The Emergence Of Regulatory Regionalism

By Kanishka Jayasuriya

Much of the debate about regional integration in Asia has focused on institutional frameworks that promote trade liberalization and the creation of an Asian community. Australian academic Kanishka Jayasuriya argues that this approach misses altogether the emergence of a new force for regionalism — the evolution of a complex web of private and public regulatory regimes that is slowly tying the region together.

Australian Prime Minister Kevin Rudd — with appropriate fanfare — proposed a new Asia-Pacific community in June 2008, and has since continued to hammer away at the idea. His initiative joins a long line of proposals for new multilateral institutions in the region. Yet this proposal is likely to meet a fate similar to that which befell previous initiatives — namely, failure or only modest success. If it does fail, we are likely to hear once again the familiar refrain that the redoubtable realist tradition of geopolitics in the Asia-Pacific region makes fools out of those who proffer multilateral solutions.

But are we looking in the wrong places for the emergence of much-needed regional solutions to Asia’s many problems? There are signs that new shoots of regulatory governance, such as the growing networks of central banks and initiatives to combat infectious diseases, are taking root in the region, despite the fact that many would consider this part of the world hostile terrain for such approaches. This emerging regulatory regionalism is evident in a number of initiatives: the Regional Assistance Mission to Solomon Islands (RAMSI), new forms of financial surveillance, functional policy networks such as the Executives’ Meeting of East Asian and Pacific Central Banks (EMEAP), the enhanced role of the Asian Development Bank (ADB) and the pivotal activities of private actors such as security companies.

Nevertheless, despite the growing importance of regional regulation, the majority of scholars
and policy makers remain in thrall to moribund debates over regional and trade integration. It almost seems as if our understanding of regional integration aimed at forging greater trade liberalization is stuck in the institution-building of the 1990s that took place around the Asia-Pacific Economic Cooperation (APEC) forum. In the meantime, the region, the global financial crisis and the emergence of new problems such as the spread of infectious diseases have made regulatory cooperation, rather than trade liberalization, the central challenge of regional governance.

Trapped in the old debates, the prevailing approaches to regional integration suffer from a major drawback: they are premised on a methodological nationalism, and an analytical dualism between regional institutions and the nation state. Yet, much of the emerging regulatory regionalism transforms the political spaces within, and between, states. Consider, for example, a “national” institution such as a central bank, which is now partly enmeshed in a region-wide system of regulatory cooperation.

In fact, just as in previous centuries when national boundaries were entrenched and consolidated, the 21st century will see forms and practices of regional governance in which the “regional” becomes incorporated into “national” policy making institutions. Regulatory regionalism, in this context, is the development of regional regulatory frameworks within the political and policy making institutions of “national governments.” It creates new mechanisms of regulatory governance, enrolls new public and private actors in regulatory governance and frames social and economic issues in regional terms.

**WHAT DRIVES THIS NEW REGULATORY REGIONALISM?**

**Regulatory co-ordination**

Today’s world is not so much multi-polar, as is so often assumed by the new conventional wisdom, but rather it is characterized by American leadership and strategic partnership with key regional powers such as China in systems of regional regulation. Emerging strategic partnerships require ostensibly national institutions such as central banks to play key regulatory and coordinating roles in the regional and global political economy. Indeed, it is exactly this form of regulatory coordination that the US Federal Reserve undertook during the global economic crisis in conjunction with other leading central banks.

But this regulatory governance is characterized by a new regional architecture of regulatory coordination. Hence, EMEAP has taken a pivotal role

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in the oversight and management of the Asian Bond Fund, as well as the embryonic financial co-operation epitomized by the Chiang Mai Initiative (CMI), which established an emergency fund that member states can tap to stabilize their currencies. In a similar fashion, the ADB has taken a strong lead in constructing systems of regional coordination and surveillance. To be sure, this is a far cry from the sort of integration that led to the creation of the euro, but it does indicate an incipient dynamic in which national central banks take on regional coordinating functions. This regional architecture is not inconsistent with global governance, but regulatory regionalism builds a connection between the two levels.

Regionalization of economic space

The pre-World War I period of economic globalization reinforced national territorial boundaries. In contrast, what distinguishes the current wave of globalization is that it tends to create economic spaces that do not necessarily coincide with national boundaries. This has important implications for global and regional politics, because it renders obsolete the perennial obsession with the rise of new powers. The significance of the rise of China, for example, lies not in the growing dominance of the Chinese economy, but in the fact that various sub-regions of China are key locations in production networks that cross national boundaries. Thus what really matters is how China fits into an emerging framework of leadership within regional regulatory systems and its subsequent role in the coordination of global capitalism.

But globalization has one other important implication that will dismay romantic economic nationalists on the right and left in East Asia: the likelihood that national capital may operate on a regional rather than national scale. Consider here the expansive regional reach of Singapore’s state-owned investment companies, which seek to influence or promote regional forms of political governance. In a similar vein, the ASEAN Free Trade Agreement (AFTA) and the developing web of bilateral agreements can be considered as part of this ongoing regionalization of activities and functions of domestic capital — whether private or state-controlled.

The regional governance of risk

This regulatory regionalism is fueled by ideas and perceptions of risk that are mobilized to give shape and form to new spaces of governance. The well-known German sociologist Ulrich Beck highlights the way in which issues such as terrorism, migration or even infectious diseases create a new “risk society.” He argues that we live in a world of risk, but unlike those risks associated with industrial society, the new global risks — infectious diseases, climate change and so on — need to be managed and regulated in wholly different ways involving constant reflection on the nature of new risks. Here, for example, regional financial governance programs have turned to surveillance and monitoring of national economies in order to manage the growing risks of financial turmoil.

These kinds of risks have been at the forefront of the current global financial crisis. But there are other examples. The challenges of climate change, infectious diseases, failed states or even forest fires whose smoke drifts across the region, create communities of risk that do not necessarily coincide with national boundaries. In this context, regional governance is driven by a desire to manage these new threats. Crucially, this notion of governance of risk involves a set of boundary-crossings over the traditional “Weberian” boundaries between the public and the private, as well as the more familiar “Westphalian” national and international boundaries. Therefore, to the extent that this new risk society leads to the spatial transformation of risk, it requires a global as well as a regional response to issues that have hitherto been seen as firmly within the national jurisdiction.

WHAT ARE THE MECHANISMS OF REGIONAL REGULATORY GOVERNANCE?

Multilevel regulation through policy networks

One of the characteristics of the new regional governance in areas as diverse as terrorism and finance is the recognition that region-wide regulatory frameworks such as monetary coordination and macro economic policies can be implemented and policed at a local level. Regulatory regionalism requires the development of new
The Regionalization in Asia of Organizations And Regulation Is Diverse. Some Examples:

**EMEAP**
Executives’ Meeting of East Asian And Pacific Central Banks

**AFTA**
ASEAN Free Trade Agreement

**ADB**
Asian Development Bank

**ARSP**
ASEAN Regional Surveillance Process

**CMI**
Chiang Mai Initiative

**ABMI**
Asian Bond Market Initiative

**RAMSI**
Regional Assistance Mission To Solomon Islands

forms of multi-level governance that work on both the regional and national level. As I have noted, transnational policy networks such as the EMEAP have contributed to the development of the Asian Bond Market Initiative (ABMI), which, in turn, has led to the reform of domestic tax and regulatory regimes in a market consistent form. Viewed in this context, the ABMI is, in effect, also a system of multi-level governance.

The CMI created an emergency fund to stabilize currencies in the event that the region suffered the kind of financial tsunami that swept through Asia in 1997-98, or the world in 2008. Although the initiative is limited in scope as well as in the funds available, the very fact that a scheme such as the CMI is on the policy agenda is itself a major step back from the region’s traditional emphasis on trade liberalization. Similarly, the network of East Asian central banks manages the Asian Bond Fund, which invests in a basket of US dollar-denominated bonds issued by Asian sovereign and quasi-sovereign monetary bodies. Policy networks have also emerged in other areas, such as the regional response to terrorism. This response has seen a growing and evolving role for networks of specialist policy makers such as police and security officers. Policy networks of this type are distinct from the usual governmental and “official” non-governmental policy networks of the APEC variety.

**Regulation by standards and surveillance**

Another new mode of governance within the Asia-Pacific region is the emerging system of peer review and monitoring. An example is the ASEAN Regional Surveillance Process (ARSP), which was endorsed by ASEAN finance ministers in December 1998. In this peer review process, we have a system that links national and regional regulatory governance through the regionalization — as well as the internationalization — of various state agencies and actors. The latter became part of a regional system of surveillance and regulation that transmits the disciplines of a globalized economy to national policy making. Once again, specialized policy networks of experts are likely to prove crucial in these forms of peer review.

Of particular importance in this context is the
role of the ADB in providing the framework for financial and economic policy at the national and sub-national level. The ADB has also played an important role in regional financial initiatives directed at amplifying regulatory cooperation and harmonization. Similarly, the ADB’s approach to fragile states is underpinned by an ideological logic focused on managing security risks through increased surveillance and monitoring of governance in those states that it has designated as fragile or weak. Thus, the ADB’s concern with governance standards and functions is a soft form of regulation through which the practices of public administration are monitored. This is not to say that this regulatory governance will not be challenged or resisted in the target countries.

The fact remains that regulatory regionalism requires the increasing harmonization of standards and codes relating to such things as corporate governance, transparency, and broad macro and micro economic policies. What distinguishes the new regulatory regionalism is that it attempts to incorporate standards and mechanisms of policy coordination across all levels of governance. However, these new governance frameworks operate within already existing frameworks, and gain legitimacy in the shadow of international or national governmental authority — that is to say, they are a form of “meta-governance,” or the governance of governance. It is exactly these complex partnerships operating at all levels of governance that distinguish embryonic regulatory regionalism from the old style multilateral institution building.

Diffusion of regulatory governance to private actors and partnerships

The new “networked” forms of regulation, and private sector production, demand a more systematic examination of the nature and location of power. In short, to answer the question, “who rules?” we need to understand more about how regional integration leads to the reorganization of production across national boundaries. The calculations of national economic power are no longer straightforward. These new networks facilitate the development of various forms of privatized governance such as private legal arbitration, new standard-setting organizations like international accountancy boards and even the monitoring of labor standards through private non-governmental organizations. For example, various forms of corporate conduct have evolved in response to well-publicized scandals over working conditions. The importance of standard-setting organizations, or indeed the role of transnational actors such as Transparency International (TI), suggests that private governance systems seek to incorporate principles and practices of public governance within transnational production chains or networks.

Within these networks, private or non-state actors have played a growing role in public or regulatory functions in the region. Even in the area of security — which has traditionally been a quintessential public institution — a range of private and other non-state actors such as private security companies (PSCs) have emerged at both the national and regional level. More significantly, an analysis of PSCs demonstrates that systems of private governance often intersect
with national and sub-national institutions and organizations so that distinctive arrangements of regional governance are created at the interstices of these private and public bodies. For example, the Cambodia-US bilateral textile trade agreement, which included labor standards, is especially revealing in that it required substantial compliance with international core labor standards. One result of this agreement is a partnership between the Cambodian government and the International Labor Organization (ILO). The Cambodian Ministry of Commerce stipulates that in order to be allowed to export textiles, companies must register with the inspection regime of the ILO's Better Factories Program. In a similar manner, the ADB has tied some forms of aid to the involvement of private actors in public governance, but within institutions sanctioned by the ADB. Other examples of private regional regulation include the growing army of consultants, acting in concert with national and supranational actors, to regulate and monitor areas as diverse as forests and corporate governance.

Another example of such new private-public formations is the ADB's Mekong Project, which envisages a new, functionally specific jurisdiction linking local-level organizations with transnational agencies and authorities. The Mekong Project is managed by a complex system of governance that includes ministerial councils in the relevant countries, a secretariat to manage its affairs and a parallel system of national level committees that serve as a conduit between trans-boundary water management and internal national management structures. In some countries, such as Thailand, these governance arrangements incorporate local non-state actors in the system of water management.

Irrespective of whether actors are private or public, what is important is the relationship between private and public actors in new regulatory settings that challenge the "public," "private," "national," and "international" binary concepts of the Weberian and Westphalian notions of governance. In a nutshell, new public and private formations are increasingly central to emerging forms of governance. Consequently, the focus of much public discussion on myriad diplomatic initiatives obscured an important trend in regional governance: the movement of political authority from public institutions to various forms of privatized regional governance working in the shadow of tangled hierarchies of state and supranational institutions.

WHAT NEXT?

Regulatory regionalism as I have described it is so far limited, often symbolic and strongly resisted by an array of national political forces, but it does reflect a putative system of regional governance. To be sure, it brings into play a multiplicity of scales of governance within existing governmental institutions, possibly setting the stage for conflict between contending regulatory regimes. Nevertheless, the very fact that these new forms of regulation are taking shape is indicative of the rapidly changing global and regional political economy. True, there is nothing comparable in Asia to the complex and sophisticated governance mechanisms of the European Union. Yet, similar pressures of a complex and intensified interdependent global economy are driving a move towards a more regionalized system of governance. It is only by analyzing the nature of policy networks, the forms of multi-level governance and the patterns of monetary and financial governance that we can observe the emergence — albeit in fuzzy outline — of new modes of regulatory regionalism in Asia that will be pivotal to the new architecture of global politics. It is this regulatory regionalism — not the tired and outdated arguments about trade liberalization — that should be at the forefront of discussions over emerging regional governance. There is much to be gained by looking at regional governance through a regulatory lens.

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Further information on regulatory regionalism can be found in: