

The crisis of postwar East Asian capitalism: American power, democracy and the vicissitudes of globalization

BARRY K. GILLS

Abstract. The debate over the East Asian crisis has thus far been led by economists who have focused on technical economic issues and policy goals at the expense of macro historical-structural questions. Foremost amongst the neglected questions is whether and under what conditions ‘Postwar East Asian Capitalism’ (PWEAC) will either continue to flourish or undergo a radical political transformation ‘after the crisis’. This question must be understood in the context of the changing geopolitical framework of the post-Cold War era. PWEAC is under great pressure for reform from both external and internal forces. Whether a ‘new political architecture’ for capitalism in East Asia is emerging is the central issue and one which will determine the future direction of Asia. The demise of authoritarian-oligarchic capitalism in Asia may have been accelerated by the economic crisis. The most enduring result of the Asian crisis is not the presumed derailing of the (re)ascent of Asia in the world economy but rather the weakening of the non-democratic state forms that have characterized East Asia’s capitalism for decades. Popular demands for change represent a real challenge to both the domestic authoritarian-oligarchic power structure of PWEAC and its crucial geopolitical underpinning and external orientation.

A people that has existed for centuries under a system of castes and classes can arrive at a democratic state of society only by passing through a long series of more or less critical transformations, accomplished by violent efforts, and after numerous vicissitudes, in the course of which property, opinions, and power are rapidly transferred from one to another...

Alexis de Tocqueville
Democracy in America, Vol. II, 1840

To reason with governments, as they have existed for ages, is to argue with brutes. It is only from the nations themselves that reforms can be expected.

Thomas Paine
The Rights of Man, Preface to the French Edition, 1791

Introduction

The recent events of the so-called ‘Asian crisis’ of 1997–9 cause us to rejoin long-standing debates concerning the character and explanation for ‘Eastern’ versus ‘Western’ development, including their divergent ‘cultural’ attributes. Centuries before the ‘rise of the West’ Asia bestrode the world like a colossus, and the ‘fall of

the East preceded the rise of the West'.¹ Humiliated and subordinated in the course of the nineteenth century by the onslaughts of Western power, East Asia rose from the ashes and tumult of a century of imperialism, colonialism, war, and revolution to become an economic powerhouse in the latter half of the twentieth century. Then, and very suddenly, the 'Asian crisis' of 1997–9 appeared to signal a reversal of Asia's historic (re)ascent, revealing the intrinsic failures of the much vaunted 'East Asian miracle' and its economic model(s).²

The 'crisis' is now generally deemed to be over, though some doubts linger,³ and even the most badly affected states, such as Indonesia, Thailand, and South Korea, were all showing clear signs of economic recovery by the second half of 1999. Stock markets in the region were recovering as investors plunged back in (almost as rapidly as they had previously left), inflation was largely under control, exports and production were improving, and exchange rates were stabilized. So now, looking at the crisis with hindsight, what can we say is its real significance? This question hinges on our interpretation of the issue of reform. The debate over the causes of the crisis⁴ encompassed contending interpretations of the 'failings' of international versus domestic factors. However, as is so often the case where economists lead the debate, the tendency is to focus too much on narrow technical ('economic') goals such as growth, profits, and efficiency, and the question of whether and under what conditions these would continue to flourish in East Asia 'after the crisis'.

The most important questions raised by the crisis, however, address a much larger and deeper historical issue: that of the present and future political and social nature

¹ See Janet L. Abu-Lughod, *Before European Hegemony: The World System AD1250–1350* (Oxford University Press, 1990); Jack Goody, *The East in the West* (Cambridge University Press, 1996); K.N. Chaudhuri, *Asia Before Europe: Economy and Civilization of the Indian Ocean from the Rise of Islam to 1750* (Cambridge University Press, 1990); and Andre Gunder Frank, *ReOrient: Global Economy in the Asian Age* (University of California Press, 1998). These works stand in sharp contrast to the traditional Eurocentric narrative emphasizing the superiority and originality of Western capitalist civilization, e.g. E.L. Jones, *The European Miracle: Environments, Economies and Geopolitics in the History of Europe and Asia* (Cambridge University Press, 1981); J.M. Roberts, *The Triumph of the West* (BBC, 1985); and most recently David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (Boston, MA: Little, Brown, 1998) which returns to traditional Eurocentric explanation via culturalist arguments for Western superiority.

² See: Paul Krugman, 'The Myth of East Asia's Miracle', *Foreign Affairs*, 73:6 (Nov.-Dec. 1994), pp. 62–78. Krugman argues that there was no 'miracle' at all, only ordinary growth to be expected from increased inputs of new technologies, infrastructure, and education, whereas East Asia's record in productivity growth was unimpressive. He therefore denied the importance of the state's developmental role. The World Bank's landmark study *The East Asian Miracle* (Oxford University Press, 1993) acknowledged that the reigning orthodox liberal interpretation of East Asia's rapid economic growth was not entirely satisfactory, and that contrary to textbook economic theory, the role of the state in East Asia had not been necessarily an inefficient or distorting one that created obstacles to development. The 'statist' theorists tended to celebrate the role of the developmental state (e.g. 'getting relative prices wrong', and the case for 'efficient' use of subsidies) in their attacks on liberal explanations, e.g. See Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford University Press, 1989).

³ However, critics in the West remain concerned that 'Part II' of the crisis may result from the failure to implement reforms, *International Herald Tribune*, 15 October 1999. 'Asian Economies Could be Drifting Into Part II of Crisis', Reginald Dale. thinkahead@iht.com

⁴ The debate over the causes of the East Asian crisis (or sometimes just narrowed to the so-called 'financial crisis') was widely engaged. The many participants differed significantly in their interpretations. The debate can be summarized in two broad categories: those who viewed the key 'failure' to be that of inherently unstable or 'destabilizing' international financial markets, such as George Soros *The Crisis of Global Capitalism* (1998); and 'Capitalism's Last Chance', *Foreign Policy*, 113 (1998), pp. 55–66; and Radelet and Sachs, 'The East Asian Financial Crisis: Diagnosis, Remedies, Prospects', *Brookings Papers on Economic Activity* (1998) pp. 1–89; (though some combined this with

of East Asian capitalism. This issue touches directly upon the question of authoritarian versus democratic variants of capitalism, as well as the much vaunted comparison of 'Eastern' versus 'Western' variants. It also raises the all-important issue of the nature of East Asia's insertion into the global political economy, and how these external linkages affect the prospects of domestic, regional, or global reform. The Asian/global crisis of 1997–9 gave rise to numerous calls for global, regional and national reform. At their most comprehensive, the banner of a 'new financial architecture' has been raised, and more recently, World Bank President James Wolfensohn's invoked the need for a 'new Development architecture' to match that in the realm of finance.⁵ I suggest that a third tier of this global/domestic reform agenda is still needed: a 'new political architecture' of development. I shall discuss this call with reference to East Asia.

East Asian capitalism cannot be analysed without reference to its 'special relationship' with American power. US leadership and interests were the defining element in the construction of postwar East Asian Capitalism (PWEAC). However,

domestic financial weakness to explain the financial turbulence, e.g. M. Goldstein, *The Asian Financial Crisis: Causes, Cures, and Systemic Implications* (Institute for International Economics) (1998); versus those who emphasized intrinsic 'flaws' in East Asian capitalist institutions, such as regime failure, elite interests, or 'crony capitalism', e.g. Stephan Haggard and Andrew MacIntyre, 'The Political Economy of the Asian Economic Crisis', *Review of International Political Economy*, 5:3 (Autumn 1998), pp. 381–92; Mitchell Bernard, 'East Asia's Tumbling Dominoes: Financial Crisis and the Myth of the Regional Model', *Socialist Register*, (1999), pp. 178–208. The combined failures of domestic regimes and the pivotal role of international actors such as the US and IMF was stressed in the interpretation, widely cited, made by Wade and Veneroso, 'The Asian Crisis' The High Debt Model versus the Wall Street-Treasury-IMF Complex', *New Left Review*, 228 (1998), pp. 3–21.; and Walden Bello, 'The Asian Economic Implosion: Causes, Dynamics and Prospects', *Race and Class*, 40:2/3 (1998), pp. 133–143. In particular, Wade and Veneroso identified the key problem as the destabilizing effects on domestic institutional arrangements that resulted from liberalization, rendering the economies much more vulnerable to external shocks. Some, such as Henderson (1998) in his *Asia Falling: Making Sense of the Asian Crisis and its Aftermath*, Business Week Books, pointed to a flaw of the regional strategy of over-dependence on external linkages, whether in production for export or finance. A Marxist analysis, such as that by McNally, 'Globalization on Trial: Crisis and Class Struggle in East Asia', *Monthly Review*, 50:4 (1998), pp. 1–13, stresses the internal contradiction of capitalist development and accumulation, particularly between overproduction and underconsumption and the important role of class struggles in the process. The best overall treatment of the crisis in one volume was the Special Issue on the Asian Crisis of *Cambridge Journal of Economics*, 22:6 (November 1998), edited by Ha-Joon Chang, Gabriel Palma, and D. Hugh Whittaker, which includes Robert Wade 'From "Miracle" to "Cronyism": Explaining the Great Asian Slump'; Chalmers Johnson, 'Economic Crisis in East Asia: The Clash of Capitalisms', and Ronald Dore, 'Asian Crisis and the Future of the Japanese Model'.

⁵ Alan Beattie, 'Wolfensohn Pledges Development Reform', *Financial Times*, 29 Sept. 1999. At the IMF/World Bank annual meetings in Washington DC, Wolfensohn reiterated the World Bank's commitment to a 'comprehensive development framework which aims to combine social and macroeconomic aspects of development policy'. The former Managing Director of the IMF, Michel Camdessus, while also endorsing this approach and closer coordination between the Bank and the Fund in the future in their poverty reduction and crisis management approach, insisted that 'integration of a social dimension into the Fund's policies was not new.' Nevertheless, he took the unprecedented step of suggesting that member governments consider altering the IMF's articles, both of which are opposed by the United States. Stephen Fidler, *Financial Times*, 29 Sept. 1999, 'Camdessus Plea for Change to Statutes: IMF Proposals to Ease Debt Crises may Founder'. Camdessus was cautious over how far the IMF's role should be extended beyond surveillance of macroeconomic stability into the realms of domestic banking reform, good governance, and social policy. His post-crisis line on liberalization of capital movement remained that it was beneficial to development in the long term, but each country must determine its own careful and orderly sequence of reform.

the changing nature of US power, the pursuit of its economic interests via free trade, and the concomitant pressures for accelerated liberalization or 'globalization' these interests promote, combine to make a 'new political architecture' in capitalist development in East Asia both more likely and historically necessary. Indeed, one could go as far as to suggest that the principal consequence of the 'Asian crisis' is more likely to be a critical political transformation, not merely an economic restructuring instrumental to continued growth. The central question is therefore whether the 'crisis' and 'globalization' (both of which can be seen as expressions of American power, interests, and leadership in the post-Cold War interregnum) will undermine the political foundations of PWEAC and its authoritarian-oligarchic political power structures. Will increasing popular pressure for change take the form of 'the politics of resistance' to globalization and culminate in a new 'democratic revolution' and meaningful democratic consolidation?

Finally, it is a mistake to view the transformation of East Asia as simply a technical outcome based on applying textbook efficiency criteria. Nor is it entirely accurate to view it as a 'clash of capitalisms' between Eastern and Western forms, fought out between rival 'national' capitalisms, whether Japanese, 'Rhinish' or Anglo-American. Nor is it useful, so long as narrowly economic criteria are employed, to paint black and white judgments about the economic 'superiority' of one form and the 'inferiority' of another.⁶ The missing level of analysis is the social and political struggle involved in this 'clash of capitalisms' where every 'national capitalism' confronts the forces of 'globalization'.⁷ This fundamental tension involves a social and political struggle and contestation 'within' each national or regional configuration. In my view, the contest 'within' is more important and leads to different types of questions than the focus on the presumed struggle 'between' rival capitalisms. Focusing on this internal struggle, which is taking place within all the presumed 'models', involves us in investigating the political character of domestic social forces and their relation to the state and economic power structures.

Far from arguing that the East Asian capitalist model(s) will conquer the world in the twenty-first century,⁸ the Asian crisis has revealed that the PWEAC construct is in a historical crisis, most acutely manifesting itself at the political level, where capital-labour relations and elite-mass relations are the primary axis of contestation. Inexorable pressures and tendencies for further economic liberalization will weaken the foundations of the developmental state. PWEAC will be under increasing social and political pressure for radical change, the more so as the path-dependent trajectories of globalization and restructuring further disrupt the established order.

⁶ See John Gray, *False Dawn: The Delusions of Global Capitalism* (London: Granta, 1998). Gray argues that the inferior or less efficient Anglo-American variant of capitalism is destroying the superior or more efficient Japanese and European variants. In moral terms, the 'bad' capitalism is driving out the 'good' in a global application of Gresham's Law.

⁷ See Colin Crouch and Wolfgang Streeck (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London and Thousand Oaks, CA: Sage, 1997).

⁸ See John Naisbitt, *Megatrends in Asia*, Nicolas Brealey, 1995. Naisbitt singles out three attributes ('pillars') of the Asian model: the transnational network-economic; the authoritarian political systems and their 'strong policies'; and the avoidance of the heavy costs of the Western-style welfare state. In my view the latter two attributes are clearly anti-progressive and if universalized would represent historic retrogression in social and political development in the West.

Capitalism and democracy in the 'age of globalization'

Before the full advent of democratic practices in the West, the political history of capitalism was one in which oligarchic, aristocratic and monarchical forces held sway. Both Marx and some liberals expected that democracy would undermine capitalism by extending the vote to the working class majority, who would use that access to power to either expropriate capital or redistribute wealth from capital to labour through political means. Capital, on the other hand, was expected to resist the radical implications of the extension of democracy to the working majority and possibly react by subverting democracy. Social peace in Western capitalist societies during the second half of the twentieth century has rested upon complex compromises between capital and labour and a great expansion of the role of the state, particularly in delivering a social wage to the vulnerable part of society.

The authoritarian governments of East Asia fostered capital at the expense of labour, postponing consumption until tomorrow for the sake of high rates of saving and investment today. Welfare spending was kept to a minimum, thus lowering the tax burden on business and forcing individual savings for social security. Freedom of organized labour was suppressed in order to maintain wage discipline and insulate government policy from labour influence. In postwar East Asia capitalism, therefore, authoritarian-oligarchic power structures have remained the norm, sometimes with the support of the democratic West, rationalized by the exigencies of Cold War rivalry and the strategic reliability of anti-communist regimes.

However, the end of the Cold War and the momentum of neoliberal globalization have combined to undermine the justification for authoritarian capitalism in East Asia. The very process of economic growth, industrialization, and urbanization that has characterized successful East Asian development, and its increasing linkages with the outside world, have combined to create historical forces that make democracy a logical if not inevitable outcome. However, the paradox of neoliberal economic globalization is that it both weakens and activates the social forces of resistance to it.⁹ The 'low intensity democracy' of the early 1990s in such countries as South Korea and the Philippines, which followed the 'people's power' revolutions of the late 1980s, led to regimes designed to preserve fundamental US and domestic elite interests and limit the process of radical democratic reform.¹⁰ The recent Asian crisis brought about renewed popular democratic struggles, not only in these countries but in others such as Indonesia, where the popular movement fought to dislodge the oligarchic-authoritarian power structure.

The Asian crisis was a historic turning point, not because of a fundamental 'decline of the East' (i.e. economic failure), but rather because the crisis revealed the political weakness of the oligarchic-authoritarian systems of rule that have dominated the region for so long. The most spectacular demonstration of the effects of

⁹ For a discussion of this paradox see 'Introduction', Barry Gills (ed.) *Globalization and the Politics of Resistance* (Macmillan: St. Martin's Press, 2000).

¹⁰ See Barry Gills, Joel Rocamora and Richard Wilson (eds.), *Low Intensity Democracy: Political Power in the New World Order* (London: Pluto Press, 1993).

the return of the 'dangerous classes'¹¹ was the popular revolt in Indonesia which overthrew the Suharto dictatorship in May 1998. This example of 'globalization-from-below'¹² took place in the name of 'Reformasi'. It happened in the wake of a severe economic crisis and subsequent IMF intervention. The fires that swept the forests of Indonesia in 1997, burning an area at least the size of New Jersey and inflicting billions of dollars of damage on the economy, were a prelude to the political fires that followed and both reflected the same root cause: the endemic corruption of the Indonesian state and business elite.¹³ The fires of 1997 soon coincided with economic collapse and currency crisis, leading to national protests which forced Suharto from power after a 32 years' tenure. After a seventeen-month interim presided over by Suharto's friend and associate Mr. Habibie, popular demand for democratic reform remained unabated. The elections to the People's Consultative Assembly in June 1999 produced a breakthrough for the popular opposition to the ruling Golkar party, as Megawati Sukarnoputri (the daughter of Indonesia's founding President Sukarno, removed in a bloody coup in 1965) led the Democratic Party of Struggle to gain 34 per cent of the popular vote, 12 points ahead of Golkar. The election in late October 1999 of the Muslim leader Abdurrahman Wahid as President and Mrs. Megawati as Deputy President created a basis for a break with the authoritarian past.

Though less dramatic than the Indonesian situation, the Asian crisis brought renewed popular protest for reform in other countries of the region. Popular protest in South Korea, particularly by labour unions, was intensified by the onset of the crisis and IMF intervention. The deep recession and high unemployment inflicted on South Korea by the crisis brought labour into conflict with business and the government over the pace and character of economic restructuring. As the government sought to pursue a mixture of neoliberal and social democratic policies, in the process organized labour moved in and out of the new corporatist 'Tripartite commission' established by the Kim Dae Jung government.¹⁴ In September 1999, a coalition of democratic unions and social movements joined forces to found the Democratic Labour Party (*Minju Nodong Dang*) under the leadership of Kwon Young Kihl and Lee, Kap-Yong, both former Presidents of KCTU. Hitherto labour's direct participation in electoral politics has been severely limited.

In contrast to South Korea's adoption of neoliberal prescriptions in response to the Asian crisis, the Malaysian government led by Prime Minister Mahathir Mohammed opted to return to developmentalist methods, which were exemplified in

¹¹ The phrase is borrowed from the work of Immanuel Wallerstein, who has predicted that the reappearance of such 'dangerous classes' will bring about renewed impetus for radical change and break the mould of complacency and consensus.

¹² See Richard Falk, 'Resisting "globalization-from-above" through "globalization-from-below"', in *New Political Economy*, 2:1 (March 1997) and in Barry Gills (ed.), *Globalization and the Politics of Resistance* (Macmillan: St. Martin's Press, 2000).

¹³ According to the *National Geographic* magazine's story 'Indonesia's Plague of Fire' by Lewis M. Simons, 'The Indonesian government issued more forest-clearing concessions in 1997 than ever before, mainly to companies owned by wealthy entrepreneurs with connections to then President Suharto ... Large, influential companies were torching vast parcels of forest to create plantations for pulpwood, oil palms and rice.' The drive to create the world's largest palm oil industry led to a conflagration that engulfed an area larger than Europe and directly affected some 75 million people. (August 1998), p. 109.

¹⁴ See Barry Gills and Dong Sook Shin Gills, 'Globalization as Strategic Choice', in Samuel S. Kim (ed.), *South Korea's Globalization* (Cambridge University Press: forthcoming 2000).

the imposition of capital controls in September 1998. This move was derided by critics as tantamount to economic suicide. Popular dissent in Malaysia rallied around the idea of liberal and democratic reform and the figure of Anwar Ibrahim, the former finance minister, who was however, soon indicted by the regime for alleged sex crimes. The popular protest movement in the Philippines gained new stimulus, once again under the leading banner of Mrs. Aquino, in response to the prospect of the government's indications of a coming turn toward neoliberal policies. Over a decade of low intensity democracy in the Philippines has brought little tangible benefit to ordinary people and little real progress toward reforms that would constitute democratic consolidation for the masses.

Those who continue to defend authoritarian-oligarchic capitalism in East Asia usually invoke so-called 'Asian values', claiming an innate incompatibility of Asian customs with democratic practices. But the presence of popular protests for reform gives the lie to such misleading and self-serving culturalist arguments. Revolution is no longer incalculable in East Asia. But, as events also show, democratic revolution may also be imbued with a recharged Asian nationalism, and in some cases sub-nationalisms seeking independence (as in Indonesia). The renaissance of Asian nationalism and anti-imperialism is not unexpected, but rather a predictable popular response to the reaffirmation of the powerful role of external actors exposed during the crisis and its aftermath, as well as historical memories of colonial and imperialist history in East Asia. The Asian crisis revealed the potential for the deeply embedded external linkages of the economy to be turned toward the resubordination of Asian countries and the erosion of Asia's sovereignty and independence.

The US and the construction and deconstruction of postwar East Asian capitalism

Since 1784 ... the United States has consistently pursued an open door approach towards the Asia-Pacific region. Our interest has resided in maintaining commercial access and preventing the rise of any single power hostile to the United States and its allies and friends.

Secretary of State James Baker III
'America in Asia: Emerging Architecture for a Pacific Community', *Foreign Affairs*, 70:5
(Winter 1991-2), pp.3-4.¹⁵

The rise and possible future demise of postwar East Asian capitalism can be best understood in relation to the logic and impact of US interventions in Asia from the Pacific War to the present. During the Cold War era, the US patronized and tolerated East Asia's 'deviant' state-led capitalism and its authoritarianism. In the post Cold War interregnum the US aggressively seeks to impose its own (liberal or free market) form of capitalism, and thereby advance its own interests. Both the recent Asian crisis and the 'global crisis' of 1997-9 should be understood in this particular strategic and historical context.

¹⁵ Cited in Michael Cox, *US Foreign Policy after the Cold War: Superpower Without a Mission?* (Royal Institute of International Affairs [and Pinter], 1995), p. 84.

Postwar East Asian capitalism has been heavily contingent on American interventions from beginning to end. The US was the architect of the reconstruction of Asian capitalism following the defeat of imperial Japan in 1945 and a primary actor in the setting of the terms for East Asia's participation in the global capitalist system from 1945 to the present. If the phenomenal industrial growth of postwar East Asian economies was a product of this very specific geopolitical construct, initiated and managed by the United States, what happens when that geopolitical construct is weakened or abandoned by its patron? This question has the utmost relevance for understanding both the future prospects for Asian capitalism and the future of global capitalism in the coming century.

Postwar East Asian capitalism was the historical outcome of a century of crisis in Asia between the mid-nineteenth and the mid-twentieth centuries, as Asian societies came fully to terms with the power of Western industrial capitalism and imperialism. It is no exaggeration to say that Asia is still recovering from the shock of that experience and it still informs Asians' understanding of their place and aspirations in the world today. Modern Asian leaders have manipulated Asian nationalism and created new ideologies of national developmentalism under the pretext of seeking to recover Asia's historic place in the sun.

The preceding period of Japanese imperialism (1874–1945) is important and merits comment here for two reasons: it created a long lasting regional legacy of state-led and Japan-centred industrialization in Asia; and its sudden collapse produced a geopolitical transformation, i.e. Asia was partitioned into antagonistic capitalist and communist zones, subordinate to a global power structure dominated by outside powers, the United States and the Soviet Union. Ideological, political, and military bifurcation of Asia accompanied an economic partition that separated the two rival zones. This separation was fundamental to the new construct of PWEAC.

There are three structural aspects of the regional and international political economy of PWEAC that gave rise to and continue to reproduce the region's specific pattern of industrialization. This trinity is: Japan-centered industrialization (JCI); export-oriented industrialization (EOI), and the capitalist developmental state (CDS).¹⁶ How did this particular construct come about?

There were three key moments or conjunctures of the pivotal US interventions in shaping PWEAC. The first intervention of American power was the most decisive: the dismembering of the Japanese imperium and the establishment of new capitalist states allied to the US along the perimeter between China and Japan. US military occupations, interventions, and massive aid created and consolidated new capitalist regimes in South Korea, Taiwan, and South Vietnam. The network of strategic alliances the US established with these new client regimes and with Japan and Southeast Asian capitalist countries was designed on a vertical pattern, with each bilateral relationship subordinate to the US and its strategic interests.

¹⁶ The strong CDS was most characteristic of the 'second tier' NIC economies such as South Korea and Taiwan, though in many respects modelled on the original East Asian NIC, i.e. Japan itself. The CDS was and remains less characteristic of the third tier economies of South East Asia, such as Thailand, Indonesia, or Malaysia, which have been far more influenced by FDI than the original set of East Asian NICs such as Korea and Taiwan, and are therefore more subordinate to foreign capital. Nevertheless, Malaysia has attempted to pursue developmentalist policies, e.g. in the automobile sector, relying on a 'national champion' approach, in contrast to Thailand, where the sector is totally dominated by foreign firms.

Aside from 'containment' of the USSR and communist China, this geopolitical construct preserved a regional field within which the Japanese economy could recover. It was also a foundation for strong anticommunist states in a capitalist Asia, which the US desired to build in the interests of security. The anticommunist political logic of US intervention in Asian states produced an outcome whereby organized labour was systematically weakened, the state was strengthened, and capital was 'disciplined' to achieve developmental goals.¹⁷ In economic terms, these new regimes were heavily dependent on US aid for survival. By the mid 1950s Japan was under a conservative capitalist government led by the Liberal Democratic Party, while South Korea and Taiwan were governed by anti-communist authoritarian regimes.

The second American intervention converted South Korea and Taiwan into industrial capitalist developmental states with export orientations, in pursuit of the primary goal of the reintegration of the Japanese economy with the region. The industrial vitality of Northeast Asia would alleviate the burden on the US of direct aid to Asia. It was at this juncture (from the late 1950s to the mid 1960s) that the US played a pivotal role in actively reorganizing the economic structure of the region. This entailed a planned and parallel transition from import substitution and aid dependence to industrial export orientation in South Korea and Taiwan.¹⁸ In regional and international political economy terms, this implied a new vertical integration of the capitalist economies of Asia. Japan was reestablished as the regional industrial and financial centre. South Korea and Taiwan seized the structural opportunity to accept 'development by invitation' and emerged as new industrial production zones (dependent on Japanese inputs and the American market). Southeast Asian countries were reintegrated as suppliers of raw materials to the Northeast Asian industrial complex. Thus the vertical character of the Japan-centred production structure was consolidated.

The external linkage to the American market was fundamental to the nature of PWEAC. It is important to recognise that this construct is certainly not 'Asian Fordism',¹⁹ because the circuits of capitalism are completed by consumers located outside the regional construct,²⁰ particularly in the US.

Rather than a horizontal regional integration based on integrating Asia's domestic markets and stimulating domestic demand (which would entail redistributing wealth from capital to labour rather than the other way around), postwar Asian capitalism was premised on a vertical integration of separate and protected domestic markets, a construct only made viable by an export orientation aimed outside the regional construct. This verticality likewise both encouraged and facilitated the avoidance of welfare state expenditure and its concomitant higher taxation

¹⁷ For the pattern set by the US occupation in Japan, see Jon Halliday, *A Political History of Japanese Imperialism*; and for a good analysis of the general pattern of labour exclusion in the political economy of East Asia, see Fred Deyo, *Beneath the Miracle*.

¹⁸ For more discussion of this conjunctural transition, see Barry Gills, 'The International Origins of South Korea's Export Orientation', in R. Palan and Barry Gills (eds.), *Transcending the State/Global Divide: A Neostructuralist Agenda in International Relations* (Boulder, CO: Lynne Rienner, 1994).

¹⁹ See Alice Amsden, 'Third World Industrialization: "Global Fordism" or a New Model?', *New Left Review*, July/August 1990.

²⁰ For the external realization of the circuit of the expansion of capital and the relation between production and distribution in the capitalist economy (of South Korea) see Dong Sook Shin Gills, *Rural Women and Triple Exploitation in Korean Development* (London: Macmillan/St. Martin's Press, 1999), pp. 12–13.

levels. Authoritarian power structures repressed domestic dissent and maintained labour discipline.

This vertical integration facilitated the centrality of Japanese capital and technology in East Asia, whereby other industrial countries and raw materials suppliers within the regional construct are structurally dependent on Japanese linkages in the production process.²¹ It also ensured the ultimate dependence of this Asian construct on the North American market. The statist orientation of the domestic political economy of these regimes preferred wages to remain low and savings and capital accumulation rates high, thus fuelling continuous industrial growth facilitated by high levels of state intervention and economic planning. This state of affairs suited US strategic interests well during the Cold War era and this explains the exceptionality granted to neomercantilist Asian countries by the US.

The third American intervention, during the post-Cold War interregnum, has involved the attempt by the US to dismantle certain elements of PWEAC, particularly the developmental state apparatus, while preserving its fundamental overall regional structure. The fundamental shift in US priorities from the strategic to the economic interest defines the nature of the third American intervention. The patron-client relationship of the past was converted into the 'rival capitalisms' of the present. US tolerance of Asia's deviation from liberal norms turned into open and critical intolerance, expressed in demands for conformity, amid accusations of 'unfair trade practices'. The general anti-statist ideological element of neoliberalism generated increasing condemnation of the state's role in East Asian capitalism and the alleged distortion of the market's proper role. Where once Western criticism of these aberrant practices and the issue of corruption or 'cronyism' had been muted, the tone shifted to one of moral superiority on the part of Western capitalism.

However, aggressive demands for accelerated economic liberalization, including especially capital market opening, threatened to expose the Asian capitalist states to new levels of international competition and volatility, without necessarily having prepared them for this situation. Loss of macroeconomic stability was an inevitable consequence, best illustrated in the case of South Korea.²² The traditional asymmetric pattern of relationships with the US (and the nature of US domestic politics) easily lends itself to resort to aggressive bilateral pressure for economic concessions

²¹ For contending versions of the Japanese centrality in the regional political economy construct see Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles and Political Consequences', *International Organization*, 38:1, Winter 1984; also in F. Deyo (ed.), *The Political Economy of the New Asian Industrialism* (Ithaca, NY: Cornell University Press, 1987); and Mitchell Bernard and John Ravenhill, 'Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy and the Industrialization of East Asia', *World Politics*, Jan/Feb 1995. Certainly a country by country approach is inadequate and both agree that a regional construct exists that integrates the tiers in the production structure. The disagreement is over the expectation of replication of the Northeast Asian CDS (Japan, ROK, ROC) in Southeast Asia, which Bernard and Ravenhill rightly question due to the region's dependence on FDI and its role as raw material supplier.

²² See Barry K. Gills, 'Economic Liberalization and Reform in South Korea in the 1990s: A "Coming of Age" or A Case of "Graduation Blues"?' *Third World Quarterly*, 17:4 (1996), pp. 667-88, and B. K. and D. S. Gills, 'Globalization as Strategic Choice', in Samuel S. Kim (ed.), *South Korea's Globalization* (Cambridge University Press, forthcoming).

from trade partners, perhaps especially in Asia, backed by threats of punitive trade retaliation, such as the infamous Super 301.²³

This bilateral economic pressure has been most intense *vis-à-vis* the old NICs and Japan. While Japan and Taiwan have been largely successful in maintaining control over the pace and character of a slow and selective liberalization in the face of unrelenting US pressure for domestic reform, South Korea's capitalist developmental state has been more rapidly unravelling since democratization began in 1987–8. South Korea's acceptance of NLEG as a guiding doctrine of economic reform under President Kim Young Sam led to the exacerbation of the underlying structural problems of economic concentration, debt, and mismanagement. This process culminated in the debacle of the so-called 'IMF crisis' beginning toward the end of 1997.

The post-Cold War interregnum: sources of the Asian crisis and the global crisis

We have put our economic competitiveness at the heart of our foreign policy

President Bill Clinton
Budget Message to the US Congress, 1994

There have been four key factors in the post-Cold War interregnum²⁴ which have impacted on the overall situation of postwar East Asian capitalism: (1) the demise of the Soviet Union and the continued decline of Russia; (2) China's liberalization and economic entry into the regional political economy; (3) the perceived political and institutional weakness of East Asian capitalism; and (4) the acceleration of neoliberal economic globalization (NLEG) and its association with the increase and rearticulation of American power globally.

Taking each of these in turn, firstly, the demise of the Soviet Union undermined the rationale for US tolerance of 'East Asian exceptionality' both in terms of non-conformance to liberal norms and to trade surpluses with the US. There was no longer any vital strategic interest at stake to justify neomercantilist practices among US allies or partners in Asia. This opened the door to a shift in US policy toward non-tolerance and a relentless bilateral pursuit of economic liberalization and market opening among its Asian partners.

As the Cold War geopolitical framework eroded, China's domestic reforms made possible the break down of the partition of Asia for the first time. At the same time, the entry of China involved both the disruption of the *status quo* and the spatial expansion of the regional production structure. The accelerated export of capital and increased industrial relocation from Japan and the 'old NICs' following the

²³ See Walden Bello, *Dark Victory* (London: Pluto Press, 1994); and Walden Bello and Shea Cunningham, 'Trade Warfare and Regional Integration in the Pacific: the USA, Japan and the Asian NICs', *Third World Quarterly*, 15:3 (1994); and S. Haggard and T. Cheng, 'The New Bilateralism: East Asian NICs in American Foreign Economic Policy', in *Pacific Dynamics: The International Politics of Industrial Change*, Stephan Haggard and Chung In Moon (eds.), (Boulder, CO: Westview Press, 1989).

²⁴ For a discussion of the post-Cold War era as a period of 'interregnum', see Michael Cox, Ken Booth and Tim Dunne (eds.), *The Interregnum: Controversies In World Politics—1989–1999* (Cambridge: Cambridge University Press, 1999).

Plaza Accord in 1985 facilitated industrial expansion in Southeast Asia and China in the 1990s. However, the entry of China intensified tensions both within the construct and between it and the West, particularly with the US. These tensions include drawing foreign capital toward China (and thus away from other potential Asian destinations), the devaluation of the *yuan* (1994) and its disruptive impact on regional price and production mechanisms, and the related Chinese export boom and trade surplus, particularly with the US. Both the old NICs and the new have been placed under increased competitive pressures by the entry of China. The impending accession of the PRC into the WTO will further intensify these trends and tensions.

The cumulative economic strength of PWEAC was demonstrated in the achievement of levels of wealth characteristic of developed states in the traditional 'four tigers' (ROK, ROC, Singapore, Hong Kong) and the rapid economic growth of the new entrants in Southeast Asia and China. In comparison to the performance of other developing countries in regions such as Africa, Latin America, and the Middle East, the East Asian experience seemed to offer the prospect of an escape from poverty and dependence and an ever-increasing generation of wealth via a self-sustaining industrialization. By the mid 1980s, the US and the West were becoming increasingly obsessed by the perceived economic threat of these new Asian industrial competitors (including Japan) and the possible 'hollowing out' or deindustrialization of the West. This fear was partly irrational or misplaced however, as the trend was less one of purely 'national' rivalries and more due to a global reorganization of production whereby manufacturing jobs diffused to new low cost locations while old industrial core areas shifted resources to services and high technology sectors. The real problem for global growth was more due to the pattern of consumption and the engine of demand in this global system, where growth depended on rich Northern consumers while raising the rate of exploitation of labour globally.

During the 1990s, however, this perception of Asian economic strength, and even competitive superiority, dramatically reversed to one of Asian political weakness and moral inferiority.²⁵ Japan entered a prolonged recession as the 'bubble economy' finally burst. The old NICs, and especially South Korea, entered a difficult economic and political transition period. The West defined the Asian 'illness' as essentially a political malaise resulting from an aberrant state role in the economy and concomitant corruption and inefficiency. The bilateral economic and strategic relationships of each Asian state with the US rendered them potentially more vulnerable to US pressures. South Korea appears to have been particularly vulnerable as it attempted to pursue simultaneous economic liberalization and democratization under the banner of 'globalization' or *saegyehwa*. In the short term, however, this produced a further exacerbation of the distortions of the old system, in which the private *chaebol* economic empires expanded unchecked to an unsustainable degree, eventually bankrupting themselves and the nation. As Thomas Paine said of 'mixed government' or a system of 'this, that, and t'other', such hybrids are 'an imperfect everything, cementing and soldering the discordant parts together by corruption, to act as a whole.'²⁶ *Hybridization*, however, now appears to be the true hallmark of

²⁵ See Rosemary Foot and Andrew Walter, 'Whatever happened to the Pacific Century?', in Michael Cox, Ken Booth and Tim Dunne, *The Interregnum*, pp. 245–69.

²⁶ Thomas Paine, 'The Rights of Man' (Part the First), p. 210 (Harmondsworth: Meridian, 1984).

the 'transition' wrought by 'globalization' not only in East Asia, but globally, whereby no traditional political economy models any longer pertain and the future is an undetermined open experiment.

Finally, the global influence of American Power and neoliberal economic globalization (NLEG) increased in tandem during the post Cold War interregnum. This is not a coincidence, but rather an outcome of deep structural tendencies in global capitalism combined with a conscious policy shift on the part of the United States, seeking ways to reconsolidate its global economic, political and military centrality. With the fall of the Soviet Union and the demise of communism in Eastern Europe, the anti-statist and anti-socialist doctrine of neoliberalism thereby enjoyed a triumphalist moment in history, heralded by prophets of the 'end of history'. The destabilization of the East ensued with alarming rapidity. Under the advice of Western 'experts' the post-communist economies entered a period of drastic restructuring and wholesale privatization and marketization in an attempt to use 'shock therapy' to effect a sudden transition to a capitalist economic system. The result of this blind rush into the future, rather than a careful and guarded process of selective reform (as, by contrast, was pursued in China) was 'to plunge 100 million people into dire poverty and strip(ped) millions more of any form of economic security'.²⁷

In much of the rest of the world, the juggernaut of neoliberalism seemed inexorably to expand its sphere of influence. The debt crisis of the 1980s produced a near-ideal political environment in which the West could defeat calls for global reform via the New International Economic Order and pressure all remaining forms of statist economic practice in the Third World to capitulate to 'free market' remedies. Throughout the interregnum the IMF has acted as the world's most powerful economic agency, enforcing neoliberal structural adjustment around the globe. The state was everywhere on the defensive or in open retreat, the market everywhere on the offensive.

'Low intensity democracy'²⁸ has been the political complement to NLEG. The West's sudden rediscovery of the virtues of democracy would be encouraging were it not for the previous decades of its tolerance or open support for dictatorships of many varieties, and the suspicion that once again, the West's perceived interests, primarily economic, are the hidden motive behind this change of heart in politics. While popular movements for democracy are both necessary and significant to the cause of reform, the element of social engineering from the top down in low intensity democracy is intended precisely to reduce the radical impact of popular movements for democratization and to limit the scope for radical change. In the post-Cold War ideological environment, where the justification of domestic repression can rely far less on anti-communism, such limited and formal democracy is better suited than overt authoritarian regimes to implement the new austerity and restructuring programmes of the neoliberal ideology pursued by the self-coopted elite. The simultaneous pursuit by this elite of neoliberal economic restructuring and

²⁷ William Pfaff, 'Good Economics, Maybe, but Villainous Policy for Real People', *International Herald Tribune*, 26 August 1999, p. 6, citing new UNDP report on the former USSR and Eastern Europe over the past decade.

²⁸ See Barry Gills, 'American Power, Neo-Liberal Globalization and Low Intensity Democracy: An Unstable Trinity', in Michael Cox, G. John Ikenberry and Takashi Inoguchi (eds.), *American Democracy Promotion: Impulses, Strategies and Impacts*, forthcoming (Oxford University Press, 2000).

democratization renders both of these projects more prone to produce an overall societal and economic destabilization and constitutes an obstacle to meaningful reform and democratization.

Under the impetus of NLEG as promoted by the US, market ideology was strengthened and new projects for its universalization were undertaken. One aspect of this process was the acceleration of regionalization via free trade regimes such as NAFTA, the EU, ASEAN, and Mercosur. These were rendered compatible with the universalization of an ambitious expansion of the economic liberalization agenda via multilateral forums, especially the Uruguay Round and the creation of the WTO. The OECD expanded to embrace 'transitional' economies such as Mexico and South Korea, i.e. key countries moving from statist models to neoliberal norms (though we should not fail to notice that both countries experienced unprecedentedly huge financial crises soon after accession to OECD and both were bailed out by equally unprecedented massive US, IMF, and international assistance). The EU began preparations to absorb the more successful bits of Eastern Europe, while NATO expanded to embrace selected 'transitional' economies as new allies. A new debate was launched on expanding the 'democratic peace' and the US role in realising the Kantian and enlightenment dream of a world of (capitalist) democratic republics. This remains the counterpart to the further economic liberalization sought by the US via the upcoming round of WTO negotiations.

Throughout the period since the end of the 1960s the underlying logic of capital accumulation has governed the processes of economic and social restructuring. In order to resuscitate the conditions for capital accumulation a set of reactive political economic tendencies were unleashed, including: the backlash against organized labour, the welfare state, high taxation, government deficit spending, regulation, state intervention, the public sector, socialism, communism, Third World nationalism, Keynesianism, social democracy, protectionism, economic planning, and the list goes on. Likewise, the neoliberal ideology of the market, allied to bettering the social conditions for capital accumulation, produced a set of new political economic tendencies such as mega-mergers, acquisitions, hostile take-overs, concentration, downsizing, flexibilization, privatization, deregulation, liberalization, lean government, and finally 'globalization' as the crowning achievement of the new conservative orthodox market ideology.²⁹

These deep structural tendencies in global capitalism intensified and accelerated during the post-Cold War interregnum, as the logic of capital accumulation continued to respond to a structural situation of chronic global over capacity and 'under consumption'. While concentration of capital in the corporate organizational sphere and the unleashing of market forces in the global financial system were both really intended to recoup profitability in the short term, the long term consequences were destabilization of global capitalism as a social system. Increased business concentration, volatile capital mobility, and predatory investment practices all exacerbate the underlying problem of under consumption, the more profoundly they exacerbate the underlying problem of global inequality. Neoliberal elites have talked

²⁹ Barry Gills (ed.), *Globalization and the Politics of Resistance* (London: Macmillan, Jan. 2000); and L. Amooore, R. Dodgson, B. Gills, P. Langley, D. Marshall and I. Watson, 'Overturning "Globalization": Resisting the Teleological, Reclaiming the "Political"', *New Political Economy*, 2:1 (1997), pp. 179–95, in the Special Issue on 'Globalization and the Politics of Resistance', edited by Barry Gills (also in Barry Gills (ed.), *Globalization and the Politics of Resistance*).

far too much about free trade and its presumed benefits, and far too little about social justice, social stability, and the elimination of global poverty.

The long cycle following the postwar economic boom has continued to determine the basic direction of structural change in the global capitalist economy since the end of the 1960s to the present. The series of global recessions which commenced from the early 1970s culminated in the Asian/global crisis of 1997–9. The derailing of the growth engine of East Asian capitalism signified the destabilization of even the most successful and heretofore robust part of the developing world. The imposition of the same universal prescriptions by the IMF over these East Asian economies and the intensification of economic contraction this immediately brought about, exposed the fundamental flaws of the reigning neoliberal orthodoxy for all to see. When both the Russian and the Brazilian economies also teetered on the brink of default, devaluation, and outright collapse (thus bringing more countries down with them, especially in Latin America) fears of a 1930s style global depression became open and widespread throughout the world. The ‘crisis of global capitalism’ was invoked even by archcapitalists themselves.³⁰ Pundits said that only the robust US economy was saving the world from entering another Great Depression.

The Asian crisis

The trend toward economic globalization has brought about not only opportunities for development but also grim challenges and risks.

President Jiang Zemin (PRC), APEC summit, Auckland, September 1999

As China’s President averred when reflecting on the aftermath of the Asian crisis, globalization is like a ‘double edged sword’ that helps ‘open markets, intensify competition and improve efficiency’ while at the same time ‘presenting to all countries, especially developing ones, a new issue of how to maintain their own economic security’.³¹

A rich irony runs through the recent debates over the causes and consequences of the ‘Asian crisis’ and its relationship to American power, globalization and the ‘crisis of global capitalism’. Too many economists and commentators in the West were quick to seize the opportunity to excoriate Asia and Asian capitalism for its alleged failure, specifically its failure to conform to reigning neoliberal economic orthodoxy. While it is right to criticize the oligarchic-authoritarian power structures in Asia for their abuses and corruption, it is wrong to pretend that these same power structures have nothing to do with the West. The irony and the hypocrisy involved here resides in the fact that it was the West, and particularly the US itself, that was vitally instrumental in both the origination and reproduction of this aberrant ‘Asian capitalism’ in the first place. Secondly, it was the West and the US in particular which has been largely responsible for undermining and destabilizing these very same structures of Asian capitalism in the period since the end of the Cold War, i.e.

³⁰ George Soros, *The Crisis of Global Capitalism*.

³¹ ‘Clinton Pledges an Open Market: But Asia-Pacific Nations Must Act Too, He Says’, *International Herald Tribune*, Sept. 13, 1999, p. 13.

during the post-Cold War interregnum,³² and thus for precipitating the recent 'Asian crisis' and indeed, the 'global crisis' also. Like all cultural relativist arguments today concerning development, the fundamental error of this way of thinking is that it ignores the very real interconnections of a truly global political-economic system.

In regard to the relation between the 'Asian crisis' and the 'global crisis', the fact is that the so-called Asian crisis speedily revealed itself as merely a facet of a larger and more ominous 'crisis of global capitalism'. Although the economic 'fundamentals' in some of the states involved were certainly of some concern (e.g. in Indonesia, Thailand, and South Korea), the financial crisis itself was first and foremost a matter of volatility of capital markets and resultant unstable exchange rates and an illiquidity crisis. This Asian/global crisis was likewise a reflection of reigning macroeconomic management doctrines of liberalization, deregulation and globalization. This should help us to apportion responsibility for the crisis, the issue which has dominated the discussion to date, where it justly resides. The Asian crisis was only one aspect, and certainly not the true 'cause' of a spreading crisis of the 'global financial architecture' which is deeply embedded, however, in the globalizing production structure and not merely a matter of finance. Moreover, the 'cause' of the Asian crisis is not to be explained in an either/or choice between domestic versus international mismanagement, i.e. corrupt Asian elites and institutions versus inept and counter-productive global (de)regulatory institutions. The true situation, of course, is a combination of both of these factors, and both parties to the dispute are guilty, i.e. domestic Asian elites and international elites are both culpable.

Finally, whereas some have argued that the crisis should be understood as a consequence of a decline in US power or hegemony during the post-Cold War interregnum, on the contrary, I suggest that an appreciation for not only continued American centrality, but also an increase in American power and a shift in the nature and intentions of US policies are indispensable to any plausible explanation or understanding of the Asian/global crisis.³³ What applies in this regard to Asia applies equally to other regions of the world including Russia, Eastern Europe, Latin America and elsewhere, i.e. wherever 'transitional' economies are undergoing profound restructuring under the auspices of market ideology and in a situation of seemingly ever increasing resubordination to the dominant global power interests, which are ever more explicitly economic in orientation. In one sense, all of this is about the hardening of embedded global asymmetries and inequalities. Pious calls for self-regulation and transparency by firms and governments is a weak response at best to the profundity of these inequalities and the very real threat of destabilization they portend.

The US and the IMF used the crisis in East Asia in 1997–9 as an opportunity to dismantle the residual elements of the developmental state, particularly in South Korea. It was a golden opportunity for the further imposition of neoliberal norms

³² This era dates from the mid-late 1980s to the present. The concept of an interregnum implies (amongst other things) a transitional period between structures that have more solidity and permanence. See Michael Cox, Ken Booth and Tim Dunne, 'Introduction: The Interregnum: Controversies in World Politics, 1989–1999', in their *The Interregnum*, pp. 3–19.

³³ The argument that the increase in US power and centrality is at the root of the present global crisis situation goes considerably beyond the simpler but plausible case for the inescapable fact of US centrality in the present world order. See Bruce Cumings, 'Still the American Century', in Michael Cox, Ken Booth and Tim Dunne (eds.), *The Interregnum*, pp. 271–99.

on a reluctant Asia. Just as the neoliberal free trade impetus is perceived by critics to threaten social democracy and the welfare state (and even democracy) in Western countries, it threatens the very different form of state intervention in PWEAC, as indeed it challenges the interventionist role of the state in all forms everywhere. This onslaught on 'statism' in all its forms (the first to meet its demise was communism in East Europe and Russia) is directly related to the historic shift by the US to prioritize its national economic interests above other interests. Thus old strategies no longer suited to this aim were dropped, including tolerance for aberrant or deviant forms of capitalism. Clinton's 'New Democrat' agenda in 1992 included the three foreign policy goals of: modernizing US military and security capabilities; elevating the role of economics in international affairs; and promoting democracy abroad.³⁴ Michael Cox called this turn: 'from geopolitics to geoeconomics', in what was always really a rearticulation of US global centrality and hegemony, via what might be called 'hegemonic globalization'.³⁵

The ability of mobile capital to destabilize a country is well established in economic history. The loss of economic sovereignty goes hand in hand with the loss of macroeconomic stability. The state can maintain stability and speed national economic development by disciplining both capital and labour, thus overcoming 'market failures'. These lessons of history informed East Asian state-led capitalist development during most of the postwar period, and to some extent they still do, though neoliberalism has undermined them in the course of the 1990s. Nevertheless, there is a clear contrast between those cases in East Asia where neoliberal practices have prevailed and where they have not. In analysing both the causes and the consequences of the recent Asian crisis this distinction is a necessary and a useful one.

There are several ways to pose the question concerning the causal relationship between the Asian crisis and the global crisis of 1997–9. Was the 'Asian crisis' a cause or a consequence of the 'global crisis' of American-led global capitalism? Did the increasing external (US) pressure on postwar Asian capitalism result in the 'Asian crisis' in 1997–9?³⁶ Are liberalization and globalization the cause of the Asian crisis and the global crisis or the cure for both? Was the strong developmental state (and its 'crony capitalism') the cause of the Asian crisis, or was the weakening or abandonment of the developmental state the real cause of the Asian crisis? Do the supposed intrinsic (anti-liberal) flaws of Asian capitalism pose a threat to the supposed virtues and stability of (liberal) global capitalism, or is it *vice versa*?

If it was the flaws of global capitalism and NLEG that destabilized Asian capitalism (as they destabilized Russia, and Brazil, and threatened to destabilize the world) then we must conclude also that during the heat of the crisis, the supposed intrinsic flaws of Asian capitalism were exaggerated, perhaps for reasons of propaganda and expediency.³⁷ If we are less generous, we might conclude that certain

³⁴ Stephen E. Ambrose and Douglas G. Brinkley, *Rise to Globalism: American Foreign Policy Since 1938*, 8th edn. (London: Penguin, 1997), p. 398.

³⁵ See Michael Cox, *US Foreign Policy After the Cold War*, pp. 21–37; I am indebted to my PhD student Thanh Duong for the concept 'hegemonic globalization' and its relation to US centrality.

³⁶ See Walden Bello et al., 'Taming the Tigers'.... *Third World Quarterly*, for an affirmative argument.

³⁷ See Ha-Joon Chang, Hong-Jae Park and Chul Gyue Yoo, 'Interpreting the Korean Crisis: Financial Liberalization, Industrial Policy and Corporate Governance', *Cambridge Journal of Economics*, 22 (1998), pp. 735–46, who suggest that the flaws of Korean capitalism were not as great as alleged, and particularly that the supposed pathological corporate governance system was not a main cause of the crisis, nor did it require radical neoliberal restructuring before growth could resume.

economists and others seized upon the situation opportunistically to denounce the attributes of Asian capitalism that deviated from their (neo)liberal orthodoxy. We may even conclude that the IMF (and the US behind the scenes), as chief global guardian of that orthodoxy, likewise seized upon the Asian crisis situation rather opportunistically in order to gain controlling influence over the course of domestic economic reform in countries bound under its jurisdiction by crisis loans, especially South Korea and Thailand and including Indonesia (where the utility of this hold became clear in the ensuing crisis over the independence of East Timor).

The ability of Taiwan and Malaysia to avoid such a situation, and their use of capital controls to insulate themselves from the volatility (as with China, and Chile also) brought about by excessive swings of capital mobility, is a salutary lesson. Initially derisively condemned for using such unorthodox measures of self-defence in their macroeconomic management, these countries have in the end been vindicated and even recently rehabilitated.³⁸ Japan's long awaited exit from the doldrums of the 1990s shows signs of finally happening, after repeated doses of Keynesian-like 'pump priming' and a limited set of reforms that seem to augur for more 'market discipline' and less state protection, and a new welcome for foreign investors. The stock markets across Asia rebounded in 1999, as they had in the West after the worst of the 'global gloom' had receded from memory. So how bad were the fundamentals and the 'flaws' of Asian capitalism? Judging by leading Western commentary in the summer and autumn of 1999, there was more than a hint of sour grapes in the air, as Asia was again condemned, this time for having got away with pulling off a recovery without fully enacting the neoliberal reforms demanded by the West!³⁹

Even the defenders of the orthodoxy, including the IMF, were compelled to conclude that the key lesson of the Asian crisis/global crisis was that financial liberalization in particular had to be well prepared and sequentialized with other reform measures. The second great recognition, of which the World Bank has been the unexpected primary exponent, was the fuller recognition of the need for social stability and the provision of a 'social safety net' in any version of reforming capitalism. The orthodoxy is set to absorb both of these lessons and adjust its rhetoric further in the coming period. As for the flaws of PWEAC, the general consensus settles on these issues: the bubble economy problem; cronyism and

³⁸ IHT 21–22 August 1999, 'Index Changes Blamed for Asia's Wild Bourses'. Morgan Stanley Capital International decided on 12 August to reinstate Malaysia in its index as of February 2000, after having dropped it in Sept. 1998 following PM Mahathir's imposition of capital controls. Foreign investors have spurned Malaysia over the past year. Morgan Stanley also doubled the weighting given to Taiwan in the index, in recognition of its limited but encouraging measures on market opening.

³⁹ For example *Business Week* (first week of) August 1999; and *International Herald Tribune*, 15 October 1999, 'Asian Economies Could Be Drifting into Part II of Crisis'. According to the IHT article, some in the West fear that the return of growth and macroeconomic stability means that 'the countries hit by the crisis will feel less pressure to implement the reforms they agreed to undertake'. These same critics acknowledge that there is still 'a great deal of continuing hardship including widespread poverty and unemployment stemming from the crisis' but tend to decry the 'witches brew' of recovery policies across the region which have emphasized massive public spending, the printing of money to lower interest rates, and maximum exports to the US. In the view of critics like Clyde Prestowitz of the DC based Economic Strategy Institute, 'Asia's long-term economic health remains endangered by "excess capacity, excess regulation, excessive debt-to-equity ratios, too many cartels and excessively cozy business relationships"'.

corruption; bad lending/debt institutions; and inappropriate sequence or preparation for deregulation and liberalization, particularly in the financial sector.

The current mood, however, is one of foreboding as commentators routinely predict or warn against a 'hard landing' for the US economy and the bursting of the stock market-led bubble economy. The world is not out of the global crisis woods yet, and it knows it. In Asia, both Japan, which is threatened by a rising yen and still uncertain demand trends, and China, which faces daunting challenges of restructuring its remaining state industries, both remain committed to yet further massive public spending to prime the pump of economic growth for several years to come. In Japan, since the 1992 asset bubble burst and the corporate debt situation mushroomed, unemployment has steadily risen, while in the US it has steadily declined, until the two curves crossed in late 1999 for the first time in decades. But, as mentioned above, the US is now also riding a huge asset bubble and fears the consequences of a sudden burst for the 'real economy'. South Korea, for its part, fears a repeat of the illiquidity crisis as it moves to deconcentration of the mighty *chaebol* business empires and exposes the facts about their continuing monumental corporate debts. Russia faces a new boycott of loans as evidence of massive fraud, money laundering and 'capital flight' comes to light, while Brazil is by no means quite out of recession yet. Germany languishes with over 10 per cent unemployment, but both the Euro eleven and the US nevertheless are predicted to grow modestly and steadily over the next few years.

The volatility of capital markets is indeed a threat to global economic and social stability and demands immediate correction of the deep flaws in the present 'global financial architecture'.⁴⁰ It is this same volatility of mobile capital, brought to new levels of potential destabilizing power by financial deregulation, liberalization and market integration, which renders the risk that 'financial turbulence' will transmute into a crisis in the 'real' or productive economy much greater. Financial panic and the 'herd instinct' among investors are commonplace in economic history. It is very true that in the recent Asian/global financial crisis 'people were walking out the door because people were walking out the door'. The 'rational' economic action of individual holders of capital, given the realities of the psychological context of global investment, can of course aggregate themselves into systemically irrational behaviour, such as we have recently witnessed.

No one really has an interest in massive destabilization of the world economic system, since we all need to make a living in order to meet our material needs. Short term capital movements are the most threatening to stability and the so-called 'Asian disease' was perhaps more spectacularly aggravated by hot money flight than by the 'rational' actions of long term capital investors, who tend to stay put and wait it out. Measures to rein in the excesses of the short term herd are certainly a global necessity. However, short term and long term capital movements are both at play in many cases, such as in Russia or Brazil or Mexico, and increasingly even in cases like South Korea, where the *chaebol* amassed enormous debts for foreign expansion programmes. But the fact that some economies could be destabilized in the short term by massive rolling waves of mobile capital (such as Russia, South Korea,

⁴⁰ For the on-going debate on this key issue see for example the Special Issue of *The Cato Journal*, 18:3 (Winter 1999) on 'The Global Financial Architecture'.

Mexico and Brazil) while others could stave off such predations by imposing capital controls (such as China, Malaysia, Taiwan, and Chile), should demonstrate clearly that the so-called 'fundamentals' in the Asian/global crisis were not actually the 'real' problem. The 'real' problem stems more from the global tendency toward the 'financialization' of capital and the global diffusion of manufacturing without a global diffusion of the power of consumption (demand). This dual tendency threatens the world system with 'implosion' and multiple breakdown scenarios proliferating. In this great panoply, PWEAC is only a regional player, not the real centre of the action.

Conclusions: continuity and discontinuity in PWEAC: finding a Western solution to an Eastern crisis?

The destabilization of the East Asian region of the world economy, in both economic and political terms, brought about by the vagaries of liberalization and globalization was not intended, nor was it designed, to sever the vital external linkages of the region. On the contrary, a desire for continuity in the basic structure of PWEAC (especially its external linkages in both production and finance) seems to be the common interest of both the reigning domestic elites and powerful foreign actors. This is why some in the West begin to speak of the US role in the 'prevention of chaos', while the old elites within East Asia reemphasize domestic order and security and the inviolability of state sovereignty. In Indonesia there is a palpable fear among the old elite of a descent into 'total chaos' in the form of popular revolution.⁴¹ Elsewhere, the awareness is there that popular protest is a growing possibility.

The Asian crisis provided the US and key Western financial institutions with a golden opportunity to accelerate the imposition of the Anglo-American neoliberal capitalist form upon the hitherto 'deviant' statist capitalism of East Asia. Whereas many other regions and states of the developing world and the post-communist 'transitional' world had long since already succumbed to neoliberal restructuring, with at best 'mixed' or sometimes quite catastrophic results, East Asia had been relatively successful in continuing to pursue an effective state interventionist alternative. The adoption of neoliberal prescriptions of restructuring and 'transition' by certain key states of Asia, foremost among them South Korea, signifies not only a consolidation of this US-led impetus but also an embarking upon an open-ended economic experiment, the outcome of which is not demonstrable by theory nor therefore predictable. In the economic realm, everywhere the underlying impetus seems to move inexorably toward further liberalization and market openness. Not only Japan, but even China seems to be moving gradually in the direction of conformity to the neoliberal norms governing the world economy.

This being said, the fundamental axis of change lies not in the economic reconfiguration of the regional complex *per se*, but in the social, ideological and

⁴¹ *International Herald Tribune*, 18 October 1999, 'As Jakarta Simmers, Habibie Pleads His Case', p. 4.

political change this sets in motion. If the US, globalization, and global crisis have weakened the old edifice of PWEAC, this is an opportunity for radical change and democratization which will have as its object the historical sweeping away of authoritarian and oligarchic power structures and their replacement by new systems of governance that respect the sovereignty of the people and distribute wealth to the many throughout the region.

The question not being asked is: Who needs the developmental state? There are two aspects to this awkward question. Firstly, some analysts are still taken in by the discreet charms of the East Asian bourgeoisie and their state allies and feel beholden to defend the East Asian capitalist developmental state against the ravages of globalization or neoliberalism.⁴² The basis for this misguided position is the conclusion that (only) the developmental state form offers a real prospect of successful development via industrialization and thus an escape from poverty and dependence. It must be said that there is a grain of truth in the argument that developmental states overcome poverty and that they defend the maintenance of economic security, macroeconomic stability, growth, employment and income for the working majority, none of which can be taken for granted in most developing countries. However, is the authoritarian developmental state any longer either necessary or justifiable in the cause of delivering real economic development to the majority?

We must remember that the developmental state was a particularly oppressive apparatus, associated with fascism, anti-communism, anti-labour, anti-women, anti-environment, anti-democratic, and generally anti-progressive content. It favoured the alliance of state and capital at the expense of labour and civil society, and politically reigned at the expense of liberty, equality, and democracy generally. In this regard, if the developmental state is a casualty of the recent crisis and of longer term trends undermining PWEAC, then this is something to celebrate rather than to lament, as its demise represents a progressive step forward for the people of Asia. Who needs the developmental state? Certainly not 'the people' who have suffered human rights abuses and exploitation under its auspices and for whom it constituted a serious obstacle to realizing the true sovereignty of the people, the first principle of a democratic society.

While we may be inclined to applaud a democratic leader such as Kim Dae Jung for his attack on the *chaebol* empires and the traditional developmental state (and its state-*chaebol* alliance), we may also be inclined to respect Mahathir's firm insistence that Malaysia's interests were not best served by capitulation to foreign pressure for conformity to neoliberal norms and practices, but rather by adherence to the principles of economic sovereignty, i.e. those principles that allow each state to choose its own policies as best suit the protection of its own national interest, foremost among which is fundamental economic stability. What both the Korean and Malaysian cases illustrate, however, is the vital importance of the underlying political character of the domestic reform process. In both cases, the Asian crisis heightened domestic political tension and produced national popular protest move-

⁴² For example, see Linda Weiss, *The Myth of the Powerless State* and Alice Amsden, *Asia's Next Giant* (Oxford University Press).

ments over the content of democracy, widening the fissures between the reigning elites in the economic and state structure and the popular and democratic aspirations of the nation. This same fissure is now widening also in the Philippines and has led to renewed national popular protests against the government's aspirant neoliberal policies. The Indonesian popular revolt against the Suharto dictatorship effectively demonstrates that revolution is no longer incalculable in East Asia.

It is not acceptable to simply argue that the end (development outcome of rapid industrialization) justifies the means (anti-democratic oligarchic power structure). There is no defending the political character of the authoritarian regimes of East Asia in the name of development. To do so is simply to play into the hands of the conservative elite of the region. On the other hand, if the alternative to developmentalism is neoliberalism, then the dangers of increasing poverty, unemployment, inequality and hardship brought by the destabilizing effects of restructuring and the recent crisis should not be overlooked. The 'Western solution' to the 'Eastern crisis' is insufficient and inappropriate and potentially dangerous to social cohesion in East Asia, to prospects for meaningful democratization, and development. As Paine said, it is only from the nations themselves that we should expect reform, and only from the people that appropriate reforms may be formulated to meet their needs.

In terms of the issue of continuity and discontinuity, with which I began, I have argued that US interventions have been pivotal in the historical construction and deconstruction of PWEAC. Nevertheless, as a final observation it must be noted that despite the neoliberal fracturing over the surface, the bedrock of PWEAC as yet remains fairly solid and unaffected by current elites' machinations or posturing. Despite two years of serious crisis and much noise about reform and restructuring throughout the region by both domestic and foreign voices, the fundamentals of PWEAC are not as shaken as they might appear. The Japan-centred, vertical, and externally oriented three pillars of the regional complex remain at present very much intact, and oddly enough, perhaps the crisis has even strengthened them. The US holds East Asia to much of the old construct, while demanding certain changes in its domestic configuration, though these 'reforms' will probably further deepen the US/Japan centrality of the structure.

It is only in the social dimension, which is also political and ideological, that the real fissures in the PWEAC complex present themselves. The weakening of the strong state is very unevenly distributed across the region, though protests in several states have intensified through the course of the crisis. In more developed states such as South Korea, the popular struggle for reform and democratization tends now toward social democratic and welfarist ends, with organised labour working in alliance with social movements. The struggle in the less developed states, such as Indonesia, takes the form of a mass movement demanding an end to 'KKN' (corruption, collusion and nepotism). The democratic revolution by students and working people which occupied Parliament and forced the 32 year reign of General Suharto to end, now struggles to see democratization laws enacted, and the military and kleptocracy bridled. Although neither example seems set to spark off a new and different kind of 'contagion', the struggle against the oligarchic-authoritarian power structures in East Asia will surely continue and the 'democratic revolution' is the true 'modernization' which is both historically necessary and inevitable.

The inescapable issue is that of social justice and the rights of human beings. The millions of the poor in Asia and elsewhere were not well served by the recent Asian/

global crisis⁴³ nor by the prevailing policy responses to it. Social protest and the 'politics of resistance' are an inevitable and necessary part of the social response to both 'globalization' and the global crisis. The ultimate outcome will depend directly on the politics of globalization, not on some predetermined economic process of neoliberal adjustment.

⁴³ A recent article in *The Lancet*, 353 (June 19th, 1999, p. 2137) reviews a World Bank report concerning the Asian crisis and poverty. The WB blames the crisis for a serious increase in poverty in Asia, including once prosperous states like South Korea and Thailand. According to Giovanni Prennushi, the author of the WB report, 'The East Asian crisis had a direct impact on poverty in the countries hit by the crisis. Not only did the income of the poor decline, but their health status deteriorated, and education indicators worsened as well'. Michael Walton, Director of the Poverty Reduction and Economic Management programme at the WB, concluded that the global picture that emerges at the end of the 1990s is one of stalled progress, as a result of the East Asian crisis'.