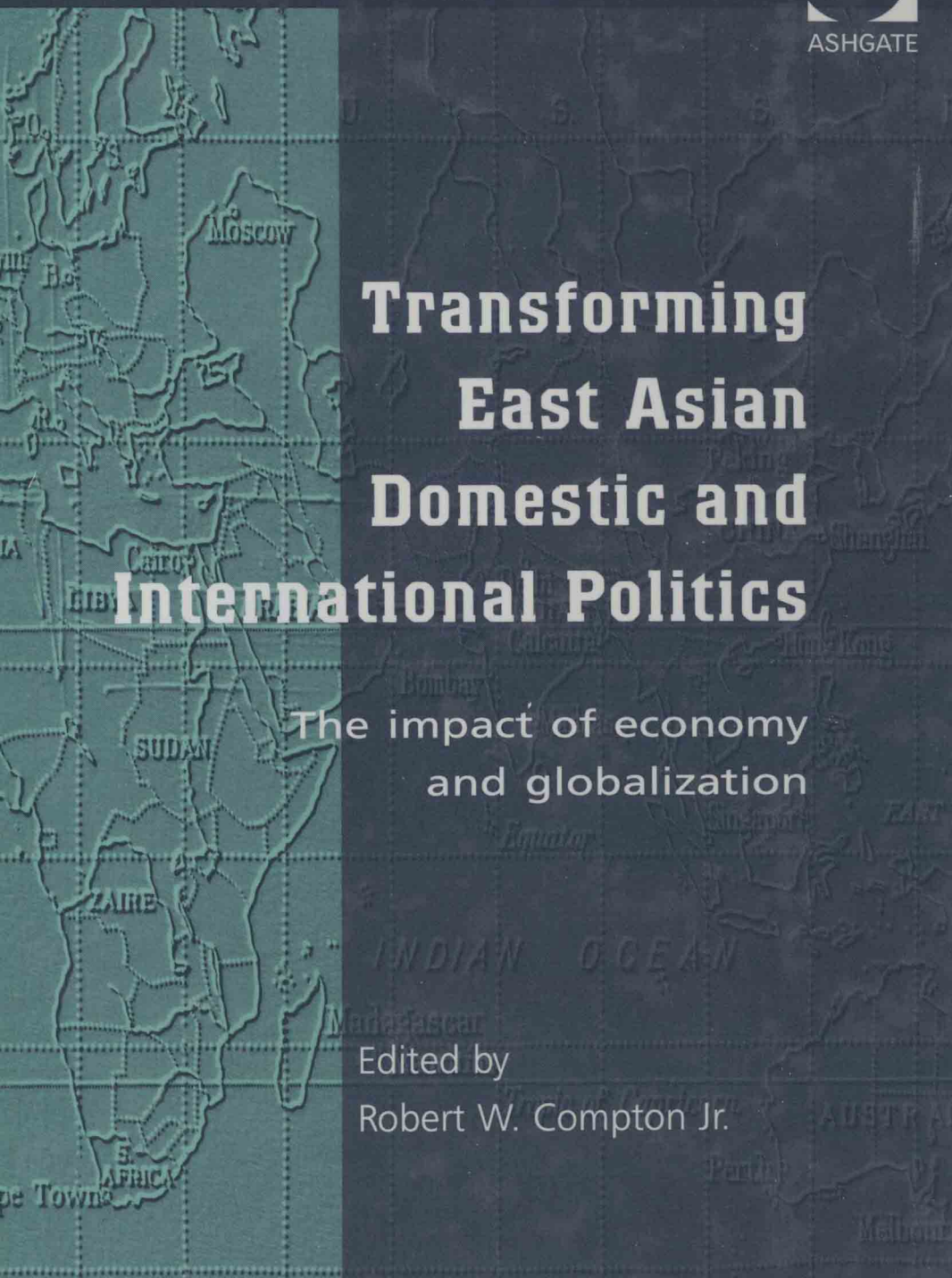


THE INTERNATIONAL POLITICAL ECONOMY OF NEW REGIONALISMS SERIES

a
ASHGATE



Transforming East Asian Domestic and International Politics

**The impact of economy
and globalization**

Edited by
Robert W. Compton Jr.

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The Impact of Economy and Globalization

Edited by
ROBERT W. COMPTON, Jr.
State University of New York at Oneonta

Ashgate

List of Abbreviations

ADB- Asian Development Bank
AID- (US) Agency for International Development
AIDS- Acquired Immune Deficiency Syndrome
AMS- Agreement on Maintaining Security (Indonesia –Australia)
APEC- Asia Pacific Economic Cooperation
APODETI- Timorese Democratic People's Union
ASEAN- Association of South East Asian Nations
AU- Asian Union
CGIAR- Consultative Group on International Agricultural Research
CIS- Commonwealth of Independent States
COP3- Convention of Climate Change
DAC- Development Assistance Committee (OECD)
EAF- East Asian Forum
EDCF- Economic Development Cooperation Fund (Korea)
EIA- Environmental Impact Assessment
ELI- Export Led Industrialization
EPA- Economic Planning Agency (Japan)
EU- European Union
FAO- Food and Agriculture Organization
FDI- Foreign Direct Investment
FFYP- First Five-Year Plan
FRETILIN- Revolutionary Front for an Independent East Tuinr
GATT- General Agreement on Trade & Tariffs
GDI- Gross Domestic Investment
GDP- Gross Domestic Product
GEF- Global Environmental Fund
GLF- Great Leap Forward
GNP- Gross National Product
ICJ- International Court of Justice
IGO- Inter-governmental Organization
IMF- International Monetary Fund
INTERFET- International Force East Timor
ISD- Initiative for Sustainable Development
ISI- Import Substitution Industrialization
IT- Information Technology
ITTO- International Timber Trade Organization
JBIC- Japan Bank for International Cooperation
JICA- Japan International Cooperation Agency
JOCV- Japan Overseas Cooperation Volunteers
KOICA- Korea International Cooperation Agency
LDC- Less Developed Countries
LDP- Liberal Democratic Party
MFA- Minority of Foreign Affairs
MINURSO- *Mission des Nations Unies pour le Referendum au Sahara Occidental*
MITI- Ministry of Int. Trade & Industry
MPT- Ministry of Post & Tele Communications (Japan)

NGO- Non-Governmental Organization
 NIC- Newly Industrialized Countries
 NIDL- New Int. Division of Labor
 OAS- Organization of American States
 OAU- Organization of African Unity
 OCS- Ordinary Least Squares
 ODA- Official Development Assistance
 OECD- Organization for Economic Cooperation and Development
 OECF- Overseas Economic Cooperation Fund (Japan)
 OLS- Ordinary Least Squares
 PRC- People's Republic of China
 RDMHQ- Rapidly Deployable Mission Headquarters
 RIGHRO- Regional Inter-governmental Human Rights Organization
 RIGO- Regional Inter-government Organization
 RMB- Renminbi (Chinese Yuan)
 SAARC- South Asian Association for Regional Cooperation
 SEZ- Special Economic Zone
 SOE- State-owned enterprise
 UDT- Timores Democratic Union
 UNAMET- United Nations Mission in East Timor
 UNAVEM III – United Nations Angola Verification Mission
 UNDP- United Nations Development Program
 UNEP- United Nations Environment Program
 UNMOGIP- United Nations Military Observer Group in India & Pakistan
 UNOMIG- United Nations Observer Mission in Georgia
 UNOSOM- United Nations Operations in Somalia
 UNTAET- United Nations Transitional Administration in East Timor
 WTO- World Trade Organization

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Dedication

In memory of Robert W. Compton, Sr. (1932-2001)

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Chapter 1

Introduction: Globalization and the Changing Nature of East Asian Politics

Robert W. Compton, Jr.

Introduction

In September 1998, a group of comparative and international relations scholars gathered for a panel at the American Political Science Association meeting to discuss the impact of globalization on East Asian domestic and international affairs, with the express purpose of bridging the gap between international relations and comparative politics. Based on the papers from that panel and through a process of competitive solicitation, nine papers became the basis for *Transforming East Asian International and Domestic Politics: The Impact of Globalization*. All scholars at the panel expressed a concern about the lack of integration between comparative politics and international relations in particular as they pertain to East Asia.

This chapter explores the theme of globalization and its impact on the conduct of international relations and the processes of domestic politics. It explores why domestic actors can no longer assume an insular political environment as they have in the past. In fact, throughout the world, domestic and international actors continuously receive stimuli to adjust their approaches in the conduct of domestic and international affairs. Furthermore, globalization leads to a proliferation of non-state actors as well as new issues. Old security issues, for example, take on new and altered realities, while new issues involving Acquired Immune Deficiency Syndrome (AIDS), environmental protection, and creating human rights norms become intertwined with issues of state security and the conduct of foreign affairs. Globalization's ubiquitous presence reflects a new reality for both state and non-state actors today. No policy maker can ignore or underemphasize its role in shaping or altering the course of public policy.

Globalization and the Nature of Power

A variety of definitions regarding globalization exist but most of them concentrate around notions of political economy, based especially on the

increase of global trade and the role of transnational corporations. Thomas Friedman (2000, 7) defines globalization as:

the inexorable integration of markets, nation-states and technologies to a degree never witnessed before— in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, and deeper and cheaper than ever before, and in a way that is also producing a powerful backlash from those brutalized or left behind by this new system.

While many dispute the notion of a globalized economy, even skeptics seem to agree about the increased extent of internationalization. They refuse however, to assuage the notion of uncontrollable markets (Hirst and Thompson, 1996). Clearly, markets do not translate into the unequivocal death of the state, rather the emergence of a much more complicated system in which the state continues to play an important role.

As many of these chapters demonstrate, the state's power has both declined and increased simultaneously in the era of globalization. Clearly, the ability of the state to control international events and trade declined with the advent of increased transnational corporate activity and the rise of political entities with supranational powers including the World Trade Organization (WTO), the European Union (EU), and the International Court of Justice (ICJ). However, states developed the opportunity to influence and affect the outcome of numerous trade, health, and environmental issues in other countries, regions, and the entire globe through international cooperation, both bilateral and within the auspices of these international and supranational organizations.

At the same time, NGOs and interest groups, whether oriented toward domestic, regional, or global issues have both benefited and experienced difficulties as a result of globalization and the associated communication revolution. Not only have they become crucial in carrying out some of the objectives shared by states, they have also benefited from the moral and financial support of multilateral institutions. Thus, NGOs became a more active part of international relations during the era of rapid globalization and now form the core of addressing issues involving human rights, the environment, development issues, and women's rights.

Globalization and the Asian Political Economy

In the 1950 and early 1960s, many economists considered the East Asian economies as 'basket cases'. Import substitution policies and the lack of natural resources prevented them from exploiting comparative. Most East Asian countries lacked natural resources and a highly industrialized

economy at that time. However, since then, many governments developed a strategy known as 'guided development' using the power of the state to economically develop. Many scholars discuss, in detail, the strategies of the developmental state (Woo-Cumings 1999; Johnson 1995 and 1982; Wade 1990; Amsden 1989; and Deyo 1987).

During the 1960s to the late 1990s, the developmental state provided the initial and often ongoing catalyst for economic development. While the impact of government on economic development varied from country to country— with the government playing the greatest role in South Korea and arguably the least in Hong Kong— many political scientists and sociologists recognize some major commonalities involved in the development of the entire regional economy. The successful ingredients for the rapid economic development of East Asia consist of:

- Targeted government subsidies to potentially successful industries;
- Protection and nurturing of infant industries;
- Emphases on the creation of a banking system with high levels of national savings;
- Use of traditional values to maintain political quiescence, curtail social welfare spending, and establish enterprise unions;
- The use of financial incentives and the manipulation of traditional symbols for maintaining the dominance of the ruling elite.

At the same time, many Asian states experienced a historically unprecedented psychological and economic sense of crisis resulting from the Cold War, or in the case of Japan, devastation from World War II. The siege mentality prevalent among the masses, hyped up by governmental speeches and policies spurred increased production from workers in South Korea, Japan, and Taiwan. Even in Indonesia, Malaysia, and Thailand, governments emphasized traditional values to maintain order in creating an environment wherein economic growth flourished.

Unlike much of the developing world, Asian economies performed well because they tapped into the global capitalist economy and benefited from an international division of labor that allowed labor-intensive production to shift away from the industrialized nations and toward those with low labor costs. Gradually, with increased value-added production, Japan rebuilt its economy after the war, and South Korea, Hong Kong, Taiwan and Singapore become industrialized nations.

All of this could not have occurred without the development of two integrated developments, one at the global scale and the other at the regional one. At the global level the Cold War coupled with the dramatic expansion of 'free trade' among the non-Communist systems promoted the economic development of Asian nations. With the United States locked in a Cold War battle with the Soviet Union, the US placed military security

over economic security. As a result, it allowed the developmental state to thrive and ignored violations of 'free trade' principles provided these countries continued to resist communism and maintained solidarity with the Western camp. At the same time, the various rounds of GATT opened up the American markets more so than Asian ones. Clearly, however, the openness in trade manifested itself to a greater degree in the West than in an economically fragile Asia that lacked strong military security. In sum, the politically dammed up world, to adapt Thomas Friedman's terminology, coupled with an economically freed-up world allowed Asian states to maximize both economic and political security.

Secondly, the Asian economies, on a regional scale developed a high level of integration and division of labor as a subset of the international economy. In the 1980s, as the value of the Japanese yen increased in response to large trade surpluses, many firms sought to cut labor costs and transplant production to countries including South Korea, China, Taiwan, Indonesia, and Malaysia. As a result, a vast and comprehensive regional Japanese network of production and finance developed (Katzenstein and Shiraishi, 1997; Hatch and Yamamura, 1996). Under the rubric of Association of Southeast Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC), Japan and other East Asian countries worked to coordinate economic policies and foreign direct investment (FDI), especially from Japan (Pempel, 1997). In particular the Japanese, and to a lesser degree the South Korean, government began a concerted effort to provide foreign aid and fund capital projects throughout Asia. In addition, both governments began to encourage FDI into Southeast Asia as a vital part of its foreign policy initiatives. The end result was a more integrated Asian economy, with a commensurate division of labor with Japan and to a lesser extent Singapore and Hong Kong producing the highest value-added items and services, with South Korea and Taiwan a tier below, and the next group consisting of Malaysia, Thailand, Indonesia, and the Philippines producing much of the lowest value added products for export. Hong Kong and Japan became the primary financing source for expansion into the last tier. The end result was increased intra-Asian trade and Asian exports to the West with high levels of profitability for bankers and large multinational corporations.

The end of the Cold War altered the fundamental structures of the East Asian regional economy and produced profound alterations in states' domestic politics and foreign policies. As some of the chapters discuss, it created an environment leading to the demise of authoritarian systems that could no longer be maintained through the umbrella of anti-communist symbolism. Internationally, the end of the Cold War resulted in increased attention paid to 'low politics' of trade and democratization by the US and

other regional foreign policy leaders, such as Japan and China, rather than issues of potential full-scale nuclear war. In other words, the United States and Western Europe, faced with its own economic problems of deindustrialization and perceived decline in national competitiveness, became less tolerant of the mercantilistic orientation of developmental states. The establishment of the Super 301 system, which targeted selected countries for retaliation for unfair trade practices, and the introduction of a European free-trade zone, meant more scrutiny on the practices of East Asian states and greater difficulty in penetrating new markets.

Impact of Globalization on Asian Domestic Politics

The stages of globalization impacted Asian domestic politics in two ways. First, it empowered specific domestic actors (such as the bureaucracy, the corporations, and social movements) and weakened others (including the military and some traditional political institutions). Asian states' interaction with external forces and interests created a much more complex political environment domestically. Second, globalization shaped the contours of democracy as East Asian countries experienced democratic transition and consolidation (Compton 2000a and Compton 2000b). Due to globalization, norms of acceptable behavior by the military and governmental entities and that of citizens experienced a systematic transformation.

Empowering and Weakening Actors

Throughout the Cold War period, an expansion of trade took place that impacted Asian politics in many ways. When the Cold War ended, corporations, a new middle class, and a plethora of special interest groups provided additional pressure and stress to the old existing political system. What actors became empowered in each of the two respective stages of globalization? Why did some actors do better than others? And what brought about the weakening and strengthening of actors in each stage?

At the beginning of the Cold War and in the early stages of political and economic development of East Asia (1950-75), authoritarian systems characterized the domestic environment throughout Asia. With the exception of Japan, where an ostensibly 'democratic' system existed, all political systems experienced some level of bureaucratic authoritarianism. To varying degrees, the military in collusion with the bureaucracy and a dominant party created by them dominated politics. As long as the elite could generate a modest and sustained level of economic growth through

state activities, these actors strengthened their power. At the same time, independent unions, students, political leftists, and corporate leaders that sought to exercise influence from without the existing system or curtail and challenge the power of the existing elite were systematically weakened.

The insular developmental state took advantage of the increasing globalization of trade and simultaneously used the Cold War and the communist threat to its advantage in order to maintain domestic political tranquility. Those who opposed the regime would protest, demonstrate, and sometimes engage in violence, but that only sparked the harsh backlash of the authoritarian state. As long as the ruling elite, consisting of some variation of the military, bureaucracy, and the ruling party continued to derive benefit from the system and simultaneously maintain legitimacy in the eyes of the majority through economic growth and the use of traditional values, the system remained in equilibrium. By 1975, Taiwan, South Korea, Thailand, Indonesia, Singapore, and the Philippines could not be considered liberal democracies. In all cases, political development of parties atrophied. In Japan, the military did not assume any significant role in policy making, but the bureaucracy and the ruling Liberal Democratic Party (LDP) maintained a strong grip over politics.

After the demise of the Bretton Woods system, the United States' loss in Vietnam, and the Oil Crisis of the middle-to-late 1970s, Asian domestic political and economic systems received a severe externally produced shock. Asian economies experienced economic tribulations including inflation, temporarily reduced exports, and higher unemployment. However, these external events also created the foundation for the second stage of globalization by promoting the increased free-flow of currency by the use of floating exchange mechanisms, advances in free trade as evidenced by the Uruguay Round of GATT, and the need for corporations in the advanced industrialized nations to maximize their earnings by shifting production abroad. In particular, Japanese firms became active in seeking opportunities to lower labor costs by creating transplants in all countries, but especially in Southeast Asia and China. The sudden influx of FDI and the advantages that domestic corporations derived through increased openness upset the existing domestic political equilibrium.

During the 1980s and 1990s, the domestic political environment changed significantly as the previously authoritarian systems liberalized. One by one the bureaucratic, military, and dominant party elites received significant challenges. Challenges came from a new emerging middle class, more militant students, opposition politicians, and a new corporate elite that benefited from increased globalization and had become independent of the ruling elite. The previously powerful *ancien regimes* increasingly lost legitimacy as they could no longer maintain control over