

# **Political Stability and International Relations in The Process of Economic Globalization —Another Perspective on Asia’s Financial Crisis**

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## **ABSTRACT**

When the world is entering the 21st century, the economic globalization has become an apparent trend. A good thing or bad thing, whatever it is, it expands to every corner of the world at an unprecedented speed, affecting people’s life in all fronts with irresistible power. The speed and power are so great that they often run out of the normal course and beyond the expectation of the people. The economic globalization not only has pushed some states to a new stage and drawn some others into dire straits, but also created a tendency of profound change in the international politics at the turning point of centuries.

The still going-on financial and monetary crisis in Asia is the latest evidence of the impact of the economic globalization. There were already a lot of discussions about the crisis in the economic as well as technical levels. In this paper, the writer will try to analyze the results and implications of the crisis in the levels of domestic and international politics, a perspective on the difficult problems in political stability and national security faced by various states during the process of globalization, and observe the changes resulted from it in the international relations and politics.

## **INTRODUCTION**

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### **I. Domestic politics in the era of globalization: a new concept of security of “three in one”**

To lay bare the deep impact of the financial crisis in Asia, we should first analyse the basic contents and characteristics of the globalization, and observe the possible change in political and social lives of various national states. In the writer’s opinion, the present economic turmoil in Asia is exactly one of the complicated representations of multiple levels and the consequences of globalization.

Since 1990’s, “globalization” has almost become an “everyday word” of the mass media in various countries. It has been discussed and defined with great interests. Raising great attention of people, from various approaches, such as economy, sociology, politics, history, and international relations.<sup>1</sup> After a preliminary summary of those findings, the conclusions concerning its gist maybe drawn as follows:

-- Globalization, first of all, in its strong representation is an economic process, in other words, one of “efficiency first”. It has significantly strengthened the economic links, the interdependence

among different regions and countries, as well as the leading roles of the market competition and contemporary information network, making as the main concerns of individuals, enterprises, and even the states those typical “concepts of capital”, such as profits, efficiency, and capital repayment rates. The economic globalization has created a lot of modern devices or methods, including currency unification, monetary system, trade groups, trades through Internet, long-distance communication. The process of globalization, a process of economy modernization, marketization and informationization reveal the desire of pursuing profits.

To all nations in the world, the globalization means a greater opportunity of trade, more attracted investment, higher living standard, opener national economic system, and more efficient mode to promote the overall power of state, at the same time, the cruel logic of “the stronger’s wining”, “survival of the fitness”, “natural selection”, and merciless elimination through competition. It also implies that once a national state steps into this process, whose core is the market competition and opened-up information, it is impossible for it to retreat to the time of closed peace and slow evolution. Although all the states are facing the possibilities of either win or lost, the developed countries (possessing more funds, more effective information network, more advanced industry and production structure, more efficient professionals, and more skillful mastery of the “game rules”) enjoy the more favorable position than the underdeveloped countries. Although—historically speaking—it is not an unchangeable situation(for some less-developed countries who may possess some special “advantages for catching-up with”, such as discoveries of new resources, new mode of development, or the latest “learning” methods, generally speaking, the weaker sides will suffer more from their drawbacks and be in an unfavorable situation, while a conflict of high intensity occurs between the developing countries and developed ones.

-- The globalization is also a process of social modernization, involving changes of internal structure change, integration of social classes, and awakening of the consciousness of individuals. Along with the wide spread of the modern and national ideas from the outside world, along with the enhancement of the living standard and education level, the globalization has become a process of social modernization acquiring many novel expressions, setting new targets for social mobilization and social justice, allowing wider, more effective individual freedom, establishing laws adapted to the time, demolishing the large income gap among social classes. Different from the previous ages, the globalization of new era should not only resolve the traditional social conflicts (for instance, the problems in some developing countries like shortage of food and shelters, low quality of drinking water, large number of illiterates), but also deal with new and more complicated ones, such as the diversity in opinions from various social strata towards the opening-up and reform, an even broader gaps of income of different people and regions. Here, a universal phenomenon resulted from the economic globalization appears almost in all the countries: on the one hand, new modernity has brought with more benefits to and expectations from the people; on the other hand, the rapid modernization has intensified the instability and senses of losing in the changing course. They would lead to dissatisfaction of the public and even to social turmoil under the condition that the policy-makers, all kinds of systems and law could not alleviate them. Generally speaking, the increasingly strengthening of the individuals’ consciousness makes the directing of the society more and more difficult. For the same reason, though income-gap exists everywhere in the world, it is more likely that dissatisfaction brought about by various reasons (such as the corruption of the upper social strata) will emerge and cause social problem, even turmoil among the urban strata that are better educated and have more opportunities to contact with the outside world, among the unemployed and low-income workers who have the strongest senses of lose and frustration in the developing countries that lack of a complete ruling system of ruling-by-law. In short, a complicated function relation exists between the scope of opening to the outside world, economic growth rate and social instability, which represent itself differently in different stages of the globalization and periods of the modernization in various states. In the developing countries with rapid changes, the waveform is more evident.<sup>ii</sup>

--The globalization also naturally represents a process of politics, which is used here, in its widest sense. That is to say, in addition to the operation of government, the competition among the upper-level leaders, and speeches given by various politicians, it includes decision-making, such as making development strategy, handling social conflict, assessing opportunity as well as challenge, working out the timetable for opening up and participation. The economic globalization has become a growing tendency, causing social instability in many countries. It urges national

states in the age of the globalization to adjust or change their set agenda, and complement new content. Therefore, readjustments or changes have to be done to the set agenda in some national states. New contents will be added to it:

While a state is in the open international economic environment, towards integration, is the decision-making stratum well prepared for the possible turmoil as well as the potential benefits, which the modernization and marketization brought? While a society is stepping into the stage of “taking off”, can the main body of the society (majority of statesmen, the intellectuals and the public) reach a new concept of balance, stability and security? When there is a need and opportunity, can the decision-making level bravely carry out reforms on political system and bureaucracy system, and solve the problem that the progress in social classification and political modernization can not catch up with the fast economic reform? When the economic globalization improves efficiency of, and at the same time endangers the existence of national industry, is a state willing to accept the dual result of more benefits and/or more serious problem, such as a higher rate of unemployment? While the income gaps between different stratum and different regions are widened dramatically (it can be rational or irrational), and some conflicts become prominent, are the majority of society and decision-making stratum able to maintain confidence? When the urge to protect the environment becomes stronger and stronger in the international agenda, how do the states that are eager to develop rapidly handle the question of so-called “sustainability”? When faced with unprecedented troubles (such as inflow of information, decrease of the function of borders, the overflow of provincialism, with the demand by international co-operation and system of limiting the scope of traditional state sovereignty, how do the national states guarantee their “integration” and “various parties’ participation” without damaging national interests, sovereignty and security? These “political” questions against the background of the economic globalization obviously have different content and characteristics different from those in the time of closeness. Once more, it is realized that the reform of political systems and the continuing readjustment of foreign policy occur in every corner of the world. From the underdeveloped countries, developing countries to the developed countries, not a single country (even the most powerful ones) may avoid this option. Nevertheless, the developing countries, compared with those countries either completely or more developed will encounter special difficulties and unsteadiness situation. They have to react simultaneously to problems in all levels and of diverse nature, and choose between the following two contradictory strategic targets; “political reform and social stability”, “increase of efficiency and maintenance of social justice”, “economic development and environmental protection”, “integration to the world community and opposition to the power politics”, “the open-up of national states and nationalization of cultures”. In choosing between the balance and practice of these contradictory strategic targets, demands and plans for resources allocation, the developing countries will encounter more difficulties for their strength and experiences are limited and they are in the conditions of incomplete system and relatively short of time.

In conclusion, the globalization is a complicated course of history and the latest stage of world modernization. What it brings along with it is a “double-blade sword”, with which some countries in the world could break through bumbles and thorns, or some hurt themselves. Therefore, to establish the new security concept of “three in one” has become a growing demand. The “three in one” refers to the security including three aspects: economical, social, and political. Firstly, economic security is its essential part, which means the development and stability of a state in the time of the economic globalization and integration, involving the abilities to handle all kinds of accidents, crises and troubles, to use various economic network in the world (currency, finance, trade, investment, resource development, etc.), to win in the market competition. Secondly, it has the implication of social stability, which means that a state is able to handle various social conflicts and class differences successfully, avoid or smooth down contemporary social turbulence, remove in time the factors incompatible with modernity in the political system and management system (for example, corruption, low efficiency, and bureaucratic work style). Finally, it should include the regulation on political harmony, that is to say, the state’s current policy and general strategy should win both the support from political elite and decision-making section (including those from army and policemen), and the agreement and approval from the majority of the public and social classes. Of course the precondition is an efficient, honest political system under the rule of law. In the time of non-globalization, such as the Middle Ages in Europe and the feudal period in China, national security was a unitary and closed one, which was established and practiced while the outside conditions could be ignored; however, in the age of the economic

globalization once a national state enter the competitive system of the global market and the open information network, national security as a comprehensive and multi-level matter, cannot be but a “three-in-one” security analysis.

Obviously, “security” here is not a narrow but broad, not a stagnant but dynamic concept. First of all, in addition to the meanings in military science and diplomacy (for instance, non-invasion into others’ territory, unification of a national state, avoidance of war attacks, resolution for diplomatic conflicts, prevention from military confrontation), which might be the most essential part of security, it also include economic and technological security (it may be further divided into monetary, trade, investment security, avoiding of big turbulence and periodical up and down, possession of more effective means and abilities of competition, grasp of various elements in the age of information). Social security (meaning the respect for the rights and responsibility of the majority, maintaining peace among all stratum, giving the public sense of order and stability, establishing an appropriate balance between efficiency and justice, and controlling the negative sides, like crimes, poverty, corruption, ignorance, political security(keeping up the solidarity of political leadership, proposing the government work agenda and strategic targets convincing the society, practicing continuous reform in systems and other micro-regulation, avoiding open struggles for power and the non-continuity of the main policy and guidance, facing and dealing with different kinds of social conflicts systematically, preventing serious political and social turmoil from happening etc). In the second place, “security” should be realized in an open course, which is always changing and advancing. It is not the safety of a snail but a relative concept, without an absolute “boundary” for it. In other words, security in closed situation might not be considered as “secure” in an open course, vice versa. Furthermore, sometimes, some partial, controllable disorders in systems may predict the formation of new functions, or a new leap forward, harmony, or the precondition for stability and security of a higher level, in contrast, some “security” resulting from self isolation and inner-depression policy may bring about greater troubles more easily. Cite one example, the serious crises of refugee, starvation, sharp social conflicts, and riots in large scale in some “hot points” countries and regions are caused more by the defects of the inner system, and incompetence of political leadership, which is the outcome of closeness and ignorance of the changes in outside world than outside interference of natural calamities. The security targets based on ignorance of the global realities and the demand for open-up cannot be realized or maintained. Respect from other countries is the basis of the national power of a state, which require a good inner system, and a good inner system should be set up on the basis of reform and opening up. Therefore, national security is related to the modernity of its system. That is the core of the “three in one” theory.

## **II. Domestic politics in the era of globalization: the latest evidence of the financial crisis in Asia.**

Since last July, a monetary and financial crisis has engulfed the newly- industrialized countries in the Southeast Asia and then affected the industrialized countries in the Northeast Asia. During the period of half a year, it stormed most countries in the Southeast Asia more or less: Thailand, Indonesia, and Korea, Japan, Taiwan and Hong Kong SAR of China. Those receiving relatively little impact were forced to lower their foreign exchange rate and reorganize their banks, those suffering more have to ask for aids from IMF and some western countries like U.S, those countries suffering most is still struggling for rescue today.

On this sudden maelstrom and its effects, people in different fields may make comments from different angles. In the opinion of the writer, this crisis is part of the far and profound impact and manifestation of the contemporary economic globalization described in the previous section. Observed as in the global picture of the world’ s situation, the structural defects in the developing countries, which achieved the most rapid development, have been laid bare. In brief, the crisis is a sudden frustration and a stoppage between stages on the way of development. Its final results will be decided by the overall efforts of the countries concerned in constructing a security structure of “three-in- one”, which adapts to the times. In it, the pure economic and monetary measures are secondary in significance, while social and especially political factors is the pivot to solve problems.

This financial and monetary crisis in Asia is, first of all, an economic phenomenon, one that can only occur in the era of the economic globalization. As it is pointed out correctly, the economic turmoil in the Southeast Asian countries, like Thailand and Malaysia etc, lasting almost half a year, resulted from financial speculation of international speculation group, represented by Soros. However, that the serious defects in the trapped countries that provided the opportunity for them has not been mentioned. What many people have not paid attention to, or emphasized is that the turbulence and frustration just occur in the East Asian countries, where the economy grew fastest in the world, but their structural problems in deep levels had not been solved. The financial crisis has taken place neither in the developed countries in Europe and America, nor in the underdeveloped countries in Asia and African. The last point implies a great deal.

Since the international speculative capital is globalized, it is difficult to identify their origins and home countries. However, according to the estimation of the value of the authorities (for instance, WTO, etc.), the present much of the present existing and flowing capitals in the world monetary markets, including bank capitals \$20 trillion, insurance premium \$2 trillion and daily foreign exchanges volume of \$12 trillion, are directly or indirectly controlled by international speculative capital groups<sup>iii</sup>. These flowing capitals, much greater than what a single country may have, have never stopped searching for victims to pursue the greatest profits. To cite a simple example, before a country settles its debts, the speculators would firstly buy a large amount of the debt in the form of day to day loan, and then sell the currency of this country (i.e. flight of capital). If the country concerned doesn't have enough reserve of foreign exchange, the rate of foreign exchange is to drop certainly. After the speculators get extra profits from their loans, they may wait until the debt is due. Although the book amount of money is unchanged, the money that is due to repay can't buy absolutely the same amount of things as before since the prices arise. They would earn money once again for they borrowed money before inflation. There is still a third chance to make money: the speculators buy the banks and enterprises at a low price after bankruptcy of them. The key of this speculation lies in making profits by making use of the fluctuation of exchange rate and the inflation.

Why are these "economy stars" in Asian-Pacific area, like Thailand, Indonesia, and the Republic of Korea, but not U.S.A (one of the richest countries in the world), or Myanmar (one of the poorest countries in the world), that have fallen victims to the international speculative capital groups? In terms of only finance, the countries trapped by international flowing capital have usually the following financial features: a high rate of debt, with a large ratio of short-term debts; unsound structure of finance, with inappropriate expansion of banking system, and a large amount of bad loans and dead loans, illiquid fund turnover; there exist the possibilities of loans at daily interest rate, that is to say others may use your own money to gamble with you; there is not enough foreign exchange reserve, as a result the exchange rate may fluctuate at any time. If a country has no foreign debts, the fluctuation of foreign exchange rate has no interest for the financial speculative groups; if a country has foreign debts of a rational structure, with a rational proportion of long-term and short-term loans, a low rate of matured loans in recent time, it is difficult for the speculators to take advantage of them; if the bank system of a country possesses enough bank reserve, and has a low ratio of bad loans, so that they may handle the situation with ease whenever the customer draw their money, then the speculators have no chance at all if a country possess a complete financial system and enough professional personnel to administrate and monitor the financial process, the international speculative capitals will be more cautious before flowing into this country<sup>iv</sup>. These "ifs" mentioned above show the inevitability of this crisis.

Thailand and the Republic of Korea are two suitable examples. During 1980's and 1990's, Thailand's economy, with its annual growth rate above 8%, is recognized as "the fifth little tiger" in Asian Miracle. Nevertheless, Thailand has neglected potential troubles and dangers: focusing on the non-production investment and on real estate; its export capacity grew slowly, its research on foundation sciences and education was backward; its total amount of foreign debt with a high ratio of short-term loan, is much higher than that of foreign exchange reserve. In June 1997 when the crisis has not yet occurred, the total amount of foreign debts in Thailand accumulated to \$66 billion, 2.5 times higher than its foreign exchange reserve. \$44.4 billion out of \$66 billion are short-term loan. And Thailand lacks a complete bank monitoring agency and qualified managing personnel in its financial system. After July, under the mass action of international financial capital, there is a heavy sell of baht at the same time of the flight of capital. The Thai central bank,

under the pressure from domestic enterprises, threw out, in a short time, all its foreign exchange reserve to maintain the foreign exchange rate, finally was forced to give up, and devalued its currency by over 50% (that is to say, Thailand should repay its debt with twice commodities). This led to the bankruptcy of many enterprises and unemployment of many workers; economy was near an overall collapse. Although the economy of the Republic of Korea is more developed, as compared with Thailand, more developed, it has similar problems. For instance, a large member of banks have made too much loans while their capital reserve is in a serious shortage; some big enterprises have expanded their production blindly, and asked for loans without restrain; the bad loans and dead loans accounted for a large proportion on the financing of the financial institutions towards the enterprises; the long-term preferential policies and protective measures taken by the government made the financial auditing agency only an empty name. By the beginning of 1998, the Republic of Korea has a foreign debt exceeding \$170 billion, among which \$24 billion should be repaid during the period from December 1997 to March 1998, and almost \$100 billion will be paid back in the following 12 months. However, the foreign exchange reserve only reached a little more than \$22 billion. When the tempest of financial crisis came, the government resisted while retreated consecutively. It even called for its citizens to hand in their private savings of foreign currency, which apparently would not help much. The foreign exchange reserve fell to \$ 7.3 billion by the end of 1997<sup>v</sup>. After the government declared it gave up its efforts to maintain the exchange rate, the Korean Yen devalued dramatically by 40% in a few weeks. Under the pressure of sudden increase of debts, the bank system was most paralyzed. And the stock market and real estate market in turmoil. The bubble economic achievements disappeared quickly; the ranking of Korean economy in the world fell from Number 11 to after No. 20. The author is not going to give more figures to illustrate it, and what the author wants to express is that the “tigers” in Asia, like Thailand and the Republic of Korea trapped by the international financial speculative capital, are the victims of the “Jungle”—the capital market in the present stage of globalization – these immature and exposed “young tigers” have been hurt badly.

Some outcomes of the globalization of capital have been discussed above. The economic globalization actually also involve that of manufacturing industry and its products, of trade and investment, of the power of multinational companies, of advertisement, information and their industries, etc. I will return to these fields in the analyses of international relations later on, here I still focus on the domestic questions. It is very clear that the reason why this Asian financial crisis is so deep and wide doesn't lie merely in finance. Think it over, why did the enterprises borrow money constantly? Why did the banks give them loans continuously? Why did the government encourage their respective actions? Why did the government carry out “great projects” one after another, while the real estate market was already gloom, the enterprises couldn't repay their debts, and the banks have so many bad loans? Why were the periodical fluctuations between “bloom” and “depression” so evident? In brief, the answers may be related with the following aspects: state's “catch-up” strategy and pursuit of modernity; the government's long-term practice of “slanting investment” and its theoretical bases; the decision-makers and strategist's thought of the national economy and people's livelihood; the change in the government's legitimate basis and the design of the government's image; the public's and even specialists' ignorance of international rules of game; the incorrect assessment of advantages and disadvantages of the international market; and some mis-orientations by the classic theory of developmental economics. Although the economists could certainly make diverse analyses, as it is mentioned at the beginning of this paper, the author will focus his analyses on the social and political levels (and the international relation level, which will be discussed). So, the author, after the brief review on the economic impact by the globalization, would like to discuss the Asian financial crisis' impact on these two levels.

In terms of sociology, the going-on crisis in Asia is not only a serious economic, but also a deep social one, which shows various aspects and impacts of the globalization. The legitimacy and authority of the governments of the Southeastern and Northeastern countries in the last one or two decades are established on a different basis from before, a situation different from those in other parts of the world. In the past, since the politics and government wasn't able to solve the problems in national economy and people's livelihood (no matter for external or internal reasons), they never gained trust from the public and society. In recent years, the countries and the whole Asia area, well-known for their economic prosperity, which took western countries a century to reach, have realized this within a generation which took western countries a century (for instance, before the crisis, the average annual GDP of the Republic of Korea was already more than \$10,000, but

only about \$100 in sixties; and that in Indonesia was \$1,000 to \$ 60). It could be said that without globalization and its linking with these countries, these economic achievements were impossible. The previous bad images of the governments and their policies in the eyes of the public have changed, because they successfully brought their national economy into an open process of international economy and enjoy the benefits coming from this process. Especially in Indonesia, Thailand and the Republic of Korea, where a transition from the military dictatorship to civilian governments was carried out, the intensive political transition was facilitated and supported by the rapid economic growth. Every government and its politicians all tried their best to achieve even higher targets and promises than their predecessors. Meanwhile the society and the public, attracted by the economic booming, were intoxicated with the sudden expansion of the private property and state power in a short time. Owing to the rapid growth of wealth, they tolerated the corruption of officials, and the action of appointing officials by favoritism and limiting individual rights, and they also put up with the phenomena of upstarts, large income gap, inequality. Most social strata cherished a glowingly higher but not necessarily rational expectation of future, which actually encouraged the emergence of “enterprises group”, “loans in large amount” and “great governmental propaganda”, putting aside their rationality and feasibility.

On the other side of the coin, it is the accumulation of crisis elements, which will trigger real trouble when a country meets with certain incidents. It is the story known to everybody now. Since the dramatic drop of foreign exchange rate and the slide of stock market in a country, the foreign debts immediately become a critical problem, and savings of ordinary people shrink by 50% over a night because of the devaluation of the currency; the prices of commodities keep increasing; the middle class emerging in the economic miracles fall back to “ the proletariat”; a large member of laborer and white collar staff are unemployed or semi-unemployed; various social contradictions suddenly become very conspicuous. For example, it is estimated that a lot of projects have been canceled or postponed, a great number of enterprises and banks near or already bankrupt, workers of more than one million out of their jobs in Thailand at the beginning of this year, many white collar employees laid off in the Republic of Korea, the total member of unemployment about 8 million. The worse is not people’s poverty, but sense of frustration. Many people have probably never experienced the economic recessions. Therefore, they have never thought of that national economy will meet with the great pressure from the outside world and the serious interference from the international organizations. The societies have suddenly been in turmoil, and complaints heard everywhere. Different view on government’s development strategies, dissatisfaction towards official corruption, jealousy of rich people and upstarts, suspect to the promises of the politicians, criticism towards foreign influences, deep-rooted hostility to different races, all these from potential states to open problems, from complaints to vehement fury, have become the new source of crisis in the countries that have greatly been shocked by the monetary and financial storm. In Thailand, it led one administration to an end; in the Republic of Korea the ratio of trust towards the former president Kim Young Sam dropped to the lowest point before he finished his term in 1998; the situation in Indonesia might be the most serious; the forced resignation of president Suharto and the serious problems faced by the present administration are the proof of the old system’s evils.

The “double-blade sword effect” expounded above are apparent in these countries: on one hand the internationalization of one country’s domestic economy would help to raise the national economy to a new level; on the other hand, it would also push the new industries and new sectors into new “minefields”. The monetary and financial service can make more profit in a shorter time than (for instance) the conventional agriculture and manufacture industry, but at the same time may bring the country and its people more forceful and swift risks than the latter ones. While the modern governments have made great efforts to solve the traditional problems, like poverty, closeness, and ignorance in the countries, and then achieved remarkable successes, these efforts have also raised the society and the people’s expectations to a level more difficult to reach; which add difficulties to macro-regulation. The simple demand for economic growth has turned into the complex requirement for both economic growth and social justice; the governments, instead of the unitary alleviation of poverty, have to deal with the dual targets (both the old poverty and the sense of loss caused by the re-poverty after affluence). The changes in the social structure and the uniformity of various social strata give out tremendous creativity as well as enormous destructive power under the condition of the globalization, internationalization and informationalization. As a new stage of social advance, it shows a significant break-through of the

closed conventional systems, and reveals the conspicuous gaps between them and those in the more developed countries. Also as a hard time of tortuous proceeding, it is hard to say whether the countries concerned will recover and step up a new stage after making adjustment, or face temporary stagnancy or even recession after they undergo serious social turmoil and economic crises.

From the viewpoint of political sciences, the Asian crisis we are discussing here is of course a political one. In other words, it is a serious test to the political strategy of a State, the reaction ability of a government, and the courage and insights of the statesmen under the condition of globalization.

First of all, there exists a problem of redesigning of an overall economic developing strategy. In theory, it is part of the states' decision making at the highest level. In practice, the Asian countries concerned have to partially pass it to International Monetary Fund. As a result, there comes a problem of balancing the foreign aids which are badly needed (especially those in the form of capitals and monetary monitoring) and the maintenance of sovereignty. So far, IMF promised to provide more than \$100 billion to help Thailand, Republic of Korea and Indonesia, at the same time set preconditions for these aids, i.e., those countries must accept the prescriptions from IMF--the economic reform package, including overall contraction of macro economy, (for instance, lowering down the rate of inflation and economic growth, reducing financial budget, putting the total money supply under control, and increasing interest rate), an open-up to the outside world (for instance, reducing import customs taxation, removing restrains for the foreign investors to enter a state's domestic banking market, allowing foreign capital to purchase banks in the host country and an emphasis on the reform of financial system(such as to revise the banking laws, strengthen financial and monetary system, close some financial institutions, decrease the proportion of bad and dead loans, require the commercial banks to meet the international standard of capital reserve ratio). As it is commented in some newspapers IMF has asked for a real "hard landing"<sup>vi</sup>. On the one hand, these proposals are to the point, and provide quite a large amount of aid; on the other, it is doubtful whether the Asian countries can accept this "vehement medicine" impacted greatly by the crisis, and relieve their economies. In the author's opinion, the key doesn't mainly lie in the prescriptions but in the attitude and physical conditions of the patients. As far as Thailand, the Republic of Korea, and Indonesia are concerned, the pivot is their governments and people how to consider and treat IMF's proposal carry on the relevant reforms in the future. Is it to close the door and stop the process of economic internationalization, or to insist opening up while avoiding some harms, at the same time enjoy the benefit? It's a question facing statesmen in these countries, one probably easy to judge theoretically, but demanding lots of considerations in practice because all kinds of difficulties and troubles might occur in reality.

Here, we are turning to another aspect of the concept of "political crises" --"statesmen's lack of the political skills and the confidence of the people"<sup>vii</sup>. The experiences show that in the breaking-out of the financial crisis, a primary aspect is the collapse of foreign exchange rate. Originally, the banks would have been able to exchange foreign currencies at the normal rates, but since people lose confidence in the banks, begin to sell home currency and continue to do so, this means the real collapse. Actually, it is a confidence problem. Different pictures would form in a confidence society or in a not confident one although the conditions of resources, capitals and economic levels are the same. The contrast between Malaysia and Thailand may be a good illustration for this. The social confidence is indivisible to the strength of the political leadership. Even to those countries trapped by the same crisis, different social confidence and status of leadership may decide the time of going out the crisis. The contrast between the situation in the Republic of Korea and that in Indonesia is probably a typical example. The power of political leadership is not just showed in the choice of mid and long-term strategies (for instance, whether and when to participate in the process of financial liberalization; to privatize those low efficient, state-owned enterprises; to link the home currency with international hard currency), in today's circumstances but also especially is manifested on the far-sighted reform on the outdated bureaucracy system, government system and (in the broad sense) political system. Whatever opinions did the Koreans hold towards Kim Yon Sam, it is widely admitted that his bold political reform has accelerated the process of political modernization. Now, people have the same expectation towards President Kim Dae Jung, who is expected to transform the system of "money politics" in Korea, and lead Korea out of the entanglement of the serious crisis. As a sharp contrast, people developed their disbelief towards the Indonesian government, largely because the former

president Soeharto's unwillingness to carry on political reform. It is known from the previous experiences that common social agreement and support is vital to the successes of the reform. The establishment of common social agreement and the support for the government to carry on the reform are linked with the public opinion about whether the reform and distribution is just. It is hard to acquire and keep the public support long if the statesmen and government only demand the public to make sacrifices in the crisis, while they neither make any contributions of their own, nor reconstruct the economic structure of obvious defaults.

In the above section, from the angle of dealing with financial crisis by some Asian countries, the deep impact of globalization on the national politics has been discussed. One of the important conclusions is: if a state intends to strengthen its national security no matter in what form: economic development, social tranquillity and political stability, the prerequisites are the far-sighted and good strategy, bold reform, overall plan and coordination of economy, society and politics, and the coincidence of the development of the time.

### **III. International relations in the era of globalization: reform and friction in the practice**

The coming up of the era of globalization not only has brought about a series of challenges to various government's behaviors, but also caused lots of significant changes in the international relations, which forced all the behaviors in the international relations to adjust themselves, and accelerated the changes and revisions of various international theories.

The financial crisis in Asia has laid bare the elements of economic internationalization and integration, which pounded and challenged the former international relations and the concept under that circumstance.

--A large amount of capital flow rapidly across borders of different countries, and choose places, objects and opportunities according to the principles of market competition and principle of profit. This has broken the former economic entities and its operation principles, which were identified, by nation territory and sovereignty;

--The abrupt expansion of financial market and the emerging of all kinds of finance-derivative tools, have create numerous new opportunities of making money and same amount of risks. The even more frequent fluctuation of foreign exchange rate is not only the primary, even decisive factor in world trade and economy, but also a "thermometer" for the economic growth and stability of a national state;

--The ever-expanding international trade, is done through the financial institutions that deal with mid- and short-term investment. Compared to traditional industries like manufacturing, cultivation, mining industry, the increasing of importance of banking industry has urged the leaders of various national states to take the newest international standards into consideration in setting the development target for their countries;

--Information industry, electronic technology and its network play a more important role in enhancing economic growth and national power, spreading the government's will or the news of international turmoil, reinforcing or reducing the popularity (and charisma) of the political leaders.

--Import, export and capital has management become the major ways to strengthen the power of a country and enrich the people, as well as the urgent task. On the one hand, governments expect that the steady exchange rate of currency will improve the import and export; on the other, they also hope to raise money through deficit budget. In reality, these two factors act as a pair of contradictions. As a result, the more rapid the country develops, the more tightly it is bounded to international monetary and financial system. That is to say that opportunities exist side by side with risks.

--Almost all the open and semi-open economies grow both more powerful and more vulnerable. The former state means more rapid growth and a modernization with richer contents, while the latter means more sensible to the information effects and more frequent impact from the outside world. However, it is meaningful that few countries are willing to withdraw to the backward stage in which they may not be easily collided with the international tides.

--The first most powerful manifestation of "Globalization" is a region's economy turning to conglomeration and integration and "chainalization". That is to say, on the one side, the economic entities in the "prosperous circle" are easy to be spurred on while the entities outside

can not do as they wish in spite of how much efforts they make; on the other, prosperity and disasters are shared by all members in the Circle.

--At the same time when economies grow and are internationalized, the unemployment caused by structure is becoming a worldwide phenomenon, which is more serious in the time of crises, although it has different meanings in the developed and developing areas: meaning an unbearable burden to the welfare countries and rise to the developing world.

The economic "take-off" of many new rising industrial countries in Asia, Africa and Latin America, depends heavily on foreign trades and debts whose structure is also the source of the economic crises. By them some countries may raise their economic ranks in the world, while a crisis may make them drop near to the bottom in a short time.

--The ladder of economy is going into being in the globalization: "the economy led by closed agriculture" --"that by semi-closed agriculture and industry" --"that by the new open industry and agriculture" --"that by opening industry/finance" --"that by developed and internationalized finance/information", a gradual process determined by different backgrounds and conditions indifferent regions and countries. In this process, specially in the industry/finance period", almost all underdeveloped industrial countries have to experience crises to different degrees and types, pay their prices. Some counties would have been left behind; some would have gone to the front successfully.

Certainly, the process of globalization does not only manifest itself on the economic level. One major thesis emphasized again and again in this article is: globalization is a process of comparison and conflicts in different modes of economic development, a process of survival of the fittest, that of assimilation to social relations and contradictions, that of pressure on political change, that of adjustment to political strategy, also that of spreading international rules and rebuilding international relations.

Current situation in Asia tests and verifies the above-mentioned thesis. From the aspects of international relations, we can see the following trends:

Firstly, International organizations of financial management, such as IMF, the World Bank, Asia Development Bank and international speculation individual, such as Soros (that also belongs to NGO[Non-Governmental Organization]), play an increasingly important role in guiding economic reform and the way out of crises. At the same time, their actions and rules has caused heat debates and attracted the world's attention. This is the most conspicuous manifestation of rise and fall of the influenced exercised by various countries and by the international organizations (including NGO) in the era of globalization.

In dealing with the financial crisis in Asia, the IMF acted as "the Redeemer" who initiated aids, organized the implementation & design of reform plans, promoted comprehensive market economy. IMF's requirements not only include aids but also complicated transformations, and long-term strategic adjustments, which involve itself, WB, Asia Development Bank, U.S. Treasury Department, many private investment bankers, central banks and trans-national banks in the West. The aids surpassed \$100 billion, and IMF's programme extended from overall austerity of the macro economy, to further open-up and the reform of financial system. The significance is too profound to make a full estimate now. Still a point is certain: in the course of dealing with the crisis, IMF exercised great influence, just did by the United Nations through PKO since 1990's.

A question very sensitive to the developing countries turns out: what the relationship between international interference and a country's sovereignty is. Clearly, IMF and other international organizations don't wish all countries should insist on their original idea about sovereignty, because this means many plans by IMF can not be put into force in the aided countries, who also don't want to thoroughly stick to any old modes of self-reliance because this may make the would-be crisis in these countries insurmountable. But maybe just like the present Malaysian Premier's sharp words: as for the new-developing world, the current international rules and organizations sometimes may misuse market force, therefore create a kind of "new imperialism", "seriously defied independent country's rights", "It is unfair and dismoral to countries attacked by crises".

The problem is that though international rules and international organizations' action sphere extend to the whole globe, their establishment and acts are reflections of the Western power's will, representing the requests and level of the developed areas. Many plans of international organizations are reasonable, correct and are suitable for the market competition though, still a bitter drug to those undeveloped countries and regions. Prof. Han Sen Shou, former Korean

Foreign Minister and Director of Academy of International Relations of the Korea University: Every country needs “Globalization”; no country can say no to “Globalization”. But “Globalization ” was guided and regulated by the West. That is to say “Globalization” is a West-style modernization, an Anglo-Saxon modernization<sup>viii</sup>.

Secondly, between the economic globalization, integration and nationalization and self-reliance, there must be a series of conflicts and friction, which will develop and strengthen nationalism and anti-America sentiments. This is another change of the international relations in the period of “Globalization”. It brings a severe test to the policy-makers in the developing countries, which made current international politics more complicated and changeable.

Seen from those recent situations in Indonesia, Thailand, Korea and Malaysia, the severe plans of reform requested by IMF and USA not only relate to the restructure of the financial service, but also involve a large scale reform on economic structure, accompanying with the hidden critical attitudes on political structure, government’s way of management, and concept of value. Just as some international observer noted: in spite of the fact that IMF’s proposals be carried out normally in breaking away from a crisis, the radical nationalism deeply rooted in some Asian countries would possibly be stimulated if they accepted IMF’s demands. Reasons lie in two aspects: on the one, there are structural and systematic shortcomings of structure and system in these countries, i.e. mistakes in the policies and macro-economy; confusions in the financial management: untransparent relationships between government, trade and bank; corruptible “money politics”, low level of the industry structure; so the additional conditions of international aids always demand with the of these malpractice; on the other, the structural and systematic problems are so serious that they cannot be solved in accordance with Europeans and American style and timetable. Take Thailand, Indonesia and Korea as examples, austerity in the present state of economic depression will speed up the economic recession and unemployment. So it is not hard to see almost all the aided countries asked IMF to relax restrictions on loans, and extend the time limit. Some Western media’s arrogant actions and impertinent remarks (as same as some American senators often do) sharpened the friction. This is the most difficult point for us to deeply understand the progress and limit of globalization. Once I said that the mixture of hegemony and supremacy was an important characteristic of international rules and regulations guided by the West<sup>ix</sup>. The present period of the financial crisis in Asia can’t escape from this logic.

The reason why the anti-America sentiment at present in some Asian countries is connected with the conflicting attitudes towards the international regulations lies in the fact that the United States of America is at the center of all important international regulations, rules and organizations, the only superpower and the most “globalized” country. The present mode of the U.S.A’s hegemonism is different from British imperial hegemonism one century ago which was established on the industrial superiority, especially on the good ships and guns, and from that of the Japanese and German tyrannical and despotic in the WWII. The U.S.A has its own advanced achievements, not only in aviation, arms heavy and manufacture industry in the economic and political areas such as the revolution on continuous creation of large-scale mode of production, revolution on separation of ownership and management, but also in continuous insistence on sciences’ power, on adjudicative power to the world affairs, which are unnecessary, irrational even unreasonable from other people’s viewpoints; and with advanced universities and research institutions; monetary system and a large amount of military aid; capabilities of restructuring and “overhauling” of “unhealthy countries”. In international politics, its importance lies in the fact that it has locked today’s international relations in the framework fixed by it. So in the present period of “globalization”, U.S.A’s dominant role is undeniable. When the financial crisis in Asia came, the biggest speculative capital started motion from the Wall Street. In the critical moment of solving the crisis, the decision on key aids was made in Washington. In a sense, Soros and IMF both are the results of USA’s hegemony in the era of globalization, the two sides of a coin. The countries that do or do not involve in the crisis all have locked their relations with U.S.A as the most important bilateral relations. Farsighted strategists and policy-makers in various countries all decide their diplomatic posture in accordance with their policies towards U.S.A. Exceptions are difficult to find from Britain, Canada, that apparently have the close relationship with U.S.A, to Libya, Iraq, Korea and Iran, that sharply oppose America. This is also the crux for us to understand the complexity of the current international relations.

In the present crisis, in some countries that have adopted or tried to adopt the anti-US politics (Indonesia, including Malaysia to some degree), their leaders stirred up the sentiment of

the people and used strong words in making statements out of their temporary need for strategy. But the results were against their wishes because this kind of sentiments may cause disturbances. However, those countries that judged the hour and sized up the situations, evaded prudently from IMF and America's critical spearhead, turned their attention to reforms on domestic restructure (Korea and most south-east Asia countries), there were also sparks of anti-America sentiments though these sparks did not result in uncontrolled social problems. One of the author's conclusions is that indeed many problems (including unreasonableness and unfairness) exist in the international rules guided by the West, but the countries in inferiority have little room to choose; they have to join it first, then plot long-term reforms in the process of self-reliance. "Setting up a separate kitchen" is unrealistic for them, and may cause more damage to themselves.

Thirdly, as a result of the strength of economic globalization and mutual-dependence on different countries, the security relations and concepts are changing stealthily. From the aftermath of the financial crisis in Asia, we can see a new trend in politics and security, which afford food for thought. It has increased uncertainties to the prospect of international relations in regions and the globe. Anyway, the infiltrating trend of economy-politicization and politics-economicization is clearer and clearer.

In various new trends of politics and security, the following possibilities are worthy of special attention:

First: the role of the traditional armament is relatively weakened, while the new comprehensive concepts of security are more praised. People noticed that ASEAN countries have universally reduced their military budget due to the dramatic changes of exchange rates, economic crisis and austerity of governments' spending. As a result, many contracts of arms purchases (including fighter planes, helicopters, tankers, submarines and reconnaissance satellites) were forced to abandon and postpone. The process of military modernization has slowed down. Asia, as the second largest arms market next to the Middle-east region has shrunk sharply. At the same time, people also noticed that huge armament could neither prevent crisis, nor relax it. On the contrary, it may become a burden on the economy, just like the situation in Indonesia. Certainly, this doesn't mean the aim of military modernization is not important, or should be given up. It has been put in a place suitable to the national strength and service able to the country's whole strategy. Parallel to it is the wide admittance and notice of the comprehensive concepts of security. Last November, Chinese President Jiang Zemin and Foreign Minister Qian Qichen attended the dialogues and negotiations between ASEAN and APEC in Kuala Lumpur, capital of Malaysia. They made speeches respectively on the comprehensive security, which emphasized the economic stability and cooperation among various countries. Their speeches were widely welcomed by ASEAN countries. In policy makers' schedule, with the lessons learned from this crisis, the comprehensive concepts of security that includes economy, society and politics has been put to a more forward place. In a sense, it testified an old maxim: "Good fortune lies within bad."

Second, compared with the international regulations dominated by Europe and U.S.A, the self-established regulations by Asia have weaker capability in coping with the crisis, which has put the perfection of regulations on the order of the day. Actually, early as before this crisis, ASEAN is hopeless to the escalation of the civil war in Kampuchea, powerless to the deterioration of the situations in Indonesia, and timid in complaining Soeharto's action instead of any constructive actions. All these show the low level of the regulations, and the problems it may case.

(Sometime it was also regarded as a merit of giving more freedom and flexibility to member countries) .APEC didn't do a good job this time either. Just like some analysts said: the ministerial-level meeting of APEC held only in November, which was difficult to make preparation for the crisis and slow in reaction. APEC only attached importance to trade and investment freedom. Most ministers who attended the APEC meeting were the ministers of foreign affairs or foreign trade, whose minds were full of trade and investment. These ministers have little communications with the Ministers of Treasury. And the exclusive meetings for the ministers of Treasury have nothing to do with Summits. APEC itself lacks of crisis-management structure. From the above-mentioned views, Asian countries, though has gone up on a new step in the process of globalization and begin to absorb new lesson (such as a comprehensive security concept and its manipulation) , are still not mature. Compared to EU, Asia has a long way to go in the conformity of the international relations in regions and cooperation between different countries.

The last but not the least, the crisis have pushed big powers to the front stage again. The readjustment of relationship among and the functions of USA, Japan and China are very important. Naturally, USA plays an active & important role. Though America was not very positive and gave no substantive help at the beginning of the crisis, Uncle Sam was involved in the aiding process, organizing and coordinating things as a superpower, especially when the crisis threatened Asia's stability and the US's image of a policeman. At present, what the US concerned most is: shall sharp anti-America sentiments and nationalism appear in Asia? Shall serious explosions take place in big countries like Indonesia? What kind of influences shall explosions bring to its neighborhood and the whole area? Shall the heavy-pressured budget influence Japan and Korea's funding commitments to American's stationed army? Shall Japan and China's preventive measures influence their bilateral relations with America and weaken their status in Asia<sup>xi</sup>? Now, Japan's finance is in trouble: the problems existing in its foam economy appears gradually; the public has no confidence with politicians; beliefs and measures supporting Japan's economic mode in decades after WWII has been doubted at home and abroad. It seems that reforms on financial and bureaucratic system are imperative. Japan is still one of the largest creditor and investor, especially to Asia. Japan is sure to take economical or political reaction. In 1997, Japan proposed to establish an "Asia's Fund". Though the suggestions went to a premature end due to America's disapproval, it reflected some Japanese's profound thoughts. In the days to come, with the process of crisis-elimination going in depth, Japan's domestic and foreign politics will make important adjustments, and bring deep influence to itself and to its neighbors. China has evaded from the attack of this crisis, but has still been severely pounded. Since the reform and opening up, overseas Chinese's investment has occupied most parts of foreign loans. Currently, the riots in Indonesia had created a big threat to Indonesian Chinese. China has to pay great attentions on the process of the Asia crisis and its solution, then take some measures against its damage. Challenges and chances coexist in China. The close high-level visits and negotiations by the United States, Japan, China, beginning from the second half of 1997, apparently gave comprehensive considerations to these factors just mentioned above. The political and strategic trends of these three countries have direct bearing on the elimination of the financial crisis in Asia and the changes in Asia and the whole world.

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<sup>i</sup> Reference on the different concepts on globalization can be found in my book *Contemporary International Politics*, Chapter One: Concept and Motivation; Shanghai People's Publishing House, Aug,1995, pp1-pp46

<sup>ii</sup> The detailed analysis of "modernity leads to stability, and modernization causes turbulence." is in *Political Order in a Changing Society*, Huntington, Sanlian Publishing House, first edition, July,1989, pp37-66

<sup>iii</sup> This statistic is estimated by the WTO.

<sup>iv</sup> Xue Dianqing, "Will the Financial Storm Hit the Mainland China?", China News Digest, Vol.355 & Vol.356, January16,1998

<sup>v</sup> Same as Note 4

<sup>vi</sup> *Liberation Daily*, third page, January 10,1998

<sup>vii</sup> Charles Morrison, *Domestic Adjustments to Globalization, the paper for GLOBAL THINKNET PROJECT*.

<sup>viii</sup> Han Sung-Joo, *Asia Values:Asset or Liability*, the paper prepared for Global Thinknet Tokyo Conference on Globalization, Governance and Civil Society.

<sup>ix</sup> Wang Yizhou, *Contemporary International Politics*, Shanghai Publishing House,1995

<sup>x</sup> Same as Note 7

<sup>xi</sup> The speech is delivered on the meeting held by the China International Strategic Research Organization for the Chinese scholars and specialists.