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Driving the Juggernaut: From Economic Crisis to Global Governance in Pacific Asia

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This chapter aims to provide a causal analysis of the East Asian economic crisis and, by doing so, to develop a vision of good governance. It is the thesis here that this vision of governance must come to grips not only with the mechanisms of globalization but also with the influence of cultural values, the combination of which produced the crisis.

Although much of the literature on the crisis points to globalization and cultural values as contributing to the crisis, these factors are largely dealt with separately. It is accepted that the state's sovereign power in economic management has been reshaped by globalization, but, ironically, globalization has dialectical and contingent characteristics as well (Giddens 1990, 64; McGrew 1992, 74). While it fosters the global economy at the expense of the state's power in economic management, at the same time it encourages civil society to challenge the state's power. Thus it provides opportunities for civil society to strengthen domestic and international governance.

It is also accepted that even as Asian cultural values helped to create the economic miracle, they played a part in the economic meltdown. While globalization has universal implications, culture is specific to time and place. This specificity is not only regional, it is also national. Leading up to the crisis, these cultural values interacted with the mechanisms of economic globalization within the context of old forms of governance, such as rule by connections and relationships. The interaction proved near-fatal, but the resulting crisis has presented an opportunity to challenge old forms of governance and create new ones.

Not every country in the region was affected by the crisis to the same degree. The impact was felt most in Indonesia, Thailand, South Korea, Malaysia, and the Philippines (a group henceforth referred to as the East

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Asia 5), less so in Japan, Taiwan, and Singapore, and even less in the transition economies of Vietnam, China, Cambodia, and Laos. Indeed, China was able to maintain its high level of steady growth. Similarly then, the opportunity to build new forms of governance in the post-crisis period varied from country to country.

In the face of the crisis, the role of global economic and financial institutions (GEFIs)—such as the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the United Nations Development Programme (UNDP), and the World Trade Organization (WTO)—was enhanced. Contained in their rescue packages for countries needing assistance were projects of good governance. These projects, together with the dialectical character of globalization, have had the result of strengthening domestic democracy.

To encourage civil society's participation is to resolve some problems of representation and participation in a representative democracy, but at the same time, it creates a cultural struggle for which form of governance will prevail. Again, there are different conditions in each country that produce different levels of domestic governance and domestic democratization. That is to say, conditions such as the degree of the impact of globalization, the prominence of cultural values, and the reliance on assistance from GEFIs can determine the development of good governance.

The GEFIs' program of global governance is not without problems. It aims to further economic liberalism, or what George Soros considers "market fundamentalism," in economic globalization. Yet the political question of who gets what, when, and how, and the ethical issue of reducing poverty and improving equality are left undealt with. Instead, the focus is on technical considerations of private and public management. Because this tends to serve the interests of countries having a dominant role in GEFIs, the inclination runs counter to international or global democracy.

States can still play a role in creating a regionalism that will lead to cosmopolitan democracy and good global governance. A new architecture of international finance can be built through this process. But in order to achieve cosmopolitan democracy and good global governance, it is necessary to enhance the roles of regional and global civil society. True democracy can be created only by the balance of the forces of the state, the corporation, and civil society at national and international levels.

Globalization, Economic Globalization, and Economic Crisis

First of all, globalization must be distinguished from economic globalization because the former can have a dual impact on the development of good governance. On the one hand, globalization, as opposed to economic globalization, has dialectical and contingent characteristics that create an opposition on the level of the local community. This increases the role of civil society in challenging the state's power so as to achieve better governance. On the other hand, economic globalization, as a part of globalization, played a part in creating the Asian economic crisis. The crisis then facilitated the role of GEFIs in promoting good governance.

Globalization is political, technological, social, and cultural, as well as economic. It has been influenced above all by developments in communications dating back only to the late 1960s (Giddens 1999, 10). Therefore, it is a complex of intermeshing cultural, social, political, economic, and technological elements that reduces the time-space span and makes people more connected and more aware of others around the world (Giddens 1990, 64; Hall, Held, and McLennan 1992, 5–6).

Additionally, globalization itself has contingent and dialectical characteristics that can reshape society's institutions and human lives (McGrew 1992, 74; Giddens 1990, 64). It has an impact on the nation-state in three ways: it "squeezes sideways" and creates new economic and cultural regions that sometimes extend beyond borders; it "pulls away" power, including economic management, of the nation-state; and it "pushes down" by creating local autonomy (Giddens 1998, 31–31; Giddens 1999, 13).

Conceptually, the impact of globalization on governance is best described by Zygmunt Bauman (Cantell and Pedersen 1992, 144):

> The most important phenomenon in Europe today is the slow withering away of the nation-state. The nation-state was a unique institution in history which united economic management, political authority and cultural hegemony. Today, economic management is moving away from the nation-state because of the globalization of the economy. The nation-state is no longer an economic system, self-contained or self-sufficient. As far as the cultural hegemony is concerned it moves downwards from the state. The movement is not upwards like the economy, but downwards towards social movements, communities, ethnic groups and so on. What is left in the nation-state is just pure political authority without it being supported by economic management and cultural hegemony. I wonder how long this fiction can survive without its two other pillars. At any rate, we are probably coming to the end of the nation-state.

Let me deal with the aspect of culture first. By culture, I refer, as put forward by Bauman, to "the way of life" informed by the perception, meaning, and understanding of conduct. That is to say, it is a pattern of human behavior informed by one's worldview. The cultural dimension here is not to be viewed as reification in a structuralist manner—namely, that culture is relatively fixed but not rigid. Culture is predisposed to have a high degree of fixity, but over time it can be changed. Accordingly, the state's control of cultural hegemony can be challenged and then weakened by social movements in civil society. The reason for this is that culture can be a battlefield between the state and civil society and, simultaneously, a place where cooperation can construct a new and better culture.

For instance, social movements may confront the state's cultural hegemony over public policy in order to gain a more participatory role for civil society. Specifically, societal forces may question the business culture's crony capitalism, where politics and business collude in running the nation's finances and economy. They will press for greater transparency and accountability and the participation of other independent societal forces. In this context, old forms of governance in Pacific Asia are challenged by a new culture of governance.

Nevertheless, cultural struggles do not emerge on their own. Globalization, with its contingent and dialectical components, helps to push down the state's power by creating local autonomy—challenging the state's cultural hegemony and handing responsibility to civil society. Global issues, such as the environment, poverty, AIDS, women's rights, and animal rights are not just part of the larger picture, but also occur on the level of local communities. Social movements on the local level, organized through networks of civil society, can thus be driving forces in challenging old cultural values to create a new and better form of governance.

Political power as held and exercised in East Asia differs from that in Europe. That is, European countries are more democratic, and Asian nations are more patrimonial—a situation which lends itself to more autonomous rule and more concentrated power. While the role of the state in East Asia may vary further from country to country, it is evident that the impact of economic globalization has been immense—so much so that the economic crisis proved to be beyond the control of any state. In fact, the state's role in economic management had been replaced by multinational corporations, GEFIs, and the invisible hand of financial volatility, especially on the global level.

Economic globalization can directly reshape and reformulate the state's management of the economy, but, it should be noted, the state maintains

its political power, which makes it distinct from a business corporation. Although some multinational corporations have budgets larger than those of some nations, and although they have great economic power, they have neither political legitimacy nor control of the means of violence within a nation. They are not military organizations, and they are not political or legal entities, which can control citizens (Giddens 1990, 70–71).

Furthermore, the nation-state should not be seen as a passive actor vis-à-vis multinational corporations or economic globalization. In the global economic context, even though "nation-states are the principal 'actors' within the global political order" and "corporations are the dominant agents within the world economy" (Giddens 1990, 71), the state can employ its political power to mobilize domestic resources against the globalizing economy. Yet the relative autonomy of the state is the result of economic globalization, and the importance of the forces of economic globalization remains.

The rapid mobility of capital in the financial system is a case in point—and particularly so as regards the economic crisis in East Asia. Giddens (1998, 30) contends that rapid financial flows have created the economic globalization that has reshaped the nation-state's economic management:

> Over a trillion dollars a day is turned over in currency exchange transactions. The proportion of financial exchanges in relation to trade has grown by a factor of five over the past fifteen years. "Disconnected capital"—institutionally managed money—has increased by 1,100 per cent on a world scale since 1970 in proportion to other forms of capital. Institutional investors based in the US alone held $11.1 trillion in assets in July 1996. Privatized pension funds, or bonds floated to fund pension schemes, are basic parts of this huge sum. In 1995 US pension funds, mutual funds and endowments held $331 billion in institutional equities.

The common thread in all financial crises—in Latin America in the 1980s, in the European exchange rate crisis of 1992, and in the Mexican bond crisis of 1994—was the volatility of capital flows (Flynn 1999, 24; Giddens 2000, 126–127).

Soros (2000, xiii) warns that the merits of market mechanisms should not be exaggerated. The law of demand and supply rarely leads to equilibrium. In fact, financial markets are unstable:

> Even in the service of individual interests, the market mechanism has certain limitations and imperfections that market fundamentalists ignore. For one thing, financial markets are inherently unstable. The theory of perfect competition takes the supply and demand curves as independently given. Where the twain meets, equilibrium is to be found. But the assumptions upon which the concept of

> equilibrium is built are rarely met in the real world. In the financial sphere they are unattainable. Financial markets seek to discount a future that is contingent on how it is discounted at present. Given the imperfect understanding of the participants, the outcome is inherently indeterminate. Thus, contrary to the idea of a self-equilibrating mechanism, the stability of financial markets needs to be safeguarded by the public policy.

For Soros, the main ingredient of the economic meltdown was the international financial system, while "other ingredients" varied from country to country (2000, 210). His contentions are in line with mine, because we both argue for coordination between the external factor of economic globalization and the internal factor of domestic or regional cultural values. Nevertheless, his analysis gives prime importance to financial flows rather than what he refers to as the Asian model, while I emphasize them equally. However, as Soros leaves room for "other ingredients," this provides some open-ended flexibility.[1]

The important point is that a tremendous rise in the volume of foreign exchange transactions results in higher volatility in the exchange rate, which affects activities in the real economy (Fukushima 2000, 128) and in the political arena. However, as Soros argues, the impact of the capital flows is unique in its ability to extend the crisis across regional boundaries. This uniqueness, which is related to the openness of a country to financial markets, produces different degrees of crisis.

In the case of Thailand, it is evident that the outflow and inflow of capital played a part in causing the economic crisis.[2] But the part they played may have been central to the crisis because, in the case of inflow, had it been used productively, the crisis might have been averted. As it happened, capital inflows were put to unproductive use, which is to say, toward the domestic culture of doing business in Thailand.

For example, deregulation and liberalization of capital inflow and outflow, as carried out by the Bangkok International Banking Facilities, was launched in 1993. The aim was to increase the inflow of funds to sustain rapid economic growth and to make Thailand a regional financial center (Delhaise 1998, 83). Thus was liberalized the regulation of global capital, foreign funds, and loans to local businesses. Thai banks acted as middlemen, re-lending to local firms and benefiting from the cheaper rate of interest compared with the domestic rate (Doner and Ramsay 1999, 183; Warr 1998, 60).

Nevertheless, the Bangkok International Banking Facilities was not used according to its stated purposes. By June 1996, US$69.4 billion had been

loaned, of which US$45.5 billion was in the form of one-year loans. Most loans were not hedged against currency fluctuations, and this money ration allocation was maintained until June 1997 (Flynn 1999, 25). By the time the IMF arrived with its rescue package, foreign debt was held primarily by the private sector—US$72 billion out of US$99 billion in total—(Warr 1998, 59). These loans had been misallocated to real estate and low-yielding commercial and industrial projects. Thus the financial crisis could be traced to the misuse of capital inflow, which harkened back to cultural values, or the way of doing business in Thailand. To attract foreign investment and capital inflow, the government deregulated capital control by making capital inflow, as short-term loans, easier to enter the country, and, simultaneously, by facilitating outflow as well. But the broader situation—marked by capital liberalization and deregulation, a low level of exports, a high level of foreign debt (especially in short-term loans), over-investment in real estate, speculation in the stock market, low-yielding sectors of the economy, and a high level of nonperforming loans—only kept the currency fragile. Foreign speculators therefore found it easy to attack the baht (Doner and Ramsay 1999; Flynn 1999, 25, 182; Warr 1998, 60). This, in fact, was what happened in November 1996.

Foreign investors then stopped giving new loans and withdrew their capital from the country. In 1996, capital inflow was 7.7 percent of the gross domestic product; in 1997, the same amount represented 12.6 percent of capital outflow (Fukushima 2000, 131). The Bank of Thailand was forced to float the baht on July 2, 1997. By January 1998, the baht had fallen from 25 baht per US$1 to 55 baht per US$1; a month later, it swung back to 45 baht per US$1. After that, the government had to ask the IMF for assistance. With the economic meltdown, the insolvency of banking and industrial firms resulted in the widespread closing of companies. Many workers, especially in the financial sector, found themselves without employment. Under these circumstances, the next election brought in a change of government.

In Indonesia, the country most severely affected by the crisis, the rupiah was floated in May 1998. From Rp2,500 per US$1, it reached its lowest point at Rp17,000 per US$1 in July 1997. The economic results were hyperinflation in import prices and a huge rise in the foreign debt burden, which ushered in further problems in the economy, society, and politics (Fukushima 2000, 128). In the aftermath, the country experienced malnutrition, social and political unrest, and ethnic conflict.

With financial liberalization but no prudent domestic regulations, South Korea was also affected by capital flows. But South Korea's was a liquidity

crisis (Kim 2000, 115). Between 1992 and 1996, loans to South Korea increased by 158 percent, far outpacing the 44 percent rise in total lending by G10 banks[3] to other developing countries. At the end of 1996, loans to South Korea amounted to over one-quarter of all loans to East Asia. The banking sector accounted for 66 percent of all lending by international banks, while 28 percent went to the non-banking private sector and 6 percent to the public sector. In the period1994–1996, lending to South Korea doubled from US$47 billion to US$85 billion (Smith 1998, 72). These loans were mainly short-term, and they exceeded 60 percent of South Korea's total external liabilities. This exposed the danger of liquidity shortage in the event that these loans were recalled suddenly (Kim 2000, 115). And this is what really happened. When the crisis began in Southeast Asia, international banks stopped lending to South Korea; they called in their loans, and South Korea had its crisis.

Malaysia was also hammered. From a pre-crisis 2.50 ringgit per US$1, the currency fell, by August 1998, to 4.20 per US$1—a devaluation of 40 percent. The Philippines was the least affected of the East Asia 5, with only a 35 percent devaluation of the peso between July 1997 and October 1998. This was due to its relatively low foreign debt of US$45 billion (Yusuf 2000, 163), which also implied that the Philippines had not opened itself to the global financial markets as much as had other countries.

In the transition economies of China and Vietnam, the impact of economic globalization was comparatively less. The two countries had a prudent regulation of capital inflow, which meant that the level of openness to global capital flow was low in relation to the ability to repay loans. In China, by the end of 1997, foreign debt amounted only to the moderate level of US$131 billion. In addition, over 80 percent of its foreign debt was of long maturity, with about half consisting of loans from international organizations and foreign governments (Song 1998, 105–106). Vietnam's banking system may have been no stronger than that of the East Asia 5, but the underdevelopment of its financial system, the high degree of control over foreign exchange transactions, and the restriction of private capital inflow to mainly foreign direct investment shielded the country from the crisis (Leung and Doanh 1998, 121; Turley 1999, 289).

Indeed, the transition economies by their nature, because of their kind of debt, had better prudential regulation of capital flow than did developing economies. While the debt of developing economies focused on the private sector, the debt of transition economies tended toward the development of state-owned enterprises (SOEs). Because governments in transition economies could closely oversee the capital flow, they could more easily control it.

The obverse, however, was that the close link between SOEs and their banks also meant a very weak financial sector (Rana and Lim 1999, 6). That is, with a low level of involvement in global financial markets, the transition economies experienced the effect of economic globalization to a lesser degree.

It is clear that in country after country, economic globalization, especially as regards globally integrated financial markets, was a large factor in the economic crisis. Giddens (2000, 126) writes:

> What happened resembled financial panics of earlier times, but took place with greater speed, scope and intensity because of the instantaneous character of global market reactions today. It isn't only that there can be a sudden surge of capital out of a country or area—capital can rush into favoured hot spots as well. Both processes have undesirable effects. The damage produced by rapid outflows of money has been evident in each successive crisis. But surges of capital inwards can also have destabilizing effects, leading to the over-valuation of exchange rates, rising property and asset prices, and a bubble economy.

Global financial markets are volatile, unstable, irrational, and uncontrollable. They also have an economically adverse effect on the local country. Soros (2000, xxii) may be right in claiming, in the context of financial markets, that "our understanding of the world in which we live is inherently imperfect. We are part of the world we seem to understand, and our imperfect understanding plays an active role in shaping the events in which we participate." The modern world is a juggernaut (Giddens 1990, 138–139), as is the global financial system. We cannot know all the complicated mechanisms in this modern capitalist world. As we cannot understand them, the outcome is unpredictable and uncontrollable.

Cultural Values and the Economic Crisis

Asian values, as the dominant cultural norms, played a part in the crisis as well. There are Western versions of the relationship between culture and economics, as, for example, Max Weber's *Protestant Ethic and Spirit of Capitalism*. In the East, the spirit of Confucianism in Asian values assumes the place of the spirit of capitalism. Confucianism stresses the principles of harmony, respect for authority and the elderly, loyalty, benevolence, meritocracy, literacy, and scholarship, and it is often considered as the bedrock of the economic miracles of Japan, South Korea, China, and Singapore (Flynn 1999; Han 1998; Han 1999; Kluth 2001, 4–5). This is the positive side of Asian values.

Economic growth in East Asia requires a "paternalistic state, government guidance and protection of private enterprises, a communitarian outlook and practices, and an emphasis on social order, harmony, and discipline" (Han 1999, 4). Most of these conditions could be provided by Asian values, particularly in the early period of industrialization, when such an environment proved conducive to success.

From the West's point of view, there is also a negative side to Asian values, as seen in the nepotism, favoritism, informal interpersonal relationships, patron-client networks, and corruption that gave rise to crony capitalism. These characteristics of Asian values are deemed to have been a cause of the economic crisis. In the age of globalization, which requires "transparency, accountability, global competitiveness, a universalistic outlook and practices, and an emphasis on private initiative and the independence of the private sector," these aspects of Asian values are inappropriate (Han 1998, 64).

Within the realm of Confucianism, *guanxi* existed as a way of doing business through relationships and connections. Thus was *guanxi* transposed from a cultural context to an economic one. The system of *guanxi*, which originated with the Chinese, is employed in developing Asian countries, decreasing the fixed costs of business management in relatively small firms. Compared with the rules-based system of management in developed economies, the costs of management in the *guanxi* system are cheap. However, as businesses grow and economies become more complex, the incremental costs of doing businesses also increase. At this point, the costs of the management in the *guanxi* system exceed that of the rules-based system, so in a market economy the *guanxi* system cannot be expected to survive (Kluth 2001, 18).

But before going further, let me define my terms. Asian values vary from one country to the next within a region. The larger the space, the more variety and difference in values. That is to say, although Confucian cultural values are dominant, there are also other subcultural values in the subregions of East Asia. As Han Sung-Joo argues, East Asian countries share general values, but they also have diversity in their particular subset of values (Japan Center for International Exchange [JCIE] 1998, 20). Nevertheless, there is the rubric of Asian values under which a consistency of practices falls.

It is critical that one understand how values vary within and among countries and subregions, as well as how they may be selected and combined (Han 1998, 71). The interaction and acculturation between dominant

and subregional cultural values contribute to the specific and dissimilar results that can be seen. For instance, why was Singapore, with its explicit Confucian influences, less impacted by the crisis when compared with South Korea, which has a similar Confucian culture? How does one explain the situation in such East Asian countries as Malaysia, Indonesia, and the Philippines, which have cultural influences like Islam and Catholicism that do not exist in Northeast Asia?

This form of cultural analysis, first of all, enables us to study cultural values as dynamic and flexible. It can avoid what Stephanie Lawson (JCIE 2000, 12) calls a simplistic model of "static and deterministic conceptions of culture and cultural communities" that considers culture as having an enduring essence, fixed immutable identity, homogeneity, and no differences in cultural communities. If cultural values can influence the East Asian governance model that created the crisis, and if cultural values are not fixed, then civil society can join the cultural battle, employing values on the political front to challenge old forms of governance. Second, the analysis is open-ended, entertaining cultural differences and cultural adoption and adaptation. As Lawson suggests, to study culture in a fixed framework is to deny creative combination emerging from cross-cultural interaction. This also affords us a more variable explanation as to why the crisis differed from country to country.

The thrust of this analysis is that "overseas Chinese"—that is, Chinese who have emigrated from the mainland to other countries—act as carriers of dominant Asian values. In Northeast Asia, China, with its cultural and historical development, is the cradle of Asian culture. Even though its neighbors, South Korea and Japan, have cultural differences as a result of modern cultural development, they share the root of Asian culture. This is the state of affairs in Hong Kong and Taiwan, although the former is a special case, having been a part of the British Empire until 1997.

In Southeast Asia, the influence of the overseas Chinese is undeniable, even as the spread of the Chinese population may vary. For example, in Indonesia 3 percent–4 percent of the population is Chinese; in Malaysia it is 30 percent; in the Philippines, 2 percent; in Singapore, 78 percent; in Thailand, 14 percent. The ratio of overseas Chinese population to the general population matters less, however, than the economic power they exert, which is significant. In Indonesia the overseas Chinese share of market capitalization is 73 percent; in Malaysia the share is 69 percent; in the Philippines, 50 percent–60 percent; in Singapore, 81 percent; in Thailand, 81 percent (Kluth 2001, 5). With economic power so great, it is clear that

the overseas Chinese business culture has a huge influence on economic development in the region.

If there are Asian values, such as Confucianism and *guanxi*, then overseas Chinese are the best medium to spread these cultural values. And if there are Asian values in the business culture of overseas Chinese, it naturally influences the way of doing business in each country where they can be found. Given that Asian values have been associated with the economies of East Asia, then there has to be a correlation between the behavior of overseas Chinese and the boom or bust of economies in the region. And so, in the same way, do overseas Chinese have an impact on the mode of governance in East Asia.

Nevertheless, this is not a game of blessing or blaming overseas Chinese for the economic boom or bust in Southeast Asia. The role played by local elites, such as politicians and bureaucrats, whose frames of reference are forged by subregional cultural values, has got to be taken into account. As such, the processes of interaction, integration, and acculturation that go on between dominant Asian values and subregional values yield a new way of doing business. This synthesis is congruent with Han (1998, 71):

> Whether Asian values have played a positive or negative role has depended largely upon which stage of political and economic development a particular country happens to be in, upon the way such values are selected and combined, and upon the dynamics among the various elements within the larger phenomenon called Asian values.

This synthesis of Asian cultural values has given rise to what Flynn calls "rule by connection," or economic management through networks of connections (1999, 3; 145–146), which manifests itself in patron-client relationships, nepotism, cronyism, collusion between business and politics, and corruption. It is this mode of governance, in combination with economic globalization, that is in part the cause of the Asian economic crisis.

Cultural interaction and acculturation can encourage certain outcomes, or they may render a clash between cultures. As regards the Asian crisis, it would seem the former was the case. While cultures may have clashed, adaptation and reintegration of values produced a certain outcome—the economic crisis. Thus, it becomes clear that cultural values are a double-edged sword. How these values are adapted and implemented in a changing environment determines whether the outcome will be beneficial or not. This may help to explain why Singapore—heavily populated by overseas Chinese and strongly influenced by Confucianism, but inclined toward

social order, discipline, and community—did not suffer from economic crisis to the same degree as other countries.

Rule by connection can occur on the macro, or structural, level. Informal agreements, favoritism, close interpersonal relationships, deference to authority, and *guanxi* are transposed into a pattern of state paternalism, collusion between government and business, and government guidance and protection of private enterprises. Thus are Asian values institutionalized into a system of governance.

At the micro level, Asian values see expression as cronyism, nepotism, clientelism, and corruption among the business sector, politicians, and bureaucrats. Cultural values become habituated in human agents, informing their daily practices in business and economic affairs. What occurs on one level is often reflected in the other.

In Northeast Asia, the influences of Asian values are more direct and explicit. That is the case in Southeast Asia as well, but here they come in contact and are integrated with subregional cultural values. As a result, rule by connection assumes new characteristics, depending on the country, with different expressions on the macro and micro levels.

Today, Han (1998, 68) argues, cultural values in China are a mixture of Confucianism (along with Taoism and legalism), socialism, and pragmatism; together, these values inform the behavior, practices, and institutions of the country. At the macro level, these cultural values infuse the connection between the party-state and business, with the party-state exerting strong control over finance and investment despite the growth of the private sector and the market economy. In this respect, culture is also often influenced by politics, which is to say, communism. The factions that connect ministries, enterprises, the central bank, and provincial governments determine policies and their implementation as well as consensus and acceptance (Flynn 1999).

At the micro level, Chinese business culture is different from that of most East Asian countries because of SOEs. Because these enterprises are state-owned, private interests have less at stake (Kluth 2001, 13). There is a fledgling private business sector, and, accordingly, interpersonal relationships are not at as much of a premium as they are elsewhere in Northeast Asia. Interpersonal vested interests are overshadowed by "people interest" here, and this is one reason that foreign investment continues to flow into China.

One potential problem, however, is the transposition of cultural values to the macro level. In the absence of effective regulations, the connections among factions and the close relationships among party-state, financial

institutions, and SOEs may render the system economically vulnerable. For instance, unsound lending by financial institutions to unprofitable SOEs will hurt national economic performance (Song 1998, 115; Lardy 1999, 92–93).

In Japan and Korea, Asian cultural values are transposed to the developmental state, that is, a "combination of state banks, economic planning and steering, an alliance between finance, government, and business, and pursuit of an ideology of national development" (Flynn 1999, 52). This is rule by connection at the macro level, where the values of building consensus, avoiding confrontation, and submitting to authority, with the government in the lead, are put in the service of development. In Japan, bureaucrats of the former Ministry of International Trade and Industry (MITI) played a crucial role in the direction and development of business; in South Korea, a very tight relationship existed between government and the *chaebol* (conglomerates). These connections were an important contributor to poor economic performance because government guidance and protection allowed mistakes and losses to be hidden (Flynn 1999, 13).

The same pattern of connections exists in Thailand, where the perception was that Thai banks would not be allowed to collapse despite their difficulties. This apparent invulnerability led to economic disaster (Doner and Ramsay 1999, 182–185). At the micro level in both Japan and South Korea, the close relationship between government and business is expressed through family and political party networks, sometimes both. Affiliations outside official relationships have created a network of multiple affiliations (Flynn 1999, 35), which lubricates the formal relationships in the running of the economy.

Corporate familism, over-lending by financial institutions, loan misallocations, over-investment, and investment fads became the way business was done (Jackson 1999, 5–6). In South Korea, the *chaebol* over-borrowed from institutions managed by themselves or by others closely related to them (Flynn 1999, 34–35). In Japan, at the end of 1997, Japanese banks declared some ¥76.70 trillion in nonperforming loans, many of them to companies that had been successful at hiding their insolvent assets (Asher and Smithers 1999, 38–39).

In Southeast Asia, these Asian cultural values are less dominant. Overseas Chinese are a minority in most countries, including Indonesia, the Philippines, Thailand, and Malaysia, even as they wield tremendous economic power. In Singapore, however, overseas Chinese are the majority, there has been widespread integration and acculturation, and Asian values were

put to positive effect in creating the economic miracle and preventing an economic meltdown. The reason for this is that Confucian values, as discussed above, were transposed to good governance on the macro level—a government and public and private sectors that were clean and effective. Asian values on the micro level of interpersonal relationships, with practices such as clientelism, cronyism, and corruption, were less prevalent. Although Singapore has state paternalism, Asian values have impacted positively on the state on the terrain of economic management.

In Thailand, the local elite with their indigenous culture of patron-client relationships integrated and acculturated dominant Asian values that came with overseas Chinese. This established a pattern of collusion between government and business, but not in the same manner as in the developmental state; here the motivating factor was not national development but self-interest. At issue was, simply, the rule by connection, on both the macro and micro levels, for the interest of patron-client networks. Conspiracies among politicians, bureaucrats, and business were formed—a relationship described by Riggs (1966) as pariah entrepreneurship in a time of bureaucratic polity.[4]

Arriving in Thailand, overseas Chinese brought with them their Asian values as a way of doing business. With pressure from the Thai elite, which was launching its economic nationalism and "Thaification" projects during the mid-1930s to late 1940s, overseas Chinese found their place under the ruling Thai umbrella. Neatly adjusting and integrating their Asian values to the Thai patron-client way, the overseas Chinese ran their banks by being submissive, informal clients of their favorite bureaucrats and politicians. Once this interpersonal pattern of doing business was established, corruption was not far behind.

A shift in power has occurred, from bureaucrats (who reigned during the period of pariah entrepreneurship of bureaucratic polity) to provincial politician-businessmen (in a period of crony capitalism during a so-called full democracy), but this has been just a changing of actors. The core cultural values, resulting from the integration of patron-client relations, Confucianism, and *guanxi*, remain. The roots of the corrupt Thai economic culture persist in the tripartite conspiracy of bureaucrat, politician, and overseas Chinese businessmen.

As indicated above, Chinese constitute about 14 percent of the population of Thailand, but they control 81 percent of the market capitalization. In fact, in 1996, fifteen families controlled more than 50 percent of the total value of the corporate assets of the country (Kluth 2001, 6). Given

these overwhelming numbers, the overseas Chinese business culture in Thailand, which was corrupt, can be said to have contributed significantly to the economic crisis. I hasten to emphasize that overseas Chinese are not to be singled out as scapegoats because the corrupt business culture could not have taken hold without the cooperation and involvement of the local elite.

This is a very similar pattern to developments in Indonesia, Malaysia, and the Philippines. In Indonesia, dominant Asian values were brought by the overseas Chinese. These cultural values were integrated into local Indonesian cultures, which Han (1999, 5) considers to be a mixture of traditional Javanese culture, Islamic influence, and the pragmatic military orientation of the "new order." Indeed, there is also acculturation among local cultures. Sukma (1999, 141) suggests that the value system of the "new order" incorporates the traditional Islamic Javanese cultural values, such as consensus and deliberation in politics, communitarianism, social order and harmony, and respect for authority and elders. However, to ensure this system, it must have compliance, which it gets through a combination of cooption, selective repression, and rewards. The result is a family-like political format that circumvents the emergence of any real competition. Into this landscape entered the overseas Chinese, who—at only 3 percent–4 percent of the population, but controlling 73 percent of Indonesia's market capitalization—were brought under the control of the local elite, with whom they established patron-client relationships.

Something similar occurred in Thailand, but while patron-client relationships there led to competitive bureaucratic and business cliques, clientelism in Indonesia led to a monopoly run by the family of President Suharto (Jackson 1999, 16–17). The combination of Asian values with Indonesian values "has worked systematically and gradually toward the creation of a noncompetitive or familylike political format that forbids the emergence of opposition" (Sukma 1999, 141). Nevertheless, for a while this system worked in both political and economic spheres. In Indonesia the fifteen wealthiest families control more than 60 percent of the total value of the country's corporate assets (Kluth 2001, 6).

Malaysia is unique in that the interaction of the indigenous cultural values of the local elite and the dominant Asian values of overseas Chinese has produced a clash, with ethnic problems resulting. Islam is ingrained in Malaysian cultural values, and the elite has employed these values to legitimize the authority of government (Han 1999, 5). Although religion can be critical of the abuse of power, religion can also be used to justify it

(Noor 1999, 173). In Malaysia's case, local cultural values have been used by the Bumiputra, Malaysians of Malay origin, to dominate political power to increase their interests over ethnic Indians, and to correct imbalances between Bumiputra and overseas Chinese (Flynn 1999, 101).

While there is xenophobia in Malaysia (Soros 2000, 202), the Chinese, at 30 percent of the population, still control 69 percent of market capitalization (Kluth 2001, 5). So the Chinese business culture continues to exert its influence on the Malaysian economy. Moreover, as regards the local elite, rule by connection through the political party United Malays National Organisation (UMNO) is strongly in evidence, with companies related to UMNO receiving government contracts for big projects (Flynn 1999, 100). Therefore, we can see that in some places the local indigenous cultures can come to play the eminent role instead of the dominant cultural value, demonstrating the complex ways, and consequences, of cultural integration.

In the case of the Philippines, the influence of Asian values is complicated by the country's long history of colonization by Spain and the United States. However, during the Ferdinand Marcos regime, the situation in the Philippines was similar to that in Thailand and Indonesia before the onset of the economic crisis. At the macro level the pattern of rule by connection backed by rule by force was predominant (Flynn 1999, 155), while corruption, cronyism, favoritism, and clientelism were explicit at the micro level of interpersonal connections. In this sense, the powerful overseas Chinese minority could be brought under the umbrella of the local elite, the result being a form of crony capitalism common to Thailand and Indonesia.

After the People Power revolt of 1986, when the Marcos government was overthrown, however, Filipino cultural values were reoriented from family interest to state interest (Romero 1999, 180, 213). Although undesirable residues of the old regime such as cronyism, special privileges, and corruption remain, there is a trend away from the old values of rule by connection backed by rule by force.

The Economic Crisis and the Coming of Good Governance

The thesis here is that the integration of dominant Asian values with local cultural values combined with the influences of economic globalization brought on the Asian financial crisis.

As stated above, nothing much would have been wrong if capital inflows had been used productively. Nor would the economic crisis have been so severe if foreign capital inflows had been limited. These two ifs are very big, however, as neither was the case. The internal force of corrupt domestic culture acted in concert with the external force of the globalizing economy to endanger economic stability in Pacific Asia. Depending on the degree to which cultural values at both the micro and macro levels were transposed (or the degree to which the state and business were colluding) and depending on the coordination between the mechanisms of cultural values and economic globalization, the crisis left countries in the region crippled.

How could banks and financial institutions have allocated such enormous sums, borrowed from foreign entities, to domestic lenders for them to invest in unproductive and over-supply businesses (for example, the petrochemical or iron industries) for so long? The mechanisms of economic globalization and cultural values were such that decisions to allocate capital inflow were made by connection, not by considerations of the marketplace. The dark side of cultural values caused foreign capital to be misallocated. Even so, in the face of a globalized economy, it may be understandable why governments in the region chose to put their system of representative democracy to such use, because economic performance was critical to their political survival.

This was the case in transition economies like China as well. While its concern is not reelection, it is governmental legitimacy, which is conferred by successful economic development. In this environment, a "privileged position for business" is created, which governments feel a need to indulge (Lindblom 1977). The privileged position is enjoyed particularly by the financial sector, which determines the power structure of business in capitalist economy. Theoretically, this power structure is neutral; a government's indulgence to business may be good or bad depending how it was done and how much was involved. In any case, it was the cultural transposition of the rule by connection in governance that created the crisis.

The countries most damaged by the financial crisis were the emerging market economies of Indonesia, Thailand, and South Korea, all three of which exemplify the conditions indicated here. In Thailand, the relationship between politics and economics has been powerful for decades, with commercial banks servicing politicians and providing resources for commodity exports and industrial growth. This marriage of influence ensured the guarantee of the government and the Bank of Thailand that banks would not fail. Accordingly, the banks and financial companies, which were

controlled by overseas Chinese, could act with impunity and continue to misallocate loans (cited by Doner and Ramsay 1999, 182–184). The banks' position at the macro level was supported by the interpersonal relationships between borrowers and lenders at the micro level. The situation with the Bangkok Bank of Commerce is a classic example. The Bank of Thailand had to support the Bank of Commerce with nearly US$7 billion even though it had violated several directives from the central bank and had engaged in fraudulent behavior. The Bangkok Bank of Commerce had, moreover, provided loans to politicians who lacked sufficient collateral and used the funds for real estate development, which then failed (Flynn 1999, 185).

This example is just one among others. Bankers and financiers also extended loans to a closed circle of friends and relatives, especially in such nonproductive sectors as real estate and the stock market. Given the financial liberalization, deregulation, and capital inflows, the crisis might not have reached such proportions had the loans not been used so nonproductively. If internal economic fundamentals had remained solid, foreign investors would not have panicked and withdrawn their funds. At the same time, if foreign capital inflows had been limited and if the limited funds had been put to more productive use, the economic crisis would not have been so severe. With limited capital, a small economy, and fewer interrelations with the globalizing economy, the impact of the crisis might have been controlled.

In South Korea, the pattern is quite similar. Both major commercial banks were implicitly and explicitly guaranteed by the central bank. Therefore, it behooved international banks *not* to reduce their credit line, which defined the limits for entering into such transactions as currency trades and interest-rate swaps, even when they could see trouble brewing (Soros 2000, 217). Moreover, South Korea's entry into the Organisation for Economic Co-operation and Development (OECD) deregulated financial flows, especially foreign borrowings.

For over thirty years, foreign capital in South Korea had been allocated through cultural values such as "tight family control which had been exercised through the government-bank-*chaebol* network" (Flynn 1999, 66). This network produced the model of economic development of "monopolistic competition across industries." As a result, the top thirty conglomerates accounted for over half of the country's gross national product, with the top five conglomerates responsible for one-third of the country's total production (Pyo 1999, 159).

Monopolistic competition reflected the fact that the *chaebol* also monopolized foreign capital inflows, which to a large extent was a reflection of the misallocation of financial resources. A *chaebol* is a large-scale group of companies whose business activities are controlled by a single person or family or entity. With the influence of the *chaebol* so great, government provided them with abundant fiscal incentives, and the *chaebol*, having close relationships with the political authorities, were able to grow quickly (Chung and Wang 2000, 60–61). The spiral continued; by the end of 1996 the balance sheets for the *chaebol* showed debts and liabilities much larger than equity and assets (Flynn 1999, 19). International lenders called back their loans, foreign investors withdrew their investments, and South Korea was in financial crisis. However, as in the model of the developmental state, the ideology of national development afforded South Korea a comparatively stronger economic recovery than took place in Thailand, which had a higher level of individual self-interest.

In Pacific Asia, Indonesia was probably the most severely hurt by the financial crisis. In terms of business, Indonesia was also the most monopolistically controlled—by the family of President Suharto—and international loans were consistently allocated to their clients and cliques, who were involved in their various operations. In the region in 1996, Indonesia had the largest number of companies controlled by one family. In the country, the Suharto family was the largest stockholder with assets worth US$24 billion, controlling 16.6 percent of total market capitalization, even as the top fifteen families accounted for 61.7 percent. Through business groups led by Suharto's children, relatives, and business partners, many of them with political authority, the family controlled 417 listed and unlisted companies (Husnan 2000, 19–23). With such a concentration of power and resources, the degree of self-interest among the people controlling the economy was monumental. And the effects of the crisis much worse.

The crisis was less severe in Malaysia and the Philippines—compared with Indonesia, South Korea, and Thailand—as the mechanism of cultural values in creating the crisis was less prominent. One reason is that dominant Asian values were not so neatly integrated into the local culture of the elite. Another is that their level of engagement with the global financial system was relatively low. As Soros (2000, 216) observes, countries that regulate and control currency trading suffered less disruption. Thailand, with a financial system more open than Malaysia's, as reflected in their level of freely convertible currencies, therefore was hurt more. The Philippines had a low level of exposure to global finance, having less short-term debt than

others of the East Asia 5. In fact, in 1993, the World Bank excluded the Philippines from the list of "miracle economies" in Asia, as it was "never one of the fastest-growing economies of the region" (Flynn 1999, 104).

In the transition economies, the crisis was less than for the East Asia 5 for two reasons. First, cultural values were less influential because of state-owned enterprises. Rule by connection was established at the macro level of party-state and business collusion, while cultural transposition to the micro level of interpersonal relationships was weakened by the interest of "the people"; that is to say, the SOEs were owned by the government. If these countries were to liberalize their economies, however, the mechanism of cultural values would, I fear, work quite effectively in generating economic crisis. That would be the case for China much more than for Vietnam because of China's higher level of engagement with economic globalization.

Second, the control and regulation of financial markets in transition economies were prudential. That was not the case with the banking systems of these countries, however. As regards China and Hong Kong, the latter's banking and financial systems were more fully developed and in place, but because the renminbi was not freely tradable, China was not hard hit. If the renminbi had been tradable, the Chinese economy would have collapsed (Soros 2000, 216).

In the small economies of Laos, Cambodia, and Myanmar, the mechanisms of economic globalization had greater influence—in the obverse—than did cultural values. There may have been mismanagement and misallocation of capital owing to Asian cultural values—including, in Laos, widespread corruption, and, in Cambodia, a lack of a legal framework for the private sector (Wescott 2001, 11, 30)—but these countries were less impacted by the crisis than either the transition economies or the emerging market economies by virtue of their nonentry into global finance and economic globalization. We hardly hear news of economic crisis in these countries, including in the closed economy of Myanmar.

Up until this point, we have seen how economic globalization and the integration of dominant Asian values with local values were the driving forces of the East Asian economic miracle. We have also observed how they were the impetus of the economic crisis. Although one may argue that both mechanisms were hidden in the economic boom and delayed the economic bust, at the end of the day they produced the crisis.

Nevertheless, both mechanisms are double-edged swords. By learning the lessons of the miracle-turned-meltdown, perhaps we can prevent the

same from happening again. Good governance would seem to be the answer. Governance is "the manner in which power is exercised in the management of a country's economic and social resources." It is associated with "predictable, open, and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participation in public affairs; and all behaving under the rule of law" (World Bank 2000). In short, there are four conditions for good governance: accountability, participation, predictability, and transparency (Wescott 2001, 1).

The wake of the financial crisis saw a growing role in the region for global economic and financial institutions, such as the World Bank, ADB, IMF, UNDP, and WTO. Countries in crisis needed rescue packages. Assistance and loans from these GEFIs came with the condition of good governance. Whether governments liked it or not, they had to practice, or at least pretend to implement, good governance. Such a condition may be risky, however, because rapid economic recovery will reduce the motivation for governments to reform (World Bank 2000, 89). For governments in East Asia, the will to reform is crucial, but nothing is simple. As has been seen in this region, the interests of the elite normally come before the interests of the nation.

However, there are positive signs, especially in the East Asia 5, which is the grouping most affected by the crisis. Governments have demonstrated reform-mindedness, and public and corporate sectors have voluntarily accepted the tenets of good governance. In Thailand, for instance, the government has adopted good governance as a national agenda, providing the thrust for reform in the public sector. It has sought to enhance the independence of regulatory agencies, corporate governance, and legal structures. Although all this comes after a crisis, such steps are immense. The perception that good governance is a required instrument for rectifying the effects of the crisis is essential.

Good Domestic Governance, Deepening Domestic Democracy, and Cultural Struggle

Good governance, with its ideas of participation, transparency, openness, and accountability, will help to deepen domestic democracy in East Asia. To the extent that the concepts of representation and representative democracy are problematic, the participation of civil society, which is a tenet

of good governance, can decrease problems that may arise. Globalization supports cultural struggles of civil society against the state. As a result, the cultural mechanism that was coopted by the state and that partly caused the crisis can be challenged.

On the other hand, following Higgott (2000), I also contend that the GEFIs' programs of good governance will de-politicize and de-democratize power relations at the global level. When these institutions employ programs of good governance, the technical concerns of public management replace the political and ethical question of equality and of who gets what, when, and how in the global economic system. In the end, the question is, Who benefits? And if richer countries use global governance to centralize their economic managerial power, regionalism leading to cosmopolitanism may be the ideal. Good governance should not stop at the national level; it should extend to the global level in the light of cosmopolitan governance and democracy, not as market fundamentalism.

The financial crisis revealed the internal workings of cultural values, which have been at the heart of corruption, nepotism, and cronyism in both the public and private sectors. To remedy the economic problems, a system must be put in place to eradicate such malpractice. In Thailand, civil society and academicians have tried to educate the public about good governance in both the private and the public spheres. The need for accountability, transparency, efficiency, responsibility, and the participation of civil society has been advocated.

This has occurred in tandem with the condition of good governance stipulated by the GEFIs for countries receiving financial assistance. Two themes have been emphasized: governance in management aimed at reform of public institutions and governance in the corporate sphere aimed at reform in the private sector.

Public governance is connected with the restructuring of institutions in order to respond with increasing democratization and globalization, which in turn require accountable, transparent, and effective public sector institutions. Institutional weaknesses, such as ineffective and overprotected SOEs, ineffectual and excessive state regulation, antiquated civil service rules, government policies preventing competition, lack of governmental accountability and probity, and abuse of public office for private gain had largely been ignored; the crisis brought these problems to the fore (World Bank 2000, 85–86).

Technical assistance can help to provide for reform in public financial management, administrative and civil services, regulatory and legal

development, and anticorruption (World Bank 2000, 87–88). In the ADB's governance project in the Greater Mekong Subregion, which includes Cambodia, Laos, Thailand, and Vietnam, effective governance and public management have required reform in institutions such as the national assembly, public administration, public finance management, line ministries and departments, subnational government, and the legal and judicial system (Wescott 2001).

Corporate governance, in the ADB project, is associated with the reform of structures where governance has been weak, such as boards of directors, internal controls, audits, disclosure, and legal enforcement. Because governance has been wanting in these areas, the East Asia 5 was plagued by overcapacity, bad investments, excessive diversification by large business groups, and excessive exposure to debt, especially unhedged short-term foreign debt. To confront these problems, corporations must put into place, first of all, a set of rules that defines the relationships among shareholders, managers, creditors, the government, and other stakeholders; and then a set of mechanisms that directly or indirectly helps to enforce those rules. Both aspects vary greatly across countries depending on the interplay of political, economic, legal, cultural, and historical factors (Capulong, Edwards, and Zhuang 2000, 5).

In the post-crisis era, rules relying on connections have to be discarded and replaced by mechanisms for responsible corporate governance. Capulong, Edwards, and Zhuang (2000, 5–17) proposes the following. First, disclosure of ownership: the concentration of ownership, which reveals the distribution of power between managers and shareholders; and the composition of ownership, which identifies the shareholders and, more important, their affiliations. Second, control by and protection of shareholders: through boards of directors, which monitor management and operations; by executive compensation, which gives incentive to executives to keep ownership separate from control of the company; with minority shareholder rights, which provide opportunity for shareholders to participate in corporate decision-making; and by transparency and information disclosure, which are key to effective shareholder control and protection.

Third, monitoring and disciplining of companies: by creditors, which give recourse to creditors in the event of default on debt payments or violation of debt covenants; and through insolvency procedures, which give rights to creditors in the event of insolvency. And fourth, relying on the market: to determine control of the corporation; and to act as an external check on internal management through the possibility or threat of mergers.

Although public and corporate governance operate in different spheres, in the context of the Asian financial crisis they cannot be easily separated. Public and corporate governance can be seen as having merged for three reasons. First, when the crisis occurred, states had to use public money to resolve problems in the private sector for the sake of national economic stability. Second, many bodies that regulate corporate governance are public bodies. Third, the transposition of cultural values to the macro level of state-business collusion blurs public and private boundaries. It is strategically useful to tackle problems in public and private management separately, but at the same time we also have to be aware of the effects of the "no man's land" between them.

The practice of good governance in public and private management will be useful for social, political, and economic development in East Asian countries. The emerging market economies of the East Asia 5 could benefit most. They would gain not only by reforming public and corporate structures and institutions, but also by creating a solid base for future development under the pressures of a competitive globalizing economy—something that will benefit the emerging market economies of Hong Kong, Singapore, and Taiwan. Indeed, a country like Singapore has already gained advantage from good governance, which markedly reduced the severity of the crisis.

The crucial point is that the practice of good governance can be an instrument to counter the integration of dominant Asian culture with indigenous culture, which, as has been shown, resulted in corrupt cultural values on the macro as well as micro levels. The GEFIs' insistence on rule by the market as opposed to rule by connection is a step in that direction. By the East Asia 5 countries' having to accept the conditions of the GEFIs, it is hoped that the norms of accountability, participation, predictability, and transparency in public and corporate management will see changes in the interpersonal relationships on the micro level.

In this regard, GEFIs can also have an impact on the rising tide of civil society on the global as well as regional and domestic levels. For instance, Transparency International, a transnational nongovernmental organization (NGO), works to increase government accountability and to curb national and international corruption. Its campaigns through the Internet and international media, where it ranks countries by their levels of corruption, have been very educational.

Regional and international meetings on issues of governance, such as those held by the Japan Center for International Exchange (JCIE) and

ASEAN's Institute of Security and International Studies (ISIS), can be a means of spreading new ideas. As a consequence, new cultural processes are created in the battlefield of cultural struggles. In this sense, negative Asian cultural values can be challenged both from above (through economic globalization and the GEFIs) and from beneath (through the cultural diversity created by a globalized media, which catalyze culture locally).

Governance projects of the GEFIs, compared with the movements of civil society, however, have no direct impact on democratization because the ideology behind the project is to enhance competition in the marketplace. They involve technicalities to reform public and private institutions for that purpose specifically, but they can have the indirect, crucial impact of deepening domestic democracy.

Civil society, on the other hand, seeks to represent the interests of the citizenry more directly. While the purpose of civil society is not pure, subject as it is to its own interests and imperfections, it can act effectively as a complement to domestic democracy. In this regard, if the state opens its arms to civil society participation, the legitimacy of the state in policy initiation and implementation is enhanced.

However, from the standpoint of the state, not all East Asian countries want to have good governance and to have their domestic structure democratized. Because of political regimes or entrenched private interests, some may want the first at the expense of the second. For instance, some transition economies like China, Vietnam, and Laos may want the technicalities of public and corporate governance to enhance their capacity to compete in the global market, but they may not want to share power with a civil society that would challenge them. In the case of a closed economy like Myanmar, it may want neither. Among emerging market economies, most will accept good governance for the sake of increasing their capacity to compete in the world market. This is the case for the East Asia 5, which had to accept good governance as a condition on the basis of which they received help from the GEFIs. Democracy in these countries has got to have benefited.

Global Governance and Cosmopolitan Democracy

The importance of governance to the GEFIs lies in the fact that it increases the performance of public and corporate institutions in global market competition. Accordingly, intervention by the state in the economy should be

minimized, and SOEs should be privatized in order to enhance the capacity of the enterprises to compete. Rule by connection should be replaced by rule by the market—following a model that Stephen Gill calls a "constitution for global capitalism" (Higgott 2000, 137).

Nothing is wrong with this if competition in the global market is fair and if there is no barrier between the center and periphery of global capital. However, as can be seen from Soros's comparison of the financial stability of the U.S. economy and the global economy, "the playing field of global capitalism is skewed in favor of the center" (2000, 231). As Soros again points out, a large factor in the financial crisis was the pressure by the United States and the IMF on Asian countries to open their financial markets before appropriate mechanisms were in place (2000, 217). Asian countries bore responsibility for their unhealthy domestic economic situations, but countries pressing them to liberalize their markets walked away blameless when disaster struck.

Moreover, from the domestic point of view, the IMF's rescue package appeared to bear the imprimatur of multinational corporations, which would stand to gain by the terms (Flynn 1999, 65). If the creation of effective markets in the economic globalization arena "results in unequal treatment for some states and, more importantly, exacerbates poverty for the weakest members of international society, then globalization is seen to deny justice" (Higgott 2000, 141).

Because the governance of GEFIs can be perceived as a means to an end, not an end itself, at the international level it has the effect of de-democratizing democracy. It is inadequate to the task of good global governance, external to such ethical considerations as poverty reduction, although it may claim otherwise. Giddens concludes that "we can't leave such problems to the erratic swirl of global markets and relatively powerless international bodies if we are to achieve a world that mixes stability, equity and prosperity" (1998, 153).

As Held (1995a) states, one of the problems of representation in a representative democracy is that legitimate representation within a nation is blurred by the global interconnectedness. Interests of the "relevant community" are contested and compromised by regional and global issues.

This requires us to rethink representative democracy as we have known it and to consider a more desirable cosmopolitan democracy. As defined by Archibugi and Held (1995, 13):

> The term *cosmopolitan* is used to indicate a model of political organization in which citizens, wherever they are located in the world, have a voice, input and political representation in international affairs, in parallel with and independently of their own governments. The conception of democracy deployed here is one

> that entails a substantive process rather than merely a set of guiding rules. For the distinctive feature of democracy is, in our judgement, not only a particular set of procedures (important though this is), but also the pursuit of democratic values involving the extension of popular participation in the political process.

Cosmopolitan democracy introduces democratic values, especially people participation, beyond that extended by the democratic states. This model is "a system of *governance* which arises from and is adapted to the diverse conditions and interconnections of different peoples and nations" (Held 1995b, 106) [my emphasis]. Accordingly, cosmopolitan democracy represents a cosmopolitan mode of governance, which is stronger and more comprehensive than the governance propounded by the GEFIs.

Cosmopolitan democracy, linked to governance, demonstrates how democracy is compatible with governance, even as it addresses the interconnectedness of domestic and international politics. As argued above, the consequences of the practices of GEFIs' governance, especially as regards the participation of civil society, together with the dynamics of globalization, can help to deepen domestic democracy and to reduce distortions in representation. At the same time, these processes can help to create a cultural struggle, the terms of which will challenge the governance mode of rule by connection.

These same processes also help to create a new model of good governance that transcends governance in the GEFIs' mode. The purpose is to create a deeper democracy and a new stronger form of governance—cosmopolitan governance—that is effective at the global level as well. In order to achieve this, it is necessary to have transnational democracy. Giddens argues that to deepen democracy in democratic countries we need to democratize above—as well as below—the level of the nation; that is to say, to consolidate democracy it is necessary to encourage it at both the international and national levels (1999, 75).

Similar to the national level where governments should recognize NGOs and their movements in civil society, the participation of global civil society in global policy must be strengthened and recognized by global policy managers and international institutions. There are regional and global issues that exist in the vacuum between sovereign nations and regional and global organizations, and global civil society can advance these institutions by mobilizing national and international civil culture through the media. Greenpeace and animal rights movements are two such examples.

Organizations in civil society, however, should stand for assistance, not resistance. They should not be seen merely as players in the policy process

necessary for the "legitimation of the liberalizing agenda" (Higgott 2000, 143). Civil society balances the interests of the political and economic spheres. In democratic society, in fact, as Giddens (1999, 78) contends, state control cannot be so easily replaced with markets.

If civil society participation in global policy processes is developed, it is certain that, as in domestic democracy, the problems of representation at the global level will be reduced. While one can envision the deepening of democracy at the global level, as at the national level, global civil society will have to address broader concerns. Compared with the sovereign state, as Higgott points out, NGOs and other non-state actors have no legitimacy or authority in policy making. Second, paradoxically as well, their internal organizations are less democratic than their external participation. This makes domestic and global civil society less democratically accountable than states or interstate organizations. Third, any implementation of solutions taken in global negotiations by the interstate organizations must be carried out by the sovereign state (Higgott 2000, 15–16). These are challenges if national and global civil society is to be strengthened in both national and global policy processes.

At the same time, although the state's power is reshaped by the globalization forces, it remains a political force. The state, with its participation in regional and international institutions, is still a main component of cosmopolitan democracy. To have democracy at the international level may be a utopian dream, as power relationships and interests would be more complex than at the national level. A pluralistic model of interest groups further complicates relations in the global context.

Moreover, the state itself does not act as referee anymore, but as an interest group so as to protect its national interests. Therefore, a vision of cosmopolitan democracy should be realistic, modest, and achievable step by step, built on the base of a concrete global political economy. The first step should be taken by the states as they participate in regional institutions.

In the East Asian context, cosmopolitan governance and democracy are the highest ideals, but finding the means to achieve these goals is not easy. Globalization has had an immense impact, but there are different levels of democratic development. Compare, for example, Thailand and Myanmar. At the same time, the level of democracy in a country, however different it may be from that of another country, can determine the will toward cosmopolitan democracy. If the will varies too greatly, then East Asian countries may prefer the GEFIs' model of governance.

For my part, I optimistically believe that the misfortune of the economic crisis can shift the mindset of East Asian countries so they will realize the importance of cosmopolitan governance. Different countries were affected by the crisis to different degrees depending on how the mechanisms of cultural values and economic globalization were combined, but all were affected in significant ways. This renders them ready to see the cruel world of economic globalization, especially the instability of financial markets. One good sign is that ASEAN has enlarged into ASEAN + 3, demonstrating that countries have taken a further step toward regional cooperation. Cooperation in helping each other, even if for self-interest, is an invaluable starting point from which to create a better regional economic and political policy. In this process, regional governance can act to confront both regional and global issues.

Notes

1. Soros' notions of closure and openness of financial markets and of other ingredients enable us to understand, as in X theory, the various degrees of impact from the capital flow to the crisis, and, then, different degrees of the development of good governance in each country in Pacific Asia. Accordingly, it is useful for showing how capital flow impacts the situation at different levels in different countries. At the same time, this analysis provides us with a way to look at how cultural values interact with economic globalization in producing a crisis.
2. It is impossible, and not my aim, to explain the economic crisis in terms of comprehensive macroeconomics. The point that I will concentrate on is the impact on the financial crisis of capital flows related to economic globalization.
3. G10 refers to the Group of 10, which is made up of the Group of Seven—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States—plus Belgium, the Netherlands, Sweden, and Switzerland; the group actually comprises eleven countries.
4. In the heyday of the bureaucratic polity, where top bureaucrats, especially from the military, dominated the Thai political arena through political positions in the cabinet, "pariah entrepreneurship" was established. Bureaucrats acted as patrons, protecting overseas Chinese businessmen as clients. The overseas Chinese reciprocated, offering bureaucrats shares and positions on the company boards (Riggs 1966, 242–310).

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