THE EAST ASIAN ECONOMIC CRISIS: THE HAZARDS OF UNCHECKED GLOBALIZATION

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INTRODUCTION

The Research paper aims at analysing the post-Second World War developments in East Asia which contributed to the rise of Japan as an economic and industrial power followed by the emergence of 'Asian Tigers' and other NICS in the region which until recently were considered as economic model for the rest of the developing countries of the world.

The paper analyses the effects of the two major wars, the Korean war and the Vietnam war fought in the same region by the two superpowers through their proxies. The U.S involvement spread over a period of a quarter of a century transformed the whole region in terms of its security and economic development. The post-Vietnam Japanese engagement in the region had its own impact. The paper also analyses the consequences of Japanese involvement in the region after the U.S. withdrawal from the area.

It also attempts to examine the emergence of global market forces in the early 1990s which opened the flood gates for the short term foreign finance capital with most destablizing consequences leading to economic crash in the most of the countries of the region.

Growth of the East Asian Economic
Phase I: Cold War Years

In the period immediately after Second World War the region in which these countries are located faced tremendous social and political problems. Their economics were in shambles and had few dollars in reserve to pay for the import of food, capital goods and raw materials required to get their economics back on track.

However the situation was completely transformed by the outbreak of Korea war in June 1950. The war extended the Cold War from Europe to Asia and forced U.S. to clearly define and defend what came to be called as the "Asia Rimland". The immediate beneficiary of this U.S. military engagement in the region was Japan.

Two developments are quite important which contributed significantly to massive increase in Japan's dollar income and paved the way to Japan's rapid industrial modernization. Firstly, Japan's income through U.S. special military procurements to support its war efforts in Korea rose from zero in 1949 to nearly \$ 600 million in 1951 and \$ 825 million in 1952. Secondly, the Japanese exports which got a significant boost due to general boom in the regional and world economy caused by U.S. war spending and Europe's massive rearmament during the peak of the Cold War years went up from \$ 510 million in 1949 to \$ 1.36 billion in 1951.[1]

There is no doubt that the boom created by the Korean war and the Cold War bid the foundations of Japan's economic success and its emergence as the major regional economic power.

Besides Japan, the two other beneficiaries of U.S. aid during this period were South Korea and Taiwan. These two countries were viewed by U.S. as vital bulwarks against the spread of Communism in the region. Between 1951 and 1965 Taiwan received \$ 1.7 billion in economic aid with over 80 percent in outright grants and \$ 2.4 billion in military aid almost all in the form of grants thus financing 80 percent of its imports.

Similarly between 1953 and 1969 South Korea received \$ 4.2 billion in economic assistance and \$ 4.1 billion in military aid from U.S thus financing almost 70 percent of all its imports. All this contributed significantly to the expansion of infrastructure including education in the two countries, which led to the emergence of relatively skilled labour force.

The Korean war had also direct impact on the economies of other countries of the region. As the Cold War reached its peak both the super-powers, U.S. and the Soviet Union began to build up stockpiles to support their proxy wars. This led to a marked rise in the price of a number of strategic raw materials. The price of natural rubber rose four fold and that of tin doubled. The major beneficiaries were Malaya (later Malaysia) which was the largest producer of rubber and tin, and Singapore which was the main trading port for these two commodities. Thus, the consequences of Korean war boom for Malaysia and Singapore in terms of bolstering their economic and social infrastructure were very similar to the consequences of U.S. aid for Taiwan and South Korea.

As the Cold War confrontation in Korea was coming to an end, the conflict in Vietnam began to escalate. Thus the second major war in the same region proved to be nearly as significant for region's overall economic development as the Korean war had been. Four countries, Thailand, South Korea, Taiwan and Singapore were major economic beneficiaries of this turn of events. Thus, under its strategy of containment of Communism, U.S. placed greater emphasis on the provision of increased economic and military assistance to the countries of the region. As a counter-insurgency measure to defeat the guerilla warfare in many countries of the region, the increased U.S. military and economic aid was aimed at bolstering their internal security and improving social and economic infrastructure.

Thus, Thailand was considered to be the key facto in the containment of Communism is South East Asia. Thus, the "Thai Boom" during the 1960s and 70s was mainly due to U.S. aid and construction and maintenance of military bases and tremendous increase in its export to South Vietnam during the war.

For Taiwan and Singapore the significance of Vietnam war was not so much in terms of aid, as in terms of opportunities created for increased exports to Vietnam and other countries of the region.

The consequences of U.S. geo-strategic involvement in the region therefore, were three fold. First, the economies of the region (South Korea, Taiwan, Singapore and Hong Kong) were transformed and greatly benefited either directly or indirectly by American commitment of containment of Communism.

Second, the Cold War, U.S. containment policy and U.S. aid together played a significant role in the expansion of institutional state in the region. Thus, by the early 1970s a common feature of many countries of the region was relatively "strong state", with well trained and reasonably competent bureaucracy capable of shaping and implementing economic policy.

Third, the U.S. involvement and the Cold War generally helped various states of the region to be relatively autonomous of the societies they governed. This gave rise to the emergence of authoritarian regimes in the region, having little consideration about the social and political rights of their people.

Phase-II Japan's Role

As U.S. involvement in Vietnam declined by the early 1970s, Japan began to replace the U.S. as region's most important source of investment and aid. In the late 1960s as the Japanese lifted restrictions on the exports of its capital, its Foreign Direct Investment (FDI) went into manufacturing in its former colonies of South Korea and Taiwan, and into securing greater supplies of raw materials in South East Asia. Consequently, Japanese FDI between 1972 and 1976 into South Korea was more than four times than that of U.S. During the decade 1976-86 the pace of Japanese investment increased in the region, with its manufacturing companies moving into NICS and resource-extraction companies concentrating on Indonesia.

However, beginning in 1986 there was massive increase in the amount of Japanese FDI in the region. During the 1980s as the U.S. trade deficit with Japan was consistently rising the G-5 Central Bank under U.S. pressure signed the Plaza Accord in September 1985. Under the Accord the U.S. sought to reverse the trade deficit by appreciation of the value of Yen and lower the value of dollar. This raised the price of the Japanese exports. As a consequence a number of Japanese manufacturing companies were forced to relocate outside Japan. Initially South Korea and Taiwan were considered the most attractive for establishing manufacturing bases. But as the South Korean and Taiwanese currencies also began to appreciate the ASEAN region became significant alternative. The ASEAN became attractive distinction for Japanese FDI for three reasons. First, ASEAN was geographically closer and Japanese companies already had some knowledge of the region. Second, the recession of 1985 and 1986 had prompted ASEAN governments to open up their economies and seek out more FDI as means of financing future growth. Third, Japanese companies found that Singapore, Thailand and Malaysia has reasonable level of economic infrastructure, fairly well-educated populations, and relatively efficient bureaucracies and stable governments interested in export oriented industrialization. The bulk of the investment was in manufacturing sector. But Japan was not the only major investor in the region. Like Japan as the currencies of NICS began to appreciate, their export became more expensive. Moreover with the rise in wages and the removal of U.S. Generalized System of Preferences (G.S.P) which allowed their goods to enter the U.S. market at lower tariff rates, the NICS companies were also forced to look for relocating their production bases in lower cost countries in order to compete internationally.

The massive wave of Japanese investment followed by NICS investment in the region had significant impact on the region's trading pattern particularly rapid increase in the intra-regional trade.

Causes of the Present Crisis

What went wrong with the East Asian economics which had witnessed rapid economic growth during the 1970s and 1980s, as one analyst called "the financial equivalent of nuclear holocast".[4]

The causes go as far back as early the 1970s when the liberalization of financial flows took place. The post-War Bretton Woods System designed by the U.S. and U.K to liberalize trade while regulating capital movements was dismantled by the Nixon administration. This was a major factor in the enormous explosion of capital flows in the years that followed. In 1970, 90 percent of transactions were related to trade and long term investment the rest were speculative. By 1995 it was estimated that 95 percent of transactions were speculative most of them very short term (80 percent with a return time of a week or less).[5]

In South East Asia the crisis started during the early 1990s. It was financial liberalization which boosted Asian stock markets and European and American fund managers discovered emerging markets. In the U.S. an economic boom combined with low interest rates, released a torrent of money looking for high returns. Funds and Banks from depressed Japan and recession bound Japan were also tempted by the high profit margins of South East Asia, as the interest rates were high and risk very low because currencies were pegged to the dollar.[6]

The fundamental problems which led to the crisis in these Asian countries are many. Firstly, it was the existence of too much productive capacity. Secondly, this excess capacity was largely built with loans from Asian banks. These banks raised money in foreign currencies, often in dollars because dollar interest rates were low and their currencies were pegged to the dollar. This excess capacity created pressure on their currencies leading to the depreciation of their currencies.[7]

Thirdly, another cause of the problem was the application of the so-called Japanese model. The main elements of the Japanese model highlevel of savings, hard work and investment held at home with funds being allocated by government decision markers, not by markets, have been adopted by South Korea and other ASEAN economies. The problem with Japanese model is that when investment go had banks become insolvent which led to the crisis in the banking sector which turned insolvent.[8]

The other common factors one said to be a mix of corruption, crony capitalism, greed, bad governance and unchecked globalization, that engulfed the whole region's solid economies built on years of hard work and prudent investment.[9] According to Professor Paul Krugman of the M.I.T in his article in Foreign Affairs, "the Asian miracle was no miracle but only the result of heavy savings, high investment, low wages harsh working conditions, good education and ample skills in paternalistic society with largely authoritarian regimes.[10] But since the wages started rising and working conditions improving and they were running short of indigenous labour, the tiger economies could not be as aggressive abroad as they were in the past.

However, most of the easy money in the form of short-term foreign capital through imprudent investment went into real estate and expansion of projects with excessive productive capacity which could not be consumed domestically or internationally owing to increasing competitiveness of the market due economic liberalization. According to IMF chief Michel Camdessus, markets began "to look more critically at weaknesses they had previously considered minor or atleast managable given time. The result was sudden reversal of easy money that foreigners had handed out to South East Asia. The loss of confidence led to a panic akin to a bank run as every one rushed to get their money out".[11] Thus the Asian crisis was caused by the panicking out flow of international capital rather than any fundamental weaknesses. Another factor which Camdessus mentioned was the lack of transparency. "Market doubts were compounded by a general lack of transparency. In the absence of adequate information markets tended to fear the worst."[12]

But the IMF prescriptions to over come the crisis have been severely criticized by many leaders of the region, especially Dr. Mahathir Mohammed of Malaysia. He particularly blames foreign speculators for the crisis and termed currency trading immoral. In addition to above factors, the sudden exposure of these economics, which had maintained fixed exchange rates and tight monetary control over the years to the rapid pace of economic and financial liberalization in a global market place during the 1990s struck a devastating blow to the economics of these countries.

CONCLUSION

The economic crisis faced by the East Asian countries caused unfettered capital flows and effects of globalization is spreading to other countries of Asia and will ultimately be felt in the West. Most of the countries have begun taking counter measures much as some kind of controls on capital movements, to offset the disastrous effects of the growing tide of globalism. But the less resourceful nations are at the mercy of the global market.

Enabled by the information revolution the global market allows the near instant flow of funds to determine who if any one will prosper and who will suffer. Unlike the poor nation, however, the United States, Japan, and Western Europe if it acts as a unit under monetary union, can resist the global market at tolerable cost.[13]

There is almost unanimity of views among the developing countries regarding the negative effects of unchecked globalization. This was evident from the general debate in the current session of the UN General Assembly. While summing up the debate regarding economic development and globalization, the President of the Assembly said that "in nearly every statement made during the debate speakers expressed explicitly or implicitly, a concern about the economic inequalities of states, poverty and the effects of globalization."[14]

Since there is no global government, the global market cannot be regulated like national markets. Nor can any national market resist it with impunity. The world must devise some mechanism to regulate the flow of capital movements to avoid any repitition of the financial upheaval of the 1930s.

The Globalism had lost its place as the world economy's unassailable logic. Its fall from grace is a step towards a more diverse community of nations that is no longer so included to look West-ward for leadership. We may eventually have a world divided into discrete economic blocks among globalization's lasting consequences.

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