Issues & Studies 35, no. 4 (July/August 1999): 109-132.

Impact of the East Asian Financial Crisis on the Asia-Pacific Regional Order: A Geo-Economic Perspective*

CHYUNGLY LEE

Since the collapse of the Thai baht in July 1997, the malfunctions and misalignments of financial markets in many East Asian economies have resulted in adverse effects on the real economy and led to a full-scale, region-wide economic recession. When regional economies adjusted their trade and investment strategies in order to cope with individual economic hardships, the configuration of East Asian economic interdependence has changed. Such changes have raised concerns about regional stability and order as economic leverage becomes one of the major determinants of world order in the post-Cold War era. A geo-economic *analysis of regional order in this paper delineates the Asia-Pacific economic geography by trade and investment flows and suggests that the United States and China are the potential winners in the regional geo-economic competition after the onset of the Asian financial crisis.*

KEYWORDS: economic leverage; regional order; East Asian financial crisis; geo-economics

* * *

Since the collapse of the Thai baht in July 1997, the malfunctions and misalignments of financial markets in many East Asian economies have

---

Dr. Chyungly Lee is an Associate Research Fellow at the Institute of International Relations, National Chengchi University. Her research interests include Asia-Pacific regional cooperation, economic security, and national security.

*Revised version of a paper presented at the 28th Sino-American Conference on Contemporary China, sponsored by and held at the Asian/Pacific Studies Institute of Duke University, North Carolina, June 12-14, 1999.

largely resulted in adverse effects on the real economy and led to a full-scale, region-wide economic recession. When major regional economic players adjust their external economic strategies and redirect trade and investment flows in order to cope with individual economic hardships, the configuration of East Asian de facto regional economic interdependence changes. Will such structural shifts cause concerns about regional stability as economic leverage becomes one of the major determinants of international order in the post-Cold War era?

This paper analyzes the impacts of the East Asian financial crisis on the Asia-Pacific regional order from a *geo-economic* perspective. The examination of *geo-economic* order in the Asia-Pacific region is particularly critical in the sense that economic prosperity has been a common value pursued by regional political entities, and that the lack of formal institutionalized mechanisms for regional economic cooperation makes conduct of individual entities crucial determinants of regional economic order. Nevertheless, the increasing regional economic ties (both institutionalized and uninstitutionalized) have developed concurrently with the trend of mass global transnational economic transactions. The physical factors traditionally deliberated in geographical economics are no longer sufficient to comprehend the geo-economic order. This paper thus first clarifies the concept and outlines the elements of geo-economic analyses before discussing the substance of the Asia-Pacific geo-economic order after the onset of the East Asian financial crisis.

Reconsideration of Economic Forces in the World Order

Economic instruments have been employed by nations to achieve external political goals. Nevertheless, two major trends in global development have urged us to reposition the role of economics in world affairs.[1] First, the trend of economic globalization has gradually separated the

[1]Similar arguments have been presented by the author in Chyungly Lee, "On Economic Security," in *Furthering Cooperative Security*, ed. David Dickens (Wellington, New Zealand) (forthcoming).

holders of capital resources (business) from the holders of coercive power (state). Economic power holders are not necessarily under the control of political power holders. The new division of power creates new forces in the dynamics of world politics. Second, the prevalence of capitalist values in the post-Cold War era urged states to reprioritize economic interests in the national agenda. Economic statecraft is no longer necessarily subject to political purposes.

Economic Dynamics of the New World Order

Although there is no authoritative definition of globalization, it has been broadly accepted that the manifestations of economic globalization include the spatial reorganization of production, the interpenetration of industries across borders, the spread of financial markets, and the liberalization of commodity exchanges.[2] Nevertheless, globalization refers to something more than "interdependence." It signifies both quantitative and qualitative changes[3] in domestic and international orders. With international enterprises and other nonstate actors sharing access to national resources, state autonomy to allocate resources for national development has been affected. Even the most chauvinistic and powerful states concede that their capacities to make and execute unilateral decisions have been diminished.[4]

Moreover, the increasing interdependence among nonstate actors makes states less capable of protecting their citizens from being exploited by market forces. Cross-border economic flows are actually linking different societies, particularly connecting subregions among neighboring countries. States, in contrast, have adjusted their political and security relations

---

[2] James H. Mittelman, "The Dynamics of Globalization," in *Globalization*, ed. James H. Mittelman (Boulder, Colo.: Lynne Rienner, 1997), 2.

[3] Han-Henrik Holm and Geor Sorensen, eds., *Whose World Order: Uneven Globalization and the End of the Cold War* (Boulder, Colo.: Westview, 1995), 4-5; Richard Rosecrance, "Economics and National Security: The Evolutionary Process," in *Asia-Pacific Security: The Economics-Politics Nexus*, ed. Stuart Harris and Andrew Mack (Canberra: Allen & Unwin, 1997), 91-92.

[4] Alan Dupont, "Concepts of Security," in *Unresolved Futures: Comprehensive Security in the Asia-Pacific*, ed. Jim Rolfe (Wellington, New Zealand: Center for Strategic Studies, 1995), 3.

accordingly. Such business-driven dynamics suggests the so-called natural economic territories in which political centers become less relevant to economic development and societal welfare.[5] When nonstate actors increase their control over resources for societal and economic welfare, the state capability of providing services that safeguard individual welfare is seriously curtailed. The growing trend of natural economic zones will continue to expand because it has been driven by sound market principles.[6] As a result, economics has its own momentum in shaping orders. Through the interplay of competition and cooperation, business communities have gradually initiated shifts in economic, political, and even security agendas.

Capitalist Rationale of Statecraft in the Post-Cold War Era

During the Cold War period, the avoidance of mass military confrontation was prioritized at the top of the national agenda. In addition to security safeguards, the two superpowers—the United States and the Soviet Union—were also the aid providers and economic protectors of client states. Under the comprehensive security umbrella, the client states were able to pursue national development and economic prosperity. In the post-Cold War era, however, individual client states, now independent from their patrons, have become directly exposed to the global economic and political systems. These former client states now face potential confrontations with each other. Individual statecraft of the previous client states cannot simply follow the rationales of the superpowers. Concerns regarding social and economic well-being which were not considered to be major factors undermining international political stability are now major determinants of national foreign policies.

The collapse of the Soviet Union ended the Cold War military confrontation between East and West. More importantly, however, the ideo-

[5]Ralph A. Cossa and Jane Khanna, "East Asia: Economic Interdependence and Regional Security," *International Affairs* 73, no. 2 (1997): 225; Amos A. Jordan and Jane Khanna, "Economic Interdependence and Challenges to the Nation-State: The Emergence of Natural Economic Territories in the Asia-Pacific," *Journal of International Affairs* 48, no. 2 (Winter 1995): 433-62.

[6]Robert A. Scalapino, "Economics, Security, and Northeast Asia," in Harris and Mack, *Asia-Pacific Security*, 140.

logical cleavage between communist and capitalist blocs was also brought to an end.[7] With the demise of the Cold War, states have, to some extent, reduced their demands for armed forces. Relatively speaking, the need of capital and technology for national economic development and growth has increased. The prevalence of capitalist values, in contrast to its confrontation with communist ideology during the Cold War, has led states to stress economic interests in the national agenda. States began to adjust their alliance relations for the enhancement of economic partnership, rather than the complementation of military self-insufficiency. For instance, Russia deemphasized its ties with old allies—North Korea and Vietnam—and began to increase ties with other economies for capital and technologies needed for economic growth. Economics has become a new interface among nations.

Some may argue that both the pre- and post-Cold War worlds were, and continue to be, multipolar, notwithstanding the demise of the Soviet Union. There has been no dramatic change in the balance of economic power. Furthermore, economic development was also seen as an important weapon in the West's confrontation with communism.[8] Nevertheless, the exploration of causal links between economics and world order has become crucial in the current context particularly because economics itself has become a determinant of world order, with or without political or military links. While the problems associated with military conflicts remain well recognized, the social cohesion and individual welfare within nation-states are decisively affected by transnational economic activities. Thus, concerns over global peace and security are not only limited to the better management of competition and conflict or the prevention of interstate wars, but also extend to the enhancement of economic welfare of the individual and community within states.[9]

---

[7]Barry Buzan, "Security, the State, the New World Order, and Beyond," in *On Security*, ed. Ronnie Lipschutz (New York: Columbia University Press, 1995), 196.

[8]Stuart Harris and Andrew Mack, "Security and Economics in East Asia," in Harris and Mack, *Asia-Pacific Security*, 1.

[9]David B. Dewitt, "Introduction: The New Global Order and the Challenges of International Security," in *Building a New Global Order: Emerging Trends in International Security*, ed. David B. Dewitt et al. (New York: Oxford University Press, 1993), 8-9.

A Geo-Economic Perspective of Analyzing Regional Order

The definition and analytical foci of geo-economics vary across distinctive scholarly communities. A geographer is more interested in the impact of physical geographical conditions on domestic and international economics. The primary concerns for an economist are those economic relationships between places that can be generalized under the term "spatial interactions."[10] A sociologist views a geo-economic empire in human history as one in which "a population dominates and manipulates economic relations with another population, and by virtue of its ascendant economic position, is able to achieve at least some control of key institutional spheres of the subordinate population."[11] An analyst of foreign policy adopts a realist legacy of geopolitics to study the influence of economic competition on the politics, national power, and foreign policy of a state. A *geo-economic* perspective of analyzing regional order explores the influences of regional economic dynamism on regional power structure and patterns of state interactions.

Despite the contending notions of geo-economics, two basic elements of conceptualizing geo-economic order are indispensable. First, a geo-economic order should be conceptualized on the basis of *economic geography*. Nevertheless, physical geographical proximity is not necessarily sufficient to understand regional economic dynamism when globalized capitalism constitutes a new force of world order. Instead, economic *flows* and relationships between places delimit economic spaces. Second, a geo-economic analysis of regional order ought to reflect realism in the economic agenda. In contrast to an economist's analysis of international economy from a geographical perspective, concerns of geopolitical games are incorporated into the conceptualization.

---

[10]See Alan Wilson, "Mathematical Models and Geographical Theory," in *Horizons in Human Geography*, ed. Derek Gregory and Rex Walford (Hampshire: Macmillan, 1989), 29-47.

[11]Jonathan H. Turner, "Some Elementary Theoretical Principles on Geo-Politics and Geo-Economics," *EurAmerica* 28, no. 3 (September 1998): 42.

Economic Geography

Economic geography is primarily concerned with those economic relationships between places that can be generalized into patterns of *spatial interactions*. There are two components in the system of spatial interactions: places that serve as origins and destinations of flows, and the flows themselves.[12] With respect to the first component, analyzing the characteristics and conditions that lead to places generating or receiving particular flows contributes to the understanding of the *locational patterns* and determinants of an economic region. With respect to the second component, the exploration of interconnections among places depicts the structure of flows. The two components of economic geography are interrelated. When the conditions of places change, the structure of flows alters. Over a period of time, new locational patterns and flows will inject new determinants of economic development in places.

When an economic region is delimited by locational patterns and flows, physical geographical proximity or territorial frontiers of sovereign states become less relevant determinants. Economies are bounded by the range of market networks of transnational transactions. Legal agreements or formal institutions are thus no longer necessary conditions for defining an economic region. One of the implications from capital globalization to economic regionalization is that regions are delineated functionally rather than geographically in nature. This is called "spaces-as-flows" rather than the more traditional notion of "spaces-of-places."[13] Although the functional nature is most salient in the exploration of currency regions,[14] trade and investment flows remain as the major forces pulling economies together. An economic geography delineated by trade and investment flows is thus the main concern of analysis in this article. In contrast, conditions and characteristics that lead to places becoming origins or destinations of

---

[12]See Dean M. Hanink, *The International Economy: A Geographical Perspective* (New York: John Wiley & Sons, 1994), 1.

[13]John Ruggie, "Territoriality and Beyond: Problematizing Modernity in International Relations," *International Organization* 47 (1993): 173.

[14]Benjamin J. Cohen, "The Political Economy of Currency Regions," in *The Political Economy of Regionalism*, ed. Edward D. Mansfield and Helen Milner (New York: Columbia University Press, 1997), 58-59.

flows are not the foci of this study.[15]

Economic regionalization appears in many different forms of integration, with various degrees of identity, depth, and institutionalization.[16] Driven by common social and democratic values, the European Union has become heavily institutionalized in the process of developing a single market that allows for the free movement of capital, labor, goods, and services. The economic policies of each single market economy in the Union are coordinated and harmonized under supranational control and a single currency. The North American Free Trade Area has reflected strong liberal values and is aimed at fully reducing trade barriers among members. East Asia, in contrast, has developed a distinctive informal, transnational model of regional integration. Such de facto, rather than de jure, economic integration is rooted mostly in transnational market networks. The case of the Asia-Pacific economy also exemplifies another de facto open regionalism on the basis of spatial interactions. The lack of formal institutionalized mechanisms for regional economic order makes trade and investment flows directly affect economic geography in the Asia-Pacific region.

Realism in the Economic Agenda

The concept of *geo-economics* was introduced by Edward Luttwak[17] to analyze economic policy in a geopolitical framework. When the myth of U.S. decline prevailed with the emergence of new world economic powers Japan and Western Europe, Luttwak suggested to envisage the notion of state rivalry from the implication of new international realities. Although the decline of U.S. hegemony has raised less concerns after the collapse of the Soviet Union and the resurgence of U.S. competitiveness,

---

[15]As new technologies and new institutions are combining to substantially alter traditional sources of competitive advantage, natural resources matter, but become less essential in the competitive equation. Being born rich becomes much less of an advantage than it used to be. See Lester Thurow, *Head to Head: The Coming Economic Battle among Japan, Europe, and America* (New York: Warner Books, 1992), 40-42.

[16]Barry Buzan, Ole Waever, and Jaap de Wilde, *Security: A New Framework for Analysis* (Boulder, Colo.: Lynne Rienner, 1998), 112-14.

[17]See Edward Luttwak, *The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and How to Win the Geo-Economic Struggle for Economic Supremacy* (New York: Simon & Schuster, 1993).

economic or commercial means remain as supplements to military means to express adversarial attitude toward rivalries among major powers. Economic priorities previously subordinated to military concerns are consequently emerging and dominating the world political scene. The new concept of international rivalry consists of concerns of economic zero-sum games.[18] Outcomes of such competitions are just as important as the Cold War's military and diplomatic conflicts.

Although the basic premise of economic analysis is that parties benefit in free market exchanges, the benefits are not always equally divided. Gaining relative shares often overshadows the incentives of creating total sum when shifts of their relative shares in the world market will affect the political leverage of major states. When economic competition is increasingly critical in determining the primacy or subordination of states,[19] trading states are concerned not with the defense of territory but with the defense of jobs and the conquest of world markets.[20] The fear of a relative decline in power often results in a neomercantilist policy in which an individual state may trade off economic welfare of other economies for its own gains. This *geo-economic* perspective thus injects thoughts of realism into the economic realm; meanwhile, it develops an economic agenda for neorealists.[21] The intent to win economic wars molds state behavior and reshapes the international order.

In response to the dilemmas of bilateral economic interdependence in general and trade relationships in particular, most economies adopt a mixed policy that captures the benefits of mercantilist and liberal approaches toward bilateral trade without surrendering to the liabilities of either.[22] As a result, one increasing strategy for ensuring sufficient market access is to

[18]Also see John O'Loughlin's interpretation of geo-economic competition in "Geo-Economic Competition and Trade Bloc Formation: United States, German, and Japanese Exports," *Economic Geography* 72 (April 1996): 131-60.

[19]Samuel P. Huntington, "Why International Primacy Matters," *International Security* 17, no. 4 (Spring 1993): 72.

[20]Richard Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1986), 136-54.

[21]See Theodore Moran, "An Economics Agenda for Neo-Realists," *International Security* 18, no. 2 (Fall 1993): 211-15.

[22]Bruce Moon, *Dilemma of International Trade* (Boulder, Colo.: Westview, 1996), 123.

create regional networks of trade and investment. Regionalization eases the fear of economic disruption from direct confrontation among economic rivals or political adversaries. However, from the geo-economic perspective, new configurations of economic interdependence will change the balance of regional economic power. This will lead to fears of a relative power decline for some countries, while bringing about increased confidence in power capabilities for others. The redistribution of economic power will thus likely affect the regional political goals of individual states and reconstruct regional order.

The Asia-Pacific Regional Geo-Economic Order

Recent developments in the Asia-Pacific economies, particularly in East Asia, can be characterized by dynamism in economic growth and heavy dependence on international trade and investment. The ferment in East Asia is a product of the region's unique and dramatic economic success. Some have even pointed out that the rise of the Asia-Pacific region has mainly been measured in economic terms.

In terms of the region as a whole, the underlying structural dynamism in the development of the Asia-Pacific regional economy is strong linkages between trade and investment. Such links maximize benefits of international specialization and capital accumulation, broaden comparative advantages, and at the same time minimize the costs of transferring technology and production.[23] The market-driven forces to fully utilize productive resources region-wide indeed bond industries and firms across borders. The dynamism in economic growth of individual countries relies on the inflow of foreign capital on the supply side and on exports of goods on the demand side.[24] The economic performance in these economies is thus

[23]For more discussions on the strong trade-investment linkage in the Asia-Pacific region, see APEC Economic Committee, *Foreign Direct Investment and APEC Economic Integration* (Singapore: APEC Secretariat, 1995).

[24]The adoption of supply-demand analysis of the economic interdependence equation can be seen in Donald C. Hellmann, "America, APEC, and the Road Not Taken: International Leadership in the Post-Cold War Interregnum in the Asia-Pacific," in *From APEC to*

highly vulnerable to developments beyond their national borders and closely tied to regional prosperity, particularly to the leading economies in the region.

In the post-World War II era, trading with the United States generated tremendous trade surpluses for the East Asian economies. Access to the vast U.S. market has been for decades the most important factor behind the economic growth of the export-led East Asian economies. The East Asian economies thus lacked incentives and capacities for developing multilateral economic ties among themselves. The regional geo-economic order was strongly associated with U.S. liberal trade policy and economic hegemony in the region. However, when the myth of declining U.S. hegemony started to be circulated and a new U.S. fair trade policy emerged toward the region, the East Asian economies began to search for a regional approach to secure their economic performance. With recent developments in regional trade and investment (characterized by the flying-geese pattern) and the decline of U.S. economic superiority in relation to the rise of regional economic powers, the major determinants of the economic performance of individual economies have shifted to more of a regional level. Access to the U.S. market has been no longer a single variable in the regional economic order.

U.S.-NIEs-Japan Trifold Dominance
Prior to the East Asian Financial Crisis

Although the transpacific trade links between the United States and East Asian economies remain salient, the networks of market forces have led Japan and the newly industrialized economies (NIEs) to join the United States as pillars supporting regional economic growth and stability.[25] First, the strong linkages between trade and investment in East Asia have brought

---

Xanadu, ed. Donald C. Hellmann and Kenneth Pyle (New York: M.E. Sharpe, 1997), 86-92; David Rapkin, "Leadership and Cooperative Institutions in the Asia-Pacific," in *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region*, ed. Andrew Mack and John Ravenhill (Boulder, Colo.: Westview Press, 1995), 100.

[25]For more detailed analyses, see C.H. Kwan, *Economic Interdependence in the Asia-Pacific Region: Toward a Yen Bloc* (London: Routledge, 1994), 1-5; Chyungly Lee, "U.S. Leadership in the Asia-Pacific Region: Some Help from Economic Strategies?" *Issues & Studies* 34, no. 4 (April 1998): 42-71.

Japan to the hub of regionalized economic networks. The significance of Japan's role in regional economic growth can be mostly illustrated by the correlation between the flows of its outward foreign direct investment (FDI) toward the region and the gross domestic product (GDP) growth rates of regional economies. The inflow of FDI has become a major factor determining economic growth in the East Asian economies because of the trade-oriented feature of FDI. The de facto East Asian economic integration, without any formal arrangements among governments, can be seen as a multilevel production alliance in which Japanese capital and technology are stitching together the disparate Asian economies. To a varying extent, all East Asian economies have used this Japanese production alliance to expand their manufacturing exports.[26] As exports account for the major source of national economic growth, Japanese trade-oriented FDI in the region becomes one of the major determinants of East Asian growth despite its decreasing role in Japan's trade ties with the region.

The second pillar for regional economic growth has been NIEs. NIEs have emerged as the second pole supporting regional economic stability mainly due to their dual roles in the region's economic growth. On the one hand, NIEs' FDI outflows toward the region have become the major input sources for the growth of the region's lower-income economies (LIEs);[27] in some cases, they even surpass Japan while the export production structures of LIEs are centered on labor-intensive manufacturing. On the other hand, NIEs have played increasingly crucial roles in East Asian trade interdependence. NIEs used to be asymmetrically dependent on imports from Japan and exports to the United States. In a recent development, the increase of regional trade ties between NIEs and LIEs led NIEs to play a more decisive role in the East Asian economic interdependence.

Despite the increasing intraregional trade and FDI among East Asian economies, the United States remains the most important single country destination for East Asian outputs of final manufactures, especially high-technology products. Under the framework of Japan's Asian production al-

---

[26]See Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace* (Boston: Cambridge University Press, 1996).

[27]They include Malaysia, Thailand, the Philippines, Indonesia, and China.

liance, the importance of the United States to East Asian economic growth is not reflected solely in its trading relations with NIEs and LIEs. As a final exporter for most high-technology products, Japan's trade with the United States has also indirect effect on economic growth of other East Asian economies. East Asia remains vulnerable to a protectionist backlash from the United States. The United States provides room for the growth of the transpacific economy and thus becomes a powerful controller over developing Asia-Pacific economic ties.

Dynamism after the East Asian Financial Crisis

The long-term impacts of the East Asian financial crisis on the balance of regional economic power can be seen from the phenomena that economies across different development levels in the flying-geese regional economic structure have been all affected by the crisis. Among others, Japan, an economic superpower for about two decades, is losing both the economic and political influence in the region due to its worst recession after fifty years of development; South Korea, one of the "Asian miracles," has suffered from severe economic disaster due to industrial overcapacity; and Thailand and Indonesia, which were both expected to follow the successful path of NIEs, have faced the dilemma of volatile capital flows.

Bilateral or multilateral financial aid to seriously beleaguered economies has been adopted by less affected economies in the region with dual effects. Economically, such aid contains the crisis from spreading into donor countries. More importantly, however, economic diplomacy is used to expand the sphere of political influence. Nevertheless, the short-term leverage derived from economic assistance is not sufficient to indicate a long-term shift in the power structure. The long-term impacts will be better measured by shifts in the substances of economic ties. Thus, instead of exploring the effects of economic diplomacy during the crisis, this section examines the trade and investment flows of spatial interactions in the region and summarizes potential future trends in the Asia-Pacific geo-economic order.

The realist agenda in the economic sphere is centered on "competitions." A geo-economic analysis of regional order is thus based on the discourse of competitive relationships among economies. The East Asian flying-geese economic development pattern results in a vertical region-wide division of labor. The relationships between economies across different development levels in which the manufacturing structures are complementary can be characterized as "niche competitions."[28] In the game of niche competition, absolute gains, rather than relative loses, are the concerns of individual economies. In other words, the benefit calculation of each economy is based on the total gains accumulated as a result of cooperation with other economies from different levels. Nevertheless, the relationships between economies at the same level in the economic hierarchy will tend to be more zero-sum in nature. Relative gains and the implications of long-term power shifts are the analytical foci of such head-to-head competitions. Although the geo-economic school mainly posits a situation of economic "warfare" between leading economies,[29] competitions among LIEs should not be neglected in the flying-geese regional economic structure. Thus, in this study, competitions at two different development levels are analyzed: the competition for economic leadership between Japan and the United States; and the competition for market shares among LIEs.

Contest for economic leadership: Two components are crucial in evaluating leadership: capability and the willingness to lead. The East Asian financial crisis has tested both economic capability and political willingness of two leadership contenders in the Asia-Pacific region. Although Japan has not shown clear intentions to be a world leader, the unintended systemic effects derived from economic structural superiority have granted Japan the potential to be a regional leader. However, Japan's performance, both internal and external, in managing the economic crisis has been particularly disappointing for those who had hoped Japan could play a complementary leadership role with the United States in the post-Cold War world. The trends can be examined from both the supply and demand sides of the East Asian economic recovery.

In terms of being a capital supplier of the region's economic recovery, Japan's FDI outflows toward the region decreased drastically in 1998. In

---

[28]Thurow, *Head to Head*, 28-29.

[29]Vincent Cable, "What is International Economic Security," *International Affairs* 71, no. 2 (1995): 307.

Table 1
Shares of Japan's Outward FDI
(By Destination)

Unit: %

	1994	1995	1996	1997	1998 (Jan.-June)
EU	14.46	16.7	15.4	20.8	21.6
USA	42.22	44.1	45.8	38.5	25.5
East Asia	22.70	23.0	22.9	20.7	17.0
NIEs	6.98	6.3	7.4	6.3	4.0
ASEAN-4	9.47	8.0	10.3	10.7	10.4
China	6.25	8.7	5.2	3.7	2.6
Latin America	12.80	7.5	9.3	11.7	20.2
Others	7.82	8.7	6.6	8.3	15.7

Source: Data calculated from statistics presented at <http://www.mof.go.jp/english/fdi>.

some cases, the decreases have been estimated to reach 70 percent. One of the obvious factors is that the severe economic recession in Japan has inevitably slowed down its external economic engagements. The demising role of input controls over the region's recovery has shaken Japan's economic dominance in the region. Nevertheless, the leadership is further questioned by examining the shifts in locational patterns of Japan's outward FDI after the crisis. The share of Japan's outward FDI toward Latin America as a percentage of Japan's total FDI outflows has doubled from 9.3 percent in 1996 to 20.2 percent in 1998. Shares toward Australia and New Zealand have increased as well. In contrast, flows to the United States and East Asia have gradually decreased (see table 1).

The trade ties between Japan and its Asia-Pacific trading partners can be summarized in terms of the annual growth rates of bilateral flows. In terms of exports, although statistics only show a slight decrease in Japan's total exports after the crisis, the export flows to ASEAN-4 and NIEs dropped 31.97 percent and 16.36 percent respectively in 1998 (see table 2). As for imports, Japan's total imports decreased 10.50 percent in 1998. However, the decreasing rates of imports from NIEs and ASEAN-4 were both higher than the total decrease (see table 3). The overall bilateral trade flows between Japan and non-East Asian economies in 1998 indicated a

Table 2
Annual Growth Rates of Japanese Exports
(By Destination)

Unit: %

	1987	1990	1993	1996	1997	1998
USA	3.64	–3.11	9.52	–7.83	4.60	9.18
NIEs	23.91	7.56	10.09	–9.40	0.34	–16.36
ASEAN-4	21.51	25.47	10.04	–4.88	–6.02	–31.97
China	–19.18	–37.94	31.04	0.58	0.53	–0.37
Total	8.91	4.54	6.27	–7.72	2.36	–0.58

Sources: Data calculated from statistics presented in International Monetary Fund (IMF), *Direction of Trade Statistics Yearbook*, various years; and <http://www.mof.go.jp/english/trade-st>.

Table 3
Annual Growth Rates of Japanese Imports
(By Origin)

Unit: %

	1987	1990	1993	1996	1997	1998
USA	8.66	9.50	6.17	5.29	–4.91	–4.06
NIEs	30.57	–3.62	3.32	–0.93	–13.83	–11.74
ASEAN-4	17.81	12.90	7.83	8.84	–2.88	–14.50
China	30.57	8.79	21.68	12.48	3.52	–4.30
Total	18.21	12.24	3.78	4.04	–3.08	–10.50

Sources: Data calculated from statistics presented IMF, *Direction of Trade Statistics Yearbook*, various years; and <http://www.mof.go.jp/english/trade-st>.

3.99 percent increase in U.S.-Japan bilateral trade, and a 7.86 percent surge in EU-Japan bilateral trade. The trade flows between Japan and its East Asian economic partners showed decreases in various degrees: a 2.96 percent decrease in China-Japan bilateral trade, a 15.23 percent decrease in Japan-NIE exchange, and a 23.96 percent decrease in ASEAN-4-Japan trade ties.[30] These opposing trends suggest Japan's decreasing ties with the East Asian economies. Such changes will gradually distance East Asia

[30]Data calculated from statistics presented at <http://www.mof.go.jp/english/trade-st>.

from Japan, and reprioritize Japan's position in the East Asian regional economic agenda.

Economic superiority has been the major element for U.S. world leadership. Although the leading role of the United States in the Asia-Pacific regional economy has been shared with Japan and the NIEs under the flying-geese development pattern of regional interdependence, the United States remains a driving force in the expansion of transpacific economic ties. Its structural power in relations with the region after the onset of the East Asian financial crisis remains unchanged. Given increasing economic engagements between the United States and East Asia, further spread of the contagion will potentially jeopardize U.S. economic performance and Washington's regional influence. The challenges for U.S. leadership are thus to prevent the damage from causing a round of global economic deflation and domestic instability that could harm regional confidence in U.S. leadership.

The significance of the U.S. role in the East Asian economic recovery after the crisis is still reflected from the demand side by providing markets for East Asian exports. In the East Asian regionalized economic network, market dependence on the United States has been mitigated in most bilateral ties although the United States is still the largest single destination market. After the crisis, total East Asian exports to the United States as a share of total exports increased, indicating the incrementing importance of the U.S. market to the region's recovery. The aggregate statistics of the first three quarters in 1998 showed that 30.78 percent of Japan's exports flowed to the United States. The U.S. market shares of total NIEs and ASEAN-4's exports were 22.19 percent and 22.12 percent respectively in the same time period (see table 4). These increasing figures indicate the possibility of reemerging U.S. economic dominance in the region after the crisis.

Competition among LIEs: ASEAN-4 and China are both labeled as LIEs in relation to other Asia-Pacific economies. In the flying-geese regional economic development, the two do not stimulate mutual economic growth. Trade and investment ties between them have not been strong. In terms of their role in regional economic dynamism, both of their export structures are concentrated in labor-intensive manufacturing. Nevertheless, given the apparent collapse of many of the "Asian miracle" econo-

Table 4
Exports of East Asian Economies Expressed as Percentage of U.S. Market Share

Unit: %

	1987	1990	1993	1996	1997	1998 (Jan.-Sept.)
Japan	36.75	31.68	29.48	27.52	28.12	30.78
NIEs	36.67	27.92	24.13	20.69	20.18	22.19
South Korea	38.86	29.90	22.19	16.67	15.86	17.37
Hong Kong	27.87	24.13	23.08	21.25	21.80	23.40
Taiwan	49.26	35.96	27.72	23.18	24.20	26.57*
Singapore	24.39	21.26	20.35	18.43	18.50	20.00
ASEAN-4	23.93	21.63	22.02	20.32	19.90	22.12
Malaysia	16.57	16.95	20.33	18.21	18.59	20.95
Thailand	18.71	22.71	21.54	17.91	19.39	22.73
Indonesia	19.51	13.10	14.20	14.14	13.58	15.04
Philippines	36.47	38.47	39.16	34.12	39.13	36.90
China	7.68	8.45	18.53	17.69	17.90	21.13

Sources: Data calculated from statistics presented in IMF, *Direction of Trade Statistics Yearbook* (1991 and 1997 editions); IMF, *Direction of Trade Statistics* (March 1999).

mies, China has so far avoided a crisis. This disparity can be attributed to the weak fundamentals of the other LIEs on the one hand, and the strong external accounts of China on the other.

Although China has so far avoided crisis, the risk of being infected remains high. Given a strong balance of payments position and substantial foreign exchange reserves, China is unlikely to have a currency crisis. The risk thus derives from the fact that slow growth will impede the inflow of foreign capital necessary to sustain further growth. In order to avert such a crisis, China has to ensure the continuation of export growth, maintain foreign exchange reserves, and continue to attract foreign capital. For those LIEs in ASEAN seriously hit by the crisis, capital inflows continue to be the critical source of economic recovery, while exports constitute the demand side of economic growth. Competition for economic self-interest between ASEAN-4 and China has thus become sharper than they otherwise would have been, thus constituting another pattern of regional economic order.

Table 5
FDI Inflows to ASEAN-4 and China
(By Source)

Units: US$ million, %

Recipients	Source	1996 Amount	1996 Growth rate	1996 % of total	1997 Amount	1997 Growth rate	1997 % of total	1998 Amount	1998 Growth rate[1]	1998 % of total
Malaysia[2]	USA	n.a.	n.a.	n.a.	820.18	n.a.	20.31	1,554.53	152.71	n.a.
	Japan	n.a.	n.a.	n.a.	847.88	n.a.	18.55	377.33	–40.66	n.a.
	Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Taiwan	n.a.	n.a.	n.a.	480.38	n.a.	11.89	171.84	–52.30	n.a.
	Singapore	n.a.	n.a.	n.a.	456.92	n.a.	11.31	137.11	–59.99	n.a.
	South Korea	n.a.	n.a.	n.a.	242.05	n.a.	5.99	13.60	–91.57	n.a.
Thailand[3]	USA	2,804.3	n.a.	21.1	2,858.30	1.94	26.90	404.60	–75.73	14.5
	Japan	6;356.2	n.a.	47.8	5,207.90	–18.06	49.10	860.70	–71.66	30.8
	Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	113.00	n.a.	4.0
	Taiwan	2,785.2	n.a.	20.9	414.30	–85.12	3.90	163.40	–32.38	5.8
	Singapore	1,866.1	n.a.	14.2	2,331.60	24.95	21.90	185.80	–86.33	6.6
	South Korea	891.6	n.a.	6.7	126.40	–85.82	1.20	41.40	–21.39	1.9
Indonesia[4]	USA	642.0	n.a.	2.1	1,017.70	58.52	3.00	568.30	–44.16	4.2
	Japan	7,655.3	n.a.	25.6	5,421.30	–29.18	15.96	1,330.70	–75.45	9.8
	Hong Kong	1,105.6	n.a.	3.7	251.00	–77.29	0.74	549.10	118.76	4.0
	Taiwan	534.6	n.a.	1.8	3,414.90	538.77	10.05	165.40	–99.97	1.2
	Singapore	3,130.4	n.a.	10.5	2,298.70	–26.57	6.77	1,267.40	–44.86	9.3
	South Korea	1,231.4	n.a.	4.1	1,409.90	14.49	4.15	59.60	–95.77	0.4

Table 5 (Continued)

Units: US$ million, %

Recipients	Source	1996 Amount	1996 Growth rate	1996 % of total	1997 Amount	1997 Growth rate	1997 % of total	1998 Amount	1998 Growth rate[1]	1998 % of total
Philippines[5]	USA	n.a.	n.a.	n.a.	353.00	n.a.	17.70	147.00	–16.71	21.8
	Japan	n.a.	n.a.	n.a.	126.00	n.a.	6.30	56.00	–11.11	8.4
	Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163.00	n.a.	24.3
	Taiwan	n.a.	n.a.	n.a.	13.00	n.a.	0.70	0.40	n.a.	0.1
	Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.00	n.a.	1.2
	South Korea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.50	n.a.	0.4
China[6]	USA	3,443.3	11.69	8.25	3,239.15	–6.02	7.15	2,707.00	11.43	8.6
	Japan	3,679.4	18.36	8.82	4,326.47	17.59	9.55	2,028.00	–37.50	6.5
	Hong Kong	21,257.7	37.88	50.95	21,026.50	–10.71	46.44	13,201.00	–16.29	42.1
	Taiwan	3,474.8	9.90	8.33	3,289.39	–5.34	7.26	2,144.00	–13.09	6.8
	Singapore	2,243.6	21.19	5.38	2,606.41	16.17	5.76	2,146.00	9.78	6.9
	South Korea	1,357.5	30.17	3.25	2,142.38	57.81	4.73	1,105.00	–31.23	3.5

Sources: <http://idic.tier.org.tw/data/asp>; <http://inavest.co.id/bkpm/facfig/01-invest/tab-s004.html> (Indonesia).

Notes:
[1]The growth rates of 1998 are estimated from the available data presented in the cited sources.
[2]1998 data includes January-September, except for South Korea where data includes only January-August.
[3]1998 data includes January-July, except for South Korea where data includes only January-May.
[4]Data is based on approved projects.
[5]1998 data for the Unites States, Japan, Hong Kong, and Singapore includes January-June, except for Taiwan and South Korea where data includes only January-March.
[6]1998 data includes January-September.

In terms of the supply side of economic recovery, although Japan and the NIEs' overall outward FDI has been showing tremendous decline, the decreasing rate of flows to ASEAN-4 was much higher than the decreasing rate of flows to China. Japan's investment in China showed a 17.59 percent increase in 1997. In 1998, Japan's investment in China was estimated to have dropped 37.5 percent. The situation has been better than other economies in the region. FDI inflows from Japan to Thailand decreased 18.06 percent in 1997 and were estimated to have decreased 71.66 percent in 1998. In the case of Indonesia, agreed investment from Japan dropped 29.18 percent in 1997 and 75.45 percent in 1998 (see table 5). In terms of attracting foreign capital for the supply side of economic growth, ASEAN-4 is becoming far less competitive.

On the demand side of economic recovery, the United States remains the most important export market for East Asian export-led growth. The share of the U.S. market as a destination for ASEAN-4's total exports increased from 19.90 percent in 1997 to 22.12 percent in the first three quarters of 1998. The share of China's total exports flowing to the U.S. market increased from 17.69 percent in 1996 to 21.13 percent in 1998 (see table 4). Securing market access to and maintaining market share in the United States are considered as crucial determinants of economic recovery for those East Asian economies seriously hit by the crisis. ASEAN-4's share of the U.S. domestic market exceeded that of China before the Asian financial crisis. However, this ratio has changed after the crisis. U.S. imports from China constituted 7.68 percent of U.S. total imports during the first quarter of 1999. The percentage from ASEAN-4 in the same time period was expected to decrease from 5.74 percent of 1998 (see table 6).

As Japan started to invest heavily in East Asia and consequently created a flying-geese regional economic development pattern after the mid-1980s, China was not the main destination for Japan's foreign investment. China-Japan trade ties were weak until 1993. In contrast, the trade relationship between ASEAN-4 and Japan has been strong due to the increasing intrafirm trade between FDI host and mother countries. Imports from ASEAN-4 comprised 15.51 percent of Japan's total imports in 1990; China's market share was only 5.12 percent in the same year. In 1996, China and ASEAN-4 almost had equal market shares. After the crisis,

Table 6
East Asian Exports to the United States
(% Share of Total U.S. Imports)

	1987	1990	1993	1996	1997	1998	1999[1]
Japan	20.77	18.00	18.47	14.56	13.94	13.35	13.24
NIEs	14.44	12.23	11.17	10.46	9.90	9.40	9.16
South Korea	4.24	3.73	2.96	2.86	2.66	2.62	2.80
Hong Kong	2.47	1.92	1.64	1.25	1.18	1.15	1.05
Taiwan	6.22	4.63	4.35	3.78	3.75	3.62	3.53
Singapore	1.51	1.95	2.22	2.57	2.31	2.01	1.79
ASEAN-4	2.75	3.55	5.16	8.75	5.79	5.74[2]	n.a.
Philippines	0.59	0.70	0.86	1.04	1.20	1.34	n.a.
Malaysia	0.72	1.06	1.82	2.24	2.06	1.98	n.a.
Indonesia	0.88	0.71	0.98	1.07	1.08	1.04	n.a.
Thailand	0.56	1.08	1.50	1.44	1.45	1.38	n.a.
China	1.63	3.15	5.47	6.51	7.19	7.79	7.68

Notes:
[1]Sum of the first quarter of 1999.
[2]Sum of the first three quarters of 1998.

Sources: Data calculated from statistics presented in IMF, *Direction of Trade Statistics*; <http://www/moea.gov.tw/~meco/stat>.

China's share exceeded that of ASEAN-4. Imports from China comprised 13.22 percent of Japan's total imports in 1998, 8 percent more than in 1987 (see table 7).

Conclusion: Economic Primacy vs. Economic Leverage

Implications of the East Asian financial crisis for reshaping regional power structures can be best analyzed from the underlying logic of geo-economic order. The primacy of economics in international relations is pervasive and unquestioned under the developing trends of globalization in the post-Cold War era. When the regionalized economic network is concurrent with economic globalization, *functional spatial interactions*, rather than the physical geographical proximity, are the key elements delineating economic spaces. In this study, the Asia-Pacific economic geography is de-

Table 7
East Asian Exports to Japan
(% Share of Total Japanese Imports)

	1987	1990	1993	1996	1997	1998	1999[1]
USA	21.18	22.46	22.97	22.72	22.34	23.95	24.61
NIEs	12.62	11.06	11.19	11.69	10.38	10.25	11.22
South Korea	5.42	4.99	4.84	4.57	4.30	4.30	4.67
Hong Kong	1.05	0.93	0.83	0.74	0.66	0.62	0.60
Taiwan	4.77	3.62	4.02	4.28	3.69	3.65	4.09
Singapore	1.38	1.52	1.50	2.10	1.73	1.68	1.86
ASEAN-4	10.93	15.51	12.05	11.96	11.98	11.48	n.a.
Philippines	0.91	0.91	0.99	1.30	1.48	1.58	1.58
Malaysia	3.19	2.30	3.17	3.37	3.36	3.09	3.26
Indonesia	5.63	5.41	5.19	4.35	4.32	3.86	3.70
Thailand	1.20	1.77	2.70	2.94	2.82	2.95[2]	n.a.
China	4.96	5.12	8.49	11.58	12.36	13.22	12.88

Notes:
[1]Sum of the first quarter of 1999.
[2]Sum of the first three quarters of 1998.

Sources: Data calculated from statistics presented in IMF, *Direction of Trade Statistics*; <http://www/moea.gov.tw/~meco/stat>.

picted by trade and investment flows. Shifts of trade and investment flows after the onset of the East Asian financial crisis have raised concerns about changes in the patterns of regional economic competition and anticipations of the emergence of a new regional order.

A geo-economic analysis of regional order injects the concept of head-to-head competition from the realist tradition of world order into the economic agenda. The result of this geo-economic survey after the onset of the East Asian financial crisis confirms the prevailing conjectures among various scholarly groups. First, Japan did not respond to the crisis as expected by the regional economies. Failing to effectively stabilize its foreign exchange rate, Japan's capacity to control the spillover of its own economic difficulties to the rest of the region has been questioned. Moreover, findings from the explorations of trade and investment flows suggest that Japan has shifted its marketing foci toward other regions and has gradually become less linked to East Asia than it used to be. Second, in addition to the U.S. capability of organizing coalitions to provide financial support to countries in peril and direct the policies of the key international financial institutions (such as the International Monetary Fund), the U.S. market remains the source of purchasing power critical for the East Asian economies to revive. Third, China is another winner as the consequences of the power reshuffle that has occurred after the East Asian financial crisis. The relative market shares of both trade and investment in the Asia-Pacific region have indicated China's stronger competitiveness over other LIEs in the region.

Indeed, the leverage of one economy over the rest of the region would have to be seen in specific context. Combined with global, regional, and country-specific efforts, the most influential factors of the East Asian export-driven growth pattern now would be the expansion of export markets and moves to avert the loss of market competitiveness. In terms of the expansion of export markets, the decreasing import volumes from East Asia to Japan have weakened Japan's economic leverage over the region's recovery. The large U.S. domestic market, however, continues to provide export markets to help spur the East Asian economic recovery. National economic performance allowed the United States to exhibit economic dynamism and adaptability during the crisis, thus allowing it a victory in the leadership competition with Japan. In contrast, the surge in China's economic leverage over the East Asian economic recovery has been based on the sensitivity of China's trade and investment market competitiveness in relation to other regional economies.[31] Although differences of opinion exist regarding whether or not China is a global economic giant, its critical position in the structure of Asia-Pacific regional economic flows determines its economic significance to the regional geo-economic order in the post-Asian economic crisis.

---

[31]Given the heightened market nervousness, a *renminbi* devaluation would almost certainly cause export price wars among regional LIEs. Some even argue that China's position regarding the *renminbi* to some extent expands the sphere of its influence in the region. If these conditions persist, the financial crisis may have signaled a change in the relative long-term leadership of the two great Asian powers—Japan and China. See Robert Zoellick, "The Political and Security Implications of the East Asian Crisis," *National Bureau of Asian Research Analysis* 9, no. 4 (September 1998).