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East Asia and the Global/Transatlantic/Western Crisis

Shaun Breslin

Abstract

This paper introduces the special collection on East Asia and the Global Crisis. After justifying why a focus on East Asia is appropriate, it draws out the main themes that run through the individual contributions. These are the extent to which the region is decoupling from the global economy (or the West), the increasing legitimacy of statist alternatives to neoliberal development strategies, and the impact of crises on the definition of "region" and the functioning of regional institutions and governance mechanisms.

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Introduction

> "Most crises are known by their origin, from the Mexican peso crisis of 1994/5 to the Asian crisis of 1997/8. Given there is no doubt who caused our world's latest troubles, it should adopt its logical name: the western financial crisis. This reluctance to call a spade a spade reflects an inability to reckon with changes the US and Europe have to make to avoid a repeat" (Mahbubani 2011)

Those who are familiar with the writings of Kishore Mahbubani will not be surprised that he has located the source (and blame) of the ongoing financial crisis clearly in the West. But he is not alone. Indeed, British journalist and historian Max Hastings (2008) referred to the then unfolding crisis as a "Western" one in as early as September 2008. Of course, this was before the fallout of what might then have seemed to be an Anglo-American problem began to spread ever wider, and gain a "global" descriptor and a new acronym – GFC (Global Financial Crisis). It was also before some analysts began to conclude that the real cause lay in systemic global imbalances between deficits and surplus economies; the manifestation of the problem might have been in the west, but the fundamental causes were global (Dunaway 2009). Nevertheless, the understanding that the crisis was made in the West, has had the biggest impact in the west, and fundamentally questions the "western" way of doing things has retained considerable purchase; as Terada and Ong call it in this special issue, it is not so much a global crisis as a "transatlantic financial crisis" with global implications.

Why East Asia?

Of course, these global implications spread much further than East Asia. 'Sub-Saharan Africa has been strongly affected' (Arieff, Weiss and Jones 2010, 1), 'Latin America has become a major and, in a sense, unexpected victim' (Ocampo 2009, 703) and although higher oil prices have offset some of the impact, 'the global financial crisis has not spared the Middle East and North Africa region' (IMF 2009). There are good grounds for having a special issue of a journal on all of these regions, either individually or in comparison. But if reasons are needed for justifying a special issue on East Asia, then perhaps five can be found. [1]

[1] The region under investigation in this special issue is East Asia defined as the ASEAN states plus China (including the "Chinese territories" of Taiwan, Macao and Hong Kong), Japan, and Korea.

The first is simply to trace what the impact has actually been to date. Hindsight tells us that the true and long term implications will not become clear for some time yet, but we can at least come to some preliminary assessments of how the ripples of this transatlantic crisis were felt in East Asia, and the short term efficacy of East Asian responses. Here, the primary focus is on the economic impact, and the measures taken in East Asia to stimulate growth and/or insulate the region from further shocks and future crisis; issues that are covered to varying degrees in all of the papers in this special issue. But there is more to the consequences of crisis that the obvious economic dimension, as we see in Elliott's contribution here which focuses on the indirect consequences for the environment and environmental politics in the region. In this first justification, there is nothing that sees East Asia as any different from any other part of the non-Western world – it is a mapping and stock taking exercise in the same way that others might consider the impact of the crisis elsewhere. But there is something that perhaps marks Asia as a special case in the second and third justifications.

Second, then, in the years before the crisis, the idea that Asia was "decoupling" from the global gained increasing attention. The broad argument here was that the "regional factor" was becoming increasingly more important in "Emerging Asia" (IMF 2007) as trading with each other became increasingly important vis-à-vis trading with the US and the West. This idea was championed with almost missionary zeal in some quarters – including by some who had commercial interests in encouraging continued investment in East Asia. As such, mapping the impact of the crisis allows us to test some of the assumptions of the decoupling hypothesis, and the extent to which regional growth was (and still is) globally "dependent".

Third, with the West apparently in decline, the hope is that East Asian (and particularly Chinese) consumers will take up at least some of the slack by buying more. And whilst the speed of the recovery in the region has been very impressive, the fact that domestic household consumption in the region remains relatively low is taken as a key threat to global economic recovery (Lucas 2011). Indeed, for those who see the root cause of the crisis in global imbalances (for example, Dunaway 2009) the lack of consumption and the propensity to save in East Asia is seen as being one cause of the structural global imbalances that led to the crisis in the first place. The "managed exchange rate policies of some EAEs" (East Asian Economies) has also been seen as generating imbalances (Astley *et al* 2009, 180), with China's exchange rate policy coming under particularly intense scrutiny.[2] So either through optimism or pessimism, East Asia seems to have been designated a particularly important role in either causing or resolving global imbalances (or both) and as a potential driver of or obstacle to (or both) global recovery.

Building from this, the fourth reason for focussing on East Asia is the widespread understanding that the ongoing shift in global power from West to East has been accelerated by the crisis and "the contours of a new international order are beginning to emerge" (Beeson 2009, 730). Not surprisingly, there are differences of opinion over whether this shift of power is a good thing or not. And at times there seems to be a potential contradiction in perceptions of East Asia's post crisis global role. On the one hand, the ***hope*** that East Asia can be the salvation, and on the other, the ***concern*** that the resulting power transition will provide a fundamental challenge to the existing (liberal) global order.

Which brings us to the fifth and final reason why East Asia seems to be a particularly important case study in considering the consequences of the "West's" crisis. To say that East Asia has been a "battleground" where dominant Western ideas have come into conflict with alternatives and/or challenges is probably pushing things too far; but not that far. Since China

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[2] For a list of articles from the Peterson Institute that, to varying degrees, put the spotlight on China's exchange rate, see http://www.iie.com/research/topics/hottopic.cfm?HotTopicID=3

was brought into the western Westphalian world through military force in the Opium Wars, norms and structures of economic interactions and the governance of international relations in East Asia have been largely dictated by extra-regional actors and interests. Of course, there have been times when non-western and/or Asian voices and Asian ways of doing things have come to dominate, but by and large this is a world order not primarily of East Asia's making.

Conversely, East Asia has been the supposed source of challenges to European/Western pre-eminence (and perhaps even civilisation) since the nineteenth century identification of a "yellow peril" to the occident. More recently, and more pertinent for this special issue, East Asia has also been repeatedly identified as the source of new economic "models" that, by not accepting the existing rules of the game, either disadvantage the West, or threaten the dominance of the liberal economic order; or more often, both. The early focus on "Japan as Number One" (Vogel 1979) concentrated on the way that Japanese industrial policy deliberately ignored the diktats of free market western capitalism (Dore 1986) to create a model of capitalist state developmentalism "for all the other countries of East Asia, including China" (Johnson 1999, 33). More recently, this understanding has been echoed in the focus on a Chinese "model" or the "Beijing Consensus" (Ramo 2004), which not only provides a potential alternative to the (neo)liberal economic order, but through China's lack of liberalising conditionalities when it engages developing states:

> could set scores of developing nations away from the path of liberal democracy, creating a community of countries that reject Western views of human rights and accepted standards of national governance (Barma and Ratber 2008, 57).

In between the decline of the idea of a Japanese threat and the rise of the idea of a China challenge, attention turned to the developmental successes generated by what Amsden (2001, 8) called "an unorthodox, original economic model" whereby states provided subsidies to industries which reciprocated by accepting "monitorable performance standards that were redistributive in nature and results-oriented". Up until 1996, the understanding that there had been an "East Asian miracle" that others could learn from gained increasing credence (Stiglitz 1996). But in 1997, all this changed. On one level, the Asian financial crisis undermined confidence in the efficacy of this Asian alternative; what had once looked like innovative industrial policies and state-industry relations was now denounced as "crony capitalism" by its critics. On another level, the solutions proposed by the international financial institutions were perceived in large parts of East Asia as representing the interests of the major global powers, and an attempt to force the region to adopt the hegemonic (neo)liberal Western mode of capitalism. In the words of Chalmers Johnson (1998) put it, the crisis was the manifestation of a "clash of capitalisms".

So the Asian financial crisis, or more correctly, the response to the crisis, generated considerable resentment in the region, and helps explain why people like Mahbubani are keen to point out that the current crisis is firmly "owned" by the West. As Stubbs notes in his paper, there was a feeling then that the US was using global institutions to "unfairly" attack or punish East Asia, and there is a sense now that this is "payback time" and that the West is now suffering because it didn't learn any lessons for itself from what happened in East Asia (and elsewhere) in 1997. The clash of capitalisms has been reignited and has entered a new phase with non-Western versions re-legitimized and appearing to be increasingly powerful.

Contributions and Findings

In discussing the implications of the crisis on the region, and how the region will impact the post-crisis global economy, most of the attention has (for very good reasons) honed in on

China. And this is importance is reflected in this collection of papers by the inclusion of a paper that considers the specifics of the Chinese case (by Breslin). The Japanese case is also included as a single study (by Terada and Ong) – partly because of Japan's different level of development and position in the global political economy vis-à-vis other states, but also partly because the way in which Japan responds to China (and China responds to this response) seems to be a key determinant of wider regional relations and the role of the region in the global order. The rest of the chapters, however, consider the region as a whole rather than focussing on specific countries, considering the relative robustness and resilience of regional financial markets (Sinclair), the efficacy and evolution of regional cooperative arrangements (Emmers and Ravenhill) and the impact of crises on the environment (Elliott). An underlying theme in all of these papers is the role and significance of the state and varieties of state-economy relations; issues that are brought together and dealt with in a consideration of the enduring features of state developmentalism (Stubbs).

Each paper has its own individual focus and issue specific conclusions – and it is not the intention to repeat them here. Rather, in what remains of this introduction, the task is to pull together some overall conclusions that emerge from these six papers combined. In doing so, though, it is important to start with two key caveats. First, the following comments are based on my interpretations of the contributions as a whole, and individual contributors do not necessarily share all of these collective conclusions. Second, we have to accept what we might call the "Zhou Enlai principle", based on the oft repeated story that Zhou declined to make a definitive comment on the importance and impact of the French Revolution because it was still too soon to say. The way in which many regional states responded to the crisis, for example, could only be short term phenomena. What will happen as stimulus packages fade out and/or create inflationary "bubbles" remains to be seen, and the long term consequences simply will not become clear for a number of years.

So with this in mind, what can we say with any certainty? A common theme running through all of the papers is the importance of historical contextualisation. Without looking backwards and thinking about trends in policy and politics before the onset of the crisis, it is not easy to understand why states and individuals acted in the way that they did. In particular, be it in terms of having a simple reference point for comparing the differential impact of crises, the context of resentment and clashing capitalisms, or thinking about the lessons learnt about providing protection from the vagaries of global capital(ism), studying what happened in and after the Asian regional financial crisis in 1997 is an important starting point for trying to understand what happened in and after 2008.

Decoupling and Contagion

Another common theme is the understanding that while East Asia was clearly affected by the crisis, the region proved to be remarkably resilient– in part at least because regional elites had the above mentioned experience of 1997 to guide them. As Stubbs notes, despite the liberalising preferences of the IMF in the post crisis recovery, the role of state and the relative lack of financial liberalisation appeared to be a key reason why China in particular did not suffer to badly in 1997 and 1998. In particular, as countries with strong financial reserves had fared well during the Asian crisis, building up reserves to provide a bulwark against any future shocks became a common approach across the region, and meant that regional governments were well placed to respond when economic challenges emerged in 2008. Moreover, as Sinclair notes in his contribution, the "Western" model of bond markets emerging "spontaneously through market innovation" was not replicated in East Asia, where the state was always a much stronger player in establishing the markets in the first place, and providing financial disintermediation.

So crucially, while regional states faced real economic problems overwhelmingly related to the impact on trade and export related production, they did not face the financial chaos that hit the West. Here we have to keep the Zhou Enlai principle in mind and recognise that financial problems may emerge as the medium and long term implications of the stimulus packages deployed in many regional states become clear. Nevertheless, we can suggest at this stage that regional states largely responded with impressive speed and foresight with a range of policy responses to offset negative impacts to ensure that growth was maintained despite the global turndown. Returning to the nomenclature of the crisis discussed at the beginning of this introduction, we might also suggest that while there has been a global ***economic*** effect (and perhaps even a global economic crisis), the ***financial*** crisis was in the West.

This understanding brings us back to the concept of decoupling. If the hypothesis is correct, then the region ***should*** have become increasingly immune to infection from economic problems elsewhere. This is not to say that there will be no impact at all – nobody is talking in terms of East Asia being wholly decoupled from the global economy, but just less dependent on it than in the past.

> The US business cycle leads that of the other regions, except in the case of the Asian region whose business cycle appears to have moved independently in the past. The latter case is partly explained by the increasing contribution of China, whose economic growth has largely remained independent of the economic cycles of its main trading partners. The increasing trade integration within the region may possibly also make the Asian economies more immune from developments in the rest of the world (Dées and Vansteenkiste, I. (2007, 5)

This concept has been challenged. Critics pointed, to example, to the extent to which intra-regional trade in East Asia was dominated by the movement of components to produce goods that were still largely ultimately sold to the West (Pula and Peltonen 2009). Intra-regional financial flows were also often driven by regional investors acting as middle-men between Western companies and Asian producers (Breslin 2007). Under this understanding, it was not so much a case of delinking, as growing intra-regional trade being a consequence of the region's relationship/dependence on the extra-regional/global economy.

Japan is typically excluded from the decoupling discussion due to the nature of its economic relations with the US in particular, and the developed world in general – and the analysis by Terada and Ong supports this view of the importance of a particular type of "coupling" in the Japanese case. Emmers and Ravenhill point to the severe impact in the strongest trading nations in the region (Malaysia, Thailand, HK, Korea, Singapore and Taiwan). But even in what is often termed "emerging Asia" the evidence from the papers in this collection suggests that the decoupling argument is not proven. Economic downturn in the US and Europe had a very real (and quick) impact on Chinese exports, which in turn had a knock on effect on those parts of the region that exported components and materials to produce exports that are considered to be "Made in China". The central leadership's perceptions of the importance of exports for maintaining economic and political stability in China were a key driver of policy change. So in some respects, the muddy, controversial and conflicting methodologies associated with academic studies of whether decoupling has occurred or not are irrelevant – policy makers think that it is a clear and present danger and have reacted to the crisis as if they are real with concrete policy initiatives and responses. Maths and methods are important, but so too are understandings of power, perceptions and politics.

But while the crisis seems to have put serious question marks against the argument that the region was already decoupling, the crisis might come to be seen as a key turning point towards decoupling in the future and these is some evidence to suggest that there has been a turn away from “dependence” on the West in four main ways. First, while the much vaunted “rebalancing “of the Chinese economy to depend less on exports and investment (and more on domestic consumption) as a source of growth has a long way to go, there does appear to have been something of an inward turn. Second, the importance of intra-regional trade has been highlighted once again. This is partly a consequence of the rebalancing attempts in China drawing in imports from the region that are not simply part of wider global commodity chains. But as Terada and Ong argue, it also seems to be part of a Japanese strategy to diversify from its traditional emphasis on the developed West. Third, there has been a deepening of economic ties between East Asia and other “non-Western” parts of the world like the Middle East, Africa and Latin America. Chinese economic interests have been the primary driver of these processes, and there seems little doubt that they would have accelerated with or without the global crisis. But Japanese trade with Latin America has increased too (albeit at a slower rate than China’s), Africa has been targeted as a new priority for Japanese companies (Jopson and Dickie 2010), and in February 2011 Japan signed a Free Trade Agreement with India. Finally, the wisdom of the dominance of the dollar for the region has been question; the reliance on the dollar as the world’s dominant reserve currency, the currency that major resources are priced in, and still the major currency used for settling international transaction in East Asia.

We have to exercise some care. The structure of this trade with other parts of the world is very different from the type of relationship Asia has with the US and Europe. And even though the call to replace the dollar has been repeated by as august international institutions as UNCTAD (2009), little has been done to date to justify writing the dollar’s obituary. Moreover, it is easy to argue, for example, that there is clear evidence that China has “decoupled” from the global economy because the value added of exports played a smaller role that before in Chinese growth in 2009 (Rabinovitch 2010). But given the amount of money that China poured into the economy in response to the crisis, in part to offset the impact of a collapse in exports, it would be astonishing if this were not the case in the short run at least. We should also note, as Sinclair does in his contribution, the still very low level of domestic (household) consumption in China compared to those more developed areas of the global economy like the US and Europe. So now matter how much consumption in the region might increase, it is going far too far to expect this increase to offset the decline from the heartlands of the capitalist global economy just yet, and too far to suggest that decoupling is a fact. But what we can suggest is that East Asia, not least because of what is happening in China, is becoming less depending on US and European business cycles and that the crisis has accelerated these trends.

Bringing the State Back In – Again

Which brings us to the issue that is at the core of not just Stubbs' analyses of the developmental state, but to varying degrees is echoed throughout the contributions to this special issue. As Stubbs notes in his contribution to this collection, the 1997 financial crisis "came with a massive attack on the developmental state". The collective conclusion of this special issue is that this attack has been rebuffed. With even the US government not adhering to the supposed rules of neoliberal economic governance, the attraction and authority of dominant liberal "model" has declined. In the words of John Williamson (2010, 1) who developed the idea of the Washington Consensus in the first place:

> A major impact of the crisis has been to discredit Western views of development—what I once tried to summarize under the somewhat unhappy term of the "Washington consensus"—and to fortify what has sometimes been referred to (by Westerners rather than the Chinese) as the "Beijing consensus" instead.

Williamson is not quite right – the idea of a Beijing Consensus (北京共识 Beijing Gongshi in Chinese) was widely discussed in China, before though the idea of a "China Model" (中国模式 Zhongguo Moshi) became the dominant discourse in the wake of the crisis.[3] But he is correct when he qualifies this comment by pointing to how poorly articulated the idea of the Beijing Consensus actually is, and what the China Model might actually be (and stand for). And the major message from the papers in this collection is that the crisis hasn't legitimated any specific individual "model" or "consensus"; indeed, there is considerable concern in some areas (most notably Japan) that American dominance might simply give way to Chinese regional pre-eminence. But in addition to undermining the Washington Consensus, East Asia's (and particularly China's) performance and response has re-legitimised statist alternatives. It has also empowered proponents of developmental statism in the region vis-à-vis proponents of neoliberalism. As Robert Wade (2010, 150) argues:

> In the wake of the global financial crisis and the impending surge of new technologies, the role of industrial policy – promoting some sectors or products ahead of others – should be expanded….Developing country governments and firms should be prepared to push back against the shrinking latitude for industrial policy instruments allowed in international trade and investment agreements.

Towards Regional Regulation?

The final common theme that runs through many of the papers is the impact of crises on thinking about the region. This refers to both thinking about the effectiveness of the regional

[3] In a very unscientific experiment on 16 February 2011, a search on google.co.uk in Chinese for"中国模式" (China model) generated over 3,640 hits (available for perusal at http://tinyurl.com/zhongguomoshi) while"北京共识" (Beijing Consensus) generated a mere 267,000 (available at http://tinyurl.com/beijinggongshi).

level as a site of governance and regulation and thinking about what the parameters of the region actually are (or should be). As Emmers and Ravenhill argue in this collection of papers, the 1997 crisis showed the ineffectiveness of the region with ASEAN failing to show regional leadership when it was most needed. But they also point to the widely held belief that the Asian crisis did have "positive" regional effects in two main ways. First, it reinforced the desire to have regional alternatives to the western dominated global financial institutions, resulting in the Chiang Mai Initiative instituting a regional web of currency swap arrangements. Second, it propelled a sense of "we-ness" and an increasingly shared understanding that the region was defined as Northeast Asia (China, Japan and Korea) and Southeast Asia (ASEAN), known as ASEAN plus Three (APT). Equally important, this shared idea of region means that others who might think of themselves as being part of "Asia", or who might want to locate themselves as being part of the region for practical and/or strategic reasons, are excluded. In addition to excluding territories that would appear on a map of this region for different political-strategic reasons (Taiwan and North Korea), it was a region that also excluded Australasia and the Pacific, and the countries of the Indian subcontinent.

In the years after the crisis, ASEAN plus Three cooperation became formalised through annual leadership summits, and the extension of cooperation beyond the original financial focus into a range of other fields. There are now "64 mechanisms coordinating APT cooperation: 1 summit, 16 ministerial, 23 Senior Officials, 1 Directors-General, 17 technical level meetings and 6 other tracks meetings" (ASEAN 2010). But at the same time, the consensus over what the parameters of the region began to break down as Japan and some other states moved to counter what they perceived to be the growing dominance of China within the APT. Thus, when the first East Asia Summit took place in 2005, it was held in Kuala Lumpur (rather than China's preference for Beijing), and included India, Australia, and

New Zealand in an attempt to provide an alternative understanding of region which would be more difficult for China to dominate (Breslin 2007).

And in many respects, the current crisis has generated the same apparently conflicting set of consequences. It has again shown the limits of ASEAN as a provider of regional leadership during crisis, has renewed discussions about the need for regional mechanisms of regulation and surveillance that are independent from the West, and has propelled discussions over how best to move forward at the regional level. Notably, the trilateral discussions between China, Japan and South Korea that had been occurring alongside the APT process since 1999 seem to have accelerated, and weren't thrown off track when the "collision" between a Chinese fishing boat and a Japanese military vessel in September 2010 heightened bilateral tensions. On the other hand, as with 1997, the prospects of China emerging from the current crisis in a stronger position (and not just within the region) is not universally welcomed. In this context, the fact that South Korea, Japan and Malaysia have all signed comprehensive economic partnerships or Free Trade Agreements with India in the wake of the crisis can be read as in part at least an attempt to bring India into an expanded notion of what the region might look like in the future.

So it seems, then, that crises create opportunities for cooperation and region building – the urgent need to do something and the transnational nature of the challenges to domestic economic fortunes place a primacy on seeking transnational (regional) solutions. But crises also facilitate and illuminate shifts in power that in some cases can destabilise regional (and global) orders. That the current crisis has resulted in a "great shift in global power" (Jacques 2009) from the west to the east is oft repeated and difficult to contest. Within the region itself, power shifts are also occurring and one way of dealing with them is to reconsider the basic understanding of the region itself. Though India has been excluded from the analysis in this collection which has focused on developments in East Asia, one of the longer term consequences of how the region has responded to the crisis might be to change the very nature of how the region itself is conceived of and defined.

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