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*In Search of Innovative Research on Modern East and Southeast  
Asian Societies:*



The newly launched NIAS Press made its debut appearance at the AAS Annual Meeting in Washington DC. Details on pages 30–31. (Photo: Liz Bramsen)

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Pietro Paolo Masina is Assisant Professor of International Political Economy

# East Asian Economic Crisis – or a Global One? Implications for the International System

By Pietro Paolo Masina, Roskilde University Centre

*More than four years have passed since 2 July 1997 – the day in which the Thai baht plunged after having lost its peg to the dollar and the rhetoric of the East Asian miracle was brought to an abrupt end. The crisis spread from country to country in the region and then the contagion extended to Latin America and Russia. And from the financial sector the crisis reached the real economy due to the IMF's bad advice and flaws in the economic regulatory systems.<sup>1</sup>*

A couple of years later the recovery was publicly announced. The crisis was over. Or was it? Take a look at the figures for GDP growth in East Asian countries in the last 12 months: they resemble the weather in Scandinavia – mostly below zero, with some pale sun here and there. The only exception being China, where growth is still robust and has been since the beginning of the Asian crisis.

Almost 5 years have passed since July 1997, which helps in looking at things with a more focused perspective. With the insight of today we can argue that: a) there was no 'East Asian' crisis but a global one; and b) the global crisis is far from resolved. Some acute world-system theorists (Giovanni Arrighi, Andre Gunder Frank) have rightly pointed out that the financial crisis in East Asia revealed not so much the *weaknesses* of the countries involved but rather the *importance* of the region in the world economy. It was the first time that a financial crisis in developing countries assumed a global relevance, dangerously haunting Wall Street and the European stock markets. That is, the international significance of a crisis unfolded in a relatively small economy like Thailand demonstrated that East Asia had become the theatre of a global struggle for economic power and political dominance.

The tragedy of 11 September 2001 and the alleged American 'war on terrorism' seem to confirm the reading of the East Asian crisis as a result of instability in the current stage of capitalist development, instability that can be understood in alternative ways. Is it a sign of a relative decline of the current hegemonic forces (i.e., the United States) and the possible emergence of new centres of power (i.e., China)? Or instability as a modality of control over the system by a still strong but predatory hegemon (i.e., the United States). Let's try to analyse these issues.

## Crack in the International System

It is generally agreed that following World War II there was a period of stability and economic prosperity due to a well functioning system of regulation. The stability of the system was guaranteed by international institutions (the IMF, the World Bank, the GATT etc.) which rested on the unchallenged hegemony of the United States in the Western world. International trade expanded, benefiting from a fixed exchange rate regime based on the American dollar as a reserve currency. Institutions were in place to intervene in case of temporary imbalances in one of the economies participating in the system. Then – for many

reasons (including the war in Vietnam, the first oil crisis, conflicts in the fordist regime of capital accumulation, etc.) – between the late 1960s and the early 1970s the so-called Bretton Woods system crashed. Currencies started to fluctuate and the power of the United States in regulating the world economy apparently decreased.

Many explanations have been given. Some scholars have seen a decline of American power since the late 1960s, while others have suggested that the modality of expression of the American power had simply changed. The collapse of the Soviet Union made the pendulum move in favour of those who claimed that American power was stronger than ever. The East Asian economic crisis reopened the debate, with many authors wondering if the crisis was a result of a lack of regulation in the international financial markets; that is, the lack of an hegemonic force willing and able to take the lead in maintaining order and prosperity. The Asian crisis came to be likened to the Great Depression started in 1929, which was exactly the result of this lack of regulatory power (as Charles P. Kindleberger has convincingly demonstrated). Then came the terrorist attack against the Twin Towers and the pendulum shifted again. At least in the very first weeks, the United States seemed not

only able to react with military power (whose strengths had never been challenged), but even capable of rallying a world-wide coalition of forces in the name of its 'war against terrorism'. In other words, the United States seemed able to exert a hegemonic authority and not simply unilateral and unipolar military interventions.

While there is no direct connection in terms of cause-effect, the two events – the East Asian economic crisis and the American war against terrorism (and Osama bin Laden) – can be understood within the same interpretative paradigm. That is, they both reveal key elements in the nature of the current international system and its underlying power structures.

### **Moral Hazard**

Take the international financial architecture. During the Bretton Woods regime, the currency fixed exchange rates were supported a great expansion in international trade. Financial flows were regulated to serve the needs of this trade expansion. Today trade-related financial flows account for only 3 per cent of the capital circulating in the financial markets every day. Even the largest corporations realize more profits on the financial markets than on selling their traditional products. To call this by its real name: the world economy is now dominated by finance – or rather, the world economy led by the Anglo-American capitalist forces is now dominated by finance (giants like China and India, on the contrary, are embarking on massive processes of industrialisation). In every historical period when the financial economy came to be disconnected from the needs of the real economy (production of goods and services, trade, consumers' needs, etc.) instability, and eventually systemic crisis, emerged. Dr Mahathir was

mistaken: the Asian crisis was not the result of financial speculation and the sabotage of currencies (although speculation was certainly visible once the crisis had started to unfold). It is the system of indiscriminate financial liberalization that is prone to imbalances and crises: yesterday in East Asia and today in Argentina.<sup>2</sup> And the international financial institutions (first and foremost the IMF) which should prevent crises and help mitigate their effects, have rather come to represent a factor of instability as they are widely considered as reinforcing a tendency to 'moral hazard'.<sup>3</sup> Is this risky situation a result of 'mistakes'? Is this a result of lack of technical tools or political recipes? Or is this instability functional to the needs of the countries/economic forces that dominate the world economy?

We can look at a concrete case in East Asia and discuss why a country like South Korea introduced financial liberalization in the 1980s and 1990s. Was Korea forced to liberalize by the United States (as Robert Wade would suggest)? Did Korea liberalize because many state officers had been 'americanized' (e.g., through their study at American universities) and had become adept to the neoliberal ideology (Linda Weiss)? Or did Korea liberalize in an attempt to diversify its economy and emerge as an Asian financial hub (Chadrasekhar and Jayati Ghosh). Or rather, as the above-mentioned authors would probably agree, for a combination of these reasons? Whatever the reason for liberalization, there is ground for suggesting that no sustainable recovery for East Asia (and Argentina, and most of the developing world) will be reached without re-regulating the international financial markets.

### **Age of Triadic Globalization**

The world has changed since the collapse of the Bretton Woods regime and the Western world has

undergone a deep restructuring of productive systems and political regimes (post-Fordism, neo-liberalism). The capitalist system has entered the Age of Triadic Globalisation: i.e., an increasing integration of markets and productive systems of North America, Western Europe and Japan, and substantial marginalisation of all the rest. Fast-growing East Asia – and especially fast growing China – has become a contradiction within the frame of Triadic Globalization.

In the age of Cold War, Western countries (and the United States, in particular) had geopolitical interests in promoting economic reconstruction and development of anti-Communist strongholds like Japan, South Korea and Taiwan (and later on, a new tier of Southeast Asian countries). Not only financial aid and technology transfer were made available, but preferential access to Western markets was also offered to the Asian products. When the Cold War came to an end, many Asian countries had become formidable competitors in key sectors like office automation, consumer electronics, and the car industry. China was growing fast, increasing its share of world export and moving to more technologically advanced production systems. Thus, the climate changed. Financial liberalization was enforced by the West as a condition for not imposing trade sanctions against Asian exporters.

When the East Asian economic crisis erupted, this was largely a result of over-investment by a number of companies in a small number of export-oriented industrial sectors. Over-investment was a latent tendency in a region dominated by catching-up aspirations and where companies tried to increase their market shares in answer to higher competition. This had happened before. But in the mid-1990s these companies

could not find shelter in the support for local governments and local banks. Financial liberalisation had exposed companies and banks to the vagaries of international financial markets. When capital started to be pulled out from the region (or back to Japanese banks), the crisis became unmanageable.

### Experiences

A number of interrelated implications seem to derive from the experience of the crisis.

First, export-led strategies where a number of East Asian countries compete with one another in a small number of industrial sectors for shares in the American and European markets may have reached a dead end. Political and economic considerations may make the old strategies no longer viable. Western markets are highly protective (notwithstanding the WTO prescriptions, which can be flexibly adapted when the interests of the major powers are at stake), and for the time being Western economies are in distress. Two economies that had largely escaped the hurricane of the regional crisis – Taiwan and Singapore – are now badly hit by their high dependence on export to the American market. On the other hand, China has been, and still is, remarkably resilient due to its large internal market and its relatively low dependence on export.

Second, precisely the emergence of China as a factor of economic stability in the region is due to have major effects in the political and economic reorganization of East Asia (and thus, of the world). China is increasing its force of attraction over the other countries of the region: a huge and stable market, a high demand for investment and technology, a large supply of cheap labour force, a supportive government, improving infrastructure, etc. While Japan still seems paralysed

by its internal economic troubles, China is increasing its regional and international strengths. This is already compelling a restructuring of the regional economy. Many Asian countries regard China as the new engine for growth. And this may increase the already visible tendency to a *desynchronization* of the world economy: while American-led Western countries remain on the verge of economic depression, a new bloc of China-led Asian economies may outperform them, gradually adding to a shift in the balance of world power.

Third, the potential growth of a China-led East Asia has implications for the interpretation of the Asian crisis and of future development. The crisis can be understood as a sign that the relations between the Anglo-American capitalism and East Asia are becoming more complex and even strained. An economically strong East Asia with China as hegemonic leader would easily be in complex – if not hostile – relations with the United States and its allies. A shift in the balance of the world economy would certainly face staunch opposition in the United States and in the West.

### Asia and the USA

These considerations lead to the last point in this article. Many thought that the end of the Cold War would deliver peace, stability and economic development. But countries like Argentina, as well as many other parts of Latin America and Africa, which accepted the painful therapies suggested by Washington, found themselves even poorer and more desperate. The East Asian countries who had started to taste the benefits of years of protracted growth (and, generally, of successful poverty reduction strategies) felt their destiny suddenly squeezed when the crisis unfolded in 1997 and the IMF imposed therapies

which were considered as a sign of Western unfairness. The tragedy of 11 September revealed the resentment and hostility towards the United States among large sectors of the Muslim populations (although very few people were actually supportive of terrorist actions).

In other words, an enormous gulf appears to exist between the country that has emerged from the Cold War as the only super-power and large parts of the world population. Although American power is still unrivalled, it was already apparent a few weeks after 11 September that the United States was unwilling (or unable) to make its anti-terror coalition evolve into a frame for dialogue and political action.

Political stability and international economic prosperity demand a hegemonic force able to enforce a system of rules and principles which facilitate political and economic relations. It is not simply a matter of strength or power: hegemony requires a vision, a sense of purpose, and the ability to create consensus among the other partners. The lack of a hegemonic system is necessarily prone to crises – both economic and political. We can speculate if the lack of regulation – or rather, the enforced de-regulation – which led to the East Asian crisis (and other crises like in Argentina) resulted from the inability of the superpower to exert hegemony. Or could it be that the unchallenged super-power was not willing to pay the costs that governing hegemony involves, and preferred to simply guard its own national interests (or even act as a predator). Whatever the answer, the global crisis that came to be named the 'East Asian crisis' is due to result in a major shift in the structure of international power. The world economy lacks a system of regulation able to guarantee stability and growth.

**continued on p. 20**

newspapers (60.7%).

To obtain information for study, users used books (61.2%) and the Internet (56.1%), and non-users used books (48.7%), newspapers (44.0%) and TV (43.0%).

To express personal opinions, users used the Internet (62.8%) and newspapers (22.7%), and non-users used newspapers (21.9%).

To exchange thoughts or information, users used the Internet (73.4%), and non-users used newspapers (14.2%).

Regarding the Internet and politics, we found that 74.4% of users agreed or agreed strongly to the statement 'by using Internet, people have more opportunities to express their political views'; 74.2% of users agreed or agreed strongly that 'by using Internet, people will have better knowledge on politics'; 67.5% of users agreed or agreed strongly that 'by using Internet, people have more opportunities to criticize government policies'; and 61.6% of users agreed or

agreed strongly that 'by using Internet, higher officials will know common people's view better'.

In the study, the value orientation related to the Internet is generalized as 'openness' through documentary research, interviews and focus group researches. As an open system, the Internet will change the users' attitudes and behaviour and make them more open-minded.

We explored the concept of openness and found that it refers to two key contents. One is the expectation to 'know' and to 'accept' something, even some ideas different from one's own, and preferring to listen to different voices. Another is attempting to do something new and to learn something new. By two pretests, we developed an open-minded scale including 15 items. The correlation coefficients between every item score and the total score in the scale are all statistically significant, and the result proved that the users' scale score is significantly higher than the non-users' score.

Administratively supported by the State Information Office, the research project has had great influence in China. In April 2001, we held a press meeting at the Chinese Academy of Social Sciences, and many media have reported the survey in China and overseas.

The project is also a part of the World Internet Project (WIP), launched by The UCLA Center for Communication Policy from 1998, intending to 'explore how the Internet influences social, political, cultural, and economic behavior and ideas, as measured by the attitudes, values, and perceptions of both Internet users and non-users' (<http://www.ccp.ucla.edu>). The global study has been designed as a panel study and developed in 17 countries and districts including US, Singapore, Hong Kong, Japan, Sweden, Italy, Hungary, China, Taiwan, Korea, Macao, Great Britain, France, Germany, Iran, India, and Israel. Other countries like Chile, Brazil, Venezuela, Spain, Portugal, Estonia, Finland and Canada are preparing to join the global study.

#### continued from p. 16 (P. Masina)

East Asian countries may search in a China-led regional order for those stability and growth perspectives that the inter-national system fails to offer.

#### Notes

<sup>1</sup> This issue is widely dealt with the co-authors of my edited volume: *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. NIAS Studies in Asian Topics. Richmond: Curzon Press, 2002. Many of the arguments summarized in this article are based on the research presented in the volume.

<sup>2</sup> Of course, one can be more specific in distinguishing the concrete conditions in which this unstable order was constructed in the different contexts. The Post-Plaza financial regime (and productive order) in East Asia was highly vulnerable to crises, as discussed by Ngai-Ling Sum and the other authors in our volume.

<sup>3</sup> Hedge funds and large banks can gain high profits *because* their investments are risky. However, they can count on the IMF intervening to contain their losses if something goes wrong by forcing the debtors (or their governments) to pay back their debts.

#### continued from p. 9 (K. Andersson)

don't seem to have the consequences predicted by many cultural imperialist theories – they proposed that an erosion of the indigenous culture and tradition would take place. The advent of satellite networks has become a way of promoting local culture and language. The flow of news and information has improved and increased. The new ICT technologies have improved the situation for the diaspora population. The relationship to external intellectual centres is not one-sided. It also entails a questioning of participation in modern global culture and western standards. Mahatma Gandhi stated that he wanted his nation to open its windows to the world so that all breezes could blow freely through his house as long as it was not blown over by them ...