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# Globalisation, Regional Transformation and Governance —The Case of East Asian Countries—

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January 2005

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# Globalisation, Regional Transformation and Governance The Case of East Asian Countries

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## **Abstract**

This paper consists of two parts. In the first part, globalisation will be discussed from three different perspectives, namely, Hyperglobalizers, Sceptics, and Transformationalists. Taking the position of a Transformationalist, in the second part, three East Asian countries will be examined. They have reacted to the wave of globalisation in very similar but distinctive ways. In conclusion, three different countries' reactions will be compared.

Key words: Globalisation, Transformation, Governance, Regional differences



## **Introduction<sup>1)</sup>**

This paper will discuss globalisation in two parts. In the first part, many aspects of globalisation will be defined. It is necessary to do so because most of the misunderstandings of globalisation are due to a lack of clear understanding of globalisation. The main question is what the most adequate understanding of globalisation is. Three viewpoints on globalisation will be examined. They are, quoting Held's definition<sup>2)</sup>, "hyperglobalizers", "sceptics" and "transformationalists". Hyperglobalizers and sceptics hold conflicting ideas in aspects of globalisation and its influence. These positions through many aspects of globalisation will be considered. But the point we take is the view that globalisation is best described as a "transformation". Therefore, the idea of a "transformationalist" will be considered much deeper later in this article. It is important now that the impact of the globalisation is real, which is often underestimated by the sceptics, while the impact is not evenly distributed and is not always of benefit to all people in all places. It is definitely important to argue how much and in what ways globalisation influence each aspect of politics, of economy and of society.

This is the question in the second part of this article. This author would consider how have the Asian countries, in this case, China, Korea and Japan, reacted to the recent wave of globalisation. It will be argued that the impact of globalisation in politics, economy and culture is almost evenly distributed in the three countries, while their reactions towards these changes are quite different.

## **1 Globalisation as a transformation**

### **1-1 Trade and Investment: Globalisation at a first glance<sup>3)</sup>**

The first aspect about globalisation is the global market economy. Take the example of the global trade. Many products here and there are from foreign countries. Virtually no highly technological products are made by purely domestic components. In many cases, these productions are brought about by a transfer of knowledge of corporate management, technology and foreign investment from foreign countries. From the international institutions, the World Bank, or the International Bank of Reconstruction and Development had played a great role in investing in broken infrastructure in Japan and Korea after

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1) To prepare this article on "globalisation", several articles are referred to. They are Kennedy (2002), McMichael (2000) and Weber (2001).

2) Held, McGrew, Goldblatt and Perraton (1999) pp. 1-24 ("Introduction")

3) For more details, see Ibid, pp.236-282 ("Corporate Power and Global Production Networks")

the Second World War. Now both countries are investors towards developing countries rather than beneficiaries of those aid packages. Rapid growth and the change of private companies from domestic champion to multi-national companies (MNCs) has a distinctive role in the recent investment flow all over the world. In the case of car companies, both Japanese and Korean car companies such as Toyota and Hyundai are facing not only domestic competition but also much more severe competition in the global scale. It is almost impossible to keep domestic car market limited to domestic companies. Foreign companies also participate in the domestic market. In the time of globalisation, a car market as well as a car companies cannot avoid participating in global competition. The company needs more and more investment in other countries and needs to sell those products globally. This is also true in other sectors.

At this time, it is important to notice that the investment will not only increase the flow of international trade but also create an infrastructure of economy<sup>4)</sup>. This becomes more and more important at this time, especially in order to understand the differences among Asian countries. However, massive flows of money, products and information are not sufficient to understand the meaning of globalisation since those are an observatory fact rather than a reason or a cause which enables and promotes the process of globalisation.

## 1-2 “Infrastructure” of Globalisation

The first aspect of globalisation is concerning transport infrastructure. The cost of movements of goods and people to foreign countries has been decreased drastically in the past century. It was virtually impossible for ordinary people to go to the United States fifty years ago because of visas restrictions, time and costs. Furthermore, the ordinary person might not have a positive reason to go to foreign countries except in particular cases. But now, as previously stated, international trade plays a central role in the macro economy, and people have to go around the world to maintain these flows. The movement of people creates further demand for the international trade. This is an accelerating circle of how a development of transport technology affects the prerequisite of the recent globalisation.

In the same way, the development of information technology is one of the most significant infrastructures which enables the process of globalisation<sup>5)</sup>. In other words, the Internet has a great impact on the exchange of information both quantitatively and qualitatively. An enormous amount of information of all kinds is exchanged at great speed which had never been possible before.

The third infrastructure is an ideal thing. It is not really common to use the word

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4) Ibid, p.19.

5) See Cochrane and Pain(2000) p.17.

“infrastructure” in this way, but there are very similar functions to affect many aspects of globalisation. It is quite easy to observe that the idea of market economy is predominant in the world economy. According to Biersteker<sup>6)</sup>, these are characterised by the change of economic thinking, namely from Keynesian to the neoclassical economics. The “Triumph” of neoclassical economics between the 1970s and 1980s has brought the sudden and dramatic transformation of economic policy in the world. Facilitation of international trade, financial liberalisation and opening the domestic market to foreign companies are a basic part of economic policy which countries with a neo classic economic thinking have taken since the change of the status quo. In general, the role of state economic intervention in the economy has to be reduced and redirected while the role of market has to be increased under the neo classical economic regime. These are the fundamental conditions which have created the world economy now.

It is still a point of discussion whether or not these infrastructures constitute sufficient conditions to create the process of globalisation, but at least it is true that these are the necessary conditions of globalisation. These infrastructures facilitate flows of goods, people and money among all over the world. In sum, the rapid increase of trade, investment and information along with movement of people are the principal characteristics of globalisation, and those features have been facilitated by the new technologies, such as the Internet and transport technology. The fundamental shift to and convergence on the neoclassical economic ideology is also an undeniable.

### 1-3 Three Viewpoints of Globalisation<sup>7)</sup>

However, there are many points of view how globalisation is evaluated, in other words, whether or not globalisation is good or bad. Since the Seattle WTO Ministerial meeting (Summit) in 1999, we have seen many radical and hostile reactions against international movements, particularly against the IMF and WTO. Some argue that the globalisation is harmful to many people in developing counties in Asia and Africa. It harms them because global trade is an unequal system by which only developed countries are benefiting. They see the IMF and the WTO as facilitators of global inequality or as agents of the United States rather than as a mechanism of global governance, which is expected to regulate radical and benefit-driven multi-national companies in order to level those inequalities<sup>8)</sup>. This argument itself has some quite interesting points and they are

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6) See Biersteker (1992).

7) This part of argument is based on Held, McGrew, Goldblatt and Perraton (1999) and on Giddens' argument on Giddens (1999).

8) UN's attempt to involve social action is one of example. See Global Compact (<http://www.unglobalcompact.org/>).

worth spending some time considering. However, this paper will take a more fundamental argument, whether the globalisation really exists or not. In this argument, the first position is called the Hyperglobalizers and the other the Sceptics.

#### 1-4 Hyperglobalizers

For hyperglobalizers, the global economy has a significant impact on all aspects of society and politics. The keyword on this position is “borderless economy”, which means the border does not define the area of economic activity in the global era. The border itself had been an essential element of the traditional nation state. There is a nation state because its area is strictly defined by its border. To cross its border with a hostile attitude is an act of war in political terms. But in a global economy, or in the borderless economy, it is necessary to run a business in foreign countries in order to take an advantage of selling a product for a different price or of using higher skilled labour. This global competition is partly or mainly due to the liberalisation of trade. Under the circumstances where the foreign products are easily imported from the other countries for a cheaper price, the domestic companies have to be competitive in terms of price, of quality and of quantity. In this sense, it is a rational behaviour of private companies to shift their location of production and of marketing. In this respect, the hyperglobalizers share a conviction that economic globalisation is constructing new forms of social organisation, such as multi national companies which sometimes exceed a nation state in economic scale. The services such as education and social benefits, which the nation-states have provided to their citizens are no longer monopolized by the nation states. Economic liberalisation enables the private companies to supplant, or even produce a new type of services for its customers. The cases of private insurance, of health care and of telecommunications are recent examples but fifty years ago, it was quite difficult to imagine private TV programmes, private postal services. These examples mean that the replacement of the role of nation-states by private companies has progressed in the long term, but it has rapidly advanced in these ten or fifteen years<sup>9)</sup>. The hyperglobalizers focus on this replacement of the nation state by private companies. It is partly true that the replacement is possible or even better than before, since some private companies can mobilise much greater capital and human resources than the nation states, while because of incentives to their interest, the private companies are much more energetic to supply their services and products. It is actually quite difficult to imagine a service that definitely must belong to the nation states only. Police and army would be the primary examples of this case, but it is still possible to pay police officers and soldiers through a market mechanism,

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9) For many examples, see Yergin and Stanislaw(1998).

where private companies have a chance to compete against the nation state. Of course this is an extreme example, but the simple lesson of this example is that the role of private companies is increasing through the global market. As mentioned before, the market is borderless and is becoming literally global. The nation states would become more and more inadequate to regard as a superior unit of economics, politics an even of society<sup>10)</sup>.

### 1-5 Sceptics

Against these hyperglobalizers are the sceptics. They strictly rely on economic statistics and reject the ideas of hyperglobalizers as “myth”. The sceptics argue that the extent of contemporary globalisation is wholly exaggerated. In some sense, the amount of global trade has been increased significantly. But the sceptics argue that the increase has happened in particular parts of the world, such as Europe, Asia-Pacific and North America. Inside these trade blocs, it is true that the amount of international trade has been increased, but between them, or outside of them, the world economy is even less integrated than it once was. It is still true that the foreign direct investment towards African and Asian developing countries has played an essential role to improve the standard of living. But the sceptics would argue that the flows of foreign investment are concentrated among the advanced capitalist states and that most multinationals remain primarily creatures of their home states and regions. For example, a European company retains its economic activities in France or maybe in one or two countries in the EU area but not in Asia. Possibly they do some business where they have historical connections, such as former colonial countries, but that is far from an act of globalisation. For sceptics, the power of national governments or state sovereignty is not undermined by economic internationalisation, because the international society is still a place where national governments are the major players. For many people in the world, the MNCs in the United States are much less important for their lives than the Department of State. In many cases, it seems impossible for the private companies to take over the role of the Department of State. It may be true that the mere size of economic activities has become much bigger than ever before, but the area where the companies act is very limited, far from the area of national governments. For the sceptics, people still rely on the role of the national governments.

For hyperglobalizers, there is one truly global language, namely English. It is a language by which most academic works are published, a language which most helpers in a tourist office are expected to speak. English is also a language which is taught as the first foreign language in most parts of the world, due to the exchange of people and

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10) It is often said “nation state is too big to cope with small problem, too small to cope with big problem”.

information. In an opposite way, the sceptics would argue that the use of English is very limited in a part of society in certain parts of the world. In other words, they might argue that one can use English, but it will never take over the position of principle language. One learns English as a foreign language. This means that we keep domestic languages as before while English remains the “second language” no matter how important it is. In the case of Europe, it is still difficult to find an ordinary person with fluent English in France or Germany, because they strictly keep their own language and because in some sense, both French and German are international languages. In these countries, English is far from a global language. In Netherlands, Belgium or Luxembourg, where the countries are small and influenced historically by surrounding great powers, there are more people who speaks English as a kind of common language of all. However, they use many languages and that is very different from using only English. The sceptics would argue that English as the global language is another myth.

#### **1-6 Transformationalist**

In both case, it is important to mention that both positions of the debate concentrate on the argument whether the nation state is replaced by the global economic activities or not. In other words, they ask whether or not the nation state is an adequate actor now to cope with problems at the moment. However, these questions could not be answered because the definition of “nation states” varies from author to author and because the impact of globalisation is not even in different places at different times. In short, it is impossible to compare globalisation and its benefits in the United States and globalisation and its discontent in Asian countries. This is part of the reason why the third position of the debate is necessary. The position is called “transformationalist”.

The heart of the transformationalist thesis is a conviction that globalisation is a central driving force behind the rapid social, political and economic changes that are reshaping modern societies and world order. Now, we have seen some aspects and the basis of globalisation at the beginning of today’s lecture. The transformationalist would not reject those factors. The massive changes in society, politics and economy are in real, which means some organisations are becoming increasingly powerful while others are becoming increasingly marginalized in a complex pattern. Going back to the argument on the nation states, the Hyperglobalisers argue that the nation state is too small to deal with global problems, and increasingly replaced by other types of organisations such as private companies or non-governmental organisations. On the other hand, the sceptics would argue that the traditional role of the nation states and its sovereignty has not changed much.

On the contrary to these two points of view, the transformationalists would argue that the nation state still retains its role, but it is also true that the new forms of organisation are necessary to tackle new types of problems. A good example of this stance is the case of the EU. For the Hyperglobalizers, the EU is a single political unity which curtails the member states' sovereignty. For them, the EU is a union where the member states have to give up their power. In a case of the single currency, the Euro, it seems that the member states have given up their sovereignty to supply their own currency or manage their own macro economy. The restriction of the macroeconomic policy seems a good example of political globalisation where it has become evident that the nation states are not sufficient to cope with series of post-war problems. But from the opposite viewpoint, the EU is a mere league of nations, which means the nation states' sovereignty are not curtailed but shared and pooled at the international institution<sup>11)</sup>. For the transformationalists, the EU is dynamism where the nation states and supranational institutions negotiate certain topics in a very distinctive way. What is interesting about the EU from the transformationalists' view is the relationships among the member governments, the international institutions, non-governmental organisations and lobby groups. These organisations are officially allowed to join in the EU, and are participating in all kinds of political decision-making processes of the EU. What should be noted here is that the relationships among these participants have been changed significantly, but it doesn't mean that they have taken over others' roles. Instead of that, it is more adequate to understand that they complement each other's roles. In some sense, it is true that the nation state is not the dominant actor because they allow some other private or civil groups to join in official policy making processes<sup>12)</sup>. However, this is different from the Hyperglobalizers' thesis that the nation state should be "retreated"<sup>13)</sup>. The new and changing relationships among organisations and citizens certainly require the state to take responsibility. However, the demand for the state responsibility does not necessarily mean that the nation state has not been changed at all. It is also true that in order to cope with a problem on a global scale, the nation states need to mobilise resources which lie with private companies and citizens through market mechanisms or some form of governance. Certainly, the EU is this kind of governance system which enables European countries to tackle global issues. This is a main argument of the transformationalists. They reject both the hyperglobalizers rhetoric of the end of the sovereign nation-state and the sceptics' claim that "nothing much has changed". Thus we take the transformationalists' view as a convincing

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11) Such viewpoint is called "realist" in the International Relations. For the EU's case, see Moravcsik (1999).

12) In European Social Policy, so-called "Social Partners" play significant role in the national, and EU policy making.

13) For example, see Strange(1996).

explanation of the contemporary globalisation.

## 2 Globalisation in Asian Countries

The impact of globalisation will be considered in the second part. As globalisation has been defined as changes in civic and societal relationships, each country's political perspective will be examined. The cases of Japan, Korea, and China will be considered respectively.

### 2-1 Case A: Japan

In Japan, the benefit of globalisation in terms of trade has become generally apparent. There are relatively less natural resources in Japan and therefore, the Japanese economic system must rely on imports of natural resources and on exports of products. For understanding the Japanese post-war economic recovery, it is easy to divide into two stages of economic development. At the first stage of development, simple processed goods such as an umbrella, a toy and so on were exported. Later, cars, computers, and more value-added products have been turned into exports.

However, it is commonly known that the 1990's have been a serious setback for economic growth in Japan. There was a series of events which triggered and prolonged the recession, but one of the reasons commonly argued is the rigidity of the banking system. According to Molteni<sup>14)</sup>, a sudden decrease of land value had broken the so-called "bubble economy" in the early '90s. This "bubble" means that the high expectations on the price of land created an inflated situation during the '80s. The changes in land value had fundamentally smashed this expectation. The most serious problem was a banking loan which once had been quite easy to borrow if one had a small piece of land. It was because prices of any piece of land were expected to rise. This means that the benefit of business or any kind of indicator of profits themselves were less important than the land which was occupied by an office building or a factory or anything else. Since the burst of the "bubble economy", many bank loans have become impossible to be repaid. In particular terms, this is called a "bad loan", which means a loan without expectation of repayment, both realistically and potentially<sup>15)</sup>. The main debate on economic policy in Japan today is about how to deal with the bad loans. The bad loan is a vicious circle because a bank with a bad loan would stop lending money to risky companies. If not lending money, at least they

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14) See Molteni (2001)

15) The problem is that it is very difficult to expect which will be "bad" and "good". It is always judged afterwards.

would consider stop making potential loans to another company, and the company would become critical because of the difficulty of raising capital from the bank. This makes an overall economy in crisis, not only the financial market, but all kinds of markets.

In relation to globalisation, it seems that the “bubble economy” and its burst seem to be a domestic issue. The way in which the crisis of a banking sector spread to other sectors of production is essentially domestic, because the bank-industrial relationship is called the “main bank system” which allows big financial institutions to hold stocks of most production companies, while those financial institutions are strictly monitored and guided by the Ministry of Finance. These so-called “Japanese corporate management” methods were praised by other parts of the world during the 1980s, but suddenly were viewed as rigid industrial structures which harmed liberal market competition, since the allocation of resources are interfered with, if not decided, by factors other than the pursuit of benefits of stakeholders. Because the Japanese way of economic management has been pointed out as the reason for the economic recession, the reform of economic, industrial and bureaucratic systems has been pursued to meet the criteria of a “global standard”. It goes from the accounting standard, restriction of equity capital to ways of wage assessment at a company level. In most cases, Japanese reforms took American ways of management, but it is also a de-facto global standard. In some sense, it could be said that the Japanese economic reform, whether it succeeded or not, was an attempt to adopt the globally acknowledged way of business. In many ways, the problems and their solutions are limited in the domestic market. The changes of practice of bureaucratic rule and reform of public administration were purely domestic issues. However, it should be noted that the reform of rules and managements in Japan have been accomplished along with the realisation of the term “globalisation”. In Japan, globalisation has been identical to the acceptance of American ways of business in most business contexts.

## **2-2 Case B: Korea**

Compared to the Japanese way of accepting global standards, the Korean experience would be described as a rapid or “forced” acceptance of global rule. Maybe it is because Korea faced the crisis in a much more rapid way in the 1997 East Asian financial crisis. In comparison with Japan, the Korean economy experienced rapid growth since the Second World War. According to Yergin and Stanislaw<sup>16)</sup>, it was only 1963, when the average GDP per capita exceeded 100 US dollars in Korea. The political regime at that time in Korea was much stricter and therefore, the governmental intervention in the economy was more direct

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16) Yergin and Stanislaw (1998).

than the Japanese way of bureaucratic management through a banking system. However, the strategic economic management was highly successful in creating world competitive companies. Seven sectors of steel, petro-chemicals, nonferrous metal, shipbuilding, electronics, machine and automobile were nominated as strategic industries of economic policy<sup>17)</sup>.

In many respects, Korean post-war growth has been one of the best examples of a success story. On the other hand, the close and sometimes illegal relationships between politics and business were revealed and accused during the '90s through a number of trials<sup>18)</sup>.

In terms of globalisation, trade liberalisation has been realised since the beginning of economic growth, as in the case of Japan. From the beginning of the post-war recovery, it seemed that it was a necessary condition to accept trade liberalisation. However, later development of Korea accomplished in a very domestic way. The relationships of companies and politics were very tight. However the Korean economy has had to accept a set of rules of the global economy since the '80s and '90s, in the same way as Japan. The first wave was accompanied by joining the OECD and the second wave was by IMF conditionality of international loans since the 1997 economic crisis.

The IMF case is more complex and profound, because the IMF intervention to the world economy has been seriously criticised. However, in this chapter, it is argued that the acceptance of conditionality forced by the IMF and following economic and financial reform in Korea should be considered as a transformation of government-market relationships. As a result of IMF conditionality, the Korean government was not allowed to intervene in market competition, particularly through heavy subsidy for shipbuilding, for example. Comparing to the Japanese case of accepting a global standard, the way of accepting a global standard was more rapid and direct. In many ways, the Japanese government and companies have accepted the foreign way of business voluntarily. On the other hand, the existence of IMF conditionality has been a significant pressure on economic reform in Korea. It should be noted that the reaction towards globalisation would be quite different whether the direct pressure from the international institution exists or not.

### 2-3 Case C: China

The case of China is rather different from Japan or Korea in terms of economic situation and scale. While it has been necessary for Korea and Japan to open their markets

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17) These were the fundamentals of the creation of enterprises such as Hyundai or Daewoo.

18) Corruption certainly does not exist only in Korea. It is actually elsewhere in the world, especially, developing countries. For example see the World Bank on the internet (<http://www.worldbank.org/wbi/governance/index.html>).

to foreign countries and maintain freedom of trade since the first step of development, China was considerably late joining global trade networks. The recent application to the World Trade Organisation in 2002 has been a landmark of economic reform.

However, statistically speaking, China exceeds most of the developed countries in rapid increase of GDP and living standards and China is regarded as the biggest potential market in the 21st century. The foreign direct investments from all over the world to the east coast cities and the amount of export return upon investment are both increasing, which means the Chinese economy has become an indispensable part of the global economy.

For Joseph Stiglitz<sup>19)</sup> the Chinese introduction of some elements of the market economy is a successful case compared to the Russian transition. In Russia, as well as many Eastern European countries, the market economy in terms of privatisation of national companies has been introduced in a very short period of time. The transition method in this way is called “a shock therapy”. For East European countries, they have accepted the IMF loan conditionality and the EU conditionality for accession. For China, a series of economic reforms has proceeded very slowly and gradually compared to those in European states. Beginning with the agricultural sector all over the country, the gradual opening of the eastern coast attracts massive amounts of foreign investment. It is an interesting attitude that the Chinese government has rejected radical opening of the domestic market and has chosen to control financial flows, however it is a very difficult task.

While both Korea and Japan have experienced the reform of domestic markets alongside the global market standard, Chinese experience of globalisation is in some ways foreseeing the future. A lesson from Korea and Japan is that global standards and domestic practices have to be converged in the long run, but that is not an easy task. WTO accession has been praised as a successful integration into the global economy, but it is a future task for China to consider how to incorporate the global trade rules into the domestic law, and how to enforce the law when almost all people stick to traditional business customs. The cases of intellectual property, and of food safety standards are the best examples. In comparison to Korea and Japan, the main difference is that the acceptance of global rules is more direct, which means that the rule of any kind rarely exists in China<sup>20)</sup>. Whether this way of direct incorporation will be successful is a point of question. They have both advantages and disadvantages.

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19) Joseph E. Stiglitz (2002).

20) The Author had an opportunity to visit some coastal ports in China in 2003. The experiences support this view of direct incorporation of Western standards. However, it must be mentioned that the incorporation is very limited in area.

### 3 Conclusion

In the first part of the paper, three viewpoints towards globalisation, namely the hyperglobalizers, the sceptics and the transformationalists have been considered. While the hyperglobalizers and the sceptics argue whether the nation states have lost their role or not, the transformationalists argue that the relationships of political, economic and social actors are changing.

In the second part, the three cases of reaction towards globalisation in terms of an economic standard were considered. In Asia, it is not regarded that the nation state's role is diminishing, but it is also evident that the relationship between the government and the market is changing. With no exception, the market element is playing a more active role than before in economic activities, but the governments are expected to play even more active role in controlling and regulating private activities in order to manage the economic recession, and to catch up to the global standard. The sceptics might argue that the three countries' governments keep their control on domestic markets as before, but this is not a correct view. In all three countries, the global standard has been penetrating into domestic laws and incorporated into a domestic rule of business. It means that a government enforces only domestic law, the domestic laws have been asked or forced to incorporate the global rules both fundamentally and gradually.

There are significant differences among the three countries. While Korean and Japanese cases could be seen as a crisis management and reconsideration of the domestic custom, the Chinese case is more like seizing a chance for rapid growth. While Korea faced the IMF conditionality directly, Japanese and Chinese reforms have been more gradual.

In terms of market management mechanism in Asia, it is still unrealistic that the Asian institutions would be supranational institutions, analogous to the EU or NAFTA, since the three countries have accepted the Western rules and transformed them into their domestic rules rather than inventing Asian common rules. However, it is possible to argue that the governing institutions would emerge after the three countries have accepted similar global trade rules. However, when and how it will be a realistic argument is an open question today.

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