

# POLICY BRIEF

**LOWY INSTITUTE**  
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## DESIGN FAULTS: THE ASIA PACIFIC'S REGIONAL ARCHITECTURE

### WHAT IS THE PROBLEM?

*The Asia Pacific region has too many regional organisations, yet they still cannot do all the things we require of them. This matters because the large adjustments which the world will have to make to the rising power of China and India will be managed more easily and effectively if their neighbours can help shape the emerging landscape. Instead of focusing on what we've got, we should look at what we need.*

### WHAT SHOULD BE DONE?

*Four elements are necessary in any effective regional architecture. We must be able to facilitate trade and investment; help build an East Asian community; promote regional security; and permit heads of government to discuss common problems. The complication is that a different group of countries and a different definition of the region is best suited to each case.*

*The best solution would be to leave APEC with its economic role but decouple the leaders' meeting from it; preserve the ASEAN Plus 3 forum; develop a new security body, perhaps around the institutionalisation of the informal Shangri-la Dialogue in Singapore or widening the membership and role of the Six Party Talks on North Korea; and establish a new Heads of Government meeting independent of both APEC and ASEAN. This is a difficult but by no means impossible task. The APEC leaders' meeting in Sydney is a good place for the conversation to begin.*



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- promote discussion of Australia's role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Policy Briefs are designed to address a particular, current policy issue and to suggest solutions. They are deliberately prescriptive, specifically addressing two questions: What is the problem? What should be done?

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**A crowded field**

When the leaders from 21 Asia Pacific economies meet in Sydney for the APEC leaders' meeting in September, they will be elbowing for attention and relevance in an overcrowded field of regional organisations. Our problem is that there are too many regional forums, yet they still cannot do all the things we need.

This proliferation of regional institutions in Asia and the Pacific is a new development. Until the early 1990s Asian regionalism was vestigial. Even the oldest of the sub-regional organisations, the Association of Southeast Asian Nations (ASEAN), covered only half its potential membership.

All that began to change once the rigid divisions of the Cold War were removed. APEC was established in 1989, its first leaders' meeting was held in 1993 and ASEAN expanded between 1995 and 1999 to include Vietnam, Cambodia, Laos and Myanmar.

But over the past decade or so the institutional landscape of the Asia Pacific has become crowded with new nameplates – ASEAN Plus 3, the East Asia Summit, the Shanghai Cooperation Organisation, the ASEAN Regional Forum. The range and form of regional institutions that now exist in Asia and the Pacific (its 'architecture' as the experts term it) are certainly not the best that can be envisaged and it seems unlikely that they will all survive.

Why have so many new institutions emerged? One reason is that the geopolitical stakes in Asia are higher than they have been for several

centuries. With the growth of China and India, global economic and strategic power is swinging back towards Asia for the first time since the industrial revolution in Europe. As a result, the way in which the region organises itself, and the number and identity of the countries which are involved in its institutions, matter more intensely, and matter to a wider number of governments.

**The changing debate**

Three developments in particular have helped reshape Asia Pacific regionalism. The first is globalisation, the second is the rise of China and the 1997/98 Asian financial crisis is the third.

*Globalisation*

At the broadest level has been the transforming influence of globalisation – the huge increase in global interdependence which resulted from the development in the second half of the twentieth century of information and communications technologies (especially the personal computer, mobile telephony and the internet) which slashed the costs of transferring goods and information around the world. Globalisation has changed the way the world interacts, the way it invests and trades, and the nature of many of the problems it faces. As a result, the questions at the forefront of today's international agenda – energy security, 'behind the border' issues in global trade, terrorism and climate change – are all different from those which dominated when the discussion of Asia Pacific regionalism first gathered steam. Governments are far more aware of how

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*transnational* and multidisciplinary are most of the hard policy questions they face.

By imposing new pressures to find worldwide solutions to problems, globalisation raises fresh questions about the role of regional organisations. If distance is dead and the world is flat, as some writers have claimed or if – more prosaically – business supply chains are global, in what ways do regions now matter? What is the purpose of regional integration? How do you delineate regions?

Take a practical example: in what ways does it make sense to include Latin America in an Asia Pacific regionalism, for example, but not the countries of the Gulf, so central as energy providers to the region? On what grounds should the waters that link the Eastern Pacific littoral with Asia matter more than the waters that join the western Indian Ocean littoral with Asia? And why an Asian regionalism that includes China but not India? How does Australia – not an Asian country but a critical supplier of energy and resources to Northeast Asia – fit?

Globalisation also raises questions about the form of regional organisations. As the number of countries in the world has increased it has become harder to get fast, effective decision-making out of the sort of universal, permanent multilateral bodies with which we are familiar. ASEAN and APEC have both struggled to adjust to larger memberships. This has led to efforts to speed up decision-making by embracing what has been called *ad hoc* multilateralism or 'coalitions of the willing'. The Asia Pacific has seen many examples – the Korean Peninsula Energy Development Organization (KEDO), the Asia Pacific

Partnership on Clean Energy and Development (AP6), the six party talks on North Korea, and the Bali conference processes, which have addressed transnational issues like money-laundering, people-smuggling and counter-terrorism. Another reaction to the slow processes of traditional multilateral institutions has been the proliferation of bilateral free (or more accurately preferential) trade agreements.

So regional institutions are being squeezed: either too narrow to deal effectively with global challenges like energy security or climate change, or too cumbersome to be able to respond nimbly to urgent local problems.

*China rises*

The second major reshaper of the debate about regional institutions has been China's rapid economic growth. China's new power has transformed the dynamics of Asia's regional institutions. When these were first being established at the end of the Cold War, China was in a much weaker position economically and, after the internal disruptions of Tiananmen Square, politically. Its membership of regional forums was seen by most of the countries around it as a way of encouraging it to engage with its neighbours and settle comfortably into the status quo. Beijing's capacity to determine the form of regional organisations was limited. (The best illustration was its failure to prevent Taiwanese membership of APEC.) Fifteen years later, however, the fear of some among its neighbours is not that China might disengage from the region but that it will use its growing economic weight to dominate and control regional institutions. Some of them are looking to balance China's clout.

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*Lessons of the financial crisis*

The third, catalytic, reshaper of the debate about Asian architecture was the Asian financial crisis which began in Thailand in 1997 and spread rapidly, fanned by the formal or informal linkages that most of the Asian tiger economies had established between their currencies and the US dollar. Korea, Malaysia, Singapore, the Philippines and, finally, Indonesia, were also infected. Short-term money in regional banks and stock exchanges fled, as foreign investors began nervously to question their commitment to Asia as a whole. The result was catastrophic: a \$100 billion reversal of capital inflows to Korea and the ASEAN countries in a single year from 1996 to 1997. The IMF and the World Bank offered financial assistance but the loans came with increasingly elaborate conditions for the application of austerity measures, often in areas quite peripheral to the crisis. Actively driven by the United States Treasury, the IMF used economic pressure to achieve broader political ends.

The most important political outcome was the resignation of Indonesia's President Soeharto under intense economic pressure, bringing to an end the New Order regime which had shaped Southeast Asia's economic and security environment for more than thirty years. But a second result was the undermining of Asian confidence in the main economic institutions of global governance and the development of a collective sense amongst Asian governments that they could never again leave their economies so vulnerable to institutions controlled by others.

**Two ideas about regionalism**

The core of the problem with Asian regionalism, and the reason it is so difficult to find an appropriate form for its architecture, lies in the fact that two quite different ideas about the region are competing to influence its institutions. The first is the objective of a trans-Pacific economy linking the countries of the Pacific Rim, through closer economic integration. The second is a broader, more normative, effort to create an East Asian political community. This ambition has its recent roots in the post-Cold War, and more immediately post-financial crisis, efforts to build a sense of Asian community amongst the countries of East Asia and to promote a distinct Asian identity internationally as a basis for closer regional cooperation.

The result is that no consensus exists on what 'the region' actually is, or on what the institutions serving it are to do.

**What we have**

These two different ideas about regionalism can be seen in the institutions that have emerged in recent years. Each of them represents a particular vision of the region held by one or more of its members. Beneath all the dry talk about regional architecture, in other words, there lies a vital but largely unarticulated debate about the preferred geopolitical shape of the region in twenty years time.

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*APEC*

Established in 1989, just as the end of the Cold War eroded the barriers of the bipolar world, opening up global markets and creating greater opportunities for regional cooperation, APEC represents the first strand of thinking, a broad Asia Pacific view of the region. Growing out of earlier institutions such as the Pacific Economic Cooperation Council (PECC) which were designed to foster trade and economic cooperation, it is essentially economically focused despite a broadening out of its agenda in recent years to include human security issues.

The 1991 APEC Declaration sets out four objectives for the organisation:

- to sustain regional growth and development and thereby contribute to global growth and development;
- to enhance the positive gains of economic interdependence by encouraging the flow of goods, services, capital and technology;
- to develop and strengthen the multilateral trading system;
- to reduce barriers to goods and services and investment among participants 'in a manner consistent with GATT principles, where applicable, and without detriment to other economies.'

Under its three 'pillars' it addresses these aims through trade and investment liberalisation, business facilitation, and economic and technical cooperation. It operates on a voluntary and consensual basis. It has shown itself to be an effective capacity-building institution, using the experience of its developed economy members to help the developing members.

APEC is broad and inclusive: it engages the United States, still so critical to the economic health of East Asia, and embraces the Latin American countries of the Pacific littoral, giving them a stake in this growing area of the world. Its geographical reach is – or at least has been until discussions began about admitting new members like India – the Pacific Rim.

*ASEAN Plus 3*

ASEAN Plus 3 on the other hand represents the core of an East Asia-focused architecture. It brings together the ten members of ASEAN, China, Japan and the Republic of Korea. It was established formally in 1999 after the 1997 financial crisis shook Asian confidence in global institutions like the IMF and the World Bank. Its intellectual origins, however, lie in earlier ideas such as Malaysian Prime Minister Mahathir's proposals for an East Asian Economic Group (later Caucus) in 1990. It has established a dense network of meetings across 16 broad-ranging areas of cooperation. These include economic, monetary and finance, political and security, tourism, agriculture, environmental, energy and information and communications technology. Practical outcomes have included:

- the Chiang Mai Initiative, a web of bilateral arrangements allowing central banks to swap foreign exchange reserves in order to counter speculative moves against their currency, supported by regional surveillance and capital flow monitoring;
- the Asian Bond Initiative (2003) which facilitates regional investment in local currency denominated bonds;
- the establishment of an experts group to explore an East Asian Free Trade Area.

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As with the Shanghai Cooperation Organisation (which brings together China with Russia and its central Asian neighbours), and the ASEAN Plus 1 arrangement, (China and the ten ASEAN countries), this is a model which suits China well. It provides Beijing with a sense of greater intimacy and engagement with its immediate regional neighbours. Looked at in another light, it allows China to exert more influence over regional developments than is possible in the larger organisations.

*East Asia Summit*

The East Asia Summit – ASEAN Plus 3 Plus 3 – extends the geographical definition of East Asia southward and westward with the addition of India, Australia and New Zealand. Held back to back with the Summit meetings of ASEAN, its first meeting was held in 2005. Its agenda is still very general, focusing on issues such as energy cooperation. It is the least clearly-focused of the regional organisations. The core of the membership is still East Asian but China's weight within the organisation is balanced by outside countries. India, the other re-emerging Asian power, is keen on this broader model which provides it with a seat at the East Asian conference table. Australia, which sees engagement with the region as a core foreign policy aim, also supports this wide interpretation of East Asia.

*ASEAN Regional Forum*

The core concern of the ten members of the Association of Southeast Asian Nations (ASEAN) is not so much the scope of membership of regional institutions but the centrality of Southeast Asia's position within

them. The approaches of individual Southeast Asian countries differ but they all want to secure a role for ASEAN in any regional architecture. They have succeeded remarkably well. The ASEAN Plus 3 grouping, the East Asia Summit and the security-focused ASEAN Regional Forum (ARF) are all shaped and led by ASEAN. The ARF met first in 1994 and its membership comprises the ten ASEAN countries, ASEAN's dialogue partners (Australia, Canada, China, the European Union, India, Japan, New Zealand, South Korea, Russia and the United States), Papua New Guinea and North Korea, Mongolia, Bangladesh, Pakistan and East Timor. It meets at (foreign) ministers level once a year under ASEAN chairmanship. It is based on consensus decision-making and minimal institutionalisation.

The large systemic stresses that will face East Asia and the Pacific as China and India emerge to take their place with other great powers, and as Japan adjusts to its new regional environment, are already apparent. And although there is no reason to believe that this process cannot be managed well, it will certainly be easier and smoother if the broad environment into which China and India emerge is one in which all regional voices have an opportunity to be heard. Regional forums provide an obvious and effective way of facilitating this. And just as the shifts in Asia's power structure are multi-faceted, so those institutions in their turn need to address economic, security, social and political issues.

In this sense, therefore, a case still exists for regional community-building. But it is not necessary for this to take place within any single institutional framework. Indeed it

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probably cannot happen within any one institutional framework because of the multiplicity of visions of the region and the variety of functional needs that must be accommodated. The Asia Pacific has never been headed towards the goal of a comprehensive European Union-like arrangement: its history and geography are of a very different order. And the speed with which Asia recovered from the financial crisis showed that inter-governmental institutional architecture has hardly been central to the region's capacity to achieve a high degree of effective economic integration. As a result, Asia Pacific governments have been under no particular pressure from their business communities to develop regional institutions of one shape or another, or to take radically new integrative steps.

**What is needed**

What is the way out of the current confusion over regional architecture? If instead of being preoccupied by what now exists, we look at what is needed, it is easy to see four distinct requirements:

- The first requirement is to facilitate trade and investment in the region, to engage business in a practical way and help formulate responses to the practical transnational issues (trade facilitation, pandemics, climate change, energy security) which will be so important to the international agenda over the next twenty years. This needs the engagement of as many of the regional economies of the Asia Pacific region as possible. And that means finding a place for Taiwan and Hong Kong.
- The second requirement is for East Asians to interact with each other in a collective forum about their regional concerns and to strengthen linkages between Southeast Asia and Northeast Asia.
- The third requirement is make the region safer by facilitating action in support of common Asian regional security interests.
- The fourth requirement is to enable key heads of government to discuss – as they alone can do – the full range of regional issues.

No single forum can meet all these needs, not least because a different membership is required in each case.

APEC clearly fulfills the first requirement. It is broadly based and specifically focused on economic cooperation. It is an excellent model for the transfer of knowledge and ideas between developed and developing members.

To serve the second requirement an organisation needs to provide a framework for specific community-building in East Asia, especially by engaging China and Japan in detailed discussions with their neighbours. It would make good sense for such an institution to be limited to the ASEAN Plus 3 grouping and to have Southeast Asia, through ASEAN, remain at its core.

Because of its mandate, any organisation serving the third requirement, on security, must be narrower in focus and membership than the first. It would make little sense to include in such a body Latin American countries whose strategic interests centre on the western hemisphere, but a great deal of sense to include India and Russia. An effective Asia Pacific



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security organisation needs to be able to move beyond confidence building to preventative diplomacy and other ways of facilitating active regional security cooperation, including in such non-traditional areas as terrorism, piracy and people-smuggling, and sea-lane protection.

None of the existing forums serves this requirement properly. APEC is too broad and is constrained by the membership of Taiwan ('Chinese Taipei') and Hong Kong from addressing traditional defence questions. The ASEAN Regional Forum has delivered less than many participants hoped for and is too broad in its membership. It is structured solely around the chairmanship of its ASEAN members, some of whom have provided effective leadership, but others of whom have not. The other existing official forum in Asia, the Six Party Talks on North Korea, will not with its current membership and mandate be seen as a legitimate security forum for East Asia as a whole and cannot address the range of broader non-traditional security issues which are increasingly important to Asia. Something new is needed.

The fourth requirement is for a forum which brings together key heads of government. The region needs the opportunities that an annual Heads of Government meeting provides not just to discuss multilateral issues but to facilitate bilateral contact. Such a body cannot be too large or it loses the capacity to facilitate real dialogue but it still needs to be broad enough to be representative. APEC has been a useful host for such meetings but it is not ideal. Because APEC is formally a meeting of 'economies' rather than states it is constrained from dealing openly with traditional defence

issues and its membership is too diverse. Again, something different is needed.

**What we should do**

The question facing the region is whether the present institutions can serve the needs or whether new approaches are needed. In considering this question it is important to bear in mind the resource implications of regional institution-building. Any architecture, however elegant the design, needs craftsmen and labourers to build and maintain it. We are reaching a point where none but the very largest regional governments has the capacity to service effectively all the institutions now out there. And the time and competing demands on leaders and the interests of efficiency means that it is highly unlikely that a gathering of Heads of Government can be convened more than once a year. So the aim should be an architecture which is as simple as possible.

A practical and effective outcome which maintains the best of the organisations that now exist would be, first, to maintain APEC with its current membership but with the Ministerial meeting, rather than the leaders' meeting, at its apex, (and a role for the increasingly important Finance Ministers meeting). This would not be difficult and would not damage APEC itself given that the leaders' meeting was deliberately structured from the beginning as an informal addition to the formal structure of the organisation. It operated successfully before the leaders' meetings were established and can do so afterwards.

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Second, ASEAN Plus 3 should be preserved with its present membership to serve the task of building an East Asian community. This would involve no changes.

Third, the difficult but by no means impossible task should be begun of developing a new regional security body with a membership that incorporates the key governments that will shape the security environment of East and Southeast Asia (China, Japan, Korea, the United States, Russia, the ASEAN states, Australia, New Zealand and India). The outline of such a forum can be imagined in something like the institutionalisation of the current informal Shangri-la Dialogue of the International Institute of Strategic Studies, based in Singapore, which brings together many of the region's defence ministers and military leaders. An alternative would be to expand outward from the current six party talks on North Korea to build a broader Asian security grouping.

Finally, regional leaders need to establish a new Heads of Government meeting. The most useful membership would be the current ASEAN members of APEC (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam) plus the other members of the East Asia Summit (China, Japan, Korea, India, Australia and New Zealand) together with the region's vital security and economic partners, the United States and Canada. Because this would be a stand-alone institution (like the G8), with a mandate to review developments in the Asian region broadly, it should not be tied formally to either APEC or ASEAN. Like the APEC leaders' meeting it would operate informally. Its role would be to discuss the central issues affecting the security and

prosperity of the region, including those that might arise in the other forums. It would not need its own secretariat but members could receive reports from their ministerial representatives in the other institutions. Chairing duties would rotate amongst the members.

Political scientists write of a phenomenon called 'institutional stickiness' – in layman's terms, the tendency of organisations to resist doing themselves out of a job. When that is mixed with national interests, political pride and diplomatic caution, it makes change in international organisations hard to secure. The proposals outlined in this Policy Brief are neither radical nor particularly difficult to implement but they cannot get far without political leadership. The APEC leaders', ministers and senior officials meetings in Sydney will have many other things to do. But if we are to build an institutional architecture for the region that will shelter us during the unpredictable weather ahead, it would be helpful if, in the margins of their discussions, some of them were pondering new blueprints.

## ABOUT THE AUTHOR

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