Chapter 1
Emerging States and Economies in Asia: A Historical and Comparative Perspective

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Abstract Emerging nations are gaining weight in global economy and politics in the 21st century. Proud of their achievement in recent years but confronted with the challenge of middle-income trap as well as specific risks and uncertainties that attend changes brought about by their rapid economic growth, they often question the post-Cold War global system of Pax Americana, liberal democracy, market economy, and self-regulating market and offer a new social contract of a life of plenty and security as the basis for a new global system. This chapter examines its significance in a long historical and comparative perspective and underscores the importance of states' ability to manage risks and uncertainties.

The notion of emerging nations—a shorthand for emerging states and economies—derives its meaning from such terms as emerging markets, emerging market economies, emerging powers, and emerging states, as well as the very idea of "emergence." But the notion is very much anchored in the idea of emerging economies and markets, the three fundamental characteristics of which are high economic growth, middle-income status, and higher risks and uncertainties institutional investors see those economies as facing compared to advanced industrialized economies. High economic growth over decades has put some of the emerging countries, most prominently BRICs (Brazil, Russia, India and China, a category originally invented by an investment bank), on a par in size with G7 advanced economies. The global share of developing and emerging economies also expanded from 20.2% in 2000 to 39.7% in 2015, while the G7 share declined from 65.6% in 2000 to 46.3% in 2015.

Yet many emerging nations with middle-income status, confronted with the challenge of middle-income trap, tend to adopt approaches to global governance issues that differ from those of advanced industrialized nations. They also confront specific risks and uncertainties that attend the social, cultural, and political changes brought about by their rapid economic growth and their state capacity and behavior in manag-

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Table 1.1 GDP and GDP per capita in 2015, G20 countries, in current prices

	GDP current prices (billion)	GDP per capita current prices
USA	18,037	56,175
China	11,226	8167
Japan	4382	34,513
Germany	3365	41,197
UK	2863	43,976
France	2420	37,613
India	2088	1616
Italy	1826	30,032
Brazil	1801	8810
Canada	1552	43,350
S. Korea	1383	27,105
Russia	1366	9521
Australia	1230	51,363
Mexico	1151	9512
Turkey	859	10,910
Indonesia	861	3371
Saudi Arabia	652	21,014
Argentina	632	14,644
South Africa	315	5721

ing such issues as political instability and upheaval, social order, regulatory regimes, and macro-economic stability pertaining to currency, inflation, interest rates, and vulnerability to global economic changes, among others.

Emerging nations, thus defined, can still be identified differently, depending on which characteristics one focuses on. G20, the summit of which started to be held in 2008 in the midst of the global financial crisis, includes eleven emerging nations—Russia, China, India, Brazil, Mexico, South Africa, South Korea, Indonesia, Saudi Arabia, Turkey, and Argentina—together with G7 and Australia (and the European Union), because of their economic size (GDP) and hence their weight in the global economy (as shown in Table 1.1). Examining the steep decline of G7 shares in global manufacturing from 1990 to 2010, Richard Baldwin argues that the global manufacturing share of the Industrializing Six (I6)—China, Korea, India, Poland, Indonesia and Thailand—accounts for almost all of the G7's decline and that the manufacturing share of the rest of the world is hardly affected (Baldwin 2016: 3). Noting very high real income growth from 1988 to 2008, Branko Milanovic identifies emerging Asian economies, "predominantly China, but also India, Thailand, Vietnam, and Indonesia" as major beneficiaries of globalization and global expansion of middle classes (Milanovic 2016: 18–19).

Keiichi Tsunekawa in his chapter identifies 29 emerging states—defined as countries whose shares in the global economy have expanded substantially in the post-

Cold War years of 1990–2014 and countries which are now seen as partners of advanced industrialized countries in global governance—and classifies them into three categories: eleven resource-rich countries (Iraq, Algeria, Nigeria, Venezuela, Saudi Arabia, Iran, Kazakhstan, Russia, Chile, Peru, and Egypt), whose exports overwhelmingly (60% and above) depend on natural-resource exports and hence are vulnerable to fluctuations in global commodity markets; five countries with large domestic markets (China, Brazil, India, Korea and Mexico); and eleven others, many of which have succeeded in upgrading their technological capabilities and deepened their participation in global value chains, namely Singapore, Taiwan, Philippines, Indonesia, Malaysia, Thailand, Pakistan, Israel, Turkey, and Poland.

To put it in another way, the only world region in which examining emerging nations from a regional perspective makes sense is Asia (where natural-resource-rich countries aside, ten countries—China, India, Indonesia, Pakistan, Philippines, South Korea, Singapore, Taiwan, Thailand, and Vietnam—are located), while all the non-resource-rich emerging nations in other world regions with Poland as the only possible exception—Argentina, Brazil, Columbia and Mexico in Latin America, Israel and Turkey in the Middle East, and South Africa in Africa—are regionally isolated cases. This suggests that the trajectories of individual countries in Asia can better be understood by taking into account the larger regional system that shaped their internal and external dynamics as well as their interactions with each other and with other countries outside the region. The regional system of dense trade and production networks has developed in Asia, while it has hardly developed, for instance, in Latin America, even though Latin American countries liberalized their economies in the 1990s. This difference can be explained comparative-historically. In the colonial times, each part of Latin America was allowed to trade only with its metropole and not with each other. This pattern was enhanced further by the commodity boom in the late nineteenth and the early twentieth centuries when Latin American countries exported minerals and agricultural products to Europe and the U.S. The pattern was maintained in the succeeding years by the import substitution industrialization in which each Latin American country attempted to promote similar industries without any regional division of labor. Nor did Latin America benefit from "traditional" regional trading networks such as Indian and Chinese trading networks and, Mexico, a member of NAFTA aside, Japanese and NIEs investment for regional production networks. Hence the emphasis of this chapter on comparative historical and regional perspectives.

The scholarship on emerging states and economies tends to bifurcate either into cross-national inquiries, on the one hand, which address the questions of why and how some of the developing countries have emerged under a set of common global conditions, or into individual country studies, on the other hand, which address the question of what led them to choose the particular paths that resulted in their emergence. This book contributes to both types of scholarship and includes chapters on the historical trajectories of two major emerging nations—China and India—and a comparative analysis of colonial state-building of two city states (Hong Kong and Singapore) as well as chapters providing cross-national analysis of emerging states and economies and middle income trap.

This introductory chapter focuses on emerging states and economies in Asia and looks at their pre-history, the political and economic issues, problems, and challenges they offer as well as confront, and the significance of their emergence in the region and the world. As such, this chapter, together with Kaoru Sugihara's chapter on intra-regional trade, is meant to provide a comparative historical and regional framework and locate the trajectories of individual emerging countries in it to bridge the two approaches and to make better sense of emerging states and economies in Asia.

1.1 Asia in the Long Nineteenth Century

Angus Maddison has shown us what the advent of Europe, followed by the rise of the United States of America, meant for Asia. The share of Asia—and here Asia signifies India, China, Japan and the rest, including Southeast Asia—in the world economy was more than 50% in and up to 1820. In the same year, China's population was 381 million, India's 209 million, Japan's 31 million, and Southeast Asia's 38 million, which combined accounted for 63% of the world population. China was the largest, both in terms of economic size and population, and had a 20–30% share of the world economy and 23–37% of the world population under the Ming and Qing governments. India was the second largest, while the share of Britain, the front runner in the industrial revolution, in the world economy in 1820 was less than 5% (Maddison 2015).

After 1820, however, the Asian share of the world economy steadily declined, while the U.S. share, along with that of Western Europe as a whole, expanded rapidly, so that by 1950, the Asian share had fallen below 20%. In contrast, the share of the two world regions of North America and Western Europe combined surpassed 50% in the mid-nineteenth century and remained so for more than a century.

By the turn of the 21st century, however, the Asian share in the global economy, in terms of purchasing power parity, has come back to almost 40%, and it is now widely expected to surpass 50% and regain the position it occupied in the world economy two centuries ago (Maddison 2015). As Table 1.2 shows, the share of Asia (here denoting the Indo-Pacific region) in the global economy surpassed those of both North America and Europe (EU) in 2010 in terms of current prices.

The point here is not to argue that Asia, especially China and India, will be back as the two global centers of world economy and that a new Sino-centric tributary system will be in the making with the ascent of China in East Asia. For one thing, the last two centuries witnessed not only the ascendancy of Western Europe, but more importantly, the emergence of North America, especially the U.S., as the most dynamic and enduring center of the global economy. The rise of the U.S. has permanently changed the global distribution of wealth and population. The U.S. share in the global economy was miniscule in 1700 at 0.14% (when China's share was 22.29%) and 1.8% in 1820 (when China's share was 32.9%). But its share reached 27.3% in 1950 and has remained above 20% (both in purchasing parity and current prices) until now. This was and still is the most important development in the world history

Table 1.2 GDP and GDP shares of major regions and countries, current prices, in billion USD

	1990	2000	2010	2015	2020
World	22,770	33,181	65,206	74,551	96,193
Advanced economies	18,153 (80%)	26,486 (80%)	42,813 (66%)	44,940 (60%)	54,673 (57%)
G7	14,787 (65%)	21,778 (66%)	32,683 (50%)	34,530 (46%)	41,940 (44%)
Emerging economies	4617 (20%)	6695 (20%)	22,393 (34%)	29,611 (40%)	41,520 (43%)
N. America	6572 (29%)	11,024 (33%)	16,572 (25%)	19,541 (26%)	24,252 (25%)
USA	5980 (26%)	10,285 (31%)	14,958 (23%)	17,968 (24%)	22,294 (23%)
Canada	592 (3%)	739 (2%)	1614 (2%)	1573 (2%)	1958 (2%)
EU (European Union)	7259 (32%)	8824 (27%)	16,966 (26%)	16,449 (22%)	20,188 (21%)
UK	1093 (5%)	1549 (5%)	2407 (4%)	2865 (4%)	3852 (4%)
France	1279 (6%)	1372 (4%)	2652 (4%)	2423 (3%)	2940 (3%)
Germany	1593 (7%)	1956 (6%)	3423 (5%)	3371 (5%)	4005 (4%)
Italy	1140 (5%)	1146 (3%)	2131 (3%)	1819 (2%)	2144 (2%)
Indo-Pacific	5181 (23%)	8711 (26%)	18,735 (29%)	24,328 (33%)	33,966 (35%)
Japan	3104 (14%)	4731 (14%)	5499 (8%)	4116 (6%)	4747 (5%)
China	393 (2%)	1205 (4%)	6040 (9%)	11,385 (15%)	17,100 (18%)
S. Korea	279 (1%)	561 (2%)	1094 (2%)	1393 (2%)	1899 (2%)
Southeast Asia	373 (2%)	637 (2%)	1982 (3%)	2459 (3%)	3574 (4%)
Indonesia	138 (1%)	179 (1%)	755 (1%)	873 (1%)	1194 (1%)
Malaysia	47 (0%)	101 (0%)	255 (0%)	313 (0%)	544 (1%)
Philippines	49 (0%)	81 (0%)	200 (0%)	299 (0%)	507 (1%)
Singapore	39 (0%)	96 (0%)	236 (0%)	294 (0%)	395 (0%)
Thailand	88 (0%)	126 (0%)	341 (1%)	374 (1%)	474 (0%)
Myanmar	n/a	10 (0%)	50 (0%)	66 (0%)	106 (0%)
Vietnam	6 (0%)	31 (0%)	113 (0%)	199 (0%)	287 (0%)
South Asia	419 (2%)	623 (2%)	2056 (3%)	2736 (4%)	3878 (4%)
India	327 (1%)	477 (1%)	1706 (3%)	2183 (3%)	3444 (4%)
Oceania	369 (2%)	451 (1%)	1389 (2%)	1412 (2%)	1711 (2%)
Australia	323 (1%)	397 (1%)	1245 (2%)	1241 (2%)	1516 (2%)

in modern times. For another, what we now call China, India, and other nations were very different entities, politically, economically, socially and culturally, in the nineteenth century. It is wrong to imagine China, India, and others as discretely defined national states floating in history and awaiting another glorious moment to appear on the center stage of global economy and world politics.

The regional distribution of wealth (and hence power) has undergone enormous changes over the last two centuries: Europe enjoyed its moment of glory in the long nineteenth century, from the post-Napoleonic wars to the Second World War; the U.S. emerged as the most dynamic center of global economy toward the end of the 19th century and has remained as such until now; and Asia, the region that encompasses the entire South, Southeast, and Northeast Asia, declined in the long 19th century and hit the bottom sometime in the early years after the W.W. II, but has since been regaining its share, although its ascent has come to be accepted as such only in the twenty-first century.

In light of these vicissitudes, the following questions can be raised: what are we to make out of the macro-level changes in the world economy over the last two centuries? What are the challenges ahead for Asia and the world, as China and India promise to be the two economic giants in an Asia that is now back in the center of the global economy? What challenges do emerging nations in Asia confront? What is the global and regional historical significance of emerging states and economies in Asia?

To address this set of questions, it is useful to recall what Karl Polanyi, a Hungarian political economist, had to say in his now classic book, *The Great Transformation: the Political and Economic Origins of Our Time* (2004), which he wrote in the U.S. during the Second World War. He began the book with the memorable sentence: "the nineteenth-century civilization has collapsed." And he continued:

> Nineteenth century civilization rested on four institutions. The first was the balance-of-power system, which for a century prevented the occurrence of any long and devastating war between the Great Powers. The second was the international gold standard, which symbolized a unique organization of world economy. The third was the self-regulating market, which produced an unheard-of material welfare. The fourth was the liberal state. Classified in one way, two of these institutions were economic, two political. Classified in another way, two of them were national, two international. Between them they determined the characteristic outlines of the history of our civilization. (Polanyi 2001)

Polanyi's notion of nineteenth century civilization was unabashedly Eurocentric, and the assumed singularity of this civilization meant that he literally viewed civilization as Civilization with a capital C and only in terms of the long nineteenth century of European ascendancy.

What is interesting about the Polanyi quotation is not its Eurocentrism, but its capacity to invite comparison. If we look back at European history, we may agree with Polanyi that the nineteenth century European system was indeed built on the four institutions of the balance-of-power system, the gold standard, the self-regulating market, and the liberal state. This system collapsed in the years between the 1910s and the 1940s, first with the breakdown of the balance-of-power system that led to the Great War in Europe (and we better remember that not much happened in Asia, except for economic booms, in those war years). The Great War was then followed by the collapse of Austrian-Hungary empire and the rise of nationalism as a legitimate political norm (as demonstrated in the establishment of The League of Nations), the rise of a communist state in Russia, the rise of Fascist Italy and Nazi Germany, the increasing erosion of liberal state legitimacy, the collapse of the gold standard, the Great Depression, the crisis in the self-regulating market, and the increasing state intervention in national economic management, culminating in the Second World War toward the end of the 1930s.

If we look at Asia in this long nineteenth century, an entirely different picture emerges. This was the long century in which Asia was colonized and subjugated. By the time the Napoleonic wars came to an end in Europe in the mid-1810s, the company-state called the British East India Company had transformed itself from one of several "country powers" in India into the "master of India". Administrative reorganization installed a "despotism of law" by creating the Indian Civil Service as the "steel frame" of Indian administration, and making the Company army, expanded to 155,000-strong during the Napoleonic wars, one of the largest European-style standing armies in the world (Metcalf and Metcalf 2012: 60–68).

The long nineteenth century of colonization and subjugation arrived in Southeast and Northeast Asia later. Hamashita (1997) argues that Maritime Asia was a series of seas extending from Southeast Asia to Northeast Asia, encompassing countries and regions, trading centers and sub-centers, located along the periphery of the Eurasian continent. Maritime Asia was not the same as non-Chinese Asia. The Kombaung dynastic state in upper Burma and Mataram in central Java were as inland, inward-looking, and agrarian-based as Qing China, while the coastal regions of Southern China in the late Qing and the Republican era were as maritime, outward-looking, and trade-based as Manila and Bangkok had been in the same years. Historically China managed its trade with maritime zones through the tributary system (which was complemented by the Hushi [trade] system under the Qing) (Ueda 2005; Hamashita 1997). It did so, not because it wanted to translate its attraction as a market into political and cultural hegemony, but rather to prevent private trade from undermining the imperial order.

The British, who had colonized the Indian subcontinent by the early nineteenth century, expanded their informal empire into East and Southeast Asia in the course of the nineteenth century. The Dutch Verenigde Oost-indische Compagnie (VOC) and the Spanish Philippines, whose presence in the region predated the regimes in Tokugawa Japan and Qing China, had established colonial control over Java and the Moluccas (as well as a few strategically located outposts on Sumatra, Sulawesi and Kalimantan) and the northern and central parts of the Philippines by the end of the eighteenth century. Losing out in the Napoleonic wars (and, in the case of Spain, losing its huge colonial empire in the Americas), however, they were unable to compete with the British to establish hegemony in the seas in the first half of the nineteenth century. Britain projected its naval power into the Asian seas stretching from the Indian Ocean to the Malacca straits to South and East China Sea. The establishment of Singapore in 1819 (along with Penang in 1784 and Dutch-ceded control of Malacca in 1824) and Hong Kong in 1842 in the wake of British victory over Qing China in the Opium Wars of the 1840s were the most enduring historical legacies of British formal and informal empire-building.

British empire-building created the framework for collective imperialism in Asia. Its commercial origins meant that empire-building was structured to "maximize profits" (Kupchan 2014), with its colonies providing markets and raw materials for the metropole. The empire was built on naval supremacy and a network of linkages among strategic outposts. It kept its army small, while mobilizing its Indian army for the task of far-flung empire-building as well as for major wars. It deliberately avoided strategic commitments on the European continent, and as a logical extension of its policy to maintain a stable balance of power in Europe, it also accepted stable balances of power in major overseas theaters. Under its aegis, a framework for collective imperialism in Southeast Asia and China was constructed. The British also concluded an alliance with Meiji Japan in the early twentieth century to maintain balance against the French and the Russians in the Far East.

In this framework of collective imperialism, Southeast Asia, with Siam as a partial exception, was carved up by European powers into their respective colonies toward the end of the nineteenth century—Burma, Malaya, and northern areas of Borneo under the British, the Indies from Sumatra to the western half of New Guinea under the Dutch, Indochina under the French, and the Philippines, first under the Spanish and then under the Americans, with Goa, East Timor and Macao as the small outpost remains of the once powerful Portuguese seaborne empire in Asia.

Technological and organizational capacity accounted for the military superiority of European powers over local forces. Modern colonial states were fashioned for internal pacification and resource extraction. The colonial Leviathan was a machine, an apparatus, manned predominantly by natives under the command of white European officials and imposed on the colonies to control their lands and peoples.[1] U Nu, the first prime minister of independent Burma, famously compared it to a dilapidated car (Nu 1975).

Colonial economies were organized with plantations and mines as their mainstays. Sugar was produced in Java, Central Luzon and the Visayas, and Negros, tobacco in northern Luzon, tin in Malaya, rubber in Malaya, Sumatra and southern Vietnam, and rice in Burma, south Vietnam, and Thailand. Labor was imported from India and southern China, large-scale immigration that had lasting impact on the demographic structures of areas like Malaya as Sugata Bose writes in his chapter. Opium, imported from British India, provided a strategic means for colonial states to exploit Chinese coolie labor in British Malaya and Javanese peasants in Dutch Java for funding colonial state-building (Rush 1990; Trocki 1999).

The colonial drain, combined with the handicap in developing human capital and the lack of macro-economic policy autonomy, resulted in diminishing welfare. Income transfer from the Dutch Indies to the Netherlands amounted to more than ten percent of Dutch NDP (Net Domestic Product at factor cost) in 1921–1939, while colonial drain from India to Britain in the same years was about 1.5% of Indian NDP

[1] (Shiraishi 2000). Almost 90% of the colonial civil service, about a quarter of a million, were native in the Dutch Indies state in 1928, for instance (Anderson 1991: 98–99).

(Maddison 1990; see also van Zanden and Daan 2012). Yet, in striking contrast to the countries in Africa, the Middle East, and Latin America, which were increasingly integrated into the metropole-led international economy as satellites, intra-Asian regional trade expanded faster than the trade between Asia and Europe from 1880 to 1938, as Kaoru Sugihara argues in his chapter, owing to the expansion of Indian, Chinese and other Asian merchant networks.

A major institution of the collective imperialism in mainland China was the treaty port system, built on the unequal treaties Qing China concluded with Western powers that conferred extraterritoriality on Western powers and deprived Qing China of its tariff autonomy. The most-favored-nation clause in the treaties the Western powers concluded with Qing China underwrote the collective nature of empire. The treaty port system took shape with the opening of Hong Kong, Amoy and Shanghai, followed by the opening of more ports along the Yangtze River and the Yellow Sea coast in the mid-nineteenth century and the construction of railways in China's interior toward the end of the nineteenth century and the early twentieth century.[2]

This "western impact" undoubtedly threatened Qing China's territorial integrity and imperial confidence, but it was a series of regional rebellions culminating in the Taiping rebellion in the 1850s and 1860s that devastated its economy and society and triggered the shift in power from the center to the provinces where senior Han officials organized defense against rebellions, worked on the promotion of industries, and restored social order with the support of the local gentry.

It is also important to note that colonial and semi-colonial Asian countries were at peace with each other. European powers mostly fought brutal "little wars", coopting as well as killing and subjugating natives. But in the eighty-year period following the Napoleonic Wars, these colonial powers never fought with each other in the region until the Spanish-American war in 1898, in which the Americans defeated the Spanish naval forces in the Philippines as a part of the larger war centered on Cuba. The British-led collective "white peace," accompanied by internal colonial repression and subjugation in Southeast Asia, was a byproduct of the European balance-of-power system. This white peace under British naval hegemony would be broken by the U.S. to mark its arrival in Asia.

Two major countries escaped the fate of colonization. Siam lost its tariff autonomy and granted extraterritoriality to Western powers in the unequal treaties it concluded, starting with the Bowring treaty in 1851. Its traditional enemies—Burmese and Vietnamese—having been pacified by the European colonizers, Siam no longer worried about external threats as long as it could carefully maintain its (asymmetrical) relations with the British and the French. In the following years, especially under King Chulalongkorn, whose reign (r. 1853–19190) coincided with that of the Meiji Emperor (r. 1852–1912), the dynastic state in Siam went about its own internal pacification and undertook modern state building, modeling itself after the neighboring colonial states of British Malaya, Dutch Indies, and British India (Anderson 2014). Around the same time, Japan under the Meiji government embarked on its own civilizing project—here "civilization" meant European as per Polanyi's nine-

[2]For a different take of this process from the Qing state perspective, see (Okamoto 2016).

teenth century Civilization (Fukuzawa 2013)—of building a nation-state from above along the lines of "Rich Nation and Strong Army" (modeled after the British, French and German imperial powers) and emerged as a regional power by the first decade of the twentieth century with its victory over Qing China in 1894–1895 and Russia in 1904–1905. In other words, the long nineteenth century that saw the rise of the British as the hegemonic power and Japan's victory over Qing China the 1890s sealed the fate of the Sino-centric tributary system.

In sum, what Polanyi calls the nineteenth-century civilization manifested itself in the colonization and semi-colonization of Asia, with the partial exceptions of Siam/Thailand and Japan, and the collective imperialism as a regional foundation of white peace, replacing the Sino-centric tributary system. It was built on a huge gap between Western powers and Asians in terms of technological and organizational capabilities and industrial prowess, buttressed by the myth of white supremacy. The emergence of Japan as a power was marked, characteristically, by the elevation of Japanese to the status of honorary whites, creating an anomaly, in the eyes of natives, of Japanese prostitutes in the Dutch Indies enjoying the status of Europeans while Chinese tycoons remained foreign Orientals.

The demise of the British-led collective imperialism in Asia also differed from the collapse of the nineteenth-century civilization in Europe. By the time President Woodrow Wilson made his national self-determination speech in 1918, revolution had broken out in Russia and led to the establishment of the Soviet Union. In the wake of the dismemberment of Austria-Hungary empire, nationalism was enshrined as a legitimate political norm by the League of Nations, and although Asians—and non-whites in general—were deemed (by their colonizers) not "ready" for national autonomy, nationalism was all the same on the rise in many places in Asia. Revolution broke out in the Spanish Philippines in 1896, and briefly led to the establishment of the first republic in Asia, even though it was soon destroyed by U.S. occupation. Sun Yat-sen, with his base in Hong Kong and Yokohama and other port cities, mobilized manpower and money for his revolutionary cause from among Chinese in the coastal regions of Southern China and Southeast Asia. By the mid-1920s the rise of Chinese nationalism threatened the informal imperialism in China and triggered an increasingly serious systemic crisis. The Dutch Indies witnessed the emergence of Sarekat Islam in the 1910s, the left wing of which turned to communism and organized an uprising in the mid-1920s. And in Indochina, the nationalist mantle was handed over from the Vietnamese literati of Phan Boi Chau's generation to French educated intellectuals of Ho Chi Minh's generation in the 1920s.

It was in this context of the deepening crisis of the nineteenth-century civilization in Europe and the rise of nationalism (and communism) in Asia that Japan belatedly embarked on its own empire-building. Japan colonized Taiwan in the wake of its 1895 victory over Qing China and Korea in 1911 after its victory over Russia, made the Twenty-One Demands on Republican China in 1915 to inherit German interests there, invaded Manchuria and established Manchukuo in the early 1930s, engaged in all-out invasion of and war against China in 1937, and finally went to war with the U.S. and Britain in the 1941. Historians tell us that the two events—the assassination of Zhang Zuolin in 1927 and the occupation of Manchuria in 1931, both engineered by officers of the Kwantung Army—that marked the Japan's "Asianist" turn in its empire building were themselves defensive moves against rising Chinese nationalism which threatened Japan's largely informal empire in Manchuria (Kitaoka 1999). This was a fatal grand-strategic mistake that caused enormous suffering, brutality, and countless lives lost.

Japan's belated empire-building not only destroyed the system of collective imperialism and took on the United Kingdom, the United States, and other powers as enemies, but also made nationalism in Asia, especially China, its enemy. Japan declared war on the United States and the United Kingdom in 1941. Japanese victories and occupation of Southeast Asia in the early days of the war destroyed the myth of white supremacy. In areas that came under Japanese occupation, colonial economies collapsed. Japanese army authorities imposed harsh levies in labor and kind and printed money, leading to hyperinflation and widespread corruption. Japanese brutality and exploitation aroused deep popular hatred among the colonized (Anderson 1966). The Greater East Asian War was the war that destroyed the nineteenth-century civilization in Asia.

Japan lost the war. A devastated China and Southeast Asia experienced deep and extensive social, economic, and political crises, while India went independent, although Pakistan went its own way in the wake of the bloody partition. Deep systemic crisis triggered revolutions and counter-revolutions, the repercussions of which would be felt well into the 1960s, the so-called "age of decolonization."

1.2 Asia Under the US Hegemony

In the wake of World War II, a bipolar world emerged. Europe was divided into U.S.-led Free Europe and the Soviet empire. The U.S.-led Free Europe, which would evolve into the twentieth century system, was built on the debris of the nineteenth century civilization. It was built on the three main institutional foundations. Pax Americana replaced the balance of power system. The liberal state was expanded into the liberal democratic state. Pax Americana and the liberal democratic state were to provide the political foundation for the new system. Embedded liberalism, informed by Keynesian economics, combined free trade with the freedom of national governments to provide welfare and to intervene in their economies to maintain full employment. It was institutionalized in the Bretton Woods system with the establishment of the International Monetary Fund (IMF) and the World Bank. It aimed not only at an open system of international trade in goods and services based on a semi-fixed dollar gold exchange rate system, but also at embedding market forces into a system in which those market forces would be regulated by national governments with their control over capital accounts (Helleiner 1994).

The U.S.-led twentieth-century system has undergone significant changes over the course of Cold War years and after. The dollar gold standard gave way to the dollar-led floating exchange rate system in the 1970s. Capital movement across national boundaries became the norm by the early 1990s (Helleiner 1994). Regional Free

Trade Agreements have gained momentum since the 1980s, while the GATT trading system has evolved into the WTO (World Trade Organization) system by the end of the 20th century. Capital account liberalization and free trade led the transformation of embedded liberalism into a de facto "self-regulating market without the gold standard."[3] This development, combined with the revolutionary advancement in information and communication technology, unleashed economic globalization or "the second unbundling" and led to "great convergence" and the rise of emerging states and economies (Baldwin 2016).

Democracy promotion also gained traction in the 1980s, with the "People Power" revolution in the Philippines in 1986, the democratization of South Korea in 1987, and the democratic revolutions in East European states in 1989. With the collapse of the Soviet Union the Cold War came to an end. As the sole remaining "superpower" with enormous military capability and technological prowess (as demonstrated in the Gulf War in 1991), American grand strategic thinking shifted from containment, which no longer made any sense, to globalism that promoted globalization in the name of free trade, financial globalization, democratization and good governance (Brzezinski 2008).

Different from the British hegemony, which was commercial and extractive in origin, U.S. hegemony was (and still is) founded on "geopolitical imperatives and ideological ambition" (Kupchan 2014). The U.S. constructed different architectures in different strategic theaters, relying on different geopolitical logics. This is clear from the way in which the U.S. went about fashioning a regional order in Western Europe and East Asia.

The strategic challenges the US faced in Western Europe in the immediate postwar years were: first, how to counter the communist threat and contain the Soviet Union, and second, how to rebuild West Germany economically and make it an American ally, while making sure that it would never again be a threat to the United States and its allies. The answers it found to these questions are well-known: In security this resulted in the creation of the American-led North Atlantic Treaty Organization (NATO) as a collective security institution, and in economic terms, the formation of a European common market built on the partnership between France and West Germany, which has evolved into the European Union (Katzenstein and Shiraishi 1997; Katzenstein 2005).

A similar set of questions was posed in Asia. The first was how to contain the threat of international communism emanating from Soviet Russia and communist China—and here, we should recall that China went communist in 1949 and war broke out in the Korean peninsula in 1950. The other question was how to revive Japan as a workshop and a base for American forward defense, but make sure at the same time that Japan would never again be a threat to the US. The answers the U.S. came up with are, again, well-known. One was double containment. Containing the Soviet Union and communist China on the one hand, while containing Japan on the other or, to use George Kennan's graphic metaphor, keeping America's light hold on Japan's jugular, which was done first by integrating Japan's military power into the

[3] I owe this point to Dr. Osamu Saito.

regional security system created and led by the U.S. and second by American control over Japan's energy supply (Cumings 1997).

The other was the fashioning of the U.S., Japan and Southeast Asian triangular trade system. Before the war, Japan's two most important trading partners were the U.S. and China, and Japanese business hoped to trade with China, as well as with the U.S., after the war. In the early years of the Cold War, however, China had to be contained, and the U.S. could not afford to allow Japanese business to trade with China and undermine its containment policy against China. Instead, the U.S. encouraged Japanese to go south and normalize diplomatic relations with Southeast Asian countries in "Free Asia".

The American-led Free Asia was thus organized differently from American-led Free Europe. The PRC victory in China and the Korean war powerfully impacted the American design of Asian regional order. Applied to maritime Asia, U.S. policy was geared toward the containment of communism, and by the mid-1950s the demarcation line had been drawn at the border separating North from South Korea, Taiwan and Hong Kong from mainland China, and North from South Vietnam. War, however, continued in Vietnam and expanded to its neighbors, culminating in the unification of Vietnam in 1975 and Pol Pot's coming to power in Cambodia, only to be followed by the genocide and another war in Cambodia throughout the Cold War era. Outside the war zone of Indochina, Free Asia was anchored institutionally on a string of bases from which the U.S. projected its military power to contain communist Asia and maintain its hegemony in the region. China joined in Free Asia in the 1980s after Sino-US and Sino-Japanese rapprochement in the early 1970s and Deng Xiaoping's decision on reform and opening in 1978. In contrast to the British informal empire, whose interests were primarily defined in commercial terms, the outer limits of American hegemony were as military. Within these limits, the U.S. encouraged its allies, strategic partners and client states to develop their economies, while providing its huge market and its enormous financial and technological resources. Japan also joined in the U.S.-led development project. As long as they were anti-communist, it did not matter whether the US allies and clients were liberal democratic, illiberal democratic, authoritarian, or autocratic. And in the 1970s and 1980s after the rapprochement, the US also enlisted communist China as its strategic partner in its cold war against the Soviet Union and President Reagan famously called the People's Republic of China "so-called Communist China," implying it is not really communist (Mann 1999). The name of the game was stability and order.

Free Asia was thus built, not exactly on the same institutional principles as in Free Europe. Pax Americana and the international framework for embedded liberalism—the Bretton Woods system and the GATT trading system—and its successor, the self-regulating market without the gold standard were there. But most states except Japan remained undemocratic and often quite repressive of their own people until very late in the Cold War and post-Cold War years. Many of the states also free-rode on the international economic system, actively managed their national economies and went about development from above, with their currency pegged to the US dollar and with their internal security and technocracy run by American-trained military officers and technocrats as two most important state institutions.

Johnson (1982) in his attempt to account for the postwar Japanese economic miracle came up with the concept of "developmental state" as a "model and case" of successful late industrialization, "the best example of state-guided market system" involving close collaboration between the state and big business and the private sector more generally in pursuit of developmental goals. Although his equation of the developmental state with the combination of authoritarianism and developmentalism is unconvincing (and his attempt to call democratic Japan soft authoritarian is dubious), it provided an influential model for understanding the political economies of Asian NICs (South Korea, Taiwan, Hong Kong and Singapore), ASEAN 4 (Indonesia, Malaysia, the Philippines and Thailand) and finally China.[4] Their arrival was marked with the establishment of a super agency of economic policy making, U.S.-led international developmental support, and the change in general orientation of developmental policy from import substitution industrialization (ISI) to a mix of the ISI and export-oriented industrialization (EOI) (Takagi et al. 2018; see also Suehiro 1998).

In effecting a marriage between economic nationalism and neo-mercantilism, the developmental state represented the East Asian response to a world dominated by the West, a response that eschewed the option of socialist revolution by opting for a state-building and economic development from above, based on the politics of productivity. Focused on national economic development, the politics of productivity sought to contain class, ideological, and other divisions by delivering prosperity to the majority through rapid economic development, without recourse to regime change by violent revolution (Maier 1978). This politics would become a mainstay of the region, one that still exerts a powerful attraction for states like China. In aiming to catch up with developed nations, the developmental state manages its economic system on the basis of private property rights and a market mechanism, but sets industrialization as their main objective and intervention in the market as legitimate insofar as such intervention is able to achieve the main objective (Hau 2016).

The fact that the U.S. made different strategic choices in East Asia and Western Europe had a profound impact on the structure of the two regional systems. In Western Europe, the French and Germans embarked on a joint project that was deeply informed by a Europeanist ideology. The Europeanism underpinned the political will to build a peaceful and prosperous Europe and led to the formation of a community anchored in the larger North Atlantic collective security system. In other words, regionalism has been the driving force in the making of Western Europe.

In East Asia, by contrast, there was neither the political will to create a community nor a sense of identity as Asians to serve as the basis for "Asianism" as a regionalist ideology. Nationalism informed the purpose of national states. And the national political will to develop found its expression in developmentalism as part of the nation building project from above. East Asia has emerged as a region through a process of economic integration with the world economy driven by the tremendous regional economic development, powered by foreign direct investment, especially in

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[4]But see Johnson (1987) for his argument about how and why communist China is different from developmental states.

the wake of the Plaza Accord in 1985, from Japanese as well as American, European, South Korean, Taiwanese and overseas Chinese businesses. In other words, it was market forces, and not the collective political will informed by Asianism, that led to the regionalization of East Asia in the 1980s and 1990s. The regional structure fashioned by the U.S. in the early Cold War years provided the framework for this development. The regional security system remains an American-led hub-and-spokes system. At the same time, however, the regional trade system has evolved out of the original triangular trade system with the integration of China and other countries into the system since the 1980s.

Given the different regional architectures fashioned in the postwar years, it is not surprising that the Cold War also came to an end differently in Asia and Europe. Democratic revolutions in East European countries, the unification of Germany, the collapse of the Soviet Union, the bloody civil war in the former Yugoslavia, the NATO eastward expansion and the deepening and expansion of European integration—all these developments meant significant geopolitical changes in Europe. Nothing of this sort took place in Asia except the arrival of peace in Indo-China in the early 1990s and the joining of Indochinese nations and Burma/Myanmar in the ASEAN. Democratic transformations did take place in the 1980s and 1990s, not in socialist countries but rather in America's client and partner states such as the Philippines, South Korea, Taiwan and Indonesia. Although there were democracy movements in China and Burma/Myanmar, no socialist state in East Asia collapsed. Instead, China and Vietnam, opting for their own version of developmentalism, transformed themselves from socialist party-states into socialist market economy party-states. Myanmar chose for a different path of political liberalization, even though its future prospects look shaky, while North Korea remains Kim's brutally repressive and economically stagnant dynastic party-state (Shiraishi and Hau 2010).

The post-Cold War years also witnessed the 1997–1998 East Asian economic crisis and the demise of authoritarian developmental states. Buoyed by the inflows of FDIs and other capital in the wake of the Plaza Accord in 1985, some of the East Asian economies enjoyed enormous boom with the Thai economy, for instance, growing at 9.5% and Malaysian economy at 9.1% annually from 1987 to 1996. With their currencies pegged to the U.S. dollar and their expectations for profit inflated in the bubble, their firms borrowed money in dollars without hedging currency risk for both productive and unproductive purposes. But the trend in the yen–dollar exchange rate movement reversed in 1995 and their currencies, pegged to the appreciating dollar, undermined their competitiveness in the international markets. This led to the liquidity crisis in Thailand in 1997, which then spread to South Korea, Indonesia and Malaysia. The U.S. seized the opportunity to impose structural reform as part of IMF conditionality for liquidity support. The South Korean developmentalist regime was dismantled. The crisis led to the constitutional revision and rise of Thaksin Shinawatra in Thailand, while triggeringthe collapse of Suharto's New Order regime in Indonesia and the near collapse of Mahathir Mohamad's National Front regime in Malaysia (Shiraishi 2005).

By the end of the 1990s, however, the premise of the developmental state, which stressed state-led late industrialization founded on export promotion and industrial upgrading, had been undermined anyway by the new reality of capital account liberalization, trade liberalization, evolving global value chains, and the increasing importance of services across economic sectors including those embedded in manufacturing and agriculture.[5] Nothing shows this change better than the fact that India and the Philippines, once seen as two basket cases of flawed democracy and economic stagnation, have posted economic growth on a part with, if not better than, the last two remaining developmental states of socialist market economy type, China and Vietnam.

And finally, the post-Cold War years witnessed the rise of China. China's socialist economy has undergone enormous changes since the 1970s when the party leadership decided to shift gears from self-reliance to integrating China to the global economy and in so doing transforming its socialist economic system. In the 1980s China dismantled the communes and other collective institutions, welcomed substantial foreign direct investment, aid and loans, promoted domestic markets, and embarked on a national development strategy. There was a major setback in 1989–1990, in the wake of the Tiananmen massacre, which destroyed whatever legitimacy the communist ideology had provided with China's party state, forced it to embark all-out on its own politics of productivity and its own version of state capitalism to buttress its legitimacy. China's high economic growth in the 1990s and beyond proved its strategy right. The Chinese economy, export and import grew on average at 10, 15, and 16% respectively in ten years from 1991 to 2000. Its trade dependence increased from 29.6% in 1990 to 39.6% in 2000. In so doing, China has become deeply integrated into the postwar triangular trade system, while at the same time remaining outside the American-led hub-and-spokes regional security system (Shiraishi 2012).

That China successfully transformed itself from socialism to socialist market economy turned out to be crucial for the survival of other socialist states on its vicinity. Both the dynastic party state in North Korea and the military junta in Burma/Myanmar survived while becoming increasingly dependent on China. Vietnam followed China's footsteps in transforming itself from socialism to socialist market economy. The region, once bifurcated in the 1950s to the 1970s, became increasingly integrated economically, preparing the ground for institution-building in the post-Asian crisis years, with divergent political systems.

The rising China has also proven U.S. China policy wrong. American policy makers, both Democrats and Republicans, assumed that integrating China into the U.S.-led economic order would make China "like us." Sandy Berger (1997), President Bill Clinton's national security advisor pronounced that "the emergence of China as a great power that is stable, open and nonaggressive; that embraces political pluralism and international rules of conduct; that works with us to build a secure international order—the emergence of that kind of China profoundly is in America's interest." This assumption underpinned the U.S.-China grand bargain: China would be a junior partner of the U.S., working together to maintain the regional order that would provide China with a benign international environment for its export-led economic growth. The bargain, couched in the language of China's "hide and bide" (Deng Xiaoping)

[5]For the increasing importance of services embedded in manufacturing, see Baldwin et al. (2015).

and American expectations that China would be a "responsible stakeholder," led to the creation of what Peter Temin and David Vines call Bretton Woods II (Mastanduno 2014; Temin and Vines 2014).

The Bretton Woods II arrangement worked for a decade. China enjoyed an accommodating global economic environment for its exports and posted high economic growth. Its trade surplus was recycled to finance U.S. current account deficits and keep U.S. interest rates low, allowing the U.S. to cut taxes, increase defense spending, fight the war on terror in Afghanistan, Iraq and elsewhere, and sustain economic growth (Mastanduno 2014).

Integrated into the regional economic system, China has in turn transformed the regional system by greatly expanding the intra-regional and global trade and in doing so, effectively decentering the U.S. Hence, we are witness to the current anomaly in which the U.S. has been increasingly decentered economically while remaining the hub of the regional security system, from which China is excluded. This structural anomaly has become pronounced in recently years since President Xi Jinping stopped talking about China's "hide (its power) and bide (time)" and in effect started challenging the U.S.-led regional order both in security and economic cooperation. The U.S. under President Obama called for pivoting, in effect giving up hope that China would be "like us" someday, a point now frankly admitted in the 2017 National Security Strategy President Trump signed. This explains why many states in the region engage in a delicate balancing act, aligning with the U.S. and its allies for security on the one hand, while engaging China for economic cooperation.

The kind of regional structure that now informs these two different but simultaneous types of politics—in short, power balancing and economic cooperation—is likely to remain in place for quite some time, while the structural tension between the U.S.-led regional security system and China's increasing clout in the trade and investment system will mount. This means that despite the promise of globalization, the twentieth century system—with Pax Americana, the liberal democratic state, and the self-regulating market without the gold standard as its defining institutional features—has not quite evolved into the twenty-first-century global system.

The zone of failed states has also been expanding from Central Asia to the Middle East, Maghreb and Sahel to East and West Africa, where radical Islamist challenges pose a fundamental opposition to the very assumptions of nation-states and globalization. A de facto Eurasian continental alliance, with China and Russia as senior and junior partners, may be in the making. In Asia, which survived its systemic crisis in 1989–1990, there are no signs that China, which has benefited greatly from the U.S.-led twentieth century system, is accepting all its institutional norms. China remains a party state and at least one-third of its market economy is under state control. Instead, China under Xi Jinping with his China Dream of restoring the country's 3000-year glory looks intent on making itself the regional hegemon, calling for "rich nation, strong military" (reminiscent of Meiji Japan's "Rich Nation, Strong Army") and "Asian security by Asians" (reminiscent of the Japanese empire's Asianist turn in the late 1920s and early 1930s), while promoting economic cooperation with its neighbors and building its sphere of influence in the name of OBOR (One Belt One Road) (Shiraishi 2016).

1.3 Challenges Ahead

The world of the twenty-first century will not be the global expansion of the twentieth-century Free World system. In the future, people may see the rise of Donald Trump as U.S. president and his call for America First as signaling the moment when the Americans lost their national political will to sustain the U.S.-led global system.[6] But it is also important to remember that the U.S.-China grand bargain has been undermined since the 2008 global financial crisis and that the days when China could free-ride on a benign international system for its economic growth are coming to an end. China's share in the global economy, measured in current prices, expanded from less than 4% in 2000 to more than 15% in 2015 and is expected to surpass 20% in the early 2020s. A China this big cannot hope to free-ride on the global system for its economic growth, while maintaining its domestic political and economic system intact as a party state-led socialist market economy, making huge investment in technological development, insisting on technology transfer by MNCs, modernizing and expanding its military, asserting its sovereign rights on the basis of its imagined traditional suzerainty, building artificial islands on disputed waters in South China Sea, expanding its sphere of influence on its vicinities, and constructing a continental coalition vis-à-vis the U.S.-led alliance system in Asia.

There will be more uncertainties, if not mounting tensions, as China rises and becomes more assertive. Balance-of-power politics will be more pronounced in the coming years in Asia. Uncertainties will be compounded further by the "America First" President Trump. The U.S. fears China's technological ascendancy and is tightening its industrial security. U.S. third offset is targeted at China. Trade war may escalate anytime. Now that the US and its allies have given up hope that China will be a market economy and a democracy—even as China is building its state-of-the art surveillance state—there will come a time in the near future when its leadership has to make a set of major grand strategic choices about the position it wants to have in the region and the world.[7]

It is important to remember, however, that it is not just China which is rising. Asia has emerged as the region of emerging states and economies, all, including China, connected with each other as well as with advanced industrial economies by transnational value chains. The Indo-Pacific—a shorthand for the entire region of Northeast, Southeast, and South Asia plus Oceania—surpassed both North America and the European Union in economic size by 2010. China surpassed Japan in economic size in 2010. And sometime in the 2020s India as well as the ten Southeast Asian economies combined will also surpass Japan in terms of GDP. Although Southeast Asian states' military spending is miniscule for now—in 2016 Singapore had the largest defense budget which was less than 5% of China's—India's military spending has surpassed Japan's for quite some time, while Australian military spending rose to more than two thirds of Japan's in recent years. This development

[6] For a different take on America First, see Bacevich (2016).

[7] My own take on the rise of China and its hegemonic implications, see Shiraishi (2014, 2016). See also Ikenberry (2014) for a more theoretically oriented examination of the question.

explains why the Indo-Pacific regional framework makes sense from the U.S. and Japanese perspectives to promote security cooperation with Australia and India and why Southeast Asia, especially its maritime part, occupies such a strategic position for the future of this region.

Another challenge, which may create even more uncertainties in Asia in the coming years, is how to meet the expectations people have come to entertain in this region due to the phenomenal improvement in their standard of living over a generation. With Brexit and the election of Donald Trump as U.S. President in 2016, the rise of populism, nationalism, anti-globalism, anti-liberalism, racism and the “retreat of democracy” are much talked about. One way to understand this anti-globalist anti-liberalist turn is to look at who did well in the current globalization and who did not (Milanovic 2016). Another way to understand it is to look at whether and how much people’s expectations for better life are met. As Table 1.3 shows, the U.S., Canada, and West European countries did very well in the first ten-year period from 1996 to 2005, but dismally in the ensuing ten-year period from 2006 to 2015. In the first ten-year period from 1996 to 2005, countries such as the U.S., Britain, the Netherlands, Spain, France, Germany, and Italy experienced their GDP per capita expanding from 100 to 111–128. Japan’s per capita GDP in the same period grew from 100 to 106, the most dismal performance among all the OECD countries. This is the reason Americans and West Europeans talked about the “Japan Disease”, holding Japan up as an example of unsound economic management and a cautionary tale of what not to do when running the economy.

In the following ten-year period from 2006 to 2015, however, the picture changed radically. Germany was able to maintain its steady performance with its GDP per capita rising from 100 to 111, in part because the Euro zone of currency stability allowed the German economy to exploit its competitive advantage vis-à-vis other European economies. But Germany was the exception. In such countries as the U.S., Canada, Britain, the Netherlands and France, their per capita GDPs only expanded on average from 100 to 101–104, while countries such as Italy and Spain saw their per capita GDPs shrink. For that matter, Japan’s performance remained stagnant with its per capita GDP expanding from 100 to 104, on a par with the U.S. and Canada and better than Britain, the Netherlands, and France. We have thus seen the Japanization of North American and West European economies and the “Japan Disease” is no longer confined to Japan.

This difference in performance goes a long way toward explaining the difference in politics in the US and Western Europe on the one hand and Japan on the other. Precisely because the U.S. and Western European countries experienced an economic boom in the immediate post-Cold War years from the 1990s to the mid-2000s, their peoples had come to entertain higher expectations for bettering their living standards. When their expectations were not met, they became unhappy, sometimes angry, at their governments and “elite”. Hence the rise of anti-globalism, inward looking nationalism, racism, etc. Nothing of this sort happened in Japan, because Japanese have come to accept stagnation in their living standards as “normal” and because they witnessed populist movements’ self-destruction in the rise and fall of DPJ-led government in 2009–2012.

Table 1.3 Revolution of rising expectations

	GDP per capita, constant prices (national currencies)				GDP per capita growth (%)	
	1996	2005	2006	2015	1996–2005	2006–2015
China	8916	18,251	20,460	43,074	205	211
S. Korea	14,852,807	21,486,890	22,489,819	28,906,439	145	129
Indonesia	21,404,547	23,091,989	24,019,723	35,140,028	108	146
Malaysia	21,563	24,899	25,942	34,284	115	132
The Philippines	44,245	52,560	54,228	74,203	119	137
Singapore	40,838	54,568	57,572	70,704	134	123
Thailand	89,141	105,117	109,533	137,588	118	126
Vietnam	11,912,923	19,281,532	20,399,433	31,369,228	162	154
Canada	37,344	46,652	47,396	49,357	125	104
USA	39,176	48,070	48,887	50,836	123	104
France	26,864	31,548	32,067	32,427	117	101
Germany	26,328	29,325	30,507	33,869	111	111
Italy	25,107	28,163	28,634	25,450	112	89
Netherlands	29,920	36,323	37,542	38,429	121	102
Spain	18,412	23,483	24,080	23,110	128	96
UK	20,763	26,275	26,819	27,483	127	102
Japan	3,717,615	3,944,525	4,011,484	4,164,500	106	104

Processed from IMF, world economic outlook database, 2017

More important for our purpose is the revolution of rising expectations in Asia. As Table 1.3 shows, East Asian countries have done very well economically over the last two decades. It is true that the economic crisis in 1997–1998 devastated such East Asian countries as Thailand, Indonesia, South Korea and Malaysia. And yet, if we look at the ten-year period from 1996 to 2005, per capita GDPs expanded from 100 to 115–119 in Malaysia, Thailand, and the Philippines and more than doubled in China. Even Indonesia, the country which was hardest hit by the 1997–1998 economic and political crisis and went almost to the brink of national disintegration, saw its per capita GDP expand from 100 to 108. Even more important, all these countries did better in the second ten-year period from 2006 to 2015. Per capita GDPs expanded by 26–54% in Thailand, Indonesia, Malaysia, the Philippines and Vietnam, while China's per capita GDP more than doubled once again in the same period.

To put it differently, the standard of living in all these countries has improved enormously within the space of a generation. This has understandably given rise to optimism, people taking it for granted—or at least hoping—that their lives will be better tomorrow and that their children's lives will be far better than theirs. Of course we do not know what the future holds for us, but it is reasonable to expect that the kind of economic performance many countries and peoples in the region have experienced will be very hard to repeat in the coming years. There are signs that the Chinese economy has been slowing down, while economic performance of Southeast Asian economies has been uneven. The point is that the government will be held responsible if it cannot meet the kind of expectations its people have for improving their lives.

This is the reason the middle-income trap is now being debated widely as a major challenge in East Asia as well as elsewhere. Economists offer us advice on how to avoid the middle-income trap, telling us that human-resource and infrastructural development, inclusive growth and the creation of social safety nets are the way to go. Just as crucially, many societies in East Asia are aging over the coming fifteen to twenty-five years, if not earlier, and with only a few exceptions, they are aging without first having achieved high-income status. If we look at the timing in which each person belonging to the non-working-age population needs to be supported by less than two persons in the working age population, we see that Thailand is expected to cross this threshold in fifteen years, while China, South Korea and Vietnam will do so in twenty years. This means that social safety nets need to be put in place in the coming decade, and a lot more resources need to be invested to secure a minimum level of social safety for the aging population (Uemura 2015). In this sense, the future of Asia both nationally and regionally will depend very much on the sustainability and viability of productivity politics. With the kind of geopolitical structure and economic, political and cultural networks now in place in this region, individual states cannot afford to embark on nation-building and economic development in isolation.

This brings us to the final point we need to examine as a major challenge emerging states and economies in Asia face/offer. The twentieth century system of Pax Americana, the liberal democratic state, "the self-regulating market without the gold standard" and the market economy informed the modernization assumption that economic development will eventually lead to political modernization (i.e., democratization) because people who have attained the life of plenty would opt for freedom. But Singapore with its high-performance technocracy has long proven this assumption wrong. And now China, it seems, is confidently offering its people a similar social contract, no doubt in part learning from Singapore, that the party state will provide its people with a life of plenty and security, as long as they do not question the party state regime. To put it another way, China is offering the domestic systemic alternative of the party state cum socialist market economy (as opposed to the liberal democratic state cum market economy), which not a few emerging states in Asia and elsewhere may find more promising and attractive.

1.4 The Shape of This Book

Maier (2014) talks about modern nation-state formation in a world of war and competing states and in an age of blood and iron and rapid technological progress from the mid-nineteenth century to the 1970s. It was the long nineteenth century in which nation-states were fashioned in Europe and the collapse of Polanyi's nineteenth-century civilization was synonymous with the collapse of Leviathan 2.0 in Europe.

In Asia, however, the story was different. The pre-history of emerging countries in this region consisted of the advent of imperial powers, bringing their Leviathan 2.0, to Asia and building modern state machines for colonial pacification, subjugation, and exploitation. As Takeshi Onimaru's chapter shows, the infrastructure of the modern state apparatus—tax collection and policing—was put in place in those years. Colonial economies were organized with the development of plantations and mines, sometimes through massive importation of labor, and directly connected with their respective metropolitan economies. This system of colonial states and economies as well as the British-led collective imperial system collapsed under Japan's onslaught during World War II.

After World War II, all of these countries went independent, and eventually all the countries, except North Korea, opted for controlled transformation through nation-building from above. Nationalism, seen as the force to move history forward, informed their nation-building projects, both from above and from below, and now inform the pursuit of power and rising chauvinism in China and some other countries. The developmental state was the name given to successful cases of controlled, catch-up transformation, while those which failed to deliver were condemned as purveyors of crony capitalism (Hau 2016). This template was recalibrated by the democratization of America's allies, but survives in China (and Vietnam) and is now celebrated as Beijing consensus (Halper 2011).

Asia is in transition. The balance of power is shifting fast, if the economic size (GDP in current USD prices) and the military spending are to be used as proxies for power. The Chinese economy is more than three times larger now (in 2015) than the Japanese economy and the Indian and ASEAN economies are expected to surpass the Japanese by the early 2020s. Chinese military spending is more than four times larger than Japan's, while Indian military spending has surpassed Japan's for some time. Emerging nations continue to face the challenge of not being bogged down in the middle-income trap and meeting people's rising expectations of a better life while investing more in the creation of social safety nets. And building its own domestic political and economic system on a social contract promising its people a life of plenty and security, China is offering a systemic alternative to the now passing long twentieth century system of the liberal democratic state and the market economy.

These conditions suggest that emerging nations and the region are confronting three major challenges. One is how to achieve economic growth and meet the growing expectations of the region's people to improve their living standards at a time when trade and capital flows are liberalized, people are moving across national boundaries in increasing numbers and becoming ever more aware of what is going on elsewhere in the world and exposed to images of affluence and consumption. The second challenge is how to ascertain the evolution of the regional order at a time when the balance of power is changing fast and China may be tempted to change the regional system to make it more hospitable to its hegemonic purposes. For individual emerging nations, this issue is posed as a question of maintaining balance in security in a time of increasing uncertainties while seizing the opportunities China offers for their own economic development. And finally China's promise of a life of plenty and security to its own people, if successful, will offer an alternative to states and peoples in this region and beyond. In sum, we may be facing yet another Polanyi moment, witnessing the collapse of the twentieth century system: the U.S. under President Trump may no longer have the political will to maintain Pax Americana, while China is intent on creating its own hegemonic sphere; the self-regulating market is under attack because of U.S. insistence on "fair and reciprocal" trade protectionism; the liberal democratic state built on the promise of the life of plenty and freedom is being challenged by technocratic party states built on the promise of a life of plenty and security; and finally the market economy under liberal democracy is being challenged by the socialist market economy in which the state and the economy are under party control and guidance. It should be clear, then, that whether emerging states, especially China, can overcome the middle-income trap, deliver on their promises of a life of plenty and meet the rising expectations of their people will have a huge bearing on the way in which the twentieth-first century system will be transformed.

The question of middle-income trap is often discussed as if it were merely an economic policy question of human-resource development, infrastructural development, inclusive growth, and social safety nets. But this question is closely connected, on the one hand, with the challenge that states face to meet the rising expectations of their own people, and on the other hand the state's external engagement in security and economic matters at the regional and global levels for its own gains. The core issues here are what kind of state is conducive to pursuing economic growth, what the purpose of politics is, and how this purpose defines state form, legitimacy, and allocation of scarce resources.

The developmental state had once offered itself as an answer to these core issues, and China still offers the developmental state model (now renamed the China Model) as a way of uplifting the standard of living of its people and enhancing its power and prestige without liberalizing political rights (Halper 2011). The developmental state defines the purpose of politics as nation-building and the pursuit of national economic growth as an important part of it. In so doing, it tries to contain, if not rule out, the "messiness" of politics arising from multiple claims made by multiple classes and social forces from across a broad spectrum of society. But resources are always limited. Government resource allocation—the issue of how and how much a government can allocate its resources to which sectors and for what purposes—is always and everywhere intensely political. Politics, which is sometimes defined as the authoritative allocation of scarce resources (Easton 1966), is by definition messy, and it is impossible, indeed futile, to remove that messiness from the political process, whether liberal democratic, authoritarian, or party state. Admittedly liberal democratic systems of government do not automatically foster high economic growth, nor is it a sure way to close the gap between the rich and the poor. The tension between democratic norms and economic growth and equity is even more strongly felt now in this globalizing world. This brings us back to a classic question of democracy and economic development, the long-term viability and sustainability of the productivity politics that has been the mainstay of this region since the 1960s/70s and is destined to haunt us still for some time to come.

It is with these key questions in mind that all the chapters that follow are presented. In Chap. 2, Keiichi Tsunekawa defines and identifies twenty-nine emerging states and examines the general patterns of their economic development and sociopolitical changes in this age of globalization. Emerging states are in a good position to benefit from economic globalization because of their large domestic markets, abundant natural resources and/or appropriate technological capability. But upgrading their technological capability and strengthening their domestic production linkages, he argues, will be a big challenge in order for emerging states to advance further economically. He also underlines the strategic importance for emerging states to enhance redistributive measures and social linkages to address the gap between those who benefit from globalization and those who are left out. Meeting these challenges requires the delicate and politically adept coordination of interests among economic and social forces, and Tsunekawa concludes that the prospects of emerging states depend very much on the coordination capability of their public institutions.

Comparative history chapters follow the cross-national examination of emerging states and economies. In Chap. 3, Kaoru Sugihara examines Asia's regional path of economic development in a long historical perspective, focussing on trade, industrialization and the developmental state. In sharp contrast to many parts of Africa, Middle East and Latin America where local economies were integrated into the metropolis-led international economy as satellites, Asia's de facto economic integration took place in the era of collective imperialism because intra-Asian trade grew faster than world trade as well as Asia's trade with the West in 1880–1938. This was the regional context in which Asian industrialization happened. The growth of intra-Asian trade helped Japan's industrialization. When China went through import-substitution industrialization in the interwar years, Japanese manufacturers expanded their exports of textile machinery to China. This marked the origin of 'flying geese' pattern regional industrialization. The post-war industrialization followed the same pattern. Intra-regional trade created a regional division of labour and mediated by merchant networks. Developmental states were instrumental in the mobilization of labour and capital. The development path of the countries in the Western Pacific rim became, at least in part, resource-intensive and growth-driven. In the recent years, China has expanded this model to integrate its inland regions and Eurasian neighbors into its growth orbit. This development, however, requires the mobilization of less tradable resources, such as water and eco-system services, put pressure on local resources, and raise questions about environmental sustainability. In conclusion, Sugihara argues that industrialization has to be sustainable both economically and environmentally, and at national, regional and global levels, if Asia's emerging states want to maintain developmentalism.

In Chap. 4, Takeshi Onimaru examines colonial state-building in Singapore and Hong Kong in comparative historical perspective. He notes two important differences in the revenue structures and policing processes of nineteenth-century Singapore and Hong Kong. Opium farming was the major source of revenue in Singapore, but not in Hong Kong. Secret societies were banned in Hong Kong, while they were tolerated in Singapore until the last decade of the nineteenth century. Onimaru explains the difference in political-economic structural terms. The Singaporean economy was built on entrepôt trade and inland plantation economy for China market. The colonial government outsourced revenue collection to opium farms. Chinese secret societies controlled inland plantation economy. Opium farmers relied on secret societies to sell opium to plantation workers under their control. The colonial government also outsourced the provision of social security and protection to secret societies. In contrast, Hong Kong was built on entrepôt trade, but did not have an inland plantation economy. Secret societies were seen as nothing but trouble-makers. The colonial government banned secret societies and fashioned a police force composed mainly of Chinese for the business of policing. The chapter provides useful insights on how and why colonial state building in Singapore and Hong Kong was different and underlines the geopolitical and political economic significance of distance between the two trading and financial centers and their most important hinterland, China, as well as their locations in what Sugihara calls Chinese trading networks.

In Chap. 5, R. Bin Wong looks at China in comparative historical perspective. He asks whether, and how, basic connections between imperial Chinese ideas about good governance, political economy and popular material welfare were reconfigured in the ideologies and institutions of development in China. He examines the imperial bureaucracy whose mission is geared to the material welfare of the population, the coalition of officials and local elites in pursuit of a shared Confucian agenda for maintaining social order, and the state campaigns for extraordinary projects. Wong notes that those approaches manifest themselves within very different ideological and institutional framework in Communist China. China's party-state aspires to achieve wealth and power. The pursuit of wealth in his view is closely connected to issues of distribution, raising living standards, and social security of the population, while the pursuit of power includes both domestic and external dimensions. Created by the social revolution from below, a communist-indoctrinated official elite had little to no potential for autonomous action under the strictures of party discipline for a long time. With the emergence of new social elites as a product of many years of economic reform and development, however, the question now being raised is how the relationship between party-state officials and social elites will stabilize and under what conditions and with what purpose of the state. These question are crucial for understanding the long term viability of the promise the party state offers to the population as social contract.

The nineteenth century witnessed great divergence in the economic fortunes of Europe and Asia. In Chap. 6, Sugata Bose underlines the critical importance of colonial rule for the great divergence. The post-Napoleonic years saw the transformation of British East India Company into a territorial state in India. Those years also saw Indian artisanal products losing their ability to compete in the global marketplace and the Company meeting its requirement of remittances to the metropolis through the forced cultivation of indigo and financing its China tea trade by establishing a government monopoly over opium. The mobility that characterized eighteenth-century rural society was replaced with the immobility and stern discipline of agricultural commodity production. The labor-intensive commercialization of agriculture took place on this basis of immobile servile labor. Peasant labor clung on to the basic means of production—land—but became increasingly dependent on merchant and usury capital. The political economy of late colonialism presented some marked departures from the classical patterns of the earlier era. The dislocations of World War I provided protection to India's cotton textile industry. The depression era witnessed a catastrophic price fall and a dramatic shrinkage in the availability of credit. With the outbreak of war in Europe a huge expansion in public expenditure triggered inflation. Colonial India had to pay for war expenditure here and now by printing rupees while sterling credits built up in the Bank of England. The colonial state also intruded into the food market to provision troops and industrial workers. The famine of 1943 shredded what little remained of the legitimacy of the British raj in India. In the postwar and post-independence era, India opted for the path of capital goods-led import-substituting industrialization. But the growth rate was sluggish. After the permits, licenses and subsidy raj was dismantled in 1991, however, the Indian economy has grown at a pace second only to China. Dynamic growth infused a new sense of confidence. Yet India's performance in the areas of basic education and health care for the poor has much to be desired. He concludes that India has prospered not through economic autarky, but by mustering political and cultural resources to set the terms of global engagement. In this process of denial colonized India suffered grievously. It is by engaging with the global economy and recovering its own agency that India is being able not just to ride the upswings of the global economy but also to reduce vulnerabilities to its more volatile downturns.

In the concluding chapter, Tetsushi Sonobe defines the middle-income trap as the failure of a middle-income country in moving into high-income status for many years. Applying empirical definitions of the middle-income trap, they suggest that some of the Asian as well as Latin American and Middle Eastern emerging economies might be in the trap. They argue the quality of education matters for economic growth, but question whether expansion in education is a major driver toward equal societies. Examining whether countries with higher education levels have more equal societies, they conclude that the results are mixed and that even though there is a direct correlation between education and economic equality, those who enjoy high educational attainment and quality tend to connect better globally and earn more than those not very well connected. This observation is relevant to China, which has the lowest high school enrollment among all the countries with comparable income level and where more than 30% of junior high school students drop out in poor rural areas. In such large emerging economies as China and India, many of their youth in rural areas might not be able to learn the required skills to secure decent jobs in the near future, a failure that may exacerbate both urban-rural income inequality and unemployment. They also underline the crucial importance of innovation. Confronted with rising labor cost, firms in middle-income economies find it hard either to compete with those in low-wage economies or with firms in technologically more advanced higher-wage economies. To examine ways to overcome this contradiction, Sonobe looks at three responses—substitution of expensive labor with capital, cost reduction measures, and product upgrading—and underline the importance of management. They also argue that the government's job in innovation is to reduce entry barriers (including import barriers), to put more competitive pressures on firms to improve their management and not to try to coordinate resource allocation for innovation.

This book offers our take on what challenges China and other emerging states and economies confront now and in the coming years. It explores our ideas of emerging states and economies, their pre-history as well as the two largest emerging nations of China and India in historical perspectives, and the crucial importance of overcoming the middle income trap to meet the rising expectations of peoples for the future of Asia. In concluding this introductory chapter, I underscore the importance of states' ability to manage risks and uncertainties. We do not know what the future holds for us, but what we do now to manage risks and uncertainties internationally and domestically can lead us to a certain future and not to some other futures. Whether consciously undertaken or not, any attempt to manage risks and uncertainties is informed by normative thinking. It is important, therefore, to be aware of which norms inform our thinking and which norms at the end of the day will constitute the very foundation of our future life together.

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