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Lessons of Global Neo-liberalism? The East Asian Economic Crisis Reconsidered

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What a difference a little over a year makes! As recently as the summer of 1997 the East Asian "economic miracle" continued to be an object of admiration and adulation. For a decade social scientists and other commentators had marveled at the high growth rates, particularly in the leading "four tigers" (Hong Kong, Singapore, South Korea, and Taiwan), but increasingly even in such "second tier" Southeast Asian economies as Thailand, Indonesia, and Malaysia. The main debates had centered on the *causes* of the economic success. Some clung to the old "culturalist" arguments about Confucianism (Pye 1985 or see a 1994 quote from former Singapore Prime Minister Lee Kuan Yew, cited in Kim 1998b: 432-433), others focused on "developmentalist states" (see Gold 1985; Amsden 1989; Appelbaum and Henderson 1992; Evans 1995), some economists insisted that "free markets" were crucial (Balassa 1981; World Bank 1993), while still others stressed the ways that East Asian informal networks promoted business (Orru, Biggart and Hamilton 1992; Gerlach 1992; Whitely 1992). There were a few jeremiads who did question the viability of the East Asian development path (notably Bello and Rosenfeld 1990, also Krugman 1994; Smith 1997) or emphasized the degree to which there was a "dark side" to the economic growth (Deyo 1989; Smith and Lee 1990; Hart-Landsberg 1993; and recently Kim 1998). But the work of the skeptics and critics was not taken very seriously, and virtually no one can claim to have accurately predicted the "economic meltdown" of the past two years.

Doubtlessly some antecedents to the East Asian economic crisis can be found in various scandals and bankruptcies that occurred throughout the mid-1990s (S. Lee 1998). But public awareness that something was seriously amiss in Asian markets can be traced back to nervous foreign investors rapid flight from Thailand late last spring, which led to government requests for International Monetary Fund (IMF) intervention and a major devaluation of the baht in July (for excellent, more detailed chronologies of the East Asian crisis see Kim 1998a, Preface or various websites including [www.megastories.com/seasia/why/chron.htm](http://www.megastories.com/seasia/why/chron.htm) or [www.asiapoint.net/insight/countries/](http://www.asiapoint.net/insight/countries/)).

The ensuing regional financial panic spread rapidly. A combination of capital flight and attacks on national currencies by foreign speculators spread to the Philippines, Malaysia, Indonesia and even Hong Kong. By September, South Korea was deeply implicated in the crisis: loans and investments in Southeast Asia were going into default at about the same time that high profile negotiations were underway to attempt to rescue the giant Kia Group from bankruptcy (S. Lee 1998). As the bad news multiplied, investor confidence plunged and capital pulled out even more rapidly " the result was a major slowdown in economic activity, including declining output, employment, and overnight declines in consumption and standards of living. This economic crisis, in turn,

led to increased political volatility throughout the region, with the most notably casualty Suharto's long-running authoritarian regime in Indonesia. Even Japan, once projected as a possible successor to the United States as world economic hegemon, was sucked into the vortex with a major security house declaring bankruptcy and the stock market swooning.

By early 1998 the talk of the economic miracle had been replaced by discussions of an East Asian economic mirage. Now pundits and scholars - many of whom had previously touted "the Asian model" and searched for the key to the region's success - join a chorus of critics advancing arguments about inherent flaws in these societies. In western countries various economic experts deliver *post hoc* analyses of how tenuous East Asian economies had been all along (predominated by "crony capitalism" and state-led development) and trumpeting the current crisis as an "opportunity" for economic reform (usually toward US-style neo-liberalism). The very imagery of "the Asian flu" suggests that the "disease" is something societies on the eastern shores of the Pacific Rim had contracted. Like the old "modernization" perspective on development there is little doubt that the problem lies within the "sick" Asian economies. Implicitly, the diagnosis that follows is to urge country's to get "healthy" by adopting "modern" western style capitalism.

Obviously, I think that there is a need to balance this sort of approach with one that emphasizes the global dimensions of this crisis. My own work has long pointed to the ways that the region's position in the contemporary world-system constrained and limited East Asian economic development (Smith 1985; Smith and Lee 1990; Smith 1996; Smith 1997). And I emphasized the extent to which this global political economy perspective highlights both the external constraints of the world context and the internal ones of national class structure and political economy. So I would rather strenuously disagree with arguments that claim East Asian economies displayed "sound fundamentals" (Sachs 1998) and will shortly resume their upward trajectory. To the contrary, the recent crisis exposes some serious weaknesses of what I have referred to as semiperipheral "dependent development" (Smith and Lee 1990) in "the four Asian Tigers" and throughout the region. Nevertheless, I find myself in partial *agreement* with those - including some whose overall world-views I find repugnant - who argue that what we are calling "the East Asian crisis" is a local manifestation of the (rather out-of-control!) dynamics of the contemporary global banking and finance system.

There is no doubt in my mind that the emergence of world currency and financial markets as a giant high tech rapid velocity "gambling casino" for speculators contributed to spreading crisis. Robert Wade reports, "World turnover in foreign exchange, or currency trading... (by September 1992) was running at \$900 billion each day. Yes, day. Altogether, liquid capital is ricocheting across the foreign exchanges in amounts more than thirty times greater than and quite independently of trade flows"(Wade 1996:64). So I think that Jeffrey Sachs (1998), the erstwhile architect of IMF-sponsored "shock treatment" in Eastern Europe, is not entirely off base to suggest that the IMF encouraged the "self-fulfilling stampede" of creditors fleeing East Asian markets - and that the austerity imposed by structural adjustment may prove to be counterproductive. Similarly, though his previous appeals to Asian values to fend off efforts to pressure his regime to implement international labor and environmental standards were cynical and self-serving, and his recent persecution of political rivals is despicable, Malaysian Prime Minister

Mahathir Mohamad's call for some sort of capital controls are a not unreasonable response to one basic sources of the current crisis. Indeed, as "the Asian crisis" now begins to lap at the shores of the United States (with stock market declines, an emerging credit crunch and a projected general economic downturn), there is a growing appreciation that, perhaps some aspects of globalization really may have "gone too far."

However central it may be to the etiology of the current regional economic problems, the global financial system is not the main focus of this paper. Instead the paper will begin with some comments on the way globalization has been linked to neo-liberal ideology. Then, the discussion will shift into my own area of expertise on East Asian (and specifically South Korean) political economy. Premised on an appreciation of the distinctiveness of the East Asia situation and economic trajectory, I will move into discussion of three key points about economic governance/organization: 1) foreign direct investment or, the historical lack thereof, during the decades of growth, 2) continuing technological dependency and obstacles to innovation, and 3) the emergence of East Asian business structures and networks and the rise of flexible production. While my cursory examination of these themes is suggestive rather than conclusive, it leads to some tentative conclusions that question the wisdom of the type of neo-liberal "reforms" that agencies like the IMF and some regional political leaders are foisting on East Asia.

### **Globalization: Reality or Ideology?**

*When Stanley Fischer, the first deputy managing director of the International Monetary Fund, addressed the annual retreat of the Pacific Council on International Policy this past weekend, he acknowledged that the current frightening global financial crisis was not exactly the best sales pitch for unfettered capitalism, but he then proceeded as if economic globalization and market opening remained foregone conclusions. (Plate, **Los Angeles Times**, 10/20/98)*

*"Ultimately, our best hope is to let free markets work their magic." U.S. Vice-President Albert Gore addressing a skeptical crowd at the recent Asian Pacific Economic Cooperation (APEC) summit in Malaysia (Drogin and Iritani, **Los Angeles Times**, 11/17/98)*

The word "globalization" is familiar to anyone tuned into global media, and is rapidly emerging as the favorite mantra of political leaders all around the world. It is clearly one of those faddish neologisms that is frequently invoked but rarely defined (and, in this case, freighted with ideological implications). It refers to major transformations in the global system that have occurred in the past two or three decades. For instance, two recent books, William Greider's (1997) ***One World, Ready or Not*** and Dani Rodrik's (1997) ***Has Globalization Gone Too Far?***, proceed from very different assumptions, are written in divergent styles, and come to conflicting conclusions. Yet both authors agree that there is something fundamentally distinct about the current period which poses basic challenges to contemporary societies. (Not everyone concurs with the notion that globalization is really so new or novel (Schwartz 1994; Cox 1996; Panitch 1996; also Wallerstein 1999 and Arrighi 1999) - but this seems to be a distinctly minority view.)

Although many people agree that we live in a world that has recently been transformed by globalization, just what that expression means is less clear, and often left conveniently undefined. Fully exploring what globalization means is not the central

project of this paper (for this, see Smith and Borocz 1995 or Mittelman 1996). But some grasp of the basic characteristics of today's "new world order" is relevant. Minimalist definitions of globalization emphasize increases in international economic integration (Rodrik 1997), sometimes invoking ideas related to a new international division of labor (Frobel, Heinrich and Kreye 1980) and the rise of the global assemblyline (Feuntes and Ehrenrieck 1984). Somewhat broader definitions begin with ideas about economic changes where "(t)he chain of causality runs from the spatial reorganization of production to international trade and to the integration of financial markets" on to demographic, political and cultural changes (Mittelman 1996:3).

There are two particular insightful arguments in discussions of contemporary globalization to underline. First, is the notion that a basic dimension of the current global economy is an increasing time-space compression in which the sheer velocity of exchanges rapidly multiples (Mittelman 1996; Arrighi 1999). My previous remarks about the volatility of today's world financial system - and the manner in which this almost certainly exacerbated the East Asian economic meltdown - are consistent with this point. But equally critical, especially as we grapple with issues of policy and political responses to the current crisis, is the extent to which most images of globalization are deeply imbued with an ideology. Emanating from the capitalist core nations and promoted by western conservative theorists, large corporations, and wealthy individuals and foundations, the claim is that forces like deregulation and marketization are inevitable ("there is no alternative") and in the long run beneficent, at least for most people (Cox 1996:23; see also Panitch 1996: 83-84). Stephen Gill (1996) argues that these usages of the term "globalization" are "ideological in the sense of a set of ideas that justify and legitimate forms of class domination (i.e., of capital)" (211); James Mittelman (1996) shows that the values of economic liberalism enshrine free markets as a positive sum game (231).

Advocates of this "game" believe it is necessary to subordinate states and politics to the requirements of capital accumulation (Panitch 1996:83-84). These advocates have included a progressively wider and more inclusive span of politicians around the globe, following the influential endorsements of this position (and its attendant programs) received from Margaret Thatcher and Ronald Reagan in the early 1980s. South Korean President Kim Dae Jung's recent "second nation-building initiative," with its theme that "Korea must shed it's blind nationalism to meet the challenges of globalization" (Lee 1998, Korea Times, 8/15), indicates that he is only the latest in a long line of world leaders to embrace the global neo-liberal program.

At the same time that this ideological wind gathered force and swept across the world, basic global economic restructuring was fundamentally altering the international division of labor (Frobel, Heinrichs, and Kreye 1980; Lipietz 1987; Dicken 1998). The late twentieth century has witnessed a dramatic shift in the location of world manufacturing. The accelerating expansion of multinational corporations' production facilities to formerly non-industrial countries encouraged calls for lower tariff barriers. Meanwhile, new financial instruments and technologies led to a revolutionary explosion of finance capital seeking freedom to roam the globe through international agreements on property rights and stable currencies, both overseen by such multilateral agencies as the World Bank and supranational institutions like the World Trade Organization (Sassen 1996; Greider 1997). These far-reaching changes - engineered by corporate and political

elites and occurring far from the consciousness of most of the world's people - provide the economic underpinning for the striking consensus about globalization and its implications, leading to a startling convergence of economic policies around the globe as the 1990s unfolded.

These policies have both a domestic and an international component. Internally, they include disengagement of the government from the management of the domestic economy, deregulation, a privatization of state-owned enterprises, and cutbacks in social welfare programs. Internationally, they entail a reduction of tariff barriers, the opening of capital markets, and a liberalization of restrictions on foreign investment, combined with new incentives to attract it. Overall, they comprise a generalized enhanced reliance on market mechanisms and on the private sector, as compared to the previous period, supposedly in the service of upgrading national competitiveness (Milner and Keohane 1996: 24; Cox 1996: 22; Gummert 1996: 15). Thus, according to many observers, recent fundamental changes in the global economy make world markets and transnational corporate players more powerful than nation states (Wriston 1992; for an academic version of this view, see Strange 1996). This powerfully promotes a worldwide trend toward privatization and anti-statism (with the fall of the Berlin Wall and the collapse of communism and command economies cited as prominent evidence of the state's failure as an agent for prosperity). Instead, the international market for goods and capital (labor is still anchored in national territories) are seen as the purveyors of not only healthy economies, but good governance and satisfied citizenries. To be sure, various dislocations will occur and there will be clear winners and losers but, ultimately, in this vision, the neoliberal process will triumph (Strange 1996; Rodrik 1997). Although recently some of these commentators acknowledge that governments can play a constructive role in protecting workers via social safety nets (and may need to play that role again to preserve the legitimacy of the economic system) (Rodrik 1997; World Bank 1997), the general sense of this view is that states are inefficient, distort development, capture excessive rents through corruption, etc. They move by political imperatives, which are wasteful, rather than follow the laws of the self-regulating market.

According to the neoliberal world-view, the state's main task should be to get out of the way so that the most efficient private entrepreneurs can maximize social welfare by investing resources to increase production. The invisible hand of the market will lead to the promised land. International mobility of the factors of production and technology mean that efficient late-comers can skip historical stages and jump to the head of the class. Economic development is often thought to necessarily bring with it social changes such as greater literacy and individualism, and the rise of new middle classes, which in turn lead to greater democracy. According to many students of globalization, we are moving toward convergence of economic and political systems in which all will enjoy similar capitalist *laissez faire* economies, western culture and values, and democratic political systems (for a recent scholarly exploration of this convergence hypothesis see Berger and Dore 1996).

This rhetoric of neo-liberal globalization - to the surprise and dismay of some of us who study the region's recent political economy - has framed discussions of the causes and consequences of the East Asian crisis, as well as the search for potential solutions. The dominance of this view, with its dogmatic preference for "free trade" and open investment, eagerness to discount any economically constructive role for governments

and states, and insistence that homogenization and standardization of business practices toward current western norms, seems particularly bizarre here. Three decades of relative economic success in the leading and secondary Asian tigers challenges global neo-liberalism's central tenets. The rise of semiperipheral nations in this part of the world was based on controlling capital flows and managing foreign investment, the key role of developmentalist states, and the emergence of distinctive network-based flexible business organizations that challenged western corporate models. Yet, in the space of a few months, not only scholars and commentators, but also East Asian political leaders, fixated on the economic turmoil of eighteen months, seem eager to discard all the lessons of the past thirty or forty years.

I think that this is unwise. In the remainder of this paper, I will focus on some generic lessons that comparative social scientists, examining East Asia from a political economy/sociology of development perspective, draw from studying decades of economic growth in the region.

### **Negotiating Dependence: Dealing with Foreign Capital**

In the 1980s it was fashionable in some U.S. academic quarters to hold up East Asian economic success stories such as Taiwan and South Korea as the decisive evidence needed to disprove world-system/dependency arguments about uneven development (Barrett and Whyte 1982 and 1987; Gold 1985; for thorough discussion and critique see Smith and Lee 1990). This is not the place to reprise or inventory the various debates about the causes of the economic miracles (for an excellent summary and assessment focused on South Korea, see Kim 1998b). But proponents of the global political economy approach responded by presenting a nuanced account of these cases as semiperipheral states undergoing the process of dependent development (Cumings 1984; Lim 1985; Evans 1987; Smith and Lee 1990). In part, this interpretation was grounded in an understanding of historical processes, including the timing and mode of incorporation into the modern world-system, the role of Japanese colonialism, and the rise of bureaucratic authoritarian industrializing regimes in the 1960s and 1970s.

A crucial component in the contemporary period is the idea that semiperipheral nations in the region have states that possess the capacity to negotiate dependency. Fred Deyo (1987) argues that "state mediation of dependency involves the institutional channeling of most external linkages through bureaucratic agencies that are thereby enabled to introduce strategic criteria into the construction of foreign market, technology, and capital relationships" (237). East Asian states had considerable success in these negotiations during the decades of economic growth and development. One of their key strategies was to limit and regulate the extent and nature of foreign capital penetration. Peter Evans (1987: 206-209) notes a high correlation between relatively low foreign direct investment and rapid economic growth in East Asia. State policy mitigated the worst effects of the region's subordinate position in the world-economy thirty years ago, by imposing limitations on multinational capital and firms. This is not to say that any of the Asian tigers shut out the flow of foreign investment. For example, South Korean industrialization during the Park Chung Hee regime relied heavily on external capital flows, but much of this came in the form of foreign loans (Lim 1985; Haggard and Chen 1987; Evans 1987), with the state positioning itself between foreign lenders and local

capitalists. Because the state controlled and channeled the flow of investment to businessmen and companies, this arrangement became a potent tool of state-directed economic planning (as well as a potential locus of corruption and payoffs). (The state also played another role promoting international competitiveness when it carried out policies of labor repression in early years of export-oriented industrialization (see Cumings 1984 and Deyo 1989).)

There is evidence that recently the state's role in the economy has changed. In *Big Business, Strong State*, Kim's (1997) dynamic analysis of the South Korean case highlights the eroding power and autonomy of state in the 1980s/90s and the weakening of its developmental role. Lee (1998) suggests that by the mid-1990s there was a "predatory symbiosis between the government and business" (212) in South Korea that distorted markets, impeded competition, and raised social costs. In particular Lee (1998) spotlights the unholy alliance between the state and the chaebol (where size and political connections supplanted goals of economic efficiency) and the state and banks (where the motto of very high risk lending led to a plethora of nonperforming loans that were amortized by a government that refused to allow them to go bankrupt). No doubt this increasingly counterproductive collusion between the state, chaebol, and financial institutions contributed to the current economic mess in Korea - and has dealt "an irrevocable blow to the general public's images of the state" (Lee 1998: 213). But before concluding that the era of the developmental state is definitive ended, it is worth noting that both the increasingly oligopolistic economic predation of the chaebol, and the disastrous high-risk banking strategies is related to *diminished* state autonomy and *reduced* government regulation of banks and corporations. While the mavens of the IMF may point to excessive state intervention as the cause of problems in South Korea (and elsewhere in the region), it probably makes as much or more sense to link the scandals and corruption of the mid-1990s to global pressure for neo-liberal reforms and weakened states, which had already influenced state policy. This suggests that the problem is not really bloated or predatory states, but the failure to adopt changes that allow developmental states to continue to play a constructive role in economic planning and negotiating with foreign and domestic capital.

One of the problems, of course, with most discussions of the role of states in economic development is the tendency (probably another indicator of how ingrained neo-liberal thinking has become) to fall into dualistic either/or thinking. Peter Evan's (1995) award-winning book, *Embedded Autonomy*, begins with the premise that the real issue is *not* states versus markets. Framing the debate this way often quickly segues into the global neo-liberal conclusion that we must reduce the role of states. Evans (1995: 10) insists, "Sterile debates about 'how much' states intervene have to be replaced with arguments about different kinds of involvement and their effects." While Evans acknowledges that some states are clearly predatory, he insists that they can be crucial in promoting industrial transformation. Based largely on recent East Asian experiences he argues that states create the institutional framework for economic development: governed markets not only can work, but often are the *only* way for relatively small or lagging nations to grow rapidly, and governments can (and often must) play constructive roles in economic development and the maintenance of international competitiveness. Instructively, the leading success story that Evans (1995) highlights is South Korea, where he argues that a technically competent Weberian bureaucracy, connected to the



corporate sector, but not captured by business interests, was the key to a planned industrial transformation. Evans points to the paradox that one of the greatest challenges to Korean state-led development in the late 1980s (which almost certainly *increased* in the 1990s) came from American-trained economists in elite agencies like the Economic Planning Board who "tended to embrace neoliberal policy prescriptions" (1995:229).

Before subjecting societies to the economic chemotherapy of anti-statist IMF reforms, we should be certain that we not prescribing more of the poison that made them "sick" in the first place. Clearly, the regional situation has changed from the early days of the economic miracles, which demands that governments play different roles now if they are to continue to be constructive. But East Asian nations might well be better off attempting to reinvent developmental states to cope with the challenges of the new millennia, rather than implementing the neo-liberal policies promoted by the IMF.

### **Technological Dependence, Innovation and Global Competitiveness**

One area in which the state probably needs to serve as a facilitator or midwife is the development of new technology and/or the process of technology transfer. Technological dependence is one mechanism through which the advanced core industrial states maintain their positions of power and affluence in the global system. It becomes an increasingly important constraint to development in Third World peripheral or semiperipheral societies in the mid- to late-twentieth century (see Cardoso and Faletto 1979: Introduction; Ernst 1980; Gereffi 1983: Chapter 1). In the contemporary era, knowledge production and technological innovation are produced by a highly organized research and development (R&D) industry. This requires elaborate and expensive infrastructures: sophisticated laboratories, legions of highly trained specialists, and extensive education systems. The implication is clear: as economic geographer Edward Malecki (1991: 136) succinctly states, "Research is a luxury affordable only by wealthy nations." The associated costs may make competitive R&D activities difficult or impossible everywhere else. Money is not the only prerequisite to carry out innovative R&D. There is also a need for institutional coordination between key players (the state, business, education) contributing to the production and application of new technologies. This need for "a rich network of linkages" (Malecki 1991: 150) between various firms and institutional actors is a linchpin of Michael Porter's (1990) argument for the innovating advantages of industrial districts in competitive global markets. In addition to simply lacking resources, non-core nations experiencing technological dependence may be handicapped by sectoral and institutional disarticulation among the components of the R&D community.

Since less developed countries are severely limited in their capability to do indigenous R&D, the advanced technology found in their infrastructure, production processes, and the commodities they produce usually originates in the advanced core nations. Thus "(a) fundamental distinction between rich and poor countries is that poor countries are for the most part recipients of technology developed in rich countries, while rich countries, as a block, generate their own technology" (Stewart 1977: 274). The fact that these societies lack the ability to do highly profitable cutting edge technological innovation means that they must either utilize less sophisticated machines and production processes or rely on foreign firms for technology transfer directly through

investment/joint venture, or indirectly, via expensive patent royalties or licensing fees (for an overview, Robinson, 1988).

In battles to develop technological advantage, the edge goes to large well-funded institutional actors, whether these be states or corporations. While romantic images of entrepreneurial nineteenth century inventors developing revolutionary new products in tiny workshops remain popular, the major impetus to harness technological innovation and application in today's world comes from governments and giant firms. Empirical research shows that "(t)he advantages in the innovation process appear to lie strongly on the side of large firms" (Malecki 1991:159). Michael Porter (1990) argues that the support that nation states provide for R&D is a crucial determinant of the competitive advantages of nations. The most effective advanced centers of technological development are the result of a massive mobilization of human and material capital possible only through extensive cooperation between states and multinational firms, predominantly those based in advanced core states.

This has important implications for the types of technology developed and the way it is transferred. Discussing this issue Stewart (1977) asserts "(d)ifferent types of decision makers - multinational companies, local public and local private companies, large or small enterprises, organized on Western or traditional lines - tend to make different choices" (276). He goes on to persuasively argue that the current patterns perpetuate "technological dependence in poor countries" (277). Like technology itself, this is another concept that is more often discussed than defined. By technological dependence I mean the degree to which the technical know-how and organizational innovations critical to commodity production and marketing are controlled by external or foreign entities (firms and states). While technological dependence is often discussed in vague or abstract ways, it is actually a very concrete relationship. It is the extent to which indigenous firms are incapable of autonomous innovation, which will be empirically manifest in the degree to which they rely instead on foreign investments and joint ventures, or patent royalties and licensing fees to obtain access to production and marketing technology.

Because there is a localization of innovation (O'Hearn 1994) in the advanced core nations under the control of giant firms, the nature of technological development and the mode of technology transfer to the rest of the world are likely to fall under the relatively centralized control of high level corporate managers and government bureaucrats in a few world cities in the core (see Friedmann and Wolfe 1982; Sassen 1991). Especially in the contemporary world, the ability to rapidly innovate and delay the transfer of information to potential competitors is crucial to maintain profit margins. We would expect these actors to be eager to protect their monopoly rights to the information and technology that they hold in order to protect their profit rates and technical advantage.

My research on the South Korean electronics industry (Smith 1997) suggests that even in a nation that we often think of as a producer of high-tech products, there is lingering issues of technological dependence. South Korea has had success acquiring the technological capacity to move toward increasingly sophisticated forms of manufacturing. Among the key elements in this drive over the past 30 years were policies that promoted education, limitations on direct foreign investment and selective absorption of foreign technology, and the effective role of a developmental state (cf. Evans 1995) in providing incentives, funding, and coordination for major R&D efforts.

Amsden (1989) usefully highlights the South Korean government's ability to discipline big business to pursue long-term industrial upgrading, rather than short term profit-maximization, as a key factor behind the economy's dynamism.

But in one of the most economical and technically advanced of all non-core countries, we see evidence of deep technological dependence. Even in the 1990s, South Korean companies rely heavily on reverse engineering rather than new product innovation (even though newly enforced intellectual property rights regulations make this strategy even more tenuous). Many necessary technologies are purchased through expensive licensing and royalty arrangements from core-based (mainly U.S. and Japanese) firms. While the state makes major efforts to develop better science and engineering to promote indigenous technological innovation (notably through the ambitious G-7 project), many problems remain. The massive mobilization of resources South Korea is willing to commit seem piddling compared to R&D budgets in the United States, Japan, or Europe. Funding internationally competitive research is difficult in a semiperipheral NIC. There are serious manpower, infra-structural and institutional problems, too. Instead of the rich network of linkages found among the actors and institutions of the dynamic industrial districts of the restructured high tech world economy, in South Korea we see considerable evidence of disarticulation among the key players involved in science, technology and R&D. Strategies which successfully led to technological upgrading in Korean industry in the past, may not work in the future. If we are moving into an era where flexible forms of production are among those most highly remunerated in the global economy, the heretofore successful Korean model (technological absorption coupled with the exploitation of the country's well-educated, hard-working, but relatively low-wage labor force) will probably have to radically change. There probably is an urgent need here (and in other East Asian tigers) to develop a coordinated technological development policy. It is hard to imagine any successful version of this that did not involve a massive investment of capital (probably with domestic firms as major sources) and a major role for the state. Neo-liberal rhetoric notwithstanding, government clearly and unambiguously plays a leading role in promoting and funding science and technological innovation in the United States. Perhaps this is an American institutional pattern that East Asian countries really *should* emulate.

### **East Asian Business Organization, Networks, and "Flexible Production"**

One of the most important organizational features of the East Asian newly industrialized economies is that they are organized informally through business groups, rather than through formalized relationships (Hamilton and Kao 1990; Smart and Smart 1991; Lui 1998; Whitley 1992, 1996; but also see Guthrie 1998). These groups are comprised of firms formally independent of one another but closely affiliated and tied by informal networks, equity ties, and family relationships (Orru, Biggart, and Hamilton 1992; Gerlach 1992; Granovetter 1993). Informal alliances between firms in these large business groups allow the network as a whole, rather than individual firms, to organize and manage a large portion of the commodity chain. Rather than using vertical integration to solve problems of opportunism and information flow, which the transaction cost literature would predict (Williamson 1975) these problems are managed through

inter-firm trust and communication (Gerlach 1992; Granovetter 1993). Firms can therefore remain small and more responsive to quickly changing market conditions, while at the same time gaining access to the large capital, resource, and information pools of the business group (Hamilton and Kao 1990). In addition, the resources and cooperation of the multitude of small actors in these groups are often enhanced by supportive states who provide common goods - research and development infrastructure, training, joint marketing, purchasing and leasing facilities and access to credit and information (Appelbaum and Henderson 1992; Evans 1987; Amsden 1989; Wade 1990; Cho and Kim 1998).

Compared to western business systems, Asian business systems reflect a much higher commitment to personal relationships and trust, rather than principals of formal-legal rational authority (Whitley 1992, 1996; Appelbaum 1998). Chinese businesses in particular are characterized by a high degree of control on the part of the owner, as well as a heavy degree of reliance on informal personal networks and connections. Obligations with suppliers and other contractors tend to be short-term, unless they are related through family connections, community ties, or other forms of *guanxi*. As a consequence, risk is more likely to be transferred to subcontractors and partners, rather than shared. Integration therefore tends to be horizontal and informal, rather than vertical and contractual, with horizontal coordination based on short-term needs rather than long-term obligations. Informal alliances between firms in these large business groups allow the network as a whole, rather than individual firms, to organize and manage a large portion of the commodity chain. Rather than using vertical integration to solve problems of opportunism and information flow, these problems are managed through interfirm trust and communication. Firms can therefore remain small and more responsive to quickly changing market conditions, while at the same time gaining access to the large capital, resource, and information pools of the business group. It appears, therefore, that the strength of a firm's organizational and personal networks is an important determinant of its ability to exploit new market opportunities, develop new products and processes, and gain access to key information in upgrading their mix of activities along the commodity chain.

There are also important difference in systems of economic governance between East Asian nations. For instance, there is a clear contrast between the more corporate Korean *chaebol* and the more horizontally networked firms of the Chinese diaspora (Appelbaum and Smith forthcoming). In the early years of their economic miracles Japanese/Korean hierarchically-organized trading companies (*zaibatsu* and *chaebol*) were pioneers in developing organizational features that were innovative in terms of flexibility including high degrees of outsourcing and subcontracting. But it may be that looser horizontally networked firms based in Hong Kong, Taiwan, and Singapore may have major advantages over Korea's corporate *chaebol* in the thoroughly post-Fordist world of the twenty-first century (Doner and Herschberg 1996).

Finally, not only are East Asian business organizations somewhat diverse, but they also seem to be generically distinctive compared to western corporate forms. Mistaking horizontally networked firms with cronyism and inefficiencies, simply because it does not conform to institutional expectations imported from the western capitalist experience might be one of the most fundamental errors of the global neo-liberals.

Prescribing uniform policies across a region in which polyglot forms of economic organization have evolved over several decades also seems dubious at best.

### **Conclusion: Policy Prescriptions**

*"A specter is haunting East Asia - the specter of Neo-Liberalism."* (my paraphrase of a well-known 19th century author)

My main message in this paper is to raise a skeptical dissent to globalization as neo-liberal ideology. The notion that world economic forces are sweeping the world and that the "there is no alternative" to radical deregulation, anti-statism, and marketization is not based in empirical reality; this version of the "new world order" is an ideological one, conjured up by conservative writers, primarily in the Reagan/Thatcher era, and foisted on the world through various media by large corporations and wealthy individuals and foundations. The view is now being questioned, even by some of its biggest former boosters (see Rodrik 1997 or recent public statements by financier George Soros). Yet the logic of neo-liberalism seems to guide economic policies in many parts of the world today. And it has even become popular in East Asia, where the legacy of a three decade economic miracle contradict many of neo-liberalism's most cherished assumptions. In this region (as well as in some other places, most recently and notably in Brazil) neo-liberalism is no mere abstraction, but is concretely manifested in IMF programs and their neo-liberal fondness for structural reforms and the discipline the market.

In this brief conclusion, though, I want to go beyond debunking neo-liberalism and make some general (and very preliminary) suggestions about the alternative policy implications of my foregoing analysis. I argue that East Asia continues to play a subordinate role in the contemporary world-economy and that the notion of dependent development remains relevant. Indeed, without discounting various internal problems within the most severely affected countries, the economic crisis that has swept the region is a powerful reminder that global turbulence (terminology from Brenner 1998) has a great potential to destabilize these economies. Rather than cede sovereignty to inevitable forces of globalization, states are needed now as much as ever to negotiate global relations and to regulate various aspects of international trade and investment. Specific policies need to be developed that attempt to keep up with the dizzying changes in global financial markets. The crucial role of technological innovation is another area that is too important to be left to free markets. To have any prospect of successfully competing in this arena governments will have to serve the developmental state role of midwifery. While setting a general regulatory or fiscal climate to promote research and development may be a starting point, a more active policy of bureaucratically shaping and guiding science and technology strategy and coordinating the allocation of resources to these activities will probably be necessary. Finally, new strategies (including state policies) need to deal with the economic reality in East Asia that is vastly different from the one that was present during the years of the economic miracles and before - today's world-economy is very different and these nations must play new roles in it. In this paper I have stressed the degree to which evolving networked forms of business organization seem to be conducive to the sort of flexible production for global markets that today's situation demands. This may require organizational innovations and novel forms of state-corporate relationships. The types of reforms that are necessary may vary widely,

according to the particularly type of economic governance that has evolved in different East Asian societies - unlike the neo-liberal solution there is no question that any "one size fits all" approach is doomed to fail. But an obvious candidate for rather radical reform is the South Korean case with its dysfunctional state-chaebol collusion (Lee 1998), which seems particularly ill-equipped to deal with the challenges of a post-Fordist new millennium.

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### Notes

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