

Regionalism in East Asia:

The transformation of regional political economy in East Asia

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Abstract

This article aims at analysis of the need and possibility of regionalism in East Asia. The background of the idea is derived from the recent transformation of the world, so called interaction between Globalism and regionalism.

This article is composed of three main parts. Chapter 1 is divided into two parts. The first part defines the terms, regionalism, regionalization, and regional integration. Following, there is the explanation about the differences between regionalism and 'New Regionalism'. In sum, 'regionalism' is more suitable term in order to explain or view the current regional transformation of the world. It is obvious that this article studied in 'New Regionalism' context. The second part of the chapter 1 described the patterns of regionalism; mega, macro and sub/micro regionalism.

Following chapters discuss the reason why the regionalism needs in East Asia. Chapter 2 focuses on the transformation of Japan playing in the role of economic development in East Asia. This chapter will make it clear why it is difficult to organize regionalism in its region. On the other hand chapter 3 describes the need and possibility of regionalism through the analysis for '97 economic crisis.

Thus, this article indicates the prospect for regionalism in East Asia in the globalizing world.

I . What is regionalism?

The term, 'Globalization' has become the key concept in order to envisage or explain the international system or the current transformation of the world since the end of the Cold War. At the same time, 'Regionalism', 'Regionalization' or 'Regional Integration' has become a sort of counter concepts with regard to 'Globalization'¹⁾. It is not new to what extent nation-states organize a sort of bloc or union in terms of economic co-operation and security regime. What its scheme can contain is organization or legalization. However, the type of regional group in this article consider, is, so to speak, 'New Regionalism'.

1. What does 'regionalism' mean?

This section suggests the definition of three terms; Regionalization and regional integration. According to Hatsuse, it can be defined with the basis on the argument of Andrew Hurrel.

Andrew Hurrell singles out five elements of regionalism: (1) regionalization, (2) regional awareness and identity, (3) regional interstate cooperation, (4) state-promoted regional integration and (5) regional cohesion. If we accept this fundamental argument, we understand that regionalism is a mental and/or physical orientation towards forming a regional identity, predicated on the assumption that such an identity would lead to further regionalization (creation of regional entity, closer cooperation and/or integration), which in turn would promote the peace and welfare for people living in the region. Thus, the concept of regionalism is two-fold: regionalism defined in the strict sense, as an ideology or slogan and regionalization defined in a broad sense, relating to spontaneous regional formation, regional cooperation, international regional integration and the formation of regional ideology. In discussions about regionalism, we should make a clear distinction between these two levels²⁾.

Additionally Michael Shultz defined the differences between regionalism and regionalization below;

...Regionalism refers in the first place to the general phenomenon, denoting formal projects as well as processes in the broadest possible sense... regionalism represents the body of ideas, values and concrete objectives that are aimed at creating, maintaining or modifying the provision of security and wealth, peace and development within a region: the urge by any set of actors to reorganize along a particular regional space. Regionalization implies as activist element and denotes the (empirical) process, which can be defined as process of change from relative heterogeneity and lack of cooperation towards increased cooperation, integration, convergence, coherence and identity in a variety of fields such as culture, security, economic development and politics, within given geographical space³⁾.

...regionalism ...can describe state, market, and a wide range of (civil) society actors, and that there exists a corresponding (empirical) process of state, market and civil society regionalization...⁴⁾

Thus, the term regionalism is the most suitable concept for this dissertation on two premises. Firstly, regionalism contains regionalization and regional integration or denotes the body of its idea, value, and concrete projects as Shultz and Hurrell indicated. Secondly regionalism, as Shultz meant, focuses on the process of regionalization more than on regional organization. Although there are several regional projects in East Asia, such as APEC, EAEC, AFTA, no regional projects have matured as a constructive regional system. Therefore, this article does not deal with each organization or project, but notes what impact regionalism has had in East Asia since the late 1980s. This study can contribute to development of more concrete and ideal regional projects in East Asia.

2. What is 'New Regionalism'?

As many scholars indicated, regionalism is not new phenomenon. For instance, there were economic regional blocs before causing the Second World War. On the other hand, regionalism was seen as an important strategy for achieving regional security, peace, development and welfare, especially in Europe and the third world during 1950s and 1960s. Especially third world regionalism has been influenced by, related or response to a particular historical context, dominated by the bipolar Cold War structure, with nation-states as the uncontested main actors. Therefore, old regionalism tended to have specific objectives; free trade area or security alliances. Shultz called it hegemonic regionalism⁵⁾.

On the other hand, 'New regionalism' has several different dimensions though it is similar to some extent. It indicates phenomenon emerging in the mid-1980s. On the contrary to old regionalism, new regionalism is related to the current transformation of the world, that is, new regionalism interacts with global (economic) system. Shultz summarize the dimensions below;

... (1) the move from bipolarity towards a multipolar or perhaps tripolar structure, centered around EU, NAFTA, and the Asia-Pacific, with a new division of power and new division of labor. (2) the relative decline of American hegemony in combination with more permissive attitude on the part of the United States towards regionalism; (3) the restructuring of the nation-state and the growth of interdependence, transnationalization and globalization; (4) recurrent fears over the stability of the multilateral trading order, hand in hand with the growing importance of non-tariff barriers (NTBs) to trade; and (5) the changed attitudes towards (neo-liberal) economic development and political system in the developing countries as well as in the post-communist countries...⁶⁾

Thus, the current regionalism tends to be a more spontaneous process emerging from the outside and from inside the region itself. In addition, new regionalism is a heterogeneous, comprehensive and multidimensional phenomenon, which is based on market and society actors as well as nation-states and covers economic, cultural, political, security and environmental aspects. These dimensions are common to the dimension of globalization. The current new regionalism is expanding to more areas of the world than ever before. With respect to globalization, new regionalism is extroverted rather than introverted. The current regionalism cannot be always understood as a distinct alternative to the national interest and nationalism. But it is often better than explained as an instrument, enhance, or protector of the role of the state and power of the government in a multi-actor system and an interdependent world system. The size of regionalism extends from mega-regions, such as APEC, macro-regions, such as EU or NAFTA, and to sub-regions (micro-regions), such as ASEAN.

In summary, the new regionalism is a complex process of transformation as resulting from global, regional, national and local interactions, involving nation-states, as well as non-state, market, and society actors. And its size, objectives, institutions, organization and process of the formation are quite different in each region.

3. New regionalism and East Asia

Viewing the arguments above, this section roughly describes the interaction between new regionalism and East Asia. Firstly, the concept of East Asia must be defined in the context of this article. Basically the definition of East Asia has two geographical definitions; one is Japan, Korean peninsula, the Mainland China, Taiwan. The other adds the former to Southeast Asia. Neither definition includes South Asia (Bangladesh, India, Sri Lanka and Pakistan). This article follows the second concept of East Asia.

Secondly, in respect to the new regionalisms in East Asia, there exist three types of regionalism in East Asia based on the assumption that new regionalism contains several sizes of regionalism. Hatsu defined three regionalism; sub, macro and mega, according to the number of actors, leadership, the stage of economic development, production relationships, cultural identity, the level of regionalization and/or regional integration, institutional formality and ideology or slogan.

Sub-regionalism is estimated as ASEAN, defined in terms of several member-states, with leadership equally shared by them. Therefore differences in economic development among semi-centers, semi-peripheries and peripheries, but they are all identical in that they adopted a developmental strategy essentially led by capital and technology, with production relations determined by the region's relationships with the rest of the world, diverse cultures and Chinese culture, political caucusing in action, and other shames of cooperation in the making, less institutionalized format, and the idea of ASEAN falling short of an ideology.

Macro-regionalism, whose concept is affected by the process of the EU, might not exist in East Asia now. But its size is close to EU. Its dimensions consist of an aspiration to regional integration shared by a number of states with leadership assumed by some countries, hegemony in terms of economic development, and economic growth resulting from scheme,

horizontal division of labor, homogeneity in terms of culture, support for the scheme, advancement in cooperation in a number of spheres, a more formal institutional format, and some regional identity can also contribute to this. Ideologically macro-regionalism should refer to EAEC in terms of its size and scheme.

Finally, mega-regionalism refers to APEC in East Asia. This type of regionalism consists of an aspiration towards the creation of an economic zone shared by a great number of the member-states with advanced countries as the nuclei to promote the scheme, heterogeneity in terms of economic development, economic size. And a political system or civic culture, as a potential negative factor in the scheme. Other aspects include a mixture of horizontal and vertical division of labor, - implying an unequal distribution of economic achievement -, heterogeneity in terms of culture, openness, a flexible inward/outward cooperation scheme, possessing the potential for a wide range of institutional styles, for example custom unions, free trade agreement, informal economic cooperation, and a slogan accepted only if without any political implications. APEC might be conspicuous regionalism, but it might be the less actual one in terms of the inclusion of NAFTA at the present time.

Thus, there are varieties of regionalism in Asia. However, any organization does have strong and weak point to become a main scheme in making regional order or system. This article does not intend to deal with and analyze each regional organization, but intends to study the elements as well as alternative regional scheme on the premises of established regionalism. It is put forward that the EAEC, in terms of its size and schemes, can be the most suitable for East Asia, but this article mainly focuses on the process of regionalism as viewed from the definition of regionalism. The next two chapters analyze the difficulties and the need in the making of regionalism in East Asia; the second chapter focuses on Japan's role in economic power. The third chapter will consist of the analysis of '97 Financial Crisis. Obviously, this crisis caused the argument; the end of Asian Miracle: but its can make many Asian states as well as firms and peoples realize to some extent, the need to organize regional scheme.

II . Japan and the trajectory of economic development in East Asia:

The myth of flying geese

The final parts of chapter1 showed three types of regionalism in East Asia, mega, macro, and sub-regionalism mainly with basis on the argument of Hatsuse. The interactions between these regionalism and Japan seem to give suggestions for this chapter. Asian countries except Japan as resurgence of Pan-Asianism by Japan from the late nineteenth century could misunderstand macro-regionalism until the end of the Second World War. Realistically there does not seem to be its resurgence. According to Hatsuse, A slogan for regionalism is now emanating from the ASEAN countries rather than Japan, such as the idea of ASEAN or 'New Asianism'. On the other hand, regionalization without regionalism at macro level means maintenance of the status quo for Japan situated at the centre and will continue to be there for the foreseeable future⁷⁾.

Following, with reference to the interaction between Japan and sub-regionalism, it is envisaged two options that Japan adapts. The first, in the positive case involving Japan, it depends on the will for Japan to commit or not. That is reason why this regionalism assumes the technology and capitals of Japan. The second is negative case excluding Japan, which force her to commit but closed to Japanese capitals, goods, and service in the future. In this case, Japan will have to seek serious alternatives⁸⁾.

Finally, in the interaction between mega-regionalism, APEC and Japan, Japan is forced to be transmitter of Western culture and economy or be a coordinator between Western and Asian culture and economy. Japan seemed to choose the first one until now. But, it might be the time for Japan, Hatsuse thinks, to switch to the second. That is, Japan is expected to play a role in socio-economic development of other Asian countries for the people, rendering support for human rights

activities and taking the leadership for disarmament in the Asia-Pacific. This is in sharp contrast to its former policy of promoting development and security at home and abroad with the economic and military help of the United States under the governmental leadership⁹).

These arguments of regionalisms have a common hidden assumption. It is an assumption that Japan can maintain the same economic power as Japan has since 1980s. However, such an assumption seems to be lack of the reality as considering the recent economic recession of Japan. Because such an expectation, the economic power of Japan, is based on the export capabilities and the offshore production of a certain type of manufactured good, such as machinery, electric goods and automobile industry. But, its advantage of Japan, as know well, is facing to the rapid catch-up by other countries in East Asia. This chapter mainly analyses the transformation of Japan's role in economic development in East Asia with basis on the argument by Bernard and Ravenhill.

1. Are geese flying? : New political economy of the East Asia

Generally, the economic development in East Asia is explained with flying geese model. This analogy was linked with 'Asian Miracle' and some of scholars and economist thought integrated economic area in East Asia with basis on this analogy. However, this chapter describes the opposite analysis to flying geese model to follow the argument of Bernard and Ravenhill. Their research interest was clear. They started to argue the accuracy of flying geese model and product cycle theory as well as the motif to rethink of economic development trajectory of East Asia in terms of the relationship among three points; changes in the global political economy, changes in the political economy of individual states, and changes in the organization of production.

One of the explanations about the economic growth of East Asia is flying geese model. This original idea was derived from the idea of the article by Akamatsu, Japanese economist, wrote in the late 1930s. This theory was based on the study of textile industry in Japan. As cited from the articles by Bernard and Ravenhill,

*...Akamatsu suggested the diffusion of new products and technologies begins with their import into less industrialized countries. Over time, techniques and capital goods are imported, and "homogeneous industries" are established. The less industrialized countries acquire their own capital goods industries. In the forth stage of the cycle, local capital goods industries develop export capabilities, and interstate trade conflicts become more common. The process, he argues, follows a "wild-geese-flying pattern of successive appearance of import, domestic production, and export"...*¹⁰⁾

In 1984, Bruce Cummings wrote the articles about economic development of East Asia with reference to this analogy.

*...Cummings applied the analogy of "Flying geese" to the situation in East Asia: countries are said to follow one another in a developmental trajectories in which the latecomers replicate the developmental experience of the countries ahead of them in the formation...*¹¹⁾

Another explanation for economic development is Product cycle theory published by Raymond Vernon. This theory was composed of three assumptions, which are subjected to the critics by Bernard and Ravenhill. All of the assumptions of product cycle theory are irrelevant to the economic development in East Asia. The assumptions are (1) the maturation of technology and production as industries progress through product cycle, (2) production for export in the countries to which manufacturing would build on an experience of import-substituting manufacturing of these products, and (3) firms in the originating country will exit from the market, leaving domestic demand to be met form the exports of the countries to which production has migrated¹²⁾.

Bernard and Ravenhill criticized these approaches for explanation of economic growth in terms that flying geese analogy fails to capture the complexity of the regional political economy dominated by the regionalization of industrial production. Instead of flying geese analogy, they focused on the globalization of production networks, increased intergovernmental disputes over bilateral economic relationships and the rapid pace of technological change¹³⁾.

The regionalization of production in East Asia was accelerated in 1980s, especially after the Plaza agreement. This agreement led to large currency reorganization and the increased controversial international economic relations. The economic tension between the US and Japan spread to South Korea and Taiwan as well. In this period, Japanese yen, Taiwan dollar, and Korean won were re-valuated. Japanese yen was close to 40%, Taiwan dollar 28% and Korean won 17%. On the other hand, the US, China and Southeast Asian currencies were depreciated. Since then Japan and Northeast Asian NICs was forced to settle their production to such countries. With accompany of regionalized production network, foreign direct investment (FDI) also increased. After 1986, Japan's FDI recorded 50% up at the average annual rate. From these processes, Bernard and Ravenhill concluded below.

*...point to one important change in regional production networks in the post-Plaza years: the spatial expansion of such networks. Malaysia, Thailand and coastal China have all become linked to production in Northeast Asia, so that we may now speak of regionalized manufacturing activity in a number of industries. A second prominent change is the shift from the company to the 'network' as the locus of productive and innovative activity. It is the interaction between firms linked by chain of production, exchange, and distribution that now constitutes the basic organizational 'unit'...*¹⁴⁾

Thus, after Plaza agreement, Malaysia, Thailand, and coastal China were integrated into Northeast Asia. In this article, Bernard and Ravenhill described the faults of Flying Geese Model in terms of grasping the complexities of technological change and or how technology is actually transferred through the study of electronics industry. Its study made them clear below.

*...Production structure differ across time and space depending on local configurations of power, historical trajectories and the dominant technology of particular eras... The Product cycle-based theory sees individual products as 'disembodied' from larger industrial structure, whereby the life cycle of any given product can be treated in isolation form the myriad of the other products and the organizational foundations that initially spawned...transnational networks organize production in ways that do not correspond to the boundaries of formal communities, they still exist concurrently with interstate system*¹⁵⁾.

Concretely stating, the Japanese consumer electronics industry has transformed itself on the basis of product innovation and through its effort to acquire production companies in the US in order to create a linkage between hardware and software. On the other hand, the Taiwanese industry is based increasingly on production at lower volumes for Taiwan's small domestic market. The producers still depend on Japanese suppliers for key components, and increasingly acting as importers for Japanese products. Bernard and Ravenhill concluded this fact following. This trend is not the result of the workings of the product cycle but the Taiwanese industry has played in the replication of the structure of the Japanese industry, which has not been successful at reproducing the innovation capacity or the components and machinery production abilities of the Japanese industry¹⁶⁾.

Here Bernard and Ravenhill questioned whether neighboring countries replicated the Japanese development trajectories more generally as the analogy suggested. They answered to this question that the development of Taiwan and

South Korea has their own history. In addition they noticed and emphasized the technological innovation and learned technology on the contrary that flying geese model argued the industrialization was a process of 'homogenization'. As industries move from country to country, their structure and degree of backward linkage will over time replicate that of the more advanced countries when they came¹⁷⁾. The technological progress of Taiwan and South Korea was different from that of Japan. They basically depended on the imported technology from Japan less than the US on the contrary Japan not only imported the technology but also developed by her; research and development (R&D). The process of Taiwan and South Korea was affected by microelectronic revolution and a changed geopolitical structure in the post-cold war era. Therefore the fact of specific nature of Taiwan and South Korea industrialization will precede within a changing global context also raise a series of questions about the rapid economic change currently taking place in much of Southeast Asia.

Following section in its article, they finally analyzed the developmental trajectories of Southeast Asian countries (Thailand, Malaysia, Indonesia and the Philippines). In its part, they focused on the role of the US adjustment to industrialization in East Asia and substituting industry related to Japan. Although the US dollar declined relative to the Japanese yen, the share of the US in East Asia manufactures has still remained. The US continues to absorb a much larger percentage of manufactured exports than Japan does. In this regard, the flying geese and product cycle theory, as Bernard and Ravenhill noticed, fails in the prediction that the US continues to bear the bulk of the burden of adjustment to the industrialization of countries of East Asia¹⁸⁾. On the other hand, these countries depended on the heavy subsidiaries of transnational corporations, especially Japan; in Malaysia in 1980s 99% of foreign controlled company dominated in electronics, 90% machinery and electrical appliance 80% rubber products and 75% of textile and apparel exports¹⁹⁾. This is reason why Japanese firms aimed at increasing their local content purchases – both from other Japanese subsidiaries and from domestic firms. Consequently, there exists trade triangles in East Asia; inputs are purchased from Japan, processed in the NICs and to an increasing extent in ASEAN and China, and exported to their country markets rather than to Japan. That is, hierarchical production network.

To sum up, flying geese analogy fails to note that the changing global political economy and development in technology and production techniques preclude a homogenization of industrial structures, and that the industrialized countries in East Asia are still dependent on capital goods and technologies imported primarily from Japan. On the other hand Japanese firms have been unwilling to vacate sectors in which products appear to have achieved mature status. The change in production techniques, increased product differentiation, or the advent of whole new technologies can have the effect of 'de-maturing' specific products. Thus, as research and development becomes increasingly more nonlinear, abandoning production of certain mature products carries the risk of losing know-how in manufacturing techniques or component manufacturing that might have been critical to seemingly non-related future production. As viewed in the third chapter, this trajectory of economic development, especially high dependence on foreign investment become of factors in '97 crisis.

2. The advent of bilateralism by Japan.

The introductory section in this chapter, expectations towards regionalism in East Asia, has been derived from economic presence of Japan and its leadership. However, besides the lack of leadership of Japan in EAEC, there has not been build on the conditions to organize it as reviewing the argument of Bernard and Ravenhill. But there is not completely any expectation and possibility towards regionalism. There surely exists the expectation for it on the contrary to its difficulties. This section suggests the alternative.

October 2000, both government in Japan and Singapore stated the new style of Japan – Singapore free trade area (FTA), Japan-Singapore Economic Partnership Agreement (JSEPA). JSEPA has become controversial not only among East Asian countries, but also among advanced countries, especially in APEC members. According to the forum in

Singapore sponsored by *GAIKO forum*, a Japanese publisher, the forum concluded FTA between Japan and Singapore is different from the old type of FTA. JSEPA aims at the bilateral cooperation policy towards harmonization between competition policy and business regulations and procedures as well as reduction of tariff. Especially, it intends innovation in information technology and financial system²⁰⁾. In this regard, it is clear that JSPEA is derived from the '97 economic crisis in East Asia as well as the end of flying geese analogy. In this forum, all panelist stressed the utility of JSEPA in terms that it does not intend to be against WTO and AFTA. Both of them encourage the expansion of free trade. But, in respect to AFTA, there still exists diversity in economics (economic growth rate and economic system). WTO seems not to function in spite of its objective²¹⁾. In addition, APEC has not suggested alternatives when the crisis happened and its objectives become more and more along the US objectives. On the other hand, JSEPA can play a role in liberalization of economics in East Asia. Singapore strongly depends on trade and IT, and Japan relatively loses its economic advantages in the world. But she is still one of the biggest investment countries. If the outcomes of JSEPA succeed, it is possible for its efficacy to spill over to the other Asian countries and to the world.

Both Japan and Singapore tries to tie other countries in terms of bilateral free trade agreement now, for instance Japan and South Korea. Although my view does not transcend the spill-over effective, the spill-over of bilateralism can be the first step towards regionalism in East Asia.

3. Conclusion

In the view of economic development in East Asia following to the argument by Bernard and Ravenhill, each country has experienced different trajectory of its development. It was true that Japanese firms and FDI could play an important role in economic development in East Asia. However, each developmental trajectory was quite different. The innovation of technology in South Korea and Taiwan had depended on imported technology for a long time. Next geese, Southeast Asian countries depended on heavy FDI and controls by transnational firms, especially Japanese companies, on the effect of Japanese factory innovation, 'just-in-time' method. These trajectory of economic development in East Asia conclude not in homogeneous or horizontal production network but 'new hierarchical' production network. In addition, the US did not end its adjustment to industrialization in East Asia. As Bernard predicted, the US did not continue its tolerance in terms of supplier for economic development in East Asia. APEC, especially after 1993 can be regarded as its representation.

As the first section showed in this chapter, regionalism in East Asia, its expectations was based on the premise that Japan can play a role in the leadership and economic power last. However, it is like a myth as Bernard and Ravenhill showed in their article. In that conditions, bilateralism can become crucial strategy not only for Japan and but also for other Asian countries. It is obvious that the US also triggered the commitment by bilateralism, as she did in the process of economic development in Asia, in terms of Bilateralism. However, the recent bilateralism in East Asia has more different face than ever before. The bilateralism in the current context does not close to the other countries inner and outer the region. Rather than its old aspect, the new bilateralism intends to cooperation the innovation of economic system and its future objectives is open to the other countries. In this regard, the geese can fly again not only in terms of production network, but also of FTA to regionalism.

III . '97 Financial Crisis and the 'New Regionalism'

The former two chapters showed the difficulties of regionalism in East Asia. But it does not definitely deny the need and possibility of regionalism. On the contrary, this chapter will describe the need of regionalism in East Asia through analysis of '97 Asia financial crisis.

Asia financial crisis undoubtedly impacted on Asian countries. The year 1997 was also a big period in terms of return

of Hong Kong to People's Republic of China (PRC). Furthermore, Asia was in more prosperity than ever before in terms of economy and the twenty first century seemed to be regarded as Asia era. However, the crisis beginning in Thailand expanded to South Korea, and covered almost of the Asian industrialized countries except Japan, Taiwan, Singapore and China (PRC) relatively. First section follows the stream of crisis, the second its causes, and third studies what the crisis suggests.

1. The brief history of the crisis

On 2nd of July 1997, Thai baht was allowed to float. On 11th of July the Philippines followed suit and all the Southeast Asian currencies were allowed to float and depreciated sharply. Firstly in July the Philippines extended IMF standby arrangement, Thailand reached agreement with the Fund in August and Indonesia signed a standby arrangement in July. The Thailand and Indonesia programs were both backed by supplementary resources from other multilateral institutions, donors and the largest multilateral rescue program ever assembled. However, these actions did not succeed in restoring confidence and required revision until 1999. Malaysia also faced giving up its currency peg in July 1997. However, she could avoid recourse to the Fund. Because on 1st of September 1998, Malaysian government took the unorthodox choice of fixing its exchange rate and imposing capital controls. Thus, the currencies of four Southeast Asian countries were down to 25% - 35%²²⁾.

Following Southeast Asian countries, Taiwan was forced to float its currency on 17 October 1997. Immediately after Taiwan decision, Speculation shifted to the Hong Kong dollar. In the case of Hong Kong, its financial authorities could defend the peg to dollars because of its massive reserves and well-institutionalized currency board. But, the sharp increase in interest rates required to do the job produced a dramatic sell-off in the Hong Kong stock market, which has a heavy interest rate property development firms. The crisis in the Hong Kong influenced on South Korea. She suffered a severe liquidity crisis and on 21 November was also forced to abandon support for the South Korean won. On 3rd of December, South Korea agreed to a massive Fund program backed by additional resource from the World Bank, Asian Development Bank, and other countries in the region. A few weeks later, this programmed was identified with insufficient one, and on the 24th of December a new program was adapted, including additional resources and conditions and negotiations with foreign bank with relation to a short-term debt restructuring. Thus, the financial crisis starting in Thailand expanded to four Southeast Asian countries (Thailand, the Philippine, Malaysia and Indonesia), Hong Kong, and South Korea, especially Thailand, Malaysia, Indonesia and South Korea faced quite serious situations.

The financial crisis shifted to the severe economic crisis in 1998. The estimated economic growth rate was reported the drastically rapid minus. This was not only Thailand, Indonesia and South Korea, accepting IMF support but also other Asian countries. Especially the countries accepting IMF supports were forced to restructure the domestic economic system. The procession of the conditionals by IMF accelerated the economic depression. In addition, this process expanded to the trade relation inner Asia. The countries, which did not face the crisis, owed about 30% - 40% of the trade to the crisis countries. Therefore, economic depression inner Asia became quite serious to make it matter worse.

2. The factor of the crisis '97

The crisis starting in Thailand quickly expanded to the Southeast Asian countries and Far East Asian country. Why did such a massive crisis happen and expand? Were they due to specific factor in Asia? This section thinks about the factor of the crisis with consideration into its aftermath. Until 2001, four years after the crisis, there are much published books and article or archives on the crisis in East Asia from political economy, management, economics and international relations. These analyses can be roughly divided into two factors. Citing from the article by Stephan Haggard, one is local factor that made certain countries vulnerable, and the other systemic elements that allowed the crisis to spread and deepen into a

regional phenomenon²³⁾. The primary actors are the state and firms.

First point, the vulnerability of economic structure is, so to speak, 'fundamentals'²⁴⁾. Just before the crisis, the investment with short-term capital, bank lending and portfolio investment became much bigger than direct investment and public capitals such as ODA. In addition, almost of the Asian countries adapted the dollar-peg system. These two elements caused the severe crisis. The dollar-peg policy in Asia has been accelerated since Plaza agreement in 1985. Its aim derived from three points; acceleration of export, introduction of foreign investment and low-price control. Asian countries tried to develop national economy on exports of manufactured goods. For instance exports share of Newly Industrialized countries (NICs) to the US was 39.4%, 10% to Japan, and 21.8% to the inner Asian region. The US dollar became primary currency in its region. Therefore, the dollar-peg policy was considered the suitable strategy for their export. Foreign investment was mostly shared by the US dollar, especially private investment. Therefore Asian countries adapted the dollar-peg policy in order to prevent them from the risk of fluctuations in the market. Finally most of the Asian countries owed consumer products and raw materials to import. Therefore dollar-peg policy was adapted in order to stabilize the price of import. The low-price policy was aimed at maintenance of competitiveness in international market. Thus Asia has been the dollar block even though each country has its diversity. However, the foreign direct based on the dollar-peg policy affected the acceleration of the crisis. Thailand, the Philippines, Indonesia, Malaysia and South Korea had faced deficit since 1990. It was compensated with continuous financial inflow of foreign investment. Just before the crisis, foreign investment was composed of the short-term capitals, from security and the private bank. At the same time, these countries were forced to restructure domestic financial system, so to speak, liberalization. Liberalization does not inevitably get it worse. But, in this case, it made domestic economy dependence on the short-term flow. This process also led to the outcomes of estate bubble.

Secondly, systemic element of crisis was captured in part, by the concept of contagion. Contagion is confidence in weak financial institutions will enlarge sound ones and create a general financial panic. Unfortunately international financial system was not a paramount consideration in Asian crisis. In addition, contagion can be operated in various patterns, such as the spread of investor concern from country to country. Furthermore, the region's devaluation, which heavily depended on exports, also comes to reveal elements of contagion.

Thus, the one of factors accounting for Asian crisis can be cited from domestic factor of each country; the huge short-term capital flow, the dollar-peg, heavy dependence on export as well as contagion.

In addition to domestic factors, this section considers IMF policy and its valuation. As viewed in domestic factors, Thailand, Indonesia and South Korean agreed with IMF deal for recovery of their own economy. On the other hand, Malaysia coped without IMF. It is difficult and might be early to conclude which was better for its aim. But, it implicitly and explicitly might suggest the possibility of alternative policies. Standing on the supportive view for IMF, it did play a crucial role in recovering the crisis. There were common policies by IMF towards the crisis countries.

3. What kind of prospects the crises suggest?

As viewed above two sections, '97 crisis brought serious economic recession to Asia. It did not only affect on crisis countries, but also more or less, on Japan, Taiwan and Singapore. It is obvious that the crisis brought Asian countries to awareness of the need to organize regional cooperation. Because, the crisis revealed the depth of interdependence among Asian countries although some factor of economic crisis, especially financial crisis, was derived from vulnerabilities in each crisis countries. However, the more important feature was the speed to spread the crisis inner Asia. This phenomenon was obviously due to the depth of economic interdependence among Asian countries. This final section suggests the pattern of regional schemes after the crisis.

The first step is to rethink the needs of regional cooperation. According to the study by Mitsubishi Bank research

institute, it stressed the 'regional biases'. This term indicated the globalization of economy is not making progress worldwide, but is biased to specific region; the US – South America, EU – Eastern Europe and Japan – North and Southeast Asia. It is not definitely as high for Asian countries in terms of the trade between Japan and their countries as the US and Europe. However, the trade and FDI recorded about 50% inner Asian region. If Asia organizes a certain of regional cooperation scheme and open to other region, its regional scheme can complement the global one as well as functioning in Asia. Such a relation leads to deep and fast exchange of information, which promotes cooperative action among them. The lack of such a scheme caused the serious economic crisis as well as financial crisis. At the crisis, the deep economic interdependence functioned to make the crisis worse. But, creation of regional scheme with usage of economic interdependence should be placed on the complementing scheme for global scheme.

As viewed in the second section, Asian Monetary Fund (AMF) did not actualize on the opposition by the US and China. However, it still has possibility if this should be also intended to complement IMF. In addition, Japanese government suggested MIYAZAWA plan, who was the minister of finance in Japan. The feature of this plan is to finance with bilateral relations between Japan and a certain country. This support focuses on how to make use of private capitals more than public capital. As viewed in the first and second chapter, it is important and possible that regional scheme is organized with collection of bilateral relations, towards collective action.

The prevention of the recurrence of the financial crisis is the avoidance of misalignment and minimization of vulnerability in the exchange market. It seems to be useful for the connection between Japanese yen and other Asian currencies to avoid the misalignment of exchange market. For the minimization of vulnerability in the exchange market, there are two important matters. One is to expand the network inner Asia, and the other is to increase the usage rate of Japanese yen. The establishment of capital market in Asian region can compliment the former two steps.

It is the final step to reconstruct regional common market composed of FDI and trade. Viewed in the first chapter, the driving force of economic growth in the Asia was trade and acceleration of FDI. In addition, its trade promoted the expansion of domestic demand. With accompany of construction of regional capital market following the construction of regional financial safety net; combination between AFM and bilateral financial scheme, it is possible to organize regional trading area. This trade area also has the distinction to complement WTO regime.

4. Conclusion

The financial and economic crisis of Asia in 1997 struck its region. This brought the end of Asian miracle, myth of Asian growth and the decline of the confidence of its whole area in the short aftermath. Its factors were the vulnerability of the domestic financial and economic structure in the crisis countries. Almost all of the domestic currencies were pegged to the US dollar. The US dollar-peg policy caused to overprize the stability of the crisis countries. This policy interacted to the financial vulnerability contagion of the crisis. The second factor was depth of economic interdependence inner Asia region. Due to the deep economic interdependence, Asian countries unaffected directly faced the low-rate economic growth. As viewed in the first chapter, economic network in East Asia was not horizontal but vertical, hierarchical. No counties did suggest alternatives policy to recover form its situation.

The dealt with the crisis was less regulated than the financial crisis in 1980s. The crisis countries excluding Malaysia agreed with IMF policy. However, both of Malaysia and other countries are gradually recovering. The dealt by IMF was evaluated more or less. It seems to be difficult to make judgment whether IMF or Malaysia was right. This suggested the lack of leadership in the region when the crisis was settled. In addition, the established regional schemes especially APEC did not take any action in order to prevent it from the expansion. Therefore, the crisis can refer not only to the vulnerability of domestic economic system but also to no effective regional scheme in its region.

The study of this trajectory was force to organize the need for the regional cooperation system. 'Complement' and 'Bilateral' can become key concepts to establish the regional scheme. This concept derived from the diversity and instability of regional relation in East Asia and consideration into the interaction between global scheme and regional scheme. 'Complement' makes this interaction function better. 'Bilateral' is the first step towards multilateralism to regional integration. All of the scheme have not established completely. But, it is obvious and certain that '97 crisis gave the chance for the state and firms to consider the needs and possibility towards construction of regional scheme. In this regard, the bilateral relations in the new era are not close to the other countries, but open to other countries in order to complement the regional scheme. This process makes it clear which regional scheme can function in specific situation. This leads to bring a comprehensive regional scheme in order to play a role in the global economy. '97 crisis does not demonstrate the end of Asian Miracle, but suggestive incident for East Asia to remake its economic development.

IV . Conclusion: Prospects for regionalism in East Asia

Three main structures might describe the important elements in order to know the current international political and economic relations in East Asia. The first chapter consisted in two parts; definition of new regionalism and the kinds of regionalism in East Asia. New regionalism does not always oppose to globalism and the actor in regionalism is diverse. These two elements is the most important points in order to view the current regionalism. The regionalism in East Asia is composed of three different sizes and features; sub, macro and mega. The second chapter composing of the criticism towards flying geese analogy sketched the transformation of regional economic relations in East Asia. In other words, global or transnational phenomenon in terms of economics has already been promoted in East Asia. Flying geese analogy failed in the analysis of the market structure in East Asian economics. Flying geese analogy overlooked that commodity in East Asia are not exported to inner region but the US market or European market. The third chapter followed the Asian financial and economic crisis with three points; the brief history, the factors of the crisis and what the crisis brought. The third chapter regarded the economic crisis as what reconfirmed the need and possibility for the regionalism in East Asia.

Through the second and the third chapters, bilateralism is one of crucial key terms in order to draw the ground design of regionalism in East Asia. APEC, EAEC, and AFTM aims at the acceleration of free trade are in East Asia. However, as viewed in the second chapter, regional economic structure in East Asia has not overcome vertical or hierarchical structure. Collection of bilateralism can cause vulnerability of regional scheme and strained regional relations mitigate.

Asian economics between 1980s and 1990s experienced the drastic change. In 1980s, Taiwan, Hong Kong, Singapore and South Korea following Japan succeeded in economic development. Following, the NICs countries were nearly catching up with these five countries. In addition, the China's economic policy, so called socialism market economy, starting in the late 1970s was also outstanding growth. This period was just Asian era or, so to speak, Asian Miracle. However, such a huge economic growth in East Asia was gradually seen skeptically in the mid 1990s. In 1997, Asian economy looked collapsed by the heavy economic depression. As viewed in the third chapter, it was derived from the domestic economic system and depth of economic interdependence. Some of economist and scholars emphasized the vulnerability of economic structure in Asian countries and supported superiority of the western system²⁶⁾. However, it is too early and difficult to answer the skepticism towards vulnerability of economic structure and the IMF policy towards the crisis. Rather than such an evaluation, this article focused other points; the Asian economics is gradually recovering from its conditions and there is sure for the need and possibility of regionalism as viewed through all chapters. In actual, some of regionalization has been promoted before and after the crisis. The origin of EU was derived from the sense of overcome from the Second World War and its process repeats a forward step and stagnation. The regionalization of East Asia also is taking a step-by-step forward to the regionalism; the interaction between the collective bilateral relations and regional

schemes, APEC, EAEC, AFTA and ASEAN+3. In this process, we can find the comprehensive regionalism in East Asia.

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