

**THE POLITICAL ECONOMY
OF EAST ASIA**
STRIVING FOR WEALTH AND POWER

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Introduction

East Asia is important for students of world politics. For scholars of international political economy (IPE) who study the interaction of power and wealth in the international system, East Asia is a force to reckon with in the global economy. It comprises Japan and China, two of the largest economies in the world, and dynamic economies such as South Korea, Taiwan, Singapore, and Malaysia. East Asia now engages in almost 30 percent more trade than the United States, Canada, and Mexico combined—the three countries in the North American Free Trade Agreement (NAFTA)—while trailing the twenty-five-member European Union (EU) by less than half.¹ East Asian economies have taken turns leading the world in speed of economic growth: Japan in the 1960s; Taiwan, South Korea, Hong Kong, and Singapore in the 1970s; the Association of Southeast Asian Nations (ASEAN) in the 1980s; and China since the early 1990s. Collectively, East Asia grew faster than any other region in the world prior to the Asian financial crisis in 1997–1998. Despite the financial crisis, East Asia remains a dynamic economic region paced by China's high growth. From a historical perspective, Asia's postwar rise is on par with the rise of Europe and the rise of the United States. With a recent turn of IPE toward the interaction of domestic and international politics in research focus, East Asia offers ample and diverse experience of how domestic politics helps shape the policies in production, trade, exchange rates, and development and how the global market forces and international institutions in turn affect East Asian domestic politics.

East Asia is also important for students of comparative political economy and historical sociology, who study the formation and consequences of institutions from a comparative and historical perspective. East Asia had a unique set of political and economic institutions historically. East Asian institutions of political economy have evolved, converging in some areas and diverging in others between themselves and from other regions in a global context. Thus, the East Asian experience serves as a corrective to a Eurocentric bias in how people normally understand the evolution of global political economy. To begin with, political economy—often defined as the study of interaction between the state and the market—has been informed mainly by the European experience of state formation and capitalist

expansion. Recent scholarship on the origin of East Asian political economy rejects the simplistic notion that the region's modern transformation was defined by Western pressure and Asian response and suggests a more complex picture of Westerners also adapting to preexisting commercial networks and political entities in East Asia. As East Asia and Europe interacted in a wider global market, studies of East Asian IPE shed light on what was unique and universal in both regions. Moreover, studies of the Asian economic miracle and the Asian financial crisis have highlighted the central role of the state in shaping the market, for good or ill.

Students of East Asia should be familiar with the political economy approach. To understand East Asia, one needs to understand the economic driver of the region in the past and present. Current scholarship of East Asia still has a politics-in-command bias, not sufficiently taking into consideration the underlying and transformative power of economic forces, particularly in the past few decades.

East Asia is a diverse and complex region, with deep historical and cultural roots and varied political, economic, and social practices. East Asian studies are thus necessarily and rightly interdisciplinary. But this interdisciplinary nature does not mean that textbooks have to be interdisciplinary. A "little bit of everything" approach may cover much ground and provide abundant useful information, but it will not help students grasp the basic dynamic of the region. While one may enter the field of East Asian studies from any discipline, this book considers a political economy approach particularly attractive. After all, many recent students are attracted to Asian studies because of the economic dynamism of the region. Moreover, political economy offers an elegant way to deal with complex issues in a way that connects with studies of other regions, and it provides analytical tools to study the interaction of domestic and international politics and to study supranational economic interactions.

Ultimately, the book portrays the ongoing drama of East Asian states striving for wealth and power given domestic and international constraints and opportunities. Their successes or failures have been a principal force shaping modern East Asian history. The book thus adopts an evolutionary and regional perspective on East Asian political economy. East Asia has experienced profound transformations. Some countries in the region have changed far more than Western nations in a few decades, from empire to communism to state capitalism. What happens at crucial junctures affects the institutions formed, which in turn affect economic performance.

The East Asian drama plays out, often differently, in the arenas of production, trade, finance, and exchange rates. Thus, unlike most other texts on East Asian political economy, which are essentially comparisons of the political economy of major individual countries in the region, the second part of this book focuses on economic issues, using an organizing scheme typical of an IPE textbook.

WHAT IS EAST ASIA?

East Asia is defined in the book as a region as shown in Map 1.1. It includes North and South Korea, Japan, and Taiwan. The region can be divided into mainland (China, North Korea, and South Korea), island (Japan and Taiwan), and Southeast Asia (Thailand, Laos, Vietnam, and Cambodia), and South Asia (India, Pakistan, Sri Lanka, and the Maldives). Singapore, Indonesia, Brunei, and the Philippines are also included.

From a political economy perspective, East Asia is divided into four groups. Japan is a first-rank mature industrialized economy. South Korea and Hong Kong are second-rank mature industrialized economies. The third group includes Singapore. The fourth group comprises the mainland Southeast Asian countries: China, Vietnam, North Korea, Cambodia, Laos, and Thailand. Each country has its own style of socialism, belongs to this group.

One cannot avoid being arbitrary in defining a region. A regional subsystem may be defined by its geographical proximity, pattern of interaction, and political and economic integration. That India, Australia, or Russia should be included or excluded depends on the context.

MAP 1.1
East Asian Countries and Their Neighbors



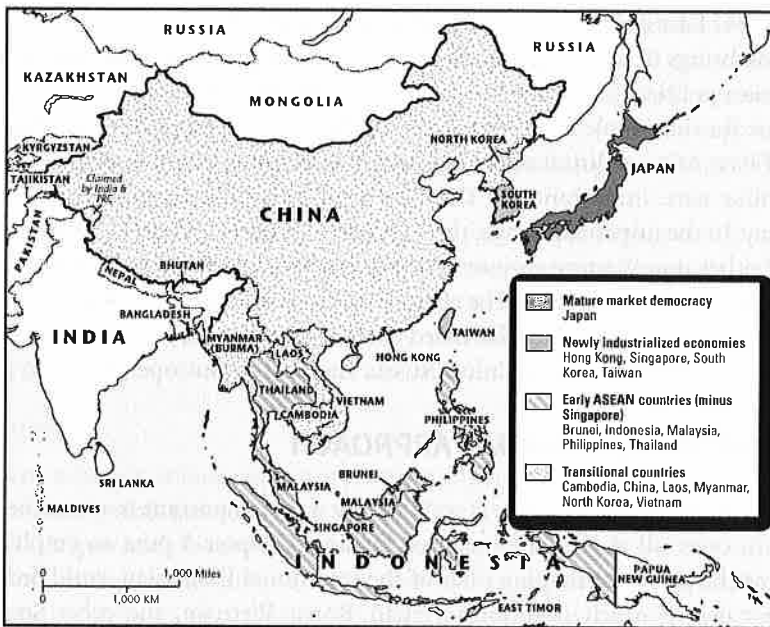
WHAT IS EAST ASIA?

East Asia is defined in the book as a region that stretches from Japan to Myanmar, as shown in Map 1.1. It includes Northeast Asia and Southeast Asia. Northeast Asia can be divided into mainland (China and the two Koreas) and maritime regions (Japan and Taiwan). Similarly, Southeast Asia can be divided into mainland (Myanmar, Thailand, Laos, Vietnam, and Cambodia) and archipelago (Malaysia, Singapore, Indonesia, Brunei, and the Philippines).

From a political economy perspective, East Asia may be divided into four groups. Japan is a first-rank mature market democracy. Then there is a second group of newly industrialized economies, namely South Korea, Taiwan, Singapore, and Hong Kong. The third group includes the early ASEAN countries minus Singapore. The fourth group comprises the socialist countries in transition, namely China, Vietnam, North Korea, Cambodia, and Laos. Myanmar, which follows its own style of socialism, belongs to this group.

One cannot avoid being arbitrary in deciding which countries should be included in a region. A regional subsystem may be determined by dozens of attributes such as proximity, pattern of interaction, and recognition.² For East Asia, one may argue that India, Australia, or Russia should be included for historical, economic, or

MAP 1.1
East Asian Countries and Their Political Economy Classifications



geographical reasons. Some would also argue that the United States should be included as well, given its security presence and economic significance in the region. Another major challenge to an artificial region is the boundary problem, as students of international relations have long recognized. In fact, some scholars show that the frontier is where the action is.

I consider East Asia a distinct region spanning from Japan to Myanmar for the following reasons. First, East Asia has been characterized by a high degree of interdependence and dense transactions between countries in a region over several dimensions.³ Second, people generally recognize East Asia as a distinct region. Third, we cannot cover too many countries.

This book discusses the United States, a key player in the region. The U.S. military presence underlies the economic structure in East Asia. The United States is the largest final market for East Asian exports and is the main source of technology and investment capital. The United States remains the dominant player in international financial institutions such as the World Bank and the International Monetary Fund. But the United States is not an East Asian country. Rather, it is a North American and Pacific country that has a global presence. Conversely, even though Japan has considerable influence in Latin America, it would be absurd to call the country Latin American. In short, we will see East Asia as a distinct economic region, with the United States or other players included where and when they are relevant. It is necessary, in fact, because East Asia is part of a global political economy.

Although the book is about East Asia, we need to put it in a comparative, global perspective. East Asia is best understood in comparison with other regions, thus the book brings in other regions when it is necessary. In discussions of traditional East Asian political economy, the reference is the West. I compare East Asia with the West for the simple fact that the rise of the West was important for the evolution of East Asian political economy. At the same time, nomadic peoples bordering China were important for the nature of the Chinese system of political economy. In the imperialist stage, the East Asian response is briefly compared with that of other non-Western regions. The key is state capacities, and adaptability, to deal with the external stimuli. The chapter on the East Asian miracle contrasts East Asia with Latin America. Less discussed comparisons can also be made with South Asian nations and the Soviet Union/Russia and Eastern Europe.

THE POLITICAL ECONOMY APPROACH

The main purpose of the book is to highlight a few important issues rather than trying to cover all angles in a balanced fashion. Chapter 3 puts an emphasis on China as the principal shaping force of the traditional East Asian world order and does not give as much attention to Japan, Korea, Vietnam, and other Southeast

Asian nations or to diverse experiences Asia with the West but does not discuss South Asia, or Africa. Chapter 4 emphasizes the West and Japan but does not give detail on East Asian endeavors. Chapter 5 focuses mainly on successful but not on failed states such as Myanmar and crisis states without looking more closely at them.

Aside from the focus on the issues of a well-defined political economy approach, I will introduce students to some of the prevailing political economy in the context of East Asia. The book will present different degrees, depending on the necessary space, in certain areas.

Defining Political Economy

Scholars define political economy differently. Adam Smith and John Stuart Mill treated political economy as the wealth of nations. However, Alfred Marshall defined political economy in his 1890 book *Principles of Political Economy*. Political economy has reemerged for economics and political science. For neoclassical economists, political economy is the market (failure or success) or the application of political economy to politics. Political economy basically refers to the methodology, that is, human behavior under constraint and scarcity, to political economy, particularly in IPE, political economy means political economy, which can be studied using a wide range of methods. Political economy means in this book.

Political economy has become important in international relations, and historical sociology. In the following section, I will introduce different political economy traditions and then differentiate them to clear the intellectual landscape.

Institutions

For some scholars, a rationalist approach to international politics, comparative politics, and subfields of political science in that the study of international relations is the study of strategic interaction. For international relations, the state into specific institutions and

Asian nations or to diverse experiences within China. The chapter contrasts East Asia with the West but does not discuss other regions such as the Islamic world, South Asia, or Africa. Chapter 4 emphasizes the order-creating experience of the West and Japan but does not give detailed attention to resistance to these imperialist endeavors. Chapter 5 focuses mainly on the successful economies in East Asia but not on failed states such as Myanmar and North Korea. Chapter 6 examines the crisis states without looking more closely at the economies that escaped the crisis.

Aside from the focus on the issues discussed above, the book follows a loosely defined political economy approach as an organizing framework to expose students to some of the prevailing political economy questions set in the context of East Asia. The book will present answers to these questions to varying degrees, depending on the necessary space constraint and the depth of research in certain areas.

Defining Political Economy

Scholars define political economy differently.⁴ Classical economists like Adam Smith and John Stuart Mill treated political economy as a science to increase the wealth of nations. However, Alfred Marshall removed politics from the discipline of economics in his 1890 book *Principles of Economics*. Now the term political economy has reemerged for economics and has become a mainstay for political science. For neoclassical economists, political economy means either the study of the market (failure or success) or the application of economic approach to studies of politics. Political economy basically means applying the standard economic methodology, that is, human behavior explained by individuals' rational choices under constraint and scarcity, to politics. For some other political scientists, particularly in IPE, political economy means the interaction of politics and economics, which can be studied using a wide range of methodologies.⁵ That is what the term political economy means in this book.

Political economy has become important for comparative politics, international relations, and historical sociology, all of which are important for studies of East Asia. In the following section, I will illustrate the common interest in institutions and then differentiate them to clarify where this book is located in the intellectual landscape.

Institutions

For some scholars, a rationalist approach to institutions serves as a synthesis of international politics, comparative politics, and American politics, the principal subfields of political science in that they all study actor-based institutions in situations of strategic interaction. For international relations (IR) scholars, breaking the state into specific institutions and looking at international institutions mean

that the findings and tools from American and comparative politics can be translated into the field of IR.⁶

Institutions help us understand human behavior. This is important for studies of political economy because the market and the state are institutions. Politics and economics are distinct areas of human activities. Politics is fundamentally about participation, justice, and authoritative distribution of resources, involving rights and duties. Economics deals with efficiency and wealth creation. But the institutions of the state and the market, which are central to the political and economic aspects, take on the dual nature of politics and economics. The market is political in that it provides freedoms to individuals in employment, residency, and consumption while also limiting choices. The market both makes things equal through the mechanism of competition and makes things less equal because of concentration of property holding. The market both contributes to societal order by satisfying individuals who have freedom of choice and making individuals more interdependent in a specialized society and disrupts societal order by eroding traditional values and structures. The state is also an economic institution in that it needs to be efficient in using resources and to promote economic growth for public interest.⁷

There are three basic ways to study institutions.⁸ First, the rational choice approach focuses on the consequences of institutions and views institutions as "rules, procedures, norms, or conventions designed self-consciously to determine 'who has the power to do what when.'"⁹ By contrast, historical institutionalism focuses on the origin of institutions and path dependence. Here institutions refer to "the formal or informal procedures, routines, norms and conventions embedded in the organization structure of the polity to political economy. . . . In general, historical institutionalists associate institutions with organizations and the rules or conventions promulgated by formal organizations."¹⁰ A third approach is sociological and includes cultural practices of symbols and morality in the definition of institutions.¹¹

This book uses the insight of rational choice theory to allow a coherent story of East Asian political economy. There are limits, however. Political economy takes place in time and space. Thus, it also uses historical institutionalism. By contrast, the book does not deal with cultures and traditions. This is not to deny or undermine the importance of cultures and traditions.¹² In fact, when most people think about East Asia, they often think about cultures and traditions first. That is precisely the reason why this book avoids discussion of cultures. Students of East Asia are not short on studies of symbols, cultures, and traditions from other sources.

Rational choice approach. The rational choice approach assumes that individuals are goal-oriented, rational actors who seek to maximize gains and minimize losses in a strategic environment. However, individually rational behavior may lead to a

collective action problem in that everyone is in lack of cooperation. Institutions solve the collective action problem by creating a situation in which cooperation is the only rational choice.

The rational choice approach is popular in political economy for several reasons. First, the choices matter and one cannot simply blame the government for any policies a government adopts, individuals are responsible for their actions that often contradicts the original purpose of the policy. Second, in the case when we discuss economic policies in East Asia. To have the intended results, the government must be able. Second, the West has arisen thanks to effective institutions. Countries that have effective institutions succeed while those that do not have effective institutions fail. Rational choice theory explains the presence of collective action for East Asian nations in areas such as trade, foreign investment, and the use of international regime, a standard of international political economy. The focus of the study is on how actors achieve cooperation by overcoming

Historical institutionalism. The rational choice approach emphasizes the functionality of institutions exist in the first place. But the rational choice approach has not provided a sufficient discussion of the historical explanation has been offered, which emphasizes the importance of historical factors. Some economic historians argue that timing and sequencing explain which technology does not focus on path dependence, an explanation of the stages of antecedent conditions, critical sequence, and outcome. Antecedent conditions influence the choices actors choose a policy option against all other options produced and reproduced over time; and the final resolution.¹⁶

As an example of path dependence, a cultural Revolution (1966-1976) forced China to reform at the juncture in the late 1970s. During a high economic reform and opening China to the world, the government is trying democratic reform. While the direction of the reform can imagine if alternative strategies were

collective action problem in that everyone has incentives to exploit others, resulting in lack of cooperation. Institutions exist because they overcome the collective action problem by creating a situation in which cooperation is self-enforcing.¹³

The rational choice approach is powerful for studies of East Asian political economy for several reasons. First, the approach is appealing in that individuals' choices matter and one cannot simply blame structural reasons for failures. Whatever policies a government adopts, individuals will rationally behave in such a way that often contradicts the original purpose of the policies. This is particularly the case when we discuss economic policies and when the market forces have expanded in East Asia. To have the intended results, the government policy has to be credible. Second, the West has arisen thanks to institutions such as property rights. Countries that have effective institutions to coordinate politics and economy succeed while those that do not have effective institutions perform poorly. Third, the rational choice theory explains the presence or absence of cooperation to achieve collective action for East Asian nations and East Asia as a whole. For functional areas such as trade, foreign investment, and monetary policy, the best approach is to use international regime, a standard analytical framework for studying international political economy. The focus of this literature is on how institutions help actors achieve cooperation by overcoming the collective action problem.

Historical institutionalism. The rational choice institutionalist discussion of institutions emphasizes the functionality of institutions to explain why these institutions exist in the first place. But the rational choice approach does not offer a sufficient discussion of the historical origins of the institutions. An alternative explanation has been offered, which emphasizes that the institutions we have are profoundly historical.¹⁴ Some economic historians have shown convincingly how timing and sequencing explain which technologies come to be selected and that the most efficient technology does not necessarily get chosen.¹⁵ This approach focuses on path dependence, an explanation that emphasizes a logical sequence of stages of antecedent conditions, critical juncture, structural persistence, reactive sequence, and outcome. Antecedent conditions offer different options for actors; actors choose a policy option against alternatives; the choice creates institutions produced and reproduced over time; and actors react to the institutions, which lead to the final resolution.¹⁶

As an example of path dependence, a deteriorating economy caused by the Cultural Revolution (1966–1976) forced China to select a different path in a critical juncture in the late 1970s. During a highly unsettled time, Deng Xiaoping selected economic reform and opening China to the outside world without any accompanying democratic reform. While the dire situation demanded drastic policies, one can imagine if alternative strategies were adopted, as evidenced by fierce policy

debates in China at the time. In the Soviet Union, Mikhail Gorbachev later chose a different path, of political reform first, whereas in North Korea, the government has dragged its feet in economic reform despite dire economic situations.

Deng's choice became institutionalized over time and thus became harder to reverse. Can China go back to the socialist planned economy adopted a few years after the People's Republic of China was established in 1949? Although some people wanted that in the 1980s, it is out of the question now. Chinese citizens largely reacted positively to reform, which reinforced it. At the same time, there were at least two related reactive sequences. One was when the citizens demanded political reform to resolve tensions arising from the economic reform. There was an opportunity for this type of political reform in the late 1980s, which was crushed in the 1989 Tiananmen Square incident. It is harder for another Tiananmen-like movement to occur now because rational actors have chosen to avoid politics and to concentrate instead on personal welfare and career, which has put most elites in the progovernment camp. Thus, political reform has become harder because elites now have a greater vested interest in stability.

The other reaction sequence comes from the many "losers" of the reform. Since they have few channels to vent, they have increasingly chosen to use often violent protests against corrupt officials. These protests lead to repression. The central government has interpreted these protests as a reason not to introduce political reform although they are willing to make marginal changes. At the same time, growing societal resentment means that leaders with populist tendencies like Chinese President Hu Jintao have sought to use societal sentiments as weapons against political rivals. The story of China's reform does not stop within the Chinese borders. The Chinese reform made it possible for other socialist countries to do the same, with both its promises and its limitations.

We need to look at the dynamics of East Asian political economy, where different national systems of political economies exist. Japan, for example, shares both similarities and differences with other advanced capitalist countries.¹⁷ This raises the question of how different national institutions originated and evolved historically. While adopting a path-dependence approach, one should not ignore politics as the driver of institutional change. Institutional change does not happen automatically.¹⁸

Power and political institutions. The rational choice approach does not have to exclude power because the practices of rent seeking and agenda control allow power exercise, but new institutionalism, borrowed from the discipline of economics, focuses on voluntary exchanges creating institutions for cooperation.¹⁹ However, the systems of political economy do not benefit all; some benefit whereas

others do not.²⁰ By contrast, historical institutions are based on power and asymmetrical relations. To understand the evolution of power unevenly among groups.²¹

The history of East Asian political economy shows how the system has evolved. Institutions have been created by the powerful, although established institutions have also shaped the powerful. At the same time, we should not adopt a functionalist approach to explain everything. Power can serve as a means to achieve a nation, strong army) and has served as a means to achieve the features of East Asian history. The West prevailed through competitive prices but based on superior technology and routes. Japan's rising power was intended to challenge the West.

The modern states did not emerge from a vacuum but in an intense political environment of external competition. In particular, military competition was a major factor in the development of political institutions in medieval and early Europe. The modern state system has not been separated from security concerns analytically and leaves a detailed discussion of the relationship between security and economic development.

Comparative Political Economy and International Relations

The boundary between comparative political economy and international relations has a meaning for many IR scholars.²³ For students of international relations, it is difficult to differentiate international political economy (CPE), and history. They are closely related because power and wealth relate to each other and political development interact, and they often overlap. The main difference is that a CPE book focuses on the relationship between a typical IPE text has separate chapters on international trade and foreign investment.²⁴

This book addresses readers of both international relations and political economy. The first five substantive chapters. Chapter 2 discusses political economy. The next four chapters discuss how international relations have interacted in East Asia and how that has shaped the performances of East Asian nations. But IR scholars also focus on the origin and evolution of the regional international relations system. Book I focus on important issues of IPE such as trade and exchange rates. At the same time, most of the chapters on politics and economics influence each other.

others do not.²⁰ By contrast, historical institutionalism gives a prominent role to power and asymmetrical relations. To be more specific, institutions distribute power unevenly among groups.²¹

The history of East Asian political economy illustrates the centrality of power in how the system has evolved. Institutions have often evolved to serve the purposes of the powerful, although established institutions also serve the interests of the weak. At the same time, we should not adopt a simplistic, deterministic model of power to explain everything. Power can serve as the motive for acquiring wealth (rich nation, strong army) and has served as a means for achieving wealth at crucial junctures of East Asian history. The West prevailed over East Asian nations not based on competitive prices but based on superior military power to control the trade ports and routes. Japan's rising power was integral to its rising economic power.

The modern states did not emerge from the state of nature. Rather, they evolved in an intense political environment of external threat and internal power politics. In particular, military competition was an important driver for economic and political institutions in medieval and early Europe.²² Similarly, East Asian political economy has not been separated from security, although the book separates the two analytically and leaves a detailed discussion of East Asian security to other texts.

Comparative Political Economy and International Political Economy

The boundary between comparative and international politics has lost much meaning for many IR scholars.²³ For students of regional affairs in particular, it is difficult to differentiate international political economy (IPE), comparative political economy (CPE), and history. They deal with similar questions, namely how power and wealth relate to each other and how economic development and political development interact, and they often use similar analytical tools. One superficial difference is that a CPE book focuses more on country comparisons, whereas a typical IPE text has separate chapters on issues such as trade, exchange rates, and foreign investment.²⁴

This book addresses readers of both CPE and IPE. While the book does not attempt an impossible neat division of labor, it is more consistent with CPE in the first five substantive chapters. Chapter 2 compares East Asian national systems of political economy. The next four chapters focus on how the state and the market have interacted in East Asia and how that is related to the different paths and performances of East Asian nations. But IR scholars should also be interested in the origin and evolution of the regional international system. In the last part of the book I focus on important issues of IPE, namely production, trade, finance, and exchange rates. At the same time, most chapters include a section about how politics and economics influence each other in a particular issue.

The State and the Market

The state and the market are central concepts for IPE, which explains why people often view IPE as simply the study of the interaction between the state and the market.²⁵ The state, as Margaret Levi defined it, is "a complex apparatus of centralized and institutionalized power that concentrates violence, establishes property rights, and regulates society within a given territory while being formally recognized as a state by international forums."²⁶ An important component of a state is monopoly of use of physical violence. Levi included formal recognition to differentiate states from other organizations that utilize violence. This is relevant for East Asia because Taiwan is recognized by most countries in the world as an economy rather than a state.

A central question for East Asia as well as for other regions is how to create a strong government to collect revenues to defend the country and build necessary infrastructure without preying on the society.²⁷ It is conceivable that a government may mobilize resources based on nondemocratic principles but offer society something in return. The question is whether that is sustainable in competition with advanced democracies. One important lesson of East Asia is that how predatory a state is makes a major difference for nondemocracies.

Well-functioning political institutions are needed for economic development, but formal institutions are not creations that come along automatically. Government officials need to have credibility in order for the population to have confidence in the state goals and behave accordingly to advance public interests.²⁸ East Asian governments tend to be more effective than their counterparts in the developing world. A study of the East Asian experience, both successes and failures, helps us understand this issue.

The market refers to a meeting of people at a particular time and place to buy and sell goods and services. Studies of political economy of the market tend to focus on market failures while emphasizing the positive role of the market for the economy and politics. The market failure refers to an insufficient supply of public goods caused by individuals' rational preference to free ride on others.

While people have the basic inclination to trade goods and services, a well-functioning market does not automatically spring into action. If the market is not automatic, the state has a role to play during the transition period. It would be unwise therefore for a transitional economy to simply leave everything to the market that is yet to be created. This is a major point in the debate over the Asian development model. Intellectual merit aside, we simply cannot understand East Asian economy without understanding the role of governments, for good or bad.

Economic Growth Versus Political

Another important political economy and political regimes or institutions, for example, a correspondence between empire, as Chapter 3 will show. Seymour Martin Lipset argued that a higher stage of economic development tends to lead to stable democracies. However, Samuel Huntington subsequently argued that countries tend to have stable democracies, but political instability, which makes authoritarian government for the transition in authoritarian economies such as East Asia, support that argument. But as Taiwan has shown, after they reached a more developed stage, the basic thesis holds.

The source of a country's economic growth and political development. For example, it is the active relationship between mineral wealth and economic growth. An example is Indonesia in the 1960s, which is an economically deterministic view. Resnick and Wolff argued that Indonesia. A large number of interventionist causal tendencies of economic factors tend to lead to authoritarianism.

Conversely, the type of political institutions has significant economic consequences. Douglass North argued that the Western world resulted from the development of property rights. Economic growth needs property rights to engage in activities that allow themselves to be organized. Moreover, one needs governments that protect some property rights for their own political interests. Mancur Olson argued that democracies are more stable than narrow or predatory interests, which are more likely to be replaced.

Power of Ideas

One's ideas about the proper role of the state and political or economic objectives are important in modern East Asian international politics. Historical mission to catch up with the West is more than rationalized interests. This book argues that the meaning of power and wealth are determined by ideas.

Economic Growth Versus Political Regime

Another important political economy question is how economic development and political regimes or institutions interact with each other. One may suggest, for example, a correspondence between agricultural advance and the Chinese empire, as Chapter 3 will show. Seymour Martin Lipset pointed out in the 1950s that a higher stage of economic development makes democracy more likely.²⁹ However, Samuel Huntington subsequently argued that while developed countries tend to have stable democracies, the process of economic development leads to political instability, which makes it likely and even necessary to have an authoritarian government for the transition period.³⁰ Fast economic development in authoritarian economies such as Taiwan and South Korea appear to support that argument. But as Taiwan and South Korea eventually democratized after they reached a more developed stage of high-tech and information, Lipset's basic thesis holds.

The source of a country's economic wealth is also believed to help shape its political development. For example, it is often suggested that there is a mostly negative relationship between mineral wealth and the quality of a political system.³¹ An example is Indonesia in the 1960s and 1970s. However, we should not have an economically deterministic view. Resource-rich Malaysia did not do as badly as Indonesia. A large number of intervening variables increase and ameliorate the causal tendencies of economic factors.

Conversely, the type of political institutions of a country has different economic consequences. Douglass North and Robert Thomas argued that the rise of the Western world resulted from the development of an efficient economic organization. Economic growth needs property rights that give individuals incentives to engage in activities that allow themselves as well as the whole society to benefit. Moreover, one needs governments that protect property rights without selecting some property rights for their own political needs, which would hinder growth.³² Mancur Olson argued that democracies make decisions to encompassing rather than narrow or predatory interests, which explains economic growth.³³

Power of Ideas

One's ideas about the proper role of the state and the market and how to achieve political or economic objectives are important. Ideas are particularly important in modern East Asian international political economy because of these countries' historical mission to catch up with the West or with each other. Ideas are more than rationalized interests. This book shows that ideas of power and wealth, both the meaning of power and wealth and how to achieve power and wealth, are a

main driver of East Asian IPE. The idea of power and wealth will be studied along three dimensions: the relationship between the state and the market, the relationship between borrowing from outside and learning from one's own experience, and national versus regional ideals.

On a more instrumental level, the concrete ideas of how to get things done are important in explaining governmental policies. Some of these ideas have been borrowed from outside or inside the region. The East Asian development model has a strong ideational dimension. Similar East Asian countries also have different ideas about how to deal with a situation. The different paths taken by Malaysia vis-à-vis Thailand, Indonesia, and South Korea during the Asian financial crisis is a case in point.

DESIGN OF THE BOOK

Besides this introduction chapter, the book includes ten chapters on national systems of political economy, traditional East Asian international relations, modern East Asian political economy, the economic miracle, the financial crisis, production, trade, finance, exchange rates, and regionalism.

The first substantive chapter compares different national systems of political economy in East Asia. Some features of East Asian political economy are converging whereas others are diverging, but the question of convergence versus divergence is not as important as the causal mechanisms driving convergence or divergence.

The next four chapters discuss the transformations of East Asian political economy to provide students, particularly those with limited background in East Asia, with a broad picture of the region and to expose them to the main debates about East Asian IPE at the outset. The chapters also put into context the specific issue areas discussed in the remaining five chapters, in a sequence of production, trade, finance, exchange rates, and regionalism.

Chapters 3 and 4 discuss three international orders established or attempted in East Asia for the past two plus millennia: the Chinese world order, Western imperialism, and the Japanese New Order. These were dominant features that did not exhaust the rich East Asian historical experiences, and discussion of them does not imply that these international orders were justified. Rather, these terms are meant to introduce analytical schemes, based on empirical evidence, for thinking about East Asia in a regional rather than national perspective. Not meant as an introduction to East Asian history, this book offers a selective version tracing the evolution of regional political economy. My discussion focuses on the fundamental purposes embedded in it, the interaction of politics

and economics, and the feasibility of international relations.

Chapter 3 discusses the origin of East Asian IPE, which is a corrective to the Eurocentric view of the world that this book is to follow a globally significant alternative by the Chinese world order and extensively different from the West and was advanced in the 19th century. Although the East Asian system made significant achievements in technology and organization, they could not achieve an industrial revolution like that which took place in the West. At the same time, the East Asian system was not as successful with organization and achievements that were to happen later. The internal justifications in the region and individual countries that have taken into consideration the historical and ideational context of East Asian institutions and practices in the chapter is how the nature of institutions and practices among nations affected domestic political economy.

Chapter 4 focuses on modern East Asian IPE. Chinese imperialism had an important impact on the region, to have a more powerful and faster impact on the region. It became important, and how adaptable institutions, capacity, and private and collective institutions helped to expand adaptability of the region's economy systems.

Western imperialists were driven by competition with each other, and weaknesses of the Chinese system. The motive and the capacity to subdue other nations, ideology, and technology made the fate of colonization led to a successful drive to an expanding empire project. As a latecomer to the West. Moreover, pursuing empire-building in East Asia met strong resistance of rising nationalism that was evoked and facilitated.

Wars were central for the transformation of the region and East Asian domestic political economy. The East Asian performance that was intertwined with the modern world did not start from far behind in terms of wealth. The East to the top were far more developed.

and economics, and the feasibility of these efforts to order East Asian international relations.

Chapter 3 discusses the origin of East Asian political economy. It is meant as a corrective to the Eurocentric view of the world and East Asia, and it sets the tone that this book is to follow a globally situated East Asian narrative, characterized by the Chinese world order and extensive regional trading networks. East Asia was different from the West and was advanced in agriculture, commerce, and handicrafts. Period technologies and political economies reinforced each other. Although the East Asian system made sense for their political objectives and circumstances, they could not achieve an industrial revolution similar to the one that took place in the West. At the same time, East Asian nations' previous experience with organization and achievements came in handy for the economic miracle that was to happen later. The internal justification of the political and economic institutions in the region and individual countries was important, but one should also take into consideration the historical path dependence and the social and ideational context of East Asian institutions. One important issue that I address in the chapter is how the nature of military conflict and economic competition among nations affected domestic political economy.

Chapter 4 focuses on modern East Asian political economy. Western and Japanese imperialism had an important impact on the region. Globalizing forces came to have a more powerful and faster impact on East Asia. As a result, adaptability became important, and how adaptable a country was depended on timing, institutional capacity, and private and collective interests. National systems of political economy helped to expand adaptability, which in turn affected national political economy systems.

Western imperialists were driven by commercial interests, strategic rivalries with each other, and weaknesses of the colonized. Industrialization provided both the motive and the capacity to subdue agricultural peoples. Modern organizations, ideology, and technology made the difference. Japan's effort to avoid the fate of colonization led to a successful drive to industrialization, which in turn led to an expanding empire project. As a latecomer, Japan inevitably clashed with the West. Moreover, pursuing empire-building in a different time period, Japan faced strong resistance of rising nationalism in East Asia, which imperialism both provoked and facilitated.

Wars were central for the transformation of East Asian international relations and East Asian domestic political economies. But this was a different type of warfare that was intertwined with the modern capitalist economy. East Asia did not start from far behind in terms of wealth, but the institutions that propelled the West to the top were far more developed in the West, with the effect felt only

gradually. Another key story was the different paths of East Asian nations. Japan succeeded while China, Korea, and Vietnam failed. The reasons for this difference lay in timing and the institutional adaptability.

Chapters 5 and 6 examine the big stories of postwar East Asian political economy, namely the economic miracle, the financial crash, and recovery. Chapter 5 describes East Asia's rapid economic growth with relative equity and its structural transformations from an agricultural society to an industrial one and from state control to a more market-oriented economy. The economic miracle happened whether or not one questions its sustainability. The chapter then introduces opposing economic and political economy explanations of the Asian miracle. While mainstream economists view East Asia's rapid economic growth as resulting mainly from getting the fundamentals right, others maintain that the East Asian developmental state that actively intervenes in the economy has been the main reason for the growth. The chapter also discusses the regional dimension of the East Asian miracle and the American contribution to East Asian political economy. East Asian economic growth has unleashed social and political forces that create pressure for regime change.

Chapter 6 describes and explains the Asian financial crisis, which spread throughout East Asia and beyond, with a devastating effect on several East Asian economies. The crisis resulted from a combination of volatility in the global financial market, East Asian crony capitalism, and mismatched macroeconomic policies. The crisis was largely over within two years and had a major impact on the economic policies of the regional economies, such as unusually high foreign reserves to prevent another crisis. The crisis had an uneven impact on the reform efforts of different East Asian nations.

For the issue chapters from Chapters 7 to 11, production leads the discussion for the simple reason that most East Asian countries tend to be driven by production at a crucial stage of development. I have chosen to discuss production first because it is the essence of East Asian political economy. When East Asian governments talk about exports, they talk mainly about exports of manufactured goods. Production is also fundamentally regionally and globally based, with production networks. Put together, one can see the mercantilist thinking revealed in government policies. Trade follows naturally from East Asian nations' emphasis on production of manufactured goods. Trade is a crucial factor that dominates in the thinking in East Asia. There is also a major regional dynamic to trade. East Asian nations learn from each other and compete with each other. Chapter 9 discusses East Asian finance. With regard to IPE, we know that finance has become far more significant for global economy than trade even though trade is more sensitive politically than other issues. Chapter 10 covers exchange rates. The last chapter of the book analyzes East Asian regionalism in trade, finance, and exchange rates.

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NOTES

1. East Asia, including China, Japan, South Korea, Taiwan, Hong Kong, and the ten-member Association of Southeast Asia Nations (ASEAN), had a total merchandise trade volume of \$4,753 billion in 2005. The trade statistics for Hong Kong includes only domestic exports and retained imports. By contrast, NAFTA had \$3,745 billion and EU had \$8,136 billion. World Trade Organization, *International Trade Statistics 2006*, Table 1.6 and Table 1.10 (www.wto.org/english/res_e/statistics_e/its2006_e/its06_overview_e.pdf). The trade statistics for all three regions include intraregion trade. EU now has 27 members, with Bulgaria and Romania admitted on January 1, 2007.
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