IMAGINING EAST ASIA

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INTRODUCTION

> If we are prepared to consider history as a text, we can say about it what some modern author said about a literary text: the past has deposed in it images which could be compared to those retained by a photographic plate. Only the future disposes of developers strong enough to make appear the picture with all its details.
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> Walter Benjamin[1]

Visions of the Pacific have loomed large in the minds of Western economists and technocrats ever since Japan's accession to the OECD in 1964. The financial turmoil of the late 1990s, which followed a stable and impressive growth trajectory, prompted a re-assessment of developmental practice in the region, but in so doing only re-animated inquiry into the underpinnings of its economic fortunes. Yet for all the ink that has been spilt, few attempts have been made to interpret the broad patterns in these assessments over time. Persistent talk of an 'Asian model' – despite both a discontinuity in meaning and an unclear scope of application – suggests that this is a shortcoming in need of redress. In fact, the concept itself demands critical examination; it is high time that we explore how dominant representations of East Asian capitalism have *shaped* world economic order.

It is now widely appreciated that market dynamics alone cannot account for the rapid industrialisation of Japan, the 'Tigers', the core ASEAN countries, and most recently, the People's Republic of China.[2] The Northern three in particular (Japan, Taiwan and South Korea) are recognised to have combined market discipline with a degree of governmental oversight. This, however, is where agreement ends. Some political economists have attributed the miraculous catch-up of certain countries to judicious state intervention. These locate the cause of the crisis in the financial liberalisation that began in the late 1980s. Neo-classically inclined economists have instead stressed the 'market-friendly' policies of the region as a whole, but have drawn on previously downplayed links between government and business in their analysis of the crisis. Emerging from these pitched-disputes is a sense of just how important the

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[1] Quoted in S. Žižek, *The Sublime Object of Ideology* (London: Verso 1999 [1989]), p. 141.

[2] The 'Tigers' is an established short-hand used to refer to Hong Kong, Taiwan, Singapore, and South Korea; the Association of South East Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, Thailand, Singapore and the Philippines.

narration of the Asian experience is. As we will see, it is not mere facts that are at stake but normative positions about how states should be structured, how civil society and business should interact with the state, and how nations should relate to the global economy. With current transformations in China and India being hailed as of world-historical significance, it seems especially important that we think about the role of economic imagination in the historical process. What exactly is the relationship between economic theory and the substantive events it purports to explain? How do visions of development constitute world economic order? And, most importantly, what lessons might these processes hold for the practice of radical democratic politics today?

DEVELOPMENT, THE NATION-STATE AND GLOBALISATION

'Development' is a multi-layered concept. In historical terms, the relationship between world order and the nation-state is crucial: where the modern idea of development as a national project emerged in the context of decolonisation and the Cold War, the neo-liberal idea(l) of development as a global project has rested on the consolidation of the nation-state system and the elaboration of a market-based alternative to the Bretton Woods agreement.[3] But even within the post-Cold War era, different visions of the capitalist state have vied to inflect the path of actual globalisation. East Asia in particular has generated a staggering amount of discursive variation. For neo-liberals, the key to Asian growth was that governments did not impede the operation of market mechanisms; for 'statists' it was the willingness of governmental departments and ministries to shape national comparative advantage; and for other cultural theorists it was that 'Asian values' had enabled a unique mode of corporatist-authoritarian governance. Post-crisis, most pundits were left to conclude that the cultural and material basis of state power in the region had been gradually eroded. The neo-liberals, however, were able to perform a peculiar act of developmental double-speak: 'crony capitalism', they told us, was the cause of the crisis, and this rested on unhealthy relations between governments, banks, and businesses.

[3] The Bretton Woods Agreement (1944) set the terms for international trade and monetary affairs in the post-war period. The settlement was a compromise designed to satisfy both Britain's desire for full-employment and America's desire for free trade. Although the system broke-down in 1971, the multilateral organisations it gave rise to remain defining features of the world economy.

If we are to make sense of these twists and turns, we need entertain the possibility that a concept like the 'Asian model' is not merely *referential* but also *productive*, stabilising identities and enabling patterns of social activity. We also need to situate it historically and look for it's constitutive effects beyond the confines of the region. After all, not only have the debates been steeped in the paradigms of Western social science, they have quite explicitly addressed the core components of the modern political economy, generating lessons for the developing world. Indeed, Asia's intermediate position in the post-war period has conferred upon it a decisive legitimating function: any vision of how economic development works – if it is to prove more than "arbitrary, rationalistic and willed" – must be able to square itself with the region's trajectory.[4] It is no surprise then that schools of thought have sought to present it as an exemplar of their teachings. But what standard genealogies often miss – by interpreting (re-) assessments as a form of updating – is the performative force of a 'paradigm in practice': rather than simply *reflecting* newfound conventional wisdom in developmental strategy, dominant accounts of Asian growth and crisis have also *shaped* it. We can see this in the discourse of '*outward-orientation'* – which replaced the state with the market as the engine of growth, and in that of '*good governance'* – which has put state-strength back at the heart of the market's proper functioning. The broad acceptance of each of these has been underpinned by Asian experience and its demonstration effect. The concept of the Asian model can thus serve as a mirror for the *production of hegemony* on a global scale. I illustrate this in the following sections by locating the neo-liberal narrative in the International Monetary Fund (IMF) and World Bank (WB) and linking its evolution to systemic changes in the global political economy and innovations in economic theory.

'OUTWARD-ORIENTED GROWTH' AND THE WASHINGTON CONSENSUS

The debt crisis of the 1980s marked the confluence of a number of factors: namely, the emergence of offshore wholesale dollar markets (late 1950s); the OPEC shocks (1973, 1979); stagflation in the industrial world (1973-1980); and the US Treasury's turn to monetarism (1979). We can take this last factor as the trigger, for, by inducing

[4] A. Gramsci, *Selections From the Prison Notebooks*, (ed.) and (trans.) Q. Hoare and G. Nowell-Smith (London: Lawrence and Wishart 1971), pp. 376-77.

a worldwide recession (1980-1983), Paul Volcker's interest-rate hike not only multiplied the debt-servicing burden facing Latin American nations that had financed their deficits through the Eurodollar market, but also caused a collapse in commodity prices, compromising their ability to earn the foreign-exchange required to repay loans. In effect, these are all manifestations of a broader crisis that began unfolding in the early 1970s: that of global Fordism.[5] The development discourse of the day however took a much narrower view, depicting debt-servicing difficulties as essentially the product of misguided domestic policy. This diagnosis both reflected and strengthened a nascent counter-revolution in development economics, culminating in the formulation of the now infamous Washington Consensus. This laissez-faire vision 'policed' the debt crisis through the language of adjustment, retrenchment, deregulation and openness. It was this last dimension – 'openness' – that enabled an ascendant neo-liberalism to find its own image in East Asian experience.

During the 1970s, East Asian nations began differentiating themselves from the rest of the developing world with their export-oriented industrialisation policies. Despite the fact that these were in many cases supplemented by interventionist measures, the success of the newly industrialising countries came to be a potent symbol of the market's progressive potential. At the base of this was a crude WB distinction between "outward…[and]…inward-oriented" developmental strategies.[6] Take the case of South Korea in the 1960s: it abandoned import-substitution, borrowed on international markets, and shifted into the production of capital goods (e.g machinery). Whilst these are all measures that are in cosmetic harmony with the Washington Consensus, they were in actual fact underpinned by tariff protection, restrictions on inward foreign direct investment, and an elaborate structure of concessions that channelled productive activity into sectors consistent with regional production chains. In this way, South Korea's classification as an "outward-oriented economy" in the 1987 *World Development Report* (WDR) concealed a considerable amount of information, effectively conflating production for world markets with deference to market principles (pp. iii, 81, 92). Applied across the region – which had in large part managed to avoid debt-difficulties – this optic allowed an "export-promoting strategy modelled on the example of the NICs [newly industrialising

[5] See A. Lipietz's *Mirages and Miracles: The Crises of Global Fordism* (London: Verso 1987).
[6] World Bank, *World Development Report, 1987* (Washington, DC: World Bank 1987), p 78.

countries] of East Asia" to emerge as the remedy for embattled state-led projects the world over (p. 81).[7] Now, to be clear, this is not to deny that South Korea's export-earnings assisted its debt-servicing; nor is it to question the role of the market in Hong Kong's economic success. Rather, the point is that by holding up the region's experience with 'outward-looking policies' as proof that economic growth and adjustment go hand-in-hand, neo-liberal narrative effectively framed the debt crisis as a "punishment visited on countries…[that had]…departed from the norms of economic and political liberalism", thereby tipping the balance in favour of the restructuring advocated by the IMF and WB.[8] Indeed, IMF commentary itself explicitly recognised this "powerful demonstration effect".[9] The Asian model, therefore, as a stylised and partial rendering of the East Asian trajectory, was crucial in securing a liberal response to the debt crisis in the developing world. It also aided the transition to liberal productivism in the West by illustrating the efficiency costs of an overbearing welfare state. In this way, the hegemonic vision of the 1980s – that of "a world developing its resources and capacities in response only to the ups and downs of relative prices and the self-imposed stasis of limited government" – rested at least in part on Asia's status as a body of successful practice.[10]

FROM 'FREE-TRADING' ASIA TO 'CORRUPT' ASIA

New institutional economics can be seen as vital to the ongoing domestication of Asian development in the early 1990s.[11] After filtering through from academia in the early 1980s, it successfully accommodated calls to acknowledge the role of the state and ultimately paved the way for a broader revision of neo-liberalism in the late 1990s. At the risk of simplifying this complex process, three key moments can be discerned: the elaboration of a 'market-friendly' approach to intervention; its

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[7] World Bank, *Korea's Experience with the Development of Trade and Industry: Lessons for Latin America* (Washington, DC: World Bank 1988), p. 19.

[8] S. Corbridge, 'Discipline and Punish: The New Right and the Policing of the International Debt Crisis', in S. P. Riley (ed.) *The Politics of Global Debt* (London: Macmillan Press 1993), p 26.

[9] P. Hasan, 'Adjustment to external shocks: Why East Asian countries have fared better than other LDCs', *Finance and Development*, 21 (4) 1984, p. 17.

[10] J. Toye, *Dilemmas of Development: Reflections on the Counter-Revolution in Development Economics*, 2nd Edition (Oxford: Blackwell 1993), p. viii.

[11] The institutionalist tradition seeks to historicise the economy by situating it within broader processes of social and political change. New institutional economics represents an attempt to do this from within orthodox economics; it explains the emergence of market institutions as a rational response to the problem of transaction costs.

application to East Asia; and finally the linkage of successful market liberalisation to regulatory state capacity.

The term "market-friendly" first appeared in the 1991 WDR, describing a middle ground between laissez-faire and interventionism.[12] While granting governments a role in correcting market failures, the Report insisted that stretching this mandate would incur unnecessary costs in terms of growth and poverty reduction (pp. iii, 2, 9). The thrust of its analysis, therefore, was that a certain type of intervention – in the provision of educational and infrastructural public goods, for example – could increase the payoff to 'getting the prices right'. Whilst hardly a paradigm shift, this addition to the development lexicon enabled the neo-liberal narrative to weather the challenges mounted by the statists and continue presenting Asia's rise as a lesson in the magic of the market. Specifically, interventions in East Asian economies no longer had to be airbrushed out of the picture; rather, they needed only to be described as "disciplined" and "more moderate than in most other developing countries" (p. 5).

Nowhere is this more apparent than in the 1993 Report, *The East Asian Miracle*.[13] Despite being commissioned and funded by a Japanese Ministry of Finance that was eager to overturn the tendentious accounts of the 1980s, the Report's conclusion was that "widely-shared market-friendly policies…[were]…the foundation of East Asia's success" (p. 347). To be sure, contained within were a number of noteworthy concessions: namely, that more selective interventions appeared to have succeeded and that directed-credit programs in Japan and South Korea may have increased investment and generated important spill-overs (pp. 242, 356). But these were isolated and fragmentary messages, ultimately subordinate to an over-arching narrative which emphasised the region's success with "getting the basics right": private domestic investment in physical and human capital were portrayed as the "principal engines of growth"; export-push policies were singled-out as the "most successful selective intervention[s]"; and industrial policy was deemed to have been "largely ineffective" (pp. 5, 312, 325). Now the point here is not that these findings were flawed – although there is no shortage of arguments to this effect. Rather, it is

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[12] World Bank, *World Development Report 1991: The Challenge of Development* (Washington, DC: World Bank 1991).
[13] World Bank, *The East Asian Miracle: Public Policy and Economic Growth* (Washington, DC: World Bank 1993).

that the neutralisation of Japanese counter-hegemony in the early 1990s was as reliant on the construction of new theoretical frameworks as it was on shoehorning material trends into existing ones. Specifically, the developmental lesson learnt – that "promoting specific industries or attempting to leap stages of technological development will generally fail" – was the result of an explicit engagement with state-led initiatives; it was grounded in a recognition that most governments had intervened systematically and through multiple channels.

This burgeoning institutionalism found fuller expression in the 1997 WDR, which carved out a "catalytic, facilitating" role for government in the development process.[14] Rather than viewing state and market as separate mechanisms, the Report emphasised the "rudiments of social order" on which market transactions rely and charged governments with the provision of these "institutional foundations" (p. 41). Whilst the strategy outlined did warn states not to overstep their capability, it stressed the need to raise this capability by building public institutions. Most strikingly, the Report contained a tentative endorsement of the "more interventionist policies" in East Asia where the state's role and capability had been "skillfully matched" (p. 61). This was of course left to sit rather uneasily with the financial crisis that soon engulfed the region. The point, however, is that by outlining a 'second-generation' of reform, the Report had laid the ground for a significant modification to the neo-liberal vision: no longer was liberalisation to be equated with de-regulation.

'GOOD GOVERNANCE' AND THE POST-WASHINGTON CONSENSUS

In the late 1990s, Asia's miracle came undone. Beginning with the devaluation of the Thai baht in July of 1997, a wave of panic swept across the region, prompting dramatic reversals in portfolio capital flows and precipitous contractions in GDP. At least three interacting factors can be identified: namely, the region's newly liberalised capital accounts; the waning of the 'emerging market' boom in Latin America; and the continued practice of exchange-rate pegging. In this context, the Thai government's belated attempt to address its current account deficit served as a trigger for wider pre-emptive capital exodus. By underlining the structural interdependencies

[14] World Bank, *World Development Report 1997: The State in a Changing World* (Washington, DC: World Bank 1997), p. iiv.

of an economically integrated world, these events dealt a serious blow to the methodologically nationalist vision of the Washington Consensus: even countries that were once the benchmark for 'sound policy' were subject to forces beyond their borders. The response of the international financial institutions (IFIs – i.e. WB & IMF) was to refocus its narrative on the *interaction* between states and global markets, reinventing its hegemonic codes and articulating a new vision: that of the regulatory state. Once more, Asian experience − this time fed through the language of transparency, governance, and sequencing − provided a powerful demonstration effect.

By the early 1990s, East Asian nations were finally perceived as a threat to the laissez-faire vision of economic development. They had also, through the international debate over 'Asian values', distanced themselves from Western political liberalism. This alterity enabled the region to serve as a precautionary tale when the crisis arrived in 1997-98. Specifically, by conflating key developmental state practices in the North East with poorly insulated political processes in the South East, the IFIs were able to produce a blanket diagnosis of the episode that cast disruptive financial speculation as a mere messenger of domestic institutional shortcoming. Preferential tax-systems, relational finance, high debt-equity ratios and state-firm cooperation − practices that the WB had slowly incorporated into the region's success story – were cast by the IMF as 'governance problems' and linked to poor financial sector health.[15] On this reading, the crisis was the result of investors recognising these problems in one country and not being able to confirm their absence in others. Thus, an Asia synonymous with 'cronyism' came to signify the corrosive effect that politics can exert on the functioning of global capital markets.[16] What followed was a concerted push to implement contractual, rules-based modes of economic governance − the dirigiste moment in the neo-liberal revolution. IMF prescriptions to enhance transparency and improve governance led it to augment its traditional packages with deeper structural measures, including the reform of financial and corporate legal codes, public institutions such as central banks, and even the judicial system. These formed the basis

[15] M. Camdessus, 'Lessons from South East Asia', Remarks at a Press Briefing, Singapore, 13 November 1997.

[16] M. Camdessus, 'Reflections of the Crisis in Asia', Address to the Extraordinary Ministerial Meeting of the Group of 24, Caracas, Venezuela, February 7 1998; cf. 'Governments and Economic Development in a Globalised World', Remarks at the 32nd International General Meeting of the Pacific Basin Economic Council, Hong Kong, May 17 1999.

of an important new distinction between 'disorderly' and 'well-sequenced' capital account liberalisation. In so doing, they signalled a new chapter in liberal orthodoxy: unlike its predecessor, the emergent 'post-Washington Consensus' foresaw a vital role for the state in providing a domestic institutional framework capable of facilitating effective integration into world markets. Now, to be clear, the point is not to deny the role of weak prudential supervision in setting the stage for *rational* investor panic; nor is it to question the political clout of the chaebols in South Korea, let alone apologise for nepotism in Malaysia. Rather, it is to highlight the role that 'corrupt Asia' – as an economic imaginary with significant albeit partial correspondence to actual practice in the region – played in legitimating a new vision of 'stateness' for the *rest* of the world. The contents of this vision were not the mere expression of paramount sectoral interests; they were the result of an interaction between the institutional optic laid-out in the 1997 WDR and the dramatic events of the crisis itself. One finds this prism at work in the 2002 WDR, *Building Institutions for Markets*. As the title suggests, in seeking to embed the structural adjustment policies of the 1980s and 1990s, the Report privileges economic constitutionalism over its political counterpart, willing into existence a world economy insulated from the anti-competitive effects of transitory political majorities. Today, it may well be that ideas of 'good governance' and the 'rule of law' are commonsensical, but early on, this hegemonic vision drew its legitimacy from the perilous tale of Asia's fall from grace.

THE ASIAN MODEL AND THE DIALECTIC OF DISCOURSE AND MATERIALITY

The Asian model does not 'exist'; it is not just 'there'. Indeed, any attempt to capture the essence of the region's development is necessarily an exercise in imagination: not only do practices vary between countries; they have also changed over time. This has led many to dismiss the concept as a textual phenomenon. Yet the Asian model still deserves to be taken seriously: the concept itself can serve as a mirror for the *production of hegemony* on a global scale, reflecting in its contents the passage of material trends *through* structures of knowledge-production and *to* the plane of commonsense. This is of 'real' significance because by shaping policy options and choices, hegemonic visions can re-configure the very terms of a polity, altering the material interdependencies of the world economy. Such was the case with the debt crisis of the 1980s and the financial crisis of the 1990s, where representations of East Asian experience restored order to a world economy under strain by guiding elite interpretations of each episode and legitimating the IFI's prescribed policy responses.

In many ways, there is a striking parallel to be drawn with the 'Orientalism' studied by Edward Said, for neo-liberal narratives of developmental practice in the region have sketched-out the shifting boundaries of the 'civilised' world by (counter)-example. On the one hand, *free-trading* Asia – as a 'myth of success' – de-legitimates planned and autarkic growth strategies; on the other, *corrupt* Asia – as a 'precautionary tale'– sanctifies contractualism as a principle of rule. To write-off orthodox economics as instrumental paleo-liberalism is to miss this dialectic and under-estimate the nature of hegemony. Just as the rules, structures and technologies that organise the production and distribution of economic analysis shape the reality that they pertain to address, they are at the same time held to account by unforeseen events in the material world, which on occasion send analysts frantically searching for the puzzle-pieces. When this happens, it is the search itself that bridges the gap between new and old ways of knowing, lending the 'popular beliefs' that guide it the equivalent of material force. For transformational politics the implication is clear: we need to ditch the old post-structuralist/historical-materialist dichotomy. If economic 'science' is an evolving cultural precept embodied in international organisations and capable of reconstituting states and world order, then we need to build new frames of thought from within the old. And if economic 'events' are the rocks on which discourse gets caught, then we need to create everyday practices that will call established worldviews into question. Gramsci was right: each of us has an epistemology; we need to start approaching it entrepreneurially.