

## **Are Asian Economies Converging Towards Anglosphere Liberal Capitalism?**

Bernard THOMANN

**Should East Asia's economic takeoff and the new hegemony of capitalism in that region be interpreted as parts of a convergence towards a global model based on Anglosphere economic liberalism, or should we see them rather as the onset of a process by which a new form of capitalism is being constructed, based on the region's economic integration? The two books reviewed here tackle this issue head on, from the angle of regulation theory.**

**Reviewed here:** Sébastien Lechevalier, *La Grande transformation du capitalisme japonais*, Paris, Les Presses de Sciences Po, 420 pp.

Robert Boyer, Hiroyasu Uemura and Akinori Isogai (eds.), *Diversity and Transformations of Asian Capitalisms*, Abingdon (UK) and New York, Routledge Taylor & Francis, 2011, 390 pp.

### **Capitalism's Paradoxical Globalization**

The combination of globalization and East Asia's spectacular economic growth has inspired some rather paradoxical interpretations. On the one hand, the dramatic conversion of Communist bloc nations to capitalism and market economics – with China leading the way – and rapidly evolving trade between the emerging and the richest nations, have given the impression that a particular model of political, economic and social modernity that started in Europe has reached a kind of global hegemony. Before the fall of the Berlin Wall, although it was accepted that, on the ruins of colonial empires, the model of the nation state had become dominant all over the world, and had forged the majority of humanity's national cultures and social identities, capitalism did not constitute the world's only model of industrialization and material culture. But with the conversion of the Communist bloc nations it could appear that the world had resumed its march towards its final state, liberal capitalism, as a kind of "end of

history” (in the words of Francis Fukuyama’s famous book). This development could have negative connotations for someone like Immanuel Wallerstein, who saw a threat to humanity’s cultural richness, in the stranglehold of this world system with Western origins.<sup>1</sup> Conversely, a noted American columnist, Thomas Friedman, could rejoice in this acceleration of the economic globalization that is producing a “flat earth” consisting of a single and homogeneous context for businesses, nations and individuals, global capitalism being inseparable from an inexorable process of the universal adoption of liberal democratic values.<sup>2</sup> In fact, whether it was celebrated or regretted, it was the same observation of a unification of the world, for better or worse.

But at the same time, the meteoric rise of the economic power of China, India and South Korea has also challenged the vision of the world and its hierarchies that many people in western countries had continued to entertain even after the collapse of colonial empires. In particular, the fact that China’s takeoff resulted largely from internal reforms finished off the modernization theory that had explained the underdevelopment of “the South” by its quasi-cultural inability to apply appropriate policies, and had seen aid from western countries as indispensable. Conversely, this rise of East Asian economic power also appeared to overturn the dependence theory that tended to see poor countries permanently stuck in an inegalitarian pattern of trade inherited from colonialism and imperialism, in which they had been obliged to accept merely supplying the manual labour and natural resources used in the production of manufactured goods. This economic ascension of East Asia, first represented mainly by Japan at the end of the 1980s, also began to be interpreted by many of the Asian actors themselves as the appearance of a spirit of capitalism – and even of a modernity – essentially different from what had developed in Europe and the United States. This discourse on “Asian values” was largely handed over to Singapore and Malaysia in the 1990s, and today it is thriving in China.

However, beyond these discourses intended to jostle the hierarchical legacies of the imperial and colonial eras, the issue of the character of the capitalism that has actually become dominant in East Asian economies is of course an essential part of any enquiry about the meaning of globalization. Briefly: should we interpret this globalization as a convergence

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<sup>1</sup> Immanuel Wallerstein, “Eurocentrism and its Avatars: The Dilemmas of Social Science,” *New Left Review*, no. 226, 1997, p. 105.

<sup>2</sup> Thomas L. Friedman, *The World Is Flat: A Brief History of the Twenty-first Century*, New York, Farrar, Straus and Giroux, 2005.

towards a global model based on the American capitalist model, or rather as a sign that we need to re-examine the economic views that are dominant in the west? This question about the character of the capitalist model that is actually functioning today is not merely theoretical. It is all the more timely because this globalization has been accompanied by global crises that have affected the capitalist economics of East Asia and are profoundly transforming them.

### **Asian Capitalisms: Crises and Diversity**

Both of the economics books under review here have the merit of tackling these issues head on, from the angle of regulation theory. They address the issue of the crises and transformations of capitalist systems by identifying the various Asian capitalist systems; therefore they are important contributions to the renewal of the social sciences that is needed if they are to be fit to confront the phenomenon of economic globalization and its problems. In fact their ambition is to extend to Japan and the whole of East and Southeast Asia an analysis of the diversity of capitalisms begun in the 2000s by Peter A. Hall and David Soskice,<sup>3</sup> followed up by Bruno Amable.<sup>4</sup> Regulation theory here demonstrates its capacity to supply an explanatory framework for the behaviours and transformations of national and regional economies that takes into account particular historical trajectories. Moreover, while regulation theory is regarded as unorthodox and is relatively marginal in American and European university research, its long-established influence in Japanese academic research can be seen in the work of Sébastien Lechevalier, *La grande transformation du capitalisme japonais* (The Great Transformation of Japanese Capitalism), which discusses the work of a number of Japanese writers; and *Diversity and Transformations of Asian Capitalisms*, co-edited by Robert Boyer, Hiroyasu Uemura and Akinori Isogai, which includes contributions from economists from Japan. This last book also shows that regulation theory has some footholds in the world of Chinese and Korean economists, who also figure among the contributors.

The economists contributing to these two books connect their study of the diversity of capitalism to a new look at the nature of its crises. Indeed, as Hiroyasu Uemura points out, these crises have been interpreted very differently according to which explanatory framework is adopted. Focusing on the crisis in Japan since the early 1990s after the bursting of the property and financial bubbles, the neo-classical approach has explained the slow economic

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<sup>3</sup> Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundation of Comparative Advantage*, New York, Oxford University Press, 2001.

<sup>4</sup> Bruno Amable, *The Diversity of Modern Capitalism*, New York, Oxford University Press, 2003.

growth essentially in terms of productivity. Thus, in order to have faster growth, it would be necessary to eliminate low productivity firms by reinforcing market mechanisms through a policy of deregulation and by adopting a more effective system of innovation. As clearly shown by Yves Tiberghien's contribution to Sébastien Lechevalier's book, some of the reforms adopted by Japanese governments since the 1990s, seeking to deregulate financial and labour markets, could be described as neoliberal. On the other hand, the Keynesian approach has explained this situation of prolonged economic stagnation by referring to overinvestments made in the second half of the 1980s, the sharp fall in share prices after the bubble burst, and insufficient demand in the early 1990s. The problem of bad debts and debt inflation in an uncertain financial system exacerbated the 1990s recession. Thus, Hiroyasu Uemura suggests that the policies pursued after 1990 were not purely neoliberal, but also Keynesian, as shown by some of the key decisions that led to a temporary resumption of growth in the 2000s – for example, governmental stimulus packages and public reorganization of the financial system to settle the issue of bad debts. The regulation approach, which is developed in these two books, has a more structural perspective; it emphasizes the institutional conditions and the stability of growth policies. Sébastien Lechevalier's book shows that the prolonged structural crisis of the Japanese economy in the 1990s was linked to weaknesses in coordination. In other words, this crisis is to be explained by the deterioration of the existing mode of regulation, embodied up to then by a compatible set of institutions: a structure of industrial conglomerates (the *keiretsu*), a heavy reliance on outsourcing, the redistribution of the dividends from increasing productivity in response to the springtime labour union offensives (*shuntô*), the representation of various sectoral and regional interests in governmental administration, and an industrial policy able to set strategic investment priorities. Although these forms of coordination contained some constraints, they were at the base of a kind of social contract, they allowed the diffusion of innovation, and they played a part in the pooling of risks. Thus, for regulation theory, every national economy is characterized by a particular form of coordination related to its history, and there is no solution that is universally applicable to economic crises. All policies must first of all rest on a detailed analysis of the historical characteristics of the relevant nation's socio-economic system.

To describe the characteristics of various different capitalisms, both books start from the work of Hall and Soskice, who identified two types of economies in the 22 OECD countries: liberal market economies and coordinated market economies. They also refer to

research by Bruno Amable, who constructed five categories, including an “Asian capitalism” illustrated by Japan and Korea, in contrast to “market-based,” “social democratic,” “Mediterranean,” and “continental European” economies. They also cite Berthelier, Desdoigts and Ould Aoudia, who see a total of eight types of capitalist economies, after refining the typology by dividing Asian economies into four types: “authoritarian” (China, Indonesia and Thailand), “emergent and fragile” (Malaysia and the Philippines), “city-state” (Hong Kong and Singapore), and “economies characterized by the pursuit of technological progress and by very secure work contracts” (Japan, Korea and Taiwan).<sup>5</sup> Meanwhile, Yuji Harada and Hironori Tohyama, in their contribution to the book edited by Boyer, Uemura and Isogai, identify five groups of Asian economies: “insular semi-agrarian island capitalism” (Indonesia and the Philippines), “trade-led industrial capitalism” (Malaysia and Thailand), “city capitalism” (Hong Kong and Singapore), “innovation-driven capitalism” (Japan, Korea and Taiwan) and “continental mixed capitalism” (China).

### **The “Great Transformation” of Asian Capitalisms**

However, beyond these classifications – which, like the image of different types of welfare state in the work of Esping-Andersen,<sup>6</sup> can be endlessly debated – these two books are valuable especially because of their analysis of the transformations which Asian economic systems have undergone and which raise more acutely than before the question of their convergence in the direction of American liberal financial capitalism. As we have seen, this applies above all to Japan, where the changes have been so great that Sébastien Lechevalier has called them the “great transformation,” but it also applies to China and Korea. In the case of Japan, Lechevalier shows that the crisis that has affected the country since the early 1990s gave rise to reforms with a neoliberal spirit that have profoundly changed the face of that nation’s capitalism, making it appear more and more financial. Reforms in employment, management and business finance have raised questions about the traditional Japanese firm, and have produced an increasing heterogeneity in these firms. The “labour market resegmentation” that these changes have brought about has been coupled with a rising inequality that endangers the social accord that arose during the period of high growth. There were “pragmatic reforms” of the innovation system such as the reform of the architecture of public innovation policy, for a better coordination between MITI and the Ministry of

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<sup>5</sup> P. Berthelier, A. Desdoigts, and J. Ould Aoudia, “‘Profils Institutionnels’: Présentation et analyse d’une base de données originale sur les caractéristiques institutionnelles de pays en voie de développement, en transition et développés,” Paris, Working Document of Ministère de l’Economie, des Finances et de l’Industrie, 2003.

<sup>6</sup> Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Polity Press (Cambridge) and Princeton University Press, 1990.

Education. But there were also “ideological reforms” such as a new system of intellectual property offering better protection for inventions at the expense of diffusion, and the reform of the universities designed in particular to improve the commercialization of scientific innovations. Although some of these reforms followed examples in the United States, Lechevalier nevertheless judges that it cannot be said with certainty that Japanese capitalism is converging towards American capitalism; for example, the system of innovation is not completely aligned with the Silicon Valley model. While his study is very comprehensive, it could be added that the Trans-Pacific Partnership (TPP) free trade agreements being negotiated with the countries of the Pacific area (especially with the United States), which involve opening up to foreign competition several Japanese sectors that are still protected, are being strongly resisted within Japan.<sup>7</sup>

According to Hyungkee Kim, South Korean development before 1987 took place in an export-led system, involving a system of accumulation based on an authoritarian state developmentalism that meant the maintenance of high productivity alongside low wages. But between 1987 and the Asian crisis of 1997, especially as a result of strikes, the system evolved towards a Fordist regime of high productivity with high wages. During this period, wage inflation was higher than productivity growth. In the other contribution on South Korea, Wooseok Ok and Junho Yang also notice that during this period, financial and labour markets worked in favour of both large firms and small and medium-sized enterprises. The relatively stable exchange rate and the behaviour of the banks, not very dependent on business cycles and based on long-term relationships, promoted SMEs’ investments and active participation in export activity. On top of this, the performance of large firms had beneficial repercussions for SMEs, because of the absence at this time of competition by Chinese SMEs. The success of large firms in export markets in effect created new demand for the SMEs, increasing their profitability and stimulating their investments. Thus, conditions for growth before the 1997 crisis made for a rather high growth rate, stable investments, and a rather low level of income inequality.

However, after the Asian crisis, the Korean economy followed a more market-oriented strategy. Central to these changes was the transformation of business governance, to enhance transparency and to improve the financial condition of businesses. There was also

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<sup>7</sup> See especially the special issue of the journal *Sekai*: “Tokushû 1 TPP hihan – naniga okiru no ka” (Special Issue No. 1: The Critique of the TPP – What Is Happening?), *Sekai*, no. 815, April 2011.

liberalization of the financial markets and of capital, and a new flexibility in the labour market. Growth was slightly slower after 1997 than before, but for many people, the overall positive performance of the economy showed that it was headed towards a model dominated by the market. However, Ok and Yang, from a regulationist point of view, have some reservations about this interpretation. Often, the process of industrial adaptation leads to a long transition period, and the final form depends on the stability and the sustainability of economic performance. What Kim calls the “second great transformation” was greatly facilitated by the restructuring guided by the IMF, and the austere monetarist policy demanded by that international organization undermined the Fordist accumulation system. It also had a destructive impact on the businesses and households that had borrowed heavily from banks. The high interest rate policy caused many bankruptcies. In spite of their apparent good effects, in the longer term the market-oriented reforms created deep divides between production for export and domestic market production, between big firms and SMEs, and between different groups of workers. As for growth conditions after the crisis, finance and the labour market do not appear to be an environment favourable to SMEs. Financial liberalization – with a rapid increase in the proportion of shares owned by foreigners, a volatile exchange rate, and banking practices oriented towards short-term profits – has significantly reduced the access of SMEs to financial resources and the inducements for them to export. The growing interdependence of the Korean economy with China also disturbs the close relationship between the performance of large firms and that of SMEs, which are victims of the outsourcing of production. The bigger and bigger bifurcation of the labour market not only hampers the stimulation of domestic consumption but also negatively affects the ability of SMEs to benefit from a skilled workforce, because of the increasing instability of the jobs situation. These trends create enormous tensions in the socio-economic system and could threaten its sustainability.

Chinese capitalism is at a crossroads, too. Thus, Lei Song says the country has had two great structural adjustments in recent years. First, in 2006, after 26 years of reforms, China put into place its national policy of “indigenous innovation.” Second, the U.S. financial crisis having revealed China’s excessive dependence on international markets, the country embarked on a strategic transition to domestic consumption-led growth. However, while Robert Boyer recognizes the ambition of the Chinese government’s reforms – the 2008 work law strengthened workers’ contractual rights, the great disparity between the urban and rural *hukou* (residence card) has been reduced, and the 2008 crisis has stimulated a more dynamic

use of the minimum wage policy – he also notices that all historical analyses of capitalism show that a quarter century is needed in order for structural changes in basic institutional forms and their evolution into a new development mode to be visible. In fact, the sources of Chinese growth were to remain largely the same during the last two decades, and imbalances even exacerbated. Given the government's incapacity to act directly on private consumption, it has been restricted to the traditional instruments of credit controls and foreign exchange policy. The impressive successes in short-term governance have not dispelled the opposing trends that challenge the long-term viability of the Chinese mode of development.

### **Asian Capitalisms: From Interdependence to Regional Integration?**

But of course, these coordination problems within East Asian capitalisms do not arise merely from endogenous developments. One of the contributions of the Boyer, Uemura and Isogai book is that it considers growth not as a purely national phenomenon, but as inseparable from the interdependencies that extend across states' borders. However, Yuji Harada and Hironori Tohyama notice that up to now many analyses of Asian economic systems have been content merely to juxtapose historical descriptions of various economies. But there is a traditional way of explaining the diversity of Asian economies and their division of labour: the "flying geese" paradigm. This theory is a paradigm of economic development that was described in 1937 by the economist Kaname Akamatsu, and it was first applied to the Japanese economy. In this paradigm, a country first industrializes on the basis of a low-technology product, which at first it imports and later goes on to export. Then it abandons this product for one with higher value added, and thus allows another country, taking up the same type of production, to begin its own process of industrialization. After Japan, the same technique was used by Singapore, South Korea, Hong Kong and Taiwan to start their industrialization in the 1960s. In the 1980s a second generation of new industrialized countries appeared: Thailand, Malaysia, the Philippines and Indonesia. However, according to Boyer, Uemura and Isogai, the emergence of China is not following the old flying geese paradigm, so it is no longer the main mechanism of Asian economic integration. A broad network of production has been created throughout East and Southeast Asia by means of product standardization and modularity, with parts being made in various countries prior to being assembled; and by means of an unprecedented mobility of foreign direct investment. China has played a central role in this, being itself the source of the foreign direct investments, and not being content to manufacture low-technology products. This process has largely been led and organized by the multinationals, in particular Japanese multinationals, as shown by



Jiang Wang, Nagendra Shrestha and Hiroyasu Uemura, but governments have also taken part in it, through their industrial and trade policies.

However, this economic interdependence does not necessarily lead to an institutionalization of regional integration, which, because of a complex history, has never been easy to bring off.<sup>8</sup> Indeed, such integration is likely to remain difficult because of the countries' conflicting positions on the protection of their industries, with China's characteristic macroeconomic policy in particular resting on a trade surplus to compensate for the worsening of a number of domestic imbalances, such as the decline since the early 1990s of the proportions of employment income and of household consumption in the GDP. Moreover, a significant part of the financial intermediation of excessive savings in East Asia that generates international trade imbalances takes place in Wall Street or in other centres supporting speculative behaviour that is the source of financial instability and recurrent crises. Boyer, Uemura and Isogai also note that virtually all these economies suffer adverse consequences from growth policies relying on exports. What appeared as an advantage in the previous phase of development could become a burden, given the uncertainty surrounding growth in North America and Europe and exchange rate volatility.

On this last point, it is worth noting the December 2011 agreements between China and Japan, directed at developing the use of their currencies, the yuan and the yen, in commercial transactions and investments between the two countries, instead of going through the dollar (as is currently done for 60% of the trade between them). Using their own currencies will enable Chinese and Japanese firms to lower their costs and to protect themselves from currency fluctuations connected with changes in the American currency. However, according to Boyer, Uemura and Isogai, there remain large productivity differences between these two Asian economies, as well as a lack of policy coordination between their governments. For the most powerful governments, there is also a lack of political will to abandon their monetary autonomy, which is very valuable and necessary particularly for China's growth strategy and for Japan's powers of negotiation.

The contributors conclude that a number of reforms are necessary to reduce regional imbalances that threaten the stability of Asian growth strategies. One of the most important issues at the nation state level is the emergence of a basic compromise in the employment

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<sup>8</sup> See the dossier on the Asian community: Emilie Frenkiel & Bernard Thomann, "Back to Asia," *Books & Ideas*, 20 December 2011 (<http://www.booksandideas.net/Back-to-Asia.html>).

relationship and of a more ambitious social policy. Indexing real wages to productivity and an amelioration of living conditions more generally could help establish a consumption-led domestic market. That would contribute to stopping the downward spiral of wages and the growth of inequalities, make the domestic market as attractive as exports, and facilitate the coordination of exchange rate policies, especially by making Chinese growth less dependent on the undervaluation of the yuan. In the regulationist perspective (which is the one taken by these two books), there should be corresponding institutional reforms covering the nature of competition, the credit and monetary system, relations between the states and their economies, and integration into the global economy. Thus, to organize the international division of labour and international production networks, effective rules need to be established at the regional level to govern trade and foreign direct investment. Similarly, effective coordination and ultimately the creation of a regional financial centre would be important steps towards a more efficient allocation of capital in terms of the welfare and the growth of countries in the region. Programs with common infrastructures, technical standards and an alternative concept of development could also be considered.

As can be seen, the path indicated by these efforts towards a more complete and stable regional integration is still a long one. The social accords that it involves depend on further political developments that remain very uncertain, and the improvement of cooperation among the different states that it requires is more than ever threatened by diplomatic tensions and military budget increases.<sup>9</sup> Nevertheless, to come back to our initial question, whatever form is taken by new kinds of coordination among the institutions at various national levels, the region's economies are poised to take on such a significant role in the world economy that wondering whether East Asian capitalisms are Americanized or westernized will no doubt soon appear to be nothing but manifestations of residual ethnocentrism.

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**@booksandideas.net**

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<sup>9</sup> See the interview with François Godement in *Books & Ideas* (<http://www.booksandideas.net/The-Impossible-Asian-Union.html>).