Eastern Asia in the Next Decade: From Economic Crisis to Instability?

David Wurfel

The current Asian crisis is a case of the world capital market overwhelming national economies. Yet the state is not a pushover in the globalization process. Neither is the state in Eastern Asia necessarily the stable, unified institution it was thought to be earlier. Economic crisis is undermining political 'stability', often provoking nationalist reactions. So far democratic states have weathered the economic storm more successfully than patrimonial ones, where 'stability' was fragile, but even the 'successful' ones face serious future problems. The political consequence of the crisis for international relations in the region has been to augment the influence of China, while reducing that of the US and Japan. In the Asean it helps create new tensions.

AMERICAN CONSUMERS WERE REPORTED AT THE BEGINNING OF 1998 to be enjoying the greatest confidence in the future of the economy in 30 years. Predictions on TV by stock market gurus were almost as optimistic. For most Americans the Asian economic crisis was just a blip on the horizon—perhaps echoing United States (US) President Clinton's assessment at the Asia Pacific Economic Cooperation (APEC) summit in November. Even as recently as the December 1997 issue of *Foreign Affairs* the noted Harvard economist Jeffrey Sachs echoed the view that this was merely a brief 'financial crisis' in Asia (Radelet & Sachs 1997). By February 1998, while there was an increasing recognition among economists in the US that the Asian downturn could cost up to a million American jobs, the New York Stock Exchange continued to rise. Even reports of a rising US trade deficit for December 1997, as a result of

Author's Note: 'Eastern Asia' is the term now widely used by students of international relations to refer to Northeast and Southeast Asia. It is used instead of 'East Asia' because that term has traditionally meant the China culture area, excluding most of Southeast Asia.

increasing imports from Asia, still did not faze Wall Street, though economic analysts warned that this was only the beginning of what could be a flood.

In the Philippines, we do not have the luxury of distancing ourselves from the momentous events in local and neighboring economies over the last few months. The reality is too harsh. As early as March 1997 the wise former prime minister of Thailand, Anand Panyarachun (1997), warned that merely projecting past growth rates into the future—which many economists had been doing—was not a realistic way of looking at Asia in the 21st century. What is now abundantly clear is that predictions made less than a year ago must be substantially revised. Growth rate projections for Asian countries in 1998 are being downgraded almost weekly. Nor are my own comments likely to escape the need for early revision. In any case, I will make the plunge.

The current Asian economic crisis would appear to be a case of the world capital market overwhelming national economies and the policies therein. There is no question that in the high-stakes world economy the market can, on occasion, trump the state. Furthermore, we recognize that corporations, intergovernmental institutions (IGIs), and nongovernment organizations (NGOs), just like the Catholic Church, may be independent actors on the world scene, alongside states. But it is premature, at the very least, to count the state out. It is by no means the only actor in world affairs, but it remains the most important one. Even in economic matters, the state—singularly or severally—has often exhibited the ability to regulate markets. The felt need to regulate is heightened in times of crisis. Contrary to the belief of some, globalization is not an inevitable, unstoppable process. Awareness of its dangers is greater today than ever before, an unexpected benefit of the Asian economic crisis.

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But even where the state, or states, cannot regulate the world market—as in the unlikely prospect of the early enactment of the 'Tobin tax' on currency flows, no matter how desirable—state action, or inaction, can have a profound impact on that market, even negative and unintended. Present-day Indonesia is a case in point. In fact, whether one is concentrating on the economic or political aspect of the world political economy, the impact of the state on global interactions can often be greater than that of global events on the state. For instance, the Chinese Revolution—affected by external stimuli, but primarily domestic in origin—transformed international relations in Asia. Domestic change in China in the next decade could again become the dominant influence on Asian affairs. When a number of countries experience economic crisis at the same time, e.g. Thailand, Indonesia, the Philippines, Korea and Japan, the pattern of their responses will surely have a tremendous impact on the regional, and probably the world political economy. The course of world events is the consequence of interaction between state initiatives and those by markets without boundaries. The previous disregard by many observers of the powerful autonomous influence of the domestic political economy of states must now be corrected.

Just as we cannot assume the primacy of the state over worldwide markets or international organizations—nor the reverse—neither may we conclude the superior importance of political over economic processes, or vice-versa. In early 1998 we see an Asian economic crisis that was triggered by international currency traders, responding, to be sure, to national economic conditions; the first recourse for those wanting to repair the damage was to the International Monetary Fund (IMF), an intergovernmental organization with a thrust of its own. But in subsequent months and years it is more likely that national politics and national economic policies will be setting the regional, and perhaps world, agenda. And if we appreciate the importance of politics, we are keenly aware that political stability, which was so widely touted as a cause of the 'Asian economic miracle' in the recent past, is not likely to be as common in the region in the coming decade.

Part of the problem is that many corporate analysts, having little regard for democracy, misunderstood the true character of 'stability', confusing it with the prolonged power of a single authoritarian ruler. Businessmen in particular were oblivious to the long-term consequences of Suharto's patrimonial rule; they were merely jockeying for position within his retinue.

So let us look at the current crisis from the viewpoint of state, regional and global actors. Is the state in decline or resurgent? Can globalization be regulated? Will stability or instability be the dominant characteristics of national political systems in Asia in the coming decade? How will political instability, if that is the trend, affect and be affected by the economic crisis? Can regional organizations make a contribution to stability? The interaction of political and economic phenomena, as well as the interactions between levels of organization—the state, the region and the world—will be the themes as we proceed to examine recent experience and future prospects in Asian affairs. Let us first assess the regional role and domestic trends of the three great powers, then look at the smaller powers, especially in Southeast Asia, and their regional organizations.

THE UNITED STATES

SOME would assume that the US is the only remaining superpower, the hegemon. While this might still be true in another region, in Eastern Asia there is now clearly a multipolar international system. In fact, even before the end of the Cold War it could be called tripolar—with power distributed among the US, the USSR and China—and it is tripolar still, with Japan having displaced the USSR.

The US position in Asia became relatively stronger as Moscow's ambitions shrank, and it would seem that again this year, with Asia's growing difficulties alongside a booming American economy, US power has become relatively greater. It was able to brush aside a Japanese proposal for an Asian Monetary Fund which initially had the support of several countries, has participated actively in IMF rescue programs in Indonesia and South Korea, and has backed IMF conditions throughout. But has American economic muscle been translated into political influence? It appears not. Exercising pressure does not necessarily win friends or followers.

Many Asian journalists and political and business leaders have regarded American assistance as too little and too late, with too much emphasis on conditionality. The Thai and Indonesian press have been especially critical. President Ramos, in appealing for more US—as well as German and Canadian—assistance, voiced publicly what some other Asian leaders only mutter privately (Philippine Star 1997a). Even Henry Kissinger warned that US support for ill-timed IMF conditions could trigger an anti-American reaction in Asia (IHT 1998a). If Asian economies soon revive, then the onerous character of some conditions and the inadequacy of US aid may be forgotten while economic relations with the US improve. However, if 'improvement' means a burst of low-cost Asian exports to the US, this could in turn stimulate already existing protectionist sentiment in Washington. All countries faced with rapidly changing economic conditions that cause domestic interests to feel threatened will react in a nationalist mood, and the US is no exception. Such a reaction would hardly enhance American influence in Asia—but those who push protectionist policies are not concerned about influence abroad. This was evident when the US Congress denied 'fast track' authority to President Clinton last year.

Much more recently the bizarre intrusion of the abortion battle in Congress into crucial foreign policy areas, temporarily blocking additional US funding for the IMF, indicates how ill-prepared many in Washington today are to maintain American world leadership (IHT 1998b). Only a strong appeal to the US Congress by the Secretary of the Treasury, pointing out the dangers to the US economy if the Asian crisis were not solved, brought around the bulk of Democrats in the House to support the IMF appropriation. (This was especially notable since many of them had earlier opposed the 'fast track' authorization.) Meanwhile former US Secretary of State George Shultz has come out in total opposition to the IMF—from a libertarian economist's viewpoint. US President Clinton's request for an additional US$18 billion is still in trouble, and, if passed, may be burdened with a number of conditions difficult to implement and affronting Asian nationalist pride (Economist 1998). In sum, the economic power of the US has risen, but its political influence has not, and more problems could be on the horizon. On top of other problems, came the reports of the US president's romantic dalliances in the White House. Though in March earlier talk of impeachment had subsided, Clinton had yet to face a rigorous legal obstacle course. A president so distracted is unlikely to turn his full attention to Asia's problems—despite well-publicized phone calls—and can hardly exercise maximum influence over Congress. As in the case of Japan, handicaps to American leadership in Asia are largely self-imposed.

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JAPAN

ONLY recently the economic powerhouse of Asia, Japan has slowed noticeably in the last few years, partly for the same reason as that behind Thailand's troubles, having to deal with large-scale non-performing bank loans as a result of a sharp downturn in the property market. In recent months the financial crisis has intensified—banks and security agencies have failed—such that now even the Japanese prime minister is talking about the need to take steps to prevent a world depression caused by Japan! (Japan Times 1998). Japanese economic policy is so confused, however, that it may not achieve that goal. Most observers believe that the beginning of a new round of liberalization in April would trigger further bankruptcies in Japan, and probably overall negative growth. Whether a stimulus package, now being considered, that emphasizes 'pork barrel' type public works can give the economy more than a temporary reprieve remains to be seen. Stock markets are poor predictors of the economic future, in Japan or elsewhere.

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Japan did have the resources to offer a substantial contribution to the Thai, Indonesian and South Korean bailouts—US$19 billion in total, more than twice the amount offered so far by the US, but its own difficulties will probably make an expansion of that role unlikely. Its massive pledge of new capital for an Asian Monetary Fund last fall did not overcome US and IMF opposition, and has not been offered again. Yet it is *now* that all developing countries in Asia—not just the three hardest hit—need new markets for exports and substantial infusions of new foreign capital, heretofore mostly from Japan. (Japanese bankers in February proposed a new US$15 billion trade credit for Indonesia, in lieu of opening their market; ten days later the figure had plummeted to US$2.4 billion (AWSJ 1998b, 1998d). Some Japanese firms are taking advantage of bargain basement prices after devaluation to make new investments in Southeast Asia. But corporate survival in Japan may require others to actually repatriate foreign capital, rather than export it. Japanese banks are already closing overseas branches. And if capital repatriation requires the sale of US or Canadian treasury bonds, the impact on the North American economy could be severe—well beyond the West Coast states, which already feel the effect of declining Japanese imports and tourism.

At the Kyoto Conference on Global Warming, Japan offered to make funds available to developing countries to help them meet environmental goals, a laudable move, but the impact was minimal—perhaps because confidence in follow-through was weak. Japan has not responded to recent appeals from Southeast Asia for greater market opening. Yen diplomacy of all types, which was so central to Japanese foreign policy, has lost its punch.

Would the Japanese political system be unaffected if there were a national depression? Hardly. For two generations, the legitimacy of political power in Japan has been derived from spectacular economic growth. Consumption has become the dominant religion, deflecting criticism of misbehavior by politicians—and revelations of corruption have been on the rise. The powerful Ministry of Finance is itself crippled by scandal. There are really only three alternatives for a modern state to recover political legitimacy when it is lost—a renovated democratic process, popular economic reforms or nationalism. The first of these has been tried with a new election law. Proportional representation was introduced for 200 seats in the Lower House of the Diet, designed to encourage policy-coherent parties and reduce the impact of patronage on elections. So far the impact has been minimal, though it could yet contribute to a clean-up and rationalization of party politics. But neither government bailouts for errant bankers nor widening scandals are good for the Liberal Democratic Party, so that increased democratization at this time may not be seen as appropriate by the ruling elite.

Economic reforms that opened markets, and included a major tax cut, would contribute to the legitimacy of the Japanese regime both at home and abroad, but Premier Ryutaro Hashimoto's party rivals are so linked to entrenched interests of the present system that he cannot make the hard decisions that reform requires. Even if he should resign—an idea now being bruited about—reform prospects are not much better.

The third alternative, nationalism, is what emerged in the Great Depression of the 1930s to justify militarism. To be sure, militarist nationalism in Japan today is a shadow of its former self, but it has *not* disappeared, despite countervailing popular support for a war-renouncing Constitution. Extreme nationalism in Japan still uses violence to squelch public debate, with some success. Newspapers critical of rightist actions are often cowed into silence. Connections of ultranationalist groups within the police and military persist. A large bloc of Diet members feels no regret about Japanese aggression in World War II, and the Ministry of Education tries to prevent the truth about Japanese wartime atrocities from appearing in school textbooks. An ideologically compatible cultural nationalism, *nihonjinron*, has considerable acceptance in intellectual circles (Kosaku 1995). Nationalism would certainly thrive on a new army of unemployed. Nevertheless, political stability and policy continuity will probably survive in Japan, even amidst economic troubles, but it can *not* be taken as a given. Yet even the fear—still lively—of a nationalist revival in Japan affects Chinese policy. Domestic causes of the decline of its influence abroad are even more potent in Japan than in the US.

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CHINA

AMONG Asian countries, China has suffered the least from the current crisis, and given American and Japanese action, or inaction, it is Beijing's influence, relative to other great powers, that has gained. It has used the opportunity to try to play a benign great power role, offering loans and new investment to smaller, stricken economies—US$1 billion to Thailand—regardless of its own scarce resources. In the meantime China has continued building up its store of arms (Bernstein & Munro 1997).

Is China's position relatively favorable so far *because* it 'has adopted capitalism as the organizing basis of economic life', as Jeffrey Sachs claims, (Radelet & Sachs 1997) or just the opposite? China's economy still has the largest state-owned sector in the region. Many economists have admitted that the lack of a freely-convertible currency and a state-controlled banking system have immunized it from the latest outbreak of 'Asian flu'. This might seem to be an embarrassing inconsistency for the IMF, which is imposing sharply contrasting policies on the sickest economies which sharply contrast with those of China, but its economists seem largely undeterred. They did admit, however, that their timing was bad in forcing bank closures in Indonesia in November (IHT 1998b).

But can China's immunity to the spreading disease really last? It will soon feel the competition of low-cost exports from Southeast Asia. It already saw a drop in new foreign investment last year; a trend likely to accelerate in 1998. Furthermore, Jiang Zemin has pledged to close thousands of bankrupt state firms—perhaps good for the banks, but hardly good for the workers. He rightly worries about mass unemployment fueling popular unrest, which has already produced riots and demonstrations in several provinces. Yet if he does not move to jettison bankrupt firms, his banking system will face the same crisis the as that of Thailand or Japan—albeit with the assurance of a full government bailout. Despite official pledges to the contrary, some economists are predicting Chinese devaluation within the year. Others, however, argue forcefully that devaluation in China would slow foreign investment, trigger inflation, and stimulate a new round of competitive devaluations in other Asian countries—and is thus unlikely (AWSJ 1998e, 1998f; Hu 1998).

Already economic performance is no longer the strong support for Chinese regime legitimacy that it once was. Thus, not surprisingly, nationalism has been promoted as an alternate source (Segal 1997). Not inconsistent with earlier Party analysis, the fiercest recent expression of this view was in the very widely-read book, *The China That Can Say 'No'* (Hughes 1997). Were that nationalism to be used to encourage personal sacrifices for the sake of national recovery, as in South Korea, the impact nationally would be beneficial, and on international relations at most indirect. (But even in Korea nationalism is also mobilized against Japan in a fishing war which may yet have dire consequences.) Unfortunately Chinese nationalism has been used to support extensive territorial claims in the South China Sea, and to legitimize the right to use force in order to 'reunite' Taiwan with China.

No event would be more likely to trigger a major regional war than a Chinese invasion of Taiwan. It would mobilize anti-Chinese nationalism in Japan as well as reinvigorate the Taiwan lobby in the US Congress, and thus probably pit Japan and the US against China. Fortunately Taiwanese nationalists have in the past year moderated their stance on independence, and even Beijing has removed important preconditions to negotiations with Taiwan. There are still strong voices in Beijing for a national policy that promotes, not undermines, national economic development. But economic downturn in China would weaken their position and bolster that of nationalists in the military, increasing the risk of war. In the South China Sea as well, Beijing in the last several months has moderated its position, accept-ing multilateral as well as bilateral dialogue and avoiding new incidents, perhaps out of a recognition of a growing solidarity in Asean against the expansion of Chinese control to more islands. (However, Vietnam is again accusing China of illegal encroachments on their land border (PDI 1998c). Yet nationalist sentiment induced by increased economic problems could also reverse that welcome trend.

TAIWAN

THOUGH not a 'great power', Taiwan has massive currency reserves and huge accumulations of private capital—with US$37 billion already invested in Asean countries—that give it the mantle of a 'great regional economic power' in the present crisis. It has set up a special public/private fund to stimulate further investment in Southeast Asia, and top officials have made several secret and not-so-secret trips to the region, apparently to negotiate political favors in exchange for financial largesse. In the Philippines the Premier's visit produced both official confirmation and denial, so as to make a bad joke of the 'cover-up' (PDI 1998a, 1998b). China is sufficiently alarmed as to warn its neighbors to the south about the dangers of succumbing to Taiwanese blandishments. If Taiwan's economy proves capable of sustaining these initiatives—and ironically for an economy with a reputation for being relatively open, its ability to prosper in the midst of a regional crisis is based in part on its continuing restrictions on foreign investment in the Taipei stock market (AWSJ 1998g)—its international status may emerge from this situation noticeably stronger, unless Taiwanese leaders drive too hard a bargain, thus alienating Southeast Asians.

INDONESIA

WE have noted the emergence of nationalism in times of economic distress, which may be intertwined with threats to political stability—a stability once regarded as a special asset of the Asia Pacific region. Political stability is often misunderstood as being equivalent to the longevity of a particular leader, or party. But Filipinos in 1986 appreciated the falsity of this definition, as do more and more Indonesians today. Real stability means the capacity of a political system to change its leadership without violence and through legal means.

Suharto, like Ferdinand Marcos in 1985, seems determined to hang on to power, regardless of age or infirmity. The nature of a patrimonial system makes it very difficult to plan succession. Suharto is becoming more and more isolated by his reliance on family, as was Marcos in his final days in power. The recent contretemps between Suharto and the IMF over the creation of a 'currency board' had its origins in the efforts of his children to resist IMF conditions, which were having a devastating impact on their several companies. The Western-trained economic technocrats who had been running the economy were pushed aside—most notably the governor of the central bank. Ultimately the overwhelming pressure of the US and the IMF seemed too much even for a nationalist like Suharto, and the plan for a currency board was at least temporarily shelved (IHT 1998c). But while the patrimonial approach to policy may have been temporarily thwarted, it was clearly revived when Suharto appointed his new cabinet, dominated by cronies and family members—at the same time the currency board idea was revived, causing the IMF to delay the release of funds. The new minister of National Development Planning said that 'if the IMF and World Bank...impose their wills or humiliate us, we would be better off without their help' (AWSJ 1998h). Suharto's brinkmanship may produce some concessions from the IMF, but there now seems little chance for the most essential requirement for economic recovery, institutionalized succession.

If Suharto does not step down—and his choice of BJ Habibie, unlikely to be able to retain the support of the military in the absence of Suharto, as his vice president seems to indicate that he will not—then the interaction of the uncertain succession of an ailing leader with economic crisis will surely lead to some kind of political upheaval. EDSA may not be the model—though Muslim religious activists in Indonesia, Muslims, are becoming more assertive (Cohen 1998). So far the military has been billed by journalists as 'fully behind the president'. His recent appointment of a new high command—including his son-in-law—would seem to confirm that assessment. But if public unrest intensifies, the military could split on how to deal with it. Ironically, though Suharto speaks privately about waiting to step down until the economy turns up again, it is his very refusal to retire and name a respected successor that prevents economic recovery. Thus he may go down in flames.

One dimension of instability in Indonesia today is manifest in a renewal of anti-Chinese riots—and in a country where vast pogroms were actually carried out little more than 30 years ago. Some elements in the military are seen to fan anti-Chinese sentiment, perhaps to forge an alliance with Muslim groups. Even Suharto appeared at one point to tolerate, if not encourage, anger against the Chinese, perhaps to deflect unrest from being directed at himself (McBeth & Tripathi 1998). The situation is explosive. This could accelerate capital flight, aggravating Indonesia's economic problems, and would create a difficult dilemma for China, since to do nothing would show weakness, but to do almost anything would be too much for Southeast Asian sensibilities. And when Malaysian Prime Minister Mahathir Mohamad publicly expresses confidence that there will be no anti-Chinese outburst in Malaysia, you know he is concerned that there might be.

EDSA may not be the model for Indonesia.

Clearly, instability in Indonesia is not an entirely domestic matter. Its neighbors would be adversely affected if the situation gets worse. Singapore and Malaysia are bracing for both thousands of beleaguered Indonesian Chinese refugees and hundreds of thousands of Indonesian unemployed (AWSJ 1998f). Mahathir has traveled to Jakarta to discuss the matter privately with Indonesian authorities. Within Asean only Singaporean leaders have been so bold as to publicly imply that Suharto should choose a successor and then resign (AWSJ 1998g). Asean has recently wavered from its strict stance of 'non-interference in the internal affairs of member states' by attempting to negotiate a free and fair election in Cambodia in which all parties have a right to compete. But this is unlikely to be a precedent for Indonesia, both because of differences in size, and because attempts by Asean to prop up democracy in Cambodia are merely a sequel to an earlier much larger United Nations (UN) role of which Asean was a part. Only prolonged armed conflict in Indonesia, which seems unlikely to be tolerated by its own military, would tempt Asean to play a mediating role. Yet any upheaval in the largest country in Southeast Asia would affect the whole region. At the very least, the absence of a confident voice from the largest Asean nation would change the balance of influence in the organization.

THAILAND, KOREA AND THE PHILIPPINES

BY contrast, political stability has so far been maintained in both Thailand and Korea, even though leadership changed in the midst of economic crisis. (To be sure, labor unrest is appearing in both places, but seems to pose no threat to the political system.) In both cases, the elite as well as the public accepted constitutional constraints and thus produced leaders benefiting from strong democratic procedural legitimacy. With such legitimacy their hands are strengthened as they face difficult decisions designed to produce economic recovery. Their survival in a democratic system will depend, in part, however, on the consequence of those decisions. If recovery is indeed achieved in the next year or two, the political positions of Chuan Leekpai and Kim Dae Jung will be strengthened and the democratic process will be validated. Economic failure, on the other hand, even if caused by forces beyond their control, e.g. IMF pressure, could carry a heavy political cost. (Thus some IMF impositions may be resisted.) In countries with recent experience of military dominance, the cost could be not only a shortened tenure for leaders, but the very survival of the democratic system. This is not an easy time for elected leaders in young democracies to prove their credentials. Of course, corruption, which both distorts and taxes economic development, is also a major factor in determining whether leaders can win legitimacy.

The next Philippine president will face tests no less rigorous than those faced by leaders in Thailand and South Korea. By next July the economic crisis may have worsened, exacerbated by the election campaign, such that unpopular policy moves may be necessary. But if the same president is faced with widespread protests about election fraud, then his legitimacy will be fragile and his ability to deal with difficult economic issues, constrained. Even though there seems to be little awareness in Malacañang or the Commission on Elections (COMELEC) about the inevitable connection, without free and fair elections the economy will surely suffer further.

Even without an economic crisis, the success of democratic processes is put to a special strain by the ongoing impact of globalization (Hirst 1997). Globalization puts pressure on governments to follow the dictates of corporations, or the IMF, even if it is contrary to the wishes of the electorate. To be sure, for many years elected governments have from time to time offered 'bitter pills' to those who put them in power, whether to useful ends or not. But in the era of globalization such instances are more frequent. The as yet little debated Multilateral Agreement on Investment (MAI), now being negotiated, may prove to be the most controversial example of corporate priorities trumping popular ones (Clark & Barlow 1997). It could serve to emasculate health, welfare and environmental policies in high-income countries, lowering worldwide standards in the process. So far the governments of industrialized countries, the source of the world's foreign direct investments (FDIs), seem to be siding with corporations. In the Third World, including Eastern Asia, leaders would find that the MAI even more severely limits their right to give preferred treatment to corporations owned by nationals. Yet despite globalization and stimulated by the present crisis, these leaders may reassert national autonomy, contributing to the re-regulation of the market. Asean governments are reported to have reacted negatively already to the MAI draft.

REGIONAL ORGANIZATIONS

SOUTHEAST Asia enters the 21st century with a set of international institutions stronger than in any region but Europe. How have its institutions been affected by the current crisis, and have they been effectively used to deal with it?

The most venerable is Asean, more recently supplemented by the Asean Free Trade Area (AFTA) and the Asean Regional Forum (ARF). Asean has been the object of praise by world statesmen and academic analysts alike, primarily because of its accomplishments while it was a group of five, or six. Now its expansion to nine, and a probable ten, along with economic and environmental crisis in the region creates new problems.

Before 1997, conflicts between Asean members were handled with little difficulty—either negotiated or, more often, postponed: 'conflict avoidance' as it was called. Recently there are instances of both new levels of regional cooperation and the emerging raw material of new conflicts. Both Singapore and Malaysia, less severely hit by economic downturn than Thailand or Indonesia, have made substantial contributions to the recovery funds in both countries. This indicates an ability of Asean to help itself—or members to help each other—that would not have been possible even a decade ago.

Nevertheless, at the same time, new conflicts have arisen. Even before the spread of the Asian financial crisis, the consequences of disastrous Indonesian agricultural practices in Borneo and Sumatra, condoned by government officials who may have benefited, caused neighboring countries to be engulfed in smoke. While the official line was to refrain from criticism and provide assistance to Indonesia to fight the fires, the tethered press in Singapore and Malaysia engaged in very trenchant criticism indeed, reflecting unstated official opinion. With the resumption of burning in early 1998, despite Malaysia and Singapore's assistance to help Indonesia prevent it, Indonesia may come under even stronger criticism, even though in the present crisis the Indonesian government seems incapable of effective action on this matter. When an opposition member of Singapore's parliament insisted that 'Indonesia should enforce its own laws' against burning, he was greeted by an outburst of laughter (Cohen et al. 1998).

Labor migration and the treatment of foreign workers already produced conflict between Asean countries, most notably the Singapore execution of the Filipina domestic worker, Flor Contemplacion. But the economic downturn in Malaysia has created a new urgency. Malaysia is planning to repatriate hundreds of thousands of foreign workers, mostly Indonesian, just at a time when unemployment in Indonesia is rampant. Whether Kuala Lumpur is actually able to accomplish this remains to be seen. Friction between governments has already surfaced on another front as Burmese workers become redundant in Thailand and are sent home. Economic hardship within Asean will also make it more difficult to solve, or even manage, fishing disputes between members. Nor should one expect that tariff reduction measures planned under AFTA to proceed on schedule when industries affected by such reductions are already hurting. Delay in implementing the Asean Industrial Cooperation scheme for automobiles and appliances has already been announced (PDI 1998a). A powerful case can be made for trade liberalization under conditions of economic expansion, but during contraction it is much more difficult to sell.

When Asean was only five (or six) states, it developed considerable consensus on a variety of issues. However, the expansion of Asean since then has made it a much more varied group, in respect to the nature of regimes, to policies towards great powers, and to the level of economic development. Thus a decision-making process that continues to rely on consensus will be much more difficult to carry through. Sadly there has so far been little substantial movement towards collective action by Asean in the present economic crisis, which Asean secretary-general Rodolfo Severino calls Asean's 'defining moment' (AWSJ 1998c). Even though there may have been common causes for crisis in the different states, some of which, at least, derived from the global system, the response to crisis among Asean members has been primarily national. Inaugurating more frequent consultations is a commendable new step, but no effective policy coordination has yet emerged. When the governors of Southeast Asia's central banks held their 33rd conference in Indonesia in February, they took no stance on any policy issue related to the economic crisis. The later meeting of finance ministers in Jakarta did, however, reiterate commitment to regional trade liberalization and announce plans for more detailed discussions about the use of regional currencies for intra-Asean trade. They also announced new plans for closer surveillance of financial markets in the region, perhaps in cooperation with the Asian Development Bank (Philippine Star 1998b).

The response to crisis among Asean members has been primarily national.

Mahathir's crusade to create a 'dollar free' trading system in Southeast Asia that uses only local currencies seems to have had some success among the original Asean five primarily because of his dogged perseverance. (According to some economists, that mechanism has actually been in place for several years, though seldom used.) His railing against 'foreign speculators' was first seen abroad as simply an exercise in scapegoating, but his latest approach is quieter, and clearly more constructive. No final agreement on his plan has been reached, however.

Beyond Asean there is another expression of regionalism in Eastern Asia which deserves comment: EAEC. Mahathir has long supported a vision, which he first called the 'East Asian Economic Grouping' later downgraded to a 'Caucus', to be within APEC, but excluding the non-Asian members. The US saw such a grouping as a threat to its economic influence in Asia, and thus opposed it. Japan felt obliged to support the American position, so Mahathir's idea has been stillborn—or has it? Late last year Mahathir, then host of the Asean summit, invited other Asian powers, including Japan, to join the meeting, thus assembling the very group he had first envisaged, though without a formal designation. In fact, this group had also met previously at the Asian-Euro Summit. If the US continues to be viewed as unresponsive to Asia's economic crisis, then the EAEC may quietly emerge, even without a formal launching. Some believe it has emerged already, another measure of China's rising influence. Economic crises in other times and places have also contributed to the birth or death of international organizations. Thus, to simplify the score it might be said that EAEC has advanced, while Asean stumbled—but may yet respond to the crisis with new institutional arrangements. APEC seemed increasingly irrelevant.

In conclusion we will try to sum up the trends, both national and international, accentuated by the current crisis which will shape the character of Eastern Asia in coming years. First, we note a restructuring of the regional balance of power. Secondly, we reiterate the importance of domestic political determinants of regional economic, and thus political, conditions—which requires greater care in defining and identifying 'political stability'. And finally we reflect on how economic crisis may stimulate a new round of state regulation of the world market.

Unfortunately, Washington's failure—despite its enhanced economic power—to provide sufficiently constructive and sensitive leadership toward the solution of Asia's economic crisis is undermining American influence in the region, and may eventually weaken the American economy itself. Japan is in even deeper trouble: not only is her economy going downhill but in Tokyo the decision-making process is stalled, seemingly incapable of plotting a clear direction for policy. Despite financial resources which are still huge, Japan's leadership seems unable to deploy them in a way that will preserve Japanese regional influence. Taiwan also controls a tremendous cache of capital, which it is trying to use to enhance its status. Among the three great powers in the region, only China has augmented its influence in the last six months, acting with caution, offering financial aid at strategic locations. Nor should one fail to take note that Chinese authorities have refrained from taking steps, such as devaluation, which could exacerbate problems in other countries.

This expanding Chinese influence may not, however, be the long-term trend. Recent events remind us of the importance of political-economic interaction within states, and its regional, even worldwide, impact. Just as internal political developments in Russia caused the largest shifts in the structure of world power in this century, so changes within China are likely to have a comparable impact in the next. The Chinese leadership is attempting a daring high-wire act—balancing economic liberalization with authoritarian control by a single political party. It may be impossible to maintain that balance for long. When the balance falters there could be a variety of outcomes, each one having profound consequences for the political economy of the Asia Pacific.

Indonesia should be a cautionary tale for business analysts.

The pastiche of centralized authoritarianism and free enterprise economy is likely to come unglued even sooner in Indonesia. Nor would Vietnam—which most economists have assumed to be politically stable—be unaffected by such an outcome. Indonesia should be a cautionary tale for business analysts in the future, who badly misunderstood the character of 'stability' under Suharto. Instability in Indonesia, if sufficiently prolonged, and laced with racism, could at least infect Malaysia. In sum, political stability as the context for rapid economic growth in Asia in the late 20th century can no longer be taken as a given, as it was until recently. And instability has its own economic consequences. The economic context is crucial for understanding political trajectories, but the reverse is also true.

It is still likely that a hundred years from now we will label the 21st century as the 'Asian Century'. But given recent events, Asian economic dominance will not be achieved as soon as was thought. Nor will the path be smooth. The tension between incompatible political and economic systems may cause instability, and not just in China. In democratic countries with freely elected governments, economic systems that reward bankers when they fail, but discard hardworking farmers or carpenters when they are no longer needed by landowners or employers, will heighten protest.

Yet whatever the character or the importance of the domestic political economy, there are global factors that create difficulties for national societies, phenomena dramatically illustrated by the current economic crisis. One of those factors is the stupendous flow of funds in and out of currency markets, transactions that contribute nothing to the production of goods or services yet dwarf the world's gross domestic product in comparison. It is these flows that help make possible wild swings in the value of national currencies. These flows are a consequence of accumulation of national policies, the deregulation of foreign exchange and portfolio investment, and could again be modified by international consensus or accumulation of national decisions.

The early political philosophers believed that governments emerged out of chaos, that people accepted the constraints necessary to maintain order because they were preferable to the vicissitudes of anarchy. Perhaps we have now come to a new recognition of the costs of anarchy in the world economy, and can give serious thought to new forms of regulation that still preserve some of the valuable functions of the market. Analysts of globalization have already noted that this process has its limits. 'Money relations are in principle contractual relations which require legal regulation via an independent body which is itself no party to the contract', thus producing a demand for state intervention to provide regulation (Altvater & Mahnkopf 1997). Even the IMF itself, in its 1994 *World Economic Outlook*, showed concern for the stability of global financial markets and pleaded for more regulation by states. At a recent World Bank meeting in Manila, vice president Joseph Stiglitz argued that 'left to themselves, financial markets will not become deep, efficient, or robust. The government plays an essential role, both indirectly overseeing and regulating the financial systems and also in establishing the correct incentives to encourage prudential and productive behavior'. He surprised many by concluding: 'Liberalization...should not be the guiding principle of our policies....The key issue should not be liberalization or deregulation but construction of the regulatory framework that ensures effective financial systems' (PDI 1998d). He even suggested that US tax policy should be revised to discourage currency speculation. When a leading agent of globalization recognizes the need for state policies to regulate it, we may have reached a turning point.

If Asia's economic crisis becomes pervasive enough, it could lead all states and economic units to accept a new, more effective level of world order, one more determined by governments responsible to citizens than merely by corporate power. In response to Malaysia's leadership Asean may be taking some steps in this direction. Even though Indonesian nationalism is now being used to protect Suharto's cronies, if it is able through hard bargaining to force a modification of IMF conditions, the example will not be lost on other states, which may also react to a chaotic world market with new, nationalistically motivated regulations. After all, the meaning of 'an Asian century' should not be simply that Asia achieves dominant economic and/or political power, but that it also produces ideas that influence world affairs generally.

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