

Capannelli, Giovanni; Tan, See Seng

**Working Paper**

## Institutions for Asian integration: Innovation and reform

ADB Working Paper, No. 375

**Provided in Cooperation with:**

Asian Development Bank Institute (ADBI), Tokyo

*Suggested Citation:* Capannelli, Giovanni; Tan, See Seng (2012) : Institutions for Asian integration: Innovation and reform, ADB Working Paper, No. 375, Asian Development Bank Institute (ADBI), Tokyo

This Version is available at:

<https://hdl.handle.net/10419/101181>

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## **ADB Working Paper Series**

### **Institutions for Asian Integration: Innovation and Reform**

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Giovanni Capannelli  
and See Seng Tan

No. 375  
August 2012

**Asian Development Bank Institute**

Giovanni Capannelli is special advisor to the Dean, Asian Development Bank Institute (ADBI), Tokyo. See Seng Tan is an associate professor at Nanyang Technological University, Singapore.

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Suggested citation:

Capannelli, G. and S. S. Tan. 2012. Institutions for Asian Integration: Innovation and Reform. ADBI Working Paper 375. Tokyo: Asian Development Bank Institute. Available: <http://www.adbi.org/working-paper/2012/08/20/5217.asian.integration.innovation.reform/>

Please contact the author for information about this paper.

Email: [gcapannelli@adbi.org](mailto:gcapannelli@adbi.org); [issstan@ntu.edu.sg](mailto:issstan@ntu.edu.sg)

Asian Development Bank Institute  
Kasumigaseki Building 8F  
3-2-5 Kasumigaseki, Chiyoda-ku  
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500  
Fax: +81-3-3593-5571  
URL: [www.adbi.org](http://www.adbi.org)  
E-mail: [info@adbi.org](mailto:info@adbi.org)

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**Abstract**

The formation of regional production networks in East Asia has occurred mainly through market forces, without much help from regional institutions in promoting the creation of a single Asian market. While this approach has served the region well in the past, the drastic changes experienced since the 2008–2009 financial crisis and the challenges Asian countries are facing—growing inequalities and competition, on the one hand, and enhanced threats to the environment and people's health on the other—have rendered more urgent the need for intergovernmental cooperation at global and regional levels. Asia's institutions for regionalism need strengthening through reform and innovation such as better governance and resourcing, greater and more effective participation and delegation of powers, overall streamlining of regional architecture, including the phasing out of outdated or irrelevant institutions and, where needed, the creation of new ones. Ultimately, given its rootedness in regional order, institutional efficacy is a function of the ability and willingness of its members, especially influential stakeholders, to collaborate.

**JEL Classification:** F15; F55; F59

## Contents

1.	Introduction: Why Asia Needs Stronger Institutions for Regional Integration.....	3
2.	Asia's Institutions for Regionalism: Overview of the Literature .....	4
3.	Governing Principles.....	7
4.	Taxonomy of Asia's Institutions for Regionalism .....	9
5.	Overarching Subregional Institutions: Comparing ASEAN and SAARC .....	13
6.	Functional Institutions: Lessons from GMS, BIMSTEC, and AMRO.....	15
7.	Strengthening Asia's Institutional Architecture Through Innovation and Reform .....	20
7.1	Beyond Bottom-up Regionalism.....	22
7.2	Beyond Institutions' Lightness.....	24
7.3	Beyond Elite Regionalism .....	25
	References .....	26

# **1. INTRODUCTION: WHY ASIA NEEDS STRONGER INSTITUTIONS FOR REGIONAL INTEGRATION**

The formation of regional production networks in East Asia has occurred mainly through market forces, without much help from regional institutions in promoting the creation of a single Asian market. Multilateral and unilateral policy actions—such as the Plaza Accord of 1985 and incentive packages to attract foreign direct investment—have played a major role in influencing the decisions of several multinational corporations to relocate their production facilities in Asian countries. So far, however, common regional institutions have not been very active in creating a common Asian market. The Association of Southeast Asian Nations (ASEAN) will establish the ASEAN Economic Community (AEC) by the year 2015, but the powers member countries delegate to the ASEAN Secretariat (ASEC) remain limited.

Such an approach to regionalism has served the region well. Since the 1970s developing Asian economies have grown much faster than those in any other region in the world due largely to the implementation of carefully planned national development strategies. Poverty in Asia has halved since the early 1990s and the overall welfare of Asian citizens has greatly improved. Why would Asia need stronger institutions to promote regionalism? Does Asia need eventually to follow a European approach to regional cooperation, with the creation of several major institutions such as a council of ministers, a regional commission, a parliament, and a court of justice, or is it better off with its current light institutionalization of regionalism?

What has worked well in the past may not work as well in the future. The global economic and political environments have changed drastically since the eruption of the global financial crisis in 2008–2009 and the challenges Asian countries are facing, both individually and collectively as a region, have become far more complex and with intricate global ramifications. On the one hand, increased Asian economic interdependence has come not without problems. Inequality has risen, increasing competition has negatively affected some economic groups, and the benefits of integration remain mostly limited within East Asia's production networks. South and Central Asian economies are still poorly integrated: the integration of labor, services, and financial markets is proceeding at a very slow pace. On the other hand, intergovernmental cooperation at global and regional levels is increasingly needed to manage major threats to the environment and people's health, to prevent the recurrence of financial and economic crises, and to ensure security and peace.

The institutional architecture for regional cooperation that has been taking shape in Asia—hitherto ad hoc and incoherent—may not be adequate to face these new challenges. Several reforms and innovations are needed to strengthen Asia's institutions for regionalism. The governance of existing institutions should be strengthened and made more effective and participatory, giving larger space to civil society and the private sector to contribute to defining

their priorities and agenda, together with government agencies. Regional institutions should also be given more delegated powers to act on behalf of their member countries in order to improve regional commons, as well as more financial and human resources. Regional stakeholders should consider phasing out institutions which have already accomplished their mandate or which are no more effective, and creating new institutions whenever needed. At the same time, it bears reminding that regional institutions are rooted in regional order. Institutional efficacy as such is equally dependent on the ability and willingness of their members, especially great powers and influential stakeholders, to collaborate.

Based on a study completed in 2010 by the Asian Development Bank (ADB), this paper reviews some literature on the design and development of institutions for Asian regionalism and discusses the future needs for innovation and reforms of the regional institutional architecture having in mind the creation of a regional economic community of sorts. Although we refrain from defining the components and structure of such an economic community for Asia and from proposing a roadmap for its achievement, we follow the taxonomy of institutions for regionalism adopted by the ADB study and focus on key governance principles for such institutions. In doing so, we present cases studies of principles and institutions that worked and did not work well in the past, and suggest some needed policy action.

Section 2 of this paper reviews the literature on Asia's institutions for regional integration and cooperation. Section 7.3 discusses the relevant governance principles for such institutions, including considerations on stakeholders and their agenda. Section 4 introduces a taxonomy of Asia's institutions for regionalism, while section 5 compares ASEAN with the South Asian Association for Regional Cooperation (SAARC), which can be defined as the overarching subregional institutions in Southeast and South Asia. Section 6 analyzes three selected functional institutions that provide interesting examples of cooperation in different sectors and subregions. Section 7 concludes suggesting the need for reform and innovation to strengthen Asia's institutional architecture for regionalism.

## **2. ASIA'S INSTITUTIONS FOR REGIONALISM: OVERVIEW OF THE LITERATURE**

The story of Asia's regional integration is distinct from that of Europe owing to different economic and political conditions. In Europe, an insecure regional environment following the Second World War, an equally unforgiving economic environment marked by high protectionism and widespread current account restrictions, an embedded liberalism that emphasized protection of labor relations and agriculture and, importantly, interventionist states that sought to satisfy such expectations, combined to render the region not particularly conducive to simple market-driven integration (Capannelli and Filippini 2010). Heightened societal expectations in the immediate postwar period coincided with the widespread feeling

that traditional nation states had failed to provide their populations with economic security in the years between the first and second world wars and physical security after 1939.<sup>1</sup> Contrary to functionalist accounts that attribute European regionalism to non-state forces, others argue it was economic motives of emerging Western European welfare states that played a key part in driving regional integration in Europe (Moravcsik 1998; 2000; Puchala 1999).

No such common cause and motivation impel Asia's economic integration. Today, Asian economic regionalism relies on an array of mostly uncoordinated processes, such as the People's Republic of China (PRC) unilateral opening during Deng Xiaoping's leadership, the concerted unilateralism of the Asia-Pacific Economic Cooperation (APEC) forum, the many bilateral and "plurilateral" free trade agreements (FTAs) that dot the region, global negotiations such as those under the World Trade Organization (WTO), and regional initiatives such as the ASEAN+3 (ASEAN plus the PRC, Japan, and the Republic of Korea) that emerged in reaction to the Asian financial crisis of 1997–1998 (Baum 1980; Dent 2008; Kawai and Wignaraja 2009; Ravenhill 2001). The combined impact of these initiatives has contributed to rapid economic growth marked by a considerable expansion of cross-border trade and financial flows, as well as an increasing integration within the region and with the rest of the world. As such, Asia has played host not only to swift-rising intraregional investment and flows of managerial talent and other skilled labor, but also to the intensive development of regional supply chains and production networks. This has led some prominent economists to refer to the region as "Factory Asia" (Baldwin 2008).

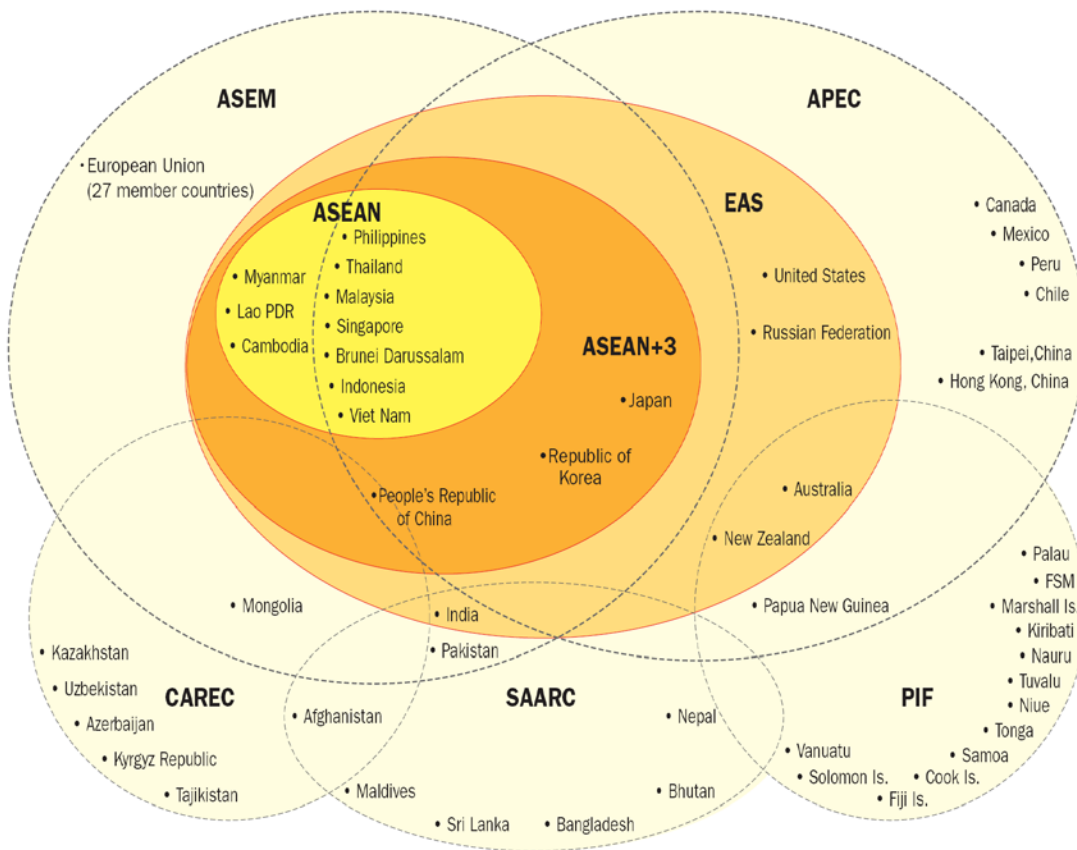
In contrast to the scarcity of institutions for regional integration serving Asia in the immediate aftermath of the Cold War,<sup>2</sup> a dense web of overlapping regional and subregional institutions supports Asia's integration today. The figure shows the main regional and transregional forums supporting Asian integration and emphasizes the fundamental role played by ASEAN in promoting Asia-wide integration, as it is around ASEAN that major groups such as ASEAN+3 and the East Asia Summit are revolving (ADB 2008).

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<sup>1</sup> The crucial constituencies Western European governments sought to placate were the agricultural communities, workers, and dependents of the welfare state. Differences aside, the common solution was to raise wages and ensure full employment, enhance the living standards of the agriculture sector, and establish the modern welfare state (Milward 2000).

<sup>2</sup> In 1993, prominent international relations theorist Ruggie (1993: 4) wrote: "It was not possible to construct multilateral institutional frameworks [in Asia] in the immediate postwar period. Today [in 1993], the absence of such arrangements inhibits progressive adaptation to fundamental global shifts." For Ruggie, the absence of EU-like and/or NATO-like structures, or a Helsinki-like process in post-Cold War Asia essentially means "a reasonably stable balance is the best that one can hope to achieve" in Asia.



**Figure 1: Main Regional and Transregional Forums for Economic Integration in Asia**

Notes: APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN countries plus the People's Republic of China, Japan, and the Republic of Korea; ASEM = Asia-Europe Meeting; CAREC=Central Asia Regional Economic Cooperation; EAS = East Asia Summit (includes ASEAN+3 countries, plus Australia, India, New Zealand, the Russian Federation, and the United States); FSM = Federated States of Micronesia; Lao PDR=Lao People's Democratic Republic; PIF = Pacific Islands Forum; PRC = People's Republic of China; SAARC = South Asian Association for Regional Cooperation.

(i). ASEM includes the European Union as a member.

(ii). PRC's membership in CAREC is focused on the Xingjiang Uygur Autonomous Region.

Source: Authors' update of Figure in ADB (2008).

Designed to foster cooperation on specific issues and solve policy problems, Asia's brand of functional regionalism is largely the consequence of ad hoc premises and rationales, where regional initiatives are formed in response to specific perceived needs (Tan 2010a; Woolcott 2009). This has led to a pan-regional architecture comprising a plethora of arrangements, each oriented toward a particular thematic purpose. For example, APEC focuses on promoting trade liberalization, whereas the ASEAN Regional Forum (ARF) promotes cooperative security and

confidence building with a number of ASEAN dialogue partners (Kesavapany and Lim 2009; Ravenhill 2001; Katsumata 2009; Severino 2009a).

Despite these developments, there is growing concern among some regional stakeholders that while Asian institutions up to now have served the region well—primarily by not getting in the way of market forces—a fair amount of institutional retrofitting is required to ensure and enhance Asia's prosperity, stability, and security. Baldwin, for example, has argued that Asian regionalism is “fragile” since it relies on three inherently unstable factors: (i) intraregional trade; (ii) unilateral liberalization and tariff reductions that are non-binding vis-à-vis WTO regulations; and (iii) the absence of “top-level management” to ensure bilateral trade tensions do not spill over into disputes or, worse, conflict (Baldwin 2008). Baldwin's third point—no overarching, leader-led framework—is a widely-shared concern, most recently highlighted in two former regional leaders' visions for a new regional architecture.<sup>3</sup>

More broadly, the Asian institutional architecture is perceived as fragile because, despite its growing web of regional intergovernmental organizations and groups created by civil society, Asia remains for the most part “institution-light” in the design, resources, delegated powers, extent of legalization, and efficacy of its existing institutions for integration (Evans 2005; Rathus 2010; Tan 2011). Considerably more diverse and widespread geographically than Europe, Asia also has no equivalent of the Franco–German cooperative arrangement—no local version of the Elysée Treaty, that is—on which European economic regionalism stands. Nor is a PRC–Japan rapprochement easily achievable for the foreseeable future, despite the significant roles both countries are expected to play in contributing to the region's post-crisis economic recovery.<sup>4</sup>

### 3. GOVERNING PRINCIPLES

Differences among Asia's regional and subregional institutions aside, they share a number of common features. It is these attributes that have led some skeptical observers to describe Asian regionalism as about process rather than progress (Jones and Smith 2007). Others, looking at the adoption of principles underlying more recent developments such as the Chiang Mai Initiative Multilateralization (CMIM) and the emerging dialogue in providing regional public goods have a more optimistic view (ADB 2010; Kawai 2009).

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<sup>3</sup> Former Australian Prime Minister Kevin Rudd's vision of an “Asia-Pacific Community” and former Japanese Prime Minister Yukio Hatoyama's vision for an “East Asian Community.”

<sup>4</sup> Notably, Hatoyama's proposal for regional architecture had, as a foundation or pillar, PRC–Japan reconciliation and cooperation within (at least for early versions of the proposal) an EU-like organization for East Asia (Soeya 2010).

The idea that Asian regionalism is institution-light is based on a set of governing principles that are usually shared among existing organizations.

First, Asia's regional arrangements tend to emphasize flexibility, informality, and consensus. Although decision-making rules are created to build consensus in a flexible way more than through strict unanimity, the process tends to limit decisiveness.

Second, a general preference for non-binding and unilateral commitments means Asia's regional institutions operate under few explicit procedural rules, and delegate few tasks to standing secretariats. Put another way, their mandates and modalities are largely deliberative and/or advisory rather than distributive and/or regulatory.<sup>5</sup> Notable exceptions include APEC and arguably ASEAN that have introduced a set of targets and rules to govern actions of their members, although their agreements are still non-binding. As a result, the monitoring and enforcement powers of most regional institutions are slender.

Third, regional organizations tend to specify only a few obligations for their members. Accession to regional institutions usually requires few policy changes or commitments. Asian regional institutions typically include all the economies in a given geographical area. This inclusivity is also expressed in terms of "open regionalism"—or regionalism with the least discriminatory component for nonmembers—an idea formally affiliated with APEC's trade liberalization policy, but which also has a security connotation, as evidenced in Asia's security institutions—the ARF and, more recently, the ASEAN Defence Ministers' Meeting Plus Eight (ADMM+8)—designed for engaging the major powers (Garnaut 1996; Acharya 1997; Emmers and Tan 2011).<sup>6</sup>

Fourth, as principally intergovernmental institutions, they tend to center on negotiations among governments rather than delegating authority to common regional or subregional bodies. Non-state actors, be they individuals or corporations, are not directly enfranchised. Here, the doctrines of national sovereignty, noninterference, and nonintervention are often invoked to justify decisions (or their lack of) undertaken that favor national interests over broader concerns.

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<sup>5</sup> Intergovernmental institutions are by and large consultative forums whose mandates are principally declaratory in orientation (that is, deliberative and/or advisory). While intergovernmentalism does not preclude institutions from legalizing (for example, the ASEAN Charter), they lack the power to regulate behavior among their members and to enforce rules, owing to the absence or weakness of compliance mechanisms and/or the strong norms of state sovereignty and nonintervention. On the other hand, supranational institutions (for example, the European Union) are empowered to regulate behavior among their members because of the availability of viable compliance mechanisms (that is, distributive and/or regulatory).

<sup>6</sup> As Singapore Prime Minister Lee Hsien Loong has opined, "the most robust and stable configuration for [Asian] regional cooperation is an open and inclusive one" (IISS 2006). The Plus Eight members are Australia, the PRC, India, Japan, the Republic of Korea, New Zealand, Russia, and the United States.

Fifth, they involve cooperation in specific fields by national governments that retain their sovereignty, rather than the creation and operation of a body or authority transcending those sovereign states. Economics and security are treated as compartmentalized or segmented issue areas. This implies that even though the proliferation of institutions in Asia can be described as web-like, they are not as interlocked as might be imagined.<sup>7</sup> Moreover, these institutions are rarely designed to incorporate links between the two domains.

Sixth, existing institutions for Asian regionalism are thought of as confidence building exercises which aim to create an environment conducive to the cultivation of trust, and, on that basis, facilitate progressive though incremental integration.

The attributes described above have long been associated with the so-called “ASEAN Way”. They have also been referred to as the “Asian Way” or “Asia-Pacific Way”, given their import at the wider regional level (Acharya 1997; Haas 1989). It has also been noted how the ASEAN Way has indirectly influenced other institutions such as the Shanghai Cooperation Organization (Caballero-Anthony 2009). That said, it has been argued that the ASEAN Way is not unique to Asia since its features are common to the conventions that guide interstate relations in other parts of the world; in Severino’s words, the ASEAN Way—for that matter, the governing principles of Asian regionalism—“is actually the way of the world” (Severino 2009b: 6)

While the so-called way of the world has hitherto served Asia well, there is growing acknowledgement among regional stakeholders that the existing regional architecture and its underlying conventions require revamping to address its fragility. But precisely what changes are needed, and how to achieve them, are crucial questions that will likely figure prominently in academic and policy debates on the future of Asia’s regional architecture and its governing principles.

## **4. TAXONOMY OF ASIA’S INSTITUTIONS FOR REGIONALISM**

An ADB study (ADB 2010) conducted an inventory of Asia’s intergovernmental organizations engaged in promoting regional integration. The list covers 40 institutions located in Asia’s subregions (Table 1). This list includes institutions from four of Asia’s subregions (Central, South, Southeast, and Northeast) and the Pacific. It also distinguishes between subregional, intraregional, pan-Asian, and transregional institutions and it divides institutions into three

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<sup>7</sup> Put another way, there is little or no clustering of existing institutions that would allow for tactical links among issues and the consequent reduction of transaction costs. (Keohane 1984; Young 1999).

categories (overarching, functional, facilitating) according to the role they play in promoting Asia's integration.<sup>8</sup>

*Overarching* institutions are "...umbrella arrangements with comprehensive purviews. They may be based on a vision of an integrated regional economy and creating a single regional market and regional community" (ADB 2010). They are typically set up to promote the idea of integration and regionalism in a number of areas and functions, and in the case of Asia their understanding of regionalism is usually inclusive. Most overarching institutions hold regular summits involving the heads of states or governments of their member countries and have established secretariats that coordinate their activities and link them with their constituting member agencies. The ADB study found, however, that in most cases these secretariats are not receiving enough delegated powers and human and financial resources from their members.

Usually these institutions have a body of normative frameworks that legitimize their existence, provide their governing principles, and specify the realm of their activities. They also have various forms of feedback mechanisms to inform about their performance. At the subregional level, examples of overarching institutions include ASEAN in Southeast Asia and SAARC in South Asia; at the intraregional level, the ADB list includes ASEAN+3 and the East Asia Summit (EAS); while APEC and the Asia–Europe Meeting (ASEM) can be cited as two prominent examples of overarching institutions at the transregional level.

*Functional* institutions are arrangements focused on specific areas of cooperation and in some cases following a highly technical agenda. The spectrum of their activities is narrower than that of overarching institutions, while their aim is to internalize regional spillovers through collective action, to adopt common standards, and to share best practices.<sup>9</sup> Although functional institutions may lack a comprehensive vision for integrating their region beyond their specific sector, they represent an essential element of regionalism as they provide a unique ground for the region to come together on relevant technical areas underpinning wider integration projects.

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<sup>8</sup> Following ADB's classification, subregional institutions are those covering all or part of respective subregions; intraregional institutions cover at least two but not all subregions; pan-Asian institutions are those covering all Asia's subregions; and transregional institutions are those that link Asia to other regions of the world.

<sup>9</sup> An important qualification here is that most Asian institutions for integration are functional or issue-specific in orientation—true whether they are overarching, functional (as in this understanding), or facilitating arrangements.

**Table 1: List of Institutions for Regionalism in Asia and the Pacific**

<b>TRANSREGIONAL (7)</b>	
Overarching (4)	Asia-Europe Meeting (ASEM); Asia-Pacific Economic Cooperation (APEC); Eurasian Economic Community (EurAsEC); Forum for East Asia–Latin America Cooperation (FEALAC)
Functional (3)	ASEAN Regional Forum (ARF); Indian Ocean Rim Association for Regional Cooperation (IORARC); Shanghai Cooperation Organization (SCO)
<b>PAN-ASIAN (2)</b>	
Facilitating (2)	Asian Development Bank (ADB); UN Economic and Social Commission for Asia and the Pacific (ESCAP)
<b>INTRAREGIONAL (10)</b>	
Overarching (2)	ASEAN plus the PRC, Japan, and Republic of Korea (ASEAN+3); East Asia Summit (EAS)
Functional (8)	ASEAN+3 Macroeconomic Research Office (AMRO); Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC); Central Banks of Southeast Asia, New Zealand, and Australia (SEANZA); Coral Triangle Initiative (CTI); Credit Guarantee and Investment Facility (CGIF); Economic Cooperation Organization (ECO); Executives' Meeting of East Asia-Pacific Central Banks (EMEAP); Network of Asian River Basin Organizations (NARBO)
<b>SUBREGIONAL (21)</b>	
<b>Central Asia (3)</b>	
Functional (3)	Central Asia Regional Economic Cooperation (CAREC); International Fund for Saving the Aral Sea (IFAS); UN Special Programme for the Economies of Central Asia (SPECA)
<b>South Asia (4)</b>	
Overarching (1)	South Asian Association for Regional Cooperation (SAARC) <sup>a</sup>
Functional (3)	Bay of Bengal Programme Inter-Governmental Organisation (BOBP-IGO); South Asia Co-operative Environment Programme (SACEP); South Asia Subregional Economic Cooperation (SASEC)
<b>Southeast Asia (6)</b>	
Overarching (1)	Association of Southeast Asian Nations (ASEAN) <sup>b</sup>
Functional (5)	Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP–EAGA); Greater Mekong Subregion Economic Cooperation Program (GMS); Indonesia–Malaysia–Thailand Growth Triangle (IMT–GT); Mekong River Commission (MRC); South East Asian Water Utilities Network (SEAWUN)
<b>Northeast Asia (2)</b>	
Overarching (1)	Trilateral Summit (TS)
Functional (1)	Greater Tumen Initiative (GTI)
<b>Pacific (6)</b>	
Overarching (1)	Pacific Islands Forum (PIF)
Functional (5)	Forum Fisheries Agency (FFA); Pacific Islands Applied Geoscience Commission (SOPAC); Secretariat of the Pacific Community (SPC); South Pacific Regional Environmental Programme (SPREP); South Pacific Tourism Organisation (SPTO)

Notes:

<sup>a</sup> Since 2005, SAARC has launched many cooperation centers, programs, and initiatives. These include the SAARC Agricultural Information Centre, the SAARC Audio Visual Exchange Committee, the SAARC Coastal Zone Management Centre, the SAARC Development Fund, the SAARC Disaster Management Centre, the SAARC Documentation Centre, the SAARC Energy Centre, the SAARC Food Bank, the SAARC Forestry Centre, the SAARC Human Resource

Development Centre, the SAARC Meteorological Research Centre, the SAARC Tuberculosis and HIV/AIDS Centre, the South Asian University, and the South Asian Growth Quadrangle.

<sup>b</sup> A number of cooperation programs and initiatives operate under the ASEAN umbrella. These include the ASEAN Centre for Biodiversity, the ASEAN Centre for Energy, the ASEAN Centre for the Development of Agricultural Cooperatives, the ASEAN Coordinating Centre for Transboundary Haze Pollution, the ASEAN Council on Petroleum, the ASEAN Earthquake Information Centre, the ASEAN Foundation, the ASEAN Insurance Training and Research Institute, the ASEAN Intergovernmental Commission on Human Rights, the ASEAN Specialized Meteorological Centre, and the ASEAN University Network.

Source: ADB staff based on field interviews.

Functional initiatives tend to focus on a limited geographical area, although some of them have been known to deemphasize geography and, in so doing, potentially impede any regionalizing imperative (Hurrell 1995). They deal exclusively with economic and/or development matters (such as trade, investment, finance, labor, infrastructure, and socioeconomic issues) that are to a large extent “depoliticized” (Tan 2009). Some of Asia’s functional institutions enjoy a measure of delegation, particularly those in South Asia, whereas many of those in Southeast Asia are more properly considered “offshoots” under the hierarchy and purview of ASEAN. The ADB list includes functional institutions in Asia and the Pacific. At the subregional level, there are initiatives such as the Central Asia Regional Economic Cooperation (CAREC), the Greater Mekong Subregion (GMS) Economic Cooperation Program, the Greater Tumen Initiative (GTI), and the South Asian Subregional Economic Cooperation (SASEC). Examples of intraregional functional institutions include the ASEAN+3 Macroeconomic Research Office; the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; the Coral Triangle Initiative; the Economic Cooperation Organization; the Executives’ Meeting of East Asia-Pacific Central Banks; and the Network of Asian River Basin Organizations.

Asia’s *facilitating* institutions for regionalism are the United Nations (UN) Economic and Social Commission for Asia and the Pacific (ESCAP) and ADB. These two organizations play a unique role as “service providers” to their member economies and their national and regional institutions to facilitate regional cooperation and integration. They can mobilize large funds from their internal programs and tap from sizable pools of resources from their partners and affiliates, due to the high level of reputation they command. Typically, they provide advisory, administrative, technical, and financial support. In subregions where overarching institutions are either weak or nonexistent, facilitating agencies play key roles in helping functional institutions contribute to regional cooperation and integration acting as catalysts and coordinators—or honest brokers—for regional initiatives, as capacity builders, and as providers of knowledge and information on regionalism, in addition to their role as funders of regional projects.<sup>10</sup>

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<sup>10</sup> It is important to stress that neither ADB nor ESCAP make strategic decisions on regionalism, which are the purview of their member countries’ governments and (to some extent) overarching institutions, striving instead to

The limited remit and scope of this study does not permit an investigation into all three categories of Asian institutions. What the following discussion seeks to do is to look at select illustrations of overarching and functional institutions focused on East and South Asia.

## 5. OVERARCHING SUBREGIONAL INSTITUTIONS: COMPARING ASEAN AND SAARC

Two examples of overarching institutions are the subregional organizations operating in Southeast and South Asia: ASEAN and SAARC. These institutions have certain similarities as they both are intergovernmental arrangements operating in two large and dynamic subregions. Their decision-making structures are largely consensus-based, and their general approach is to adopt voluntary initiatives that are not legally binding. Their functions are typically related to advisory, non-deliberative roles, and they are (relatively) short on power delegation from their member countries. Nevertheless, these institutions display interesting differences.

ASEAN, established in 1967, is much further ahead than SAARC in terms of regional cooperation outcomes. In 1992, ASEAN leaders established the ASEAN Free Trade Area (AFTA); in 2003 they took the bold decision to create an ASEAN Economic Community (AEC) by 2015 (originally 2020).<sup>11</sup> In 2005, ASEAN leaders proposed the formulation of an ASEAN Charter, which was formally adopted in November 2007, establishing ASEAN as a rules-based institution with some binding legal obligations.

On the other hand, launched in 1985, SAARC, created as “an act of faith”<sup>12</sup> given the initial lack of any shared interest and/or aversion among its member countries, has shown fewer results than its Southeast Asian counterpart. From a 1993 agreement to gradually lower tariffs among member economies, leaders devised the South Asian Free Trade Agreement (SAFTA) in 2004, which entered into force four years later. However, SAFTA has been hampered by issues such as overall low intraregional trade ratios and an increasing income gap, Pakistan’s refusal to extend most favored nation (MFN) status to India, and subregional grievance against India’s imposition of nontariff barriers to trade. Bilateral tensions and conflicts, with the Indo–

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ensure that ownership of the programs and initiatives they finance and support rests with governments themselves.

<sup>11</sup> In addition to the AEC by 2015, ASEAN aspires to establish the ASEAN Political–Security Community (APSC, formerly known as the ASEAN Security Community or ASC), and ASEAN Socio–Cultural Community (ASCC). Taken together, the AEC, APSC, and ASCC will form the three pillars of the ASEAN Community.

<sup>12</sup> Indian Prime Minister Rajiv Gandhi’s description of SAARC’s creation at the first SAARC Summit in Dhaka in 1985 (Cherunilam 2008: 343).



Pakistani conflict being the most troublesome, have significantly impeded effective subregional cooperation.

Both institutions' secretariats, whose remits have principally been to furnish administrative support rather than been invested with powers of delegation, continue to be funded by very small budgets and did not aim to create regional bureaucracies promoting a more independent agenda for integration beyond the scope provided by intergovernmental cooperation structures. In the 1980s, ASEAN's iconic projects were managed by committees, but these were not given responsibility over the growing economic interactions and integration in the Southeast Asian region that was in effect driven largely by trade liberalization policies adopted by individual member countries. ASEAN has been able to enhance its secretariat, however, with the adoption of the charter and other initiatives to expand its institutional function. The charter was also an important step to improve ASEAN's compliance mechanisms, streamline its decision-making structure, and strengthen its dispute-settlement mechanism.

But several important factors continue to limit its role such as the principle of equal contribution to the secretariat's budget and the fact that it cannot take any major proposal or initiative without the full consent of member countries' government officials, be it in the form of its senior officials' meetings, senior economic officials' meetings, or high-level task force.<sup>13</sup> Delegation to the secretariat is limited to managing the dispute settlement mechanism and monitoring the implementation of the ASEAN Economic Community (AEC) Blueprint. This suggests that despite the progress made towards a rules-based regionalism, ASEAN remains robustly intergovernmental, with little delegation since it relies on "offshoots" rather than independent agencies to implement policy. An independent review recently conducted by the secretariat suggested that only about 30% of the regional cooperation initiatives taken by ASEAN over the years have been actually implemented, raising a critical question over the effectiveness of the organization and providing an additional motivation for introducing further institutional reforms and innovation (Desker 2008).

As an intergovernmental institution, SAARC adopted an organizational structure similar to ASEAN's during its early years. A council of foreign ministers, assisted by a standing committee of senior officials, is entrusted with the formulation of policies, review of progress, and making decisions on new areas of cooperation, as well as the establishment of mechanisms that are deemed necessary. Much like ASEAN's committees, SAARC technical committees (or committees of experts) have been established to implement, coordinate, and monitor progress of its integration projects (Raghavan 1995). These committees focus their activities on infrastructure, science and technology, human development, and energy.

From a longstanding supporting role, SAARC secretariat's agenda has expanded to include coverage of issues such as regional connectivity and human development, as well as policy coordination in response to the 2008–2009 global financial crisis. But the implementation of

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<sup>13</sup> On the limitations of the ASEAN Secretariat, pre- and post-charter, see Severino (2006).

SAARC's heralded iconic project, the South Asia Free Trade Area (SAFTA) is lagging behind. At the same time, however, a key innovation in SAARC is the creation of "regional centers"—thirteen currently exist—that focus on specific programs to facilitate regional cooperation at the ground level. Interestingly, the capital cost and administrative budget of each regional center are borne by the respective host country, while program budgets are shared by all member governments in proportion to their gross domestic product (GDP). The centers are overseen by the secretariat, which reports on their activities to the summit. The activities are approved by the program committee and the summit, whereas implementation responsibility rests with host country governments. This suggests that while concrete results in terms of closer regional integration may still take time to be seen, SAARC has made progress in its governance structure, as there is—on paper—a rather extensive delegation of responsibilities to separate institutions (Baru 2009).

ASEAN clearly leads SAARC in overall economic integration. The introduction of the AEC Blueprint, accompanied by a system of score cards to monitor members' compliance with their commitments to move along the creation of a common ASEAN market have created a momentum. ASEAN's participation in the Group of Twenty (G20) meetings, albeit still as an observer, has further promoted the pivotal role it is playing to support wider Asian integration. However, SAARC has shown more innovation in delegation than ASEAN, whose structures and governing principles remain robustly intergovernmental.<sup>14</sup> That said, that there is an upside to ASEAN's centralism, not least in its ability as an institution led by leaders to push through bold initiatives such as AFTA.

## **6. FUNCTIONAL INSTITUTIONS: LESSONS FROM GMS, BIMSTEC, AND AMRO**

Functional economic initiatives in Asia have been most prominent in the areas of trade and investment, infrastructure and connectivity, as well as finance. We focus on three examples from East and South Asia: the Greater Mekong Subregion (GMS), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the ASEAN+3 Macroeconomic Research Office (AMRO). While the GMS is becoming an iconic example of successful subregional cooperation and can be used as a reference case for other institutions, BIMSTEC is relevant to show how functional cooperation can assist linking two of Asia's five main subregions: East and South. Finally, AMRO represents a unique example of institutional

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<sup>14</sup> An important exception to an otherwise delegation-challenged ASEAN is its various "growth area" initiatives. These include the Indonesia–Malaysia–Thailand Growth Triangle (IMT–GT) and the Brunei–Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP–EAGA) that were inspired by an earlier initiative among Indonesia, Malaysia, and Singapore (SIJORI) and have been endorsed by ASEAN officials.

innovation in the area of financial cooperation that can be used as a blueprint for innovation and reform in other functional areas as well.

Launched by ADB in 1992, the GMS is a program aimed at facilitating economic development of the territories along the Mekong river basin, which extends from Yunnan Province and the Guangxi Zhuang Autonomous Region in the PRC, to Myanmar, Thailand, the Lao People's Democratic Republic, Cambodia, and Viet Nam. Two decades from its inauguration, the GMS today adopts a comprehensive approach to regional integration, covering activities from developing infrastructure, to promoting strategic industries, fostering the private sector, protecting the environment, and building capacity through specific training programs. Its institutional structure has also evolved and in addition to yearly ministerial conferences, since 2002 a GMS leaders' summit has been organized every three years.<sup>15</sup>

A feature of GMS has been a focus on following a bottom-up approach, driven by local authorities and communities more than by national governments, and establishing economic links among its members. Although ADB has continuously provided financial and technical support, the GMS institutional structure is directly organized by its member countries. Local constituencies have proposed and introduced new initiatives and funding has been sourced from member countries and international donors. As a result, the GMS has successfully narrowed the income gap and promoted a closer sense of community among its members. It is often cited as an example of successful subregional integration.

Created in 1997 from a Thai proposal to establish a link between Southeast and South Asia for promoting economic development through the implementation of technical cooperation projects among neighboring countries, BIMSTEC can be seen as the coming together of the "Look West" policy of Thailand and the "Look East" policy of India (Devi 2007). The group, comprising five SAARC countries (Bangladesh, Bhutan, India, Nepal, and Sri Lanka) plus Myanmar and Thailand, promotes technical cooperation in 14 priority sectors, each led by members on a voluntary basis.<sup>16</sup>

The development of cross-border infrastructure, especially for transport and logistics, is a key area of BIMSTEC cooperation. ADB, which became a BIMSTEC development partner in 2005, has assisted the group to promote and improve transportation infrastructure and logistics among its members. A trade negotiations committee was also established in 2004 to pave the

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<sup>15</sup> The first GMS leaders' summit was organized in 2002 in Phnom Penh, Cambodia, the second one in 2005 in Kunming, PRC, and the third one in 2008 in Vientiane, Lao People's Democratic Republic.

<sup>16</sup> Traditional priority sectors for BIMSTEC cooperation, agreed at its inception in 1997 are: (i) trade and investment, (ii) transport and communication, (iii) energy, (iv) tourism, (v) information technology, and (vi) fisheries. The following sectors were added at the ministerial meeting in 2005: (vii) agriculture, (viii) public health, (ix) poverty alleviation, (x) counter-terrorism and transnational crime, (xi) environmental protection and natural disaster management, (xii) cultural exchanges, (xiii) people-to-people contact; while (xiv) climate change was eventually added as the fourteenth priority sector at the ministerial meeting in 2009.

way for an eventual free trade area although some observers do not foresee this development as likely to happen in the near future. BIMSTEC has no secretariat and its activities are coordinated by an office located in the Thai Foreign Ministry, but preparations are currently being made for the establishment of a permanent secretariat that could be in Bangladesh or Sri Lanka, as both have offered to serve as host countries.

In the area of regional financial cooperation, two of the main initiatives that emerged from the Economic Review and Policy Dialogue started by the ASEAN+3 countries after the Asian financial crisis of 1997–1998 are the Chiang Mai Initiative (CMI) and its multilateralization (CMIM), and the Asian Bond Markets Initiative (ABMI) (ADB 2008; Arner 2009; Gochoco-Bautista 2009; Capannelli 2011).<sup>17</sup> We discuss below the CMIM and the corollary decision to set up a regional surveillance agency under the AMRO, as it shows the ability of Asian governments to introduce an institutional innovation as an ASEAN+3 offshoot, with potential important implications for the future of regional economic cooperation.

The United States (US) veto to the creation of an Asian Monetary Fund (AMF), proposed by Japan in reaction to the 1997–1998 Asian financial crisis, led to the strengthening of Asia's financial cooperation. In particular, the first objective of Asian countries was to insure themselves against the recurrence of a similar, devastating crisis and taking from an existing ASEAN swap agreement introduced in 1978, they set up the CMI, or a system of bilateral currency swaps among regional monetary authorities to provide short-term liquidity to countries in immediate need. Launched in 2000, the CMI has expanded and the system of bilateral swap agreements was multilateralized in 2008, creating a common pool of regional funds—the CMIM—governed by a single contract and collectively managed by the ASEAN+3 countries (ADB 2010).

The ASEAN+3 finance ministers agreed at their 2009 meeting in Bali, Indonesia, on the main CMIM components, such as individual country contributions, borrowing accessibility, and the introduction of a regional surveillance mechanism to ensure that borrowers of CMIM funds would have enough capacity to repay their debt.<sup>18</sup> The size of its reserve pool was first increased from \$80 billion to \$120 billion, and in March 2012 it was doubled to \$240 billion with ASEAN countries bearing 20% of the fund's contributions and the other 80% borne by the “Plus Three” countries. In particular, the intergovernmental resolution on the contribution shares of the PRC, Japan, and the Republic of Korea is grounded on an excellent outcome of financial diplomacy as Asia's two largest economies—the PRC and Japan—agreed to perceive themselves as equally sized, while allowing the Republic of Korea to position itself as holding a share equal to half of the two. The 80% contribution share of the Plus Three countries was in

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<sup>17</sup> The ABMI, which was officially launched in 2003, aims to help recycling Asian savings into Asian investment by promoting the development of local currency-denominated bond markets, facilitating greater accessibility to the regional bond markets, and enhancing market infrastructure.

<sup>18</sup> The CMIM officially came into effect on 24 March 2010.

fact equally divided between Japan and the PRC, which hold a 32% share each in the CMIM, with the Republic of Korea contributing the remaining 16% (Capannelli 2011).<sup>19</sup>

The small country bias in favor of the Republic of Korea is used as a more general principle in the governance of CMIM to not only allocate the 20% contribution shares among the ASEAN countries, but also—and more importantly—to decide the multiplier used to determine the actual quota that each country can borrow, based on its financial contribution. As Table 2 shows, while the multiplier for large economies such as the PRC and Japan is only 50% of their financial contributions, the smaller ASEAN economies can borrow from the CMIM five times as much their financial contributions. And in terms of voting power, the ASEAN countries collectively command a 28.41% share of the total, which is relatively higher than their collective share of financial contributions (20%).

Another important innovation introduced with the CMIM is a departure from a decision-making structure based uniquely on consensus to adopt a more flexible system allowing for a two-thirds qualified majority in the case of operational (lending) matters, while decisions on fundamental issues, such as agreements on the terms of lending, reviews of borrowing multipliers, membership, size, and IMF conditionality ratios, continue to be taken by consensus among the ASEAN+3 members. The CMIM voting shares also reflect a determination not to allow any of the Plus Three countries individually, nor all ASEAN countries together, to hold a veto power on decision making.

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<sup>19</sup> The PRC share is actually divided between a 28.5% contribution from the PRC and a 3.5% contribution from Hong Kong, China. Due to the nature of the CMI, based on the accumulation of foreign exchange reserves by Asian countries to be mobilized in case of short-term liquidity needs, representatives of the Hong Kong Monetary Authority have continuously shared a presence in CMI meetings with representatives from the People's Bank of China.

**Table 2: Updated Financial Contributions, Borrowing Arrangements, and Voting Power under the CMIM (after total size increase to \$240 billion)**

Members	Financial Contributions		Borrowing Arrangements		Voting Power			
	\$ billion	% share	Multiplier	Quota: Maximum Swap Amount (\$ billion)	No. of Basic Votes	No. of Votes Based on Contributions	Total No. of Votes	% share
PRC (includes Hong Kong, China)	76.800	32.000						28.410
PRC (excludes Hong Kong, China)	68.400	28.500	0.50	34.20	3.200	68.400	71.600	25.430
Hong Kong, China	8.400	3.500	2.50	6.30	0.000	8.400	8.400	2.980
Japan	76.800	32.000	0.50	38.40	3.200	76.800	80.000	28.410
Republic of Korea	38.400	16.000	1.00	38.40	3.200	38.400	41.600	14.770
<b>Plus Three Countries</b>	<b>192.000</b>	<b>80.000</b>			<b>9.600</b>	<b>192.000</b>	<b>201.600</b>	<b>71.590</b>
Brunei Darussalam	0.060	0.025	5.00	0.30	3.200	0.060	3.260	1.158
Cambodia	0.240	0.100	5.00	1.20	3.200	0.240	3.440	1.222
Indonesia	9.104	3.793	2.50	22.76	3.200	9.104	12.300	4.369
Lao PDR	0.060	0.025	5.00	0.30	3.200	0.060	3.260	1.158
Malaysia	9.104	3.793	2.50	22.76	3.200	9.104	12.300	4.369
Myanmar	0.120	0.050	5.00	0.60	3.200	0.120	3.320	1.179
Philippines	9.104	3.793	2.50	22.76	3.200	9.104	12.300	4.369
Singapore	9.104	3.793	2.50	22.76	3.200	9.104	12.300	4.369
Thailand	9.104	3.793	2.50	22.76	3.200	9.104	12.300	4.369
Viet Nam	2.000	0.833	5.00	10.00	3.200	2.000	5.200	1.847
<b>ASEAN</b>	<b>48.00</b>	<b>20.00</b>			<b>32.00</b>	<b>48.00</b>	<b>80.00</b>	<b>28.41</b>
<b>ASEAN+3</b>	<b>240.00</b>	<b>100.00</b>			<b>41.60</b>	<b>240.00</b>	<b>281.60</b>	<b>100.00</b>

ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus the PRC, Japan and the Republic of Korea;

Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Source: ASEAN+3 Macroeconomic Research Office.

The decision to create the AMRO was officially made at the ASEAN+3 finance ministers meeting in May 2010. The mandate of this new institution, set up in Singapore in 2011, is to conduct regional macroeconomic and financial surveillance to ensure that borrowing countries can meet the repayment conditions of their debt. While some observers have noted that the combination of a regionally pooled fund of international reserves and a regional surveillance agency is similar to the de-facto creation of an AMF, more than a decade after the original Japanese proposal, others tend to stress the complementary relationship that the CMIM–

AMRO combination will have with the IMF in its functions as both a financial crises-rescuing agency as well as a global and national macroeconomic surveillance institution (Kawai 2009; Capannelli 2011).<sup>20</sup>

The creation of the AMRO could indeed serve as a stepping-stone to the formation of an AMF. However, a fundamental issue concerns whether the AMRO will be able to build up its reputation as a technically solid and independent agency with strong macroeconomic surveillance capabilities. In particular, there is the need to develop an appropriate regulatory mechanism that could insulate the distinctive forms of state-led capitalism present in some of its members from the undesirable economic and political impacts of participation in the global political economy, while allowing them to take advantage of its benefits (Beeson 2003). The issue is basically whether the AMRO will be able to deliver as and when called upon for regulatory cooperation, standard harmonization, enhanced transparency, and multi-level governance, and more specifically to provide the surveillance and review process that a successful CMIM requires.

The success of the CMIM itself is yet to be tested as so far no country has applied for borrowing from the regional pool of reserves. For example, when both the Republic of Korea and Singapore needed liquidity support during the recent global financial crisis towards the end of 2008, they opted to request bilateral credit lines from the US Federal Reserve, the Bank of Japan, and the People's Bank of China instead of seeking to mobilize CMIM funds, which raises issues related to the appropriateness of the fund size. Other challenges facing the CMIM development concern the possible expansion of its membership, as countries such as India, for example, have repeatedly manifested a keen interest to be brought in, as well as a possible diversification of its activities, from emergency lending to the issuance of different financial assets which could eventually lead the CMIM and the AMRO to develop into a proper AMF, as a regional fund for monetary cooperation.

## **7. STRENGTHENING ASIA'S INSTITUTIONAL ARCHITECTURE THROUGH INNOVATION AND REFORM**

Referring to regionalism and the shaping of Asia's institutional architecture, a former top diplomat from the Republic of Korea, Han Sung-Joo, once mused, "Although it is underdeveloped, regionalism in Asia is complicated enough" (Evans 2005: 195).

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<sup>20</sup> The relationship between CMIM arrangements and the IMF is the subject of debate as under the current CMIM settings, any borrowed amount that exceeds 20% of a country's quota is subject to IMF conditionality measures to avoid moral hazard. Several observers have argued in favour of an elimination of this IMF linkage.

The array of Asia's institutions for regionalism has emerged as a result of ad hoc decisions undertaken by policymakers in response to perceived, narrow functional expectations, be they economic or security in orientation. The shaping of these institutions did not follow a regional grand design like in the case of the European Union. While the existing regional architecture has served the region well so far, the pressing challenges wrought by globalization and transnationalism have made clear that its current structure is insufficient to guarantee the continued success of the regions' economies in a way that is sustainable, equitable, and compatible with global structures.

Indeed, the rapid proliferation of regional institutions in Asia since the financial crisis of 1997–1998 is the consequence of regional stakeholders' efforts to meet emerging challenges. Although more institutions for regional integration may be needed to perform functions which national agencies are not yet ready to delegate to regional organizations, there is a need to enhance existing institutions through an appropriate process of reform and innovation in order to make them more suitable to organize and sustain a regional agenda in the future. Of course, whenever existing institutions have fulfilled their mandate or become redundant, they should be phased out.

A prominent policy intellectual recently lamented: "...The Asia Pacific region has too many organizations, yet they still cannot do all the things we require of them. Instead of focusing on what we've got, we should look at what we need." (Gyngell 2007: 1).

But it is difficult to develop and agree on a set of objective criteria that can be used to assess the performance of regional institutions and suggest when it is time for them to be disbanded.

According to US Secretary of State Hillary Clinton, Asia needs an institutional architecture that maximizes Asia's prospects for effective cooperation, builds trust among Asians, and reduces the friction of competition (Clinton 2010). But the what, how, and how much remain hotly debated considerations. Whether the future of Asia's institutional architecture for regional integration is to be found in the European model—with a region-wide council of ministers, a commission, a parliament, and a court of justice—is a proposition many know as misleading because Asia and Europe are two completely different entities, with distinct backgrounds, histories, endowments, socio-political structures, and economic systems. While the European Union remains an inspiration for many regionalists, it can hardly be used as a model for Asia (Capannelli and Filippini 2010). In addition, the problems that are currently affecting the euro area economies, are casting a shadow in the eyes of many Asian analysts over the effectiveness of regional solutions.

Against this backdrop, it is important to look at three concerns that institutions for Asian integration need to address to effectively spread the benefits of regionalism beyond "Factory Asia": (i) bottom-up cooperation; (ii) institutions' lightness; and (iii) elite regionalism.<sup>21</sup>

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<sup>21</sup> These considerations are discussed in Tan (2011).



Ironically, these same factors have hitherto facilitated Asia's integration, but have now either become or are becoming hindrances to further progress.

## 7.1 Beyond Bottom-up Regionalism

### *Establish a leaders-led regional architecture*

Asia is deemed fragile because its proclivity for unilateralism and non-regulation, as well as its lack of what Baldwin called “top-level management” (Baldwin 2008). It bears repeating that both the Rudd and Hatoyama proposals for a new regional architecture called for a single, overarching super-institution that would serve as a kind of “one-stop shop” for all things in Asia. In a similar vein, a taskforce on regional institutional architecture convened by the Pacific Economic Cooperation Council (PECC) called for the establishment of an “Asia-Pacific Summit” comprising the 21 APEC member countries and India for high-level discussions on key issues. The PECC report also urged the creation of a “Group of Ten” (G10), an informal caucus consisting of the Asia-Pacific members of the G20, which could ostensibly voice the collective concerns of all Asia-Pacific countries (Soesastro, Gyngell, Morrison, and Wanandi 2009).

Despite ASEAN's wariness against stakeholders' recent promulgation of regional visions without prior consultation with ASEAN, the inclusion of the US and Russia in the East Asia Summit (EAS) has effectively turned the EAS into a de facto, top-tier institution. This could be the first step toward an overarching, leaders-led arrangement that would furnish the visionary guidance and “marching orders” for other proposed elements of the regional architecture. Key to this step would be the establishment of the Comprehensive Economic Partnership for East Asia (CEPEA), an ASEAN+6 plan that links the ASEAN+3 economies with those of India, Australia, and New Zealand. That said, others have argued that the EAS would benefit from the joint pursuit of the CEPEA as well as the East Asia Free Trade Area (EAFTA), which encompasses only the ASEAN+3 countries.<sup>22</sup> Needless to say, a stable regional order will be crucial to such developments. The disagreements between the PRC and Japan in 2004–2005 over the inclusion of Australia, India, and New Zealand in the EAS serve as a somber reminder that no viable “top-level management” would be possible without the ability and willingness of the big powers—the PRC, Japan, India, the Russian Federation, and the US—to find common ground and agree to work together. On the other hand, whether ASEAN is prepared to countenance the prospect for such an institutional hierarchy over the extant variable geometry is a key consideration, particularly if ASEAN is not included within that management.<sup>23</sup>

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<sup>22</sup> Singapore's Prime Minister Lee Hsien Loong made this observation (Tan 2010b).

<sup>23</sup> ASEAN members' dismay over the Rudd proposal, an early incarnation of which relied on a concert of powers without a key role for ASEAN, is a telling illustration. If anything, it could be argued that variable geometry and a

Ultimately, what is needed is a structure for improving coordination of the initiatives of different subregional groups, reassuring other Asian countries about the intentions of those intent on pushing ahead with deeper integration, and providing a structure for fostering relations between integrating Asia and extra-regional powers. More likely, this need is best met through revamping existing institutions rather than creating new ones.

*Streamline and synergize by forming clusters and linking issues*

Although Asia is no longer short on regional institutions, as the ADB study has well documented, the density, deepening, and intrusiveness of its architecture remains without a comprehensive region-wide vision. But even if Asia were to tread its own path for pan-regionalism, the concern is that more efficacy and effectiveness is needed of its institutions. Some experts believe Asia has too many institutions that do not get the job done. They call for practical reform of those arrangements in line with the concern for overall architectural coherence. Proposed reforms include, among other things, clarifying and streamlining institutional roles and responsibilities. On the other hand, other experts argue for reclaiming the APEC mandate as an economic forum focused primarily on trade liberalization and investment—and, by implication, preserving the compartmentalization—and strengthening those institutions as problem-solving or action-oriented mechanisms rather than just talk shops.

The persistent compartmentalization of issues in the existing regional architecture of Asia is counterintuitive in the light of the growing complexity and comprehensiveness of regional challenges posed by globalization and transnationalism. Issues like trade and finance, health and humanitarian concerns, and climate-related matters, can no longer be treated as separate from security concerns. The deliberate clustering of issues where tactical linkages can and should be made between and across institutions may be the way ahead in overcoming the silos that result from compartmentalization and segmentation. In this regard, the “whole-of-government” and “whole-of-society” strategies being adopted by some Asian countries in dealing with today’s challenges suggests that concerted efforts are being undertaken. How these logics could serve as a guide for Asian regionalism is a key consideration.

*Foster closer links with global institutions and frameworks*

Asia can take better advantage of global institutions and conventions. Asian economies are closely integrated with the rest of the world; Asia is the paradigmatic “open region.” Fully exploiting the potential for regional economic integration therefore requires removing remaining barriers to cross-border competition in the region in ways that are compatible with Asia’s economic links with other parts of the world. Building on existing global institutions and conventions is an obvious way of achieving this result.

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fragmented and incoherent regional architecture benefits ASEAN since that renders difficult any attempt by any major power to control and define the regional process.

## 7.2 Beyond Institutions' Lightness

### *Establish binding agreements*

A limitation has to do with the default diplomatic and security model employed in Asian regionalism. A diplomatic convention that makes few to no demands on membership commitments, displays no precise and binding obligations, privileges consensus rather than decisiveness and favors noninterference, despite its usefulness in the early phases of Asian regionalism, is likely to be insufficient for overcoming emerging obstacles to deeper integration. Essentially, it preserves rather than revises the regional status quo. For sure, it is unrealistic to assume Asian institutions are prepared to make fundamental changes overnight. But the political commitment to introduce structural reforms by way of an evolutionary roadmap should be instituted—and, importantly, adhered to.

### *Improve regional institutions' governance and endowments*

These would include strengthening institutions' secretariats and creating efficient regional bureaucracies also by dedicating more human and financial resources, establishing clearer membership rules and adopt more majority voting, and delegating more responsibilities and powers from national agencies to common regional institutions.

### *Maintain institutional flexibility*

A key part of streamlining existing regional institutions involves the dismantling of unproductive (or indeed counterproductive) organizations and various types of groups. Some overarching institutions have been described as little more than talk shops. That said, dialogue contributes to the building and sustaining of normative frameworks that play legitimating functions. Some functional institutions have also been consistently ineffective in meeting their economic targets. Policymakers will need to exercise judiciousness in deciding if any arrangement deserves to be discarded. At the same time, under-performing institutions could serve to meet the region's needs in other ways. In an era of economic uncertainty, strategic and tactical flexibility could prove to be a very important quality, and what seems a liability today could prove to be an asset tomorrow.

By the same token, countries should continue to develop institutions designed to exploit compelling functional opportunities. Subgroups of Asian countries stand to reap disproportionate benefits from functional initiatives that address their specific needs. Rather than waiting for the emergence of pan-Asian agreements, they can continue to push ahead on their own in groups of interested governments or at the subregional level, developing specialized institutional arrangements capable of exploiting these compelling opportunities. That said, even at the regional level, the creation of functional arrangements such as the CMIM and the AMRO is a good sign that the region is prepared to move things forward.

### 7.3 Beyond Elite Regionalism

#### *Encourage and nurture participatory regionalism*

Another limitation has to do with the elitism inherent in Asia's exclusively intergovernmental brand of regionalism. European regionalism is not free of elitist propensities either; indeed, whether one takes the "institutional" or "intergovernmental" side of the debate on European integration, the power of Europe's international secretariats as a key driver of regional integration is more or less assumed (Puchala 1999).<sup>24</sup>

By and large, Asia has precluded the inclusion of principles pivotal to European regionalism, such as subsidiarity, proportionality, pooled sovereignty, distribution of competences, delegation of powers, and enfranchisement of non-state actors. Certainly, Asia may not be fully ready for such practices. Nor are all these necessarily appropriate for Asia. Yet, ASEAN has indicated a willingness to incremental empowerment of ASEC, while SAARC has innovated a limited, yet creative delegation of functional powers by way of its "regional centers". The establishment of the AMRO is another important development. To an extent, Asian governments have sought to accommodate the region's embryonic participatory regionalism, as demonstrated by the existence of parallel summits comprising civil society organizations, and the proliferation of semi-official dialogues and forums (for example, the Shangri-La Dialogue and other "second-track" activities). Arguably, these accommodations have rendered Asia-Pacific regionalism less exclusive than before. Be that as it may, "regionalism-elite" rather than "regionalism-égalité" remains its distinguishing feature. Eventually this implies more attention to involving civil society in the governance of regional institutions.

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<sup>24</sup> As Eyal (2010: A2) has suggested, "the reality is that, for the EU, bureaucracy is not the means to an end; it is the very essence of activity. The EU always stood for the triumph of bureaucracy over history."

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