

Edited by
Jehoon Park
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Asian Responses to the Global Financial Crisis

The Impact of Regionalism
and the Role of the G20



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Preface

This book is the product of the second conference of the Asia Economic Community Forum which was held on 7–9 November 2010 at Songdo Convensia in Incheon, South Korea. The Asia Economic Community Foundation (AECF) was established in 2008 with the goal of eventually establishing an Asia Economic Community. The main activity of the foundation to date has been organizing the annual Asia Economic Community Forum (AEC Forum) with the eventual goal of transforming that forum into ‘Asia’s Davos Forum’. One of the co-editors of this volume, Professor Jehoon Park, is Secretary General of the AEC Forum.

Even though the AEC Forum is benchmarking the Davos Forum as its model, the conference was initiated by academics with the participation of business and political leaders. The theme of the forum is ‘Creating One Asia Together’. In 2010, the theme of the second conference was ‘Post Crisis New World Order: Asia and G20’ considering the fact that the G20 Summit was to be held in Korea on 11–12 November right after the forum. In that sense we could say that the second AEC Forum became a pre-G20 forum.

There were three plenary sessions: ‘Grand Debate About the 21st Century Capitalism’, ‘Grand Compromise among the US, China and the EU’ and ‘Grand Dialogue between Asia and the West’. More than 1300 official participants actively shared their interests and views concerning the future of Asia and the roles of the G20. There were 25 sessions where more than 80 papers were presented. This book collects the 14 best papers from among those 80. The three co-editors of this volume are all core members of the AEC Forum.

This book deals with various issues related to Asian responses to the global financial crisis. It focuses on two aspects. One is regionalism in Asia. The other is the G20. Many Asian countries actively participate in the G20 as member countries. So the G20 is becoming a global institution showing the increasing powers and roles of Asian countries in global issues. While interest in regional integration and regionalism in East and Northeast Asia has been increasing recently, most publications have been written in national languages and hence are limited in their inclusion and in their audiences. Some are written in English, but mainly by Western

scholars. This book includes contributions by Asian scholars as well as Western writers. The book also has a unique feature in that contributions are made from an interdisciplinary approach covering economics and political science. The book deals with various issues such as the World System analysis, the debate over the Washington Consensus versus the Beijing Consensus, the roles of the G20, the roles of middle powers like Korea and Australia, and applications of European experiences to Asia as well as perspectives of each country from the region and perspectives from outside the region (the United States).

Jehoon Park, T.J. Pempel and Geng Xiao 2012

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1. Northeast Asia in the multipolar world-system

Immanuel Wallerstein¹

1.1 INTRODUCTION

The period of United States hegemony in the world-system is now definitively at an end. The slow decline since the 1970s was transformed into a precipitate decline brought about by the self-defeating tactics of the presidency of George W. Bush (Wallerstein, 2007a).

We are now living in a world-system in which there are emerging eight to ten centers of relative geopolitical autonomy. The word ‘relative’ should be underlined. The four strongest such centers are located in what is sometimes called the global North. The first three are in my opinion the United States (which continues of course to be an extremely strong power center, if far less powerful than previously), Western Europe (based on the critical France–Germany tandem) and Russia. The fourth such center is Northeast Asia, by which I mean China, Korea and Japan, the group meeting here as the Asian Economic Community.

The strength of these four centers can be measured by the overall combination each one has assembled of military strength, economic strength, and political and ideological strength. The proportion of each of these factors is of course different for each of the four, but each combination adds up to considerable strength. The relatively autonomous centers in the global South are no doubt less strong overall than these four. Nonetheless, the geopolitical power of each is not negligible. And together, even without any collective organization, they are likely to play an increasingly important geopolitical role.

A world of eight to ten relatively autonomous geopolitical centers is, almost by definition, chaotic. In such a situation, no one center can thrive in isolation or in arrogant disregard of the others. Each therefore is forced to seek to maintain and improve its relations with other centers. The question for each is, with which other centers?

We are at the stage where all the centers are seeking to maintain relatively good relations with all the other centers. This is of course impossible

in any medium term, but this is a fair description of the current policies of the multiple eight to ten centers. In addition, none of these centers is internally unified in a very stable fashion. All are torn by conflicts, not only about their internal structures but also, perhaps especially, over what they believe ought to be their global strategy.

In this kind of situation, what we are witnessing is a constant zigzagging of these centers, both internally and in their relations with other centers. Indeed, the zigzagging is so intense that those who seek to analyze what is going on are in very little agreement. We are regularly being offered quite opposite and often fast-changing appreciations of the world situation – by the governments, by the media and by public opinion in general. This is why what is going on merits the label of a chaotic situation.

No one likes a chaotic situation. It breeds intense anxiety and therefore often a quite unreasonable degree of anger and lashing out at scapegoats. How may we expect those in positions of state power to handle this kind of chaotic situation?

Their first consideration will clearly be to look for ways to strengthen their own hand vis-à-vis other centers. This means trying simultaneously to deal with internal divisions and to find the particular paths that will augment their comparative standing in the world-system. This is not at all an easy task for governments. And the missteps of the governments quite frequently lead to strong reactions from their own public opinion, which expresses itself in different forms in the various centers of geopolitical power. In none of them is it easy to be an incumbent in power because public opinion rapidly blames the incumbents, even for matters beyond the power of the incumbents to control. Worldwide, there is a low level of public tolerance for their own governments.

I propose to discuss the five arenas in which this chaotic turbulence will play itself out in the short run, by which I mean the period up to 2020: (1) internal strains within each geopolitical center; (2) economic prospects of each center – growth, employment and polarization of distribution; (3) currencies; (4) the military sphere: wars, nuclear proliferation and extra-national military bases; and (5) choice of primary geopolitical alliances. I shall here discuss these arenas not from the perspective of each of the centers but primarily as seen from the perspective of Northeast Asia.

1.2 INTERNAL STRAINS WITHIN NORTHEAST ASIA

I have previously written on this matter in an article I published in a Korean journal in 2007 (Wallerstein, 2007b). I will therefore only briefly

summarize my position. Of all the four principal geopolitical centers, the situation is most complicated in Northeast Asia. That is because we are dealing with three countries that have as yet no formal common structure, not even a confederal structure like the European Union. Of the three countries, both China and Korea are still trying to achieve national unification. And the degree of unresolved historical anger and grievances among the three countries continues to weigh heavily over the region.

Despite all of this, I am convinced that there exists great structural pressure for far closer relations among the three countries in the period to 2020. This is because the medium-run prospects for each separately are heavily dependent on their ability to reach viable political compromises among the three. I think it is fairly clear that, without such political compromises, each of the three will find itself weaker on the world scene and therefore find itself hampered in its ability to achieve better conditions for its citizens and a more stable base for the future.

Nonetheless, achieving a degree of political integration among the three will be no easy task. While relations between the authorities in Taiwan and the People's Republic of China (PRC) are much better than previously, a full political accord (perhaps mirroring somewhat the accord that was achieved between Hong Kong and the PRC) does not yet seem imminent. The joining together of the two Koreas seems even more difficult. Both sides want unification – and do not want it, fearing its consequences. Finally, the bilateral relations of China and Japan, and of Korea and Japan – again while better than previously – remain subject to considerable abrupt ups and downs, which escalate unexpectedly and sometimes with great passion.

What then do I mean by structural pressure to integrate further? There is first of all a strong economic logic to further integration. I believe that, for each of the three, the most advantageous trade and investment partners are each other, and that this is borne out by the economic trends of the first decade of the 21st century. Secondly, nationalism is a potent force that impels opinion within divided China and divided Korea, especially as the ideological differences of the Cold War fade considerably. Thirdly, overcoming the historic anger between China and Japan and between Korea and Japan will become easier as time goes by, with the fading of active memories as a result of generational change.

Perhaps I paint too rosy a picture. Perhaps none of these structural pressures will be sufficient to transform the situation by 2020. But if they do not, the geopolitical prospects of Northeast Asia will be less than if they do.

1.3 ECONOMIC PROSPECTS

I have suggested three different variables to consider: growth, employment and polarization of distribution. We all know the summary picture of recent economic growth. Japan seemed to be doing phenomenally well in the 1970s and 1980s, and then suddenly slowed down. China, by world comparative standards, has done remarkably well since the 1980s, and particularly in the first decade of the 21st century. Korea never quite matched either of the other two at their height, but on the other hand it has consistently done reasonably well throughout the whole period, having weathered the storm of 2007–10 better than many countries.

So, for the pundits, there was a time when everyone was predicting that Japan would come to dominate the world economically, and now many of these same pundits are saying the same thing about China. I have no doubt that by comparison with, say, the period 1945–1970 all of Northeast Asia has improved its overall economic strength considerably. The consequences are visible in the construction of infrastructure and buildings, in the stores, and in the standard of living of a large segment of the population – that segment usually referred to as the ‘middle class’ (or classes).

Permit me nonetheless to be a bit skeptical of the permanence of the growth rates. Large spurts in growth rates have been a frequent occurrence in the 500-year-long history of the modern world-system. There have always been some countries that profited more than others from the economic expansions and contractions of the world-economy. Still, no country has ever maintained a very high growth rate indefinitely. And many countries that experienced high growth rates during one period came to have serious reversals in these rates in later periods.

Maintaining the high growth rates of the past decade in the next decade is, in my view, dependent on the overall state of the world-economy. Producers need customers. And I do not think that the number of customers (the worldwide effective demand) looks promising at the moment. I think myself, and have regularly argued, that the so-called ‘Great Recession’ is really a world ‘depression’ out of which we are not going to emerge quickly (Wallerstein, 2010).

In any case, I think it is a mistake to measure economic health by gross national product (GNP) or gross domestic product (GDP) or growth rates. Economic health is first and foremost a function of rates of full-time employment at levels of remuneration above so-called poverty lines.

What we need are figures that most governments and analysts do not collect. The numbers of persons who are chronically unemployed are almost always underestimated because we usually count only those who are actively seeking work. Those who are totally discouraged because of

chronic lack of success in finding work tend not to be counted. These are to be found in two main categories: young, relatively unskilled persons for whom no work is in fact available; and skilled persons over 40 years who have lost their employment and cannot find new employment because of their age, or who can at best find employment at much lower levels of skill and remuneration.

Then there are the people who are underemployed. And then there are the people who must work 70 hours a week or more in one job or more in order to obtain a minimum level of income. And finally there are the fake employed, who perform little or no work and are in fact thereby receiving financial transfers without contributing to the collective welfare of the community.

All of this is well known. But what it adds up to is the fact that the remarkably high worldwide unemployment rates of the moment, which will probably increase by 2020, are a vast underestimate of the real numbers of unemployed. Quite aside from the social and political consequences of this worldwide high rate of unemployment, the direct economic consequence reinforces the problem of insufficient effective demand to which I already referred.

Finally, there is the issue of the polarization of distribution. Whether we use Gini coefficients or other measures, it is clear that the polarization has increased considerably since the 1970s, and is increasing still. This is particularly true of those parts of the world-system that have been showing high growth rates, such as Northeast Asia. Of course, this has not only affected Northeast Asia. Even in those parts of the world-system that for political reasons have had relatively low polarization, such as Western Europe, the pressures on state revenue that have resulted from the depression in which we have found ourselves have led to attempts to curtail the so-called welfare state, and thereby increase the internal polarization of distribution.

Once again, quite aside from the social and political consequences of increased polarization, the economic result is to increase still further the problem of effective demand. In any medium term, less polarization is not only morally desirable but also economically efficient. The world has not been moving in that direction, either as a world-system or within the various states.

1.4 CURRENCIES

Currencies are a very particular economic problem, for currencies are the one true win-lose relationship. Whatever the merits of revaluing or

devaluing a particular currency, these merits only are wins if others are losers. Everyone cannot devalue simultaneously. It is logically impossible and therefore politically meaningless.

Once again, the world situation is well known. We have been living in a world in which the dollar has been the reserve currency. This of course has given the United States a privilege that no other country has. It can print its currency at will, whenever it thinks that doing so solves some immediate economic problem. No other country can do this; or rather no other country can do this without penalty as long as the dollar remains the accepted reserve currency.

It is also well known that the dollar has been losing its value in relation to other currencies for some time now. Despite the continuing fluctuations, the curve has been downward for perhaps 30 years at least.

The countries of Northeast Asia have pursued currency policies that other countries have criticized. Indeed this is the subject of constant media attention. However, to be fair, it is by no means easy to establish the wisest policy at the moment, even from the selfish perspective of each country. For example, a special 2010 issue of *International Relations of the Asia-Pacific* (10(3)) has the title 'A Post-American East Asia? Networks of Currency and Alliance in a Changing Regional Context'. The authors do not at all agree about either the prognosis or the policy recommendations.

I consider the underlying issue to be simpler than the convoluted explanations of most policy analysts. I start with a few assumptions. The status of the dollar as the reserve currency of the world-system is the last major advantage that the United States has in the world-system today. It is therefore understandable that the United States will do what it can to maintain this advantage. In order to do so, it requires the willingness of other countries (including notably those of Northeast Asia) to use the dollar not only as a mode of calculating transfers, but also as something in which to invest their surpluses (particularly in US treasury bonds).

However, the exchange rate of the dollar has been steadily slipping. This means that surpluses invested in US treasury bonds are worth less as time goes by. There comes a point at which the advantages of such investment (the principal advantage being that it sustains the ability of US enterprises and individual consumers to pay for imports) will eventually be less than the loss of real value of the investments in the treasury bonds. The two curves move in opposite directions.

The problem is that which is posed in any market situation. If the value of a stock is falling, owners will want to divest before it becomes too low. But rapid divestment by a large stockholder can impel a rush to divest by others, thus causing even greater losses. The game is always to find the elusive moment to divest that is neither too late nor too soon, or not

too slow but not too fast. This requires perfect timing, and the search for perfect timing is the kind of judgment that quite frequently goes awry.

I see this as the basic picture of what is happening and will happen with the US dollar. It cannot continue to maintain the degree of world confidence that it once enjoyed. Sooner or later, economic reality will catch up with it. This may happen in a five-minute shock or in a much slower process. But when it does, the key question is, what happens then?

There is no other currency today poised to replace the dollar as a reserve currency. In that case, when the dollar falls, there will be no reserve currency. We shall be in a multipolar currency world. And a multipolar currency world is a very chaotic world, in which no one feels comfortable because the constant swift shifts of exchange rates make minimally rational short-term economic predictions very precarious.

The former managing director of the International Monetary Fund, Dominique Strauss-Kahn, publicly stated in 2010 that the world was plunging into currency wars, whose outcome 'would have a negative and very damaging longer-run impact'.² One real possibility is that the world may revert (it seems to me, is already reverting) to *de facto* barter arrangements – a situation that is not really compatible with the effective functioning of a capitalist world-economy.

1.5 THE MILITARY SPHERE

My picture of short-term currency chaos is, if anything, less uncertain than the short-term world military picture. Let me start by saying that I see no country as being interested in deliberately starting a major military conflagration. But local and regional wars can be very draining, especially if they are basically unwinnable, like the United States and North Atlantic Treaty Organization (US–NATO) war against the Taliban in Afghanistan.

What the first decade of the 21st century has demonstrated beyond doubt is that the United States military machine is at one and the same time fantastically and overwhelmingly strong, and essentially useless for serious military victories. The basic problem for the United States is simple. It can bomb anything anywhere all it wants, but really winning wars is done on the ground with human troops. And there is no way that the United States can politically assemble the necessary number of trained troops to win such wars, even if it has the collaboration – the uncertain collaboration – of allies.

Since withdrawing troops, once engaged, has severe negative consequences both internally and geopolitically, the wars once launched drag on and on. The costs for the United States are enormous economically,

and sooner or later in this world depression will seem too great to US voters and their politicians. Just as currency wars lead to protectionism, so unwinnable, expensive wars lead in the direction of isolationism. There is no obvious way for the United States to resolve its dilemmas without a serious further loss of geopolitical clout.

One major consequence of this decline in US geopolitical power is the undermining of the entire antiproliferation process. When the Nuclear Non-Proliferation Treaty (NPT) was signed in 1968, it was intended that possession of nuclear weapons be limited to the five permanent members of the Security Council. Three countries immediately refused to sign the treaty – Israel, India and Pakistan – and promptly in the succeeding years all three countries became nuclear powers.

It is true that for a while following the signing of the NPT, a number of countries that had previously launched programs did dismantle them. But once the so-called Cold War between the United States and the Soviet Union came to an end, many of these countries began to reconsider their decision. As of today, we know that North Korea has nuclear weapons, and Iran seems clearly en route to obtaining them.

Is this all? I do not believe so. The genie is out of the bottle, and the race is on – first of all here in Northeast Asia. Despite all the public denials, and internal disputes on the issue in each presently non-nuclear state, I believe that South Korea, Japan and Taiwan are all going to start such programs, and may indeed have achieved them by 2020. Furthermore, there are other countries around the globe that will do the same. My guess is that by 2020 or 2025, there may be perhaps 20 nuclear powers.

I am neither advocating this nor denouncing it. I am merely predicting it. Indeed, I personally am in favor of total nuclear disarmament, but I see no reason to believe that this is a politically realizable scenario in the short term or even the middle term.

There is a mild but persistent hysteria about the terrible consequences of such proliferation. I believe the hysteria is much exaggerated. One can make a good case that the mutual deterrence of the United States and the Soviet Union was a stabilizing pillar of the world-system for 40 years. I think one can make the same case for the consequences of India and Pakistan both being nuclear powers.

There are of course dangers in proliferation. The one most frequently evoked is that non-state actors might purchase, steal or otherwise acquire such weapons, and proceed to use them. Perhaps. But even without any further proliferation, this danger exists, and I am not sure that it becomes greater with further proliferation.

The second danger is that a rogue military figure might launch an attack despite specific orders to the contrary. I do not discount this either.