

# หนึ่งทศวรรษวิกฤติเศรษฐกิจเอเชีย จากอดีตสู่การเรียนรู้เศรษฐกิจ ของประเทศอาเซียน

One decade since the Asian Financial  
Crisis: What did ASEAN economies  
learn from their past?

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## บทคัดย่อ

บทความนี้เป็นความพยายามหนึ่งในการวิเคราะห์ประเด็นปัญหาเศรษฐกิจของอาเซียนในยุคหลังวิกฤติเศรษฐกิจ พ.ศ. 2540 เพื่อทำความเข้าใจกับบทเรียนด้านเศรษฐกิจการเมืองของภูมิภาคฯ ซึ่งชี้ให้เห็นว่าประเทศในอาเซียนได้เรียนรู้จากบทเรียนในอดีต และดำเนินนโยบายเชิงเสรีนิยมอย่างรอบคอบมากขึ้นตามแนวคิดเศรษฐศาสตร์ Keynesian ประเทศเหล่านี้จะเน้นการเพิ่มความเข้มแข็งภายในและการควบคุมระบบการเงินและการลงทุนจากต่างประเทศมากขึ้น รวมถึงการส่งเสริมกระแสภูมิภาคนิยมในทางการบูรณาการเศรษฐกิจเอเชียที่กำลังก่อตัวขึ้นมา ผลงานวิจัยนี้จะชี้ให้เห็นความเชื่อมโยงเกี่ยวพันกันระหว่างปัจจัยภายในกับภายนอกในกระบวนการฟื้นฟูเศรษฐกิจอาเซียน และนัยยะสำคัญต่อทิศทางของโครงสร้างเศรษฐกิจใหม่ในเอเชีย

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**คำสำคัญ :** เอเชียตะวันออกเฉียงใต้, วิฤตติต้มยำกุ้ง, นโยบายเสรีนิยมใหม่, เศรษฐศาสตร์ Keynesian, การควบคุมเงินทุน

### **Abstract**

This paper is an effort to take the crisis into a renewed scrutiny to clarify economic challenges of ASEAN economies in post crisis era. Its study found that ASEAN economies turned to adopt a more prudent liberalist approach in favor of the Asian regionalism. Regional countries strived to strengthen their domestic economies with Keynesian macro-economic policy while gradually resembling new Asian economic architecture. The paper also sheds lights on the interrelation between domestic and international factors in the recovery process of ASEAN and likely directions of new economic structure in Asia.

**Keywords :** Southeast Asia, Asian Financial Crisis, Neo-liberalist policy, Keynesian Economics, Capital control

### **Introduction**

The Asian Financial Crisis 1997-1998 is widely seen as one of the most significant events in Asia's modern history. Before 1997, Southeast Asian (ASEAN) economies, namely Thailand, Malaysia and Indonesia, enjoyed their highest growth rates and became preferable investment destinations, which convinced many observers of another wave of Asia miracles to transform the new Asian tigers to new developed economies in a foreseeable future. However, their aspirations were ruined in the late 1990s as the crisis suddenly broke out bringing along economic damages and political chaos across the region.

In July 2nd 1997, the Bank of Thailand announced to float the Baht-Thai national currency, effectively resulted in further Baht

depreciation, and caused economic panics throughout the market.<sup>1</sup> Governments, with pro-export policies and low foreign reserves, insisted to maintain fixed exchange rate regime, in which the Baht were then pegged to the US dollar, in a desperate attempt to stabilize the market. Moral hazards and herding behaviors spread through the market pushing the financial situation under serious exhaustion leading to eventual market failure and the collapse of Thai monetary system. The economic meltdown brought along serious contagion and spilled over from Thailand to Indonesia, the Philippines, and Malaysia spreading across Southeast Asia and beyond.

In economic terms, the ‘Financial Tsunami’ caused economic recession leaving regional governments with increasing foreign debts, market confidence, massive financial outflows, widespread unemployment and bankruptcy. An economic ‘domino effect’ also brought crises sweeping through other parts of the world to Russia in 1998, Brazil’s in 1999, and Argentina’s and Turkey’s in 2001. This series of economic crises made the outlook of the world economy gloomy at the turn of the new millennium.

From political dimension, Thailand’s Prime Minister Chavalit Yongchaiyuth, a moderate military general, resigned paving the way for new government under Thai democrat nominee Chuan Leekpai before the Thaksin era loomed in. In Indonesia, significant government change put an ending to three decades of Suharto’s regime followed by nearly a decade of political decentralization and destabilization. In Malaysia, the crisis also prompted a great domestic rift between long time alliance of

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<sup>1</sup> The Baht plunged 16% on the day of the attack and lost over 50% of its value by January 1998. See Galina Hale, Could we have learned from the Asian Financial Crisis of 1997-1998? Feb 28 2011.

Prime Minister Mahathir and his Deputy Anwar, with which the Malaysian society entered a new era of political division. Other socio-political upsets also followed as widespread rioting and outrage erupted across Southeast Asia especially separatist movements for final independence of East Timor from Indonesia in early 2000 and rising ethnic separatism in Southern Thailand.

The post-crisis era witnessed ASEAN economies undertaking remarkable recovery and reform. Notably, we see a more tightly interconnected region as a result of a closer regional cooperation in post-Asian financial crisis era, Southeast Asia continues to be a vibrant and one of the most dynamic regions of the world economy. Previous literatures have examined the crisis to clarify causes, responses and outcomes (Radelet and Sachs, 1998), policy recommendations (Eichengreen, 1999; Mishkin, 1999; Rogoff, 1999; Roubini, 2000) while some provided assessment of how the affected economies learnt from the crisis (Berg, 1999; Park, Ramayandi, and Shin, 2011; Hale, 2011; Kanaoka, 2012). Prominent literatures provided broad comparative geo-economic perspectives on the Asian financial crisis and its aftermath with detailed case studies of affected economies (Sharma, 2003) or with comparative relation with global crisis 2008 (Putra, 2012). Some focused particularly on country-specific analysis (Sato, 2003; Havie, 1999; Charette, 2006; Lim and Goh, 2012; Hewison, 1999) while some discussed particular aspects of the crisis (international legal and institutional aspects, see Head 2010). Others explored its implications to the existing international institutions and regional architectures (Weisbrot, 2007; White, 2005).

This paper is not designed to scrutinize more in such way, it is, rather more concerned with what ASEAN economies have learnt from

their experiences to strengthen national economies and regional economic structure in the following period amid increasingly volatile global economy and raising doubts about globalization and existing international architecture. Some literatures partly explored the issue and arguing for increasing trend of “a purposeful East Asian regionalism” (Promfet, 2010, p. 58) or possible trends of protectionism (Naya, 2004, p. 4).

However, economic developments in recent years still demonstrate contradictory approaches of ASEAN economies,<sup>2</sup> about which they failed to explain. In terms of trade, given its potential, intra-regional trade volume and value remains relatively small compared to those with external markets. Secondly, there are signs of disunity inside ASEAN. Member countries often found themselves at uneasy crossroad in their policy towards regional trade negotiations and other regional issues, such as Japan-led economic proposals and China’s as in the case of Japan-dominated Asian Development Bank and newly found China-led Asian Infrastructure Investment Bank which Japan and the U.S decided not to be a part of. Thirdly, in terms of finance, several regional initiatives remain in an ineffective implementation and vague direction. In this sense, some might raise the example of the Chiang Mai Initiatives (CMI) as a region’s pooling reserve in case of emergency but it has never been used even during the global financial crisis (Muchala, 2007).

This paper, thus, argues by learning lessons from the past mistakes, ASEAN economies turned to adopt a more prudent liberalist approach in favor of the East Asian regionalism. Most ASEAN countries strived to strengthen their domestic economies with Keynesian policies

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<sup>2</sup> The paper focuses on three ASEAN economies, including Thailand, Indonesia and Malaysia, which were severely affected by the crisis. The term “ASEAN economies” mainly indicate these three economies..

over the market, while gradually resembling new architecture in favor of Asian regionalism.

The paper will, thus, first examine structural problems of the national and regional financial system in post-crisis era. In the next part, it will explore the recovery and reform process from 1997 to 2007 to clarify how they built economic architecture which is healthier and less vulnerable to contagious shocks. The third part will discuss directions of regional economic cooperation and highlight an increasing trend of East Asian regionalism deemed as one crucial part of the recovery and reform process. The concluding section provides brief conclusion of findings and implications to the region. The paper's main focus is on the three ASEAN economies, namely Thailand, Indonesia and Malaysia as they are among the most seriously affected economies and share certain similarities in economic size, economic and political environment and degree of economic openness.

### **Theoretical perspectives**

Theorists and economic observers have different viewpoints on economic crises, therefore, prescribed different approaches for economies to respond and recover. Neo-liberalists diagnosed the weakness and corrupted nature of the domestic economic structure as the main problems of the crisis such as weak banking systems, ineffective legal regulations and financial supervision (Eichengreen, 1999; Mishkin, 1999; Rogoff, 1999; Roubini, 2000). They, therefore, prescribed for further economic reform focusing on more liberalized and transparent economies in compatible with and in supplementary coordination with the existing order.

Neo-Marxists criticizes market speculators and capitalist investors with malicious herding behaviors play as immoral benefit-seekers are among main problems of the existing capitalist economic system of which crises are inherent problems. Capitalist investors were attracted by high interest rates for high return, cheap production from labor exploitation, resourceful production base and consumerist market in developing economies thus led to monetary fluctuation, soaring asset prices and inflated economies. Adoption of macro-prudential policies is necessary to make use of the flow of hot money and avoid financial crises (Khatri, 2011; Korinek, 2010).

Two following theoretical approaches are applied in this study, which are Keynesian economic approach (Keynes, 1936) and the interventionist concept of capital control (Liard-Muriente, 2007). Keynesian economic emphasized the role of governments arguing that government intervention and public expenditures with lowered taxes can stabilize the economy, stimulate demand and lift the economy out of recession. *The aggregate demand*, one key concept of Keynesian economics, is calculated by the sum of spending by households, businesses, and governments, can play as important driving forces to stimulate the economy. During normal situation, through public policies, government intervention can help the economy achieve employment and price stability. During recession, private sector decisions, such as reduction in consumer spending or market failures, might bring about adverse macroeconomic problems. Active policies via fiscal stimulus packages can reverse this trend and boost domestic demand.

Another key concept is *capital control*, which is a set of progressive policies adopted by governments to control the free flow of funds in and out of the country's border and within its border, with an aim to achieving

sustained full employment and greater equality of income and wealth (Liard-Muriente, 2007). Two type of control instruments includes administrative measures on transactions and tax measures (or tax-like) on flows. Administrative controls are not effective nowadays given high-tech trading and liberalized markets.

These measures enable countries to gain policy autonomy and support domestic full employment, therefore, protect domestic economy from volatile capital movements, save foreign exchange and keep finances under national control while maximize social welfare in short and medium terms. This policy tool can also improve revenues, facilitate international monetary reform, substituting for inadequate solvency supervision of financial institutions, reducing the size of volatile short-term foreign credits in relation to the economy and limiting the power of international financiers, and buy time to manage speculative attacks. In non-crisis situation, the payoff is higher for countries *without* capital controls while, in the event of crises, the payoff for countries with controls is then higher (Liard-Muriente, 2007).

The post crisis trends are described by various approaches in which some signified the serious rift between the developed North and the developing South, the capitalist system and anti-capitalist forces (Hardt and Negri, 2000) or the revisionist replacement of the semi-peripheral and peripheral economies with the core economies (Amin and Wallerstein, 1982). Some foresee a declining hegemony and further multipolar order (Andrew Sheng, 2016) and the new system can reduce malicious speculation, excessive interventionist measures with domestic demand-led growth model (Palley, 2011; David, 2001; Motes and Popoy, 2011).

### Post-crisis era: Issues, reform and recovery

After the crisis, the region faced a number of problems including domestic and external issues. Domestic problems include weak fundamentals, widespread cronyism, and inappropriate policies of government actors, business, banking and market participants (See Krugman, 1998; Sharman, 2003; Sato, 2003; Havie, 1999; Charette, 2006; Muchala, 2007, Head, 2010; Lim and Goh, 2012). Later problems include excessive reliance on volatile external factors, increasing incapable international economic structure and the external perception change relating to negative impacts of austerity measures, speculators, short-term investors and international financiers (See Sharman, 2003; Muchala, 2007).

These imply some key issues for the region in the post-crisis era, among them are urgent needs for (i) strengthened domestic financial systems with greater transparency and more strictly supervision of lending activity, (ii) more effective macro-economic governance with further attention to build strong foreign reserves, sustainable exchange rate regime, improvement of risk assessment, tightening capital controls and composition of foreign capital inflows; (iii) balanced reliance on external finance, deepening and diversification of international financial cooperation in the region; (iv) The region expects for a new international financial architecture what set new rules in ways that balance the benefits of liberalization and financial stability, thereby prevent future crises or help resolve them at the lowest possible cost.

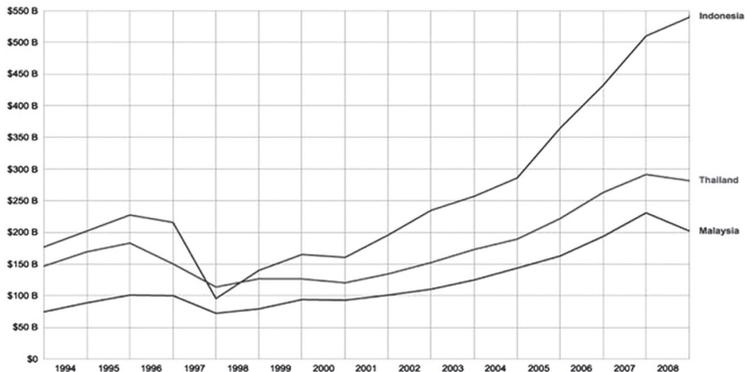


Chart 1: GDP growth rate

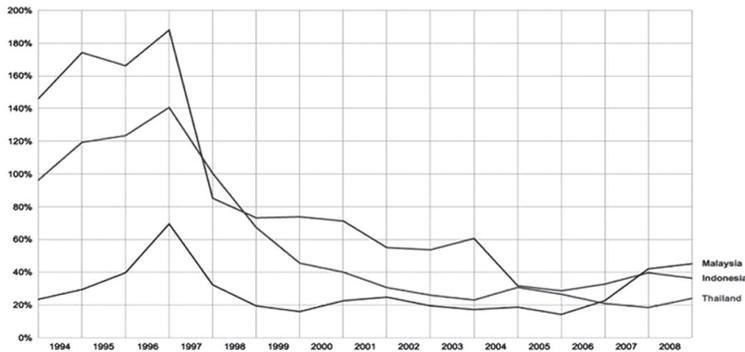


Chart 2: Short-term debt (% of reserves)

Since the crisis, regional economies are heading towards strengthened stability and increased financial supervision both at domestic and international level. By 2007, their GDP growth rates returned to their ascending orbits with average annual GDP during 1999-2005 bounced back to 4-6 percent (Muchala, 2007, p. 41). Governments maintained large foreign reserves, surplus balance accounts and flexible exchange rate system while investment activity witnessed substantial recovery. Most regional economies have recovered

their domestic currencies: the Thai Baht (70%), the Malaysian Ringgit (70%), and the Indonesian rupiah (25%) (Muchala, 2007, p. 41). Other indicators were also improved including decreased total external debts in most economies, reversal of capital inflow through external bank loans, changes in the growth of credits to the private sector, real external debt burden in domestic currencies (Kanaoka, 2012, and see chart 2).

The crisis-affected economies have made significant progresses in four key aspects within roughly eight years, which include (1) macroeconomic policy frameworks, with stronger, more prudent and transparent management; (2) healthy balance of payment supported by substantial accumulation of foreign reserves; (3) better market and corporate governance through the reform of regulatory and supervisory systems; (4) closer and deeper international cooperation on regulating foreign capital, banking system, and monetary measures. Notably, three out of four key policy approaches are targeted at domestic economy.

**Macro-economic performance:** ASEAN economies realized from the crisis an urgent need to adjust their macro-economic policies. After the crisis, Thailand and Indonesia implemented austerity policies following large bailout packages from IMF-led programs while Malaysia imposed capital control supported by a strong foreign reserve. Indonesia and Thailand abandoned their heavily managed exchange rate regime and moved to a more flexible regime.

Governments have also restructured the monetary system by adopting reflationary policies and imposed managed float exchange rate to made domestic currencies more aligned with market value. Several factors positively contributed to recovery such as the depreciation of the currencies after crisis somehow helped them quickly recover export sector, rapid growth in exports and falling imports reversed the current

account balance after the crisis and positive performance of trade balances, low U.S interest rates and the recession in other parts of the world, especially in Brazil and Russia drove investors back to the region.

As the healing process gained momentum, governments took further steps by adopting Keynesian economic approach: re-capitalize the financial institutions and restored liquidity in the banking system, thereby, balancing budgets over the business cycle. Both Malaysia and Thailand, well-known under the name of Thaksinomics, were quite successful with its macroeconomic measures such as increased the government expenditure and public spending, reduced interest rates, thereby, boosted the market and business sectors. Deep fiscal contraction during the crisis was replaced by strong domestic demands and robust external demands supported large fiscal stimulus packages implemented decisively.

**Balance of payment:** Regional economies paid more attention to balance-of-payment difficulties and have substantially built their foreign reserves to surplus level (see chart 3). By 2007, Indonesia's reserve, for example, reached to \$50 billion (Park, 2012). Gross international reserve holdings accelerated rapidly, from lower than \$40 billions to peak at nearly \$300 billions (Park, 2012). Thereby, the region has significantly reduced its vulnerability to financial crises while market players are discouraged to move toward profit taking that would instigate a contagion.

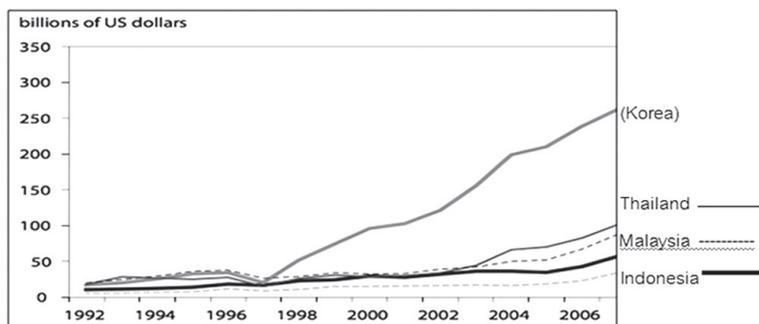


Chart 3: Gross National Reserve (Park, 2012, p. 24).

**Corporate governance and market regulatory systems:** Regarding reform of corporate governance, it is widely criticized that conglomeration, informal agreements, and other stereotypes of Asian corporate mismanagement were among critical problems of ASEAN economies. Governments, therefore, implemented a number of reforms that discouraged these activities and established access to emergency finance and regularly provided disclosures of external debts and foreign reserves. These could save firms in affected countries with problems of insolvency or being subjected to undervalued take-over activities such as adopting stricter regulatory and supervisory measures to efficiently regulate the market and investment activities and increase transparency.

#### International efforts

The ASEAN and three East Asian economies (or ASEAN+3) had proposed a number of financial initiatives in order to strengthen the region's capacity and economic stability to prevent and manage future crises, which can be grouped into these following key initiatives.<sup>3</sup>

<sup>3</sup> Some summed up various initiatives but few of them have been effective over the past time. See Worapot Manupipatpong, Regional initiatives for financial stability in ASEAN and East Asia, 2016.

On macroeconomic surveillance and monitoring, ASEAN introduced ASEAN Surveillance Process (ASP) in 1998 and ASEAN+3 Macro-economic Research Office (AMRO) in 2011. ASP coordinated with ADB for technical support through its Asia Recovery Information Center. AMRO is an independent regional macroeconomic surveillance unit to monitor and analyzes economic and financial developments in the region by identify any emerging or increasing vulnerability and raises key policy issues for the ASEAN's financial and banking officials to consider during their peer review. ASP and AMRO provide early detection of risks, swift implementation of remedial actions and decision-making relating to Chiang Mai Initiative mechanism among ASEAN+3 countries.

AMRO produces (i) quarterly surveillance reports on the overall macroeconomic assessment of the whole region as well as on individual ASEAN+3; (ii) quarterly report to assess and monitor developments in the global economic environment and its impact on ASEAN+3. In crisis time, AMRO will be in charge of (i) providing analysis of the economic and financial situation of the CMIM Swap Requesting Country; (ii) monitoring the use and impact of the funds disbursed under CMIM; and (iii) monitoring the compliance by the CMIM Swap Requesting Country with any lending covenants to the CMIM Agreement (West, 2016).

On international pooling reserve as alternatives to existing lenders of last resort in case of similar emergencies, regional economies came up with the Chiang Mai Initiative (CMI): The CMI was first agreed in May 2000 as ASEAN Swap Arrangement (ASA), then expanded to other swap arrangements between ASEAN and three East Asian countries. CMI was a swap agreement which is designed to provide short-term financial support to any ASEAN+3 countries and enable them to seek for financial assistance from agreed pooling foreign exchange reserves in the event of

a liquidity problem or balance of payments crisis similar to the 1997 crisis without attachment to IMF or existing financial institutions. Conditions to secure a promised swap require regional economies to periodically surveillance report on their economic and financial situation, their compliance with agreement, which indirectly encourage members to reform and strengthen their economies.

In 2002, six bilateral swaps were agreed worth \$14 billion under the CMI, and by the end of 2003, this had increased to 16 bilateral swaps reaching to \$35.5 billion (Manupipatpong, 2016). The multi-lateralization of the CMI in 2009 enabled member countries to access the entire pool with a total amount of \$120 billion and its size in 2012 was doubled to 240 billion. A member country's drawing was assigned at 20% of its quota and was expanded to 30% and 40% in 2014 (ADB Report, 2015).

### **Towards a new financial architecture**

Despite serious consequences, the crisis can be seen in a positive sense that it stimulated regional economies to carry out their domestic reform and further deepen the regional cooperation paving the way for a new regional architecture. The crisis manifests further suspicion of ASEAN countries of Western-driven liberalization and globalization, given the IMF mismanagement. It raised the question of what should be rearranged and which architecture should be established for the post-crisis era. One likely direction is a tendency towards Asian regionalism.

Despite significant efforts, ASEAN and regional partners found many challenges to drive the region forward. First, as new financial arrangements were established, the process needs an institutional form rather than bodies with few numbers of staff and part-timers. Second, the regional mechanisms still lack competent secretariats in charge of the

process. CMI, for instance, still has complicated mechanism of existing bilateral arrangements, incapable financing facilities, and time-consuming decision-making process with no central body. There is also power competition, especially between China and Japan. For example, both Japan and China wanted their nominees for AMRO director post till it was decided to split up the service tenure with first two year for China's director and last two years for Japan's (Laurence, 2002). Other challenges for Asia's meaningful regional architecture including historical obstacles, disagreement about solutions to "hot money" issue, domestic problems and strategic diplomacy, and the West resistance to Asia's defying to status quo.

#### **Japan's attempt**

Despite the crisis, Japanese economy remained strong and it saw the crisis as an opportunity to strengthen its economic leverage in the region. Japan proposed an Asian Monetary Fund idea with the goal to provide liquidity to allow central banks in East and Southeast Asia to protect themselves against speculative attacks, arguing for four main reasons. First, the IMF financial support for the crisis-hit countries was too little and too late. Second, East Asian countries are underrepresented in the IMF. Third, an AMF could help prevent regional contagion in future crises. Fourth, an AMF could better conduct regional surveillance and muster peer pressure better than existing ones (Promfet, 2010, p. 64).

AMF idea was well received by most ASEAN economies, while China and Singapore did not show clear support. Singapore seemed worried about possible disharmony in the region fueled by the rivalry of China and Japan while China was afraid of economic relative gain of Japan in the Japan-led regional structure (Laurence, 2002, p. 221). The idea was unable to make any progresses due to opposition from many IMF members,

especially the USA. Several reasons include (1) AMF might duplicate and undermine the role of IMF or even create double standards problems; (2) unconditional bailout of AMF would encourage moral hazard risks; (3) the Asian crisis recalled ASEAN's discredit of Japan. Indonesia's vulnerability became worse because its largest creditors, Japanese banks (about 40% of the total credit) carried out a mass withdrawing of their loans at the dawn of the crisis (Promfet, 2010). In mid-August 1997, to avoid being pulled into the crisis, the Japanese banks began to withdraw their credits from Indonesia, Malaysia, Korea and other countries, which helped to spread the crisis further (Sharman, 2003, p. 130).

With failed proposal of AMF and negative recall of the regional crisis, Japan found itself on the uncertain road to establish its preferred order. The region came up with a weaker version of the AMF - the ASEAN initiated CMI while Japan later instead proposed Miyazawa Initiative to assist crisis hit countries. Japan's strategy for now is likely to accept capital market liberalization and the primacy of the IMF as the global financial regulator, nevertheless sought to impose Japanese views within the existing framework (Laurence, 2003).

### **China's ambition**

After the crisis, some see the old political and economic order in the region had gone with the worst economic meltdown and was replaced by a new order which is actually 'a very old order', the Sino-centric system with China emerges in the center of the regional system (Jung-En Woo in Muchala, 2007, p. 55). The Asian crisis, somehow, steered the ASEAN countries further toward China.

Historically, most of the ASEAN countries have maintained a tributary relationship with China and enjoyed economic development stimulated by intensive mutual trade relationship. The system might not

resemble exactly what used to be in history, though; it might own some patterns of the past system and the modern Sino-centric interconnection with ASEAN. This might be a part of Chinese realization of its high-speed railroad systems and recent proposed maritime Silk Road project, one that enables China to conveniently link China with Europe through Central Asia, and via Southeast Asian and African sea routes into a coherent regional order under China's rising influence.

The influence of China in the region since the Asian financial crisis is increasing and such trend has been intensified over the decade. China enjoyed high economic growth since 1990s China went through the crisis without considerable damages. The Yuan has increased role on regional economy, especially after its inclusion in the IMF's SDR basket. China's decision not to devalue the Yuan was seen by ASEAN countries as good-will assistance to the ASEAN's struggle to recover their exports and their economies and the Yuan. This stands in steep contrast with infamous IMF mismanagement of the crisis and ASEAN's betrayal feeling of the West. It also followed by an US bombing incident of the Chinese embassy in Belgrade (May 1999), which was a catalyst for China's re-evaluation of its position and Chinese preferred regional order (Promfet, 2010). This further pushed China and the ASEAN economies to take more steps out of the influence of the existing West dominated financial architecture in Asia.

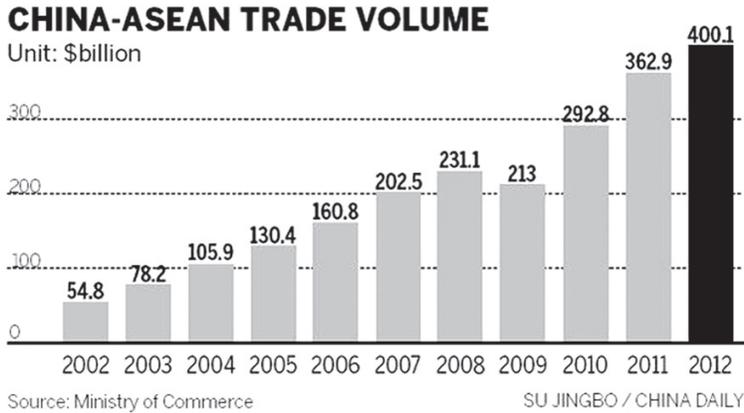


Chart 4: China-ASEAN trade volume 2002-2012 (China Daily).

Moreover, the bamboo network of Chinese rooted entrepreneurs doing businesses throughout the region remained to be the true locomotive of the region's spectacular recovery and growth. They still played essential part in the regional economy and the era of Sino-centric system is likely to receive warm welcome by ASEAN economies. The crisis-affected ASEAN economies regarded China as one stimulant for their recovery and relied on China's economic network and influence as ASEAN economies maintain increasing dependence on China in terms of trade, investments and structural factors. China's two-way trade with the ASEAN has grown more than fivefold during 2004-2014 (see chart 3, table 3).

Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
7.5%	18.8%	12.8%	28.9%	19.1%	16.2%

Table 1: ASEAN-China trade as % of GDP (Financial Times, 2014).

The introduction of Asian Infrastructure Investment Bank (AIIB) and likely finalization of the Regional Comprehensive Economic Partnership, both China plays the leading role, is expected to further enhance China's position as regional leader to push for its preferred economic structure. The AIIB began operations in January 2016, with 57 founding member countries from Asia and across the World with \$100 billion in committed capital, and is designed to invest in infrastructure projects across the region. Regarding the power structure, China shares 29.78%, followed by India with 8.36% shares, and Russia with 6.53% while economies from other regions possess slight shares of 25% (AIIB, 2016). The AIIB is, therefore, basically a multilateral credit institution of emerging economies with major focus on Asia and infrastructure which existing institutions showed many weaknesses.<sup>4</sup> It is expected to include over 100 members and soon surpass the Japan-led Asian Development Bank, currently 67 members.<sup>5</sup>

The AIIB is both complementary to existing global structure and a game changer in the region. It is well incorporated with other existing institutions as three out of the first four loans worth \$509 billions linked to the traditional World financial institutions while all loans have been issued in USD currency up to now. Although it now has 38 full-time staff and no permanent branches in borrowing countries, its operation has been quick with approval of four projects within six months since its launch. Its

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<sup>4</sup> Asia will seek projects worth \$8 trillion by 2020, far more than the WB or ADB can cover. See Ayako Mie, AIIB holdout Japan risks missing out on the infrastructure contracts it seeks, Japan Times, 22 Sept 2016.

<sup>5</sup> Algeria, Libya, Nigeria, Senegal, Sudan already signed up and Canada, Chile, Columbia, Venezuela are now applying while Cyprus, Greece, and Ireland are highly interested to join.

project is ranging from cooperation with the World Bank, worth \$217m in 154 Indonesia; to a road-improvement in Tajikistan with the European Bank for Reconstruction and Development.<sup>6</sup>

#### ASEAN's aspiration

Since the devastating crisis, ASEAN countries became more determined to promote joint international efforts and Asian-centered projects to ensure financial safety and realize international reserves for emergency. Such effort was influenced by increasing distrust of the West dominated economic structure, especially regarding the role of IMF and ADB during the crisis with implicit links to the U.S and Japan's vision of regional economic structure. Some are, thus, optimistic about an emerging East Asian architecture and see the conjuncture of Japan and China looking favorably on a regional option is key opportunity for Asian regionalism (Promfet, 2010, p. 59).

Amid the rival competition between China and Japan, ASEAN has played a central role in creating and strengthening a number of important regional mechanisms among which are ASEAN+1, ASEAN+ 3, EAS, CMIM, EPRD. Hence, ASEAN also has an opportunity to bring the region together with ASEAN positioning itself as the central player in the process of constructing regional economic and political architecture. However, ASEAN countries have their own leadership weakness to lead the region as many ASEAN-centered cooperation mechanisms are regarded by many observers as little more than talking shops.

Firstly, while ASEAN is far from a united economic and political group, its individual ASEAN economies had low substantive influence in regional economic and political fora. Most of them are heavily dependent

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<sup>6</sup> The Economist, The infrastructure of power, 2nd July 2016.

on regional powers such as Japan, China and Korea for investment, trade, financial assistance and even political supports. Secondly, there are severe rifts among ASEAN members such as contrast reactions to Japan-initiated AMF of Singapore and other members or to the US-led Trans-Pacific Partnership of Brunei, Malaysia, Singapore and Vietnam versus the rest. Thirdly, even though many regional initiatives are ASEAN initiated or ASEAN name tagged (ASEAN+1, ASEAN+3), CMI, AMRO, RCEP), ASEAN economic leadership remains limited while its external partners more than often take more prominent roles and sometimes decisive, especially China and Japan in decision on financial contribution, implicit voting rights or even nationality of officers in various regional bodies. Amid continued rivalry between China and Japan in regional scale and power competition between China and the U.S in global scale, ASEAN countries often demonstrate increasing inadequacy to lead the region.

## Conclusion

The advent of the Asian Financial Crisis and its severity came as a surprise to many because the affected countries were the very economies that are hoped to lead another wave of 'East Asian miracle'. The crisis revealed a number of underlying problems, valuable lessons as well as policy implications. After the crisis, regional economies have undergone remarkable reform and recovery to shape new directions for the region. One striking feature of the post-crisis landscape is the increasing intensity of economic cooperation in favor of the East Asian regionalism. What ASEAN has learnt from its experiences and what member countries have undertaken over the decade were crucial factors that contribute to a healthier financial foundation for the region.

From international dimension, East Asia in post-crisis era witnessed regional economies joining hand to build their international reserves in case of emergency, a more coordinated monitoring international system, and strictly control of international investment. From domestic dimension, the financial conditions of regional economies, especially the banking sector and institutional structures, have been strengthened and become less prone to a contagion in comparison to pre-crisis condition. Malaysian experiences highlight that developing countries with liberalized financial sector can manage their capital flows through policy tools supported by well-resourced foreign reserve and selective capital controls to discourage or prevent speculation. Thailand's case implies how the Keynesian economic measures can contribute to the recovery of the economy during recession period. The crisis caused Thai banks in some ways to become more conservative in their lending and less exposed to hedge fund and foreign investors, thereby, reducing financial risks. Indonesia case shows how liberalist structural reform and austerity measures can help deal with crony capitalism and overlapping influence of politics. These are also useful for other ASEAN economies such as Vietnam, Laos, Myanmar and Cambodia that are currently under reform process to deal with similar risks and challenges.

One decade since the Asian crisis is a crucial milestone for ASEAN and its member economies to review their previous experiences in the past. Understanding the issue better might provide us with implications for ASEAN economic development and regionalism ahead the construction of ASEAN Community. The direction of regional architecture remains to be further explored at the dawn of possible emerging trend of protectionism.

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