Globalization and the Developmental State: Reflections on the Asian Financial Crisis

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Chapter 2

Globalization and the Developmental State: Reflections on the Asian Financial Crisis

Vincent Wei-Cheng Wang

Introduction

Mohamad Mahathir remarked, "All these countries have spent forty years to build up their economies and a moron like [George] Soros comes along" (Loh, 1997). Increasingly, political leaders in the developing nations witness the powerful market forces which render national fiscal, monetary, and regulatory policies weakened, if not totally ineffective. With increased economic globalization, national governments throughout the world see their power increasingly compromised and dependent on non-domestic factors, including global regimes of trade and finance. In essence, globalization became the paradigm (or cliché) of the post-Cold War era. Although its advent and presence seem irrefutable, its impact on domestic and international politics needs more studying.

A particularly important issue— the impact of globalization on governance in nation-states and the authority and legitimacy of the state— requires careful exploration. Will it cause the demise of the state, ‘the withering away of the state’, as Karl Marx put it? Or can globalization lead to the intensification of state powers?

Related to the issue of governance, globalization also affects economic performance. Globalization can propel countries to new economic heights or it can lead to dramatic domestic dislocations— a fact affirmed by the changing fortunes of East Asia. The rapid economic ascent in recent decades of such Asian countries as South Korea, Thailand, and Indonesia has often been attributed to their developmental state (Woo-Cumings, 1999; Johnson, 1982), whose astute stewardship of export-led industrialization coincided with the expansion of world trade. However, the Asian Financial Crisis of 1997-9 (Pempel, 1999) raised fundamental questions about the continued viability of developmental state and the perils of outward-looking development strategies in an increasingly globalized world economy.
globalization and the developmental state

This chapter discusses the challenges that globalization poses to the developmental state. It argues that the crisis induced by participation in the global economy has made it imperative to reform, but not jettison, the state. It will begin with an argument for placing the present globalization in a longer historical context. Then, it will contrast two different theories on the East Asian economic miracle that are relevant to the discussions on globalization. It will then show the degree of Asia's globalization in light of certain commonly used indicators so as to establish a partial account of the Asian financial crisis. It will conclude with a discussion of the future of the developmental state.

Globalization: New or Old?

The Cold War ended with the apparent dominance of liberal democracy over other forms of governance over Communist command economy based systems of Eastern Europe and Russia. As part of the resulting political analysis, Francis Fukuyama (1989) wrote of the dominance of liberal democratic systems into the future and prompted lively debate about the contours of the New World Order. Those who embrace and champion globalization emphasize the benign and potentially boundless promises that the current round of intensified globalization entails. In particular, advocates of globalization note that computerization and the digitization of communications lead to the 'death of distance' (Cairncross, 1998). Increased international interactions created more porous borders and thereby transformed the state-centered Westphalian international system into a 'global village' (Falk, 1998).

Thomas L. Friedman, columnist for The New York Times and author of The Lexus and the Olive Tree, argues that globalization contributed to the emergence of a global marketplace and the rise of a 'homogeneous' global culture that reflects "the spread of Americanization on a global scale" (1999, 8). 'Globalphiles' like Friedman argue that free-market capitalism drives globalization, particularly since its apparent triumph over other ideological alternatives, as vindicated by the end of the Cold War (Fukuyama, 1989). Friedman asserts, "The globalization system has replaced the Cold War system... The world is 10 years old" (1999, xiii and 7). Others take a broader view on globalization, banking on its emancipating consequences. For example, the 1999 Human Development Report (UNDP, 1999b) pins its hope that "global markets, global technology, global ideas, and global solidarity" can still "enrich the lives of people everywhere."

Many critics of globalization provide sober assessments about the
social and economic costs of the entire process in order to help shape a more sustainable future path for globalization. Some fear that globalization may heighten communal and cultural conflicts (Barber, 1995). Others criticize that globalization exacerbates the gap between the ‘haves’ and the ‘have-nots’—both between and within countries. Still others worry that the trade-off for interdependence is ‘sovereignty at bay’ with governments experiencing increasingly that external forces will undermine their ability to control their economies and to protect their citizens.

Still others question whether globalization represents a new phenomenon. In a thoughtful piece that places globalization in a broader historical context, Emma Rothschild (1999, 107) laments “globalization has been depicted, for much of the last 20 years, as a condition of the present and the future—a phenomenon without a past.” Indeed, if one accepts a commonly used definition of globalization—“the intensification of economic, political, social, and cultural relations across borders” (Holm and Sørensen, 1995), then globalization not only occurred in history, but empirical evidence suggests its greater presence and integration before World War I.

Roger Burbach and William I. Robinson (1999) take a long-term historical perspective. They point out perceptively that the current era represents the fourth epoch in the world history of capitalism. Adapted from their analysis of capitalism, Table 2.1 summarizes the characteristics of each stage of globalization.

Table 2.1 shows that despite their similarities, each of these four epochs has its own driving forces, zeitgeist, and distinctive political events. The fourth and present epoch—since the 1970s—is characterized by the revolutionary impact of technology, particularly information technology (IT), which helps free market capitalism to expand globally with unprecedented speed and elan. The end of the Cold War and the apparent failure of other ideological alternatives are the most symbolic events.

As to the indicators for measuring globalization, Ankie Hoogvelt (1997, 69) points out that three key economic figures are conventionally marshaled to attest to the increasing internationalization of the world economy:

- world trade volume (in particular the allegedly rising ratio of world trade to output);
- the growth and spread of foreign direct investment through multinational corporations (also expressed in relation to world output and trade); and
- the expansion of all international capital flows (and their patterns of integration).
Table 2.1 Globalization—*déjà vu?*

<table>
<thead>
<tr>
<th>Epochs</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration</td>
<td>1492-1789</td>
<td>1789-1900</td>
<td>1900-1970s</td>
<td>1970s-present</td>
</tr>
<tr>
<td>Age of</td>
<td>Discovery and</td>
<td>Revolution,</td>
<td>The ‘Age of Extremes’</td>
<td>The</td>
</tr>
<tr>
<td>Discovery and</td>
<td>conquest</td>
<td>capital, and empire</td>
<td>(Hobsbawn)</td>
<td>‘information age’</td>
</tr>
<tr>
<td>Enlightenment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form of</td>
<td>Mercantilism</td>
<td>Industrial capitalism</td>
<td>‘monopoly’ capitalism</td>
<td>Globalization</td>
</tr>
<tr>
<td>capitalism</td>
<td>and primitive</td>
<td></td>
<td></td>
<td>(world capitalism)</td>
</tr>
<tr>
<td></td>
<td>accumulation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Symbolic events</td>
<td>Columbus’ ‘discovery’ of the Americas</td>
<td>The French Revolution; England’s 18th-century manufacturing revolution</td>
<td>World War I; Russia’s Bolshevik revolution in Russia</td>
<td>The fall of the Berlin Wall; and the disintegration of the Soviet Union</td>
</tr>
<tr>
<td>Political</td>
<td>Capitalists emerging from ‘feudal cocoon’</td>
<td>Rise of the bourgeoisie and the nation state</td>
<td>Rise of financial industrial corporations; imperialist wars; and a socialist alternative</td>
<td>End of the Bretton Woods system; collapse of socialism; failure of Third World national liberation movements</td>
</tr>
<tr>
<td>manifestations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The use of the above three criteria leads to an identical conclusion with the United Nations Development Program (UNDP) *Human Development Report* (1999a, 30) which states: “globalization is not new: the world was more integrated a century ago; trade and investment as a proportion of GDP were comparable, and with borders open, many people were migrating abroad”. So, what differentiates the current era of globalization from that of preceding periods?

As suggested earlier, revolutionary new technologies and the rapidity of change caused by these technologies characterize the current round of globalization. Friedman sums up the distinctive features as ‘three democratizations’—of technology, of finance, and of information (1999, 39-58). Rothschild (1999, 107) thinks that “for both its admirers and its opponents, it [globalization] is associated with new and unprecedented technologies: the Internet, international capital markets, supersonic travel, cable news, and just-in-time deliveries across very large distances”. Barber (1995, 4) argues that a new ‘McWorld’ will emerge that “demand(s)
integration and uniformity and that mesmerize(s) people everywhere with fast music, fast computers, and fast food—MTV, Macintosh, and McDonald’s—pressing nations into one homogeneous global theme park, one McWorld tied together by communications, information, entertainment, and commerce”. As a UNDP publication states, what is really new about globalization is that it involves (1) new markets, (2) new actors, (3) new rules and norms, and (4) new (faster and cheaper) tools of communication (UNDP, 1999b).

Dramatic increase in speed and significant cost reductions in the communications arena lay the foundation for ensuing globalization. For instance, a three-minute call from New York to London in 1960 cost the equivalent of $46 in 1990 dollars, but in 1990 the cost for the same call dropped to $3. If the average cost of computers in 1990 is given an index of 100, the index for 1960 would be 12,500. The dramatic decline of cost and the simultaneous increase of speed inspires Friedman (1999, 9) to draw a contrast:

While the defining measurement of the Cold War was weight—particularly the throw weight of missiles—the defining measurement of the globalization system is speed—speed of commerce, travel, communication and innovation. The Cold War was about Einstein’s mass-energy equation, \( e = mc^2 \). Globalization is about Moore’s law, which states that the computing power of silicon chips will double every eighteen to twenty-four months.

While these types of innovation benefit most developed nations, what impact could this have on the global South? Do they offer unprecedented opportunities or present insurmountable barriers to the less developed countries (LDCs) to tap into the current round of globalization? The answer to this question requires a reexamination of the world’s economic structure (hierarchy and division of labor) in the context of the era’s accelerated changes. If knowledge equates with power and its rapid dissemination promotes development, as the World Bank’s World Development Report (1999) points out, then globalization—especially the computer and communication technology—reinforces and perhaps exacerbates the power differentials between the global North and South.

Measuring international power in the era of globalization requires an examination of Internet users rather than conventional military power, such as missiles. The Internet, which promotes international and domestic commerce and the dissemination of information epitomizes the current globalization. Table 2.2 presents a breakdown of Internet users by region.
Table 2.2 Uneven Globalization– Internet Users by Region

<table>
<thead>
<tr>
<th>Region/Year</th>
<th>Millions online*</th>
<th>Percentage of world’s users</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America (USA &amp; Canada)</td>
<td>177.8</td>
<td>42.5</td>
</tr>
<tr>
<td>Europe</td>
<td>114.0</td>
<td>27.2</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>104.9</td>
<td>25.1</td>
</tr>
<tr>
<td>South / Latin America</td>
<td>16.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Africa</td>
<td>3.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Middle East</td>
<td>2.4</td>
<td>0.6</td>
</tr>
<tr>
<td>World Total</td>
<td>418.6</td>
<td></td>
</tr>
</tbody>
</table>

Note: *Estimated numbers as of December 2000, by Nua Internet Surveys. Source: Compiled and calculated from NUA Internet Surveys (2001a; 1998; 1997).

Table 2.2 shows two important trends. First, it clearly affirms that America and globalization remain part and parcel, with Internet usage clustered strongly in that country. Among the estimated 418.6 million Internet users worldwide in 2000, 42.5 % of them lived in North America, mostly in the US and Canada. North America’s dominance in the early years after the advent of the Worldwide Web was even higher— in 1997, five-eighths of all the world’s Internet users lived in this region. English is the apparent *lingua franca* of the cyberspace, as more than 80% of all the websites are written in English. The ability of the U.S. to create the institutions and rules— defining protocols, allocating domains, standardizing languages— for the cyberworld characterizes what political scientist Stephen Krasner calls ‘meta-power’, which perpetuates and strengthens overall American power at lower cost.

Second, globalization progressed unevenly. Neither Africa nor the Middle East developed extensive Internet-based communications with the globalized world; their online populations remain negligible. One African official report described the huge gap in Internet connectivity between the global North and South by stating that “there are more phone lines in Manhattan than in all of sub-Saharan Africa” (Shapiro, 1999, 20).

However, European and Asian countries, including those traditionally considered ‘developing,’ steadily increased their Internet exposure during the past five years. In fact, some of the fast-growing countries in the Asia-Pacific region experienced explosive growth rates of their online populations. For example, in barely three years from 1997 to 2000, China’s online population increased from 200,000 to 16.9 million (By contrast, the country’s Internet ‘penetration rate’— online population as a percentage of total population— rose from 0.001% to 1.34% during the same period). From June 1996 to July 2000, Taiwan’s Internet penetration rate rose from
1.7% to 28.84% (NUA Internet Surveys, 2001b).

The absorption of Internet technology in Asia illustrates an example of how countries utilize emerging technologies to partake in the globalization revolution. Asia continues to participate aggressively in the global economy and derive benefits from emerging technologies. Many analysts argued that globalization contributed to East Asia’s dramatic post-World War II economic transformation, however, fewer scholars point out globalization’s detrimental impact on East Asia. Studying the changing economic and political fortune of East Asia sheds light on the debate over the merits and perils of globalization for underdeveloped countries.

Asia’s Ascendancy: Bringing the Global Factor back in

The rapid ascendancy of several Asian economies after World War II attracted much interest from scholars and policymakers alike. First Japan, then the ‘Little Dragons’ or Newly Industrialized Countries (NICs)– South Korea, Taiwan, Hong Kong, and Singapore– gained upward mobility in the international system by becoming important exporters of manufactured goods. Their ascent seemed to discredit the dependency theory in vogue during the 1970s (Cardoso and Faletto, 1979; Barrett and Chin, 1987; Evans, 1987), thereby enabling the liberals to tout the virtues for LDCs in maintaining outward-looking development strategies and access to global markets (World Bank, 1993). To varying degrees, Japanese and the NICs’ strategies became replicated in several recently industrializing Southeast nations, such as Thailand, Malaysia, and Indonesia (MacIntyre 1994). The close economic relationships between the earlier industrializers and the later industrializers conjure up a ‘flying geese’ type of regional industrial development in East Asia (Bernard and Ravenhill, 1995).

Indeed, until the outbreak of the 1997 financial crisis, East Asia commanded attention and emulation. But many economists and commentators now scorn the same ‘star tigers’ after a sudden reversal of economic fortune for countries in the region. This raises a disturbing intellectual question: How can some of the same factors caused the successes of these nations– outward orientation, strong state, and market-coordinating intervention– also cause their economic demise? Do both earlier praise and present criticisms reflect premature judgements?

A quick settlement to this controversy remains unlikely. However, so far, some explanations offer more promise than others because of their comprehensive nature. Theoretical frameworks rooted in an analysis of global capitalism and its linkage to domestic economies provides useful sources of potential explanations. For example, according to the world
system theory (Wallerstein, 1979), Asia joined the Western core-dominated capitalist system as part of the periphery. Consequently, Asia’s rise and fall closely relate to globalization. Explanations for the Asian financial crisis that include both international and domestic-level factors are more intellectually satisfying than those that employ only domestic factors (e.g., ‘crony capitalism’).

The rapid ascent of dynamic Asian economies attracted much attention. Some analysts have admiringly described these Asian economies’ success in the last three decades as ‘miracle’. Others firmly believe that an East Asian model of development holds rich potential for other developing countries. Moreover, scholars have also long debated over how to explain Asia’s economic success and whether this success story can be replicated elsewhere. A full treatment of this debate is beyond the scope of this chapter. However, discussions about certain aspects of globalization—specifically the merits of participating in the international economy and the proper role of the state in economic development—provide insight into Asia’s economic development strategy.

Table 2.3 summarizes two competing perspectives explanations regarding the East Asian miracle.

While the dependency school depicts the forced participation in the world economy under an ‘unjust’ international division of labor as exploitation, both the neoclassical and the revisionist schools in Table 2.3 emphasize the benefits LDCs derive through their participation in the international economy. However, neoclassicalists and revisionists differ on the method by which LDCs should participate in the international economy. The neoclassical axiom states that LDCs should organize their participation based on the principle of comparative advantage arising from natural factor endowment. In contrast, the revisionists argue that the state must deliberately but judiciously employ incentives to promote industrial development that is anchored on an outward-oriented strategy. Specifically, they note that the most successful Asian countries adopted an export-led industrialization (ELI) strategy. By contrast, their Latin American counterparts that adopted an import-substituting industrialization (ISI) strategy that led to fewer successes (Haggard, 1990; Gereffi and Wyman, 1990).

Not only have the Asian economies been more integrated with the world economy than other regions, but their developments became more regionally integrated than Latin American counterparts. Some scholars (e.g., Cumings, 1987) suggest that a regional approach provides a more useful framework for understanding East Asia’s patterns of development.
### Table 2.3 Explaining the East Asian Miracle: Two Different Accounts

<table>
<thead>
<tr>
<th>Neoclassical View</th>
<th>Revisionist View</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main reason for success</strong></td>
<td>Getting the prices (basics) right</td>
</tr>
<tr>
<td><strong>Market vs. state</strong></td>
<td>State follows the market</td>
</tr>
<tr>
<td><strong>More concerned about</strong></td>
<td>Government failures</td>
</tr>
<tr>
<td><strong>View on external ties</strong></td>
<td>Positive: They help achieve efficiency and gains</td>
</tr>
<tr>
<td><strong>Roles of government: nature of policies</strong></td>
<td>Investing in human capital Promoting private enterprises Maintaining an open economy Maintaining macroeconomic stability (‘fundamental’ intervention policies)</td>
</tr>
</tbody>
</table>

and integration than single country analysis. Specifically, the development of regional political economy in East Asia has followed a ‘flying geese’ model (Bernard and Ravenhill, 1995; Romm, 1992). According to this model, countries gradually move up in technological development by following the patterns of those that preceded them in the development process (Radelet and Sachs, 1997). In this vision, Korea and Taiwan took over leadership in textiles and apparel from Japan as the latter moved into the higher technology sectors of electronics, transport, and other capital goods. A decade or so later, Korea and Taiwan would upgrade to electronics and auto components, while the textile and apparel industries moved to Indonesia, Thailand, Vietnam, and China.

Steven Radelet and Jeffrey Sachs argue that, to a certain extent, the flying geese pattern reflects the natural outcome of market forces, indicating that global economic forces also shape the patterns of regional industrialization. However, they also admit “even the simplest labor-intensive products (apparel, footwear, electronics assembly) are part of a sophisticated international division of labor, one increasingly determined by multinational enterprises and technological designs created in the advanced economies” (1997, 52).

From this discussion, one can understand why the neo-Marxist dependency writers contend that Asia owes its ‘success’ to a temporary comparative advantage entirely based on the exploitation of cheap labor in such designated export platforms as ‘free export processing zones’ with few
linkages to the surrounding economy. This type of development, akin to what Peter Evans (1979) calls 'dependent development' in the Latin American context, resulted in deepening inequalities and marginalization. This neo-Marxist position becomes known as the new international division of labor (NIDL) thesis (Hoogvelt, 1997, 204).

Hoogvelt asks whether the developmental state phenomenon in East Asia reflects historically specific, rather than culturally specific (emphases original) factors:

The historical specificity of the ‘model’ relates to the external environment of the geopolitics of the Cold War and its unique conjunction with a certain phase in the development of capitalism on a world scale (1997, 213).

Burbach and Robinson (1999) echo the NIDL view. They rebuke most of what they call ‘detractors of globalization’ that focus on global trade, and therefore the market. Instead, they argue, “The process of globalization is driven by the transnationalization of production and capital ownership, which in turns leads to the rise of a transnationalized bourgeoisie that sits at the apex of the global order” (1999, 7, 15). They conclude: “Global capitalism, therefore, is now represented in each nation-state by in-country representatives, who constitute transnationalized fractions of dominant groups” (1999, 34). These leftist scholars fill in a very important void in the mainstream rosy ‘McWorld’ interpretation of globalization. Clearly, it is important to consider the politics—class, democratic deficit, and civil society—of globalization, both at the domestic and international levels. Their influence led to calls for ‘globalization with a human face’ (UNDP, 1999b).

If politics is defined as a process of authoritatively allocating scarce resources, then political processes remain at the core of globalization, as it entails important distributional consequences that create a group of transnationalized bourgeoisie. In the neo-Marxist parlance, one can even argue that modern computer and communication technology constitutes a new means of production and creates new relations of production. It threatens to exacerbate existing class conflicts by increasing inequalities.

Stephen Gill (1999) offers an insightful neo-Marxist interpretation of the Asian crisis. He argues that the Asian crisis is partly attributable to geopolitics, namely, ‘the third phase of a longer process involving the reassertion of U.S. strategic dominance’, which is reflected in the ideology of neoliberalism and the mechanism of the International Monetary Fund’s (IMF) strict conditionality. Did Western dominance contribute to East Asia’s economic troubles?

With these caveats, we can proceed to discuss the relationship between
globalization and the Asian financial crisis and speculate on the future of the developmental state model in an era of globalizing economies within the context of embedded neoliberalism.

The Globalization of Asia: Laying the Foundation for the Crisis?

Just how globalized has East Asia become? Has East Asia become a victim of its own success? Employing some of the most commonly used indicators in the study of globalization (i.e., growth of trade volume, trade share of GDP, growth of external debt, and external debt share of GNP), Table 2.4 depicts globalization trends in Asian countries over the past two decades. To the extent such increased exposure to the world market offers them more opportunities, it also makes them more vulnerable to the vicissitudes of the world economy.

Table 2.4 compares these indicators for two periods, 1980 and 1996, the year before the outbreak of the Asian financial crisis. The table reveals several important findings. First, all these countries had experienced a very large growth in merchandise trade (in current dollars) during the period under study. Trade indeed had served as one important— if not the— ‘engine of growth’. Several Asian countries, particularly Japan and the NICs, have become important exporters of manufactured goods for the world markets.

Second, leading up to the onset of the Asian crisis in 1997, Thailand, the Philippines, and Malaysia had become more and more dependent upon trade (i.e., foreign markets)— measured by the percentage share of trade volume of gross domestic product (GDP). But other countries, such as Indonesia, South Korea, Taiwan, and Singapore experienced a decline in trade dependence, despite overall growth in absolute trade. This indicates the increased importance of their domestic markets. Hong Kong, historically an entrepôt, saw its trade share rise, mainly because of Mainland China’s rapid economic development and expanding exports since 1980.

Third, apparently, a correlation between external debt and economic vulnerability exists. Not coincidentally, all of those countries most negatively affected by the Asian financial crisis previously assumed large external debt burdens in the leading to the crisis. In particular, Thailand and Indonesia accumulated such massive foreign debt that their debts matched or even exceeded their respective annual GNPs. The bad experience of these Asian debtors shared many important similarities with the Latin American debt crisis in the 1980s. During that crisis, a combination of factors— rising interest rates in the international financial markets, declining earnings from exports from these debtor nations, and
pressure on these nations to devaluate their currencies—rapidly raised these nations’ debt service ratios (export earnings/GNP) to unbearable levels, threatening a default. Only IMF’s intervention averted the crisis (Frieden, 1991).

Table 2.4 Rising Asian Trade Dependence and External Debt

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade volume* ($ billions)</th>
<th>Trade share of GDP (%)</th>
<th>External debt ($ billions)</th>
<th>External debt as % of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>15.8</td>
<td>129.1</td>
<td>54</td>
<td>83</td>
</tr>
<tr>
<td>Indonesia</td>
<td>32.7</td>
<td>92.6</td>
<td>54</td>
<td>51</td>
</tr>
<tr>
<td>Philippines</td>
<td>14.0</td>
<td>55.0</td>
<td>52</td>
<td>94</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23.7</td>
<td>154.2</td>
<td>113</td>
<td>183</td>
</tr>
<tr>
<td>South Korea</td>
<td>39.7</td>
<td>269.1</td>
<td>74</td>
<td>69</td>
</tr>
<tr>
<td>Taiwan</td>
<td>39.5</td>
<td>218.3</td>
<td>95</td>
<td>80</td>
</tr>
<tr>
<td>Singapore</td>
<td>43.4</td>
<td>255.9</td>
<td>440</td>
<td>356</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>41.7</td>
<td>379.3</td>
<td>181</td>
<td>285</td>
</tr>
</tbody>
</table>

Note: *Merchandise exports plus merchandise imports.
Sources: Compiled and calculated from World Bank (1999, 228-31; 2000, 268-71) and CEPD (1998, 204, 213).

Data show that Asian countries experienced increased globalization, in terms of trade and debt (both their blessing and curse), but the extent of each economy’s globalization varies widely from country to country. Table 2.5 attempts to measure globalization by three indicators—Internet users (absolute numbers, shares of total population, and per 1,000 people), Internet hosts per 10,000 people, and personal computers per 1,000 people. The last three columns take into account population size by providing ‘standardized’ measures on the ‘density’ of personal computers and Internet users. The picture it presents—the disparate ‘information power’ in Asia—provides a new way to conceptualize power and plenty in the information age.

Table 2.5 emphasizes the central role that the modern information and communication technology plays in our current phase of globalization. Most of the proponents of globalization, considered ‘technophiles’ (Luke, 1989), view communication technology as a hallmark of globalization. In this paradigm, a country’s ‘information power’, determines a country’s overall strength, rather than traditional militaristic measurements.

In fact, some scholars speculate that as globalization progresses, the state, if it continues to exist, will become a ‘virtual state’ that thrives on ultra-mobile factors of production such as knowledge or human capital.
International relations, consisting of these virtual states, will be inherently peaceful (Rosecrance, 1996). If accurate, the prospects for prosperity or peace within regions and specific countries vary depending on the extent of information globalization.

As computer prices and Internet access fees continue to decline rapidly, increasingly more people will access a virtual world. The advent of the Worldwide Web in the mid-1990s was unquestionably a powerful boost to expanding the global Internet population. Table 2.5, which takes into account population size, compares the ‘information density’ of select countries.

Small nations with excellent communication infrastructure and extensive external economic ties fare exceptionally well under this new notion of national power. Singapore, Netherlands, and Finland rank as among the most globally integrated countries on Foreign Policy’s (2001) index. Finland, with a population of just over 5 million and home of Nokia, is one of the ‘most wired’ nations. Meanwhile, the U.S. ranks as the country with the most Internet users in absolute numbers (estimated at 164.4 million, or close to 60% of the population—4.25 times more than that of the next, Japan). In fact, fifteen countries account for 90% of all Internet users.

It should also be affirmed that those NICs that actively promoted the information technology (IT) industry, such as Taiwan and South Korea, fare quite well in terms of ‘information power’. For example, Taiwan decided in the early 1980s to promote the IT industry as a strategic industry in anticipation of these broad trends in technology and trade (Wang, 1995/96; Lin, 1998). On a per capita basis, Taiwan’s computer density is higher than Japan’s and the NICs’ Internet penetration rates (as a share of population) remain comparable to Japan’s. However, in the long run, China seems to have limitless potential with estimates up to 37 million users by 2005 (NUA Internet Surveys, 2001b; 1999a; 1999b).

Tables 2.4 and 2.5 show that all the East Asian countries became much more globalized in recent years but simultaneously demonstrated variations in their dependence on trade, external debt, and foreign investment. Furthermore, variations exist in terms of their information power. In other words, each country accumulated a different mix of ‘assets’ and ‘liabilities’ associated with globalization, with each precise mix entailing important consequences. Table 2.5 also provides an unusual perspective for understanding the Asian financial crisis. Not coincidentally those countries that score low on ‘information power’—for example, Indonesia and Thailand—received, *prima facie*, the most abrupt dislocations associated with the Asian financial crisis (see Table 2.6).
### Table 2.5 Uneven Globalization—Disparate Information Power

<table>
<thead>
<tr>
<th>Country</th>
<th>Internet Users a</th>
<th>Internet Users % a</th>
<th>Internet Users b</th>
<th>Internet Hosts c</th>
<th>Personal Computers c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>1.0</td>
<td>1.65</td>
<td>16.2</td>
<td>.646</td>
<td>21.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.4</td>
<td>0.18</td>
<td>1.9</td>
<td>.1</td>
<td>8.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.5</td>
<td>0.62</td>
<td>6.5</td>
<td>.158</td>
<td>15.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.5</td>
<td>6.88</td>
<td>66.1</td>
<td>2.543</td>
<td>58.6</td>
</tr>
<tr>
<td>South Korea</td>
<td>16.4</td>
<td>34.55</td>
<td>350.4</td>
<td>6.003</td>
<td>156.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6.4</td>
<td>28.84</td>
<td>290.9</td>
<td>130.444</td>
<td>336.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.9</td>
<td>44.58</td>
<td>578.1</td>
<td>4.522</td>
<td>458.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.9</td>
<td>26.00</td>
<td>268.1</td>
<td>1.628</td>
<td>254.2</td>
</tr>
<tr>
<td>China</td>
<td>16.9</td>
<td>1.34</td>
<td>13.5</td>
<td>0.057</td>
<td>8.9</td>
</tr>
<tr>
<td>India</td>
<td>4.5</td>
<td>0.45</td>
<td>4.5</td>
<td>0.023</td>
<td>2.7</td>
</tr>
<tr>
<td>Japan</td>
<td>38.6</td>
<td>30.53</td>
<td>305.2</td>
<td>2.081</td>
<td>237.2</td>
</tr>
<tr>
<td>USA</td>
<td>164.4</td>
<td>59.86</td>
<td>602.4</td>
<td>193.997</td>
<td>458.6</td>
</tr>
<tr>
<td>Finland</td>
<td>2.8</td>
<td>43.93</td>
<td>436.5</td>
<td>121.842</td>
<td>349.2</td>
</tr>
</tbody>
</table>

Notes and Sources:

Data for 2000; ‘Internet users’ in millions and percent as percent of total population. The months in which surveys were done varied. NUA Internet Surveys (2001b, 2001c, 2001d).

Internet users / population as of 1999; expressed in 1,000s. NUA Internet Surveys (2001b, 2001c, 2001d) and World Bank (2000, 278-9).

World Bank (2000, 310-1) employs data from International Telecommunication Union. All country data for 2000, except Taiwan. Taiwan’s internet host data are internet subscribers per 10,000 people for 1999. Taiwan’s computers per 1,000 people data are 1995 estimate, using the following formula: [(Units of desktop PCs produced in 1995) + (units of notebook PCs produced in 1995)] / (1995 total population). Compare figures in this column with caution. Admittedly many of these Taiwanese computers were exported. However, the World Bank/ITU data on other countries do not affirm they are for domestic use, not export. All data in 1,000s. See CEPD (2000, 20 and 142) and Figure 5.3 from World Technology Evaluation Center (1999).

This correlation seems to confirm the finding by Amartya Sen, the 1998 Nobel economics laureate, that accurate information flows are necessary to prevent man-made policy disasters (e.g., famine). If the financial crisis can be viewed as a ‘man-made’ crisis in the sense of policy failures, patron-client politics, and lack of accountability, then to what extent can the lack of transparency explain the downfall of such Asian countries as Indonesia and Thailand? And to what extent can weaknesses in ‘information power’ explain the negative impact of the Asian Crisis among countries? From this standpoint we can understand why developing the information technology (IT) industry is so important for Asian countries, because it not only produces new sources of growth, but also lays foundation for a more open and resilient society.

The Asian financial crisis dealt a devastating blow to several Asian high-fliers. Table 2.6 shows the effects by tracking several indicators from...
1997, when the crisis started, in 1998, when the crisis reached maturity, and then again in 1999, when several countries began to slowly recover. All five of these affected countries experienced large currency devaluations, recession, and shrinking wealth. Furthermore, just as these Asian countries began to improve, the economic slowdown in the U.S. and the decline in technology related share prices on the US stock exchange 2000, severely dampened the momentum of East Asia’s economic revival. Those countries that ‘weathered’ the 1997-9 crisis, such as Taiwan, now show surprisingly unusual economic difficulties in 2000 and 2001.

These aggregate statistics fail to accurately depict the human suffering, especially among the poor, resulting from the crisis. As a condition for accepting the IMF’s conditionality, these countries slashed social spending (on education, health, and unemployment assistance) while the number of jobs decline precipitously. Frightened foreign investors fled rapidly and mercilessly— to use Friedman’s (1999) ‘electronic herd’ metaphor. Domestic entrepreneurs saw their confidence shaken and encountered problems in raising new capital for investment. The newly emergent middle class (the segment widely viewed as the catalyst for bringing about a democratic polity) and non-agricultural labor force saw their savings and net value plummet as poverty also increased. The social and economic stress caused by the financial crisis portended political crises.

An estimated 40 million people lived on less than one U.S. dollar per day in the five affected countries before the crisis, primarily in Indonesia and the Philippines. The first year of the crisis witnessed those living in absolute poverty more than double in countries without elaborate social safety nets, with pockets of absolute poverty reappearing in South Korea and Thailand (Jackson, 1999a, 2).

Despite these problems, prior to the outbreak of the 1997 crisis, the Asian economies were praised as among the most successful LDCs. Their predominant development strategy— ELI with a focus on manufactured goods, promoted by a strong, autonomous and developmentally oriented state— nearly achieved the status of the new development orthodoxy.

Both the material fortune of these countries and the intellectual popularity of the model vanished quickly with the ‘sudden’, ‘surprising’, and dramatic collapse of their financial and property markets. As a sign that theorizing in international and comparative studies often gets unduly dictated by daily events and caught up in the fads of the moment, many unsophisticated accounts began to blame these countries’ misery on, more or less, the identical factors that had contributed to these countries’ earlier success. Was the developmental state model intellectually hypocritical to begin with? Did the model outlive its usefulness as national economies became increasingly enmeshed with one another through the activities of
the global market? Answers to these key questions require an exploration into the causes of the Asian financial crisis.

Table 2.6 Asian Crisis: Shrinking Currency and Vanishing Wealth

<table>
<thead>
<tr>
<th>Country</th>
<th>Exchange rate to US dollar</th>
<th>Thailand</th>
<th>Indonesia</th>
<th>Philippines</th>
<th>Malaysia</th>
<th>S. Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>baht</td>
<td>rupiah</td>
<td>peso</td>
<td>ringgit</td>
<td>won</td>
</tr>
<tr>
<td>Jun 1997</td>
<td></td>
<td>24.5</td>
<td>2,380</td>
<td>26.3</td>
<td>2.5</td>
<td>850</td>
</tr>
<tr>
<td>Jul 1998</td>
<td></td>
<td>41.0</td>
<td>14,150</td>
<td>42.0</td>
<td>4.1</td>
<td>1,290</td>
</tr>
<tr>
<td>Aug 1999</td>
<td></td>
<td>37.3</td>
<td>6,915</td>
<td>38.8</td>
<td>3.8</td>
<td>1,199</td>
</tr>
<tr>
<td>Sep 2000</td>
<td></td>
<td>42.6</td>
<td>8,740</td>
<td>45.9</td>
<td>3.8</td>
<td>1,126</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>GNP (US billions dollars)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 1997</td>
<td></td>
<td>170</td>
<td>205</td>
<td>75</td>
<td>90</td>
<td>430</td>
</tr>
<tr>
<td>Jul 1998</td>
<td></td>
<td>102</td>
<td>34</td>
<td>47</td>
<td>55</td>
<td>283</td>
</tr>
<tr>
<td>Aug 1999</td>
<td></td>
<td>103</td>
<td>71</td>
<td>51</td>
<td>59</td>
<td>318</td>
</tr>
<tr>
<td>Sep 2000</td>
<td></td>
<td>122</td>
<td>129</td>
<td>79</td>
<td>75</td>
<td>404</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Growth rate (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 1998-Aug 1999</td>
<td></td>
<td>-8.0</td>
<td>1.8</td>
<td>1.2</td>
<td>-1.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Sep 1999-Sep 2000</td>
<td></td>
<td>5.2</td>
<td>4.1</td>
<td>4.5</td>
<td>5.2</td>
<td>9.6</td>
</tr>
</tbody>
</table>

   b All current dollars.
Source: Jackson (1999a, 2); Asiaweek (1999; 2000).

The Developmental State as Cause of the Asian Crisis?

Although no consensus exists regarding the precise cause of the Asian Crisis, general agreements exist. Although the precise causes in each country were slightly different, most analysts generally agree that the causes of the crisis included both external forces and internal weaknesses: (1) financial-sector weaknesses (corruption and nepotism, lack of credit-worthy criteria for lending, 'moral hazards', excessive speculative investments in real estate), (2) external-sector problems (overvalued currencies due to 'pegging', speculative buying and selling by international financiers, excessive borrowing abroad, and a substantial portion of short-term debt) and (3) the 'contagion effect' (Haggard, 2000; Pempel, 1999; Jackson, 1999b; and Goldstein, 1998).

Intellectual honesty requires that advocates of neoliberalism share some
responsibility for the Asian financial crisis. The crisis qualifies as a case of unintended consequences of premature liberalization that 'back-fired'. Over the years, Western countries pressured Asian economies to globalize long before they possessed the technical expertise and political will to establish the requisite financial institutions to properly manage large amounts of capital in and out of their countries. Malaysian Prime Minister Mahatir’s war of words with George Soros, the international financier, captures Asians' frustration and resentment toward the devastation caused by 'rational' currency traders: “All these countries have spent forty years to build up their economies and a moron like Soros comes along” (Loh, 1997).

At a deeper structural level, since most of these Asian countries embrace capitalism, can their collapse be attributed to some structural flaws within capitalism? Here Stephen Gill’s differentiation between two different varieties of capitalism provides valuable clues (Gill 1998, 4-5). In the Anglo-American capital-market system (or ‘fluid’ capital system), the stock and bond markets provide a supply of capital to firms. The providers of capital, mainly shareholders and investors, expect a high level of accountability and adherence to profit projections. In return, corporate failure results in declining share value and bond ratings, the removal of the top executives of the firm, or in worse case scenario bankruptcy with all workers dismissed and assets liquidated.

In contrast, Gill describes the Japanese and East Asian financial systems as ‘credit-based’ or dedicated capital systems. Historically these tended to be bank-centered, highly concentrated, and state-directed systems. In a crisis, the government generally negotiates adjustments among affected groups ('stakeholders') within the society, including workers. In other words, the government, through informal workouts, works to socialize risk rather than privatize it. Based on this distinction, he criticizes the IMF bailout packages as 'socialization of private debts' and questions the class bias of the whole process.

The IMF assured foreign investors and banks that their debt would be repaid, and it moved to roll over short-term into long-term debt, compelling various governments in effect to socialize private debts... [This] shows the limit of the commitment of pure free-market policies when the interests of Western capital are endangered (Gill, 1999, 6).

In other words, the West preaches the philosophy of free market capitalism, but when its own capital becomes jeopardized, the West practices socialization of private debts.

The financial crisis also contributed to full-fledged political crises or uncertain political transitions in several Asian countries. Authoritarian governments previously dominated many of these countries and they relied
heavily on economic development for legitimacy. Consequently, economic crisis served to undermine the very political foundation of authoritarian governments. Not surprisingly, the economic crisis prompted severe regime instability and a change of political leadership in Indonesia, Thailand, the Philippines, and South Korea. (Suharto’s downfall in Indonesia and his succession by three weak transitional figures, Habibie, Wahid, and Megawati, became *sin qua non* examples of evaporating legitimacy.) Only Malaysian Prime Minister Mahathir, who managed to hang on by turning against his reformist deputy, Anwar Ibrahim, increasing repression, rejecting IMF package, and limiting capital movement managed to remain in power. Whether his approach will ultimately be vindicated remains to be seen.

Without question, the Asian financial crisis dealt those affected serious political, economic, and social setbacks. At the same time, however, it also ushered in a promising new era of democratization. But do these harbinger the death of the developmental state? Does the prevalence of IMF bailout signify— to use Fukuyama’s (1989) phrases— the ‘unabashed triumph’ of, and the ‘exhaustion of viable alternatives’ to, neoliberalism? Can that be interpreted as underscoring America’s unparalleled power? Furthermore, was the Asian economic miracle merely an ephemeral fluke? Lastly, what kind of government (or governance) do Asian countries need in order to cope with the internal and external challenges posed by a new century characterized by globalization?

**Concluding Remarks: Whither (or Wither?) the Developmental State?**

Discussion of the future fate— of the often venerated and sometimes vilified developmental state in the new era of new globalization— requires a review of the logic and condition under which it excels should provide some answers. Table 2.7 compares the essential features of the developmental state (the Asian model) with the regulatory state (the Anglo-American model).

To summarize, the developmental state paradigm consists of three elements (or rather, observations or reification). First, the East Asian states place top priority on economic development, often operationalized in terms of growth, productivity, and competitiveness. Second, in order to achieve these broadly defined goals, the state actively intervenes in the market to guide, discipline, and coordinate the private sector through the strategic allocation of resources and the use of diverse policy instruments.
Table 2.7 Developmental State vs. Regulatory State

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Regulatory State</th>
<th>Developmental State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis of Rationality</td>
<td>Market-Rational</td>
<td>Plan-Rational</td>
</tr>
<tr>
<td>Focus</td>
<td>Rules</td>
<td>Outcome</td>
</tr>
<tr>
<td>Main Goal</td>
<td>Regulation</td>
<td>Development</td>
</tr>
<tr>
<td>Criterion of Success</td>
<td>Efficiency</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>Explicit Industrial Policy</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Focal or Pilot Agency</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Prerequisite for Success</td>
<td>No</td>
<td>National Consensus</td>
</tr>
<tr>
<td>Better at Coping With</td>
<td>Shocks</td>
<td>Routines</td>
</tr>
<tr>
<td>Locus of Decision Making</td>
<td>Parliament</td>
<td>(Elite) Bureaucracy</td>
</tr>
<tr>
<td>Main Actors</td>
<td>Economists and Lawyers</td>
<td>Bureaucrats and Nationalists</td>
</tr>
<tr>
<td>Examples</td>
<td>US and UK</td>
<td>Japan, S. Korea, and Taiwan</td>
</tr>
</tbody>
</table>

Third, competent bureaucrats, who insulate themselves from political and social pressures, increase the success of strategic state intervention in Asian economies. These insulated, interventionist states, contrary to neoclassical projections, have been relatively free from rent-seeking or predation (Moon and Prasad, 1998).

At the heart of the debate over the developmental vs. regulatory state is the central issue— and perennial scholarly controversy— of the relative importance of the state and the market in economic development (Putterman and Rueschemeyer, 1992). Today virtually no serious scholar completely dismisses any role for the state. Nor can corporations replace states for governing. Even the World Bank, the institutional embodiment of neoliberal ideology, recognized the importance of sound policy and good governance (World Bank, 1997, 1993).

Both the state and the market are key agents of economic development. Earlier theorizing on East Asia depicted an adversarial relationship between the two, but the precise formula, to a considerable extent, still depends on vogue. Current scholarship aspires to move beyond either state or market and toward a third-generation theory (Chan, Clark, and Lam, 1998; Rowen, 1998).

A brief recap serves to trace the evolution of scholarship (or vogue) in the field. The first-generation theory, espoused by neoclassical economists and the World Bank in the 1970s and early 1980s, attributes East Asia’s dynamic development and economic success to the ‘magic of the market’—laissez faire and open economy (Balassa, 1981). State intervention, if any, forces market conformity by aiming only to ‘get the fundamentals right’ (World Bank, 1993).

In contrast, the second-generation theory, emerging in the late 1980s
Globalization and the Developmental State

and early 1990s and advocated mainly by political scientists, argues that the key to East Asia’s success is the ‘developmental state’, an autonomous and strong political entity with a coherent corporate goal—development. State intervention in ‘late industrializers’ (LDCs) is pervasive, seeking to deliberately ‘set the prices wrong’ in order to create competitive advantage for the developing country (Amsden, 1989).

The popularity of the statist theory lasted until the outbreak of the Asian financial crisis. The once venerated East Asian model became discredited and scorned. While earlier admirers championed the East Asian developmental state as a model for other LDCs to emulate, today’s critics disparage ‘moral hazard’ and other undesirable collusive practices, especially financial sector weakness (Kaminsky and Reinhart, 1998).

The swift shift in explanations leaves much to be desired. In reality, the developmental state probably never exercised omnipotent presence as many enthusiasts believed. At the same time, it certainly cannot be as guilty as detractors portray. For the foreseeable future, the Asian states are likely to maintain their exposure to the world markets, rather than turning inward. Globalization undeniably will pose special challenges to the developmental state. But the proper response for the Asian states is to reform, rather than jettison, their developmental state. Reasons for necessary reform abound.

First, the political milieu of most Asian countries today reflects quite different concerns and realities from that during the take-off phase. Most Asian developmental states made their transitions to democracy in the 1980s-90s and some are well under way toward consolidating their new democracies. In the aftermath of decades of suppression, civil society begins to reassert itself as distributional coalitions form and postmodern values (Inglehart, 1997) gradually take hold. These trends mean that an increasingly large portion of the population seek to benefit from economic development and will use the political process to obtain them. For example, more than three decades of pursuing single-minded growth, environmental degradation constituted a costly and irreversible price. Facing these new expectations and priorities, the developmental state will have to promote a form of development that is true to the meaning— that is, balancing growth and sustainability, quantitative expansion and qualitative improvement, production and consumption (welfare), and foreign markets and the domestic market. In other words, development in a democracy should aim at improving security and the physical quality of life, rather than a singular focus on quantitative macroeconomic expansion.

Walden Bello and Stephanie Rosenfeld, two long-time critics of the East Asian developmental state, prophetically proclaimed almost one decade ago, “The old strategy of high-speed, export-oriented growth will
not get the NICs through the 1990s” (1992, 337). They called for a comprehensive and coherent vision of an alternative mode of development. They then went on to portray the contours of this new comprehensive alternative paradigm: democratic participation, the growth and consolidation of the domestic market, equity, sustainable development, a selective export policy, and the development of equitable regional associations (1992, 338-41). With corporations and NGOs undermining the authority of the state, it is increasingly doubtful whether a globalized world economy can afford a developmental state par excellence that pursues national interests in terms of maximizing its relative gains through the practice of neomercantilism.

Secondly, the operating principles of globalized economy juxtaposed against a developmental state consisting of competent technocrats insulated by authoritarian politicians without accountability to the public has become a practical impossibility and an anachronism in a world where information flows more freely. Increasingly, the need for political accountability reflects a popular theme among those calling for reforms in governance, whether on domestic or international level. Thus far, despite its evident benefits to a large number of people and states, globalization suffers from a paucity of democratic accountability. At the global level, many critics view the institutions and procedures as undemocratic and non-transparent and its impacts uneven or unjust. Tactics notwithstanding, the protesters at the World Trade Organization’s Seattle meeting in 2000 and the Group of Eight summit meeting in 2001 legitimately demanded corrections to globalization’s democratic deficits. Under this global context, a developmental state seeking to operate in secret and withhold information from its citizens cannot succeed in increasing its legitimacy. A fiasco like the Asian financial crisis actually provides a welcome wake-up call in the still unfolding historical process of globalization. We can learn from the crisis the importance of good governance.

Because of its emphasis on technology, globalization entails some potential (not guaranteed) to level the playing field between decision-makers and those that are affected by the decisions. For example, the computer and communication technology may enable the advent of ‘electronic democracy’. It can empower the citizenry by making it easier and more meaningful for ordinary citizens to participate in politics and express their views. By facilitating more participation in our unfortunate but necessary republican form of government, it may enable efforts toward good governance without too much government dictate. It also contributes to the emergence of a vibrant civil society. Many writers (e.g., Barber, 1995) have always considered the civil society as the necessary (but missing) link and buffer between the state and the individual. In the global
age, the civil society takes on new importance as the ‘human face’ between anonymous global forces and real individuals.

The third reason the developmental state needs reform rests in the realities of the internal dislocations caused globalization (i.e., to protect its citizens from the excesses of globalization). While globalization may bring material and political benefits directly to citizens by bypassing states that consistently censor information, it must also protect citizens from economic difficulties and the erosion of cultural values. For example, in China where the regime still strictly controls information and the media still primarily serves as a tool for government propaganda, the Internet allows more and more people to receive alternative information, allowing them to formulate political opinions outside those supported by the government. At the same time, does the global community have China’s best interest at heart in terms of economic and social development? These are difficult questions that the Chinese state must address as it reforms its political system.

At the same time, globalization can also expose people more directly to both the beneficial and harmful forces beyond the control of the state. Whereas in the past all politics may well have been local, as the former Speaker of the House Tip O’Neill once said, in the globalized world in which we live today, arguably all politics are global. In this regard, the developmental state should not ‘wither away’, by abdicating its responsibility to the global market forces that are best at producing efficiency and profits. It is unrealistic to expect corporations to provide global public goods, such as democracy, cooperation, and solidarity. If these public goods are provided at all by global market forces, they are afterthoughts or unintended consequences. Such values are too important to be relegated totally to an invisible hand.

For the foreseeable future, good alternatives to the state, albeit an imperfect institution, will still be hard to find. Optimists who pin their hopes on ‘corporate-like states’ replacing states are remiss. The state exists to advance the interests of a group of people with a clear sense of destiny that resides on a geographically defined territory. The capacity for the state to take care of people during hard times is particularly important, as the Asian financial crisis sorely demonstrates. The true test of the state therefore lies in its ability to protect its citizens from the harms of globalization and to enable them to benefit from the advantages of globalization.

Unless and until the state-centered Westphalian system is fundamentally overhauled, the developmental state will likely retain its raison d’être, but it will have to become a ‘kinder and gentler’ (perhaps even slower) entity. Since extrication from the global economy is not a viable option for the Asian states, the developmental state must retool itself
so as to cope with this still-unfolding process, known as globalization.

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