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Whatever happened to the Pacific Century?

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Typical of the opposing trends that have been a part of the decade 1989 to 1999, many of the states in the Asia-Pacific in these ten years have shifted from 'miracle' status to crisis. From being the political and economic model for other countries in both the developing and the developed world, they now signal how best to avoid the less savoury pitfalls of rapid development. The miracle status, deriving from two decades or more of impressive growth rates on the basis of a presumed distinctive politico-economic model, was supposed to herald a Pacific Century. The key characteristics of this new era were a newfound regional coherence and a related transfer of economic and above all political power from the Atlantic community towards Asia-Pacific. The crisis, in turn, is seen as marking the end of that shift in the economic and political centres of gravity.

Despite the starkness of these contrasts, we argue that the idea of the Pacific Century was always overstated in economic, but especially in political terms. Two particular currents of thought in international relations contributed to this overstatement: developments in international political economy encouraged the presumption of a close correspondence between economic and political change, and the resurgence of interest in culture led to a search for the distinctively Asian values that were perceived to be at the root of that economic success. This tendency to overstatement has also shaped reactions to the economic crisis that is seen as beginning in 1997. In fact, many of the underlying weaknesses in certain of the East Asian political-economic models were present well before the events of 1997. In what follows, we subject the concept of the Pacific Century, which reached its zenith in the late 1980s, to renewed scrutiny. We argue that the interlinkages among the economic, political and security dimensions are more complex than the unidirectional claims at the base of this concept have tended to suggest.

The Pacific Century idea

Would one have expected in the 1950s that our focus on the American century would have given way, some three decades later, to an absorption with the Asia-Pacific? Many saw this as heralding the Pacific Century, a century that not only would pose a challenge to the dominant explanation about the path to growth, but also that would

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mark a major shift in structural power—that is, in the norms and rules of behaviour that would characterize international society.[1] The locus of world power was perceived to be shifting towards Asia, away from the Atlantic and particularly the United States. These perceptions were especially startling because Japan's comprehensive defeat in the Second World War, years of civil war, foreign intervention and ultimately Communist victory in China, and the Korean and Indochina conflicts, all suggested rather that Asia would be condemned to persistent instability and impoverishment. US political and economic linkages across the Atlantic were of much greater importance than those across the Pacific. European integration and the Atlantic alliance held out the prospect of a continued deepening of the Atlantic 'community' and its entrenchment as the dominant locus of global political and economic activity.

Even by the late 1960s, this picture remained largely true. Despite Japan's rapid economic recovery, this was generally put down to the inevitable catch-up of a comparatively backward economy, and its manufactured goods still had a reputation for poor quality. Dominant images of Asia reflected those contained in Gunnar Myrdal's three volume study, *The Asian Drama*,[2] published in 1968, with its focus on Asia's overwhelming, impoverished population, and low technological base. Although in retrospect we can point to the beginnings of export-led growth in the early 1960s in some East Asian developing countries, Myrdal's conclusions were widely shared at the time.

It was the dramatic reversal of the outlook for Asia's material prospects that was essential to the emergence of the Pacific Century concept. During the 1970s, it was becoming increasingly apparent that the pessimistic image of Asia seriously underestimated Japan, leading to the publication of such pathbreaking studies as *Japan as Number One*.[3] During the golden age of the postwar boom, 1950–73, Japan's real GDP grew at 9.3 per cent per annum, compared with 3.6 per cent for the US and 4.9 per cent for the OECD average. Over the same period, Japan's volume of exports grew 15.4 per cent per annum, compared with 6.3 per cent for the US and 8.6 per cent for the OECD average. Japan had far outpaced Britain and France in terms of economic size: in the 1970s, Japan became the world's number three exporter (behind West Germany and the US) and the number two in terms of both manufacturing and total output. The apparent Japanese economic challenge to the US itself provided the subject of many studies, feeding American self-perceptions of relative decline and giving a powerful boost to studies concerned with the institutional and normative consequences of a US inability to sustain a hegemonic role. Measured at current exchange rates, Japanese *per capita* income appeared to be soaring past that of the US (see Figure 1).[4]

The emergence of Japan as an 'economic superpower', as Henry Kissinger termed it in 1973, was the essential prerequisite for the emergence of the concept of the Pacific Century. During the 1970s, this interest in Japanese advancement spread to

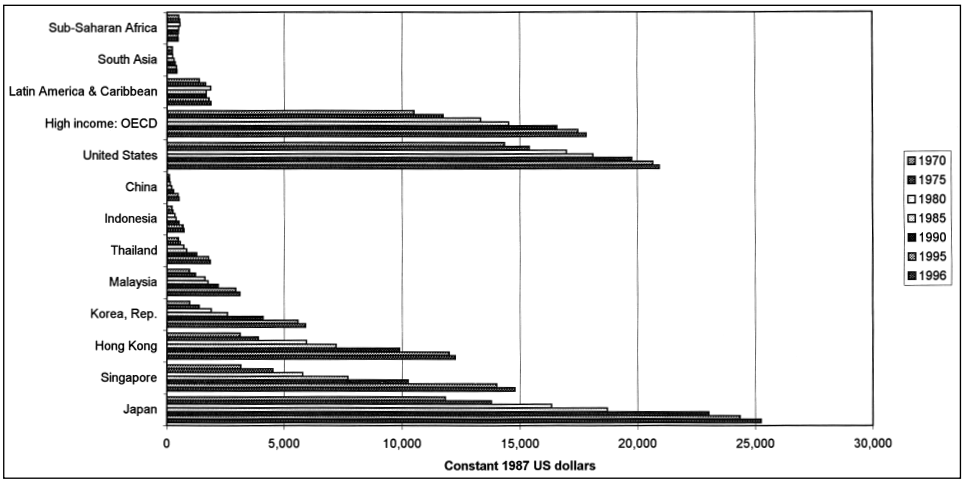
[1] For reasons that will become apparent, our focus will primarily be on Asia-Pacific rather than the Pacific rim, except where attention to Latin America is pertinent to our argument.

[2] Myrdal, *The Asian Drama: An Inquiry into the Poverty of Nations* (New York: Twentieth Century Fund, 1968).

[3] Ezra F. Vogel, *Japan as Number One: Lessons for America* (Cambridge, MA: Harvard University Press, 1979).

[4] 'PPP' comparisons, which take into account national prices, suggest Japanese real income still remains below that of the US.

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Source: World Bank data, 1998.

Figure 1. *Real GNP per capita growth, 1970–96 (constant 1987 US dollars).*

the smaller developing countries and economic territories of East Asia. The 'four tigers' of Hong Kong, Singapore, South Korea, and Taiwan were also experiencing rapid rates of growth and apparently rapid economic convergence with the West. Attention focused in the 1980s on the other ASEAN countries and China, where growth rates were also taking off (see Figure 1 and Table 1). During the 'lost decade' of growth in Latin America and the bulk of the developing world in the debt-ridden 1980s, developing East Asia continued to grow at rates comparable to Japan after 1950 (7.7 per cent 1980–90 and 10.2 per cent 1990–96). The success of the tiger economies in manufactured exports, combined with Japan's earlier successes in penetrating Western markets in such key industries as steel, automobiles and electronics, underpinned growing US and European concern about a loss of competitiveness in these industries. A literature emerged which explained this East Asian success story in terms of a broad competitive advantage in manufacturing.[5]

With the striking success of Thailand, Malaysia and Indonesia, soon followed by China, it was evident that a broader regional pattern of rapid growth was emerging. As the World Bank noted in 1993, 'if growth were randomly distributed, there is roughly one chance in ten thousand that success would have been so regionally concentrated.'[6] Although various explanations for this pattern were to emerge, the notion of an East Asia led by a dynamic Japanese economy in a 'flying geese' pattern dominated popular images and academic literature.

One prevalent view was that Japan had discovered a superior and neomercantilist model of economic development, a model successfully copied by its neighbours, in

[5] For example see Roy Hofheinz and Kent E. Calder, *The East Asia Edge* (New York: Basic Books, 1982).

[6] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Washington DC: World Bank, 1993), p. 2.

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Table 1. *Trends in long-term economic development, selected Asia-Pacific Countries, 1965–96.*

	GNP		Value added			Private consumption	Gross domestic fixed investment	Exports of goods and services
	Average annual % growth		*Average annual % growth*			*Average annual % growth*		
	Total 1965–96	Per capita 1965–96	Agriculture 1965–96	Industry 1965–96	Services 1965–96	1965–96	1965–96	1965–96
China	8.5	6.7	4.3	11.0	11.1	7.6	10.5	11.1
Hong Kong, China	7.5	5.6	..	..	..	7.6	8.2	11.3
Indonesia	6.7	4.6	3.9	9.1	7.5	7.1	8.9	5.6
Japan	4.5	3.6	−0.1	4.6	4.8	4.2	4.7	7.7
Korea, Rep.	8.9	7.3	2.0	13.8	9.0	7.5	12.1	16.1
Malaysia	6.8	4.1	3.7	8.5	7.0	6.1	9.9	9.5
Philippines	3.5	0.9	2.4	3.6	3.9	3.7	4.5	6.3
Singapore	8.3	6.3	−1.4	8.6	8.3	6.6	9.6	12.2
Thailand	7.3	5.0	4.1	9.7	7.4	6.3	9.1	11.2
Argentina	1.2	−0.3	1.3	1.0	2.4	..	..	4.8
Brazil	4.6	2.4	3.5	4.6	5.4	4.6	1.7	8.6
Chile	3.3	1.6	3.7	2.9	4.3	2.8	3.8	8.0
Mexico	4.1	1.5	2.3	4.6	4.2	3.7	3.8	7.9
Developing Countries:								
East Asia & Pacific	7.4	5.5	4.1	9.7	8.3	6.7	9.4	8.8
Latin America & Carib.	3.3	1.1	2.7	3.3	4.0	4.0	2.0	5.2
Middle East & N. Africa	1.1	−1.8	4.4	0.0	2.0	..	..	..
South Asia	4.6	2.2	2.8	5.5	5.6	4.1	5.3	6.2
Sub-Saharan Africa	2.7	−0.2	1.7	2.6	3.3	2.9	−1.1	2.1

Source: World Bank, World Development Indicators, 1998, CD-Rom.

part (particularly in the ASEAN countries) through the transfer of Japanese capital and technology.[7] In his influential *MITI and the Japanese Miracle* (1982), Chalmers Johnson identified successful Japanese industrial policy as the key. Although later books placed more emphasis upon Japanese private sector innovation and manage-

[7] Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, CA: Stanford University Press, 1982); Robert Wade, *Governing the Market* (Princeton, NJ: Princeton University Press, 1990); Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); E. Vogel, *The Four Little Dragons: The Spread of Industrialization in East Asia* (Cambridge MA: Harvard University Press, 1991).

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ment techniques,[8] this literature entrenched the idea that Japan had discovered a superior way of making things and of organizing the relationship between state and market. Robert Wade's *Governing the Market* (1990) argued that the rest of East Asia had successfully copied important aspects of efficient state interventionism from Japan, helping to explain their success in manufacturing. Much of the literature argued that the provision of 'patient capital' to strategic industries via a state-managed banking system, involving some 'financial repression', was part of the explanation. Others, such as Ronald Dore, pointed to the cultural foundations of the Japanese model.[9]

The political aspects of the model were emphasized in the idea of the 'strong state', comparatively autonomous of domestic interest group pressures (unlike the US and most of the developing world), providing the basis for this efficient interventionism.[10] Others emphasized a causal link between the economic miracle and the prevalence of authoritarian political regimes in the region. 'Asian values', which prioritized growth above political freedom, also produced 'growth with equity', particularly compared with the Latin American countries on the other side of the Pacific. In 1990, China, Indonesia, and South Korea each had Gini indices of about 34, much lower than the 50s typical of highly unequal Latin American countries like Brazil, and comparable to OECD countries.[11] For many commentators, it was increasingly unclear how the West could presume to claim any moral superiority for its liberal model when the results it produced were economically and perhaps socially inferior. The 'soft authoritarian' implications appealed to many Asian governments, even to some in Japan, and of course China. Government officials in Singapore and Malaysia took up the argument with enormous verve, comparing and exaggerating the differences between industrious, chaste, family-centred Asians and lazy, high spending, low investing, violent, self-centred and welfare-dependent Westerners.[12] Once seen as the cause of economic stagnation, Confucianism had become a key explanation for the Miracle.[13] For different reasons, Western conservatives, postmodernists, and communitarians had some sympathy with such arguments. The American journalist Robert Elegant urged Westerners to:

> take a profound lesson from the patient perseverance that is central to the Asian ethos: the tenacious accretion of power and virtue that lies beneath the dazzling surface of present day Asians . . . Asian societies do change, sometimes dramatically. But they change only after attaining an almost mystical consensus regarding their new course—and the old values

[8] Notably James P. Womack, et al., *The Machine That Changed the World* (New York: Rawson Associates, 1990).

[9] Ronald Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues* (London: Athlone, 1987).

[10] See Stephan Haggard, *Pathways from the Periphery* (Ithaca, NY: Cornell University Press, 1990); Peter Evans, *Embedded Autonomy* (Princeton, NJ: Princeton University Press, 1995).

[11] World Bank, *World Development Indicators 1998* (Washington DC: World Bank, 1998; CD-Rom). The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditures) among individuals or households within an economy deviates from a perfectly equal distribution. An index of zero represents perfect equality and an index of 100 implies perfect inequality.

[12] Two similar versions of this argument are Kishore Mahbubani, 'The Dangers of Decadence: What the Rest Can Teach the West', *Foreign Affairs*, 72:4 (1993) and Bilahari Kausikan, 'Asia's Different Standard', *Foreign Policy*, 92 (Fall 1993).

[13] P. L. Berger and H.-H. Hsiao, *In Search of an East Asian Development Model* (New Brunswick: Transaction Books, 1987).

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endure. Individualistic Westerners living in laissez-faire societies are unaccustomed to arriving at fundamental decisions by such patient and profound processes.[14]

This economic, cultural and political challenge would, some claimed, have dramatic consequences for international relations. The breakdown of the Bretton Woods system, the oil price hikes of 1973 and 1979, together with Washington's inability to prevail in Vietnam, to halt the decline in its nuclear superiority, or to sustain political coalitions of support in such bodies as the United Nations, appeared to highlight the challenge from Asia. More specifically, Asian trade practices, and particularly Japan's, were seen as highly resistant to external pressure for change.[15] America's major allies in Western Europe seemed similarly troubled, their introspection compounded by slow growth and rising unemployment. Robert Gilpin argued that the challenge was at the global level and, if history was any guide, would likely result in an extension of the economic competition to the military realm.[16] Others such as Richard Rosecrance suggested that countries like Japan embodied a new type of postrealist, 'trading state' model, a threat of a different kind to the US.[17] The success of China's economic reform programme provided a further, and possibly even more worrying, long-term attack on American influence in the region and globally. America's destiny, therefore, was as a significantly diminished giant: militarily constrained by the 'Vietnam syndrome' and strategic multipolarity, able to sell only agricultural products, software and services to Asian consumers on the basis of a continually depreciating dollar, and increasingly dependent upon Asian savings to fund its trade and fiscal deficits.

By the late 1980s, then, the American Century was apparently giving way to a Pacific Century. It is important to note that East Asia's eclipse of Latin America as the major developing region in the world economy was a key aspect of this. Not only was the US being economically eclipsed; the Western hemisphere as a whole appeared to be in long term decline, and 'the Pacific' was now seen in distinctly Asian terms. By 1994, the APEC region accounted for 38 per cent of world population, 56 per cent of world GDP, 46 per cent of world trade, and 65 per cent of world FDI inflows. East Asia was perceived as the dynamic core of this new Pacific economy, with Latin America marginalized and the US economy and institutions seen as degenerate. Put at its most graphic, we were witnessing the torch of leadership being passed from the Atlantic to the Pacific countries, particularly to those on its western rim.

This perception was given a further boost by the end of the Cold War in three related ways. First, it increased the focus on regions generally as the removal of strategic bipolarity more fully exposed the regional patterns that had lain dormant or unnoticed underneath.[18] New regional institutions such as APEC emerged, but

[14] Elegant's *Pacific Destiny* (1990) quoted in Alexander Woodside, 'The Asia-Pacific Idea as a Mobilization Myth' in Arif Dirlik (ed.) *What is in a Rim? Critical Perspectives on the Pacific Region Idea* (Lanham, MD: Rowman and Littlefield, 1998), p. 38.

[15] For a discussion, see C. Fred Bergsten and Marcus Noland, *Reconcilable Differences? United States-Japan Economic Conflict* (Washington DC: Institute for International Economics, 1993).

[16] Robert Gilpin, 'International Politics in the Pacific Rim Era', in *Annals of the American Academy of Political and Social Science*, 505 (September 1989), p. 67.

[17] Richard N. Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1985).

[18] See Louise Fawcett and Andrew Hurrell (eds.), *Regionalism in World Politics* (Oxford: Oxford University Press, 1995).

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there was also clear evidence of a desire to promote narrower East Asian institutions explicitly aimed at excluding Western, and particularly the US presence. This was related to the growing influence of Japanese trade, aid and investment linkages with its region, and the likelihood of an emerging 'Yen bloc', with its implied challenge to dollar hegemony.[19] Second, the end of the Cold War clarified the political and cultural challenge from Asia, and called into question the Western and especially the US government's assumption that the end of the Cold War would represent another 'end of ideology', when claims about the universality of values and the existence of an international community could be made real. Finally, it reinforced the presumption of an increased importance for geoeconomics compared with geopolitics, which emphasized the salience of the Asian challenge. At the first APEC summit in Seattle in 1993, President Clinton spoke of East Asian states as dynamos rather than the vulnerable dominoes they once were.[20] Some international political economy literature emphasized the negative economic legacy of the Cold War for the US: government spending and an industrial base heavily skewed towards the defence sector and dual-use technologies, reducing the competitiveness of American industry in the new civilian markets and technologies in which East Asia excelled.[21] Even the Soviets saw the writing on the wall. Gorbachev's speech in Vladivostok in summer 1986, a time when it was already plain to the new Soviet leadership that the label superpower hardly deserved to be attached to it, somewhat plaintively reminded his audience that the USSR was also a Pacific power occupying one quarter of the Asian landmass.

To summarize, the concept of the Pacific Century was generally underpinned by the following propositions. First, the spreading economic miracle from Japan to the developing countries of East Asia implied a successful formula of economic development different to that promulgated by the West. A combination of successful learning from the Japanese experience and unique 'Asian values' were seen as behind this success and led to far greater attention to the 'Asian values' debate than would otherwise have been the case. Second, the rapidity of economic growth in Asia-Pacific, and particularly the emerging economic pre-eminence of Japan, would enable this group of countries not only to resist Western influence, but to exercise itself growing influence over international institutions and outcomes. Material (economic) power would enable Asia-Pacific to challenge the key norms and institutions of postwar international order, hitherto Western-dominated. Third, the emerging economic and political coherence of Asia-Pacific as a region would facilitate both Japanese political influence within and beyond the region, and the ability of the region as a whole to mount such a challenge.

[19] See Rudiger Dornbusch, 'The Dollar in the 1990s: Competitiveness and the Challenges of New Economic Blocs', in *Monetary Policy Issues in the 1990s* (Kansas City, MO: Federal Reserve Bank of Kansas City, 1989).

[20] Quoted in Mark T. Berger and Douglas A. Borer (eds.), *The Rise of East Asia: Critical Visions of the Pacific Century* (London: Routledge, 1997), p. 1.

[21] Michael Borrus and John Zysman, 'Industrial competitiveness and American national security', in Wayne Sandholtz *et al.*, *The Highest Stakes* (New York: Oxford University Press, 1992).

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The East Asian challenge in retrospect

Although there is a significant portion of truth in this early 1990s picture, some of the analysis was controversial and at times superficial. Moreover, this exaggeration of the degree of change associated with the idea of a Pacific Century may have contributed to the onset of the economic crisis in the late 1990s. It certainly contributed to the failure to see it coming. We deal below with the various claims concerning the East Asian challenge, before turning to consider the implications of Asia-Pacific regionalism.

Japan and Asia-Pacific as challenger

The economic success of Japan and many of the developing countries in the region was indisputable, but its broader implications were less clear than much of the political economy literature suggested. Underlying the notion of Japan as an 'economic superpower' lay certain conceptions of the relationship between economic and political power in the international system. In the 1970s, academics followed practitioners like Kissinger in asserting the diminishing importance of military power and traditional security factors in international politics, compared with economic issues and power. Keohane and Nye argued this was true under conditions of 'complex interdependence', and claimed it was difficult for military superpowers such as the US to gain leverage over economic issues through 'linkage' with security issues.[22] To the extent that power was increasingly issue-specific, Japan and an integrated Europe could be seen as 'civilian superpowers', fostering multipolarity in economic issues. At the same time, strategic bipolarity had led to military stalemate. Others were less sceptical than Keohane and Nye about the possibilities for issue-linkage. Gilpin, for example, argued that, in the longer term, American dependence upon Japanese finance would:

> further weaken American power and strengthen the Japanese…Whatever decisions the Japanese make regarding the use of their growing financial power will have profound significance for the future of the international economic and political system.[23]

There are a number of problems with such analyses. First, even putting aside the recent renaissance of the US economy, much of the commentary of the 1970s and 1980s significantly exaggerated the extent of US (and European) relative decline. Much of the declinist literature took the aberrant situation of 1945 as the base point of comparison, but the US weight in the world economy showed relatively little change if 1930 or 1960 were used instead. Second, too much was read into phenomena such as the overtaking of Atlantic by Pacific trade flows, which received great emphasis in the debate. This overlooks that the US and Europe are more integrated via foreign direct investment (FDI) than trade, although the reverse is true for the

[22] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston, MA: Little, Brown, 1977).
[23] Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), pp. 337, 338.

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Table 2. *US majority-owned nonbank affiliate local sales of goods and services vs. US exports, by destination in 1994*.

Destination	Local affiliate sales ($m)	US exports of goods and services ($m)	Ratio of local sales to exports
Europe	516,754	123,479	4.18
Germany	113,179	19,229	5.89
UK	147,599	26,900	5.49
East Asia	204,301	156,610	1.30
Japan	88,280	53,488	1.65
Korea, Taiwan, Singapore, Hong Kong	50,161	59,595	0.84
China	2,520	9,282	0.27
Latin America	91,832	92,555	0.99
Argentina	10,086	4,462	2.26
Brazil	29,238	8,102	3.61
Mexico	27,022	50,844	0.53
Canada	134,197	114,439	1.17

Note: In these US Commerce Department definitions, 'Europe' includes the EU plus other western, central and eastern European countries. 'East Asia' includes the East Asian Pacific Rim, including ASEAN countries, Oceania, and the Indian sub-continent. 'Latin America' includes other Western hemisphere, except Canada.
Source: US Department of Commerce, Bureau of Economic Analysis, *US Direct Investment Abroad, 1994 Benchmark Survey, Final Results* (Washington DC, May 1998), table III.F2; US Department of Commerce, International Trade Administration, website tables, 1999.

US and East Asia. As Table 2 shows, although US exports to Asia-Pacific now greatly exceed those to Europe, a much greater proportion of sales by US-owned firms to 'European' customers occurs through the channel of FDI rather than cross-border exports. American multinational corporation (MNC) affiliates based in the UK alone sold almost as much to UK-based customers in 1994 as the total amount of US exports to East Asia as a whole. This asymmetry has contributed significantly to American frustration with Asian trade practices.[24]

Third, the literature tended to focus on the Japanese and Asian challenge in a few high-profile sectors in Western trade politics. This may have reflected more the ability of sectors like automobiles, steel and electronics to exercise voice and organize protectionist responses than a sober assessment of the seriousness of the 'threat'. Clearly, many Western economic sectors were comparatively unchallenged, including most services and many high technology industries, although the long run difficulties of the US semiconductor sector (and even automobiles) were exaggerated.[25] In addition to all this, the Asian crisis has revealed serious weaknesses in the previously vaunted Asian model, explored further below. In fact, Japanese

[24] On this question, see Dennis J. Encarnation, *Rivals Beyond Trade: America versus Japan in Global Competition* (Ithaca, NY: Cornell University Press, 1992).
[25] With the obvious qualification that the revival of important parts of manufacturing industry in the US may be due in part to the seriousness of the challenge and the adoption of Japanese manufacturing techniques.

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economic stagnation since the beginning of the 1990s pointed towards such weaknesses well before the crisis hit in 1997.

Economic, political and security linkages

Even if we can all agree that the US declined relative to its overwhelming position at the end of World War II, this needed to be distinguished from US power over outcomes in world politics. No torches of leadership had really been passed at the time that the Pacific Century was being proclaimed. The US remained and still remains the principal guarantor of regional security and economic growth in Asia-Pacific, and the leading shaper of the global system. Washington plays a dominant or at least a major role in all of the security questions that affect the Asia-Pacific region, including the problems associated with China-Taiwan reunification and the Korean peninsular, and the dispute over the ownership of islands in the South China Sea. The ASEAN Regional Forum (ARF), significant as the first major multilateral security forum for the region and in undertaking an important role in confidence building, nevertheless has found it impossible to make itself relevant to the resolution of the North Korean crisis, or to the Taiwan question because of China's objection, and has played only a superficial role in the South China Sea dispute. Dominant aspects of the Cold War security framework for the region, such as the US-Japan, and US-South Korean security alliances, remain in place and seem unlikely soon to be removed despite the transformation in US-Soviet relations after the Cold War.

It is important to recognize that the US often found itself unable to use this dominance in the security realm to achieve economic and other policy changes on the part of its allies. However, while East Asia could often resist external pressure for change, these US allies have proved remarkably unwilling to challenge Washington in many issue areas. Explicit linkage by the US has often proved unnecessary, since its allies feel sufficiently dependent upon American military power to refrain from disrupting relations in areas such as trade or finance. For example, predictions that Japan/East Asia would wield financial power to demand changes in US policy never materialized, even at the height of the US's 'twin deficits' and of allied dissatisfaction with various US policies in the later 1980s. Japan's financial 'power' proved a chimera: the Louvre accord and its aftermath demonstrated rather the determination of the Japanese authorities to intervene to support the dollar when private Japanese capital flows faltered, without any substantive American *quid pro quo*.

The economic rise of East Asia tended to reinforce rather than displace the Cold War era substructure of economic, political and military linkages with the US. Most states in the region remain highly dependent upon the continued openness of US markets, as well as the US security umbrella. China's rise has increased the importance of the latter for many states in the region, including Japan. The dependent relationship with the US has conditioned many of Japan's aid decisions, which tend to be either supportive of, or at least do not cut across, US security interests in the region. Any Japanese attempt to use its aid flows to enhance potentially distinctive political interests in developing East Asia is further constrained by the legacy of

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Japanese imperialism. Finally, in domestic political terms, Japan's party system, the constitutional constraints on the use of force and emphasis on economic rather than military means as a way of achieving national objectives all weaken its ability to assume a larger security or political role, either globally or regionally.

Strong states and Asian values

There are also significant problems with claims about Asian values, not least because of the numerous points of conflict of an ethnic, religious, linguistic or political kind in the Asia-Pacific together with the long debate that has taken place in the West on the relationship between rights and duties, individualism and social order. The Asian values argument soon revealed itself to be dominated by governing elites and was strongly countered by domestic opposition forces, many of whom saw it simply as a means of justifying authoritarian political systems. One such opposition politician, Kim Dae Jung, now President of South Korea, argued strongly against the need for authoritarianism on cultural grounds, pointing to Asia's 'rich heritage of democracy-oriented philosophies and traditions'.[26] The Nobel Peace Laureate and leader of Burma's National League for Democracy Party, Aung San Suu Kyi, stated that 'when democracy and human rights are said to run counter to non-Western culture, such culture is usually defined narrowly and presented as monolithic'.[27] Even those that had taken note of these authoritarian arrangements in the successful Asian economies qualified the implied causal relationship.[28] Indeed, a general worldwide trend towards democratization in the immediate post-Cold War period also embraced South Korea, Taiwan and Thailand—a further potential source of division within the region, as some states seek to embrace this path and others try to eschew it.

Domestically, the 'strong state' argument also overlooked key sources of weakness and vulnerability. Some analysts' work cast doubt upon the view of the comparative omnipotence of Japan's MITI in guiding the market, such as Daniel Okimoto's *Between MITI and the Market*.[29] While falling into the same trap of over-generalization as the Asian values argument, Paul Krugman's widely read *Foreign Affairs* article of 1994 also suggested that the 'miracle' was mainly due to the mobilization of labour and capital inputs into production by a 'Soviet'-style state. This version of the strong state argument rendered it less attractive and also raised questions about the Asian unlocking of the secret of rapid productivity growth.[30] At

[26] Kim Dae Jung, 'A Response to Lee Kuan Yew—Is Culture Destiny? The Myth of Asia's Anti-Democratic Values', *Foreign Affairs*, 73, Nov./Dec. 1994. For a similar point, see Amartya Sen, 'Our culture, their culture', *New Republic*, 1 April 1996, pp. 27–34.

[27] Aung San Suu Kyi, 'Freedom, Development and Human Worth', *Journal of Democracy*, 6:2 (1995), p. 15.

[28] Stephan Haggard, *Pathways from the Periphery* (Ithaca, NY: Cornell University Press, 1990), ch. 10. See also Svante Ersson and Jan-Erik Lane, 'Democracy and Development: A Statistical Exploration' in Adrian Leftwich (ed.) *Democracy and Development* (Cambridge: Polity Press, 1996).

[29] Daniel Okimoto, *Between MITI and the Market* (Stanford, CA: Stanford University Press, 1989).

[30] Paul Krugman, 'The Myth of Asia's Miracle', *Foreign Affairs*, 73 (1994), pp. 62–78. This article publicized work by Young and others (see A. Young, 'The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience', *Quarterly Journal of Economics*, 110:3 (1995), pp. 641–80.

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Japanese prompting, the World Bank undertook a major study in 1991, published as *The East Asia Miracle* report (1993), which also took a critical view. The report interpreted East Asian success as a challenge to Bank orthodoxy, and acknowledged a significant role for the state. However, it also placed emphasis on the market-consistency of the successful aspects of East Asian industrial policy interventionism, and noted some of the conspicuous failures of such intervention throughout the region, particularly in the ASEAN countries. Most important, the report maintained, was the promotion by East Asian governments of export-orientation. Latin America's recent embrace of export orientation, often interpreted as learning from East Asia, was much closer to this aspect of the report than any other; indeed, state interventionism in Latin America was widely interpreted as a failure.

The report did not satisfy fully either those who felt East Asian growth demonstrated the superiority of the market, or those who claimed it underrated the guiding role of the state. In retrospect, however, and particularly in the wake of the recent crisis, the *Miracle* report was more balanced about some aspects than originally thought. It rightly pointed out the difficulty of demonstrating hard counterfactuals that would favour the industrial policy interpretation, though as noted above, it accepted that some intervention had accelerated development. It rejected the notion of a single East Asian model, noting the great diversity of policy practice throughout the region. Its main mistakes were elsewhere. Although it pointed to the dangers of governments providing implicit or explicit guarantees against economic failure to private sector investments and even implied criticism of the strong state and soft authoritarianism arguments, the overall tone of the report cast a positive gloss on these characteristics.[31] Its gravest misunderstanding, as we explain later, was to claim that there was 'strong prudential regulation and supervision' in the financial sectors of most Asian countries.[32]

Literature that emphasized the domestic political and cultural foundations of growth also sometimes undervalued the international environmental factors that favoured development in East Asia compared with other parts of the developing world. The severe external (for Korea, Singapore, Thailand, and Taiwan) or internal (for Malaysia and Indonesia) security concerns which many countries in the region faced during the Cold War and beyond provided a powerful incentive for hard work, high savings and national reconstruction. The bilateral security relationships with the US at the same time eventually helped to stabilize the region, and also led the US to provide positive incentives for outward-orientation on the part of East Asian allies, most notably via substantial aid and relatively open markets for Asian exports. In addition to the international political context of East Asian development, the low resource endowment of Japan and the NICs created a heavy dependence upon raw materials imports from abroad (and in turn, US security), and a need to export manufactured goods.

International institutional outcomes

Nor did East Asian economic success and resources translate into significant

[31] World Bank, *The East Asia Miracle*, ch. 1.
[32] Ibid., p. 16.

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influence on international regimes and institutions. Japan in particular was asymmetrically integrated into the world economy, with key manufacturing sectors dependent upon continued access to US and European markets, although Japanese manufactured imports from other OECD countries were comparatively low. This meant that Japan (and arguably most of East Asia in general) was much more dependent upon the GATT trade regime than were the US and Europe. Much US and European 'new protectionism' and unilateral market-opening demands were focused on East Asia from the early 1980s, some of which were successful in gaining Asian concessions. The very success of East Asian exports increased their dependence upon the GATT, though decreasing the willingness of the other major actors, particularly the US, to abide by GATT rules and spirit.

Similar points can be made about the role of East Asia in the Bretton Woods institutions. The situation here is possibly even more anomalous than in the GATT/WTO regime. Japan became the second most important member of the IMF as measured by IMF quotas and voting rights as late as 1992, and in the late 1980s became the world's largest aid donor in dollar terms, including through the World Bank. Japan has been much less attached to Fund and Bank policy conditionality than it has to GATT rules, as reflected in its desire to fund the *Miracle* report. Although Japan hoped this report would demonstrate the potentially positive role of the state in economic development, as noted above, it did little to dislodge the neoliberal 'Washington consensus' in the Bank and IMF. Again, Japan's financial preeminence in a major multilateral institution did not translate into substantial political influence.[33]

This Japanese weakness left developing East Asian countries vulnerable to the shift of the Bretton Woods institutions towards the promotion of good governance, transparency and accountability in the early 1990s. Indeed, this concern, linked with 'new world order' emphases on human rights and democracy, explains much of the resort to the 'Asian values' argument and illustrates that side of it which was borne out of insecurity rather than strength. Although on the eve of the Asian crisis, most were less dependent than other parts of the developing world upon multilateral finance, they still perceived a threat to the Asian model and to Asian political systems.

It could be argued that Japan's growing dominance of bilateral aid and private capital flows to the region has enabled it to protect its nearest developing neighbours from the strictures of Washington-based policy conditionality (see Table 3). Importantly, Japan became China's largest bilateral aid donor from the early 1980s. Its 1992 ODA Charter stressed the need to promote democracy, human rights, and the free market, though in practice it much prefers 'quiet diplomacy'. Furthermore, in the Asian financial crisis of 1997–8, Japan was conspicuously unable to protect East Asian developing countries from IMF conditionality, and from US pressure for political change. Although it floated the idea of an Asian Fund in 1997 to provide much-needed liquidity to the Asian developing countries, it was vigorously opposed by the US, which interpreted it as a threat to the IMF's and its own ability to influence policies in the indebted Asian countries. In the face of this opposition, also

[33] See Robert Wade, 'Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective', *New Left Review*, 217 (May-June 1996), pp. 3–36.

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Table 3. *Distribution of net bilateral non-military aid to Asia by four major members, $bn, 1996.*

Recipient	Total OECD flows	Four major donors: US	Japan	France	Germany
Cambodia	252.6	28.0	71.3	52.1	14.2
China	1,671.1	0.0	861.7	97.2	461.1
India	1,025.1	6.0	579.3	14.8	51.2
Indonesia	1,062.6	−57.0	965.5	28.4	−106.0
Korea, Dem. Rep.	9.1	0.0	0.0	0.0	0.9
Korea, Rep.	−149.2	−54.0	−127.9	10.1	16.0
Lao PDR	147.5	3.0	57.4	16.4	22.9
Malaysia	−453.1	0.0	−482.5	3.5	7.5
Myanmar	45.3	0.0	35.2	2.1	1.5
Nepal	236.3	15.0	88.8	2.0	25.7
Pakistan	338.6	−101.0	282.2	5.4	15.8
Philippines	748.3	46.0	414.5	27.4	106.6
Singapore	11.9	0.0	8.5	0.0	2.5
Sri Lanka	279.3	4.0	173.9	−1.6	15.8
Thailand	803.1	3.0	664.0	10.4	23.2
Vietnam	469.7	0.0	120.9	67.3	*52.8*

Note: Net flows of resources are defined as gross disbursements of grants and loans minus repayments on earlier loans, which explains the negative signs for some cells.
Source: World Bank, World Development Indicators, 1998, CD-Rom.

forthcoming from Europe, Japan withdrew the proposal, only to reintroduce it with a value of $30 bn at the end of 1998 when IMF programmes and their associated conditions were already in place (with the exception of Malaysia).

One could ask further whether a Japan-led fund with no policy conditions attached (as the initial proposal appeared to suggest) was in any case in Japan's interest. The wartime legacies that constrain Japan's relations with its developing neighbours might lead one to expect that Japan would be quietly insistent upon multilateral institutions as the vehicle for recycling capital and providing policy conditionality, to introduce a political buffer between itself and its poorer neighbours. But requiring few conditions for borrowing from the Suharto government of Indonesia looked more like the Asian periphery being able to dictate the terms of Japan's regional role than of any real ability of Japan to exercise influence. It also reflected a desire to bail out heavily overlent Japanese banks: by mid-June 1997, total outstanding Japanese bank loans to Asian developing countries were $271 bn, representing 110 per cent of total Japanese bank capital. By comparison with Japanese and European banks, US banks were not exposed.[34] Overall, Japan's problematic involvement in its region constrains its ability to exercise power.

[34] OECD, *Economic Outlook, June 1998* (Paris: OECD, 1998).

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Table 4. *Regional trade blocs, intra-bloc exports ($m and percentages).*

Region	1970	% of total	1980	% of total	1985	% of total	1990	% of total	1996	% of total
APEC	56,020	56.9	353,778	57.6	491,623	67.7	897,427	68.5	1,706,692	73.1
EU	76,451	59.5	459,469	61.0	421,641	59.3	985,128	66.0	1,275,696	61.5
NAFTA	22,078	36.0	102,218	33.6	143,191	43.9	226,273	41.4	436,805	47.5
MERCOSUR	451	9.4	3,424	11.6	1,953	5.5	4,127	8.9	17,151	22.8
ASEAN	1,201	19.7	12,016	16.9	13,130	18.4	26,367	18.7	77,221	23.2

Source: World Bank, World Development Indicators, 1998 CD-Rom.

Regionalism in Asia-Pacific

Perhaps the greatest effect of the perceived and partly real shift in the balance of economic power towards East Asia was not on multilateral institutions, where Asian influence is weak, but in regional institutional developments since the late 1980s. The burgeoning literature on regionalism in the 1990s often pointed out that Asia-Pacific increasingly dominated world trade and foreign investment flows, and that the regional orientation of these flows was increasing. Suddenly, matrices of world trade flows by regional bloc began to appear, which suggested that intra-regional trade flows in the APEC region had now overtaken those within the EU (see Table 4). Almost as soon as it was born, APEC had become the world's most important economic region, and one apparently more self-contained than the European Union.[35]

Japan led the way in developing an intra-regional network of trade and investment. After 1985, the high Yen and perceptions of growing protectionism in the West pushed Japanese companies to search for lower cost production locations in the region. Investment to NE and SE Asia increased six-fold between 1985 and 1989; by 1990 Japan had a dominant presence in Indonesia, Malaysia and Thailand.[36] As noted above, these private capital flows were complemented by official Japanese aid flows, and Japan gradually began to displace the US as the major market for regional manufacturing exports. A surge of FDI flows from the four tigers to the ASEAN countries and China in the 1990s confirmed this emerging regional network of trade and investment.

Regional institutional development

Regional institutional developments followed this pattern of regional market integration: unofficial organizations such as PAFTAD, PBEC, and PECC made up

[35] See R. Garnaut and Peter Drysdale (eds.), *Asia-Pacific Regionalism* (Pymble: Harper Educational, 1994).

[36] Mark Borthwick, *Pacific Century: The Emergence of Modern Pacific Asia* (Boulder, CO: Westview Press, 1992) p. 513.

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of business people, academics and officials operating in private capacities, pushed forward the concept of an official forum.[37] This resulted in APEC, established in 1989, stemming from a joint Japanese-Australian proposal to create a regional institutional response to the perceived weakness of the GATT and to regional developments elsewhere in Europe and North America. Although APEC was envisaged as involving very limited formal institutionalization, it was nevertheless interpreted as the first step towards a governance structure for managing this increased regional economic interdependence. Almost immediately, some voices in the region, most notably Malaysia's Prime Minister Mahathir, proposed a more narrow 'East Asian Economic Caucus' (EAEC) that would exclude the Caucasians (the US, Australia, Canada and New Zealand). East Asia seemed poised to develop its own distinct voice in global economic affairs, as a counterweight to the long-standing dominance of the US and Europe on such questions.

This activity in the economic field was swiftly matched by actions on the security front. In 1992, the idea of establishing a multilateral security structure in the Asia-Pacific was first mooted to manage this transition to the post Cold War era, a possible reduction in the US presence, and the rise of Japan and China.[38] In 1994 the ASEAN Regional Forum (ARF) held its first gathering, seen as a major achievement because it was the first, inclusive, multilateral security institution in the region. Moreover, it was established in the teeth of opposition not only from the United States, which wanted to retain a security order based on its bilateral alliances, but also from a China suspicious of multilateralism in most issue areas, and particularly in the security field.

These regional institutional developments were indeed remarkable, especially given their virtual absence during the Cold War period (with the exception of ASEAN); but the implications were often exaggerated. First, on the security side, although the ARF has the important objective of building trust among its member states at a time of strategic change, it relies on a formal commitment that the ARF will only move forward its agenda of developing confidence-building measures and engaging in preventive diplomacy at a pace that is 'comfortable' to all participants, and on the basis of non-binding voluntary agreement. Its normative commitment to the protection of participants' sovereignty and non-interference in internal affairs similarly contributes to the glacial pace at which the organization advances its aims. A prime objective for Japan and a number of the other East Asian states at the outset was to keep the US involved in regional security; the ARF's incrementalism if anything enhanced this need. Its name also reflected the dominant organizational role of the ASEAN 'middle powers', and the absence of any region-wide agreement that the major states of the region were acceptable as alternatives.

On the economic side, the Malaysian proposal for an EAEC was also opposed by the United States. But more importantly, it was also opposed, albeit usually more diplomatically, by most of Malaysia's East Asian neighbours. The dependence of

[37] Full versions of the following acronyms are: PAFTAD: Pacific Trade and Development Conference; PBEC: Pacific Basin Economic Council; PECC: Pacific Economic Cooperation Conference; APEC: Asia Pacific Economic Cooperation.

[38] See Michael Leifer, *The ASEAN Regional Forum: Extending ASEAN's Model of Regional Security*, Adelphi Paper no. 302, (London: IISS, 1996); Rosemary Foot, 'China in the ASEAN Regional Forum: Organizational Processes and Domestic Modes of Thought', *Asian Survey*, 38:5 (May 1998), pp. 425–40.

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Japan, Singapore and Korea upon US markets and security meant that any regional economic forum should include the US, to ensure its continued presence in East Asian affairs. The export dependence of most East Asian countries, as noted earlier, also heightened these countries' dependence upon GATT/WTO multilateralism. Although both the EAEC and APEC stemmed from the widespread fear that the contemporary impasse over agricultural and other trade issues in the Uruguay Round of the GATT might threaten the very existence of this regime, the EAEC proposal threatened to make this even more likely. Discriminatory regionalism of the European and North American kind was rejected in favour of a form of 'open regionalism', in which any regional liberalization agreements would be passed on automatically to all GATT members. In this way, open regionalism within APEC could complement without detracting from GATT/WTO multilateralism. The Eminent Persons Group of APEC, in which economists were strongly represented, proselytized the benefits of open regionalism as compared with the discriminatory regionalism practiced by North America and Europe. Less mentioned, however, was that the open regionalism model made a virtue of political weakness, and how it considerably diminished the Asian character of regionalism in the Pacific.

Also exaggerated was the degree of regional economic integration already achieved. Statistically it was true that APEC's 'intra-trade' ratio exceeded that of the EU, but like was not being compared with like. As more and more countries are added to APEC, including countries as large as the US, Japan and China, it is hardly surprising that APEC's share of world trade and investment flows is very large, and that its intraregional trade ratio is high. The reductio *ad absurdum* of this line of argument is that the intratrade ratio of the whole world is 100 per cent. The real question is whether a particular regional entity makes a substantial difference both to intraregional and extraregional relationships, as the deeper form of institutionalized regionalism of the EU clearly does. Including FDI stocks and financial flows would suggest that the Atlantic region remains much more highly integrated than the Pacific. Certainly intraregional trade and investment within Asia-Pacific grew very rapidly from the early 1980s, but these were largely driven by more rapid growth in East Asia compared with the rest of the world, rather than any large increase in their 'regional bias'.[39] Regionalization driven by rapid growth alone may be a fair weather phenomenon, vulnerable to periods of slower growth and economic crisis.

Finally, aggregate figures purporting to show high levels of integration in Asia-Pacific can obscure large inequalities of income, wealth and opportunity between and within countries. In thinking about who was a part of the Pacific century, some ethnic minorities and women were often not touched by it or touched by it in a way that further impoverished their existence. Some countries or geographical areas—such as North Korea, Burma, the interior of China, deliberately or not, remained outside of it. Indeed, the 1990s saw a considerable increase in the inequality of income distribution in many Asian economies, blurring any sharp distinction with Latin America. Such inequalities also make regional political and economic cooperation more difficult.

[39] For more detail, see Andrew Walter, 'Regionalism, Globalization, and World Economic Order', in L. Fawcett and A. Hurrell (eds.), *Regionalism in World Politics* (Oxford: Oxford University Press, 1995), pp. 74–121.

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All of the above imply continuing severe constraints on the possibilities for deeper integration in Asia-Pacific, and particularly on the possibilities for political leadership within East Asia. In comparison with Germany, Japan is less well integrated into international society, and its relations with its neighbours remain much more complicated today by the legacy of the Pacific War than are Germany's in Europe. Even the 'flying geese' image has negative connotations for countries like Korea and China, since it implied a pattern led and controlled by Japanese financial power, multinational firms, and technology. In this sense, Japan's complicated relationship with its neighbours is more comparable to the US relationship with Latin America than with Germany's relations with its EU partners. If, on the other hand, China were to press further its role as regional hegemon, the willing regional acceptance of this dominance would be severely conditioned by fears of its demographic weight, the large numbers of territorial disputes it has with its neighbours, its strategic nuclear capacity, and the numerical superiority of its armed forces. China's use of force against neighbouring states on a number of occasions since 1949 and its past adherence to an interventionist political ideology create further suspicions. This combination of economic and political/security factors promotes the desire to keep the US engaged in the region, through multilateral institutions, and bilaterally.

Asian drama revisited?

Today, as the meaning and consequences of the Asian financial crisis are still working themselves out, the Asian model and Asian values are being seriously questioned, both from within many countries of the region and from without. It would be far too strong to suggest we have come full-circle back to the pessimistic predictions of Myrdal's *Asian Drama*. Yet it is not an exaggeration to say that many of the proclaimed strengths of the Asian model only a few years ago have become perceived as serious weaknesses that need to be addressed before rapid growth can be resumed. As for Japan, any return to growth levels approaching those of the US and even Europe within the next few years would be seen as a minor miracle.

The Asian model as liability?

The Asian crisis has revealed what area specialists had long known. These were not all strong states in a real sense, many of their decisions were not taken for reasons of public interest, but often for private, political or personal gain, and the 'miracle' was grounded in specific historical circumstances. Those who argue that corruption, cronyism, protectionism, and authoritarianism cannot explain the regional crisis since they existed before it must be right at one level. Yet the crisis also leads us to question previous theories that characterized these or similar variables more positively, or at least saw them as relatively unproblematic. It may simply be that the costs of inefficient interventionism and of weak political systems could be borne during the high growth period.

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Just as there was no single Asian model, nor is any single explanation of the crisis equally convincing for all countries. There were common negative shocks to the region from 1996, which produced a rapid slowdown in export growth for most of developing Asia, particularly Thailand. The unravelling of the Japanese miracle from the late 1980s, with the bursting of the Japanese property and stock market bubble, was one source of this. Japanese productivity growth had fallen dramatically in the 1970s and again in the 1980s, although substantial weaknesses in the Japanese economy—especially in banking and real estate—were masked by the success of key manufacturing sectors. The Asian developing countries had mostly weathered previous developing country crises quite well, but the sheer size of Japan's economy compared with the rest of East Asia, and the growing dominance of Japanese FDI flows and bank lending in regional capital flows, made it unlikely they could escape the consequences of an endemic crisis in Japan. Others point to the rise of Chinese export competition, often said to have caused further adjustment difficulties for its developing country neighbours. However, it is likely that declining Japanese growth, rising inflation, and the appreciation of the US dollar were more important in eroding competitiveness.

Unfortunately, financial market actors often did lump countries in the same basket. Contagion spread from Thailand to other countries as investors perceived new weaknesses in previously unaffected countries, including Russia, Brazil and Argentina, and Korea in Asia. As is now well-documented, the main form of capital withdrawal was international bank lending, particularly in the interbank market.[40] It is untrue that international banks made no distinctions at all, as Singapore, the Philippines and Taiwan were less affected by the general contagion. However, it is arguable that the financial market actors were particularly susceptible to the amateur political economy and sociology associated with the hubris of the 'miracle' years; it should not be surprising that they were equally susceptible to pessimism and panic as the conventional wisdom was reversed.[41] In this sense, one consequence of the hubris associated with the Asian model and the Pacific Century in the 1980s was that it made a bubble and its subsequent bursting more likely.

The 'Washington consensus' view, most clearly associated with Alan Greenspan at the US Federal Reserve, key officials at the US Treasury, and the IMF, and not without an element of Schadenfreude, is that the Achilles heel of the Asian model was excessive government interventionism. In this respect it is not dissimilar to their earlier characterization of import-substitution models in Latin America in the 1980s. Excessive state-driven or sanctified investment, related and risky short-term international borrowing, high levels of corruption and 'crony capitalism', protected domestic markets (especially financial sectors), and inappropriate maintenance of pegged exchange rates, all figure prominently in such analyses. In Asia, such arguments are widely seen as driven by US sectoral interests which perceive an opportunity to open East Asian markets to foreign investment, and which thereby threaten to unravel what was, undeniably, a large number of developing success stories. Not lost on Asians either is the convenient implication of the Washington consensus that Western bank lending and regulation is not at fault.

[40] IMF, *International Capital Markets* (Washington, DC: IMF, 1998), ch. 2.

[41] Charles Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises* (London: Macmillan, 1990), provides an historical overview of the susceptibility of financial markets to such conventional wisdoms.

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Whatever the merits of the argument, there seems little doubt that the crisis has further entrenched this Washington consensus, despite the fact that various Western critics have sought to defend the Asian model against the Washington and Wall Street wreckers. Robert Wade, for example, argues the crisis is largely the result of financial liberalization inappropriately encouraged by the US and IMF, liberalization that has proven incompatible with the 'high debt' East Asian model. Others have sought to argue that the crisis was caused by reckless Western bank lending and inadequate supervision.[42] While many can agree with Wade's latter point, there were also powerful domestic forces pushing in the same direction in a number of countries. After all, it was domestic banks in Asia that intermediated most of the international capital flows during the boom years from 1991–96, providing large profits in this sector and fuelling the rapid growth that regional political leaders desired. By the end of 1996, net outstanding international bank credits to banks in Hong Kong, Singapore, Thailand, Korea and Indonesia amounted to $219 bn, $116 bn, $78 bn, $59 bn and $12 bn respectively. For Thailand, 76 per cent of this debt was acquired over 1994–96 alone.[43] The *Miracle* report of 1993, though it noted the dangers of providing explicit and implicit guarantees to debt-financed investments, was representative of the pre-crisis literature in praising the 'strong prudential regulation and supervision' typical in the region.[44] Today's official conventional wisdom is described by the IMF:

> The problems facing Asia's distressed banking systems are the legacy of years of bad lending practices and inadequate supervision that led to high lending growth and risk taking.[45]

The critics are correct that the IMF has had its own agenda to push, and that Western and Japanese bank regulation were inadequate. However, poor Asian financial regulation also played a role in the crisis. Combined in some cases with pegged exchange rate policies and assumed government guarantees of various kinds, a dangerously rapid buildup of unhedged external debt developed. Over 1994–96, the growing Asian reliance upon potentially volatile international bank lending to sustain the domestic boom created a vulnerability to combined currency and debt crisis that proved disastrous (see Figure 2). Although IMF policy mistakes deepened the crisis, the initial buildup of leverage occurred as a result of the Asian boom and the perception on the part of lenders and borrowers alike that the rapid accumulation of debt was relatively riskless.[46] In retrospect, therefore, the institutions of the Asian developmental states proved unable to manage the consequences of large debt capital inflows, reflecting an inability to 'govern the market' in this important area.

This conclusion holds whether one believes the buildup of indebtedness was primarily due to crony capitalism and implicit guarantees on the one hand, or

[42] Robert Wade and Frank Veneroso (1998), 'The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex' *New Left Review*, 288 (March/April 1998), pp. 3–23; Ha-Joon Chang, 'The Hazard of Moral Hazard', *Financial Times*, 7 October 1998.

[43] IMF, *International Capital Markets*, 1998, p. 31.

[44] World Bank, *The East Asia Miracle*, p. 16.

[45] IMF, *International Capital Markets*, 1998, p. 34.

[46] See Jenny Corbett and David Vines, 'The Asian Crisis: Lessons from the Collapse of Financial Systems, Exchange Rates, and Macroeconomic Policy', forthcoming in Richard Agenor, Marcus Miller, David Vines and Axel Weber (eds.), *The Asian Financial Crisis* (Cambridge, UK: Cambridge University Press, 1999). As Figure 2 shows, portfolio flows have also proved highly volatile, but as with FDI, they do not raise the same threat of default as does international bank lending in hard currencies.

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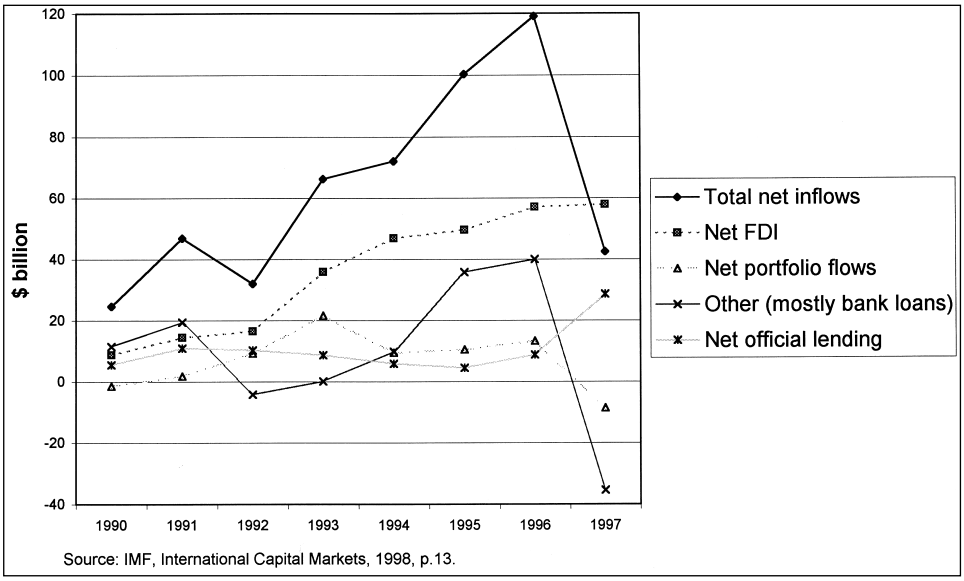


Figure 2. *Net capital flows to emerging market Asia.*

Western bank recklessness on the other. As is now well known, financial and political mismanagement has been particularly evident in Japan for almost a decade. An excessive dispersion of political power and ineffective management in both the public and private sectors has been endemic, including in Japan's most venerated key ministries. Capital account liberalization was, in Thailand's case, due to the desire to promote Bangkok as a regional financial centre, notably through the Bangkok International Banking Facility from 1993. In Thailand and Korea, credit growth in under-regulated non-bank financial intermediaries was a particular problem (and this was not an area where foreigners were pushing for liberalization). Capital account liberalization also places a premium upon central bank credibility, but in the foreign exchange crises of 1997, Asian central banks proved insufficiently autonomous of political interests. In contrast, the financial sectors of some Latin American countries, with a much stronger foreign bank presence, considerably improved supervisory regimes, and a lesser dependence upon international bank lending, proved much less vulnerable to debt crisis.

Although the crisis casts more doubt upon the virtues of short term capital mobility than upon trade and FDI liberalization, it is unlikely that many countries will go down the Malaysian and Chinese paths of stricter capital controls once the crisis abates. Brazil has so far resisted any such return to the old ways, despite the depth of the crisis there. The four NICs have little interest in a policy that would set back their entry into the ranks of developed countries, and their financial and service sectors. Even the developing countries will find it difficult to separate trade from capital account liberalization (China has suffered from continuing and substantial illegal capital flight, for example), not to mention the various opportunities for corruption and rent-seeking that capital controls provide. In addition, the perceived need to take more active steps to promote foreign investment

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in the crisis-hit countries makes it difficult to maintain strict capital controls. Finally, pressure to liberalize the capital account from the IMF and US is likely to remain considerable, since they reject the argument that capital flows *per se* are to blame. If so, the high-debt model may have to adjust, and steps will be taken in the direction of greater foreign presence in domestic financial sectors, and tightened monitoring of foreign borrowing. Korea and Thailand are moving rapidly down this path, and at present are recovering more quickly than Malaysia or Indonesia.

Political repercussions

This sapping of confidence and weaknesses in economic policy and institutions has powerful political repercussions. The boom itself gave increasing voice to domestic opposition groups within a number of East Asian countries, who as we noted above, were acutely aware of the way in which the Asian values argument was being used to bolster the political *status quo*. Indigenous challenges mounted by nongovernmental groupings of various kinds quickly exposed both the instrumental nature of the claims, the diversity of views in the region, and range of experience. As Amartya Sen has written, 'there are no quintessential values that apply to this immensely large and heterogeneous population, which separate them as a group from the rest of the world'.[47] These intellectual challenges, and not just the economic crisis, have undermined the ability of leaders to promote their particular interpretations of Asian values, contributing to the passing of this debate almost as quickly as it arrived.

However, the crisis has generalized this dissatisfaction. As Paul Krugman has noted, it is easy to look competent during booms, and there is little doubt that rapid growth helped to draw attention away from the failures of state intervention and the costs of corruption and of political authoritarianism. The argument that strong states caused rapid growth was always problematic; however, the collapse of growth now threatens to weaken already fragile polities. Having hitched their political legitimacy to their claimed ability to produce rapid growth with equity, governments of the region became vulnerable to any serious downturn, or indeed to any significant diminution of the equity aspect. The boom produced greater inequalities of income and wealth in recent years, reducing an important domestic aspect of legitimacy. The increasingly conspicuous wealth and corruption at the top provided a focal point for this dissatisfaction, particularly once growth collapsed, as the removal of President Suharto in Indonesia has strongly borne out. Even Singapore's Lee Kuan-Yew recently noted 'certain weaknesses in Confucianism…when you use public resources through your official position to do your duty to your family and be loyal to your friends.'[48] All success stories may carry the seeds of their own unravelling; resisting generalized corruption in government may be easier for authoritarian political leaders than resisting the demands of their adult children.

Of course, the vulnerabilities of the political systems in East Asia to delegitimation vary enormously. The exposure of the Suharto family's cynical manipulation of the Asian model for its own enrichment in its later years rendered it

[47] Sen, 'Our Culture, Their Culture', p. 32.
[48] Lee in *Time Magazine* 16 March 1998, and quoted in François Godemont, *The Downsizing of Asia* (London: Routledge, 1999) p. 107.

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highly vulnerable to internal revolution as millions were returned to poverty on the back of the crisis. The obliteration of the distinction that used to be made between Indonesian technocratic management under Suharto and the plundering of the Philippines by the Marcos family may well be unfair to the former, but hard distinctions between the success stories and the failures in the region (and outside it) now seem less convincing.[49] Whatever happens in Indonesia will be enormously consequential for the region, and for organizations such as ASEAN. For individuals too, the economic shocks of 1997–99 have been defining moments for many of Asia's middle classes, encouraging a rethinking of the basis of the East Asian miracle and the wisdom of allowing political leaders relatively free rein in the absence of strong legal regulation. Evidence that there was considerable unrecorded indigenous capital flight from 1996, (particularly from Korea and Malaysia) also casts doubt upon simplistic assertions about Asian solidarity and upon conspiracy theories regarding the attack on Asia by 'international' investors.[50]

As Minxin Pei has pointed out, political change following from crisis has been the norm rather than the exception in postwar East Asia.[51] Those states best placed to respond to this crisis with its widespread social consequences will be those that base their legitimacy on more than high economic growth and that can rely on consensual and not repressive means of building support for the hard policy decisions that have to be made. Not ignoring the vastly different ethnic and cultural makeup of Korea compared with Indonesia, there is a significant political difference between South Korea's ability to implement reforms without widespread political and social upheaval, and Indonesia's struggle with both the economic crisis and the need to legitimate a new political order. As Chinese leaders confront the toughest aspect of their reform agenda—dealing with the inefficient state-owned enterprises—at a time of regional economic uncertainty, it will be a hugely difficult task to defuse the grievances of the newly-unemployed in the absence of institutional mechanisms for channelling such complaints. High levels of corruption—a major source of the demonstrations in 1989—have already undermined the political legitimacy of the Party. China's rapid buildup of debt and high levels of nonperforming loans make it vulnerable not only to financial distress but also to further political disorder should growth slow significantly.[52]

The end of the Cold War, as noted above, eroded the willingness of the US to turn a blind eye to the negative aspects of authoritarian government in Asia. Gone is the convenient distinction in US foreign policy between communist totalitarianism and pro-Western authoritarianism. Pressure for change has come bilaterally, and through international institutions with extended normative ambitions in the area of democratic enlargement, good governance and transparency, enhanced environmental and human rights protections and the like. These issues served to identify a number of East Asian states as targets to powerful external and increasingly influential internal critics: one consequence of dynamic growth for example had

[49] This point is made by Stephan Haggard, 'Business, politics and policy in East and Southeast Asia', in Rowen, *Behind East Asian Growth*.
[50] IMF, *International Capital Markets*, 1998, p. 17.
[51] Minxin Pei, 'Constructing the political foundations of an economic miracle', in Rowen, *Behind East Asian Growth*, pp. 45–6.
[52] See Nicholas Lardy, *China's Unfinished Economic Revolution* (Washington DC: Brookings, 1998), pp. 193–203.

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been land degradation, urban air pollution, forest depletions, pesticide contamination, and declining ground water levels.[53]

At the same time as the propensity for Western interventionism has increased, the weakness of regional institutions in Asia-Pacific further limits the capacity of East Asian countries to resist. APEC and ASEAN have been left looking like fair-weather forums. We should not exaggerate this weakness, since just as it is easy to look competent in good times, most look incompetent in bad times. However, lack of leadership in the region increased the ability of the US to dictate the terms of rescue packages. The exposure of Asian corruption and inefficiencies further undermined Japan's ability and willingness to push a different view to the Washington consensus regionally, and in international institutions. At home, the anaemic Japanese economy sapped Japanese self-confidence at the same time as America's—at least in the economic realm—soared, and has further eroded Japan's ability to protect (if it should wish to try) East Asian interventionism from US pressure for liberalization.

Pacific Century: myth or reality?

Just as the virtues of an elusive East Asian model were exaggerated in the past, there is a considerable danger today of going too far in the other direction. There is little doubt that some circles in the US and Europe have felt considerable relief over Asia's recent difficulties. An important element of reality was captured by the miracle story: rapid postwar growth in Japan and later in other East Asian developing countries is undeniable, as is their attention to the development of human capital and high savings rates. Furthermore, in comparison with the Cold War period, important regional institutional developments occurred in the 1980s and 1990s which in the security field could eventually contribute to greater transparency and the development of shared understandings.

Key aspects of the Pacific Century idea came from outside the region, and we have argued that dominant currents in Western social science thought contributed to its propagation and reception. Perceptions outpaced reality, and gave the misleading impression that what economists persist in calling the 'stylized facts' of a synthetic Asian model could persist. Politicians both in Asia itself and in the West had a vested interest in various aspects of this distorted picture, and the dramatic shift in the balance of power in the global political economy and in international regimes that it appeared to entail. We have argued that, although the economic achievements of East Asia must be acknowledged, this failed to translate into substantive political power, in large part because of the particular constraints upon Japan. This weakness and vulnerability helps explain the first steps towards regionalism in East Asia at the end of the 1980s, when the international political and strategic environment was changing rapidly. Yet it is not as simple as this: regionalism was also a product of perceived Asian strength as well as vulnerability. Indeed, without this strange combination of strength, vulnerability, hubris and misperception that reigned in Asia-Pacific in the last decade, it is unlikely that the necessary regional political coalitions could have been formed across such diverse societies.

[53] Gareth Porter, 'The Environmental Hazards of Asia Pacific Development: The Southeast Asian Rainforests', in *Current History*, 422 (December 1994), pp. 430–4.

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Where the Pacific Century idea has proven most misleading is in the implication of a Pacific community, which has proven difficult to establish, especially among states divided by more features than those which bring them together. The economic determinism behind the Pacific Century concept represented wishful thinking in this respect. Indeed, the economic crisis has put even those reasonably successful subregional mechanisms for building community, such as ASEAN, under strain as governments concentrate on their own individual solutions to the dilemmas they face.

Thus, the Pacific Century has not arrived and is not likely any time soon. East Asia has not been eclipsed and will no doubt rebound. Furthermore, there is little doubt that its economic strength enabled it to resist US and general Western pressure for liberalization to a much greater extent than Latin America, and this will most likely continue once growth returns. But the last few years have shown that rapid growth does not solve all problems and creates many new ones. In particular, although economic strength enabled East Asia to resist American pressure for change in economic policy, it did not enable East Asia to exercise broader influence in international affairs. It is in this sense that economic materialist conceptions of power have proven especially misleading, and it underlines the distinction between relational and structural power in international relations.[54] This helps to explain the paradox of East Asia's perceived challenge to the West: on the one hand, its ability to resist demands for change at home, but on the other its inability to articulate alternative international norms and to establish institutions consistent with 'Asian interests', whatever these might be. It is in this sense, above all, that the American century that Henry Luce first pointed to in 1941 has not yet run its course.[55]

[54] Susan Strange, *States and Markets* (London: Pinter, 1998), pp. 24–9.
[55] A recent series of articles assessing the American century is contained in *Diplomatic History* 23:2 and 3 (Spring/Summer 1999).

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