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# ASEAN cooperation: the legacy of the economic crisis

Etel Solingen

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## Abstract

This article examines the implications of domestic political changes in the post-1997 era for ASEAN's regional cooperation and institutionalization. The conceptual framework traces regional relations to the makeup and grand strategies of domestic coalitions (internationalizing, hybrid, backlash). Had some predictions in the immediate aftermath of the crisis been fulfilled, the advent of domestic backlash coalitions would have portended lower levels of regional cooperation. Alternatively, in the absence of changes in the fundamental nature of most ruling coalitions after the crisis, ASEAN's cooperative thrust was expected to be maintained. The article explores the extent to which ASEAN's activities in the post-crisis era supports either of these two propositions. It finds that a shock of major proportions in Southeast Asia led to some immediate challenges to bilateral relations. At the same time, the aftermath of the crisis led to considerable multilateral and bilateral cooperation on economic issues, expansion, intervention, and security. Furthermore, cooperation may have indeed improved despite subsequent crises, including 9/11 and its aftermath. Yet no linear progression or irrevocable process towards internationalization or regional cooperation can be assumed. Alternative coalitions, and their potential for changing regional trajectories, must be reckoned with.

## 1 Introduction

Following a history of deadly conflicts and heightened tension, inter-state conflict in Southeast Asia (SEA) has declined significantly in recent decades. Notwithstanding issues such as the Spratly Islands and lingering economic, ethnic, religious, and territorial cleavages, war has been avoided. Many

consider ASEAN (the Association of Southeast Asian Nations) to be the presumed architect of this peaceful era, but the domestic conditions that might have led to this outcome deserve greater attention. In particular, economic crises have a special status in the international relations literature as harbingers of change, of institutionalization, and sometimes as handmaidens of war. It is thus vital to understand whether conditions unleashed by the 1997 crisis validate or refute such concerns, not merely in the context of the most recent but also potential future crises. This article thus examines the domestic political consequences of the 1997 crisis and their implications for regional cooperation and institutionalization in ASEAN.<sup>1</sup>

I first sketch out a basic conceptual framework linking domestic political economy and security, tracing a given regional order to the makeup and grand strategies of domestic coalitions. I also outline certain expectations regarding ASEAN's behavior that stem from this theoretical framework. These expectations relate to the cooperative or conflictual nature of regional relations and not to ASEAN's 'effectiveness', an attribute not directly addressed by the conceptual framework used here. Section 3 examines how modal domestic coalitional forms survived the crisis in most ASEAN states. Section 4 considers the presumed effects of domestic political changes for regional economic cooperation, expansion, intervention, and security. The final section distills some conclusions and implications.

## 2 The conceptual framework: the domestic impact of internationalization

What is the impact of internationalization on the domestic politics of states? How do differences in domestic politics influence the regional behavior of states? And how does this behavior by individual states, as well as in the aggregate, shape a certain regional order? Each of these questions has gained renewed attention in the international relations literature in recent years. One analytical direction conceives of internationalization as having the effect of clustering constituencies into three ideal-typical coalitions: internationalizing, hybrid, and backlash.<sup>2</sup>

The preferences of each coalition coalesce into core grand strategies that have synergistic effects across the domestic, regional, and global arenas. Grand strategy in this sense implies something quite different from the meaning assigned to it in classical security studies. First, it involves broad

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1 On potential implications of the Asian crisis for regional security, see Snyder and Solomon (1998) and Dibb *et al.* (1998).

2 In the realm of economics, internationalization implies increased openness to international markets, capital, investments, and technology. In the realm of values, internationalization threatens norms, cultures, and local ethics of social organization (Solingen, 2001).

domestic socio-economic and political governance arrangements, not simply military postures. Second, it defines a coalition's relation to the internal extraction and allocation of resources among groups and institutions, but also a coalition's approach to the global and regional power and economic structures. Third, the arrangements identified in the previous two points can fluctuate within the same state, as one coalition type replaces another. In other words, such arrangements cannot be simply deduced from imputed geopolitical predicaments, as is the case in neorealist analysis. Defined in these terms, grand strategy is as relevant to the analysis of comparative politics as it is to an adequate understanding of international relations. What are the defining elements of each grand strategy?

Internationalizing strategies involve the crafting of domestic economic policies that are compatible with global access, including foreign markets, capital, investments, and technology. These objectives require cooperative (non-violent) policies allowing stable investment environments, appropriate macroeconomic conditions, and the avoidance of detrimental arms races. An environment prone to violence entails the mobilization of resources for military conflict, and with it, the proliferation of unproductive and inflation-inducing military investments, the expansion of supplementary state-owned enterprises, growing fiscal and payments deficits, and currency instability. All these are disruptive of core internationalizing strategies designed to reform the economy and to maximize domestic and regional stability to facilitate international exchange. Conversely, the grand strategy of backlash politicians primarily seeks the continued domestic protection of economic sectors, military constituencies, and civic or ethnic/religious nationalists that are their core basis of support. The external pillar of this strategy is a denunciation of the international regimes that underpin internationalization and threaten those core constituencies. More insecure and hostile regional contexts help sustain continued allocations to military-industrial complexes and ancillary domestic industries. They also enable politicians to brandish external threats as requiring economic self-sufficiency. There are thus important synergies among the domestic, regional, and global components of each grand strategy. Where these synergies are successfully realized, coalitions can overwhelm their domestic political competitors more effectively.

Sometimes politicians craft hybrid coalitions out of more unwieldy political landscapes that require concessions and compromises across constituencies who would otherwise diverge quite significantly in their preferences. Hybrid coalitions are expected to straddle the grand strategies identified earlier for more pure versions, but rarely forcefully or coherently. Hybrids are far from an unusual occurrence but in many cases it is possible to characterize coalitions as gravitating more in an internationalizing or backlash

direction, along a continuum. Such characterizations require comparative referents, either with respect to earlier coalitional forms in the same country, or with respect to neighbors in the region, or even broader inter-regional comparisons. Seen in this light, it is reasonable to characterize ruling coalitions in Southeast Asia in recent decades as much further along an internationalizing trajectory than many of their counterparts in other regions.

The regional coalitional context affects both domestic competition between coalitions as well as the ability to implement a coherent grand strategy. The dominance of backlash coalitions in a given region enhances the viability of backlash strategies involving closure, reduced external exchange, and regional hostility. Regions where hybrid coalitions and different coalitional mixes coexist may be less prone to conflict than more purely backlash orders, but also exhibit lower levels of cooperation and reduced synergies. Stronger internationalizing neighbors facilitate a more coherent internationalizing strategy at home as well as regional cooperation, whereas backlash neighbors frustrate both. Relations among internationalizing coalitions are driven by common domestic considerations of economic rationalization and contained military spending, and by common incentives to tame territorial or ethno-religious disputes for the sake of internal and regional stability. Agreements on issues under dispute are easier to reach and there is less need to monitor compliance, punish non-compliance, or improve information. This makes concerted multilateralism more efficient and dense institutionalization less necessary, but certainly not impossible.

ASEAN can be understood as a cooperative regional framework traceable to converging internationalizing (rather than internationalist) coalitions. Particularly during the last two decades, ASEAN states came to be dominated by leaders and key bureaucratic allies that sought to coalesce internationalizing constituencies favoring foreign direct investment and natural resource and manufacturing exports, alongside more traditional import-substituting interests. Over time, the progressive development of stronger private and state constituencies oriented to the global political economy set ASEAN states apart from most other industrializing regions. As with older internationalizers, however, ruling coalitions retained compensating mechanisms for adversely affected constituencies or political allies (Stubbs, 2000).<sup>3</sup> At the same time, ASEAN evolved from a mere declaration in 1967 to an internationalizing cluster actively pursuing domestic and regional political and economic stability and global access. Economic growth was the foundation of both domestic political survival and national resilience (*ketahanan nasional*) and of regional stability. As Acharya (1999, p. 69) argued, ‘the attainment of performance legitimacy through economic devel-

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3 For a pre-crisis analysis of ASEAN, see Solingen (1999).

opment is a key element of comprehensive security doctrines found in ASEAN'. An inward-looking emphasis on each member's domestic stability (political, macroeconomic) was thus a requirement for an outward-looking (internationalizing) strategy.

The onset of the 1997 crisis was regarded as the greatest challenge in thirty years to both internationalizing ruling coalitions and their budding cooperative arrangements.<sup>4</sup> The crisis had an immediate and serious domestic impact on the social, political, economic, and cultural fabrics that were expected to affect regional relations. On the one hand, deepening liberalization since the mid-1980s had contributed to an even faster rate of poverty decline than in previous years, fueling a revolution of rising expectations (World Bank, 1999a,b). On the other hand, currency devaluations, capital flight, high debt burdens, and regional contagion effects led to a severe reversal that had the potential of damaging both national and ASEAN resilience. As Root (2002) argued, the gravest threat to regional stability often lies in the domestic realm. Under circumstances of economic collapse, leaders can resort to nationalist themes that externalize blame (Van Evera, 1994). The case of SEA is particularly useful to examine in this context because of the synchronic nature of the crisis affecting most states in the region, which heightened the probability that conflict might be externalized. Furthermore, the preceding decades of growth and expansion, and the size of the decline, would have arguably made SEA a particularly robust case for confirming such predictions, under circumstances of rising expectations.<sup>5</sup>

The coalitional framework yields four possible scenarios (Figure 1) that might have taken place in the aftermath of the crisis. In scenario 1 internationalizing coalitions remain in power and maintain or increase levels of cooperation that existed before the crisis. Scenario 4, its logical opposite, entails a coalitional reversal where internationalizing coalitions are replaced by backlash opponents who then revert to more conflictual patterns of regional relations (as in the Sukarno era, for example) and to unprecedentedly heavy military investment. Where internationalizing coalitions are both feebler at home and threatened by backlash neighbors in the region, the quality of cooperation can erode even in the absence of a complete reversal. Scenarios 1 and 4 are both compatible with a coalitional account. Instead scenario 2 points to a potential anomaly for coalitional analysis, where a

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4 As Dibb *et al.* (1998, p. 15) argue, the economic contractions following the crisis 'would be catastrophic outcomes for any economy, but they are particularly damaging to one-party regimes that have built their reputation not on democracy or human rights but almost entirely on delivering economic growth year after year, decade after decade'.

5 Indonesia and Malaysia had a single year of negative growth each and Thailand none since 1965. East Asia had exhibited less vulnerability to external shocks than the economic regimes in place anywhere else (Stiglitz, 1999).

		Coalition type	
		Internationalizing	Backlash
Regional outcomes	Cooperation	1 Compatible	2 Anomalous
	Armed conflict	3 Anomalous	4 Compatible

**Figure 1** Coalition dynamics and regional conflict/cooperation in the post-crisis era.

reversal to backlash domestic forms also deepens, broadens, and solidifies cooperation. A second anomaly would be suggested by scenario 3, where strong internationalizing coalitions rebound from the crisis but overturn their earlier cooperative pattern by, for instance, waging a war or otherwise derailing pre-existing cooperation quite significantly.

### 3 The Asian crisis: domestic coalitional effects

Thailand, Indonesia, and Malaysia were most affected by the crisis initially.<sup>6</sup> Politicians representing a coalition of export-intensive entrepreneurs and new business groups – with support from the Bank of Thailand, Ministry of Finance, and National Economic and Social Development Board – presided over an internationalizing agenda in the 1980s and early 1990s, through foreign direct investment (FDI), export promotion and diversification, and tight budget, monetary, and fiscal discipline. Confronted with the crisis in July 1997, the Chaovalit Yongchaiyudh (New Aspiration Party) government in Thailand agreed to International Monetary Fund (IMF) conditions for a rescue loan. The package aimed to secure continued foreign investment and promote privatization, encourage legal reform with regard to issues such as bankruptcy and foreclosure, and enhance transparency. However, constrained by an unwieldy political/institutional context (MacIntyre, 2001), Chaovalit abstained from challenging the practices of financial firms sheltered by his coalition's second largest party (Chart Pattana). Increased pressure from business leaders and middle class demonstrations resulted in an orderly transition to Prime Minister Chuan Leekpai (Democratic Party), who followed internationalizing prescriptions including IMF commitments, financial reforms, corporate and debt restructuring, FDI and export promotion,

<sup>6</sup> For a more detailed analysis of domestic responses to the crisis than is possible in this brief section, see Solingen (2004). Portions of an early version appeared in a working paper at Nanyang Technological University, Institute of Defence and Strategic Studies (Singapore), July 2001.

sharply reduced defense budgets, and institutional contraction of the military. Economic growth resumed in 1999 but stalled by 2001. Whereas absolute poverty had declined from 35% in 1988 to 11.4% in 1996, it rose again to 16% in 2000, hitting many women employed in textiles and electronics.

Exploiting widespread discontent, Thaksin Shinawatra's Thai Rak Thai (Thai Patriot Party) organized forces advocating 'alternatives' to internationalization and 'inward-looking' models, particularly when these favored Thaksin's own business interests (Funston, 2002; Montesano, 2002). His core support lay with rural power-brokers, agro-industry, media and entertainment producers, automobile parts producers, some local banks (including the Military Bank), the urban poor, and big (particularly protectionist) business. Thaksin used anti-globalization rhetoric but retained selective openness when suitable, emulating the strategy of Malaysia's Mahathir. Thaksin also began to forcefully pursue the establishment of free trade areas (FTAs) with regional and extra-regional partners. By 2003 Thailand's economy was growing rapidly with low unemployment, rising exports, and current account surpluses, leading Thaksin to announce early repayment of Thailand's 1997–1998 IMF loan. Although his government initially denied terrorist activities on Thai soil to allay pressures from Thailand's Muslim minority in the south, by mid-2003 Thailand was cooperating tightly with the USA to apprehend suspected Jemaah Islamiyah (JI) members, including prominent leader Riduan Isamuddin (Hambali). Thaksin continued to advance his hybrid 'dual track' model, courting some internationalizing constituencies favoring exports, foreign investment, and privatization but also ruling against multinational retailers and against creditors of the Thai Petrochemical Industry, and wooing protectionist sectors.

Prior to the 1997 crisis, Mahathir Mohamad's ruling coalition in Malaysia included export-oriented manufacturers, import-substituting manufacturing and services, heavy-industry, and public enterprises which prioritized the interests of their primarily Malay (Muslim *Bumiputera*) constituencies (Gomez and Jomo, 1999). Within his own party – UMNO (United Malays National Organization) – the 1997 crisis led to a power struggle between Mahathir and his deputy and finance minister Anwar Ibrahim, who advanced a more internationalizing response to the crisis. Determined to avoid Suharto's fate, Mahathir purged and persecuted Anwar and his allies, imposed capital controls, fixed the ringgit exchange rate, and protected troubled *Bumiputera* firms. 'Be careful of the plot to use calls for patriotism and nationalism as the wool to cover up corrupt acts and internal oppression', Anwar warned in a letter from jail.<sup>7</sup> Mahathir steered his coalition

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7 'Anwar warns against oppression, corruption in Malaysia', Hong Kong, *AFP*, 17 January 1999, and 15 November 1998.



through highly contradictory rhetoric and policies. On the one hand, his Vision 2020 program had warned that ‘when the going gets tougher, we must not turn inward’ (Welsh, 1996, p. 266). On the other hand, he lambasted the West, called for regional alternatives to ‘Western-dominated’ institutions, and blamed foreign currency speculators for the crisis. Mahathir also unleashed anti-riot police to crush 5,000 Muslim demonstrators at a national mosque and decapitated the incipient *Reformasi* movement.

Yet, after contracting by 7% in 1998 the Malaysian economy began recovering by late 1999, when capital controls were relaxed. *Barisan* won its lowest parliamentary majority ever in the 1999 elections, when Malay support for UMNO decreased and support for the Islamist PAS rose in several states. Mahathir countered Islamist efforts to introduce *sharia* more deeply into Malaysia’s constitution and detained PAS leaders and Islamist militias charged with associating with the JI. In time Mahathir also restructured bad debt, consolidated the banking sector into ten anchor banks, continued with the privatization drive, and called for greater meritocracy in business and government. Although growth resumed, foreign investment never completely recovered because of lingering mistrust of capital controls imposed in 1997 and growing competition with China. The strong Islamist credentials of Mahathir’s handpicked successor, Abdullah Ahmad Badawi, played well into his program to suppress Islamist radicals while enhancing openness to the global economy and eliminating corruption and the patronage system created by his predecessor.

The 1997 crisis forced Suharto and his allies out of power in Indonesia, unleashing far more dramatic changes there than anywhere else in SEA, including democratization, economic upheaval, ethnic and religious strife, and separatist secessions. Although economic nationalism had remained a powerful feature in Indonesia’s political life since independence, Suharto’s New Order had come a long way in erasing Sukarno’s backlash strategy, launching export-led integration into the global economy, seeking US, Japanese, and other Western trade and investment partners, applying IMF stabilization plans, reducing state enterprises, reducing import tariffs, and deepening regional cooperation.<sup>8</sup> Following a short interlude under B.J. Habibie, a wide coalition of interests supported Abdurrahman Wahid’s ascent to power in 1999, after the first democratic elections in decades.

Wahid headed the largest Muslim organization, Nahdlatul Ulama. The heterogeneity of his coalition precluded a coherent policy on economic

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8 On the muted quality of Indonesian nationalism since the mid-1960s, for reasons of political economy and regional co-operative security, see Leifer (2000). Suharto’s economic policies after 1966 were strongly influenced by Indonesian economists in his Presidential Economic Advisory Team (the ‘Berkeley mafia’).

issues and hindered his ability to address political, ethnic, and separatist tensions. Ultimately, Suharto's allies – industrialists hurt by restructuring, Islamists favoring IBRA's creation of state enterprises to foster *pribumi* business à la Malaysia, radical Islamists, and segments of the military – all challenged Wahid's efforts. Wahid became the target of an impeachment process related to corruption scandals and was succeeded by vice-president Megawati Sukarnoputri. Megawati sought to develop a stronger relationship with the IMF and relax foreign investment rules, but privatization stalled and economic and political instability kept foreign investors away, with China now providing more favorable economic conditions and political stability. Megawati's own vice-president, Hamzah Haz from the Islamist PPP, pressured her to distance Indonesia from Western economic institutions and US policies, while denying the presence of JI in Indonesia. The Bali bombing forced her government to reckon with the domestic terrorist threat. Meanwhile the military reasserted its power by forcing a military onslaught on Aceh's separatists. Megawati's party (Democratic Party-Struggle) declined from 151 seats in 1999 to 109 seats in elections for the legislature in April 2004, ahead of presidential elections later in the year.

Singapore was less affected by the crisis initially. Indeed its ruling coalition deepened its internationalizing drive by developing financial services and the information technology sector, maintaining floating exchange rates, large current account surpluses and export-oriented high-tech manufacturing. Later, the collapse of the information technology sector in 2001 exacerbated income inequality and propelled unemployment to record levels. FTAs with the USA and Japan signaled Singapore's continued commitment to an internationalizing strategy. In the Philippines, President Joseph Estrada assumed office in June 1998, voicing criticism of Malaysia's response to the crisis and taking steps to attract FDI and deepen financial liberalization and structural reforms. However, with lukewarm results and widespread unemployment, followed by an impeachment trial, the coalition behind Estrada dissolved in early 2001. His successor, Gloria Macapagal Arroyo, became the newest bearer of an internationalizing strategy. Although her banking, fiscal, and privatization policies stalled in Congress, raised public opposition, or remained unimplemented, she maintained a commitment to the strategy while accepting US support for her anti-terrorist campaign against the Abu Sayyaf Islamist insurgency.

Finally, continental SEA states were less affected by the 1997 crisis and proceeded with incipient internationalization, with Vietnam making the most impressive advances in that direction. Leaders of these latecomers to ASEAN could point to the strong pressures emanating from ASEAN members to counter their own domestic opposition to economic reform and to

strengthen emergent domestic constituencies favoring the region's dominant grand strategy of economic development. As Cambodia's foreign minister acknowledged, 'a regional market would strengthen our prospects for increasing trade and attracting foreign investments. The regional framework would help spur economic and institutional reforms'.<sup>9</sup>

Summing up, despite the initial mobilization of nationalist political forces throughout the region, no backlash turn has characterized the immediate post-crisis period in leading ASEAN states. Indonesia remains the most vulnerable and hybrid, as it transitions to democracy and faces religious, economic, and separatist challenges. Policy responses in Thailand, Malaysia, and Indonesia expanded the state's regulatory power and reach in the short term but also created conditions for deepening economic reforms. Democracies in Thailand (and the Philippines in 1998 but not 2000) replaced leaders with much less turmoil than Indonesia, and without altering fundamental coalitional structures favoring internationalization. Responses to the crisis in Malaysia strengthened Mahathir's authoritarian rule. The social impact of the crisis, aggravated by both IMF-style reforms and cronyism, was significant, particularly in Indonesia. Nationalist reactions to unprecedented market access for foreign firms were widespread among business and the public (Stubbs, 2002). The socialization of private debt forced greater transparency in state-business relations and created pressures for new social pacts to safeguard against future crises. Military institutions and industries suffered from both budgetary declines and efforts to restrain them politically.

On the whole, however, old and new variants of internationalizing (and some hybrid) coalitions throughout the region stayed the course in both the domestic and international arenas of grand strategy, while adapting to new socio-economic and politico-institutional requirements in each case. These coalitions also survived subsequent crises stemming from the 2001 economic slowdown in the US, Japan's continued stagnation, 9/11 and global terrorism, and the SARS epidemic. By late 2003 Standard & Poor's had raised the sovereign ratings of Indonesia, Thailand, and Malaysia, although not to the levels they enjoyed prior to the 1997 crisis. Foreign debt burdens declined dramatically, with Thailand eradicating them altogether.

#### **4 Regional conflict and cooperation in ASEAN since the crisis**

The preceding analysis suggests that, despite some initial instability, internationalizing coalitions rebounded, for the most part, over the two years

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9 Hor Namhong, 'ASEAN good for Cambodia; Cambodia good for ASEAN', *The Daily Yomiuri*, 13 June 2003, p. 14.

following the crisis. It is now time to examine the effects of these responses on regional policy and on collective ASEAN outcomes. Four potential scenarios describe these connections, building on the rationale examined in section 2. Scenario 1 (in Figure 1) points to a situation where internationalizing coalitions maintain (or enhance) pre-crisis levels of cooperation. This scenario roughly corresponds to the historical record although the early phases of the crisis threatened to trigger scenario 4. The latter involves a situation where backlash political forces replace internationalizing coalitions in most states and reverse regional cooperative patterns typical of earlier times. In Foreign Minister Surin Pitsuwan's own words:

The social and economic dislocation, poverty, disease, illiteracy, alienation, disorientation among our peoples would surely lead to violence, rebellion, instability and insecurity. All these would impact upon all the achievements that we have made together so far. And these would inevitably threaten the region as a whole.<sup>10</sup>

Both scenarios 1 and 4 are compatible with expectations from the coalitional framework. Instead, scenario 2 points to a potential anomaly where a reversal to backlash domestic forms does not erode previous levels of cooperation, and where backlash coalitions thrive while cooperation between them deepens, broadens, and remains robust. A second anomaly would be suggested by scenario 3, where strong internationalizing coalitions stay put but disrupt earlier patterns by, for instance, waging a war or significantly degrading cooperation.

The potential for scenario 4 was highest during the initial stages of the crisis. Uncertainties and tensions – stemming from possible domestic coalitional realignments throughout the region – aggravated bilateral frictions (particularly involving Singapore, Malaysia, and Indonesia) and held back more effective multilateral responses. Suspicions of potential backlash reversals in Malaysia and Indonesia seemed rather central to Lee Kwan Yew's criticisms of Mahathir and Habibie. Relations between Malaysia and Singapore deteriorated further when Mahathir curbed ringgit trading abroad, including US\$10 bn with Singapore. Few special concessions to partners in trouble were agreed, there was forceful repatriation of foreign workers (500,000 Indonesians from Malaysia alone), rioting and deaths of Indonesian refugees at Malaysian camps, and the jailing and caning of illegal immigrants in Singapore. However, ruling coalitions abstained from undermining their most devastated partners notwithstanding socio-economic turmoil, nationalist revivals, and ethnic and religious tensions. In time, some mechanisms to ensure collective recovery developed, largely

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<sup>10</sup> Bangkok, *The Nation*, 29 July 1998.

along the lines of ASEAN's informal, non-interventionist tradition. These included moderate efforts to improve common resilience to similar crises. The substance of ASEAN cooperation after the crisis can be best examined through developments in economics, expansion, non-intervention, and security.

#### *4.1 Economic cooperation*

Soon after the crisis erupted, in December 1997, the ASEAN Manila Framework Agreement created an innovative 'surveillance mechanism' designed to prevent potential crises through 'peer pressure'. The Manila Framework also reflected a commitment to avoid protectionist responses, to deepen capital markets, and to promote further liberalization and foreign investment, as well as pressing for global solutions to the negative externalities of international financial flows, including a stronger IMF. The Kuala Lumpur summit (December 1997) adopted the Vision 2020 plan calling for 'a concert of Southeast Asian nations, outward-looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies', while reiterating leaders' resolve 'to enhance ASEAN economic cooperation through economic development strategies . . . in line with the aspiration of our respective peoples, which put emphasis on sustainable and equitable growth, and enhance national as well as regional resilience'.<sup>11</sup>

In 1998 ASEAN adopted the Hanoi Plan of Action (1998–2004), the first in a planned series to advance the goals of Vision 2020. The Plan advocated strengthening economic fundamentals, restoring confidence and FDI, regenerating economic growth, promoting regional financial stability through sound macroeconomic and financial policies, strengthening the Surveillance Process, liberalizing services (including financial), studying the feasibility of an ASEAN currency and exchange rate system, encouraging increased use of regional currencies for intra-ASEAN trade transactions, accelerating the ASEAN Free Trade Area (AFTA), enhancing private sector activities (particularly small and medium enterprises), completing implementation of the ASEAN Investment Area commitments by 2010 or earlier, promoting ASEAN tourism and trans-regional infrastructure, implementing the ASEAN Plan of Action on Social Safety Nets, and completing the implementation of the ASEAN Cooperation Plan on Transboundary Pollution by 2001. This agenda clearly reveals that immediate collective responses reaffirmed and deepened a common internationalizing strategy even as they retained ASEAN's informal and non-intrusive style. Even here, however, there were some new developments.

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<sup>11</sup> <http://www.aseasec.org/summit/vision97/htm>.

In 1998 financial officials and central banks developed the technicalities and content of a 'surveillance mechanism' with the Asian Development Bank (ADB) and ASEAN's Secretariat. Doubts regarding the Secretariat's capacity in this realm, by Singapore for instance, played a role in holding up the creation of this mechanism. Indonesia (under Habibie) and Malaysia resisted too much transparency but were reassured that they would only be required to reveal information similar to that provided to the IMF. By November 1999 the early warning system and a peer-review process to enhance macroeconomic stability were placed under the supervision of financial and central bank officials, supported by an ASEAN Surveillance Coordinating Unit (ASCU) in Jakarta and an ASEAN Surveillance Technical Support Unit (ASTSU) in Manila. Estrada urged the acceleration of AFTA's implementation (from 2003 to 2002) and the need to explore the benefits of a common regional currency to decrease dependence on the US dollar, facilitate trade and transactions, and lead to greater monetary and fiscal cooperation within East Asia.

Backlash constituencies throughout the region resisted the thrust of these responses. Demonstrators denounced ASEAN as a tool of 'US imperialism' and a crowd of 3,000 anti-globalization activists marched against a meeting of the ADB in May 2000, in a sequel to anti-World Trade Organization (WTO) protests in Seattle. In terms of rhetoric, and sometimes in policy terms as well, the more hybrid the coalition in a given ASEAN state, the stronger was the effort to blame global markets and institutions for the crisis, resisting domestic reforms that might be politically prohibitive. Mahathir's strident efforts to mobilize nationalism and international conspiracies to explain the crisis away became legendary, although once Malaysia had overcome the crisis, Mahathir turned to domestic economic and educational reforms aimed at deepening internationalization. Stronger versions of internationalizing coalitions in Singapore and Thailand, instead, implemented domestic reforms in the immediate aftermath of the crisis while demanding, as did many inside and outside the region, the design of a new financial architecture capable of preventing similar crises.

Thailand and the Philippines also pressed for deepening regional economic integration that, in time, would facilitate WTO accession. In 1993 ASEAN had agreed to establish AFTA, designed to establish free trade in manufactured and processed goods by 2003. The wealthier members would reduce tariffs to 0–5% by 2003, and Burma, Cambodia, Laos, and Vietnam would do so by 2005. AFTA was primarily designed to attract foreign investment to the region and create a regional market as a building block for a global trading system. According to Soesastro (1999, p. 166), AFTA was less important in promoting intra-ASEAN trade and far more important as a

symbolic regional commitment to promote members' unilateral liberalization in the context of open regionalism. Indeed, intra-ASEAN trade remains rather small – about 25% of total trade – and is hindered by the lack of harmonization of standards and by non-tariff and bureaucratic barriers. In 1996 ASEAN adopted a dispute-settlement mechanism for AFTA requiring a majority vote, a decision that moved ASEAN beyond its consensus rule. AFTA's zero tariff goal was not achieved by 2003, as scheduled.

After the crisis Thailand established minimal tariff exceptions, whereas Malaysia sought the most, far ahead of Laos, the Philippines, and Vietnam. In late 1998 Thailand added 1,190 more items to its fast-track program in tariff schedules. Malaysia, instead, withdrew automotive parts from its earlier commitment. Thailand offered to lift barriers to politically sensitive palm oil to pressure Malaysia not to renege on its AFTA commitment. Average tariffs among the ASEAN-6 declined from 12.76% in 1993 to 2.39% a decade later, but intra-ASEAN exports remained virtually unchanged for a decade (from 21.14% in 1993, to 22.75% in 2001). Intra-ASEAN exports decreased by 1.5% in 2002 as did exports to the USA, the EU, and Japan, whereas exports to China increased dramatically. By 2003, as AFTA began to have an impact, some ASEAN members proposed the establishment of a permanent body to monitor compliance with AFTA in the context of a second wave of liberalization in electronics, consumer goods, and tourism. The move was resisted by the Philippines, which now urged a more moderate pace. The wide gap between the more and least industrialized members constitutes a major problem underlying AFTA.

Given significant gaps and different domestic constraints, ruling coalitions in different ASEAN states adopted different speeds in their internationalizing drives. Some are particularly active in seeking bilateral FTAs with regional and extra-regional partners. Singapore has negotiated FTAs with New Zealand, Japan, EFTA, and the USA, and is pursuing others. Thailand signed an FTA with Bahrain and is considering others with China, Japan, India, South Korea, Australia, and the USA. In 2002 ASEAN signed a framework agreement with China proposing an FTA by 2012, with the potential for creating the world's largest trading zone (1.8 billion people). China has become far more attractive to FDI than ASEAN in recent years, receiving 9% of all global foreign investment in 2001, as opposed to ASEAN's 1.7% – a development that concerns ASEAN states no less than the 1997 crisis did. Framework Agreements for Japan–ASEAN and India–ASEAN FTAs were signed in 2003.

#### *4.2 Expansion, non-intervention and security*

The logic of internationalizing regions also suggests that lingering backlash



states in the region should be encouraged to embark on economic reform and control military expenditures to buttress regional peace, stability, and foreign investment. Indeed, ASEAN leaders helped socialize proto-internationalizing leaders interested in transforming the *anciens régimes* of continental SEA.<sup>12</sup> Cambodia, Laos, and Burma applied for ASEAN membership by 1996, despite opposition from Western countries and human rights groups. Although some ASEAN leaders remained quite critical of Burma's State Law and Order Restoration Council (SLORC), Laos and Burma were admitted in July 1997. Cambodia's admission as ASEAN's tenth member was delayed until April 1999. In 1998, ASEAN had also agreed on the Second Protocol Amending the Treaty of Amity and Cooperation (TAC) in SEA (Article 18, Paragraph 3) stipulating that 'States outside Southeast Asia may also accede to this Treaty with the consent of all the States in Southeast Asia'.<sup>13</sup>

Non-intervention has been a cornerstone of ASEAN's *modus operandi* and it, too, underwent some transformation after the crisis. To begin with, there was the case of Anwar Ibrahim. In July 1997, at least partially in response to the breakdown of Cambodia's domestic coalition, Anwar had proposed a policy of 'constructive intervention' designed to strengthen civil society in ASEAN countries and to help steer the collective design of legal, electoral, and administrative mechanisms in the region. As argued in the previous section, Anwar was reluctant to rescue heavily indebted Malaysian corporations and, instead, advanced a more internationalizing response to the crisis than Mahathir's, who noted that Anwar 'does not understand finance or economic management', accused him of sexual offenses and of serving foreign powers, and had him imprisoned.<sup>14</sup> Estrada, Habibie, and Thai officials strongly criticized Anwar's imprisonment in 1998, leading Mahathir to vow to retaliate against other countries' criticism of his treatment of Anwar. Malaysia's ambassador also notified the Thai foreign ministry that critical comments about the Malaysian leader in the Thai media could affect bilateral relations. Thai foreign minister Surin argued that the Malaysian government should not worry about countries making 'constructive remarks' on political matters, because such 'constructive engagement . . . will help the Southeast Asian region as a whole'.<sup>15</sup>

Vision 2020 endorsed Thailand's call for the establishment of open societies. In July 1998 Surin proposed 'flexible engagement' or open discussion of internal issues of regional concern, such as economic reform, democracy,

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12 On the strategy of 'ASEANizing' Burma, see Rüländ (2000).

13 <http://www.asean.or.id>.

14 *Voice of Malaysia*, 21 July 1998 (FBIS-LAT-98-202).

15 'Surin urges calm over "constructive remarks" on Malaysia', *The Nation*, 19 October 1998.



and wider popular participation. Except for the Philippines, most other countries (particularly Burma, Indonesia, Malaysia, and Singapore) opposed the idea, upholding ASEAN's principle of non-interference. As democracies seeking openness and transparency, Thailand and the Philippines were closely allied at this time, supporting 'flexible engagement'. Indonesia's Wahid, although a fervent supporter of democracy, played a more pragmatic, bridge-building role. He refrained from raising the Anwar affair at a meeting with Mahathir, and even suggested Indonesia could learn from Malaysia's response to the crisis. He was rewarded with pledges of Malaysian investment and purchases of raw materials and with Mahathir's commitment not to help Aceh separatists. However, in a visit to Thailand, Wahid praised Thailand's quite different economic recovery path as well. During a visit to Burma he expressed sympathy for, but did not meet with, opposition politician Aung San Suu Kyi.

Despite efforts to avoid intra-ASEAN tensions, the growing gap between democracies and non-democracies brought issues of intervention to the fore. Shortly before the 2000 Foreign Ministers' Conference, in an academic seminar on 'ASEAN in the New Millennium', Thailand's deputy foreign minister Sukhumbhand Paribatra insisted that ASEAN members would eventually have to let go of their 'sacred' tradition of non-interference in each other's affairs, 'otherwise regional integration will not be able to move forward'.<sup>16</sup> Thailand also proposed an *ad hoc* mission comprising three ASEAN ministers to mediate in conflicts between or problems *in* member states that could have 'regional ramifications'. The expected future departure of Mahathir fueled the hope that ASEAN might evolve in a new direction, arguably providing Thailand and the Philippines with the opportunity to assume a more prominent role.

Challenges to the tradition of non-intervention intensified with the Burmese military junta's repeated repression and detention of opposition politician Aung San Suu Kyi. In May 2003 Philippine President Arroyo publicly prayed for her release, but other ASEAN members walked a tightrope. Thai officials denied vehemently the US allegation that Thailand was protecting the Burmese junta. As ASEAN's inaction attracted widespread international – including UN – criticism of its non-intervention practices, some ASEAN leaders called on the junta to release Ms Suu Kyi. Mahathir, no stranger to the incarceration of domestic opponents, was now entertaining Burma's potential expulsion from ASEAN 'as a last resort'.<sup>17</sup> Yet ASEAN itself abstained from any direct action – except for a foreign minis-

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16 *The Nation*, 22 June 2000.

17 'Thai official denies US allegation Thailand "on side of" Burmese Junta', *The Nation*, 25 July 2003.

ters' criticism of Suu Kyi's detention – with Indonesia and Malaysia retaining forceful opposition to any intervention.

Suharto's collapse and Indonesia's economic débâcle, political transformation, ethnic violence, and separatist tendencies posed additional dilemmas to ASEAN neighbors. ASEAN leaders retained a cooperative stance towards the member most severely affected by the crisis and its aftermath, emphasizing its territorial integrity but also warning against human rights abuses that would trigger international intervention. An ASEAN Plus Three (APT) declaration in 1999 denied support to Aceh separatists in the classical ASEAN tradition of mutual cooperation to suppress efforts at territorial secession. ASEAN leaders had strong incentives to avoid retaliatory support for separatist movements in their own territory. Thus, neighboring ruling coalitions refrained from aiding such movements across borders, maintaining mutual protection of their respective national sovereignties.

Such commitments led Indonesia to favor ASEAN military forces during the East Timor crisis, following the 1999 vote for independence. Thai foreign minister Surin sensed East Timor might have created an 'opportunity for Asean to regain its credibility and restore its image after the financial crisis of 1997', but he also understood the risks involved in relaxing ASEAN's revered principle of non-interference.<sup>18</sup> Indonesia's defense minister General Wiranto articulated the position that Indonesia wished 'to see Asean forces, overwhelming Asean forces, coming to help restore the deteriorating situation in East Timor'. But Surin found no consensus among ASEAN members, who feared Indonesia's response to such collective intervention. Individual member states thus ended up providing troops for the International Force for East Timor (INTERFET), endorsed by the UN Security Council and led by an Australian general. A Thai officer became deputy commander and, subsequently, both a Philippino and a Thai became commanders. Singapore and Malaysia contributed as well. Wahid later praised Thailand's contribution to restoring peace in East Timor and asked Prime Minister Chuan to support any bid by East Timor for ASEAN membership.

ASEAN also practiced a hands-off approach with respect to Aceh, with secretary-general Rodolfo Severino proclaiming in 1999 that ASEAN's relevance does not hinge on problems that constitute Indonesia's internal matters. Furthermore, ASEAN neighbors tightened border security to stem arms smuggling to Acehnese rebels, particularly from southern Thailand and Mindanao (Philippines), while explicitly vowing to deny separatists any protection in their territory. These efforts were strengthened after 9/11 when ASEAN states quietly but strongly maintained support for US military aid to Indonesia. With a strong interest in uninterrupted supplies of oil and gas

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18 Surin Pitsuwan, 'How East Timor reshaped Asean', *Bangkok Post*, 19 May 2002.

from Aceh and Irian Jaya, leaders from Indonesia, the Philippines, Malaysia, Singapore, and Thailand signed agreements on energy, tourism, fisheries, and investment in 2001. In the context of an internationally mediated 2002 agreement between Jakarta and Acehese rebels, a Thai general was to head monitoring teams from Thailand and Philippines that Indonesia had accepted into Aceh. The agreement between Jakarta and the GAM collapsed in 2003 and was superseded by Indonesia's largest military onslaught since its 1975 invasion of East Timor, with muted ASEAN responses. Not only had Indonesia's post-1997 domestic *débâcle* weakened its leadership role in ASEAN but it also posed growing challenges to established principles of non-intervention.

Cooperation to suppress separatist movements such as Aceh's carried over into anti-terrorist efforts. Terrorist and extremist Islamist groups operate not only in Muslim states like Indonesia and Malaysia but also in those with substantial Muslim minorities (such as the Philippines, Singapore, and Thailand). As argued, Mahathir may have contained radical Islam more effectively than Indonesia through repression, but the latter contends with that challenge in a democratizing context (to the extent that Aceh might partially involve radical Islam, Indonesia has used extreme force there as well). Terrorist activities in the southern Philippines were met with forceful military action. Southeast Asia is an attractive locale for al-Qaeda affiliates because of the relatively high availability of inexpensive weapons, permissive legal conditions, deficient intelligence and enforcement, the ease of financial contacts with the Middle East, the rise in – and tolerance of – radical Islamist strains among some segments of the public, the failure to provide an alternative to religious schools (*pesantren*), generous Wahabbi support for radical Islam, and the ability to move without much difficulty within and across borders (Abuza, 2003; Leheny, 2003). Singapore is an exception to most of these conditions. Some also consider wide unemployment in Indonesia to be both a legacy of the 1997 crisis and to provide fertile ground for new terrorist recruits. This may well be the case, but it is hard to separate this dimension from other supply-side factors mentioned previously. Indonesia's economic decline was exploited by extremist Islamist groups promoting religious warfare (in Maluku and Sulawesi) and by more 'moderate' Islamist parties backed by Vice-President Haz that promoted *sharia* in the legislative assembly. Some Islamist groups have also used economic issues and the 1997 crisis to block economic reform and promote economic nationalism.

Some ASEAN members, including Mahathir, denied any al-Qaeda presence initially and tolerated some questionable activities as long as they were not directed toward them. Malaysia was a banking and investment center for al-Qaeda and the 9/11 terrorists held a meeting there. Ba'asyir, an exile from

Indonesia's Suharto, founded JI in Malaysia. The fall of Suharto in 1998 offered an opportunity to rebuild radical Islam in Indonesia. In time the efforts of Ba'asyir's associate Hambali resulted in the Bali bombings of October 2002. Bali forced Megawati's government to acknowledge and actively counter terrorist networks in Indonesia. Hambali, who was captured in Thailand in 2003, acknowledged al-Qaeda's financing of Bali.<sup>19</sup>

Despite some limited police cooperation and multiple statements condemning terrorism, ASEAN has not yet spearheaded a strong cooperative arrangement on terrorism, despite the common fear that terrorism could stifle foreign investment and economic growth – the pillars of an internationalizing strategy. In 2002 Malaysia drafted a treaty to harmonize and coordinate legal systems to deny safe havens to terrorists. However, this was not an ASEAN initiative and its viability is not yet evident. By 2003 Malaysia had inaugurated a Southeast Asian Antiterrorism Center in Kuala Lumpur, funded by the USA, just as Mahathir declared that 'we will fail in our efforts to fight our own terrorism if we are perceived to work together with the US'.<sup>20</sup> As 2003 chair of ASEAN, Indonesia proposed the creation of an ASEAN Security Community (ASC) to combat terrorism, an idea received cautiously by ASEAN, with Mahathir warning against turning it into a defense pact (Simon, 2003).

Moving to more classical security issues, the immediate aftermath of the 1997 crisis saw a string of conflictual interactions around the Spratly Islands. Straddling key shipping lanes in the South China Sea, the islands are partially or wholly claimed by China, the Philippines, Malaysia, Vietnam, Taiwan, and Brunei. The 1992 Declaration on the South China Sea had called for the renunciation of force and urged all parties to exercise restraint in the settling of disputes. Yet, in May 1999, a Philippine ship pursued three Chinese fishing boats north of the Spratlys, reportedly sinking one boat while claiming it was an accident. China, in turn, built a complex on Mischief Reef, fired at a Philippine surveillance aircraft, and demanded the urgent removal of a Filipino ship from the claimed reef. In June 1999 the Philippines protested Malaysia's construction of structures west of Manila-claimed Pawikan Shoal, declaring that 'the Philippines views the recent act of Malaysia as violation of the letter and spirit of the ASEAN declaration on the South China Sea, the Joint Statement of the Heads of State and Government of ASEAN and China and the Hanoi Declaration of December 1998'.<sup>21</sup> Malaysia declared support for a code of conduct for the South China Sea but insisted that ASEAN states must first define geographic

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<sup>19</sup> *Daily Yomiuri*, 7 October 2003, p. 6.

<sup>20</sup> *CNN Presents*, Tokyo, 14 June 2003.

<sup>21</sup> *Business World*, 25 June 1999.

boundaries. In October 1999 Vietnamese troops fired on a Philippine airforce reconnaissance plane flying over the disputed Pigeon Reef/Tennent Reef. The Philippines protested these actions ‘with the greatest concern’ and Vietnam reiterated its support for bilateral and multilateral negotiations.<sup>22</sup>

At the 1999 ASEAN summit the Philippines submitted a draft ‘code of conduct’ calling for a stop to ‘any new occupation of reefs, shoals and islets in the disputed area to ensure peace and stability in the region’. China rejected this proposal – initially favoring bilateral negotiations over a multi-lateral context – but agreed to hold further discussions on the draft. The Philippines was most vocal in its call for an ASEAN response to China, similar to the 1995 ASEAN statement deploring China’s action on the Mischief Reefs. Since other ASEAN states, particularly Malaysia but also Vietnam, adopted a more restrained position, Estrada advanced new initiatives, suggesting the need to redefine the ASEAN Regional Forum’s (ARF) mandate, the possible reliance on APT to address regional security concerns, or the creation of a new security mechanism to confront conflicts over the Taiwan Straits, the South China Sea, and the Korean Peninsula. Estrada bluntly pushed for preventive diplomacy while his chief of staff openly suggested that ASEAN would not become a military alliance as long as the South China Sea dispute was unresolved, citing China as the biggest obstacle. Over time, however, China’s brewing ‘charm offensive’ towards ASEAN diffused this conflict, with China signing the Code of Conduct in late 2002 and joining ASEAN’s TAC in 2003.

The potentially most significant development in ASEAN since 1997 might be the approval in October 2003 of the Bali Concord II and its three pillars: an ASEAN Security Community (proposed by Indonesia), an ASEAN Economic Community (proposed by Thailand), and an ASEAN Socio-cultural Community. It is too early to foresee the extent to which these proposals will thrust ASEAN into an effectively new institutional form but the reaffirmation of converging internationalizing strategies is quite evident: ‘For the sustainability of our region’s economic development we affirmed the need for a secure political environment based on a strong foundation of mutual interests generated by economic cooperation’ (<http://www.aseansec.org/15259.htm>). The Concord II also reaffirmed ASEAN’s commitment to enhance ‘economic linkages with the world economy’, ASEAN competitiveness and investment environment, and adherence to the TAC as a fully functioning and effective code of conduct. Competition with China and India loomed large behind the economic community concept. Indonesia was

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22 ‘Siazon confirms SRV shot Philippine plane over Spratlys’, Hong Kong, *AFP*, 28 October 1999; ‘Vietnam refuses direct comment on Spratlys shooting’, Hong Kong, *AFP*, 28 October 1999.

charged with developing a Plan of Action for the ASEAN Security Community (ASC), to be reported to the 37th AMM in Jakarta in 2004 and to be included as an annex to the Bali Accord. As Bandoro (2003) argues, giving a clear statement of ASEAN's internationalizing agenda, 'the world will judge the impact of ASEAN's ninth summit on making Southeast Asia more attractive for foreign investment and its contribution to the stability and security of the region'.<sup>23</sup> Nearly 1,000 business leaders attended ASEAN's first Business and Investment Summit – initiated by ASEAN's secretary-general Ong Keng Yong of Singapore – immediately preceding the 2003 ASEAN summit.

Finally, the extent to which ASEAN leaders maintained the synergies embedded in internationalizing agendas can be gauged from their levels of military expenditure relative to their GDPs (MILEX/GDP). The 1997 crisis itself could account for declines in those levels were it not that such declines had actually preceded the crisis. MILEX/GDP ratios were sharply reduced in earlier stages of internationalization, from slightly above 5% at their height in the 1970s, during the Cold War, to an average of 2.8% in 1990.<sup>24</sup> They plummeted from a high of 5.4% of GDP in the early 1960s (under Sukarno) to 1.2% by the 1980s, under Suharto in Indonesia. Thailand halved MILEX/GDP from 5 to 2.5%, Malaysia reduced it from 5.6 to 3.9%, Singapore and Brunei from 6.7 to 4.8%, and Vietnam (after adopting the ASEAN model) from 19.4 to 4.7%. The model's relative moderation in MILEX/GDP is suggested by two observations: (i) growth in military expenditures remained far behind growth in GDP; and (ii) MILEX/GDP in this region was lower than the 5% average for industrializing regions in the 1980s, and about one-quarter to one-fifth that of Middle Eastern states. Buzan and Segal (1994) concur with many others that there have been 'no highly focused competitive arms accumulations' or arms races in SEA.

### 4.3 Institutionalization

Expectations from scenario 1 (Figure 1) suggest that internationalizing coalitions are likely to retain cooperative patterns but do not necessarily envisage formal economic or political integration. The cooperative coalitional logic enables a wide range of institutional (bilateral, multilateral) and even non-institutional options. Formal institutions may be desirable but are not a *sine qua non* for effective regional cooperation. Indeed, some regard East Asia's progression into a more rule-based and formally encoded institutionalism as potentially detrimental to regional cooperation (Inoguchi, 1997, p. 188). The

<sup>23</sup> *Jakarta Post*, 5 October 2003 (internet version).

<sup>24</sup> SIPRI Yearbooks, IISS's *The Military Balance*, 1995/96, pp. 266–267 and 1997/98, p. 295. On MILEX/GDP in ASEAN and on cross-regional comparisons, see Solingen (2001).



EU path is not inherent or necessary. The cooperative logic hinges not on the extent of economic interdependence among regional partners or on efforts to institutionalize regional interdependence but on a common orientation towards the global economy. Hence, institutionalization *per se* cannot be taken as a proxy for enhanced or diminished cooperation, prior to or after the crisis. Furthermore, although some measure of institutionalization can be said to have taken place, coalitional logics can be as easily expressed in terms of enhanced bilateral cooperation.

Institutionalization in recent years entails two distinctive features. The first is a potential move toward greater formalization. As Kahler (2000) argues, ASEAN may have evolved in that direction with its Senior Officials Meetings in economic, environmental, social, and other issue areas, the emergence of national-level secretariats to sustain them, the agreement to create AFTA, and the subsequent delegation to the secretariat of increased – but moderate – responsibilities for advancing AFTA. The 1995 Southeast Asian Nuclear Weapon Free Zone Treaty includes the right to trigger fact-finding missions and calls for referral to the International Court of Justice when disputes remain unresolved for over one month (Acharya and Ogubanwo, 1998). AFTA's dispute-settlement mechanism, adopted in 1996, requires a majority vote. Most of these developments, however, preceded the 1997 crisis. In 1999 ASEAN leaders also agreed to constitute an ASEAN Troika, an *ad hoc* body of foreign ministers able to address urgent concerns with regional peace and stability. The Troika was to operate in accordance with core principles of consensus and non-interference, and make recommendations to ASEAN foreign ministers.

Clearly, this was no effective departure from ASEAN's informality and, in any event, Indonesia and the Philippines swiftly rejected the Troika as a mechanism to address secessionist conflicts. Nor was the Troika activated in repeated impasses regarding Burma, or in the latter's border clash with Thailand. Thus, none of the more formal mechanisms has yet taken root. ASEAN's secretariat continues to be subordinated to national secretariats, no precise legal obligations have emerged, and parties have not resorted to the TAC's High Council dispute settlement, turning instead to the International Court of Justice. The recent Concord II refers to ASEAN as a 'concert of Southeast Asian nations', pursuing the objectives of the ASEAN Vision 2020 but not 'a defense pact, military alliance or a joint foreign policy'. While emphasizing the TAC's High Council as a 'principal instrument' it is as yet unclear whether it will replace current practices. Furthermore, a single market is defined as an end-goal, as stipulated in ASEAN Vision 2020, to be achieved in 2020. Both in economics and security – through 'end goals' and 'concerts' – ASEAN's path seems posed to retain the essential

differences that separate it from the EU. The latter remains the anomaly in regional practices.

A second feature of institutionalization is not greater formalization but the effort to embed ASEAN in broader regional institutional frameworks. In this respect, the effects of the 1997 crisis may have been more significant. In November 1997 the USA, the IMF, and China vetoed a Japanese proposal for an Asian Monetary Fund to bail out economies in crisis, partly on grounds that it could be used to undercut standard IMF loan conditions but also because of the AMF's East Asian nature. The US response to the crisis, in particular, raised resentment and questions about its commitment to the region, even in the minds of its allies. Japan's Sakakibara proposal, the Miyazawa Initiative, and subsequent aid to Indonesia and Thailand, instead, were perceived as sensitive to the region's predicament, as was China's abstention from devaluing the renminbi. Their behavior in both cases was guided by an understanding of how highly interdependent East Asia had become, as evidenced by the rapid and contagious diffusion of the crisis.

At their 1998 summit ASEAN leaders decided to hold regular meetings of the APT (which had first met in 1997), an East Asian forum on political and economic problems that includes the ASEAN 10 plus China, Japan, and South Korea. In some ways this is an updated version of the East Asia Economic Grouping (EAEG) advanced by Mahathir in 1989 but strongly opposed by the USA, Japan, Australia, and Indonesia, and later downgraded into an East Asia Economic Caucus (EAEC) within APEC. In May 2000, following ASEAN's initiative, finance ministers of the APT agreed to increase their hard currency reserves to defend their economies from speculative trends. The 'Chiang Mai Initiative' of a currency swap proposed during the Asian ADB's 33rd annual meeting was designed to avert potential liquidity crises stemming from unexpected capital outflows. Asian countries would lend US dollars to each other to be repaid in local currencies at fixed exchange rates, in an arrangement that would arguably complement IMF activities. This required an economic and financial monitoring system and was regarded as an important step in building an East Asian mechanism to help avert future crises (Stubbs, 2002). The 2000 APT leaders meeting yielded an agreement to explore the feasibility of an East Asian FTA and an East Asian Summit. APT is now cooperating in energy security networking, oil stockpiling, an oil market study, natural gas, and renewable energy. Working groups on food security, culture, tourism, and other practical issues are also operating. The APT provides a tentative, developing institutional context that may not necessarily weaken the 'open regionalism' advanced by APEC and the ARF. Mahathir's calls for the creation of an APT headquarters in Kuala Lumpur have been rejected thus far.



Finally, the ASEAN Regional Forum had emerged prior to the crisis, in 1994, and remained Asia-Pacific's all-inclusive security forum. The post-crisis period did not lead to any significant institutionalization beyond inter-sessional working groups and numerous track two activities, particularly around CSCAP. ASEAN managed to retain its pivotal role in the ARF but also failed to progress beyond declared objectives in preventive diplomacy, chiefly due to China's opposition (China also resists Taiwan's inclusion).<sup>25</sup> The ARF's consensus rule is strong and resilient; its thin institutional structure lacks even a secretariat to provide coordination between meetings. Its limited contribution to the resolution of core outstanding conflicts, particularly in the Korean peninsula, has enabled APEC, the APT, and other forums and 'coalitions of the willing' to seize some initiative in security matters.

Neither moderate institutionalization towards formality nor ASEAN's growing embeddedness into seemingly significant broader regional frameworks have improved bilateral relations among ASEAN members since the end of the crisis. Vietnam and Indonesia agreed on a maritime boundary in the South China Sea. Thailand and Burma resolved their interlocked border, drugs, and refugee disputes in 2001. In early 2003 Malaysia and Singapore agreed to settle the Pedra Branca dispute (Pulau Batu Puteh, South Ledge, and Middle Rocks) through third-party adjudication by the International Court of Justice, signaling that other disputes (over water, for instance) might be similarly settled. Prime Minister Abdullah Ahmad Badawi, who moved Malaysia away from Mahathir's hybrid strategies, began nurturing closer relations with Singapore, allowing the latter's state-linked companies to invest in Malaysia. Malaysia and Indonesia resolved the long-standing dispute over Sipadan–Ligitan through the International Court of Justice as well, and Mahathir labeled relations between Thailand and Malaysia 'the best model for the world'.<sup>26</sup> The most effective cooperation on counterterrorism has been bilateral (in particular Singapore with the Philippines but also Malaysia with Thailand and the Philippines), trilateral (Indonesia, Malaysia, and the Philippines), or between individual states and extra-regional actors. On narcotics, 'coalitions of the willing' have superseded ASEAN's activities in an attempt to make the region drug-free by 2012, including the quadrilateral forum between Thailand, Laos, Burma, and China. Thailand and the Philippines, not ASEAN, became involved in peacemaking efforts on Aceh, as was the case for efforts by Malaysia on Mindanao. Singapore and Thailand declared their intention to move toward bilateral economic integration if others in ASEAN were not ready.

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<sup>25</sup> North Korea was invited to join the ARF but India blocked Pakistan's accession in 2003.

<sup>26</sup> 'Mahathir hails Malaysian–Thai cooperation as "Best Model" for world', *Kuala Lumpur Bernama*, 27 July 2003.

## 5 Conclusions

Relations among ASEAN members are influenced by classical security considerations – from bilateral alliances to geostrategic predicaments – as well as by ideational processes and domestic coalitions. Much attention has been bestowed on the first two explanations, whereas the focus here has been on the third dynamic (Peou, 2002).<sup>27</sup> Tracing ASEAN cooperation to external threats does not take us very far in explaining the texture of SEA's regional order. As Foot (1995, p. 234) argued, most ASEAN states feared internal subversion and insurgency but there was never agreement on what the prime source of external threat was. ASEAN's expansion in the late 1990s to include former communist states might be construed as a response to China's ascendancy. However, expansion was more likely the result of the need of ASEAN's ruling coalitions to incorporate lingering backlash transitional states in continental SEA into the leading strategy, in order to secure common regional stability and foreign investment. Furthermore, it is unclear why defensive regionalism (strengthening ASEAN to balance China) rather than bandwagoning should emerge as a response to such a threat, a perennial puzzle in neorealist analysis. As for ideational understandings, ASEAN cannot be easily dismissed as a socialization agent. Yet, its diverse political culture and values continue to represent a challenge, as suggested by Surapong Jayanama (Director-General of Thailand's Foreign Ministry's East Asia department). Most importantly, isolating the effect of common identity would be far more effective if evidence could be marshalled that ruling coalitions designed their strategies independently of their immediate incentives. Both neorealist and ideational frameworks would benefit from developing more specific propositions, with falsifiable expectations, about the underlying drivers of conflict and cooperation in Southeast Asia.

ASEAN cannot be understood as wholly epiphenomenal of a particular geopolitical configuration, social construction, or coalitional makeup. But the field's concentration on the former two leaves out an important perspective on what ASEAN is about and what makes it tick. Insufficient attention has been given to accounts applying a systematic understanding of internationalization, domestic politics, and their relationship to regional relations. This is rather puzzling, given that 'ASEAN's business has by choice been business'.<sup>28</sup> The framework proposed here helps evaluate ASEAN's cooperation after the 1997 crisis through different scenarios and falsifiable propositions connecting domestic coalitions and regional order.

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27 As Ganesan (2003) notes, the first two approaches overlook the role of policy élites as agents of regional policy.

28 'Another milestone for ASEAN', *The Straits Times*, reproduced in *Daily Yomiuri*, 9 October 2003, p. 11.

Findings suggest that, despite the initial mobilization of domestic backlash forces, significant differences across countries, and hybrid interludes in some cases, ruling coalitions remained on the whole committed to internationalizing strategies. Democracy was not strengthened by the crisis everywhere (Malaysia) but those democracies in place by 1997 were able to replace leaders with much less turmoil than autocracies (Indonesia). Democratization allowed further inclusion of previously excluded social forces. Despite the rise of some nationalist rhetoric, ruling coalitions responded to regional challenges stemming from the crisis by reasserting common, cooperative internationalizing commitments, rather than through predatory rejoinders. There was significant continuity in ASEAN's informal, non-intrusive *modus operandi* and considerable efforts were made to embed ASEAN's cooperation in broader regional frameworks. None of the gloomy scenarios that might have derived from counterfactual coalitional trajectories described in scenarios 2–4 have come to pass. Old and new variants of internationalizing coalitions navigated through serious challenges while resorting to both bilateral means and multilateral, including global, institutions.

However, alternative trajectories should not be considered inherently impossible in a region where territorial and related disputes remain (Ganesan, 1998, 2001).<sup>29</sup> After all, territorial issues are the most frequent precursors of wars. The fact that war among ASEAN contenders to the Spratly Islands continues to be quite improbable cannot be separated from a shared internationalizing agenda that recoils from the consequences of war and militarization. At the same time, this framework does not suggest a linear progression or irrevocable process towards internationalization or regional cooperation. Backlash politics may be more resilient than it is possible to estimate today. Despite a dramatic recovery from the 1997 crisis and from subsequent shocks induced by economic slowdown in export markets, terrorism, Islamist radicalism, and SARS, the crisis's longer term distributional effects may not be evident for some time. Cleavages along rural–urban, class, sectoral, regional, and ethnic-religious lines will continue to alter coalitional forms throughout ASEAN members. Myopic internationalizing policies that are inattentive to social costs and benefits can lead to complacency and to the eventual demise of their political bearers.<sup>30</sup> The third pillar of ASEAN's Concord II recognizes this danger. ASEAN lacks a common platform on the protection of migrant workers and the trafficking of women and children,

29 In addition to the Spratly dispute, militarized border conflicts erupted between Thailand and Burma in 2001 (with nearly 100 casualties). Mobs damaged the Thai embassy and other Thai properties in Phnom Penh in early 2003, leading Thailand to downgrade diplomatic and economic relations.

30 On internationalizing strategies as vulnerable to domestic and international sources of instability, see Solingen (1998, pp. 47, 57–61).

for instance, and vast unilateral repatriations of undocumented workers (750,000 from Malaysia to Indonesia in 2002) persist. Finally, the crisis also reinforced the need to understand more fully how the global economy and international institutions affect domestic coalitional balances.

Probes into the other scenarios outlined in Figure 1 would entail counterfactual analysis beyond the scope of this article. According to Tetlock and Belkin (1996), counterfactual exercises are better if constrained by a 'minimal-rewrite-of history', or 'easily imagined' variations in the stream of history, not equivalent to an 'anything-goes subjectivism' that would consider all counterfactuals equally plausible or legitimate. Thus, ideal counterfactuals must specify and circumscribe the independent and dependent variables and the connecting links between the hypothesized antecedent (alternative coalitions) and the consequence (alternative regional orders). One such possibility would be to hypothetically replace internationalizing coalitions with backlash ones such as Sukarno's Indonesia. Had such coalitions remained in place in recent decades, would ASEAN have unfolded in the same way? Would ruling coalitions minimally engaged in the global political economy and representing expansive military-industrial complexes (consuming 25–30% of GDP, as in other regions) have yielded the same contextual environment that led to ASEAN? The utility of such counterfactuals is that they introduce useful correctives to avoid deterministic thinking. They sensitize us to other factors and contingencies, such as the role of leadership. They also force one to think about the likelihood that those contingencies would have operated in the absence of the kind of permissive conditions (i.e. ruling coalitions) that this article stipulates were important in shaping ASEAN's texture. As Tetlock and Belkin suggest, counterfactuals thus should not be thought of only as a theory-testing device but potentially as a theory-extending and even (alternative) theory-generating exercise.

A focus on domestic political dynamics is not inimical to perspectives emphasizing power (and conflict) and ideas (and cooperation). In the former case, different coalitions filter existential security dilemmas and issues of contextual power into different policies. In the latter case, different coalitions draw together state and private actors on the basis of both ideal and material interests. The coalitional landscape thus offers an important baseline for understanding regional relations, both conflictual and cooperative. It also contributes a relatively underdeveloped application of domestic politics, coalitional or not, to an explanation of ASEAN's experience prior to, and after the Asian financial crisis.

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