiang (2010; 612). The Chinese leadership backed the Japanese proposal to expand and multilateralise bilateral currency swap arrangements into the CMI. While CMI emerged from the Japanese proposal to create an AMF and creation of BSAs, the role of China in the subsequent years in providing leadership – both material and ideational – can be clearly traced.

Japan also proposed another significant regional financial project – the Asian Bond Market Initiative (ABMI). Here Japan was strongly supported by Korea and Thailand in formulating ideas to develop the region's local currency bond markets to efficiently intermediate the region's vast savings and maintaining a better balance within financial sectors, increasing resilience to economic shocks and for building financial stability in the region. Japan housed one of the world's largest government bond markets while South Korea had a dynamic corporate debt market that allowed them to assert moral authority in leading the ABMI. Thailand's former Prime Minister Thaksin Shinawatra was a strong proponent of a regional bond market and wanted the countries to use their foreign exchange reserves and vast savings to create a bond fund that will purchase Asian bonds. Thaksin argued that with vast financial resources at their disposal, Asian economies should not be suffering liquidity shortages. "Isn't it time for Asia to explore the setting up of an Asian Bond market as a financial instrument to help in maximizing our continent's potential and prevent exploitation of our reserves by others against the interests of ourseves," Thaksin said in a speech in 2002.[63] Japan provided the material resources to support ABMI[64] and set the agenda for the grouping by focusing on building market infrastructure to build national markets. However, Japan's heavy dependence on its banking sector and a relatively less developed corporate bond market in the 1990s

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[63] http://asean.org/?static_post=asia-cooperation-dialogue-the-new-asian-realism-keynote-address-by-his-excellency-thaksin-shinawatra-prime-minister-of-thailand-at-the-east-asia-economic-summit-2002-kuala-lumpur-6-october-2002

[64] The ADB, where Japan is the largest shareholder along with the US, acts as a de facto secretariat to the ABMI.

constrained its leadership role in the ABMI. Meanwhile, the lack of a meaningful bond market in China in 1990s deprived it of any significant role in the initial stages of ABMI. As highlighted in Chapter 4, China used the ABMI venue to learn of the global best practices and socialise with market participants, an experience that would be used to reform and significantly expand their domestic bond markets. The limitation of Japanese and Chinese domestic financial sector constrained their leadership role and also affected the agenda and progress of the ABMI.

6.6 Global Financial Crisis and Regional Leadership

In a decade after the Asian Financial Crisis and prior to the Global Financial Crisis, there was a significant transformation of the economic landscape. China had replaced Japan as the world's second largest economy and possessed the largest foreign exchange reserves in the world. The successful transition of its economy not only provided it with better material capabilities but also allowed it to project an alternative model of state-led economic development that placed a unitary government at the centre of all economic activities as opposed to Japan where a democratic government led the liberalisation of markets and facilitated the growth of the private sector. China was now keen to stake its claim as a leader of Asian regionalism and no longer willing to play a subordinate role to Japan. The Global Financial Crisis provided China with opportunities to play this role. However, Asia's response to the global financial crisis, the evolving and ongoing restructuring of the global economic governance structure and loss of faith in neoliberal economic principles have itself raised questions on the future of Asian financial regionalism (Katada 2011). As highlighted earlier, most economies adopted domestic stimulus packages and loosened monetary policies to pump prime their economies and countries like Singapore and South Korea which were confronted with short-term dollar liquidity used the swap lines provided by the US Federal Reserve instead of the regional safety net. China was no exception. It implemented a massive domestic economic stimulus package and later along with Japan was willing to play the role of lenders in Asia and Europe (Goh 2013). Both Japan and China were worried about the impact of a global recession on their domestic economies. As highlighted in earlier chapters, the GFC was a critical juncture that provided China with an opportunity to increase its profile both within the region as well as raise its voice raise its voice and representation in global financial institutions. At the same time, China maintained status quo and did want to reconstitute regional arrangements that would jeopardise its emerging leadership position with Asia. It remained within the global system and sought to increase its credibility, legitimacy and ultimately "power-sharing" with the US and other "responsible stakeholders" (Goh 2013) (Glosny 2010). Beeson (2018) postulates that China's efforts to provide regional leadership in the wake of GFC was largely to push its national priorities. "The net initial effect of China's efforts was not simply to help insulate East Asia from the impact of GFC, but to bring out a shift in the relative standing of China and the US, its principal rival for hegemonic influence in the region and beyond," Beeson (2018; pp. 149). Japan was quick in the aftermath of the GFC to offer support to US and Europe and sought to maintain the status quo in the global order. In response to the GFC, G7 was expanded to G20 to reflect the global economic transformation and providing a voice to the emerging economic powers, particularly those from Asia. However, Tokyo was keen in having G7 as the core grouping within G20 (Dobson 2010). Japan is keen to maintain the status-quo in global governance and at the same time also would like to be Asia's predominant voice in international institutions. However, its role as the regional leader is now being challenged by China. Chin and Dobson (2015) feel that Japan's support for G7 can be interpreted as constraining its support for regional cooperation. "Tokyo's ambiguity undermines the coherence of its approach to global governance within the G20, while its support for the G7 seems to constrain its commitment to greater regional cooperation," Chin and Dobson (2015;1-3). On the other hand, China is keen to position itself as the voice of developing economies in G20. Jiang (2010) argued that China seized the opportunity to raise the voice of developing economies at international forums and credited itself for creation of G20. While Japan and China have different strategic interests, both Tokyo and Beijing seek to increase or maintain their relative positions in existing and emerging global institutions. And in doing so, Japan and China would like to leverage their relative strength in regional financial arrangement to increase their influence in global financial architecture.

While Japan and China have showed their willingness to jointly lead regional initiatives, regional leadership in Asia remains contested. This was reflected in the ongoing leadership tussle in two regional financial arrangements, namely the multilateralisation of the Chiang Mai Initiative (CMIM) and the ABMI. While the Global Financial Crisis hastened institutionalisation of CMIM from CMI, it also led to the leadership contest between Japan and China. The country contributions and voting weights in the governance structure of CMIM were contentious issues as they reflected the economic power of the respective member countries, particularly for Japan and China. China was the newly emerging economic giant and keen to establish its leadership credentials, while Japan had been the leader in financial regionalism and provided funds generously to countries hit by the 1997/98 AFC. AS discussed in Chapter 4, after long drawn negotiations, a political compromise was reached where Japan and China were allotted equal contributions of 32% in the pool. Similar leaderships contest was again witnessed during the creation of AMRO and CGIF. Regional officials[65] feel that the bitter leadership contests in AMRO and CGIF sometimes deflects the attention of Japan and China from pursuing the agenda and implementing the roadmaps agreed in these institutions.

Meanwhile, China's ongoing domestic economic and market reforms also provided it with an opportunity to play a greater role in the ABMI after the GFC as compared to the AFC when it was largely a passive observer. Initially China's focus in the ABMI was more on using the venue to socialise and understand the workings of the capital market. By 2016, China's bond market was the second largest in the world, quadrupling from 2010, and was also being cautiously being opened to foreign investors[66].

China's initiative to develop domestic bond market was a part of an effort to develop its local capital markets to finance infrastructure development and more importantly to support internationalisation of renminbi currency. China's push to internationalize the renminbi and achieving a reserve currency status was seen as a challenge to the dominance of the dollar and the US in the global financial system. The development of the domestic bond market and foreign participation was a critical component of this strategy. The successful gradual opening and expansion of its domestic capital markets to support its phenomenal growth has spurred China's to tout the success of its own state-

[65] This was revealed by the regional officials during the interviews.
[66] Data on growth of individual bond markets is available on AsianBondsOnline website: https://asianbondsonline.adb.org/

led growth model and polices in ASEAN Plus Three forums. China's focus in the ABMI has been more on using the venue to mobilise its large savings to channel it to infrastructure financing in the region. This contrasted with Japan which had focused on building market infrastructure, framing rules and regulations to develop the region's local currency bond markets. These differences and focus on national priorities by Japan and China also affect the workings of the ABMI. Thus, the lack of leadership in the ABMI has impacted the progress of promoting intra-regional debt investment.

As mentioned in Chapter 4, one of the landmark leadership initiatives by China was the creation of AIIB in 2014 which transformed the global financial architecture and the framework for development finance cooperation. The US and Japan have so far refused to join the AIIB. The US continues to uphold the Bretton Woods system – supported by the IMF and World Bank – with the US dollar at its core. This arrangement institutionalised the geopolitical dominance of the US and Anglo-American model of capitalism and global governance framework. However, the GFC exposed the frailties of this arrangement and highlighted the significance of a multipolar order that today underpins global trade and finance.

Sohn (2015) argues that while there are legitimate concerns about fragmentation, a decentralised governance framework – global, regional and bilateral institutions – may be beneficial if agents coordinate and learn to pursue public goods together. He argues that China's new development bank is part of its hedging strategy to not rely heavily of either global or regional institutions. Chan (2017) argues setting up of the AIIB is a part of China's soft policy strategy for regional re-ordering, counter US hegemonic influence in the Asia-Pacific and dominance in international finance.

The creation of AIIB marks the beginning of the first China-proposed and led multilateral financial institution and regional and intra-regional development strategy. It can be argued that China's attempt to take a lead to reshape the global financial architecture through creation of an alternative to multilateral financial institutions, which were created after World War II, could have been provoked by steadfast refusal of developed Western economies, led by the US, to give Beijing a role or larger voice in these institutions in the past three decades. Applying the HI framework, the thesis argues that the Global Financial Crisis was a critical juncture that discredited neoliberalism and reinforced calls for reform of global financial institutions. It opened a window of opportunity for China to use material and ideational powers to establish a new multilateral financial institution and allows it to expand its financial footprint across Asia.

China's extraordinary economic success has emboldened Beijing to challenge Western models and portray an alternative economic development model, commonly referred as the Beijing Consensus – authoritarian government with a market economy - as opposed to Washington Consensus – market economy with democratic government - and also offer the AIIB an alternative to the existing multilateral financial institutions (Beeson and Li 2016). Nye (2012) argues that while China is quite a distance away from the US and Europe's soft power, it will be imprudent to dismiss the gains it is achieving. Chinese scholars argue that China's growing leadership role in the region and the global economy helps it in projecting its soft power. Ren (2016) asserts that the success of AIIB is a direct result of China taking a leading role in the global economy and its support from emerging economies provides it with the legitimacy to do so.

6.7 Conclusion

This chapter examines the role of regional leaders in shaping Asian financial regionalism. The mainstream realist theories posit that nation-states through their material powers can exert hegemony to shape global and regional orders. The neo-Gramscian framework challenges this position and shows us that historic structures together with material incentives and ideologies can shape historical blocs which can be both embodiments and manifestations of hegemony in the world order. It is clear from the literature review that regional powers do not always lead regionalism. I argue that only those countries which possess material and ideational power and are able to incorporate social forces in their framework can emerge as regional leaders.

Using the HI framework, I argue that critical junctures like economic crisis provides opportunities to regional powers to assume leadership roles and re-build regional orders. The Cold War and the San Francisco Treaty were a critical juncture that established US hegemony in the region, facilitated Japan's re-engagement in the region and created conditions for East Asia to join the emerging production networks and export their goods to the US market.

Japan's economic transformation in the post-war period allowed it to emerge as the major power in the region. But despite possessing material and ideational powers, Japan did not confront the US as it depended on its military power and was also had no intention to disturb the existing global governance structure. As described by Hatch and Yamamura (1996), Japan was quietly supplanting its state-led development model in the region by building a web of production networks in the region. Japan's bilateral aid, technology transfer and commercial financial flows tied the region into a complex production hierarchy and also made the region dependent on the US market for its exports. Japan possessed structural power but did not assume the leadership of the region. Thus, prior to the 1997/98 crisis, there was no regional leader in Asia, a key factor that can be identified as constraining the development of financial regionalism.

The 1997/98 Asian financial crisis was a critical juncture that undermined the material and ideational framework of the region's development model and exposed its vulnerabilities. Japan, through its failed AMF proposal and massive economic recovery packages, signalled its intention to lead the region. However, its initiatives remained embodied within the global governance framework.

There were two other significant developments during the 1997/98 crisis. ASEAN emerged as an entrepreneurial leader by proposing the creation of ASEAN Plus Three, which emerged as the bedrock of Asian financial regionalism. The forum provided China to deepen its engagement with the region and later though free trade agreements transformed the prevailing production structure. However, Japan through its leadership in designing regional safety nets, BSAs, CMI and the ABMI, led the development of Asian financial regionalism. As highlighted in the chapter, the 1997/98 also marked the beginning of Sino-Japanese contest for leadership of Asian financial regionalism.

China entered the Global Financial Crisis, defined as another critical, from a position of both material and ideological strength. With accumulation of economic power and success of its development model, China soon challenged and contested Japan in all the venues for regional financial cooperation after the 2008 GFC. But more importantly, China through the establishment of AIIB created a multilateral financial institution that confronts the existing governance framework and also seeks regional re-ordering.

While the focus has been firmly on China and its rise, there is a danger of underestimating the “residual significance” of Japan as a regional leader and a key determinant of Asian financial regionalism (Dent 2010). Japan is unlikely to cede this space to China. The leadership contest between Japan and China, and the intensity of engagement of the US in Asia will be critical factors in shaping the future of Asian financial regionalism.

Chapter 7 Conclusion

7.1 Introduction

Asia's position in the global economy is undisputed. The region's significant and rising contribution to global growth, its massive foreign exchange reserves and high savings, emergence as a creditor to developed economies and epicentre of global production networks is well documented. But more importantly, Asian economies together through their material power and ideational frameworks now have the potential to re-shape the global financial architecture. Moreover, Asian financial regionalism will play a significant role any such re-ordering of the global governance framework. The 2008 Global Financial Crisis challenged neo-liberal global economic order and generated debates about alternative forms of governance, including the role of regional cooperation in crisis and the revival of the global economy. Asia's economic dynamism made it a focus in these discussions (Goh 2013).

Trade and financial regionalism constitute the foundation of broad Asian regionalism. Financial regionalism through regional cooperative arrangements and institution-building has led Asian regionalism, in contrast to the sequence witnessed in Europe where trade regionalism led financial regionalism (Dieter and Higgott 2003). The thesis focuses on the role of the 1997/98 financial crisis and the 2008 Global Financial crisis in the origin and evolution of Asian financial regionalism. I employ the HI framework to trace the development of Asian financial regionalism. I argue that the 1997/98 Asian financial crisis and the 2008 financial crisis were critical junctures shaping Asian financial regionalism, which not only has a role in influencing economic cooperation within the region but also the global financial governance.

The thesis set out four key questions (a) How have the 1997/98 Asian Financial Crisis and 2008 Global Financial Crisis – defined as “critical junctures” -- shaped Asian Financial Regionalism? (b) Has the Global Financial Crisis shifted Asia’s focus to national and global priorities? (c) Has the emerging regional financial architecture remained nested in the evolving global financial architecture or does it pose a challenge and provides an alternative to western-led global economic order? and, (d) How the changing dynamics of regional leadership impacted Asian financial regionalism, particularly the agenda and pace of its implementation.

These questions were motivated not only to establish the relevance of Asian financial regionalism for regional and global governance but also by the gap in the literature that has largely relied on IPE theories to explain the emergence and relevance of financial regionalism. I argue that these extant approaches provide a static view of how regional financial institutions are established. IPE theories have made significant contributions to understanding domestic and international institutions and their relationships, trade liberalization, regional economic integration and international market regulation. But they have limitations in explaining some empirical puzzles related to international outcomes, including timing and sequence of institutional choices made in response to a contingent situation (Drezner 2010; Farrell and Newman 2010).

I employ the HI framework to establish the origin and evolution of Asian financial regionalism. HI frameworks have traditionally been employed as methodological tools in political science, particularly in comparative politics to study institutions within states. Its application in international realms is limited (Farrell and Finemore 2016), and the application of HI in the study of regionalism is sparse. Indeed, there is no study that applies HI to Asian financial regionalism. This thesis makes an original academic contribution by applying the HI framework to Asian financial regionalism to explain the origin and development of financial cooperation initiatives and governance-building in the region. The thesis uses two case studies - the development of CMI, CMIM and the AMRO and, the ABMI - to establish the strength of HI i in explaining Asian financial regionalism. It also uses the HI framework explain the role of a regional leader in shaping the trajectory of financial regionalism in Asia.

This chapter first summarises the IPE approaches and their limitations in explaining Asian financial regionalism. It then shows through detailed empirical analysis how adoption of the HI framework helps to advance our knowledge of financial regionalism. The following section summarises the substantial and methodological findings of the three empirical chapters (4, 5 and 6) and in each case highlights the strengths and weakness of the HI framework relative to the other bodies of IPE theories. The substantial findings provide an answer to the four main research questions and highlight the original contribution of this research. Finally, we conclude by outlining some policy implications and indicating the sub-optimal institutional outcomes of financial regionalism.

7.2 Substantive Conclusions

7.2.1 Theoretical Issues

Chapter 2 summarises the IPE research on regionalism and explains how HI by addressing the gaps in the IPE frameworks explains Asian financial regionalism. HI through its focus on critical junctures, time and timing of events, sequencing and path dependency processes helps us to explain Asian financial regionalism. It allows us to incorporate features of IPE frameworks like power relations, economic interdependence, role of ideas and social forces to explain financial regionalism. It provides us with a comprehensive and persuasive framework compared with extant IPE approaches.

Neorealism views Asian regionalism as an extension of national interests of the participating states, power rivalries and the asymmetries within the region are reflected through market power and regulatory influences and, the influence of extra-regional players like the US. Neorealism postulates that the functioning of global and regional institutions requires the presence of a hegemon (Mearsheimer 1994). However, the current governance arrangement of CMIM and AMRO, which functions on a shared leadership between Japan and China, challenges hegemony stability theory. Neorealism also does not dwell on the evolution, impact of domestic factors, or the transformation of institutions once they are established (Hurrell 1995). Neo-liberal institutional frameworks highlight the role of growing economic interdependence within Asia and the region's integration with the global economy as influencing the demand for financial regionalism. Neo-functional approaches reduce regionalism to an economic phenomenon and institutions are instruments to manage market failures and coordination for provision of public goods (Keohane 1974). Asian regionalism is seen as weakly institutionalised within this structure. But increased economic inter-dependence does not necessarily lead to regionalism. Asia was already connected through a web of production networks that was supporting trade among the countries and outside. But this economic inter-dependence did not lead to regionalism. Trade regionalism originated after the 1997/98 Asian financial crisis. Thus, neoliberalism fails to capture the essence of time and the temporal sequence of events in explaining the rise of financial regionalism.

Constructivists contend that regionalism is shaped by ideas, shared vision of a community, identity, culture and norms. It broadens the concept of regionalism beyond power and economic dependence and emphasises that political leaders, policy makers, businesses and broader civil society through interaction can engage in building a collective identity (Acharya 2012). Within this framework, Asia's response to the 1997/98 crisis generated a sense of togetherness in the region primarily reflected in the opposition to the actions of the IMF and the US. The question arises why this sense of a regional identity emerged during the crisis and spurred demand for financial regionalism. 'Asian values' such as hard work, austerity and high savings, were highlighted as factors behind the successful economic transformation of the region prior to the crisis. Constructivism does not take into account historical context and the issue of time and sequencing in the development of regionalism. Marxist approaches emphasize that regional integration is a process to accommodate expansion of capitalism and institutions reflect institutionalisation of power (Cocks 1980). In the context of development of the ASEAN Plus Three, which is the bedrock of Asian financial regionalism and initiated by ASEAN, it is difficult to explain how a relatively weak institution like ASEAN leads the process of capital accumulation in the region. However, Marxist approaches do offer a useful framework to explain the conflict between the state-led development models in Asia and the neoliberal policies thrust on the region by the IMF and the US.

The neo-Gramscian historical structures, state-society complexes and social forces together with material capabilities and ideational frameworks offer a broader and enriching methodology to understand globalization and regionalism (Cox 1983; Bieler and Morton 2004). Here regionalism is seen as an attempt to manage globalisation and the evolving world order where no single nation-state has the capacity to establish its leadership. The regional cooperation initiatives flow from the ideas of the policy elites and are an attempt to consolidate the gains accumulated by the neoliberal transnational class, both through production and financial flows. However, it lacks the methodological to explain how much material capability needs to be accumulated (Kelly 2001) and why the ideational framework at a critical juncture will generate demand for regionalism.

The HI framework as a distinct tradition of institutional analysis allows us to examine the temporal dimension of regional institutional building, both formal and non-formal, by focusing on time, sequencing and timing in the causal process, recognises the role of preference formation and role of contingent events like crisis in generating institutional outcomes (Thelen, 1999; Fioretos *et. al* 2016). The thesis focuses on HI's engagement with causality and time through three core concepts (a) critical juncture (b) path dependency and (c) gradual modes of institutional change. Critical junctures are defined as events or episodes that provide opportunities to trigger institutional outcomes that were not feasible earlier.

The most distinguishing feature of HI is the concept of path dependency, which has been applied extensively applied to seek answers as to why institutions persist even when they are not efficient. "Historical Institutionalism, then, is important because it identifies a major anomaly: the anomaly of institutional persistence," Keohane (2017; 2). A core view in the literature looks at critical junctures and path dependency in terms of positive feedback or increasing returns. This implies that critical junctures can place institutions on paths that are difficult to alter. But not all path dependent processes generate increasing returns. This theoretical construct allows HI to cogently explain institutional continuity compared to static explanations provided by the extant IPE theories. Keohane argues that “It is quite an achievement to provide a rich and coherent explanation of institutional continuity, even when underlying conditions change; it is no wonder that HI has secured a foothold in political science” (2017; 3). It should be noted that the HI literature also highlights reactive sequences that produce backlashes to generate institutional outcomes.

However, as Soifer (2012) and Slater and Simmons (2010) argue critical junctures do not in themselves generate institutional innovations. Critical antecedents together with productive and permissive conditions during critical junctures like economic crisis the material and ideational foundations of institutions and creates opportunities for changes. Using these core concepts, I built an eclectic framework of critical junctures that brings together contingent events and critical antecedents to trigger critical junctures and generate both successful and unsuccessful institutional outcomes. I show through empirical analysis of the AMF that motivation, preference formations and power configurations can also lead to unsuccessful outcomes. A study of such unsuccessful outcomes provides us with significant policy signals and inputs for future governance-building.

The development of HI during its first two phases of development was criticised for overemphasising critical junctures in generating institutional change that is followed by long period of stability. “A theory that explains only continuity, not change, cannot take us very far,” argues Keohane (2017; 4). Keohane cited the case of multilateral institutions where changes occur incrementally.

Later research on HI explained institutional consistency through incremental changes. Streeck and Thelen (2005) highlight the five broad modes of gradual and transformative institutional change: displacement, layering, drift, conversion and exhaustion. These gradual modes of institutional change help us in identifying both endogenous and exogenous variables can incrementally and formally or informally alter the agenda and institutional outcomes. However, Jupile, Mattli and Snidal (2017) argue that except for Mahoney and Thelen (2010), institutional change in HI is largely explained through exogenous events like crisis and HI still struggles to explain why institutions change over time. Others highlight the limitation of HI to predict the occurrence of contingent events that lead to institutional changes. Peters, Pierre, and King (2005) posit that HI provides an elegant framework to understand what has occurred but provides us with no methodological tools with predicting the likelihood of the occurrence. Keohane (2017; 13) contends that "HI scholars need to tackle their biggest theoretical challenge: to revise the theory to explain institutional change as well as persistence, without destroying its ability to explain anything at all.". While HI may not provide us with a comprehensive toolbox, it does gives us new methodologies to explain the origin and development of Asian financial regionalism. The thesis is an original attempt in such an exercise. The empirical findings are underpinned by HI approaches and provides us with insights on the gaps and limits of Asian financial regionalism.

7.2.2 Empirical Findings

The thesis brings out five substantial conclusions through an empirical analysis of the case studies. These are:

(a) the 1997/98 and the 2008 crises were critical junctures in institution building in regional financial cooperation. The 1997/98 financial crisis brought together ASEAN and East Asia by creating the ASEAN Plus Three Forum, which was the foundation on which both regional safety nets and regional bond market initiatives were built. I show that critical antecedents together with permissive and productive conditions during a critical juncture opens opportunities for institutional innovations. The 2008 crisis pushed the region to institutionalise both the regional safety net.

(b) My eclectic framework of critical junctures shows that both successful and unsuccessful institutional outcomes are significant. Unsuccessful outcomes like the AMF and the Manila Framework reflected preference and power configurations and provided significant policy inputs for governance-building.

(c) By building on the foundations of ASEAN Plus Three, the region has incorporated the ASEAN norms in their governance framework. And by linking the regional safety nets, CMIM and the AMRO, to the IMF, the region has nested its financial cooperation initiatives within the global governance framework. The positive feedback loops generated through these processes has placed Asian financial regionalism on a path-dependent process that maybe difficult to alter anytime soon.

(d) The 1997/98 crisis spurred Japan to assume leadership of financial regionalism. But it also marked the beginning of Sino-Japanese leadership contest. The 2008 crisis established China's material and ideational capabilities. The creation of AIIB has the potential for regional re-ordering. The dynamics of regional leadership has impacted both the agenda and pace of regional financial cooperation.

(e) While there was an ideational shift after the 1997/98 crises that led that led to development of financial regionalism, the institutional outcomes so far have been sub-optimal.

These conclusions are further elaborated in the chapter.

Chapter 3 establishes the role of the 1997/98 Asian Financial Crisis and the 2008 Global Financial Crisis as critical junctures in institution building and innovation through the creation of CMI, CMIM and later AMRO as regional safety nets to provide liquidity during crisis and surveillance of regional economies for early warnings for crisis prevention. These critical junctures also ushered in a significant ideational shift that led the national authorities to undertake reforms to support the development of local currency bond markets to help economies. This led to a diversification from a pre-dominantly bank led development model to a more balanced funding structure. The 1997/98 crisis also led the region to launch ABFs and the ABMI as arrangements to promote intra-regional debt financing to tap the region's high savings and reduce dependence on global borrowings. The creation of CGIF after the 2008 global financial crisis was another institutional outcome.

I show that while the existing economic development models, whose vulnerability was exposed by the crisis, and the governance framework of ASEAN were key antecedent conditions, the 1997/98 crisis created 'productive' and 'permissive' conditions for creation of ASEAN Plus Three, upon which the foundations of Asian financial regionalism was built.

Ideas and demand for Asian regionalism surfaced in early 1990s but the 1997/98 crisis provided the policy elites with an opportunity to translate their ideas into institutional outcomes. Using the HI framework, I establish that the 1997/98 crisis was a critical juncture and along with the positive feedback loop and the path dependent institutionalisation processes has placed Asian financial regionalism on a path that may be difficult to alter. The 2008 crisis led to institutionalization of CMIM and AMRO and the creation of AIIB by China as an alternative model of governance for international financial architecture.

The next three chapters focus on detailed application of my analytical framework to the units of analysis – CMIM and AMRO, the ABMI – and the role of leadership in the understanding the temporal sequencing, preference formation and power distribution that shapes Asian financial regionalism.

Within the IPE approaches, the neorealists and neoliberalists have attempted to explain the creation of regional safety nets. The realists explain the creation of CMIM and AMRO through the lens of political power relations involving Japan, China and the US. The neo-realists postulate that regional cooperation initiatives reflect national interests and preferences of the dominant power. Despite the long-standing rivalry and changing power dynamics among Japan, China and Korea, CMIM and AMRO have become a reality without much resistance from either of them (Katada 2002). Neo-functionalists hoped that creation of regional financial safety nets would allow Asia to set aside its political rivalries and even nudge the region to move to some form of a regional currency basket to manage foreign exchange coordination and volatility. But the spill overs of functional cooperation have not occurred as power relations and national interests have a significant influence on financial regionalism. The HI framework through the path dependent process and gradual modes of change allow us to incorporate the role of ideas, preference formation, power relations and its distributional effects to explain financial regionalism.

A substantial empirical finding of Chapter four is that unsuccessful institutions outcomes, i.e. the AMF and the Manila Framework, were the product of reactive sequences but they provided significant policy inputs to subsequent institution building in the region. These policy inputs to the positive feedback loops of the path dependent processes shaped the BSAs and the creation of the CMI, CMIM and the AMRO. The temporally linked sequences of events together generated increasing returns to institution building. I applied Pierson's (2000) criteria of unpredictability, inflexibility, nonergodicity and potential path inefficiency to establish the path dependence of the institutionalisation process of Asian financial regionalism.

By establishing a linkage between CMIM and the IMF, the region ensured the regional safety net remained nested within the global financial framework. I agree with Grimes (2006, 2011) that by agreeing to link the facility with IMF Japan and China reduced their political exposure and ensured continued global financial support in any future crisis. The creation of AMRO strengthens regional monitoring and complements IMF surveillance. I describe AMRO and subsequent initiatives to increase its operational efficiency as institutional layering that does not alter its formal function but reflects attempts to improve conditions for activating CMIM in any future crisis.

The regional safety net, particularly CMIM and AMRO, has been placed on a path that may be difficult to alter. By employing Pierson's criteria for defining a path dependent process and citing the non-use of CMIM during the 2008 crisis, I show that the resulting institutionalisation of regional safety net has so far been sub-optimal.

Chapter Five focuses on the development of local currency bond markets and promoting intra-regional debt investment to diversify the region's funding that was heavily dependent on bank finance, a factor contributing to the 1997/98 crisis. I argue that neorealism and neoliberalism cannot provide an explanation for development regional bond market initiatives. Japan, as the region's established economic power, provided ideational framework for the ABMI but was constrained by limitations of its financial sector, particularly a weak corporate bond, to play a leadership role. In 1997/98, China had a nascent bond market and kept its market closed to foreign investment. China used the ABMI as a forum for learning and socialisation. Constructivism does provide us with a framework that builds a vision of a regional bond market. But this vision was crafted by the mature economies as smaller economies of Cambodia, Laos, Viet Nam were still struggling to build a strong banking system. Constructivists fail to explain when and how the shared vision will coalesce into regionalism and why the interests of smaller economies were neglected. The temporal dimension of the HI framework also allows us to trace the sequence and explain the unfolding dynamics of regional bond market development in Asia.

A substantial conclusion of Chapter 5 is that the first crisis spurred the region's policymakers to the launch the Asian Bond Funds (ABFs) and the ABMI, while the second led to creation of the Credit Guarantee and Investment Facility (CGIF) and Asian Bond Market Forum (ABMF). These institutional innovations were driven by pre-existing institutional frameworks of the EMEAP and the ASEAN+3 but their agenda remained constrained by the path-dependent processes of these arrangements. The creation of ABMI and its shift to focus on demand side issues from supply side and the creation of the ABMF can be described as institutional layering. The CGIF and ABFs are the two successful institutional outcomes regional bond market arrangements but the ABMI has made slow progress.

Using the HI framework, I argue that national priorities, preferences of the investors along with the significant divergence in the level of development of capital markets among the countries and institutional barriers have kept intra-regional bond investment still at relatively low levels. Collective efforts to promote intra-regional debt investment has achieved limited success and needs stronger leadership and clarity among the members on the future agenda of the ABMI.

Chapter 6 dwells on the role of regional leaders in shaping Asian financial regionalism. The mainstream realist theories contend that nation-states through their material power can assert hegemony and shape regional orders to support their national interests. The neo-Gramscian framework challenges this view and argues that historic structures along with material incentives and ideologies shape historical blocs through which hegemony can be manifested in the world order. It is evident from the literature that regional hegemony and power does not always produce regional leaders. I argue that only those countries which possess material and ideational power and are able to incorporate and reflect the aspirations of the broad social forces in their framework can emerge as regional leaders. While the neo-Gramscian approach is an enriching framework to explain the emergence of a regional leader, it does not tell us the how and when a regional leader will emerge to generate financial regionalism.

Using the HI framework, I argue that critical junctures like economic crisis provides opportunities to regional powers to assume leadership roles and re-build regional orders.

Prior to the 1997/98 crisis, there was no regional leader in Asia, a key factor that can be identified as constraining the development of financial regionalism.

The substantial finding was that the two "critical junctures" – the 1997/98 Asian Financial Crisis (AFC) and the 2008 Global Financial Crisis provided the region's economic powers – Japan and China to assume, cooperate and compete for the leadership of Asian financial regionalism. Japan through its leadership in designing regional safety nets, BSAs and CMI initially led the development of Asian financial regionalism. But the 1997/98 crisis also marked the beginning of the contest between Japan and China for leadership of Asian financial regionalism.

The 2008 Global Financial Crisis provided China, which now had material power and ideational framework, to challenge and contest Japan for leadership in all the venues for regional financial cooperation after the 2008 GFC. The contest and cooperation also established a hierarchy within these regional institutions. Far more significant was the establishment of AIIB by China as a multilateral financial institution that confronts global governance framework and can influence regional re-ordering by supplying funds to meet the region's massive investment needs. The leadership contest between Japan and China, and the intensity of engagement of the US in Asia will be critical factors in shaping the future of Asian financial regionalism.

To conclude, the use of HI framework as an analytical tool and its application to units of analysis in the thesis provides both the theoretical underpinning and empirical evidence to address the main research questions laid out at the start of the thesis.

7.3 Key Issues and Conclusion

Regional financial safety nets are public goods that are created to offset the impact of negative externalities[67] like a financial market contagion or a currency crisis. The growing economic interdependence among the region's economy means that policies undertaken by any individual economy can have an impact on the other. As highlighted in Chapter 4, regional integration, both through trade and financial flows, confers benefits as well as costs. By creating regional safety nets, the region through an institutional mechanism takes the collectively responsibility to bear the cost of macroeconomic mismanagement by any one of its members or due to any exogenous events like economic crisis (Grimes 2015).

Tackling any economic crisis, either endogenous or exogenous, involves two components (a) prevention and (b) management. Crisis prevention in the regional context is through monitoring and surveillance of individual economies and the broader region. AMRO has been tasked by ASEAN Plus Three to undertake this role. In addition, regional institutions like ADB and global institutions like the World Bank and the IMF also periodically produce report cards on the health of regional economies. Drawing lessons from the two crisis, national economies¸ particularly the stronger and mature economies, have also put in place monitoring mechanisms, policies to regulate capital flows, supervision of banking and capital markets and macroprudential policies to tackle systemic risks posed by financial contagions. However, the capacity of economies like Laos, Viet Nam, Cambodia, Myanmar, Indonesia are limited, and financial markets underdeveloped, particularly to

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[67] Negative externalities can be defined as costs borne by an economic agent that is not directly attributable to its own transactions or activities.

deal with systemic risks. The AMRO can play the role of a regional institution that provides prudent policy advice on tackling systemic risks. Its role in identifying these risks ahead of any potential crisis assumes great significance. The current policy initiatives focus on strengthening AMRO's capacity for surveillance and improving the operational efficiency of the CMIM for its activation during a crisis. It is still in an institution building phase. In such a situation, only the IMF has the capability and resources to provide emergency funds during any crisis. Under this scenario it is understandable that the larger creditor countries like Japan, China and Korea are keen to maintain a linkage of CMIM and AMRO with the IMF to safeguard against moral hazard. Thus, the thesis establishes that Asia has put in place institutional frameworks for financial cooperation but the progress of CMIM, the AMRO and the ABMI shows that institutional outcomes have been sub-optimal and that the region's safety net is likely to remain nested within the global financial arrangement in the foreseeable future.

The regional economies have built a three-tier insurance against potential crisis. The large foreign exchange reserves are the first line of defence of national economies against crisis. Their membership in global institutions like the IMF, World Bank, ADB provide them with a top layer of insurance. Regional financial frameworks like CMIM and AMRO lie at the meso level of this multi-layer insurance framework. It is likely that any potential crisis will first be tackled through national resources and through assistance from global financial institutions. Regional arrangements like CMIM and AMRO at best will complement these rescue efforts.

The ideational shift after the crises to build local currency bond markets is significant. But lack of regional leadership, the limitations of the financial sector of Japan and China, the significant differences in the regulatory regimes across the region and above all, the volatility of global capital flows are major barriers in promoting intra-regional debt investment. The region faces a collective action problem with the ABMI. The benefits of intra-regional bond investment are now well known but so are the risks of opening up local capital markets. The economies have prioritised domestic financial stability through phased and regulated liberalisation of capital markets. The smaller economies of the region are still building their domestic financial markets and do not have the risk appetite or large investable funds to park in the regional markets. On the other hand, investors from large regional economies, like Japan, are reluctant to invest in the region and prefer global markets. As a result, the share of intra-regional debt investment is also unlikely to increase significantly. The region's high savings will continue to be parked in global capital markets and Asia for now will remain a creditor to the developed economies. Lastly, the contested leadership between Japan and China in the region and their efforts to project their own national objectives in the international arena also leads us to question whether Asian financial regionalism can indeed be leveraged as a counter-weight strategy in global financial governance framework.

These policy issues flow from the substantial empirical findings of the thesis,

which is an original academic contribution that adopts HI framework through its core concepts of critical junctures, path dependency and gradual modes of institutional innovation, to understand the origin and development of Asian financial regionalism. The institutional outcomes have so far been sub-optimal but as the HI framework and our analysis shows, institutions can evolve and transform over time in response to both endogenous and exogenous changes and demand from agents. The current framework for Asian financial regionalism may be limited in scope, but looking forward they can serve as an important venue for socialisation and ideation among member countries to help mobilise much needed financial resources to mitigate the negative externalities of regional public goods like health and climate change across the region. The COVID 19 pandemic and the impact of carbon emission on the region has driven home the message that health and climate change related impacts cannot be handled by national governments alone. They are regional public goods and collective actions are needed to mitigate their impact. Developing regional financial facilities within the framework of Asian financial regionalism can help to mobilise funds to meet these impending challenges.

Appendix Chapter 1

Table 4: Network trade (including parts and components) as a percentage of manufactured exports

Regions and countries	Network Products				Parts and Components			
	2001	2006	2011	2015	2001	2006	2011	2015
ASEAN	63.6	59.6	47.3	51.8	40.5	39	31	31
Hong Kong	44.1	57.6	61.9	70.2	47.6	41	39	25.9
Singapore	72.3	66.3	53.8	56.9	45.9	49.9	41.8	41.3
Indonesia	27	25.8	23.1	24.5	14.7	12.9	11.1	10.4
South Korea	50.3	56.6	48.5	53.4	22.3	26	24.7	30.8
Malaysia	74.2	69	59.4	59.5	44	41.1	39.8	39.9
Philippines	81.3	80.5	68.9	74	62.6	61	52	54.8
Vietnam	17	17.7	24	45.3	12.7	11.3	10.3	15.7
Thailand	51	51.3	44.3	49.8	32.5	24.3	20	20.9
India	7.7	9.6	12.2	12.6	4.9	5.1	5.2	5.9
PRC	36.5	46.4	41.9	42.6	14.1	16.7	15.2	16.1
World	42.2	41.2	37.1	39.7	19.2	18.4	16.5	17.5

Source: Author's calculations based on Asian Development Bank Multiregional Input-Output Tables using definitions from Athukorala (2013).

Table 5: List of Interviewees

1.	Deputy Secretary General of the ASEAN Secretariat
2.	Former Director of the ASEAN Secretariat
3.	Former Adviser at Korea's Ministry of Strategy and Finance
4.	Former Bank Negara Malaysia official
5.	Senior Official at a Global Investment Bank (participating in the ABMI forums)
6.	Former Managing Director General of a Multilateral Financial Institution
7.	Senior Economist at a Multilateral Financial Institution
8.	Former Assistant Secretary of Trade, Philippines
9.	Former BOJ Official and currently engaged in advising ABMI activities
10.	Senior Economist at South East Asian Central Banks (SEACEN) Research and
11.	Training Centre
12.	Senior Researcher at a economic think-tank based in Tokyo

13.	Former Finance Ministry official, India (who was engaged in trade negotiations
14.	and trade facilitation related activities)
15.	ASEAN Researcher at an Indian think-tank
16.	Former team leader of the AsianBondsOnline
17.	Senior Research Fellow at a Malaysian think tank
18.	Senior Research Fellow at Economic Research Institute for ASEAN and East
19.	Asia (ERIA)
20.	Former Finance Ministry Official and Economist based at Dhaka, Bangladesh

Appendix Chapter 5

Table 6: Share of banks, equity and bond markets in financial intermediation

Country	Domestic credit to private sector by banks (% of GDP)			Market Capitalisation of listed companies (% of GDP)			Size of LCY Bond Market (% of GDP)		
	2000	2008	2017	2000	2008	2017	2000	2008	2017
China	111.57	102.79	155.80	31.09	39.02	71.18	16.78	47.73	68.75
Hong Kong	150.35	140.29	203.80	363.14	605.97	1274.13	35.28	41.94	71.66
India	27.85	48.54	49.54	45.13	52.87	89.76	0.9	3.21	33.0
Indonesia	19.45	26.30	32.42	16.25	19.36	51.27	36.75	14.38	18.38
Japan	190.81	101.48	102.98	66.73	64.25	127.72	102.15	172.3	210.54
Korea, Rep.	71.99	148.34	144.80	30.49	46.98	115.75	70.69	93.14	124.59
Malaysia	126.73	96.60	123.86	120.65	81.99	144.92	73.25	74.81	95.04
Philippines	36.77	29.06	47.76	32.06	29.87	92.60	29.3	34.89	34.64
Singapore	96.29	98.57	128.21	159.47	137.85	243.05	46.75	67.06	81.11
Thailand	105.12	87.71	111.62	23.12	35.39	120.56	26.58	50.44	72.99
Vietnam	32.67	82.87	130.67	-	9.56	5.16	0.3	16.09	21.43

Sources:

1. The figures for domestic credit to private sector by banks (% of GDP) and Market Capitalisation of listed companies (% of GDP) is from *Word Development Indicators, World Bank.*
2. The figures for size of LCY Bond Market (% of GDP) is from *Asian Bonds Online Database, ADB*
3. Size of LCY Bond Market in India is from *BIS Debt Securities Statistics*

Note: Figures for Domestic credit to private sector by banks (% of GDP) for Hong Kong, India, Japan and Malaysia pertains to 2016, since 2017 data was not available.

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Table 7: Size of LCY Bond Market (Local Sources)

Market	2000			2008			2017		
	Govt. ($ Bn)	Corp. ($ Bn)	Total ($ Bn)	Govt. ($ Bn)	Corp. ($ Bn)	Total ($ Bn)	Govt ($ Bn)	Corp. ($ Bn)	Total ($ Bn)
China	198.8	3.5	202.3	1956.7	257.5	2214.2	6326.7	2412.8	8739.5
Hong Kong	13.9	46.6	60.5	20.3	72.1	92.4	147.6	96.4	244.0
Indonesia	50.8	1.9	52.8	63.5	6.6	70.0	155.7	28.6	184.2
Japan	3499.4	1053.1	4552.5	8564.4	963.2	9527.6	9520.2	691.9	10212.1
Korea, Rep	122.4	232.6	354.9	368.5	448.2	816.7	827.0	1192.8	2019.8
Malaysia	35.7	33.0	68.7	90.2	75.9	166.1	166.3	151.6	317.9
Philippines	20.8	0.2	21.0	52.3	4.4	56.7	89.4	20.5	109.8
Singapore	24.9	19.6	44.5	73.1	54.4	127.5	166.0	105.6	271.6
Thailand	25.9	5.2	31.1	112.1	28.8	140.9	251.6	94.7	346.3
Vietnam	0.1	-	0.1	12.9	0.7	13.6	44.2	3.1	47.3

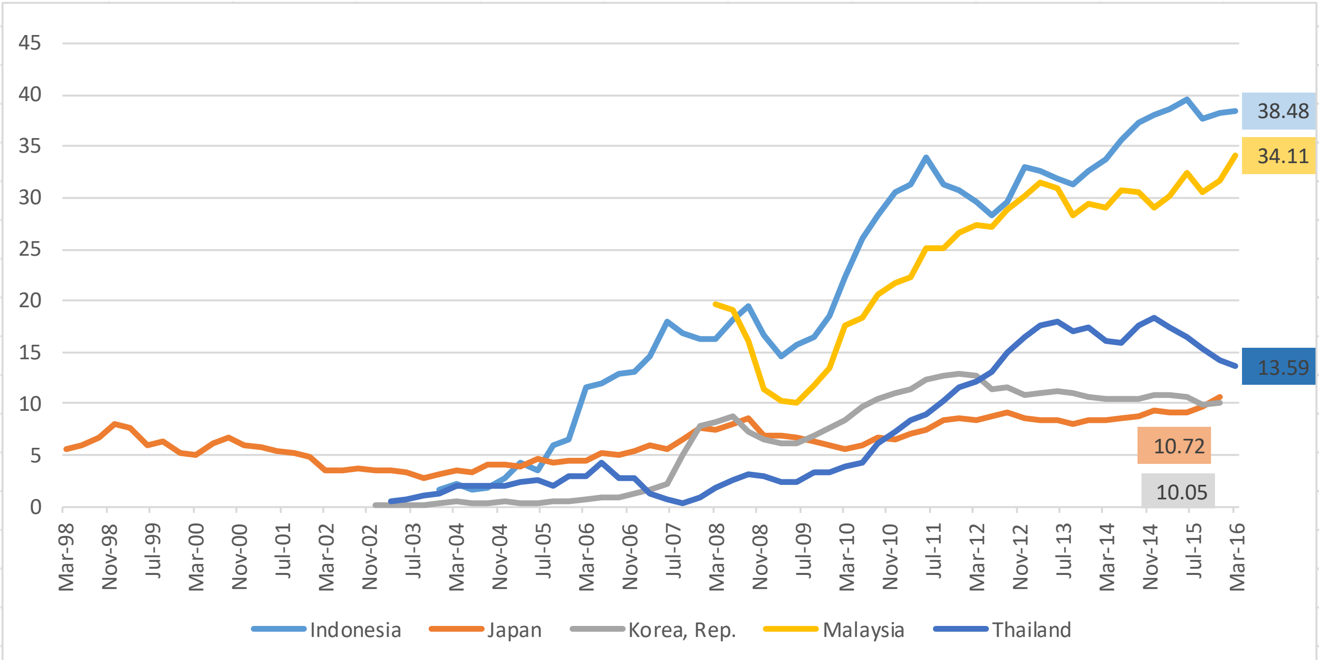
Source: Asian Bonds Online Database, ADB

Table 8: Size of LCY Bond Market in % GDP (Local Sources)

Market	2000			2008			2017		
	Govt. (% GDP)	Corp. (% GDP)	Total (% GDP)	Govt. (% GDP)	Corp. (% GDP)	Total (% GDP)	Govt. (% GDP)	Corp. (% GDP)	Total (% GDP)
China	16.5	0.3	16.8	42.2	5.6	47.7	49.8	19.0	68.8
Hong Kong	8.1	27.2	35.3	9.2	32.7	41.9	43.3	28.3	71.7
Indonesia	35.4	1.4	36.8	13.0	1.4	14.4	15.5	2.9	18.4
Japan	78.5	23.6	102.2	154.9	17.4	172.3	196.3	14.3	210.5
Korea, Rep	24.4	46.3	70.7	42.0	51.1	93.1	51.0	73.6	124.6
Malaysia	38.0	35.2	73.3	40.6	34.2	74.8	49.7	45.3	95.0
Philippines	29.1	0.2	29.3	32.2	2.7	34.9	28.2	6.5	34.6
Singapore	26.2	20.6	46.8	38.5	28.6	67.1	49.6	31.5	81.1
Thailand	22.2	4.4	26.6	40.1	10.3	50.4	53.0	20.0	73.0
Vietnam	0.3	0.0	0.3	15.2	0.9	16.1	20.0	1.4	21.4

Source: Asian Bonds Online Database, ADB

Figure 4: Foreign Holdings in LCY Government Bonds (% of Total)



Source: AsianBondsOnline website

Table 9: Asia Cross Border Total Debt Investments (in million USD) Investment from: End 2014

Investment in:	Hong Kong, China	India	Indonesia	Japan	Korea, Republic of	Malaysia	Philippines	Singapore	Thailand	Total Asia	United States	EU 15	Total value of investment
China, P.R.	173,959	--	462	5,224	2,625	444	673	16,900	2,357	202,646	4,658	23,434	283,594
Hong Kong, China	--	--	63	6,252	1,786	1,304	226	19,279	4,296	33,205	10,818	27,204	89,373
India	8,240	--	13	1,874	329	63	209	26,444	118	37,291	8,893	18,536	76,276
Indonesia	832	--	--	4,400	125	918	1,535	9,617	56	17,483	19,634	28,635	71,428
Japan	18,530	--	11	--	2,113	118	43	C	81	20,897	77,399	222,516	554,900
Korea, Republic of	13,081	--	20	16,556	--	1,130	204	21,402	1,946	54,340	35,676	34,091	175,321
Malaysia	6,708	--	12	5,423	623	--	69	24,973	159	37,966	13,407	26,167	87,084
Philippines	592	--	6	1,901	17	139	--	7,034	4	9,693	7,915	12,692	41,622
Singapore	8,904	6	391	12,373	984	8,674	35	--	84	31,451	25,015	35,524	113,599
Taipei,China	1,893	--	3	1,193	24	5	C	4,659	--	7,777	229	11,539	20,696
Thailand	780	--	19	4,954	211	364	123	3,157	--	9,609	3,486	11,134	27,488
Vietnam	503	--	1	40	2	23	C	319	--	888	625	1,489	3,207
Total Asia (A)	234,023	6	1,001	60,192	8,839	13,183	3,117	133,785	9,101	463,247	207,755	452,961	1,544,586
Total value of investment (B)	432,085	9	8,985	2,208,228	62,714	22,390	7,705	456,151	25,494	3,223,762	2,819,848	12,959,648	26,432,170
Ratio of A to B	54.2	67.4	11.1	2.7	14.1	58.9	40.5	29.3	35.7	14.4	7.4	3.5	5.8
United States	75,667	2	2,382	872,133	19,154	2,102	2,734	125,788	779	1,100,742	--	1,870,126	6,237,088
EU 15	56,746	1	2,363	786,397	19,349	1,660	694	63,921	1,102	932,233	1,126,656	8,534,647	13,011,871

Source: Author's calculations based on data from IMF, Coordinated Portfolio Investments Survey

Notes: The data are derived from the creditor side for both assets and liabilities
- - Indicates a zero value or a value less than US $ 500,000
…. Indicates an unavailable datum
(p) Indicates preliminary data
(c) Indicates that a non-zero datum was not disclosed for reasons of confidentiality

Table 10: Asia Cross Border Total Debt Investments (in million USD) Investment from: End 2008

Investment in:	Hong Kong, China	India	Indonesia	Japan	Korea, Republic of	Malaysia	Philippines	Singapore	Thailand	Total Asia	United States	EU 15	Total value of investment
China, P.R.	12,985	...	...	496	153	1	c	1,724	21	15,379	1,633	4,986	23,139
Hong Kong, China	-	...	138	1,212	532	49	106	4,520	121	6,679	3,333	3,145	15,554
India	4,018	...	91	661	91	108	c	5,715	1	10,685	2,876	8,198	26,018
Indonesia	296	...	...	837	153	105	c	3,477	7	4,875	4,142	5,087	15,524
Japan	26,064	...	133	-	220	2	51	7,657	40	34,166	41,472	216,293	469,562
Korea, Republic of	13,749	...	10	11,262	-	823	c	15,631	6,455	47,929	10,769	23,127	88,876
Malaysia	3,874	...	6	2,171	167	...	c	5,578	88	11,883	5,263	7,553	25,438
Philippines	514	...	5	1,388	4	184	...	1,348	1	3,445	2,818	5,070	13,417
Singapore	3,668	5	433	3,350	173	558	174	...	149	8,509	6,453	5,962	25,774
Taipei,China	914	...	...	11	46	1	c	1,296	-	2,268	223	1,383	3,965
Thailand	330	...	...	474	59	2	29	1,031	-	1,925	949	1,326	4,394
Vietnam	408	...	...	22	-	--	...	711	1	1,142	193	356	1,761
Total Asia (A)	66,818	5	817	21,884	1,598	1,833	360	48,687	6,883	148,885	80,124	282,487	713,423
Total value of investment (B)	281,979	56	3,823	1,981,928	27,234	4,535	4,567	189,878	11,237	2,505,238	1,519,437	11,395,665	21,177,471
Ratio of A to B	23.7		21.4	1.1	5.9	40.4	7.9	25.6	61.3	5.9	5.3	2.5	3.4
										1,613,261			
United States	58,252	...	480	603,262	13,015	376	1,809	36,421	1,414	715,030	-	1,725,922	4,877,518
EU 15	82,592	25	1,238	734,116	7,169	763	960	70,116	1,252	898,230	711,540	7,831,163	11,775,989

Source: Author's calculations based on data from IMF, Coordinated Portfolio Investments Survey

Notes: The data are derived from the creditor side for both assets and liabilities
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Table 11: Asia Cross Border Total Debt Investments (in million USD) Investment from: End 2001

Investment in:	Hong Kong, China	India	Indonesia	Japan	Korea, Republic of	Malaysia	Philippines	Singapore	Thailand	Total Asia	United States	EU 15	Total value of investment
China, P.R.	2,967	....	....	880	142	....	....	412	--	4,401	634	1,412	7,029
Hong Kong, China	....	....	96	1,268	306	28	25	1,622	119	3,464	1,893	9,717	16,809
India	....	....	....	166	66	6	....	266	--	504	301	834	2,009
Indonesia	....	....	....	108	63	8	3	560	--	741	315	422	1,957
Japan	7,103	....	1	--	75	15	5	9,014	--	16,213	27,125	75,170	209,707
Korea, Republic of	3,789	....	....	5,454	--	3	7	2,182	--	11,433	4,938	7,360	24,920
Malaysia	1,817	....	2	2,200	329	....	9	1,591	--	5,947	1,680	1,733	9,705
Philippines	1,179	....	....	1,347	106	41	....	761	--	3,435	2,671	1,926	9,304
Singapore	1,282	....	38	1,209	151	10	59	....	98	2,847	1,442	8,151	14,508
Taipei,China	609	....	....	82	8	15	13	340	--	1,066	253	677	2,074
Thailand	659	....	....	748	159	21	....	841	--	2,429	782	765	4,217
Vietnam	....	....	....	30	15	....	....	....	--	45	21	37	106
Total Asia (A)	19,405	--	137	13,492	1,419	147	121	17,588	217	52,526	42,055	108,205	302,348
Total value of investment (B)	110,985	....	701	1,062,403	6,735	947	2,024	73,923	743	1,258,460	690,936	3,555,740	7,515,934
Ratio of A to B	17.5	....	19.5	1.3	21.1	15.5	6.0	23.8	29.2	4.2	6.1	3.0	4.0
United States	27,795	....	249	366,689	3,309	140	1,752	11,977	278	412,190	....	628,935	2,074,148
EU 15	22,665	--	214	427,855	1,017	490	61	28,436	198	480,936	360,185	2,218,666	3,670,376

Source: Author’s calculations based on data from IMF, Coordinated Portfolio Investments Survey

Notes: The data are derived from the creditor side for both assets and liabilities
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