



# Shaping the Future of East Asian Economic Architecture: Views from ASEAN

Kaewkamol Pitakdumrongkit

The world has witnessed significant changes in its economic and strategic landscape since the Cold War era. In today's multipolar system, states have a variety of partners that they can choose to engage. Also, globalization has not only deepened economic interdependency but also made several issues transnational. Increasing linkages heighten the importance of international cooperation to tackle existing problems. East Asia—comprised of the ten states in ASEAN, China, Japan, and South Korea—is no exception.

This chapter focuses on ASEAN's perspective regarding the prospect of constructing a regional architecture—a subject deserving study because the organization has been influential in shaping a series of cooperative initiatives. Ignoring this viewpoint renders any understanding of the development of East Asian economic regionalism incomplete. Also, if unable to grasp the general picture of regional governance, policymakers may fail to provide feasible policy recommendations toward future pathways. I analyze ASEAN's viewpoint on three issue areas—trade, finance, and physical infrastructure—since they contain the most advanced initiatives in East Asia. Moreover, recent developments such as the emergence of mega-free trade agreements (mega-FTAs) and the establishment of the Asian Infrastructure Investment Bank (AIIB) can affect the future course of cooperation.

Following this introduction, part 1 identifies major issues ASEAN must ponder in order to effectively respond to the changing environment, part 2 shows how ASEAN has addressed these matters as well as its role in affecting the future of East Asian economic architecture in the realm of trade, finance, and infrastructure development, and part 3 offers conclusions and suggests some opportunities for future research. Of course, any attempt to treat ASEAN as a unitary actor cannot replace recognition of its diverse state actors.

## ASEAN'S RESPONSES TO A CHANGING ENVIRONMENT

Against the backdrop of the multipolar state system, the deepening of globalization forces, and increased engagement with external players, a pressing issue facing the ten member states is: “how to respond to the changing environment?” As ASEAN is part of a wider East Asian setting, its actions can somehow shape the future of regional economic governance. Four major issues can be identified.

*What approaches can ASEAN use to influence the development of East Asian economic governance?* ASEAN's first challenge is to find approaches for cooperation with Northeast Asians. Such choices matter because different approaches can lead to dissimilar ways of forging collaboration, which can beget divergent outcomes. Certain modalities are more likely than others to enable the ASEAN participants to advance their interests and alter the results of East Asian economic cooperation at odds with their aims.

*How can complementarities be enhanced and conflicts reduced between alternative preferences for economic arrangements?* ASEAN has been implementing intra-ASEAN initiatives, most recently the ASEAN Economic Community (AEC). As the Southeast Asian countries have been participating in broader East Asian economic cooperation, ASEAN's own mechanisms may differ from those elsewhere in East Asia, resulting in divergent rules and regulations, which cause conflicts among alternative frameworks. If such clashes are not well addressed, the ASEAN states may no longer see East Asian cooperation as beneficial to

themselves and may stop pursuing it, which could undermine the advancement of regional economic governance.

*How can ASEAN contribute to the building of regional architecture, despite having lesser structural power than its Northeast Asian neighbors?* Despite being smaller powers, the Southeast Asian nations are able to employ various strategies to influence collaboration outcomes. For example, soft balancing or hedging is sometimes used against the more powerful.<sup>1</sup> On other occasions, ASEAN members facilitate cooperation, such as by convening ASEAN-centered platforms or using an ASEAN co-chair position to set the tempo of discussion and shape the meeting agendas and results.<sup>2</sup> Given this track record, how can ASEAN continue to affect the development of regional economic architecture?

*Through engagement with the Northeast Asians to foster regional economic cooperation, how can “ASEAN Centrality” be maintained and enhanced?* Regarding its external collaboration, ASEAN’s main goal is to sustain “ASEAN Centrality,” the main principle of its interactions with outside partners. For example, the ASEAN Charter highlights that its purpose is to “maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partners in a regional architecture.”<sup>3</sup>

Despite the repetitive use of this expression, neither the charter nor other official documents says what ASEAN Centrality really is,<sup>4</sup> apart from stress on “together-ness.” By operating as a group, it is believed that ASEAN members can have their interests addressed and shape the outcomes of wider cooperation. It should be noted that there are some doubts whether the Centrality can enable the organization to influence regional cooperation outcomes. Yet, evidence suggests that Centrality has been key to the entity’s ability to exert its clout via collaboration.<sup>5</sup>

## ASEAN’S ROLE IN SHAPING EAST ASIAN ECONOMIC ARCHITECTURE

How has ASEAN addressed the above issues and influenced East Asian economic architecture? Answers differ across issue areas.

### Trade

ASEAN economies are, in general, export-oriented and outward-looking, thanks to a regional trend towards structural reform, market deregulation, and trade liberalization since the 1980s. Recognizing the importance of economic interdependency, ASEAN has adopted “Open Regionalism” as an approach to reap the benefits of globalization characterized by global production networks (GPNs). This approach is outward-looking and inclusive in the sense that it embraces the world economy to advance regional economic activities, supports the governing rules of global multilateral institutions, and avoids discrimination against extra-regional nations.<sup>6</sup>

Open Regionalism appears in several agreements. The prime objective of the 1992 ASEAN Free Trade Agreement (AFTA) is to “promote the region as an international production centre so as to attract an increasing share of global FDI.”<sup>7</sup> The AEC Blueprint 2025 notes that “ASEAN is continuing to make steady progress towards integrating the region into the global economy through FTAs and comprehensive economic partnership agreements (CEPs).”<sup>8</sup> The

blueprint encourages the improvement of “economic partnerships with non-FTA Dialogue Partners by upgrading and strengthening trade and investment work programmes/plans . . . and engagement with global and regional institutions.”<sup>9</sup>

Although Open Regionalism helped ASEAN foster trade ties with the outside world, it has been carried out in a less unified way, marked by FTAs signed by individual Southeast Asian states and outsider stakeholders rather than more comprehensive deals involving all ASEAN participants and their respective trade partners. The fervent hunt for bilateralism was well reflected by the burgeoning of such arrangements during the 1990s and 2000s. Moreover, when a region-wide East Asian Free Trade Area (EAFTA) was proposed by China in 2004, ASEAN did not immediately embrace it, but set up expert panels to do a feasibility study. Instead of the EAFTA, ASEAN struck separate deals with the +3 governments individually—ASEAN-China FTA (ACFTA), ASEAN-Korea FTA, and ASEAN-Japan Comprehensive Economic Partnership (AJCEP).<sup>10</sup>

Do such less unified practices under the umbrella of Open Regionalism undermine the prospects of ASEAN centrality? That is unlikely because ASEAN has realized that the wide array of FTAs and CEPs members have signed actually obstruct international trade in the end. Such arrangements cumulatively lead to the “noodle bowl syndrome” of overlapping rules of origins and dissimilar regulations.<sup>11</sup> As an example, ACFTA consists of ten different deals as each member selected its own trade preferences and market access, putting a burden on businesses and authorities. Consequently, Open Regionalism has recently become more unified, shifting away from each Southeast Asian country’s separate deal making with trade partners toward the collective action of creating a region-wide FTA.

Such a shift can be seen by looking at the AEC Blueprint 2025, which ensures the “alignment of competition policy chapters that are negotiated by ASEAN under the various FTAs with Dialogue Partners.” Another example is the Regional Comprehensive Economic Partnership (RCEP) launched in 2013 by ASEAN+6 (Australia, India, and New Zealand are added). Yet, the effort of consolidating several FTAs into a single agreement is ambitious because it is difficult to follow recommendations such as increasing the flexibility of rules of origin, aligning origin administration systems, and enhancing other supporting mechanisms.<sup>13</sup> As a result, the RCEP negotiations are still ongoing, missing the initial deadline to be concluded at the end of 2015. The latest 14th round was held in Vietnam in August 2016, and the upcoming round will take place in Vietnam in October 2016.

From ASEAN’s standpoint, its future involvement in East Asian trade governance will partly hinge on RCEP’s fate. The initiative’s successful completion would effectively showcase that Open Regionalism can be conducted in a more unified manner, via larger trade deals which involve all ASEAN states. If RCEP fails, governments may fall back to their old way of discretely concluding or upgrading deals with their non-ASEAN counterparts. Such actions could eventually overwhelm the collective effort to merge dissimilar deals into a comprehensive package, making East Asian trade regionalism even more fragmented.

ASEAN possesses less material power than the +3, raising questions about “how can the lesser powers have a say in the crafting of regional trade rules?” and “how can ASEAN Centrality be enhanced through cooperation?” Evidence indicates that ASEAN was able to shape the agenda-setting of some regional trade arrangements, especially RCEP. In the pre-RCEP years, two proposals for a region-wide FTA were tabled—China’s idea of

EAFTA (with ASEAN+3 membership) and Japan's proposal for a Comprehensive Economic Partnership of East Asia (CEPEA) (with ASEAN+6 membership). The rivalry between Beijing and Tokyo heated up in 2006, which halted the advancement of East Asian trade regionalism. ASEAN counter-proposed RCEP as a compromise between the two projects. That this initiative was based on the "ASEAN ++ formula" as it is to be built upon the existing five ASEAN-centered (or ASEAN+1) FTAs reflected the Southeast Asian effort to entrench ASEAN Centrality.<sup>14</sup>

Centrality was ingrained within the RCEP bargaining processes. According to the Guiding Principles and Objectives, the negotiations are to be carried out with recognition of this notion. The framework endorsed at the 19th ASEAN summit in November 2011 posits that the scheme is to "establish an ASEAN-led process by setting out principles under which ASEAN will engage interested ASEAN FTA partners in establishing a regional comprehensive economic partnership agreement."<sup>15</sup> Moreover, the initiative contains the Special and Differential Treatment (SDT), which grants flexibility to the less developed ASEAN members, namely Cambodia, Laos, Myanmar, and Vietnam (CLMV). Such provisions did not appear in other FTAs such as the Trans-Pacific Partnership (TPP). The SDT clause has been applied to all ASEAN+1 FTAs, showing the continuation of dialogue partners' acceptance of "Centrality" and their accommodation to the different needs of individual Southeast Asian stakeholders. In addition, all of the eight RCEP working groups covering eight areas of cooperation were chaired by ASEAN nations.<sup>16</sup>

Will ASEAN Centrality be sustained? This will partially depend on how well ASEAN is able to manage competition among non-ASEAN partners. The RCEP case suggests that ASEAN took advantage of the Sino-Japanese contestation to advance its influence. The future functionality of Centrality also hinges on all ten members concurring to pursue it. There are worries that the success of TPP would eventually undercut it.<sup>17</sup> Some ASEAN governments enjoying dual membership in TPP and RCEP may change their trade priorities and become less incentivized to advance RCEP as they have TPP on which to fall back.

The outlook for East Asian trade regionalism from ASEAN's perspective is that RCEP will be pursued by Southeast Asian nations mainly because they see it as a means to tackle the noodle bowl effect, which has prevented their economies from reaping the full benefits of GPNs. However, this effort faces serious technical and political challenges, including doubts about the political will of certain countries. For example, Indonesia has recently turned inward by employing trade protectionism.<sup>18</sup> Declining commodity prices have mounted pressure on exporters such as Malaysia and Brunei, increasing the likelihood of them raising the barriers. Additionally, the global economic slowdown may tempt some ASEAN states to focus their priorities on addressing grievances at home instead of pursuing trade cooperation abroad, undercutting ASEAN's commitment to shape East Asian trade governance in the future.

It is too early to precisely gauge how TPP will alter the preferences and priorities of ASEAN TPP and non-TPP members. The former might be less enthusiastic than before to advance RCEP, while the latter would be more eager to seal the deal to alleviate the trade-diversion effect that TPP has on their economies. If the latter force prevails, the advancement of East Asian trade governance could be bolstered. If the opposite occurs, the future trade architecture in East Asia may become bleak.

## Finance

As in the case of trade, ASEAN adopted Open Regionalism to advance financial cooperation with the +3. Yet, when compared to trade, the approach was executed in a more unified way as East Asian financial regionalism has largely developed under the ASEAN+3 framework. Why ASEAN+3? An answer can be found by looking at the 1997-1998 Asian financial crisis (AFC). Starting with the collapse of the Thai *baht*, contagion spread to other regional states as their currencies came under pressure and their economies faced financial turmoil. The AFC not only revealed the vulnerabilities of the region's banking and financial systems but also the fact that "East Asian economies were inextricably linked to each other and could not afford to ignore what was happening elsewhere within the region."<sup>19</sup> To alleviate the crisis' impact, Indonesia and South Korea resorted to the IMF for assistance. However, wrong-headed IMF policies worsened the situation. Not only was the IMF heavily criticized, as seen in Jeffrey Sachs likening its structural adjustment program to "the wrong medicine for Asia,"<sup>20</sup> the poor performance also generated IMF resentment across the region. This collective experience among East Asian nations resulted in the emergence of ASEAN+3 to provide a "firebreak" mechanism against future crises.<sup>21</sup>

Financial cooperation under the ASEAN+3 framework focuses on three main areas: (1) a reserve sharing arrangement – represented by the Chiang Mai Initiative (CMI) and its successor the Chiang Mai Initiative Multilateralization (CMIM); (2) the development of regional bond markets– represented by the Asian Bond Markets Initiative (ABMI); and (3) surveillance mechanisms – such as the Economic Review and Policy Dialogue (ERPD) and ASEAN+3 Macroeconomic Research Office (AMRO).<sup>22</sup> ASEAN welcomed these entities as complementary to its own mechanisms, reducing its economic vulnerabilities. For example, the CMI/CMIM supports the ASEAN Swap Arrangement (ASA) formed in 1977, providing, instant foreign exchange liquidity for members to alleviate short-term liquidity problems. ASA's size was originally \$100 million, which was doubled to \$200 million in 1978, increased to \$1 billion in 2000 when it was incorporated into the CMI, and then again doubled to \$2 billion in 2005. According to the ASEAN+3 Joint Statement in May 2000, the CMI "involves an expanded ASEAN Swap Arrangement that would include all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities" among ASEAN+3 nations, including the ASA. The original size was \$80 billion, which was increased to \$120 billion upon the establishment of the CMIM in 2010, and doubled to \$240 billion in 2012. In addition, the prior absence of regional bond markets and collective surveillance bodies rendered the ASEAN+3 mechanisms attractive to the Southeast Asian parties.

The conduct of East Asian financial regionalism is largely shaped by the ASEAN Way, a set of governing principles the Southeast Asian nations use to manage their relations and resolve matters among themselves, emphasizing non-interference in others' domestic affairs and respect of national sovereignty. Cooperation is often fostered by informality, flexibility, consultation, and conflict avoidance.<sup>23</sup> Decisions are generally made by consensus, and peer pressure is deployed to extract compliance. Reluctance to delegate power to supranational bodies looms large. Although these characteristics can be found in other parts of the world, non-interference and national sovereignty are persistently upheld by ASEAN and have influenced the integration process since its origin.<sup>24</sup> This notion is usually adopted by outsiders in negotiations with the Southeast Asian parties in platforms ranging from the

ASEAN Regional Forum to ASEAN+3.<sup>25</sup> As Tan contends, although ASEAN+3 members “do not claim (not publicly at least) the ASEAN Way as their diplomatic model, their status as ASEAN-centric arrangements effectively ensures ASEAN’s way of doing business.”<sup>26</sup>

The ASEAN Way has manifested itself in the ASEAN+3 process. For example, developing the elements of CMI/CMIM and ABMI was marked by incrementalism via slow increases in the CMI/CMIM size, bit-by-bit reductions in the IMF-linked portion, and the unhurried transformation of surveillance entities from a less intrusive ERPD to a more intrusive AMRO.<sup>27</sup> Instead of setting up a centralized storage for the liquidity pool, the CMI/CMIM contributions take the form of a commitment letter whereby the governments keep their own reserves until the monies are disbursed after a currency swap line is activated. These features indicated that the ASEAN Way was exercised to ensure that all participants, especially ASEAN, were comfortable with moving cooperation forward.

Equal burden-sharing—another ASEAN Way of managing matters—was used in the ASEAN+3 process. For example, the contributions to the CMIM fund by the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) were based on each of them putting in \$4.552 billion (the amount was later adjusted to \$9.104 due to the doubling of the CMIM total size).<sup>28</sup> Regarding the ABMI, the investments into the Credit Guarantee and Investment Facility (CGIF) by the ASEAN-5 also followed the same principle.<sup>29</sup>

Will the ASEAN Way continue to undergird the ASEAN+3 process and affect the East Asian financial architecture? Some might assert that the transformation of AMRO into an international organization in February 2016 was a break from the ASEAN Way as a consequence of the participants now permitting the institution to oversee their conduct. Such a view is mistaken. Its capacity is still small in terms of manpower and budget, and its autonomy is also questionable.

AMRO. . . assists the [CMIM] Executive Level Decision-Making Body (ELDMB) to make decisions on issues such as approving lending. But the ELDMB is mandated to oversee AMRO’s activities. The ELDMB consists of the deputy-level officials of the ASEAN+3 finance ministries and central banks. As such, AMRO is inevitably tied to governments.<sup>30</sup>

The fact that AMRO is small and not entirely independent from power politics indicates the ongoing hesitation at having a supranational body undertake surveillance. The ASEAN Way, which upholds national sovereignty and non-interference in domestic affairs, is still intact.

The ASEAN Way will keep on driving East Asian financial cooperation. According to Benjamin Cohen, “punctuated equilibrium” has explained the progress of ASEAN+3 financial regionalism since the 1990s as the collaboration “tends to be characterized by long periods of stability, punctuated only on occasion by large, though less frequent, changes caused by major shifts in society or government.”<sup>31</sup> After decades of little financial regionalism, the AFC suddenly triggered the ASEAN+3 process, which crafted mechanisms such as the CMI and ABMI. These schemes advanced more slowly until the 2008 Global Financial Crisis (GFC) sparked an acceleration. The GFC led to the multilateralization of the CMI and its expansion from \$80 to \$120 billion, and the creation of the New ABMI Roadmap to speed up the strengthening of regional bond markets.<sup>32</sup>

Even a crisis is no guarantee that East Asia will again witness collective regional responses like the ones in the post-AFC era. Studies showed that the effect of the GFC in advancing financial regionalism was less than that of the AFC.<sup>33</sup> Future financial regionalism will likely follow a stop-and-go pattern. Crises can to some degree catalyze the progress, but in “peace” times, inertia tends to dominate as the ASEAN Way still underlies collaboration.

Deeper integration into a regional currency area is unlikely to materialize in the short or medium term. Despite many proposals to create an optimal currency area,<sup>34</sup> such a zone is difficult to form, technically and politically. On the technical front, issues such as “which currency will serve as an anchor” and “how would policy coordination be implemented” need to be carefully assessed.<sup>35</sup> Also, the euro-zone crisis revealed the enforcement issues with a single currency zone, reminding the East Asian governments to have second thoughts before embarking on such an endeavor of their own. Regarding political obstacles, achieving a common currency area requires participants to give up their monetary policy autonomy and allow a supranationality to determine policy. This would clash with the ASEAN Way, which dearly guards states’ sovereignty, making such a scheme less likely to become a reality.

Concerning ASEAN’s lesser financial capacity and expertise than the +3, some observers may postulate that the future of financial architecture in East Asia will be shaped by the +3, especially China and Japan. On the contrary, evidence suggests that there exist particular niches in which ASEAN can exercise ASEAN Centrality to alter the outcome, resorting to the ASEAN Caucus, a coalition-formation allowing countries to together propagate their influence over the course of international cooperation between themselves and external parties. Bargaining collectively was found to increase ASEAN’s voice in determining results in broader forums such as APEC.<sup>36</sup> In addition, the caucus sometimes has enabled the ASEAN participants to take advantage of contestation among their Northeast Asia counterparts. “Some ASEAN officials involved in the process privately express the view that a degree of Sino-Japanese tension is desirable because it enables smaller members to gain leverage and punch above their weights.”<sup>37</sup>

In the CMI/CMIM negotiations, the ASEAN Caucus was utilized on several occasions. For instance, prior to and after the talks, the Southeast Asian governments convened an informal meeting to craft their shared position before negotiating with the +3.<sup>38</sup> The Caucus was also called upon by the ASEAN co-chair in the middle of the negotiation rounds, usually in the form of a coffee break, in which the ten members went to a separate room to formulate a common stance and/or convince disagreeing partners to get on board with the prevailing position.<sup>39</sup> Doing so not only decreased the likelihood that the +3 nations would cut separate deals with individual ASEAN states, which could further weaken the grouping, but also boosted the latter’s clout over certain outcomes. The Philippines’ CMIM contribution is a case in point. After the GFC, Manila faced certain financial difficulties, rendering it unable to contribute the amount it had earlier pledged. It asked whether it could temporarily reduce its portion before later raising it to \$4.552 billion, as promised. Disputes emerged when Singapore refused to accept the Philippines’s plea, causing a deadlock. The Thai co-chair stepped in by resorting to the ASEAN Caucus, citing “issue exclusiveness” or the exclusive nature of the issues being discussed and gesturing to the South Korean co-chair that the matter was ASEAN’s internal affair, which was to be decided solely by its members. As a result, Seoul did not intervene. Bangkok successfully resolved the issue with Singapore and the negotiations were able to move forward.<sup>40</sup>



Will ASEAN Centrality be sustained as regional financial cooperation progresses? An answer will partially hinge on the degree to which the +3 will embrace the ASEAN Caucus. In the CMI/CMIM example, the Northeast Asian stakeholders saw it as beneficial as it sped up the talks.<sup>41</sup> They did not need to bargain separately with individual ASEAN members but waited to hear a collective stance and negotiated from that point onwards.<sup>42</sup> If in the future the +3 states still view the Caucus as useful, they are likely to support it, and Centrality can persist. If, however, the Northeast Asian parties perceive the method as neither helpful nor necessary, sustaining Centrality becomes uncertain. Rivalries among the +3 would provide room for ASEAN to keep with the practice. If the Northeast Asians no longer were at odds with one another, the chances would be reduced accordingly.

In conclusion, when compared to trade, ASEAN's approach to Open Regionalism in building East Asian financial architecture has been more unified as most initiatives were under the ASEAN+3 framework. Although the ASEAN nations are comfortable having the ASEAN Way propel collaboration, relying on it can complicate the ASEAN+3 process and prevent it from crafting ready-to-use mechanisms in a next crisis. That Singapore and South Korea did not resort to CMI facilities to ease their liquidity problems during the GFC exposed the fact that progress in regional financial cooperation had been too slow to provide helpful tools for the participants in a timely manner. Moreover, the GFC altered the regional states' way of addressing financial turmoil, shifting away from fostering regional arrangements towards national-level measures (e.g. domestic stimulus) and activism on the global stage such as the G-20 and IMF.<sup>43</sup> If such trends endure, the prospect for East Asian financial regionalism will be dimmer.

## Physical Infrastructure

Infrastructure is important to ASEAN economies. Realizing that better infrastructure not only boosts trade and financial ties but also enhances economic development, members unveiled the Master Plan of ASEAN Connectivity (MPAC) in 2010 to bolster infrastructure building, ranging from transport and energy to information-communications technology. To date, the MPAC has identified 15 priorities including the ASEAN Highway Network (AHN), the Singapore-Kunming Rail Link (SKRL), and ASEAN Power Grids. The ASEAN Infrastructure Fund (AIF) was founded in 2012 to serve as the MPAC's funding arm. At the same time, ASEAN recognizes financial and technical constraints that might undercut its connectivity aspirations. For example, the Asian Development Bank (ADB) estimated that Southeast Asia would require \$60 billion each year until 2022 to meet its infrastructure needs,<sup>44</sup> but the AIF's lending commitment through 2020 was about \$4 billion.

As a result, ASEAN has adopted Open Regionalism by seeking support from external actors. The MPAC text calls for forging and strengthening "partnership with external partners, including Dialogue Partners, multilateral development banks, international organisations and others for effective and efficient implementation of the Master Plan."<sup>45</sup> ASEAN saw its own connectivity projects as closely linked with broader East Asian ones. As seen in the Chairman's Statement of the 15<sup>th</sup> ASEAN Summit in 2009, "[i]ntra-regional connectivity would benefit all [ASEAN Member States] . . . and serve as a foundation for a more enhanced East Asian connectivity."<sup>46</sup> ASEAN had employed an Open Regionalism approach to engage Northeast Asian peers before the MPAC was launched, as reflected by the +3's involvement in sub-regional programs such as the Greater Mekong Sub-region (GMS) and Brunei Darussalam-Indonesia-Malaysia-the Philippines East ASEAN Growth Area.<sup>47</sup> Yet, the recent deepening of GPNs has heightened the importance of the approach.

ASEAN perceived its cooperation with external partners as a win-win situation. Because some of its projects were stalled by lack of access to public and private funding and uneven development of the member states,<sup>48</sup> external assistance can complement and accelerate the MPAC progress, enhancing its production networks and competitiveness.<sup>49</sup> Unsurprisingly, the members positively greeted China's recent One Belt, One Road Initiative and joined its Asian Infrastructure Investment Bank (AIIB), seeing the latter as an alternative financing source.<sup>50</sup> The +3 see the MPAC as beneficial to themselves. For instance, China supported the AHN and SKRL because their completion will offer its provinces of Sichuan, Chongqing, and Yunnan access to the Indian Ocean.<sup>51</sup> Japan identified the MPAC as a key to implementing its East-West and Southern Economic Corridors.<sup>52</sup> Moreover, South Korea created the Mekong-ROK Foreign Ministers' Meeting in 2011 as a main cooperative body to better tap Southeast Asia's inexpensive labor, natural resources, and growing markets.<sup>53</sup> Driven by financial and technical needs, ASEAN will likely maintain its course of Open Regionalism, fostering collaboration with external actors. The interplay among major multilateral development banks, especially the AIIB, ADB, and the World Bank, will affect regional infrastructure advancement. Despite the fact that the ADB and AIIB agreement to collectively search for co-financing opportunities is a good sign,<sup>54</sup> little is known about how well they will work together. Because dissimilar institutions differ in their priorities, standards and practices, and other operational procedures, observers will have to wait and see how rules such as lending conditions, procurement policy, and labor standards will be jointly determined. Even if these entities end up competing with one another, ASEAN is unlikely to shut its door on either of them due to its infrastructure deficit. However, the conflict can tempt Southeast Asian stakeholders to be more cautious, fearing that such contestation may undermine their own connectivity initiatives and slow East Asian infrastructure development.

Skeptics worry that relations between Southeast and Northeast Asian states may be lopsided, with the former standing at the receiving end, leaving in doubt how they will be able to advance connectivity in East Asia. The MPAC agreement highlights the importance of maintaining ASEAN Centrality in infrastructure development. The text posits that the initiative is to be "[o]utward-looking and serve to promote healthy competitive dynamics among external partners and also help preserve ASEAN centrality."<sup>55</sup> However, engagement with several partners showed that ASEAN was inevitably embroiled in power politics, especially the Sino-Japanese competition. For instance, after Beijing defeated Tokyo by winning the \$5 billion high-speed rail project in Indonesia in October 2015 as the former required no Indonesian government guarantee, the latter quickly pledged that it would halve the processing time needed to disburse its Official Development Assistance (ODA) loans and "revise the current practice of requiring without exception recipient governments' payment guarantees."<sup>56</sup>

Despite being aid recipients, ASEAN nations were able to wield clout over regional connectivity schemes and retain centrality via implementation of the MPAC initiative.<sup>57</sup> ASEAN acted as a broker, which took resources from the +3 stakeholders and allocated them to CLMV countries where needs were greater.<sup>58</sup> However, ASEAN Centrality may risk deterioration, rendering it no longer a main principle driving the MPAC. Signs of weakening centrality have surfaced, e.g., the ongoing construction of the Xayaburi megahydro-power dams in the Mekong River by Laos was strongly opposed by the downstream states of Cambodia and Vietnam, which argued that they would alter fish migration patterns and decrease the flow of nutrients necessary for rice production, hurting their fishery and

agricultural sectors.<sup>59</sup> The conflict of interest emerged when Vientiane saw that electricity sales from these dams would bring a lucrative income to its land-locked country, while Phnom Penh and Hanoi feared that their food security would be in jeopardy if the building continued. This action violated the 1995 Mekong Agreement (a treaty among Cambodia, Laos, Thailand, Vietnam, promoting shared use and management of the Mekong river basin) as Laos did not seek prior approval from the Mekong River Commission (MRC). The MRC protested, but, to date, it has failed to elicit Vientiane's compliance.<sup>60</sup>

One lesson learned from the above is that ASEAN lacks effective mechanisms to manage disputes concerning the spill-over effect of economic activities on the (non-traditional) security sphere. Also, the outcome of the Xayaburi case will set a precedent for how an issue of this kind can be resolved in the future. Governments may calculate that they can develop infrastructure while not being held accountable for the implications of their actions. There are a dozen or more projects approved by the Laotian government, some of which will be financed by external players such as China.<sup>61</sup> ASEAN has yet to craft rules to address the disputes over infrastructure building when some stakeholders are non-ASEAN members. Thus, the issue of dam building is a litmus test for the organization.

Being increasingly attracted to financial and other assistance from the outside, different countries may end up having divergent views on the future of ASEAN connectivity, lessening internal cohesion and hence centrality. As self-interest looms large, the Southeast Asian governments may no longer be able to stick together and jointly determine cooperation outcomes, leaving the shaping of the future of regional infrastructure development more in the hands of their Northeast Asian neighbours.

In sum, Southeast Asia has employed Open Regionalism by seeking support from external parties to achieve its connectivity agendas. Due to the level of assistance needed, it is unlikely to reverse course. Increasing interactions with outside actors, namely the +3, can shape the future outcome of East Asian connectivity, as the dynamics among financial and supporting entities are changing. The AIIB is a “new kid on the block” and its joint cooperation with the incumbent ADB is just beginning. As these banks have different priorities and procedures, the outlook will partly depend on how they interact. Another factor concerns the future of ASEAN Centrality, as internal clashes over infrastructure development can decrease ASEAN's influence over the direction of East Asian connectivity architecture. If the internal conflicts are not well-resolved, the members may be more divided over the future course of regional connectivity projects, and the prospects for East Asian infrastructure architecture will be determined more by the Northeast Asian counterparts.

## CONCLUSION

This examination of ASEAN's perspective on the future of East Asian economic architecture in trade, finance, and physical infrastructure has certain limitations. First, I did not scrutinize the roles of ideational elements, especially the influence of epistemic communities and a sense of regional identity (or a sense of solidarity) on regional economic governance. Epistemic communities, defined as the networks of knowledge-based experts which act as “channels through which new ideas circulate from societies to governments as well as from country to country”<sup>62</sup> were found to affect international economic cooperation.<sup>63</sup> Also, a sense of identity (or a sense of solidarity) can serve as a building block of regionalism as

it makes actors aware of their shared goals.<sup>64</sup> For example, Terada discovered that the AFC and regionalism in the other parts of the world helped promote the self-other dichotomy necessary for the successful formation of an East Asian identity.<sup>65</sup>

Another limitation is that this study did not assess the effect of the private sector on the construction of regional architectures. East Asian countries have enhanced private players' participation in policymaking processes, as seen in the formation of the East Asian Business Council in 2004. As the inputs from non-state actors are increasingly considered by governments, future research should explore how the dynamics between private and public stakeholders will affect future regional collaboration.

Furthermore, the analysis did not take into account the influence of geopolitics, such as the territorial disputes in the East China Sea and South China Sea. Although little evidence suggests that these issues have significantly affected the economic realm, history has taught us that what happens in the security circle should not be ignored as it can cause rifts among regional states, corrode trust, and undermine international cooperation. For instance, disagreements over whether to incorporate remarks concerning the South China Sea matters into the meeting's statement resulted in ASEAN's failure to deliver a joint communiqué in 2012. Thus, scholars interested in scrutinizing the future of East Asian economic regionalism should pay attention to the spill-over effect of international security issues on economic ones.

## ENDNOTES

1. Y.F. Khong, "Coping with Strategic Uncertainty: The Role of Institutions and Soft Balancing in Southeast Asia's Post-Cold War Strategy," in J.J. Suh, P.J. Katzenstein, and A. Carlson, eds., *Rethinking Security in East Asia: Identity, Power, and Efficiency* (Stanford, CA: Stanford University Press, 2004); Evelyn Goh, "Southeast Asian perspectives on the China challenge," *Journal of Strategic Studies*, Vol. 30, Nos. 4-5 (2007): 89-832; C.C. Kuik, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, Vol. 30, No. 2 (2008): 159-185; H. Le, "Vietnam's Hedging Strategy against China since Normalization," *Contemporary Southeast Asia*, Vol. 35, No. 3 (2013): 333-368.
2. Y. Fukunaga, "ASEAN's Leadership in the Regional Comprehensive Economic Partnership," *Asia & the Pacific Policy Studies*, Vol. 2, No. 1 (2015): 103-115; K. Pitakdumrongkit, "Co-chairing International Negotiations: The Case of the Chiang Mai Initiative Multilateralization," *The Pacific Review*, Vol. 28, No. 4 (2015): 577-605.
3. ASEAN Secretariat, *The ASEAN Charter* (Jakarta, Indonesia, 2008).
4. R. Pomfret, "ASEAN's New Frontiers: Integrating the Newest Members into the ASEAN Economic Community," *Asian Economic Policy Review*, Vol. 8, No. 1 (2013): 25-41; M. Rolls, "Centrality and continuity," *East Asia*, Vol. 29, No. 2 (2012): 127-139.
5. There are two aspects of ASEAN Centrality – internal and external. The external facet is the focus in this examination of ASEAN's interactions with non-ASEAN players. The internal aspect looks at ASEAN cohesion, which is concerned with ties among individual ASEAN members. The two dimensions are somehow linked. See Caballero-Anthony for detail. Caballero-Anthony, M., "Understanding ASEAN's Centrality: Bases and Prospects in an Evolving Regional Architecture," *The Pacific Review*, 27(4) (2014): 563-584.
6. E. Solingen, "East Asian Regional Institutions: Characteristics, Sources, Distinctiveness," in T.J. Pempel, ed., *Remapping East Asia* (Ithaca: Cornell University Press, 2005): p. 36.
7. P. Gugler and J. Chaisse, "The ASEAN in a New Era: Unveiling the Promises," in P. Gugler, P. & J. Chaisse, eds., *Competitiveness of the ASEAN Countries: Corporate and Regulatory Drivers* (Cheltenham, U.K.: Edward Elgar Publishing, 2010): p. 10.
8. ASEAN Secretariat, *The ASEAN Economic Community Blueprint 2025* (Jakarta, Indonesia, 2015): p. 35.

9. Ibid., p. 36.
10. Y.K. Kwan and LD Qiu, “The ASEAN+ 3 Trading Bloc,” *Journal of Economic Integration*, Vol. 25, No.1 (2010): 1-31.
11. R.E. Baldwin, “Managing the Noodle Bowl: The Fragility of East Asian Regionalism,” *The Singapore Economic Review*, Vol. 53, No. 3 (2008): 449-478.
12. ASEAN Secretariat (2015), p. 13.
13. M. Kawai and G. Wignaraja, “Asia’s Free Trade Agreements: How is Business Responding?,” A Joint Publication of the Asian Development Bank and the ADB Institute (Cheltenham, UK: Edward Elgar Publishing, 2011).
14. S.B. Das, “Asia’s Regional Comprehensive Economic Partnership,” *East Asia Forum*, August 27, 2012, <http://www.eastasiaforum.org/2012/08/27/asias-regional-comprehensive-economic-partnership/> (accessed on February 28, 2016).
15. ASEAN, “ASEAN Framework for Regional Comprehensive Economic Partnership, 19th ASEAN Summit,” (Bali, Indonesia, November 19, 2011).
16. K. Hsu, “Chapter 4: ASEAN Centrality: A Quest for Leadership in East Asian Economic Integration,” in E. Berman & M.S. Haque, eds., *Asian Leadership in Policy and Governance* (Bingley, U.K.: Emerald Group Publishing Limited, 2015): p. 91.
17. S. Hamanaka, “Trans-Pacific Partnership versus Regional Comprehensive Economic Partnership: Control of Membership and Agenda Setting,” ADB Working Paper on Regional Economic Integration No. 146, Asian Development Bank, 2014.
18. A. Patunru, and S. Rahardja, “Trade Protectionism in Indonesia: Bad Times and Bad Policy,” Lowy Institute, July 30, 2015, <http://www.lowyinstitute.org/publications/trade-protectionism-indonesia-bad-times-and-bad-policy> (accessed on March 1, 2016).
19. C. Sussangkarn, “Chiang Mai Initiative Multilateralization: Origin, Development, and Outlook,” *Asian Economic Policy Review*, Vol. 6, No. 2 (2011): 203-220.
20. J.D. Sachs, “The Wrong Medicine for Asia,” *The New York Times*, November 3, 1997.
21. T.J. Pempel, “Firebreak: East Asia Institutionalizes its Finances,” in Martina Timmerman and Jitsuo Tsuchiyama, eds., *Institutionalizing Northeast Asia: Regional Steps towards Global Governance* (Tokyo: United Nations University, 2008): pp. 234-261.
22. Prior to ASEAN+3, ASEAN did not lack regional financial cooperation. It established the ASEAN Swap Arrangement (ASA) in 1977, and participated in the South East Asian Central Banks Initiative (SEACEN) from 1966, although SEACEN is a forum to exchange ideas on central banking matters and did not play much of a role during the AFC.
23. A. Acharya, “Culture, Security, Multilateralism: The ‘ASEAN Way’ and Regional Order,” in K.R. Krause, ed., *Culture and Security: Multilateralism, Arms Control, and Security Building* (London: Frank Cass, 1999).
24. L. Vandewalle, “In-Depth Analysis: EU–ASEAN: Challenges Ahead,” (Directorate-General for External Policies, Policy Department, European Parliament, December 2014), [http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536426/EXPO\\_IDA\(2014\)536426\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536426/EXPO_IDA(2014)536426_EN.pdf), p. 4 (accessed on March 6, 2016).
25. A. Acharya, “Ideas, Identity, and Institution Building: From the ‘ASEAN way’ to the ‘Asia-Pacific way,’” *The Pacific Review*, Vol. 10, No. 3 (1997): 319–346; S.S. Tan, “Is Asia-Pacific Regionalism Outgrowing ASEAN?” *The RUSI Journal*, Vol. 156, No. 1 (2011): 58-62.
26. Ibid., Tan p. 61.
27. S. Sookmark, “Towards an East Asian Financial Community: An Institutionalist Perspective,” ASEAN-Canada Research Partnership Working Paper Series No. 2 (S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore, 2014).
28. Although it was originally decided to have an equal-sharing principle apply to all ten ASEAN members, Cambodia, Laos, Myanmar, and Vietnam (CLMV) faced financial difficulty in meeting such a request. At the end, ASEAN 5 allowed them to put in their shares first, while the remaining amount was covered in an equal manner (Interview with an Asian Development Bank researcher, conducted by Kaewkamol Pitakdumrongkit, November 2010, and interview with a Ministry of Finance Thailand officer, conducted by Kaewkamol Pitakdumrongkit, December 2013).

29. Interview with a Thailand Ministry of Foreign Affairs officer, conducted by Kaewkamol Pitakdumrongkit, December 2013.
30. K. Pitakdumrongkit, "Where to now for the Chiang Mai Initiative Multilateralisation?" *East Asia Forum*, August 28, 2015, <http://www.eastasiaforum.org/2015/08/28/where-to-now-for-the-chiang-mai-initiative-multilateralisation/>, (accessed on March 3, 2016).
31. B.J. Cohen, B.J. "Finance and Security in East Asia," Prepared for a Conference on the Political Economy of National Security in East Asia, Beijing, July 2010, p. 29.
32. ASEAN+3, "The Joint Ministerial Statement of the 11th ASEAN+3 Finance Ministers' Meeting 4 May 2008," Madrid, Spain; ASEAN+3 (2009). Special ASEAN+3 Finance Ministers' Meeting, February 22, 2009, Phuket, Thailand.
33. M. Beeson, "Crisis Dynamics and Regionalism: East Asia in Comparative Perspective," *The Pacific Review*, 34(3) (2011): 357–374; S. Katada, "Seeking a Place for East Asian Regionalism: Challenges and Opportunities Under the Global Financial Crisis," *The Pacific Review*, Vol. 24, No. 3 (2011): 273–290.
34. P.B. Kenen and E.E. Meade, *Regional Monetary Integration* (Cambridge: Cambridge University Press, 2008); K.K. Hayat and Zeng Jianqiu, "Common Currency for Asia 'Now or Never,'" *Economic Modelling*, No. 35 (2013): 170-174.
35. M. Kawai, "The Role of an Asian Currency Unit for Asian Monetary Integration," *Finance & Bien Commun*, No. 2 (2010):125-135.
36. N. Ganesan, "Thai-Myanmar-ASEAN Relations: The Politics of Face and Grace," *Asian Affairs: An American Review*, Vol. 33, No. 3 (2006): 131-149.
37. A. Rowley, "Japan Hosts First of Regular Tripartite Summits," *Business Times Singapore*, December 13, 2008.
38. Interview with Bank of Indonesia officer, conducted by Kaewkamol Pitakdumrongkit, January 2011.
39. Interview with a Thai negotiator by Kaewkamol Pitakdumrongkit, May 2015.
40. K. Pitakdumrongkit, Co-chairing International Negotiations: The Case of the Chiang Mai Initiative Multilateralization, *The Pacific Review*, Vol. 28, No. 4 (2015): 577-605.
41. J.D. Ciorciari, "Chiang Mai Initiative Multilateralization: International Politics and Institution-Building in Asia," *Asian Survey*, Vol. 51, No. 5 (2011): 926-970.
42. Interview with a Malaysian negotiator, conducted by Kaewkamol Pitakdumrongkit, November 2010.
43. S. Katada, "Seeking a Place for East Asian Regionalism: Challenges and Opportunities Under the Global Financial Crisis," *The Pacific Review*, Vol. 24, No. 3 (2011): 273–290.
44. Asian Development Bank (ADB), "Facts and Data about Southeast Asian Infrastructure," May 3, 2012, <http://www.adb.org/features/fast-facts-asean-infrastructure-fund> (accessed on March 3, 2016).
45. ASEAN Secretariat, *The Master Plan for ASEAN Connectivity* (Jakarta, Indonesia, 2010): pp. ii-iii.
46. ASEAN, "Chairman's Statement of the 15th ASEAN Summit, Hua Hin, Thailand," October 25, 2009.
47. ASEAN, "Joint Statement Brunei Darussalam-Indonesia-Malaysia-The Philippines-East ASEAN Growth Area (BIMP-EAGA) Leaders' Meeting," October 6, 2003, Bali, Indonesia; J. Dosch and O. Hensengerth, "Sub-Regional Cooperation in Southeast Asia: The Mekong Basin," *European Journal of East Asian Studies*, Vol. 4, No. 2 (2005): 263-286.
48. K. Pitakdumrongkit and M.T.A. Robles, *Assessing the Progress of AEC Projects: A New Approach*, RSIS Working Paper, No. 280 (2014); H.K. Yong, "Building Asean Connectivity," *The New Straits Times*, October 13, 2015.
49. "China Needs to Gain Trust for its 'One Belt, One Road' Initiative," *The Jakarta Post*, October 31, 2015; "Obor Will Complement ASEAN's Connectivity Masterplan: Expert," *The Sun Daily*, November 28, 2015, <http://www.thesundaily.my/news/1614768> (accessed on March 3, 2016).
50. J. Koh, "ASEAN Diplomats Welcome China's One Belt, One Road Initiative," *Channel News Asia*, November 16, 2015.

51. I. Humaidah, "Questioning ASEAN Centrality in East Asian Regionalism: The Case of ASEAN Connectivity," Erasmus University, 2012, p. 26.
52. ASEAN, "Chairman's Statement of the 16th ASEAN-Japan Summit," October 9, 2013, Bandar Seri Begawan, Brunei Darussalam.
53. H. Lee, "S. Korea, Mekong Nations Launch First FM Talks Over Economic, Development Cooperation," Yonhap News, October 28, 2011, <http://english.yonhapnews.co.kr/national/2011/10/28/7/030100000AEN20111028003900315F.HTML> (accessed on March 3, 2016).
54. Asian Development (ADB), "ADB, AIIB Agree to Identify Projects for Cofinancing," September 21, 2015, <http://www.adb.org/news/adb-aiib-agree-identify-projects-cofinancing> (accessed on March 3, 2016).
55. ASEAN (2011): p. 8.
56. B. Bland, "Japan and China Step Up Fight for ASEAN Infrastructure Contracts," *The Financial Times*, November 22, 2015.
57. J. Teodoro, "ASEAN's Connectivity Challenge," *The Diplomat*, July 27, 2015, <http://thediplomat.com/2015/06/aseans-connectivity-challenge/> (accessed on March 3, 2016).
58. Humaidah, p. 36.
59. T. Fawthrop, "Laos's Threat to the Mekong River," *Asia Sentinel*, December 9, 2015, <http://www.asiasentinel.com/econ-business/laos-threat-mekong-river/> (accessed on March 3, 2016).
60. P. Rujivanarom, "Xayaburi Dam Opponents Appeal Against Administrative Court Ruling," *The Nation*, January 25, 2016.
61. H. Pohlner, "Big Money, Big Dams: Large Scale Chinese Investment in Laos," *East Asia Forum*, May 25, 2013.
62. P. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization*, Vol. 46, No. 1 (1992): p. 27.
63. J. Chwieroth, "Neoliberal Economists and Capital Account Liberalization in Emerging Markets," *International Organization*, Vol. 61, No. 2 (2007): 443-463.
64. B.J. Cohen, "Are Monetary Unions Inevitable?" *International Studies Perspectives*, Vol. 4, No. 3 (2003): 275-292.
65. T. Terada, "Constructing an 'East Asian' Concept and Growing Regional Identity: From EAEC to ASEAN+ 3," *The Pacific Review*, Vol. 16, No. 2 (2003): 251-277.