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2 Economic security in an era of globalization

Definition and provision

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Economic security has preoccupied national governments, in Asia and elsewhere, when economic shocks have been so unexpected and severe that existing social and political arrangements appear threatened. Contemporary globalization – economic integration at the global level that is no longer limited to the industrialized countries – accelerated during the 1980s, as programs of economic liberalization spread throughout the developing world. A sharp increase in capital flows to developing countries in the early 1990s reinforced positive views of globalization. That sunny perspective did not last the decade, however, as successive financial crises affected first Mexico, then East and Southeast Asia, Russia, and Argentina. Financial crises were succeeded in the new century by the international effects of an end to the US high-technology boom and its accompanying stock market bubble, the shock of 9/11 and the insecurity that followed (culminating in the Iraq war), and a US administration that appeared little interested in collaboration to mitigate the effects of globalization on smaller, more open economies.

The recent vicissitudes of societies in an increasingly integrated global economy have spurred renewed interest in economic security and forced its redefinition. This revised definition in turn has encouraged a search for policy prescriptions that will increase economic security in the new environment. Globalization, after undermining the old definition of economic security, is found at the center of a new definition that emphasizes the risks of unexpected shocks and economic volatility. The new definition must capture the causal consequences of globalization accurately and establish explicit benchmarks for assessing globalization's effects on economic security. The design of national, regional, and global institutions can then be evaluated in light of three available instruments for enhancing economic security: insurance, credibility, and adaptation.

Economic security is not a new concern of governments. Economic instruments have long been part of the toolkit of statecraft, a means to influence other states and their policies (Hirschman, 1980; Baldwin, 1985). Economic security in this traditional view was security from manipulation by other governments that wielded these instruments. Insecurity was vulnerability to other states. Economic interdependence was viewed with wariness, particularly among developing countries, because it risked an increase in such vulnerability. Industrialized countries gradually overcame their anxieties over economic vulnerability after 1945, a striking

development given the past rivalries of these countries and their historic use of economic leverage against one another. Even more remarkable, given the speed of the transformation, was the economic opening of many developing economies after 1980. A complete accounting for that dramatic shift remains to be written; no simple explanation seems adequate for such a global shift to economic liberalization.[1] The Asia-Pacific economies joined this change in orientation toward the risks of economic vulnerability, a shift all the more striking for those (Taiwan, South Korea) that confronted threatening security environments.

Although this decline in concern over economic vulnerability had domestic political and economic sources, security calculations also promoted economic opening. That calculus still underpins support for globalization. Three considerations were of particular significance. First, governments, even those most wedded to a conventional view of international politics dominated by military force, saw positive gains to their national economic and technological base, and ultimately to their military power, through links to the global economy. Changes in military technology had opened an era of spin-on from the civilian economy rather than spin-off from the military sector. Those that rejected expanded international economic exchange risked conventional military inferiority.

Globalization had a second and more direct effect: reduction in vulnerability through diversification of suppliers and markets. The application of economic leverage and sanctions unilaterally became more difficult, even when the initiator, the United States, was the largest economy in the world. Although the United States has failed to give up its infatuation with economic sanctions, their effectiveness has declined in the absence of multilateral support, mirroring a decline in economic vulnerability on the part of other states. In addition, economic liberalization has meant that all governments have given up some of their leverage over private economic agents, reducing the effectiveness of economic instruments in their statecraft.

Finally, some of the states in the Asia-Pacific region began to accept that economic interdependence and integration might be promoted because of its positive security effects. Few states in the region endorsed the classical liberal view that growing economic integration would necessarily produce peaceful international outcomes. Nevertheless, several of the smaller and more economically dynamic countries in the region – South Korea, Taiwan, and Singapore – adopted strategies that deployed economic interdependence to advance their security goals in relation to larger or militarily threatening neighbors. At first, their strategies pointed toward explicit linkage, in which economic benefits were part of bargains to produce specific diplomatic outcomes. South Korea's *Nordpolitik* with the Soviet Union and then China was one successful example of such an exploitation of growing economic ties. As their neighbors also opened to the world economy, however, the ability to impose linkage declined and in some cases, such as those of Taiwan and China, could be reversed.

Economic interdependence could still provide security benefits, however. Domestic political constituencies that benefit from increased trade and investment might serve as a check on political elites that could disrupt those links by the use

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or threat of military force. In the longer run, economic integration could also aim at more profound regime transformation, inducing elites that endorsed a militarized view of security to accept a redefinition that produced a broader and less threatening assessment of national security. Kim Dae Jung's sunshine policy toward North Korea was based in part on such a long-run view of the effects of economic interdependence (Kahler and Kastner, 2004).

Anxiety over economic vulnerability to other states in the region – the traditional view of economic security – has declined over the past two decades, in part because of advancing economic integration. Even in the case of energy, a sector that had lain at the heart of traditional concepts of economic security, globalization and the growth in international markets began to undermine the old strategies. As Robert Manning has pointed out, despite national policies driven by concern over dependence and external manipulation, 'energy has the capacity to become an integrative force, creating a larger sense of shared interests and stake in cooperation' through market forces (2000: 202–203). Even when governments acted to reduce perceived vulnerability, as China appeared to do, their maneuvers could have only a limited effect on either the global oil market or the satisfaction of their country's own energy needs (Downs, 2000: 53–54).

Economic security redefined: the (perceived) perils of globalization

If globalization contributed to the erosion of an older definition of economic security, it also fostered a redefined concern over economic threats to national well-being. Recurrent financial crises during the 1990s struck emerging markets in Asia and elsewhere with particular force, to the surprise of both national elites and many financial market observers. These powerful shocks reinforced a more pessimistic view of a globalized world: economic openness might produce more economic insecurity. Renewed attention to the negative effects of globalization was reinforced by additional economic shocks that flowed from the terrorist attacks of 11 September 2001 and the Severe Acute Respiratory Syndrome (SARS) epidemic of 2003. The new century had dawned, it seemed, on an international landscape of diminished economic opportunity and heightened threat.

This swing from exaggerated optimism over the benefits of globalization to a more pessimistic assessment of insecurity in a globalized world was to be expected. Renewed economic insecurity, however, was not centered primarily on the threat of economic manipulation by rival states, as older anxieties had been. Instead, the new assessment linked globalization to economic security in two ways. Both emphasize the importance of nonstate actors and the new economic environment that they have created and exploited. Rather than concentrating solely on the vulnerability of states, both stress the vulnerability of individuals, groups, and societies as well as the internal political consequences of that vulnerability. Rather than external manipulation by other states, the undermining of state authority by nonstate networks and economic shocks is central.

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The first of these connections between globalization and security was noted in the 1990s, but only became pressing in the wake of the terrorist attacks of 11 September 2001. Globalization had been defined by legitimate economic exchange (trade, investment, migration) and enabled by liberalizing policies. Now a harsh light was shed on the permissive role of globalization in the growth of illicit cross-border exchange. Globalization had led governments to emphasize the opening of borders; sorting desirable from undesirable cross-border exchange and movement had not been a priority. Those malign transactions and movements, parasitic on legitimate ones, encompassed the transport of illegal substances such as drugs and contraband, criminal and terrorist networks, illegal migration, environmentally damaging exotic species, and cross-border movement of pathogens, such as the SARS virus.

Negative cross-border effects associated with economic globalization can be labeled new security issues in their own right. They also have second-order effects on economic security. First, in response to these security threats, governments may reach for countermeasures that are economically damaging. In their efforts to sort good from bad cross-border flows, legitimate economic exchange may be taxed too heavily or even stifled in an effort to shut off threatening intrusions. The initial reactions of the United States to the 9/11 attacks suggest the possible costs of sharply reducing cross-border movement of people. For example, universities and colleges in the United States have voiced alarm over the threat posed by newly implemented security measures to the free flow of research and to the movement of students and scholars who conduct that research (Gates, 2003).

Second, these new sources of insecurity may themselves produce economic shocks, magnified through globalized communications and transportation networks and by the growth of sectors that are highly sensitive to such shocks. Air transport and tourism were both severely disrupted by the September 11 attacks of subsequent terrorist attacks in Southeast Asia, and the SARS epidemic. Agricultural exports have been sharply affected by even the rumor of disease that might affect livestock or plants: global communication networks far outstrip in their speed any collective ability to verify and respond to the outbreak.

Finally, economic insecurity in other societies may also reinforce or encourage illicit economic exchange that then produces further insecurity through avenues that have been widened by globalization. For example, in countries such as Indonesia, deep recession during the Asian financial crisis spurred entry into illegal exchange by those whose employment in the legal economy had disappeared.

Increased sensitivity of societies to illicit cross-border activity is only one of the sources of insecurity attributed to globalization. Even more prominent is added economic *volatility* that societies face as a result of external shocks. Critics of globalization, such as Dani Rodrik, argue that external openness has increased economic risk overall for developing countries, rather than offsetting domestic sources of economic risk through diversification and the spreading of shocks over a larger market (Rodrik, 1997: 55–57). International economic shocks associated with financial integration had occurred in earlier eras of globalization, but the expectations placed in governments by their societies were limited (Eichengreen and Fishlow, 1998). Perhaps the most severe economic shocks suffered by the

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developing countries – especially the poorest ones – have been declining terms of trade for their natural resource exports, an outcome unrelated to the latest wave of financial globalization.

For the industrializing economies of Asia, however, export-oriented manufacturing was meant to reduce vulnerability to external economic shocks by reducing dependence on exports of natural resource and agricultural products. What was not recognized during the golden years of export-oriented industrialization was vulnerability to financial shocks that could be associated with financial liberalization and the growth of global financial markets. In contrast to Latin America, the debt crisis of the 1980s had affected only a few economies in Asia. South Korea and the Philippines were forced to undertake adjustment programs when that earlier cycle of bank lending came to an abrupt halt. South Korea's rapid return to economic growth, however, stood in contrast to the plight of Latin American economies with weaker export sectors. Latin America's 'lost decade' seemed to reinforce the lesson that flexible, export-oriented, and diversified economies could surmount such financial shocks at relatively low cost. For a region certain of its economic invincibility, the Asian financial crisis of 1997–1998 brought home the hazards of a new international economic environment.[2] Economic vulnerability to other governments no longer loomed large among security threats. Even the new transnational security threats that accompanied more open borders paled in significance when compared to the risks brought home by the crisis. Instead, a new vulnerability to international markets and an awareness of the economic and political volatility imported through those markets became central to a redefinition of economic security.

Debate over the origins of the Asian financial crisis continues: the relative weight to be assigned to the actions of national governments, international market players, such as hedge funds, and international financial institutions (IFIs) remains a source of contention.[3] In evaluating the causal connection between globalization, particularly financial globalization, and economic insecurity, the record of the crisis and its outcomes merit careful assessment. The economic costs imposed by the crisis on the four most seriously affected Asian economies – Thailand, Malaysia, Indonesia, and South Korea – were large. Asset deflation was remarkable by any historical standard. Like the Mexican peso crisis that had preceded it, the Asian financial crisis produced sharp and painful recessions in these economies, followed, in all cases but that of Indonesia, by a relatively rapid recovery. Economic rebound was quickly complicated by a succession of events that also exacerbated economic insecurity: sharp decline in the US stock market, an end to the technology sector boom, a shallow US recession, the terrorist attacks of September 2001, and the SARS epidemic.

The effects of the financial crisis on other Asian economies were much less severe, despite regional contagion and globalized financial markets. Japan and China each faced their own internally induced financial crises, but the regional crisis had little effect on their overall economic performance. Australia, like China, transited the crisis with few ill effects on its economy, shielded by a policy mix that included a flexible exchange rate.

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A regional financial crisis produced distinct national economic outcomes. The financial markets that had transmitted economic turmoil also served as a partial solution to the crisis. The diversified financial markets of the late 1990s and the first years of the new century were more forgiving of policy missteps than lenders had been in the less globalized financial markets of the early 1980s. Latin America had taken nearly an entire 'lost decade' to regain access to financial markets as its debt crisis persisted. The affected economies in Asia were able, after policy adjustments, to reenter global financial markets in the wake of the crisis, lowering their long-run economic costs. Foreign direct investment flows to the region continued throughout the crisis, marked by an increasing concentration on China.

The record of the Asian financial crisis suggests that the relationship between economic globalization and financial crisis is complex, dependent on national characteristics and policies as well as regional contagion effects. If one ventures beyond financial crisis to other economic and political outcomes that affect economic security, causal connections to globalization must be assessed even more carefully. Globalization has been linked to economic insecurity through its effects on economic inequality and the marginalization of some developing economies. Recent evaluations of those claims suggest that globalization appears to worsen international inequality when countries are taken as the unit of analysis (what might be called the sub-Saharan Africa effect). When individuals are taken as the unit of analysis, globalization appears to have more positive effects on global inequality (the China–India effect) (Bhatta, 2002; Fischer, 2003). Even when one is using countries as the unit of analysis, the question for many of the poor developing countries that have fared badly over the past two decades is why they have been marginalized and unable to participate in a globalized world economy. Part of the answer to that question lies in institutions – economic and political – that connect international and national economies.

The effects of globalization on political stability are also closely related to economic security through political institutions that provide a stable environment for economic growth. Economic volatility may undermine those institutions and the political basis for their effectiveness. Critics of globalization have pointed to the case of Indonesia, where the political effects of financial globalization and the Asian financial crisis appeared to be particularly severe: the collapse of the Suharto regime following policy changes enacted under external pressure.

Even limiting analysis to the most dramatic consequences of globalization – the risk of financial crises – its effects on domestic political development have often been overstated. Stephan Haggard's account (2000) of the Asian crisis and its political effects notes political trends and structural faults that may have been accelerated or exacerbated by the economic crisis; few were not caused by it, however. Constitutional revision in Thailand was affected by the crisis, but such revision had been broached well before its onset. South Korea confronted the crisis at a time of delicate political transition during the election and inauguration of Kim Dae Jung as president. Yet Korea surmounted the crisis rapidly and without damage to its political institutions. South Korea and Thailand demonstrate what Haggard calls 'the resilience of the democracies,' although these two cases also

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demonstrate that economic management varies across democracies. Even Indonesia, where a succession crisis loomed throughout the 1990s, managed its democratic transition under the worst possible economic circumstances without a political breakdown or civil war. Political violence increased in Malaysia and Indonesia during the crisis, but the relationship of that violence to the economic crisis (when compared to authoritarian regimes that had overstayed their welcome and long-standing separatist pressures) is not clear.

These examples from the Asian economic crisis – taken as a major case of economic volatility imposed by financial globalization – suggest that the causal links between globalization and domestic economic and political outcomes must be specified precisely. Other economic variables, such as industrialization or the introduction of market reforms, may be more disruptive than the effects of external economic opening and integration with the global economy. When certain domestic policy initiatives or poorly designed institutions, such as haphazard financial deregulation, are combined with economic opening, the effects of external shocks may be magnified. Institutional design at the national level is often the critical connection between positive and negative effects of globalization on economic security.

Careful assessment of competing explanations for observed outcomes must be coupled with an explicit recognition of the benchmark against which those outcomes are compared. Critics of the insecurity imposed by globalization on societies too often posit an implicit benchmark of no change at all. In other words, 'security' is expanded to mean the avoidance of any uncomfortable or politically risky change. The opponents of economic opening to the global market often deploy economic security in this overly expansive sense. Food security, for example, has been a powerful argument advanced for agricultural protection. Alternative strategies for ensuring adequate supplies of food from both domestic and international markets are set aside as economic security once again approaches its old sense of autarky.

Instead of treating economic security as a synonym for the status quo – a status quo that may hold instability in its future and certainly implies continuing economic change – judgments about economic security must weigh the effects of increased volatility (assuming that they cannot be reduced) introduced by globalization against the benefits of increased economic performance over time. The alternative to volatility may not be a smooth and equitably distributed pattern of economic growth, but rather an outcome embodied in its extreme form by North Korea or Myanmar: low volatility coupled with economic stagnation or decline. Rather than assuming that externally induced economic volatility or disturbance is necessarily to be avoided, a more appropriate – and difficult – calculation is determining each society's tolerance such economic risks in light of future economic gain.

Political benchmarks for the calibration of economic security are even more difficult to determine. Estimating a 'politically sustainable' level of economic openness requires a definition of one's political vantage point – who will bear political costs – and, once again, the level and direction of political change. During successive financial crises in Latin America and during the Asian economic crisis

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of the late 1990s, an often-predicted backlash against globalization did not emerge as a full-fledged political movement. Indeed, as Haggard (2000) recounts, political opposition during the economic crisis often aligned itself, tacitly or explicitly, in favor of economic reforms proposed by the IFIs and other international actors. Such programs of reform were directed against collusive bargains between government and business that were associated with the onset of the crisis. Overall, publics have been willing to accept some of the costs associated with globalization, unless political paralysis (Indonesia, Argentina) or radical economic inequality and poverty (Venezuela) make those costs seem both interminable and inequitable.

Both the causal relationship between economic globalization and economic insecurity and the benchmarks for measuring that insecurity are closely associated with international and domestic institutions that intermediate between societies and the international economy. Domestic institutions may enhance the economic benefits of international opening and either magnify or reduce the effects of international economic shocks. International institutions, such as the International Monetary Fund (IMF) and World Bank, have been criticized for a prominent and single-minded attachment to international economic integration that omits attention to economic security. Regional institutions, on the other hand, were sharply criticized in the wake of the Asian financial crisis for their ineffectiveness. As globalization is examined with a new eye to its effects on national economic security, both the appropriate type and the mix – national, regional, global – of institutions become central to the provision of economic security under conditions of globalization.

Institutions and the provision of economic security under conditions of globalization

Globalization has produced new definitions of economic security centered on two types of unwanted transmissions across national borders: illicit flows that are more difficult to control and easier to disguise as legitimate economic transactions increase (terrorism, crime, pollution); and economic (largely financial) shocks that can undermine economic growth, increase inequality, and threaten political stability. Countering the first type of transmission involves identification, monitoring, and control at the national level, coupled with collaboration at the regional and global levels. Illicit flows often embody security threats independent of their effects on economic security. Economic security is reduced when countermeasures taken against these threats impose costs on legitimate economic exchange and reduce the levels of legitimate trade and investment.

More difficult to calculate and manage are the costs and risks associated with fluctuations in usually benign cross-border flows of goods, capital, and labor. It is this second dimension of economic insecurity that has drawn the most attention from policymakers. Institutions can offset the economic insecurity associated with globalization in three ways: providing *insurance*, adding to policy *credibility*, and encouraging *adaptation*. In the past, Asian governments managed their links to the international economy through institutions with high credibility: adopting a strategy

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of incremental economic liberalization and pragmatic economic policies, avoiding wide swings in policy that were more characteristic of Latin America. Policy credibility benefited both internal and external economic agents and encouraged a beneficial cycle of rapid economic growth. Credible economic policies adopted by national governments also reduced the need to borrow credibility from regional or global institutions, one reason that regional economic institutions in Asia were relatively weak.

Unfortunately, economic success encouraged institutional overreliance on credibility. As economic opening proceeded, both insurance and policy adaptation were undersupplied. Insurance against economic insecurity at the individual level in most Asian societies was left to individuals and families or, more broadly, to rapid economic growth and high individual savings rates. For national economies, insurance against economic shocks seemed unnecessary in a region that avoided high levels of external debt, maintained realistic exchange rates, and exercised fiscal prudence. Even when external shocks interrupted economic growth, as the 1982–1983 debt crisis did in South Korea, export-oriented industrial structures permitted rapid adjustment. Economic success during these decades of global economic liberalization bred confidence in existing institutions, and little adaptation of the engines of high-speed growth ensued. Regional and global institutions did not argue with success, generally endorsing the policies and institutions that seemed to produce unparalleled economic performance.

Financial crisis struck the region with particular severity in the late 1990s as policy credibility, the main pillar of economic security, temporarily wavered and, in cases such as that of Indonesia, crumbled. Democratizing societies such as Thailand and South Korea had not foreseen the effects of political opening on this critical contributor to their economic security. New institutions to add credibility in a democratic setting had not been put in place. Regional institutions such as the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) were unable to supply either insurance (in the form of financial support) against heightened economic risk, credibility, or pressure for policy adaptation (Cheng, 1998; Acharya, 1999). The crisis opened a new debate on the adequacy of institutions – national, regional, global – and their contribution to economic security.

National institutions will remain essential providers of economic security to their citizens under conditions of globalization. Globalization has not led to obsolescence or ‘hollowing out’ of national governance in favor of supranational institutions (Kahler and Lake, 2003). In order to provide economic security in the new environment, however, national institutions must evolve. As remarked earlier, the optimal design of such institutions is high on the international development agenda. Institutional links to the international economy are of central importance in determining globalization’s negative and positive effects on economic growth and economic security.[4]

Three conclusions of particular importance for economic security follow from the links among globalization, economic growth, and national institutions. First, despite one view of market reforms that emerged in the 1980s (echoed later by the

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opponents of globalization), external economic liberalization does not imply an overall reduction in the functions of national governments or a shrinking of the public sector. As Peter Katzenstein (1985) and David Cameron (1978) pointed out in the case of Europe, small, open economies have cohabited with well-developed welfare states and large public sectors.[5] The insurance functions of national governments may increase under conditions of increasing economic openness.

Second, the institutional balance struck between policy credibility and adaptation to the global economy may change with democratization. Andrew MacIntyre (2003) has compared the supply of credible policy commitments and what he labels policy decisiveness during the Asian economic crisis. He emphasizes dispersal of decision-making power as a key institutional variable, one that is likely to increase with democratization. Democratization also changes each of the three instruments for provision of economic security. Individual and group demands for insurance are likely to increase. Policy credibility will require the invention or reinvention of institutions, such as central banks and regulatory bodies, with adequate delegated powers and broad accountability to the new electorate. Institutional and policy adaptation becomes more complicated under conditions of democratic accountability. Institutional transparency is likely to increase with the transition from authoritarianism to democracy. Using increased transparency to build both credibility and enhanced abilities to adapt to changing international circumstances is a central challenge for new democratic regimes. As Haggard asserts, the key is 'changing institutions of governance to increase both their independence (from narrow interests) and their accountability (to the public at large)' (2000: 125).

Finally, the institutions of national governance do not provide economic security in isolation. Regional and global institutions can also provide insurance, enhance policy credibility, and encourage adaptation. Whether regional or global institutions can best provide economic security to Asia has emerged as an element in debates over the future of the region.

Regional and global institutions: substitutes or complements?

The Asian economic crisis revealed the shortcomings of regional institutions constructed over the preceding decades. They offered little economic security at a time of great need. The apparent failure of those institutions at a critical moment forced governments to turn to global financial institutions – particularly the IMF – that pressed politically controversial policy changes during the crisis. That experience in turn led to renewed interest in regional alternatives to the global institutions and their prescriptions. Although framing regional and global institutions as alternatives is understandable in light of this history, a more useful approach appraises the specific strengths and weaknesses of global and regional institutions in the provision of economic security. Multilateral institutions at the regional and global levels may also complement national strategies of economic security.

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Global economic institutions and economic security

Insurance

The original design of the International Monetary Fund included insurance for national governments in the form of short-term balance-of-payments financing. This insurance was one part of an institutional design that aimed to avoid unnecessary and disruptive adjustments in national economies. Conditionality – an exchange of policy changes for increasing levels of financial support – addressed the problem of moral hazard, a significant issue in any insurance scheme. A key controversy that has long enveloped conditionality – and one that arose again in the Asian financial crisis – is the degree of policy change required for a given level of financial support. Although the IMF assembled large financial packages for Asian governments, many of those governments felt that the global financial institutions demanded unnecessarily sweeping and abrupt policy changes in exchange for their support.

A second form of insurance directed toward future financial crises was also controversial. The IFIs emphasized financial codes of conduct that encouraged regulatory convergence on what was defined as best regulatory and supervisory practice. These regulatory reforms were meant to insulate fragile financial systems against the type of collapse that had threatened (or ensued) in 1997–1998. However, the reforms also threatened the web of political relationships among financial institutions, corporations, and governments that defined economic policymaking in many Asian societies.

Credibility

Insurance of the latter kind was closely associated with one means of enhancing policy credibility that was endorsed by the IFIs: transparency and accountability to private market participants and to a government's own citizens. The new style of policymaking propounded by the IFIs collided with the collusive and opaque practices of government–business relations that defined for many the Asian model of governance.

Policy credibility could also be strengthened through international surveillance. Transparency and policy commitment would be guaranteed through external scrutiny by other governments in the framework of international economic organizations. The strengthening of surveillance provided yet another point of conflict between the global economic institutions and Asian governments. Such oversight was highly sensitive for Asian governments that, in their own regional organizations, had resisted what was seen as unwarranted intervention in domestic policy decisions. The norm of noninterference was widely held in the international politics of the region, enshrined in ASEAN and vigorously defended by states intent on defending a particular conception of national sovereignty. Weighing against these long-standing norms was a recognition that domestic policies and practices in neighboring economies could have large, negative spillovers on one's own

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economy, particularly the financial contagion spawned by weakly regulated banking systems and inappropriate macroeconomic policies.

Adaptation

Adaptation became the most difficult and uncertain territory of debate within the region and among institutions and governments outside. The IFIs argued for deep, structural policy changes during the Asian financial crisis, demands that were criticized by outside analysts for their timing as well as their content (Feldstein, 1998; Stiglitz, 2002). In the aftermath of the crisis, such changes were recommended for crisis prevention, reducing vulnerability to financial shocks and increasing policy credibility. Given their past, admirable record in making and defending credible policy commitments, Asian governments often preferred to take steps that aimed to restore credibility without changing their underlying model of economic policymaking. With the exception of specific improvements to financial regulation and supervision, no clear consensus had emerged on appropriate and necessary institutional adaptations required for greater economic security.

Regional institutions and new modalities of economic security

Although some regional institutions – notably APEC – drifted in the wake of the Asian financial crisis, new regional alternatives have emerged that promise to stake out new modalities of economic security. Most of these institutions did not include the United States or Australia, earlier proponents of Pacific-wide organization. Institution-building and innovation tended to be 'Asia-only.' The relationship between these new institutions and the cooperative initiatives that they have produced on the one hand, and older regional and global institutions on the other, remains open.

Insurance

The Asian Monetary Fund (AMF), an initiative by Japan in 1997, might have provided financial insurance on terms less stringent than those imposed by the IMF. Although the AMF was not implemented, a similar appeal could be seen in the development of an Asian bilateral swap network under the Chiang Mai Initiative (CMI), part of the ASEAN plus Three (APT) process. A link to IMF conditionality in the CMI, however, suggests that this addition to economic security should be seen as a complement rather than a substitute for the IFIs, a useful financial supplement that could be mobilized as a first line of defense by governments in the region (Henning, 2002). New regional trading initiatives, such as the proliferation of proposed bilateral trade agreements, the China–ASEAN free trade initiative, and the Japan–ASEAN Comprehensive Economic Partnership (CEP) proposal can be seen as insurance against a different threat to economic security. Failure of the current round of global trade negotiations under the World Trade Organization

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(WTO) could lead to a strengthening of regional trading blocs centered on Europe and North America.

Another new regional institution has recently promoted a different variety of insurance against financial shocks – adaptation of regional financial markets. The Asian Cooperation Dialogue (ACD), launched in 2002, has offered a plan to catalyze the development of a regional bond market. Parallel APEC and APT proposals support the ACD initiative. Deeper bond markets would provide a means of mobilizing Asian savings for regional borrowers. Bond market development would also reduce the dependence of Asian borrowers on bank lending (often centered outside the region), a dependence implicated in past financial crises (De Brouwer, 2003).

Credibility

Providing supplemental insurance against financial shocks has been one means for regional institutions to offer greater economic security. So far, regional governments have shown little enthusiasm for using regional institutions to complement their policy credibility. Building stronger (greater sanctioning power) and more intrusive regional institutions will probably be required if an institutional seal of approval is to carry any weight with market participants. Governments in the region have accepted a gradual and modest erosion of the norm of noninterference, defined as excluding any external scrutiny by neighboring governments. Modest steps toward mutual policy review were taken by ASEAN and the Asian Development Bank (ADB) in the wake of the financial crisis. Even more dramatic was the willingness of ASEAN to comment on the Myanmar political situation in the press statement that ended its 2003 summit (ASEAN, 2003). This willingness to admit greater collective scrutiny of domestic policies and practices is testimony to the strong regional effects that those internal decisions may have. In part, this movement also returns the norm of noninterference to its narrower and more useful role: banning the forceful interference of one government in the domestic affairs of another. That principle of legitimacy, so critical to the success of ASEAN, had been expanded over the years to encompass a much broader range of comment and scrutiny that was entirely peaceful and collective. Economic integration has forced and will continue to enforce a reexamination and redefinition of that norm in the interests of greater economic security.

Adaptation

Regional institutions have not so far used the third instrument for increasing economic security: promoting policy adaptation in the face of globalization. On the contrary, a minority in the region endorse regional institutions as one element in 'Asianization as a resistance movement' to globalization and its proponents outside the region. In this view, the new regionalism will permit Asian governments to formulate an alternative to globalization, one that calls for 'network capitalism instead of marketization, emphasizes regional economic integration rather than

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comparative advantage, stresses Asian Confucian values as compared to Western democratic ideals, and opts for regional cooperation to avoid global governance' (So, 2001: 152, 154). This view of regional institutions as a barrier to globalization and a substitute for global institutions has alarmed observers in the United States as well as others outside the region.

Fears that Asian institutions might serve as an alternative and exclusive mechanism of economic security, buffers for the region against unwanted change and competition from the global economy, are overdrawn. A healthy skepticism toward any claim of radical substitution and exclusion of globalization is justified for two reasons. First, even if Asian economies become less dependent on markets and investors outside the region, sources of economic instability are hardly limited to the global economy. Japan's financial disarray and similar fragility in China's banking system will continue to pose substantial threats to economic security in the region. The withdrawal of Japanese bank lending was responsible for a large share of the decline in private capital available to crisis-affected economies after 1997–1998. Policy missteps by neighboring states would be of even greater concern in a region more insulated from the global economy.

To guarantee a higher level of economic security through an 'Asianized' regional system would also require a level of regional institution-building that Asian governments have so far been unwilling to endorse. Rather than attempting to substitute for national or global institutions, the new regionalism will most effectively enhance economic security if it serves as a complement to both national governments and existing global institutions. In an era of globalization, national governments will continue to play an essential role as providers of social insurance against international economic instability. Asian governments have begun to improve their systems of social insurance, although fiscal constraints and aging populations will probably mean a public–private balance different from that in Europe and the United States (Haggard, 2000: 230–236). Global institutions continue to contribute to the policy credibility of member governments in the eyes of global market participants. It is a credibility supplement that national governments need in the new financial environment and one that regional institutions in Asia cannot provide.

Finally, on the knottiest issue in economic security – how much adaptation of institutions and policy is required for economic well-being in a globalized environment – regional institutions in Asia can insure that Asian views on this controversial issue are reflected in global economic institutions and other international forums (Stubbs, 2002). As important as the question of *which* adaptations are required, however, is determining the level of governance that is most likely to insure that beneficial adaptation. Here as well, no easy answer presents itself. National constituencies are critical actors in the debate over policy change and essential to the legitimacy of such change. Regional institutions, sensitive to local norms and practices, may provide a less visible and more effective means to influence the actions of neighboring governments. Global institutions can draw on best practice and advice from around the world, advice that, in the best of circumstances, is subjected to critical scrutiny from a wide audience. Developing a constructive

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means for these three levels of governance to shape the adaptation of policies and institutions is a final task for those who wish to improve economic security in Asia and elsewhere.

Conclusion: economic security or economic management?

In an era that is post-Cold War and post-Asian financial crisis, concerns over economic security have not disappeared; they have been transformed. Governments have become much less wary of economic vulnerability that might be manipulated by their neighbors or economic partners. Instead, governments have become more aware of unwanted and dangerous spillovers from more open borders and the risks of economic volatility posed by economic openness.

Redefinition of economic security has not led to a broader reversal of the region's trend toward greater economic openness. The new perspective on economic security has instead spurred a debate over appropriate measures to reduce costs and risks associated with openness while retaining gains from globalization. The final combination of national, regional, and global policies will vary from country to country, but the mix will remain. National policies will remain central, although those policies and the institutions that produce them will continue to adapt. Regional institutions may take on new life as complements to long-standing national and global institutions. A revived sense of regional identity may insure that global institutions reflect the economic importance of Asia for the first time.

Renewed attention to economic security is not misplaced, but it may be transitory, a preoccupation of societies that have benefited from economic openness but are now grappling with its negative consequences for the first time. What is now seen as economic security may, with the passage of time and the accumulation of institutional means to deal with these challenges, be retired to the more mundane and less alarming category of economic management.

Notes

1 Simmons and Elkins (2003) examine competing explanations for widespread external liberalization.
2 For an account of the effects of the Asian financial crisis on the economies of the region, see McLeod and Garnaut (1998).
3 For different views of the crisis, see Stiglitz (2002), Haggard (2000: 1–14), Goldstein (1998), and Radelet and Sachs (1998).
4 For two recent perspectives on the relationship and relative importance of institutions and economic integration as determinants of economic growth, see Rodrik *et al*. (2003) and Dollar and Kraay (2003).
5 For an analysis of the relationship between openness and public expenditure, see Rodrik (1997: 49–67).

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