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Regionalism and Asia

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The end of the Cold War has altered fundamentally the way we see the world. The image of bipolarity no longer is useful as a short-hand description. Power politics is now occurring in complex regional contexts that undercut the stark assumption of the international system as unmitigated anarchy. And these regional contexts are making possible a variety of processes that put into question some conventional categories of analysis. The world-wide victory of capitalism blurs stark distinctions between capitalism and socialism and democracy and authoritarianism. Instead it places national political economies in a regional context that is shaped by a variety of processes.

It is relatively easy to state what a world of regions is not: a new world order, an end of history, or a clash of civilizations. Each of these generalizations is easily refuted, for example, by the surge in ethnic cleansing, the rise in ideology and religion, and the prevalence of hybridization processes across civilizations. Going beyond these generalizations we could ask whether world affairs are shaped primarily by state, global or regional effects. Focusing primarily on the effects of different states underlines unduly the heterogeneity of world politics. Conversely, highlighting the effects of

global factors emphasizes too much the homogeneous context of world politics. Because they often mediate between national and global effects, regional effects, as in the story of Goldilocks, are neither too hot, nor too cold, but just right.

Conceiving of the world in terms of structures is what some analytical perspectives in international relations and the social sciences more generally suggest. Polarity in the international state system and property rights in markets offer powerful examples of structural reasoning. Structures are slow moving processes. In a world of rapid change we could do worse than trace empirically the effects of processes rather than stipulate analytically the effects of structures. A focus on a world of regions helps us do so.

Existing explanations of regional orders focus on specific features of international politics: on polarity, on institutional efficiency, and on cultural (ethnic, religious or civilization) divisions. Rooted in realist, liberal and sociological styles of analysis each approach has considerable strengths in making us understand regional orders as the outcome of balances of power or threat, institutionally and organizationally coordinated policies, and more or less contested identities. But each approach also confronts nagging difficulties. How many poles of power exist in contemporary world politics? How can institutional efficiency be measured? And how can clashing cultural values be integrated analytically with the fact of wide-spread cultural hybridity?

Regions are, among other things, social constructions created through politics. The fact that Italy ended up in the North Atlantic Treaty Organization (NATO) was not "natural," that is determined by geography. It was due to an act of political imagination and a subsequent political process. What struck the members of the US Senate as exceedingly odd in the late 1940s today is questioned by no one: the location of a Mediterranean country in the North Atlantic.

Hence regions do not just exist as material objects in the world. They are more than the flow of goods and people across physical space that we can assume to be represented directly and accurately by cartographic depictions. Regions are also social and cognitive constructs that are rooted in political practice. Following Karl Deutsch, we could define a region as a group of countries markedly interdependent over a wide range of different dimensions. This pattern of interdependence is often, but not always, indicated by patterns of economic and political transactions and social communications that differentiate groups of countries (Deutsch, 1981, 54). This paper explores in Part 1 this perspective on Asian regionalism.

To effects of the international environment on regions can lead to a relatively open (as in the 1990s) or closed (as in the 1930s) type of regionalism. Regions can be peaceful and rich, or war-prone and poor. They can experience processes of enlargement and set standards for a growing number of polities (as is true of NATO and the EU) or of retraction as appears possible for ASEAN and APEC in the wake of the Asian financial crisis. Parts 2 and 3 explore these themes with specific reference to Asia and the financial crisis of 1997.

Despite their variability regional effects are of growing importance in world politics. To the question "how should one think about international politics after the end of the Cold War" it is plausible to answer "as a world of regions."

1. Regionalism and Asian Collective Identities

"Regionalism," writes Kanishka Jayasuriya, "is a set of cognitive practices shaped by language and political discourse, which through the creation of *concepts, metaphors, analogies*, determine how the region is defined; these serve to define the actors who are included (and excluded) within the region

and thereby enable the emergence of a regional entity and identity" (Jayasuriya, 1994, 12). In their well-known book Power and Interdependence Keohane and Nye (1977, 165-218) provide a good illustration. They apply their model of complex interdependence to two different bilateral relations: US-Canada and US-Australia. Controlling for a large number of cultural and political similarities this comparison isolates, among others, differences in the costly effects of geographical distance. In the words of The Economist Australia's problem is self-evident. "Think of a Canada that had been towed away from where it is, and moored off Africa, and the problems of Australia's physical location becomes clear" (Keohane and Nye, 1977, 166).

Looking for Australia two decades later, salvage crews exploring mooring places off the coast of Africa are likely to come up empty-handed (Byrnes, 1994). Responding to dynamic economic growth in Asia, Opposition leader John Howard appealed to physical and economic geography when he stated that "there is no doubt that we are incredibly fortunate that our geography has cast us next to the fastest growing region in the world" (Hudson and Stokes, 1997, 146). Geography-as-destiny is an argument in favor of fixed identities as both the White Australia Policy and Australia's Oriental destiny illustrate.

Other arguments are invoked in the name of multiple identities. Political debate during the last two decades illustrates the process by which Australians are taking their turn to a multiracial and multicultural republic by coping with conflicting collective identities. The symbols of Australia's constitutional and national identities, flag and anthem, are subjects of serious political controversies. Australia is in the process of becoming more Asian but in a very specific manner. "Without actually becoming Asian," Gavan McCormack (1996, 178) writes, "Australia is struggling to articulate a regional universalism and to become simultaneously post-European and post-Asian, transcending both

its own European racial and cultural heritage and any racially or culturally specific Asia."

Asian values rather than regional universalism is the message that Singapore's political and cultural identity entrepreneurs are pushing. In contrast to Australia, Singapore's geographical placement in Asia is uncontested. Asia exists as a geographic term. But it is also what Gavan McCormack (1996, 161) calls an "imposed identity: a fantastic ideological construct without racial or cultural meaning . . . paradoxically, the notion of Asia strengthened the farther one moved away from it and receded as one entered into it." As in the case of Australia, Singapore's forceful articulation of a regionally undefined ideology of Asian values points to the relevance of the perceptual dimension of Asian regionalism.

The government of Singapore has sanctioned think tanks as legitimate voices of an ideology of Asian values that suits its domestic preoccupation with state-building in a multi-ethnic society. In addition, "think tanks, as discourse managers, are a means to project Asian identities outwards to the West. They articulate concepts about an 'Asian Way' and provide intellectual justification for this discourse. In particular, the so-called Singapore School has been vociferous in championing Asian values" (Stone, 1997, 12).

Which Asian values are to be invoked is a matter of serious disagreement as is the degree of incompatibility between Asian and Western values. Singapore's stunning success in engineering an ambitious modernization process has given special urgency to policies that insist on the country's uniqueness. Modernization without Westernization offers a way of building a distinctive culture in a multi-ethnic society. During the last thirty years the government has attempted to establish an ideological consensus around the articulation of a tradition, including Asian values, that gives it a legitimate claim to moral leadership. Translating how traditional Asian values translate into modern life

thus is a central preoccupation and source of governmental power.

Classifying the population into four main groups (Chinese, Malay, Indian and Caucasian), for example, disregarded numerous subgroups within these ethnic communities. Eschewing a bottom-up melting pot, Singapore has adopted a top-down salad bowl approach to manage its ethnic pluralism. Emphasizing Asian values is a possible way for sidestepping both the potentially disintegrative pulls of Chinese, Malay and Indian cultures and the potentially absorptive reach of Western influences. Geographically undefined Asian values are not the temporary expression of the cultural arrogance of one of Asia's miracle economies. Lacking a distinct identity, Asian values offer Singapore's political elites a plausible ideology for building a new state.

Housing policy offers another example. Uprooting virtually the entire population within a generation from very different, traditional settlements into a homogeneous set of Western-style high-rise apartments was a dramatic intrusion of the state into the family, a core of Asian values. Making housing available only to families, trying to arrange for extended family members to live in near-by flats, and giving priority to three-tier generational family groupings are ingenious ways of bringing old and new ways of family life together. Such policies stand in the service of a new collective identity that can appeal to something modern and Western that is compatible with Asian values and thus serves to strengthen an emerging collective identity for Singapore.

In language policy the government sought to achieve a similar outcome, quite possibly with less success. Singapore has four accepted languages: English, Mandarin, Malay and Tamil. The government has accepted English as the language of commerce that provides a central pillar for Singapore's economic prosperity. But it insists that schools teach the three mandated mother tongues while their importance has declined in the 1990s. Indians are to learn Tamil in school even though

many of them no longer speak it at home. It was therefore no accident that in the early 1990s it was a company from Singapore that offered an advanced videotext system that allowed one to learn a new language phonetically. Technological innovation can help the younger generation in maintaining knowledge of "their" mother tongue.

Singapore's championing of a specific set of Asian values finds parallels in Malaysia's blunt criticism of mistaken and dangerous Western human rights policies and its outspoken support for a cohesive East Asian community without US or Australian participation. Asian values subordinate individual rights to community obligations. And high growth strategies require strong not weak governments (Gurowitz, 1998, 230-79). For Malaysia the idea of an Asian political community is tied directly to the legitimacy of a soft authoritarian government that is dedicated to a policy of high economic growth and opposed to the growing importance of Western values. In the case of Singapore the leadership seeks to strengthen instead a preferred regional ideology of Asian values that avoids both the homogenization of Westernization and the divisiveness of different ethnic traditions.

Australia's universal regionalism and Singapore's and Malaysia's insistence on the specificities of an Asia that suits their domestic and international needs are flanking the emergence of an Asian-Pacific identity that is open to multiple interpretations. The articulation of a specific regional ideology is not simply a ploy of governments seeking to eschew pressures of democratization and liberalization. Regional ideologies that entail specific collective identities are as important for Japan and the United States as they are for Singapore and Malaysia.

The Pacific Rim or Asia-Pacific are good illustrations. For a very simple reason they have only a vague geographic referent. "Definitions of the Pacific," writes Arif Dirlik, "are part of the very struggle over the Pacific that they seek to describe" (Dirlik, 1993a, 4). The Pacific community idea, one

Australian journalist agrees, is "a baby whose putative parents are Japanese and American and whose midwife is Australian" (Dirlik, 1993a, 8).

In recent decades Japan's regional ideology has been shaped by Akamatsu's flying geese theory of industrial growth and senescence (Korhonen, 1994). A leading specialist on Japan's relations with Asia, Okita Saburo, was so deeply influenced by Akamatsu's theory that later on he developed the concept of comprehensive security with its emphasis on diplomacy and aid and its rejection of the military means of statecraft. In 1955 Okita became head of the Research Division of the Economic Planning Agency. Following Akamatsu's basic insight, his plan for expanding Japanese exports focused on the unavoidable economic development of Asian economies. If Japan assisted that development process it would dispel animosities, divert attention from dangerous and wasteful political quarrels in Asia, enhance regional growth prospects, and thus create a more stable international environment profitable especially for Japan's highly competitive capital goods sector. This theory of industrial change was based on a conception of Asian regionalism in which governments were directly involved in the flow of trade, investment and aid.

The theory provided a strong intellectual foundation for Japan's Asia policy. Kojima Kiyoshi, Akamatsu's most distinguished and influential student, sought to implement in the 1960s the idea of creating a regional system in the Pacific area that would support the process of regional economic change through which Japan and its Asian neighbors would be indelibly linked. The Pacific Free Trade Area (PAFTA) that Kojima proposed in 1965 encompassed the United States, Canada, Australia and New Zealand. It was to be linked to an integrated region encompassing the Southeast Asian economies. Thus Japan would be connected to both the advanced US economy on whose markets its exports depended vitally as well as backward Southeast Asia that was destined to absorb Japan's sunset

industries.

While a PAFTA was never adopted, the second-track meetings that started in 1969 became a powerful lobby for a market-led integration of a broad Pacific area. A decade later then Foreign Minister Okita and Prime Minister Ohira Masayoshi, together with Australian Prime Minister Malcolm Fraser, convened a meeting that led to a non-governmental international seminar (the Pacific Economic Cooperation Conference, PECC). It advanced further a broad, market-based approach to Asia-Pacific. PECC embodies a regional idea requiring an economic rather than political language. It reinforces rather than undermines national sovereignty. And it puts economic development and the future ahead of political atonement for past transgressions (McCormack, 1996, 153-84).

The United States shares with Japan a strong commitment to Asia-Pacific. For the U.S. government that regional designation is not rooted in an old economic theory of region-wide industrial change. Asia-Pacific and Pacific Rim are instead more recent political indications of the strong interest that the US has in a continued involvement in Asian affairs. The U.S. government supported strongly the creation of the Asia Pacific Economic Cooperation Ministerial Conference (APEC). It was inaugurated in Canberra in November 1989 and held its first summit in Seattle in November 1993. With a broad membership APEC supports the policies of economic liberalism that the US has championed throughout the 1980s and 1990s. In the early 1990s intense conflicts between the US and the EU leading to a possible failure of GATT's Uruguay Round and growing trade frictions between the US and Japan made APEC an attractive counter to a rising tide of protectionism. Business and government leaders and their economic advisors saw in Asia's market-based and open regionalism a stepping stone to a liberal, global economic order (Higgott and Stubbs, 1995, 519).

Such view of Asia-Pacific or the Pacific Rim is at odds with that held by many Asian

governments. APEC's 1994 commitment to reach full trade liberalization by the year 2020, was, at best, a reluctant acquiescence of most APEC members to the pressures of the United States and Australia. In the aftermath of the Asian financial crisis, lukewarm attitudes cooled further to the point where policy objective and target date may well become, as in the case of Malaysia, merely indicative and non-binding. Many governments in Asia-Pacific see market-based integration as a way of retaining government involvement in markets rather than as a process of weakening state institutions in the face of a liberalizing international economy.

Although the United States is becoming part of an emerging Asia-Pacific region in the 1990s, this does not connect in any meaningful way to an embryonic Asian-American identity of a growing segment of US citizens. "Problems of Asian-American history," writes Arif Dirlik, "are also problems in the history of an Asia-Pacific regional formation" (Dirlik, 1993b, 305). These problems have centered on one fact. In a Euro-centric Anglo-American culture, Asian-Americans have been viewed as Asian not American. Trans-pacific ties did not further a recognition of Asian elements in the collective identity of the United States as much as they denied Asians membership in the American political community. For the US to embrace Asia-Pacific as a deeply held and meaningful aspect of its collective identity, the domestic politics of multiculturalism, beyond questions of race and Hispanic politics, would also have to politicize fully the strain of Asian-American identity that, to date, remains largely submerged.

Concepts such as Asia-Pacific or the Pacific Rim designate a region that Britain traditionally has referred to as Asia or the Far East. The British Foreign Office continues now, as it did at the beginning of the 20th century, to cover both China, Japan, Korea and Mongolia (the "Far East") and Australia, New Zealand and a large number of small islands (the "Pacific") in the Far Eastern and

Pacific Department (Wallace, 1999). Britain's unchanging designations reflect political disengagement from Asia and contrast with Singapore's and Malaysia's changing political needs. Asian values and an East Asian community are important symbols for the consolidation of Singapore's and Malaysia's state identity along lines that are neither Western, nor specifically Chinese, Malay or Indian.

As is true of Singapore and Malaysia, neither the United States nor Japan rely on British terminology. Both, however, eschew references to Asian values and an East Asian community. For these two states Asia-Pacific or the Pacific Rim are concepts that denote an Asia that is inclusive. These concepts eviscerate the divisions of the Cold War era -- the split between East and West, North and South. Asia-Pacific and the Pacific Rim have created their own institutionalized language of what Bruce Cumings calls "rimspeak" (Cumings, 1993). Rimspeak matters as does the Asia-Pacific which it both reflects and strengthens. Asian collective identities and regionalism refer to political, economic, and cultural processes that are creating new relations between places and peoples (Nonini, 1993, 162).

2. Asian Regionalism in International Politics

China and Japan are important centers of the new Asian regionalism, but in ways quite different from the regionalism of Japan's Co-Prosperity Sphere of the 1930s and 1940s or George Orwell's nightmarish projection of a tripolar world (Orwell, 1949). While the old regionalism emphasized autarchy and direct rule, the new one relies on interdependence and indirect rule.

Japan's growing role in the nine member states of The Association of Southeast Asian Nations (ASEAN) (Indonesia, Thailand, Malaysia, Philippines, Singapore, Brunei, Vietnam, Burma and Laos) can be traced easily in the areas of trade, aid, investment and technology transfer. In the two decades

preceding the realignment of the major international currencies in the Plaza Accord of 1985, Japan accounted for close to half of the total aid and direct foreign investment in the region. The dramatic appreciation of the Yen after 1985 led to a veritable explosion in Japanese investment. Between 1985 and 1989 the total was twice as large as that between 1951 and 1984. The flow of aid also continued to increase as Japan recycled its trade surplus with the region. All governments in Southeast Asia became accustomed to bidding for Japanese investment capital, illustrated by the massive deregulation of their economies and the lucrative incentives that they were willing to grant to foreign investors. More importantly, Japan's "developmental state" became an object of emulation. The establishment of private trading companies and a general commitment by Southeast Asian governments to policies of vigorous export promotion give testimony to the wide-spread appeal of the Japanese model.

By the early 1990s the growth in Japanese influence in Asia had created widespread unease about the political consequences of intensifying economic relations with Japan. Japan's power was simply too large to be matched in the foreseeable future by any conceivable coalition of Asian states. With the total GNP of ASEAN amounting to no more than 15 percent of Japan's, any development of a world of self-contained regions in the Northern half of the globe would leave ASEAN's members at the mercy of a Japanese colossus. Most Asian states thus saw in China and the United States useful counterweights to Japan's growing power.

Within a few years after Japan's financial bubble had burst, its anemic macro-economic performance and a deep crisis in its financial sector had transformed Asia's political landscape. Fear of too much Japanese power in organizing Asia's regional order was transformed into fear of too little Japanese power in dealing with its own economic and financial disorder. If Japan did not travel the road of macroeconomic growth and financial stability, how could the rest of Asia? The Asian financial

crisis, which so dramatically affected Thailand, Indonesia and South Korea, suggested to many observers that financial stability and economic health could return to Asia only after Japan had made painful adjustments in some of its long-standing policies.

The rapid decline in fear of Japan was also a response to the rise of China in the 1990s. Deng's "southern trip" in 1992, a change in the statistical estimates of Chinese GDP by international financial institutions such as the IMF and the World Bank, sharp increases in the flow of direct foreign investment, extraordinarily high rates of economic growth, and the government's determined efforts to join GATT and the WTO all focused attention on China, rather than Japan, as a conceivable rival of the United States a decade or two into the next millennium.

China's reputation as a possible regional hegemon rests on its combination of control of access to the largest untapped market in the world, possession of nuclear weapons, and a permanent seat on the UN Security Council. This is not to deny the problems that China faces in its relations with Taiwan, Tibet, Japan, and the United States. Chinese foreign policy must reconcile a strong unilateralist stance on issues the government perceives to be of great national importance and a weaker multilateralist stance for ongoing diplomatic relations in, for example, the Asian Regional Forum (ARF). At the same time China is going through a wrenching process of adjustment in some of its major institutions, including inefficient state-owned enterprises, an oversized central bureaucracy, and financial institutions crippled by a mountain of bad debt. The uncertainties inherent in a dual-track foreign policy intersect with the uncertainties of large-scale domestic reform. They combine to make China's neighbors nervous about the regional role that the PRC will play in Asia.

The United States, finally, has been an Asian power with strong interests in and ties to the region throughout the 20th century. There is no evidence that the U.S. government will alter its

traditional stance because of the end of the Cold War. With 100,000 ground troops stationed in East Asia, with the American navy firmly committed to a strong position in Asia, and with the consolidation of U.S.-Japanese security arrangements in the 1980s and 1990s, the United States is likely to remain a first-rate military power in Asia (Katzenstein and Okawara, 1999). Furthermore, since virtually all Asian countries run a substantial trade deficit with Japan and a large trade surplus with the United States, the United States is the economic anchor for national strategies of export-led growth and the integration of the regional economy of Asia-Pacific.

In the eyes of many Asian governments an Asia that includes the United States has several advantages. American involvement can diffuse economic and political dependencies on Japan and China with which the smaller Asian states would otherwise have to cope. It provides Japan with the degree of national security that reduces the pressure for a major arms-build up. And it offers China political opportunities for establishing itself as a recognized great power in Asia.

At the threshold of a new millennium, however, the domestic and foreign policies of Japan, China and the United States are also exposed to a number of significant uncertainties. "For the first time in two centuries Asian countries are in a position to shape their regional system and influence the character of the world system" writes Kenneth Pyle (1997, 6). Currently, Asian regionalism takes two different forms. If measured in terms of purchasing-power-parity GDP, the Japanese and the Chinese economies are of roughly equal size (Weidenbaum and Hughes, 1996, 95-105, 116-17). But each extends into Asia in different ways. Japanese capitalism is the result of indigenous economic developments and a conscious political strategy orchestrated jointly by government and business elites. Chinese capitalism lacks both an integrated, indigenous political economy and a coherent political strategy. "Unlike the Japanese" writes John Kao (1993, 24), "the Chinese commonwealth has, in

computer terms, an 'open architecture.' It represents access to local resources like information, business connections, raw materials, low labor costs and different business practices . . . In contrast to the Japanese *keiretsu*, the emerging Chinese commonwealth is an interconnected yet potentially open system."

Asian regionalism is an idea whose time has come. Increasing regional cooperation is often invoked as a necessary response to regionalization elsewhere such as the European Union (EU) or NAFTA. Yet Asian regionalism has yet to be described adequately in terms of formal institutions. In the political norms that inform it and in the political capacity for collective action the Asian Regional Forum (ARF), for example, differs dramatically from its more interventionist European equivalents, the Organisation for Security and Cooperation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO). And the shallow economic integration that is the aim of APEC is set it apart from the deep political integration that characterizes the European Union (EU). Lacking a functional base of binding commitments, ARF and APEC are primarily fora for the discussion of important policy issues and, thus, institutions useful for increasing trust. They are designed to strengthen regional economic cooperation only in the long-term.

3. Financial Globalization and an Asia in Crisis

Like the opening of the Berlin Wall, the end of the Cold War and the peaceful disintegration of the Soviet Union, Asia's financial crisis came unannounced and was largely unanticipated by pundits and politicians, specialists in finance and scholars of Asia (Acharya, 1999. Biers, 1998. Goldstein, 1998. Institute of Social Science, 1998. Johnson, 1998. Laurence, 1999. McLeod and Garnaut, 1998.

Moon, 1998. Pempel, 1999. Wade, 1998, 1999). A conference sponsored by the Bank of Indonesia and the IMF concluded in November 1996 that "ASEAN's economic success remains alive and well . . . the region is poised to extend its success into the twenty-first century" (IMF, 1996, 378). In a April 25, 1997 press conference, IMF Managing Director Camdessus remarked that the global economic outlook warranted "rational exuberance;" and at the spring 1997 meeting, the Interim Committee of the IMF approved a plan to amend the Articles of Agreement to extend the IMF's jurisdiction to cover the movement of capital, thus completing the "unwritten Chapter" of Bretton Woods, according to Camdessus (IMF, 1997, 129).

IMF policies proved to be inadequate even before the financial crisis hit Asia. Bulgaria's financial meltdown was a dress-rehearsal for what was happening in Asia only a few months later in the latter half of 1997. After years of half-hearted policy reforms by different governments and the IMF, international speculation against the lev forced Bulgaria to surrender its economic sovereignty and accept a currency board as the only plausible avenue in a disastrous situation (Minassian, 1999). Yet as late as the spring of 1997 IMF officials were celebrating the advantages of policies of liberalization without realizing the potentially disastrous effects of that policy for Bulgaria and other economies lacking the institutional preconditions for financial and economic liberalization.

Just as the end of the Cold War gave a healthy shock to students of national security and spurred a debate that touched on all of the premises of analysis, so debate has begun among students of political economy in the wake of the Asian financial crisis. Before the summer of 1997, even critics of the Asian developmental state model agreed that cozy relations between business and government were important in lowering transaction costs and, thus, helping bring about national growth rates in Asia that were four times higher than the OECD average. But by the end of 1997 economic and business

analysts had convinced each other with surprising ease that Asian markets had lacked sophistication and that banks had lent and business had invested in violation of established prudential principles. Far from lowering transaction costs, lack of transparency and systemic corruption were now judged to be the main impediments to a resumption of economic growth in Asia. This drastic and implausible shift in assessing economic policy led to a very public split between the IMF and the World Bank as well among specialists in international economics.

The consensus policy, embraced more widely by economists inside than outside of the IMF, held to traditional policy prescriptions in the face of new conditions. Economic contagion became the 1990s' analogue to the 1960s' geo-strategic domino theory. International financial markets can easily lose confidence in the value of national currencies, especially in emerging markets that are exposed to the volatile flows of very liquid capital. When such capital flows out, the ensuing credit crunch can undermine even the trade credits of large corporations and set in motion a downward spiral that chokes off most business activities.

The economic crises in Thailand, Indonesia and South Korea were of very different character. In each, volatile global financial markets intersected with distinctly local political crises. Thailand's was a macro-economic and a financial crisis. The deficit in its current account stood at 7 percent of GDP in 1997. Despite repeated off-the-record warnings by the IMF and highly public discussions in business journals, the Thai government did not change course. Extremely rapid credit growth, even in the non-tradable sector, and high levels of credit denominated in foreign currencies triggered the run on the baht. And after the onset of the crisis the economy was immobilized by a political crisis that lasted for four months until a new cabinet finally took over.

In Indonesia the enormous wealth of the Suharto clan had created wide-spread suspicion and

opposition. In contrast to Thailand, a looming succession crisis in the government seemed to threaten the stability of the regime. Chinese businessmen began to lose confidence in the regime and the rupiah as early as 1996, and, according to well-informed sources in Japan's Ministry of Finance, withdrew about \$100 billion from Indonesia between 1995 and 1997.

American and IMF officials viewed the situation largely in economic categories and insisted on American-style economic reforms. Growing volatility in global capital markets had brought to the surface far-spread corruption and a lack of regulatory oversight that, in the interest of investor confidence, needed to be redressed through fundamental institutional reforms and a drastic dose of deflation. Eager to protect the ill-gotten and far-flung assets of his six children and acutely aware of the dangers for the legitimacy of his regime and Indonesia's stability that the crisis had brought about, General Suharto dragged his feet in implementing the reforms the IMF insisted on.

A leading scholar of Indonesia, Clifford Geertz, worried at the time that Western financial institutions were so fundamentally misreading Javanese culture that they turned a desperate situation into a dangerous one. IMF economists were not aware of cultural expectations that define the goodness of the father by the extent of protection that he provides for his spoiled children and that makes insisting on public acknowledgement of mistakes an act of supreme rudeness in a society that prides itself on its civility. Had the IMF behaved differently, Geertz argues, it "might have gotten what it wanted from the start. But I guess you don't expect that from economists" (Shenon, 1998, A17). The IMF's approach helped push General Suharto to tap into a deep strain of Javanese nationalism. The result were deadly anti-Chinese programs and the downfall of the regime.

In 1997 Korea was also undergoing far-reaching institutional and policy changes in a volatile geo-strategic situation on the Korean peninsula. The crisis exploded into the open in the last weeks

before the presidential election of December 1997. Rival candidates disavowed the IMF package, which had been put together in record time in November 1997. This undermined further the confidence of international financial markets in Seoul's political capacity for reform.

In the face of sharp increases in dollar-denominated debt burdens, illiquidity and bankruptcy, all three governments guaranteed the assets of creditors and defended national currencies until they had used up virtually all of their reserves. This forced the IMF to put together three bail-out packages, for a total of \$120 billion. This stretched the financial and political limits of the Fund without contributing to stabilization of economic conditions in other emerging markets stretching from Russia to Brazil. In addition, the bail-outs undermined the Fund's eroding political support in the U.S. Congress.

The IMF's reform packages differed somewhat in each of the three countries, but at bottom, the IMF sought to affect far-reaching economic and political change in the interest of international liberalization. This required a substantial reorganization of financial markets and ways of doing business as much as the acceptance of foreign partners and the introduction of new accounting rules. Whether and how this imposition of American institutional practices will work remains to be seen. In its first comprehensive assessment of the crisis the World Bank was harshly critical of the high-interest policies that both the IMF and the US government imposed once international investors began to withdraw their liquid assets from national economies that had been all too eager to absorb easily available and inexpensive international credits. With estimated levels of bankruptcy in Indonesia as high as 75 percent, the Bank's chief economist, Joseph Stiglitz, argued that "you cannot have a country perform with 75 percent of its firms in bankruptcy" (Sanger, 1998, A20). Compared to Indonesia the chances of success are much greater in South Korea, where President Kim dae Jung is seeking to exploit IMF pressure to further his own agenda of reforming state and society.

Variable national conditions in Thailand, Indonesia and South Korea are not the only factors shaping Asia's financial future. Much will depend on the future course of the financial reform policies adopted by China, Japan and international financial institutions. China's financial system is in a very precarious situation due to a volume of bad debts estimated in excess of 25 percent of GDP. Financial consolidation is an extremely difficult task at a time in which major institutional changes are transforming radically many sectors of Chinese economy and society.

After years of delay, the Japanese government has moved in 1998-99 to a massive rescue effort of its financial sector. The lack of transparency and "crony capitalism," often cited as the main root of the crisis, extends beyond Japan. International banks, such as Credit Suisse, have made substantial profits in the 1990s in assisting Japanese banks in window-dressing their balance sheets and thus concealing from regulatory agencies the true depth of their problems (Tett, 1999).

Inside the US Treasury, the IMF, and the World Bank discussions continue on whether and how to modify the Washington consensus and reform the international financial system. These discussions include issues such as imposing some restraints on capital flows, modifying the lending practices of the Fund and the Bank, reevaluating the role of regional monetary funds, and reconsidering the suitability of exchange rate regimes, currency boards, and policies of "dollarization" for small open economies (Eichengreen, 1999. Rajan, 1999).

The full implications of the financial crisis for Asian regionalism are complicated and far from clear. Japanese efforts to offer in August 1997 a regional approach to crisis management were half-hearted, given the weakness of the Japanese economy and prematurely brushed aside as IMF and US Treasury officials later acknowledged (Kristof, 1998, A6). Because of its enormous costs, especially for the lower-middle class and the poor, resentments linger. In Malaysia, for example, the government

has managed to stay in power with its legitimacy impaired by the deep split between Prime Minister Mahathir Mohamad and his deputy and heir-apparent Anwar Ibrahim and the latter's trial and conviction on what to many Malaysians look like trumped-up charges. The Malaysian policy of restricting the inflow of short-term capital, an anathema to the Washington consensus, appears to have worked remarkably well. In the wake of the financial crisis there are strong political suspicions in Southeast Asia and South Korea that the Washington consensus is little more than an ideological smoke-screen for the determined efforts of US business to go on a shopping spree for Asian financial and industrial assets, at bargain basement prices.

The openness of Asian regionalism has two different, closely intertwined sources that are clearly illustrated by Japan: dyadic and systemic vulnerability. First, Japan is embedded in a relationship of dyadic dependence on the United States that creates extraordinary military and economic vulnerabilities. Japan depends on the US navy to patrol the sealanes through which its imported raw materials and exports flow. Even after diversifying away from the United States for the last two decades, 30 percent of Japanese exports are still destined for US markets. Military, economic and political dependence thus constrains any Japanese inclination to build an inward-looking Asia. More generally, dyadic and systemic vulnerability affect most other Asian states as much, or more, than Japan.

Secondly, Japan's systemic vulnerability derives from what Kozo Kato (1998) calls "global-scope" interdependence which also constrains the emergence of an inward looking Asian bloc. Along numerous dimensions of trade, aid, investment and technology transfer, among others, Japan has a more broadly diversified set of economic and political links to both rich and poor countries, than does, for example, Germany which lives internationally inside a European cocoon (Lincoln, 1993, 135. Wan,

1995, 98). The Asian financial crisis illustrates Japan's strong commitment to contribute to the continued functioning of the international system on which its economic prosperity depends so heavily. By September 1998 Japan's level of contribution to the solution of the Asian financial crisis stood at \$43 billion dollars, about a third of the total, compared to \$12 billion for the United States and \$ 7 billion for European states, even though the exposure of European banks was comparable to those of Japanese banks (Kristof, 1998, A6). About half of the Japanese credit was committed to credit lines to be disbursed under IMF bail-out plans over which Japan had little direct influence (Kato, 1998, 2).

The Asian financial crisis illustrates that Asian regionalism was not strong enough to prevent the establishment of beachheads in markets that used to be closed to foreign investors. An IMF-centered, global approach to the regional financial crisis rather than reliance on an Asian-centered, Japanese-led effort revealed the weakness of an exclusive and cohesive East Asian regionalism without US involvement. In the immediate aftermath of the crisis the links between Asian regionalism and global financial markets have grown stronger.

On this score the contrast with the European Monetary Union (EMU) is striking. The EMU is driven by political considerations and is on schedule for full operation by the year 2002, when it will contribute to the creation of a regional actor and a regional political economy that is likely to raise the profile of the EU without displacing the role of the dollar as lead currency. In contrast, the Asian financial crisis illuminates, and is likely to advance, a process of regional economic opening rather than political or policy closure.

4. Conclusion

An open Asian regionalism will encompass politically and economically the United States. In contrast to the 1930s, the political and economic coalitions prevailing in the United States have no interest in abdicating their influence in various regions. Yet, despite its preponderant international position the United States lacks the resources to be the cornerstone in all of the world's major regions. Instead, the United States acts as a pivot in a number of important regions.

In Asia, this pivot rests on a combination of U.S. military power, economic presence, and social appeal that reflects diverse interests and ideologies in the United States and is relevant to important political elites, economic sectors and social strata in Asia. With the end of the Cold War and the withdrawal of most U. S. ground forces from Europe, a 100,000 ground troops in East Asia are the main reason why the United States has not returned to its traditional role as a naval power. Compared to Europe and Asia the position of the U.S. territorial economy has probably declined somewhat during the last 30 years. But the competitive position of U.S. corporations in international markets has increased substantially, especially in the last decade. American multinational corporations perform strongly and are often at the cutting edge in the development of new technologies and products. Their full presence in global markets gives American policy makers a strong incentive to maintain a liberal international economy. Finally, with English as the only universal language, American mass culture has a natural advantage over all of its competitors in disseminating its products on a global scale.

A pivot, however, is not the same as a cornerstone for Asia's regional order. The 21st century will be nobody's century: not America's, not Asia's, and not Europe's. In an economically more open Asia, American-Asian relations are likely to illustrate instead the politics of open regionalism in a more plural world.

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*This paper draws on some material previously published and forthcoming. See Katzenstein 1993, 1997 and 1999.

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