# Rethinking Development in East Asia

## From Illusory Miracle to Economic Crisis

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# ONE

# INTRODUCTION

*Pietro P. Masina*

At the time of presenting this volume, East Asia ('East Asia' herein refers to East and Southeast Asia) has officially recovered from the crisis. Many countries of the region – and notably China – have returned to high economic growth rates. A closer examination, however, indicates that the systemic contradictions which unfolded in 1997 in the form of a financial crisis, regarding the regional economic order and the position of East Asia within the international regime, have not been adequately addressed. The post-crisis East Asia, and in general the international economic system, are far from reaching a condition of stability. At the same time, the long-standing effects of the economic turndown are still afflicting large parts of the population of East Asia – not only in the distressed Indonesia. Even in a recovery country like Thailand, for example, ordinary people whose economic activities were squeezed at a time of expected prosperity are now drowning in debts that they cannot pay back. And South Korean industry has alternated impressive upsurge and dismaying contractions.

Recovery is proving ambiguous and not as homogeneous as the crisis itself had been for the different segments of the population. In a general frame of increased hardships for the poorest, some have suffered much less or have even gained from the crisis. At the same time a large part of the population is relatively untouched by the recovery as it had been relatively untouched by the previous phases of growth.

The impact of the economic malaise on the concrete reality of millions of people's material lives is relatively unknown, since most studies have exclusively dealt with the financial aspects of the crisis. Focusing the research attention solely on financial and macroeconomic indicators has replicated the optic distortion that the literature on the 'miracle' had produced. However, through accelerated economic growth, crisis and recovery, the need for a clearer understanding of the wider implications and nature of East Asian development has emerged. The aim of the present volume is to contribute to this understanding.

The texts presented in the following pages will provide a general overview of the debate on the crisis and on the so-called 'miracle'. However, the volume takes a clear stance on a number of issues. It will look at the structural contradictions characterizing the integration of East Asia into the global economy as the foundation of the crisis. The instability produced by a non-regulated international financial market has exposed these contradictions and provided the ground for a conflagration. Speculation against East Asian currencies has been visible. Yet this speculation should be considered against the background of the broader economic and political conflicts prevailing in the international system. The volume will present the hypothesis that the forces governing the process of 'triadic globalization'[1] might have considered an excessive growth of East Asia – and more precisely the growth of China – as a threat. Although it is difficult to prove the existence of any political plan made by Western forces to orchestrate a crisis in East Asia, the attempt to use the crisis to achieve Western strategic goals (in other words, to 'tame the tigers') has been clearly documented.

The book confutes the notion that the crisis was a result of 'crony capitalism'. Corruption and market distortions have accompanied the economic growth of many East Asian countries during the 'good years'. These market distortions are considered new only by those economists who have preferred to ignore them in the past, because they were trying to explain the 'East Asian miracle' in terms of adherence to the neoclassical doctrine. The authors of the present volume had instead argued before the crisis that East Asian development was uneven and distorted. However, they have reminded how these distortions formed part of so-called 'developmental state' strategies which have characterized the economic development not only of the East Asian Newly Industrialized Economies (NIEs), but also of the 'late-comers' of the nineteenth century such as Germany and the United States. A significant literature (see *infra*) has explained that the so-called miracle had been possible because countries like South Korea and Taiwan acted in contradiction to the prescriptions of the IMF and World Bank, i.e., operating 'price distortions' in order to achieve accelerated economic growth. However, the evidence from this crisis shows that 'developmental state' strategies are not compatible with financial liberalization and full integration into the open global economy.

Furthermore, the contribution of this volume to the debate on East Asian development and on the crisis aims at drawing attention to the local people and their material life. Ordinary people have been neglected not only by most studies on the crisis, focusing as they do principally on the financial aspects, but also by the IMF-led bailouts. The representation emerging from our research is multifaceted. People had already been enduring hardships at the time of growth and have generally faced a deterioration of their living conditions during the crisis. Traditional safety nets have provided shelter and support for many, but for many others the rhetoric of the 'return to the village' has proved to be populist propaganda. The complex geography of modernization, growth and crises still demands more systematic investigation and research.

## The rise and fall of the 'East Asian miracle'

In the late 1980s the notion of a 'Pacific Century' made popular the idea that the centre of gravity of the world economy was shifting from the Atlantic to the Pacific Basin. A group of Asian countries – the so-called 'Four Tigers' (Hong Kong, Singapore, South Korea and Taiwan) – seemed to be replicating the Japanese economic success, and East Asia was performing as the world's most dynamic economic region. This contrasted with the relative decline of supposedly Newly Industrializing Economies of other regions (e.g., Brazil and Mexico) (Masina 1996). The impressive results achieved by a number of East Asian countries were heralded as a miracle in a controversial report released by the World Bank in 1993: *The East Asian Miracle: Economic Growth and Public Policy*. Only a few months later, however, the concept of miracle was contested by the MIT economist Paul Krugman with a famous essay in *Foreign Affairs* unambiguously entitled: 'The Myth of Asia's Miracle' (1994). The debate on the nature, dimensions and implications of Asian growth was therefore already heated well before the dramas of 2 July 1997, when Thailand relinquished the peg to the US dollar, and currency devaluation and stock market depreciation spread around the region.

In denouncing the miracle as a myth, Krugman expressed the view that East Asia could not sustain high growth rates for an extended period of time. He argued that these economies showed little increase in productivity, and that growth had been produced by an increase in inputs into the productive systems through the transition from agricultural to industrial economies. He compared East Asian economies in the 1980s to the Soviet Union in the 1950s, and concluded that the so-called miracle would soon grind to a halt. Nevertheless, as Krugman himself admitted (1998a), he did not foresee a major economic crisis but rather a deceleration in growth rates.

Krugman's scepticism did not conceal the evidence of three decades of high growth rates in East Asian economies since the 1960s, ranging from 6 to 10 per cent in the 'Four Tigers' to over 5 per cent in Thailand, Indonesia (after the 1960s) and Malaysia. The entrance of China into the ranks of the so-called High Performing Asian Economies (HPAEs), with growth rates around 10 per cent since the mid-1980s, made even more compelling the understanding of a process which many considered destined to transform the world economic and political equilibrium.

Two main interpretations were presented to explain why East Asian economies succeeded where most other developing countries had failed. 'Mainstream' scholars explained the positive economic performance with the adoption of export-oriented strategies behind which lay 'sensible' internal policies based on 'sound neoclassical principles' (Tsian and Wu 1985: 329). This construction was also incorporated in the neoliberal discourse of the international financial institutions in support of structural adjustment policies. The World Bank and IMF asserted that there was a close relationship between countries with low levels of 'price distortion', outward-orientation and high levels of economic growth (World Bank 1983).

However, the description of the East Asian success as a mere adhesion to the neoliberal golden principle of 'getting the prices right' was contested by a group of scholars who presented an antithetic view. As one of them – Alice Amsden – polemically argued, an important element in East Asian success was rather 'getting the prices wrong' in agencies' terms (Amsden 1989). This group of scholars illustrated the rapid process of industrialization and economic development in Japan, South Korea, Taiwan and Singapore as a result of selective and successful use of high levels of state intervention (e.g., Amsden 1989; Deyo 1987; Wade 1990; White and Wade 1988). The role of the state in 'governing the market' – the title of Robert Wade's famous contribution (1990) – was considered to be the main factor in promoting development. Reconnecting to an old tradition of studies started with Friedrich List and continued with Alexander Gerschenkron, these scholars looked at the 'developmental' role of the state in promoting the catching-up of late-comers in the process of industrialization. (For a more detailed discussion of the developmental state, see Chapter 8 in this volume and *infra* in this introduction.)

The aforementioned *The East Asian Miracle* published by the World Bank in 1993 was an attempt to reinvigorate the agency's neoliberal discourse, by trying to respond to the criticisms presented by the 'statist' scholars. Thus, the slogan of 'get the prices right' was relaxed into the wider prescription of 'get the basics right', i.e., recognizing the role of the state in performing key functions but still emphasizing the need for sound macroeconomic policy and stability. (More on the evolution of the neoliberal thinking is contained in the next part of this introduction and in the second section of the volume.)

It is worth underlining here that in their attempt to confute the 'developmental state' interpretation neoliberal scholars have strongly opposed the idea that economic growth could be achieved through selective market distortions. Therefore, before the economic crisis, neoliberal scholars used to describe the HPAEs as the 'least price-distorting regime in the world' (Li, Hersh and Schmidt, Chapter 2 in this volume). It was only after the crisis unfolded that scholars and institutions (e.g., Krugman 1998b; World Bank 1997) suddenly became aware of 'cronyism' and market distortions in East Asia.

Other scholars such as Jeffrey Sachs, Director of the Harvard Institute for International Development, maintained also after the eruption of the crisis their view on East Asian countries as virtuous disciples of neoclassical sound macroeconomic policies. Sachs (1997) explained the crisis as a financial panic that had little to do with the underlying 'fundamentals'. Also, he pointed out that the currency crisis was not the result of Asian government profligacy. The crisis was instead attributed partly to fragile banking systems and partly to flaws in the global financial architecture. Although the ultimate aim of Western economists like Sachs was to amend the arrangements in the international financial system in order to push further financial liberalization, the blame towards speculation was assumed with other intents by Asian leaders like the Malaysian Prime Minister Mahathir Mohamad. As is well known, Dr Mahathir considered the crisis to be an effect of global speculative trading and accused the international financier George Soros of 'currency sabotage'. Other Asian leaders also expressed similar views, blaming hedge funds as irresponsible free-riders which were destabilizing the international markets (see Sum, Chapter 3 in this volume).

The rest of the volume contests these interpretations of the East Asian crisis as a result of national 'crony capitalism' or as the outcome of mere international currency speculation. The rise and the fall of the so-called Asian miracle is analysed by looking at geopolitics and history, the evolution of the regional and international productive system and its coherence with the financial system, the changes in national development strategies, etc. The chapters move in different directions and contain a number of original analyses. However, their combined reading provides a convergent and coherent interpretation.

History is a necessary point of departure for understanding current dynamics. The present volume starts (Chapter 2 by Li, Hersh and Schmidt) by recalling that a first wave of industrialization – involving South Korea, Taiwan, Hong Kong and Singapore – took place in the frame of the Cold War equilibrium and the American strategy of 'containment' of Chinese communism. This story is by now quite well known (e.g., Hersh 1993). The United States not only supported its Asian allies through economic aid and technology transfer, but also guaranteed these countries preferential conditions for exports to its market. Crucial for the understanding of the following events, however, is the modality through which this Cold War Asian economic order was built: i.e., through restoring a Japan-led regional productive system that was closely reminiscent of the 'Greater East Asian Co-prosperity Sphere'.

The results produced by this structuring of the regional economic order were remarkable and long-standing. The first aspect was the adoption by other Asian countries of 'developmental policies', which were inspired by the Japanese model. This model was clearly at odds with the American liberal and free-trade orthodoxy, but was tolerated in view of overall geopolitical considerations. Second, regional economic integration was based on an increasing division of labour, transfer of technology and flows of foreign direct investment (FDI). This regional economic integration – in contrast to other areas of the world – was able to activate national economic forces (i.e., national bourgeoisie and the local 'Chinese Diaspora') in an effort of industrial upgrading and catching-up (Arrighi *et al.* 1993; Masina 1996). This process has been metaphorically illustrated by Japanese authors via the image of the 'flying geese': a flock of nations linked by rounds of production relocations from the countries in the forefront to those next in the line, because of changing comparative advantage. To be sure, this idyllic image also conceals the disadvantages and weaknesses connected with such a pattern of industrialization: hierarchical exploitation and 'dependent development'. However, because of favourable geopolitical conditions and the modality of economic integration, the 'Four Tigers' and partially also other East Asian countries (such as Thailand, Indonesia and Malaysia) could benefit both from 'invitation' and from propitious conditions for 'seizing the time' (Li, Hersh and Schmidt, Chapter 2 in this volume) from within the slipstream of the leading 'geese'.

From the 1980s the traditional Cold War equilibrium was increasingly eroded and geopolitical interests concentrated more on economic matters. Western countries perceived with apprehension the increasing competition from Japan and the Asian NIEs, and the high growth rates of China. In this frame the Plaza Accord represented a turning point both in economic relations within East Asia and in the relations between East Asia and the West. The Accord signed in 1985 by the USA and Japan had the aim of relieving the American trade deficit with Japan and promoting a joint intervention in foreign exchange markets to correct trade imbalances. Thus, the Plaza Accord resulted in a sharp appreciation of the Japanese yen against the dollar, which in turn accelerated the relocation of production from Japan to other Asian countries.

On the one hand, the yen's appreciation increased the capital surplus and the need for profitable investments abroad. On the other hand, the fear of greater protectionism in Europe and the United States, uncompetitive export prices and the need for cost reduction, all motivated an expansion of Japanese foreign direct investment. This substantial increase in investment outflow led Japan to become the largest source of FDI, representing about 20 per cent of the world total in 1989. Although in quantitative terms Japanese FDI was also directed to North America and Western Europe, the investment flow to its neighbouring countries was particularly significant in that it represented the extension to the region of the Japanese multilayered subcontracting system (Masina 1996). The nature of the post-Plaza regional productive order sustained by Japanese FDI is described by Sum (Chapter 3 in this volume) as synergistic:

> Japan concentrated on high-tech and R&D; South Korea and Taiwan specialized in high-valued OEM (original equipment manufacturing) related to intermediate parts, Hong Kong and Singapore as service centres, and low-value products would come from Malaysia, Thailand and China.

Such a synergistic relationship was also characterized by competition and – in some cases – by 'leapfrogging' behaviour. However, the economies of the region remained highly dependent on Japan and its regional export-oriented productive system.

The other main feature of the post-Plaza Asian economic order, complementing the Japanese-led productive system, was an American-denominated financial regime through the pegging of most East Asian currencies to the US dollar. This financial order was financed by a high level of lending from Japanese banks and a high level of Japanese FDI to the region, and was linked – in the period 1985–95 – to a 'yen-appreciating bubble' (Sum, Chapter 3 in this volume).

From the 1990s, intrinsic contradictions started to erode the structural coherence of the post-Plaza regime, opening the way for a regional economic crisis.

The first element of contradiction can be defined as overproduction/underconsumption, which emerges in consequence of regional and international dynamics. On the one hand, the successful export growth of East Asian economies is increasingly perceived in the West as a threat and is no longer justified by Cold War motivations. Therefore, the export growth 'invites retaliatory actions from countries that are the targets of that export drive and leads to a loss of GSP (Generalized System of Preferences)' (Chandrasekhar and Ghosh, Chapter 6 in this volume). On the other hand, the tendency to overproduction is inherent to the national/regional productive regime, which is characterized by an 'investment rush' on the basis of 'unrealistic projections about future global demand and encouraged the build-up of excessive production capacities' (Sum, Chapter 3 in this volume). This 'investment rush' was also connected to the increasing flows of FDI from Japan and – since the late 1980s – from the 'Four Tigers' to the other countries in the region.

The second element of contradiction is represented by the vulnerability of the financial system. East Asian economies are characterized by a high degree of capital self-sufficiency, due to a high level of national saving. However, the catching-up dynamics of East Asian NIEs demanded high investment to sustain technological innovation. The linking of most national currencies to the American dollar stabilized East Asian import–export prices and encouraged foreign borrowing that involved no exchange risks. The 'yen-appreciating bubble' encouraged the relocation of Japanese production to the region and sustained Japanese lending and FDI outflows. After 1995, however, these productive and financial orders became unstable and, eventually, prone to crisis.

From the early 1990s the liberalization of global financial markets and the increased availability of cheap credit encouraged the underlying Asian tendency to overproduction. A further acceleration in the rush to over-investment and in the inclination to depend on short-term cheap foreign money to finance long-term domestic projects came about in 1995. A new agreement between Tokyo and Washington reversed the Plaza Accord, in order to help the two countries cope with the bursting of the 'yen-appreciating bubble'. The depreciation of the yen against the dollar increased Japan's export competitiveness and allowed Japan to export its way out of post-bubble problems. As a result, 'the value of the yen fell against the dollar by about 60 per cent between April 1995 and April 1997. The speed and the extent of the fall had a major impact upon FDI and portfolio capital' (Sum, Chapter 3 in this volume). The yen's devaluation reduced the competitiveness of those Asian countries whose currencies were pegged to the dollar, and further aggravated problems of overproduction in export sectors.

Flows of short-term investments (mostly from Japan) compensated for increasing trade deficits, allowing the financing of unprofitable industrial projects and supporting the creation of real estate speculative bubbles. Large flows of short-term capital were not discouraged by the evident unsustainability of this tendency; on the contrary, international banks and hedge funds obtained large dividends from the high interest rates connected to these risky investments. At the same time, financial liberalization imposed on East Asian countries by the international financial institutions (and the USA), combined with inadequate regulatory and control systems, prevented national authorities from intervening adequately.

As is well known, these contradictions exploded in July 1997, generating a wave of confidence crisis, speculative attacks, and eventually a crisis that involved the real economy of the countries in the region. The conflagration of the late post-Plaza regime is interestingly described in detail in the chapters by Sum, Chandrasekhar and Ghosh, and Amoroso in this volume. The modalities through which the contradictions existing in the post-Plaza productive and financial order reflected on the different countries' socioeconomic trajectories are discussed hereafter in this introduction. However, it is relevant to anticipate here the intrinsic incompatibility between the so-called 'developmental state' and the process of financial liberalization (Putzel, Chapter 8 in this volume). The loss of control over international financial transactions undermined the national state's authority to 'govern the market', and exposed these countries to a crisis which resulted from 'market failures' and private actors' profligacy.

The accusation by Dr Mahathir against Western currency speculators, although probably misplaced, raises the question of the political setting of the crisis, and more generally the question of the regional and international geoeconomic equilibrium. The question obviously involves foremost the relation between China and the West (and the United States in particular). China is one of the countries less hit by the crisis (see Sum, Chapter 3 in this volume, which also provides an analysis of the 'Greater China'), maintaining a growth rate of 7.8 per cent in the *annus horribilis* of 1998. From 1980 to 1992, the Chinese share of world trade increased from 0.9 per cent to 2.3 per cent, with the manufactured composition growing dramatically from 49.7 per cent in 1980 to 83.7 per cent in 1994 (Lardy 1995: 1074). Furthermore, in the early 1990s China became the largest recipient of FDI in Asia and the second in the world after the US, with a spectacular rise in inflows as a share of the world FDI: from 1.7 per cent in 1990 to 16.9 per cent in 1994 (Masina 1996).

This impressive growth had wide repercussions on the regional economy. China became a competitor for the other countries of the region both in attracting foreign direct investment and in the export of a large variety of products. The dimensions of the country and the different level of economic development of its provinces allowed China to integrate into the regional economic system, giving full play to its comparative advantages and to competitive cooperation with the more economically advanced East Asian countries. Li, Hersh and Schmidt write in Chapter 2 of this volume: '[W]hile the Chinese economy's compatibility with the countries of the region might globally not be pronounced, Chinese provinces might ... be able to find partners.' Therefore, the 'China factor' plays a significant role in increasing the tendency to overproduction in the post-Plaza regime, with the country participating in the manufacture of machinery and transport equipment, covering the entire spectrum from low-tech to high-tech production. However, for the country as a whole, the risks of overproduction are shielded by its growing internal market and by its large productive diversification. While the East Asian NIEs compete with one another in the export of office automation and telecoms equipment, 'China's trading strength lies in areas in which the leading East Asian traders had lost their competitiveness much earlier' (Chandrasekhar and Ghosh, Chapter 6 in this volume).

But the implications of the emergence of China as a major economic power clearly extend beyond East Asian borders. They are bound to have a world dimension. 'Accommodating first Japan and then the Asian NICs represented a challenge for the global economy. A full-scale Chinese industrialization based on export-orientation would be a destabilizing factor in the world balance of power both economically and politically' (Li, Hersh and Schmidt, Chapter 2 in this volume).

The idea that the Asian crisis could reflect also an underlying conflict to the future geoeconomic equilibrium in presented in this volume by Bruno Amoroso (in Chapter 4). Starting from Machiavelli's definition of politics as 'strategic thinking', Amoroso analyses this crisis as a 'third hurricane' – after those that hit the *socialist systems* in Eastern Europe and the *welfare systems* in Western Europe – sent forth by the forces dominating the international capitalist system. This interpretation does not impute the crisis to the conspiracy of currency speculators, but looks at dynamics characterizing the process of 'triadic globalization' which produce *economic marginalization* and *political destabilization* in developing countries (Amoroso 1998). The development trajectories of East Asian economies, and of China in particular, represented a threat for the global domain of those forces governing the process of globalization. Thus, there is reason to believe that this perceived threat might have motivated 'triadic capital' to a strategic design to impair the growth prospects of East Asia and China.

Although this interpretation is necessarily hypothetical, it is supported by the analysis of the contrasts between East Asia and the West *vis-à-vis* the organization of world trade and the functioning of the international regime. The Western insistence on financial and trade liberalization could be understood as something more than ideological intransigence. It could be explained as an attempt to 'normalize' East Asia and restore Western control over the region under the rules of an Anglo-American capitalist regime.

Interestingly, Western dissatisfaction with the economic (and political) trajectories of East Asia has been more clearly visible *ex-post*, i.e., after the crisis unfolded. US authorities and the IMF have been quite adamant in linking bail-out packages to structural changes in the economic and political organization of East Asian countries, aimed at dismantling those features of developmental states which many analysts have considered as the key element of the past 'East Asian miracle'. These considerations lead us to the next aspect of our research, regarding the role of international financial institutions in the East Asian crisis and the evolution of so-called 'neoliberal thinking'.

## THE INTERNATIONAL FINANCIAL INSTITUTIONS AND THE CRISIS

The debate on an 'Asian way' to development, inspired by the Japanese example and contradicting Western neoliberal orthodoxy, assumed a more defined profile after the late 1980s. This was connected to the increasing and visible conflicts between the USA and Japan over the trade regime. At that time, Japan started more openly to seek recognition for its regional leadership, also through the representation of regional economic integration in terms of a Japan-led 'flying geese' pattern. With the Cold War rationale losing appeal, the Japanese promotion of an 'alternative' strategy was increasingly perceived as a threat by the guardians of the neoliberal orthodoxy. The confrontation between Western neoliberal forces and a (Japanese-led) 'Asian model' is discussed in this volume from two angles. The first concerns the debate in the Bretton Woods institutions leading to a reshaping of the so-called 'Washington Consensus' in development. The second concerns the disarticulation of the post-Plaza regime and the impact of globalization on East Asian economies.

Chapter 5 by Chris Dixon illustrates the undertaking by Japan since 1989 to make the Bretton Woods institutions[2] take 'more notice of the Asian experience of development'. The Japanese initiative, the criticisms of the 'Washington Consensus' from several quarters, the studies about the role of the state in successful Asian experiences, and the increased visibility of disagreements about the international trade regime, all forced a readjustment of the neoliberal discourse. However, resistance to any change that could undermine the ideology and the *modus operandi* of Bretton Woods institutions was noticeable in the high echelons of these institutions.

Once again, the famous World Bank's *East Asian Miracle* described well the existing divergences: funded by the Japanese Ministry of Finance, this study went through a series of substantial revisions and it resulted in a compromise that left its original sponsor less than pleased. However, the need for a readjustment and revitalization of the 'Washington Consensus' became increasingly evident to the World Bank until the eve of the Asian crisis, as witnessed by the 1997 *World Development Report*. This report, which is subtitled *The State in a Changing World*, emphasizes the importance of an efficient state and good governance for development, although it continues to describe the state 'in a strikingly apolitical manner which denies its social context, while stressing the importance of regulation and effective institutions' (Dixon, Chapter 5 in this volume). These antecedents help put into perspective the debate that devel-oped after the onset of the crisis, which – as is pointed out thereafter – presented macroscopic divergences within the top management of the Bretton Woods institutions.

A latent East–West divide is also visible regarding the modalities of late post-Plaza East Asian economic organization and of regional participation in the world system. With (post-Cold War) geopolitical considerations replaced by geoeconomic motivations, East Asian countries have been forced to accommodate Western demands in order to avoid retaliations against their export-driven economies. Thus, it should come as no surprise that East Asian NIEs tended to present themselves as devoted disciples of neoclassical preaching (see White and Wade 1988: 7–8). As Chris Dixon writes in Chapter 5 of this volume:

> in general the governments of Taiwan and South Korea went to considerable lengths to hide, or even deny, the extent of their state activities and market restrictions because of the fear of dispute with the USA, the composition of countervailing tariffs and reduced access to markets.

But in order to elevate growth rates in a context characterized by overproduction in export sectors, protected trade areas and mercantilist restrictions in the EU and NAFTA, Asian leaderships feel compelled to move towards financial liberalization. Financial liberalization is undertaken in order to attract foreign capital to sustain industrialization and catching-up dynamics at a time of reduced profits. However, it is also a way to diversify out of manufacturing into services in general and financial services in particular. Thus, in the early 1990s, almost all East Asian countries chose to liberalize their financial sectors and 'allowed local corporations, banks, and non-bank financial institutions freely to access international capital markets with little commitment to earn the foreign exchange needed to service the costs of such access' (Chandrasekhar and Ghosh, Chapter 6 in this volume).

Financial liberalization, however, did not accommodate the demands of the forces leading the process of 'triadic globalization'. Once the financial crisis exploded, it was the IMF that took the lead in making evident the Western capital agenda for Asia. Very appropriately Bullard *et al.* (1998) have explained how the IMF policy – which was presented in the form of recovery packages – involved an attempt to 'tame the tigers', i.e., to subordinate East Asian economies to the control of Anglo-American capitalism. A study of the IMF-led bailout programmes for Thailand, South Korea and Indonesia, and of the attached conditionalities, indicates that these programmes reflected the long-standing agenda of the IMF's principal shareholder, the US: more liberal trade, investment and ownership rules. This IMF role has been candidly recognized by the

US authorities. In her testimony to the House Ways & Means Subcommittee, the United States Trade Representative (USTR) Charlene Barshefsky described how US interests could be furthered by the IMF: 'Many of the structural reform components of the IMF packages will contribute directly to improvements in the trade regimes in those countries. If effectively implemented, these programmes will complement and reinforce our trade policy goals' (USTR 1988).

The opposition of Washington to the Japanese proposal to establish an Asian Monetary Fund also confirms the existence of a link between IMF-led bailout packages and American interests in the region. Japan, whose banks were heavily exposed in the region and whose economy is deeply integrated with its neighbours, was willing to support a regional Fund capitalized at US$100 billion and designed to respond quickly to currency and market instability in the region. This Asian Monetary Fund was conceived as being more flexible, less doctrinaire and 'more Asian' than the IMF deal. However, this proposal was turned down due to heated opposition from the American Department of Treasury and the IMF (see Bullard, Chapter 7 in this volume; and Sum, Chapter 3 in this volume).

In the course of a few months the IMF-led policy proved unable to reverse the downward trend of those countries, like South Korea and Thailand, that had submissively accepted the prescriptions they had been requested to implement. On the contrary, the crisis extended to the real economy of Asian countries and the financial contagion spread to other regions such as Latin America and Russia. Thus, the IMF faced a significant loss of authority after the criticisms of its inability to predict the crisis. Many commentators have argued that the IMF policy has been not simply ineffective, but even damaging for the countries that have sought its aid. Although the evidence of its failure has forced the IMF successively to readjust its policy, revising the prescriptions for the Asian countries, an intense debate has resulted, which – for the first time after two decades of 'counter-revolution' in development studies and practice (Toye 1987) – has dismantled the halo of authority of the so-called Washington Consensus, and confirmed the need for a new 'consensus' on development. The IMF prescriptions for East Asian countries and their disappointing results are described in this volume specifically by Bullard (Chapter 7), and Chandrasekhar and Ghosh (Chapter 6). Dixon provides the key elements of the subsequent debate (Chapter 5).

A diffuse criticism on the IMF response to the East Asian crisis is that the Fund intervened on the basis of uniform, structural, adjustment-like prescriptions, which were inadequate for a crisis connected to excessive private sector, short-term borrowing. This macroscopic miscalculation suggests that the IMF has become seriously out of touch with the reality of Pacific Asian situation (see Dixon, Chapter 5 in this volume). Therefore, the IMF conditionalities have been likened to 'telling a victim of a road accident that regular exercise and a change in diet would be good for them' (*Far Eastern Economic Review*, 12 February 1998: 52). The IMF insisted on public sector austerity measures such as budget cuts, an increase in interest rates and taxes, which were inappropriate for the circumstances of a private sector debt crisis and which in fact deepened and accelerated the contraction of economies they were meant to be helping. This criticism has been shared also by a number of conservative scholars, including the former IMF employee Jeffrey Sachs (Sachs 1997; Radelet and Sachs 1998).

Wade and Veneroso (1998) have argued that the IMF prescriptions might have produced long-term damage, because these prescriptions neglected the specific nature of East Asian financial structures. A peculiar characteristic of the 'developmental state' in East Asia is a corporate debt/equity ratio much higher than in the West. This is the result of a high level of private saving, which is channelled through banks. Banks need to lend; and firms can easily borrow in excess of their equity value. The system allows the mobilization of large resources on the scale required to compete in export markets and continually to upgrade industrial production. But this financial structure is vulnerable to depressive shocks that could cause illiquidity, default and bankruptcy.

> Such a financial structure requires cooperation between banks and firms, and considerable government support. The trick is to buffer firms' cash flow and supply of capital against 'systemic' shocks, while not protecting firms from the consequences of bad judgement or malfeasance. Restrictions on the freedom of firms and banks to borrow abroad, and coordination of foreign borrowing by government, are necessary parts of this system. (Wade and Veneroso 1998: 7)

The analysis of Wade and Veneroso supports the criticism advanced by Chandrasekhar and Ghosh (Chapter 6 in this volume) of a key aspect of the IMF strategy for post-crisis East Asia – the insistence on financial liberalization – as responsible for the 'elusive recovery'. On the basis of their study of Thailand and South Korea, the two scholars argue that no long-term sustainable recovery can be achieved in a regime of financial liberalization; i.e., without regulating the flows of short-term capital. Although since the time of their study of South Korea and Thailand the IMF has several times relaxed its prescriptions for these countries, and growth rates indicate positive signals, the criticism seems to maintain its validity. In the case of Thailand – the showcase of the IMF intervention – not only have the social costs not been reduced, but the risk of a new financial crisis in few years is still concrete (*Far Eastern Economic Review*, 4 November 1999: 10–13).

The gradual shift on some key policy positions by the IMF since mid-1998 indicated in subsequent letters of intent with Thailand, South Korea and Indonesia, shows an attempt to cope with the deterioration of a crisis which the initial doctrinaire measures did not manage to ease. Also, this change aims at responding to the unprecedented level of criticism towards the agency. Thus, for example, the IMF gradually allowed a conspicuous easing of tight fiscal and monetary policy by allowing interest rates to slowly drop and allowing government deficits to expand.

At the same time the IMF seems to understand that if countries become dependent on foreign finance in excess of their absorptive capacity, the blame should be placed not only on governments and private agents in emergent markets but also on international financial players. However, the Bretton Woods institutions' support for the reform of the international financial architecture does not reach the necessary logical conclusion: i.e., that a complete financial liberalization undermines governments' resources for avoiding undesirable effects resulting from excessive capital inflows or outflows (Chandrasekhar and Ghosh, Chapter 6 in this volume).

The significance and spread of the debate on the role of the IMF-led intervention in the Asian crisis are effectively depicted by the author of 'Taming the tigers': in presenting her contribution to this volume, Nicola Bullard entitled it as 'Taming the IMF: How the Asian Crisis Cracked the Washington Consensus'. As she illustrates, 'the debates are wide-ranging and call into question fundamentals such as the efficacy and appropriateness of the Fund's economic advice, the way the Fund operates, and its relationship with its key shareholder, the US' (Bullard, Chapter 7 in this volume). This debate on the IMF's role is connected to an increasingly shared view on the need to overcome the so-called Washington Consensus. For the first time voices for significant change come also from within the Bretton Woods institutions themselves and from within the core of the neoliberal orthodoxy. The more outspoken proponent for a 'new consensus on development' has been the World Bank chief economist, Joseph Stiglitz. This unexpected apparent 'conversion', however, suggests some circumspection. It could be interpreted as a classic Gramscian 'passive revolution': i.e., the ruling forces incorporating some demands existing in society and guiding the process of change in order to maintain hegemony and prevent a more radical transformation. Therefore, it seems wise not to overemphasize the possible innovative outcomes of this debate, at least concerning the real intentions of the Bretton Woods institutions. Thus, the authors of this volume invite this circumspection. Bullard raises the question of what will replace the Washington Consensus. The reforms currently being carried out aim at putting the train of globalization back on track. Although many of them are absolutely necessary in the short term, they do not address the underlying weaknesses of the present system. Chandrasekhar and Ghosh (Chapter 6 in this volume) agree with this view and explain how the change in the Washington Consensus promoted by the World Bank aims at restoring concord around globalization and financial liberalization. The divergence with the IMF, therefore, does not represent a different strategic view but the consciousness that some reforms should be introduced in order to make the system more viable.

Amoroso (Chapter 4 in this volume) interprets this apparent 'conversion' by World Bank officers and the IMF's admission of 'mistakes' in dealing with the Asian crisis as an attempt to smooth social discontent and opposition to the process of globalization. Therefore, this new post-Washington Consensus will try to present a human face in order to proceed more easily on the same path of 'economic marginalization' and 'political destabilization'.

Dixon (Chapter 5) reconnects this post-Asian crisis search for a new consensus on development to the debate of the last ten years. The need to incorporate into the neoliberal discourse new issues, such the role of the state in development, has been translated into a new magic concept: 'governance'. But in the Bretton Woods agency terms, good governance consists of administrative reform, which 'denies its social basis and neglects the difficulty of changing the regulatory *form* without change in the state's social *content*'.

In other words, the cracking of the old Washington Consensus is a welcome event for the authors of this volume. The contradictions existing in the international system are increasingly visible, and they imply changes in the core of the neoliberal orthodoxy and a readjustment of the Bretton Woods institutions' role. However, the new post-Washington Consensus is likely to incorporate essentially the same inner agenda and the same objectives.

## Crony capitalism and developmental state

A popular interpretation of the crisis (cf. *supra*) has blamed the 'cosy' relations existing between the state, corporations and national financial institutions and has depicted East Asian countries as affected by 'crony capitalism'. The existence of political corruption, nepotism and distorted development is not denied by the authors of this volume. Several contributions recall, for example, the increasing control of Suharto's family over the most lucrative sectors of the Indonesian economy. However, the description of East Asia as ruled by 'crony capitalism' is certainly misleading for an understanding of the real motivations behind the regional economic crisis. Besides, this interpretation seems to be conceived as a neoliberal attempt to avoid the blame being put on excessive financial liberalization and to help the dismantling of the developmental state, which was perceived as a threat to the neoliberal orthodoxy.

The view presented in this volume is different. In the first part of this introduction we have already recalled the so-called 'developmental state' as a key feature – together with the particular geopolitical frame and Japanese-led regional economic integration – of East Asian economic success. We have also anticipated that we understand the crisis as largely a result of the erosion of this growth pattern and of the incompatibility between state-led development and financial liberalization.

The developmental state in East Asia was not immune to corruption among public sector officials and private entrepreneurs. In this regard, the East Asian developmental state does not differ from the experiences of Western countries in the earlier stages of capitalist development. The role of governments in controlling bank lending to firms in excess of their equity value, with up to a third of national income intermediated, made a certain level of corruption inevitable, as Wade and Veneroso (1998: 7–8) remind us. However, the distinctive feature of the East Asian developmental state is that the 'resources generated through corruption seemed to be put to productive use rather than siphoned off for private consumption' (Putzel, Chapter 8 in this volume).

Mushtaq Khan clarifies this distinctive aspect by contrasting South Asia's relatively slow-growing economies with East Asia's fast developers. In East Asia, resources were channelled to capitalists and produced a pattern of 'growth-enhancing accumulation', whereas in South Asia resources were overwhelmingly directed to non-capitalists and resulted in 'growth-retarding accumulation' (Chapter 8 in this volume). In this sense, the developmental state could be interestingly likened to the fascist corporatist state as described by Antonio Gramsci (1977): a state promoting development and modernization *against* the rent-seeking interest of backward-oriented capitalist groups, but in *the interests of the capitalist class as a whole.* The comparison is also motivated by the similar threats that pre-war fascist Italy and post-war Taiwan and South Korea were facing. In both cases the capitalist classes were forced to accept the modernization of the state in order to guarantee the survival and promotion of a system of private, property-based capitalism. In Chapter 8, Putzel indicates that the internal and external threats posed to South Korean and Taiwanese capitalism were the reason why 'those with wealth and power allowed the emergence of such *dirigiste* states and accorded importance and resources to the training of their bureaucracies'.

Proceeding along this line of analysis, Putzel discusses how some Southeast Asian states – Thailand, Malaysia and Indonesia – measured up to the experience of Japan, Taiwan and South Korea. These Southeast Asian nations present similarities to and differences from the 'classical' developmental states. In these countries the application of a pattern of 'productive corruption' changed over time, i.e., presenting a regional and temporal diversity, which has tended to be underestimated in most analyses. The study by Putzel indicates that these Southeast Asian countries can only to some extent be reconnected to the experience of Asian 'developmental state'. In fact, 'they adopted some of the characteristics of the developmental state, but by no means all of them, and there were sharp differences between the three in terms of what they chose to copy'.

The selective adaptation of the model, reflecting local conditions and the regional/international setting, helps in analysing the countries' different economic performances and their respective socioeconomic dynamics (e.g., income redistribution, balance between industrial and rural development, etc.). However, taking into consideration the necessary distinctions, the inscription of the so-called 'second tier' countries within the interpretative paradigm of the 'developmental state' maintains a certain utility also in relation to the regional economic crisis. As has already been discussed, in both groups of countries the dismantling of governmental controls in key sectors of the economy and the exposure to financial liberalization proved to be a key factor in setting the stage for the economic crisis.

East Asian countries implemented financial liberalization under external constraints and as an attempt to diversify their economies into the service sector. However, this decisive step should be understood against the background of a wider process of change in the 'developmental state' articulation. The same impressive economic achievements of the East Asian countries reduced, since the late 1980s, the legitimacy of an authoritarian and repressive 'developmental state'. The pattern of 'compressed modernization' – where people's social and economic demands were subordinated to the development of national industry – became increasingly untenable. Thus, 'the continuation of rapid growth and structural change became linked to democratization, political reform, politicization of technocratic positions and liberalization' (Dixon, Chapter 5 in this volume). In this regard, the current crisis reinforced the need for a critical reconsideration of the 'developmental state', not only in relation to its past realizations, but also as a model able to inspire the recovery and future development of East Asia.

The rethinking of development trajectories in East Asia is proposed in this volume, looking at two experiences at the extreme range of economic development: South Korea and Vietnam. In the first country the crisis forced an intensification of the process of change that was already under way, with a contradictory transition towards a neoliberal social-democratic compromise. In the case of Vietnam – less directly hit by the regional turmoil than neighbouring countries because it was less integrated into the world economy – the crisis compelled a rethinking of development strategies due to the impasse of the existing models.

The traumatic impact of the crisis on South Korea is analysed by Chang Kyung-Sup in Chapter 9, describing how this unfortunate event resulted into a turning point in the process of national sociopolitical transformation. The chapter confirms the impressive results achieved by the developmental state in producing economic growth; but attention is focused on the social implications and the long-term sustainability of such a pattern. The developmental state is described as an exploitative regime, suppressing workers' political and economic rights, supposedly for the sake of international competitiveness. The alliance between private industrialists and military-turned-political leaders was able to impose its strategy through the use of political repression and physical coercion. However, the national industrialization project was not opposed by the working class, because it resulted in increasing income (although far behind profit growth for their employers).

Income policy, as discussed by Putzel in his chapter, is a key aspect of the developmental state model, in order to maintain the stability of the system and to achieve popular consensus. Popular consensus manifested itself in South Korea in a way that Chang describes as a form of auto-hypnosis, in which people preferred to overlook the hardship of their present, emphasizing the improvements from their miserable past, and projecting their hopes on a prosperous future. And 'such a mentality induced them to go through voluntary austerity and to allocate all their financial resources to education, savings, and other future-oriented social and economic investment' (Chang in this volume). This 'auto-consolatory' attitude resulted – until the onset of the regional crisis – in a sort of *false middle-class consciousness*.

While the government played a decisive role in guiding the process of industrialization through a trade-off with the *chaebol*s (for a classical discussion of the South Korean developmental state, see Amsden 1989), in social terms the successive administrations 'remained completely *laissez-faire* under the doctrine of what might be called *developmental liberalism*' (Chang, Chapter 9). The state did not implement any systematic and comprehensive welfare system, and people's only entitlement was work. Only corporate welfare provided South Koreans with some forms of social protection, such as support for housing, children's school tuition, medical protection, etc., though these measures were granted as fringe benefits and not as legal rights. However, the successful combination of political repression, moderate income policy and corporate welfare, and popular support for the national developmental ideology, became increasingly untenable during the 1980s.

The end of the military dictatorship and the advent of Roh Tae-Woo's civilian government resulted in a major change in the relations between the state and industrial capital. The government tried to avoid political confrontation with organized workers' movement, and labour matters were left to business and labour. This change resulted in increased force for the labour movement (especially in large *chaebol*s) and led to higher wages and increased fringe benefits. One year before the onset of the regional crisis, South Korean trade unions also achieved a major political result, forcing the government to withdraw new legislation considered unfavourable to labour. At the same time the government, notwithstanding huge amounts of budget surplus, maintained its abstinence from social welfare, and corporate welfare remained the only significant tool for improving living conditions, at least for those workers employed in large *chaebols* (see Chang, Chapter 9 this volume). With the end of the 1980s the South Korean 'developmental state' entered into a process of transformation, with key elements of the old regime dismantled, but not replaced by a new system.

The increased capital–labour class conflict in countries that had based their growth strategies on low wages remains a relatively unexplored aspect in the post-Plaza regional equilibrium. At the end of the 1980s, wages increasing over productivity growth were an important factor behind the capital's attempt – in South Korea and Taiwan, but also in the 'second tier' countries – to move towards more value-adding industrial production and diversification into services, an attempt which resulted in the regional crisis. In other terms, working-class political militancy was a key factor in the profit squeeze suffered by Asian enterprises in order to carry on 'catching up' in an increasingly hostile environment, as has already been described earlier in this introduction.

After the regional crisis unfolded, South Korea entered into a difficult and contradictory transition towards a new social and economic order. Financial liberalization and the government's relative non-interference in the capital–labour conflict had already represented a significant departure from the developmental state model. But the IMF-led bailout aims at an even more thorough result: the dismissal of the *chaebols*' control over the national economy and complete economic liberalization. It is important to note that these requests were somehow (and contradictorily) well received from the newly-elected President Kim Dae-Jung – for decades the main opposition leader – because they converged with popular opposition against the *chaebol* owners and their political representatives. Opposition from the trade unions was also milder than might have been expected, because of a so-called trade-off: under Kim Dae-Jung the organized working movement received greater political recognition, which made the unions more ready to accept compromise (and the social costs) connected with economic recovery.

However, the management of economic restructuring, and the transition towards a different regime, resulted in a contradictory process and exposed all the shortcomings inherited from the previous regime, as described by Chang in Chapter 9. On the one hand, the vested interests of the *chaebol* system are still able to manipulate leverage within the financial sector and the public administration, often overruling the same political decisions of the Kim Dae-Jung administration. The IMF prescriptions did not solve these contradictions, and possibly aggravated them, as confirmed both by Chang and Chandrasekhar & Ghosh in this volume. On the other hand, the process of restructuring is leading to a pattern of 'development with sizeable structural unemployment', bringing severe social costs for a population not protected by any comprehensive welfare system. The crisis unveiled a situation which was already characterized by sectors of the population who were officially employed but in effect suffering from chronic unemployment (see Chang, Chapter 9 in this volume). The distress suffered by a large part of the population during the worst period of the crisis and the risk of extended massive unemployment are undermining the social consensus to the system, because it is eroding the illusory middle-class consciousness.

In this frame the Kim Dae-Jung administration – also with the advice of the IMF and the World Bank – is trying to establish 'safety nets', i.e., substituting for the obsolete corporate welfare, which is of little use in a situation of massive unemployment. In other words, while in Europe welfare systems have been achieved by the working class and the socialist movement, in South Korea a rudimental welfare system is taking shape as a 'safety net' to sustain a painful industrial restructuring and the advent of Western style neoliberalism.

This process raises new questions about post-crisis South Korea. Having achieved the status of a 'developed country' with the access to the OECD, is South Korea going to replace a 'developmental state' with the same regime of Anglo-American capitalism prevailing in the West? Is this the developmental trajectory for the other East Asian, former-miracle countries? And will South Korea be able to resume a pattern of accelerated economic growth or will it become a 'normal', 'semi-peripheral' country?

Compared to South Korea, Vietnam is at the other end of the economic development hierarchy in East Asia. Vietnam embarked on a process of economic reform in the late 1980s, and in the early 1990s it restored international relations within and beyond the region. Before the crisis Vietnam was pursuing an increased integration in the regional productive system, with the aim of replicating the economic performance of its neighbours. Chapter 10 by Masina indicates that in the mid-1990s this attempt benefited from favourable geopolitical conditions (a Western interest in reinforcing the country for a potential 'containment' policy against China), witnessed by large economic support from multilateral donors. Optimism about the economic future of this country – combined with a speculative tendency in the real-estate sector – made Vietnam a large recipient of foreign direct investment, in a proportion to the GDP much higher than in the other countries of the region. However, in the months before the regional crisis and increasingly since 1998, Vietnam came under strong pressure from international financial institutions, which asked national authorities to move further in the direction of liberalization and 'market-friendly' reforms. This pressure grew stronger as the deterioration of economic conditions gave more leverage to international organizations in linking economic aid to the implementation of a specific agenda.

Although the impact of the crisis has been less severe on Vietnam than in most of the region, the country faced a slowdown in economic growth and the government was forced to maintain a strict macroeconomic control. This involved a reduction of national investments at the time when investment flows from the region were sharply declining. In the aftermath of the crisis, the country's political leadership seems divided between, on the one hand, those supporting a furthering of reforms in the direction favoured by the international financial institutions and, on the other, those who consider that the regional crisis has confirmed the risks of a too-close integration into the world economy. The perplexity of the leadership has been evidenced by the lengthy negotiation of a trade agreement with the United States.

Masina (Chapter 10) suggests that a more careful analysis of the 'developmental state' models in the region could provide Vietnam with significant support in defining a new reform agenda, thus leading the country out of the present impasse. With a more clear prioritization in its process of industrialization, Vietnam could implement needed reforms without abandoning important elements of economic planning. At the same time, this chapter stresses the importance of looking also at the shortcomings of the 'developmental state' examples in the region, in order trying to avoid repeating the same pattern of environmental devastation, depletion of natural resources, aggressive 'modernization' and over-exploitation of the working class.

## THE POOR AND THE MARGINAL BETWEEN MIRACLES AND CRISES

Since the East Asian economic crisis unfolded, many different analyses have been presented, resulting in an important debate and a wide range of disagreements. Most of these analyses, however, have shared a common feature: they have neglected the implications of the crisis for ordinary people. At the same time, a number of journalistic reports and investigations by NGOs, on the one hand, and navel contemplation by international development agencies on the other, have started to engage with the social impact of the crisis. But the former have indulged too often in populist representations, while the latter have substantially avoided looking at the implications of increased poverty incidence in terms of the prevailing development strategy. A central attempt of the present volume, in stark contrast, is to underline the essential link between macroeconomic strategies and people's living conditions. Our study of the East Asian crisis indicates that people's ability to cope depends very much on the long-term development dynamics that the society has been experiencing. Therefore, the present volume does not simply attempt to formulate an account of the distress and hardships suffered by ordinary people during this crisis – these, although tragic and painful, could be considered as transitory phenomena. We look instead at how people coped – or did not manage to cope – with the crisis, in order to improve our understanding of the contradictory development experiences of East Asian countries.

In this regard, the crisis shed new light on the 'uneven development' pattern of the region, which the rhetoric of the miracle had partially obfuscated (nonetheless, contributors to this volume had already discussed this uneven pattern before the crisis: e.g., Parnwell 1996; Dixon and Drakakis-Smith 1997; Schmidt *et al.* 1997; Rigg 1997). The process of 'modernization' and rapid socioeconomic transformation – which, in different measure, has interested all the countries of the region – represents the necessary background to understanding how ordinary people can resist and react to a period of severe economic distress. The high social costs and the severe impact on the local populations should be understood not as a result of an abrupt accident, but as a consequence of this 'uneven development'. In other terms, as Mike Parnwell writes in Chapter 12 of this volume, 'there is the real danger that the current hyperbolic use of the term "crisis" will serve … to [portray] these people as victims of economic meltdown rather than of the development process itself'. Further, looking through the lenses of those who had been largely 'excluded' from the economic boom and the orthodox development process, the notion of 'crisis' becomes a relative one. For these people – victims of what Peter Bell (1996: 49) has called 'maldevelopment'

– the current crisis exacerbates the hardships they have to endure, but does not represent a qualitative change in the precarious conditions of their existence.

Chapter 9 by Chang Kyung-Sup delineates very clearly how the social costs of the crisis in South Korea were a result of a development pattern which did not make any provision to protect the population in the event of an economic downturn. In this sense, Southeast Asian countries have probably been even more exposed to risks, because of their less structured redistributive policies when compared with Northeast Asia. With the possible exception of Singapore and Brunei, Southeast Asian countries do not have substantial welfare systems which can provide an adequate safety net in the case of socioeconomic crisis. And – as is discussed before – the traditional forms of 'moral' economy have often been eroded by years of modernization. However, any assessment of the social impact of the crisis is very difficult. On the one hand, information is still sketchy and largely anecdotal. On the other hand, the impact has been very different even within regions of the same country, due to the aforementioned uneven development patterns, the different ways in which the mechanisms of inclusion and exclusion have been articulated, and the forms of resistance to and fragmentation of traditional safety nets.

Key indicators, such as poverty, real wages and unemployment, signal that East Asia has experienced a severe deterioration of living conditions. Reports by international organizations have presented a dramatic description of rising levels of absolute poverty, malnutrition, unemployment, falling school enrolment, deterioration of healthcare services, and increased crime and violence (World Bank 1998b; ILO 1998). The concrete impact of these effects on individual households, however, has been very variable. In an environment of general impoverishment, for example, families with remittances from abroad have seen the value of these remittances increase, because of the devaluation of national currencies. Similarly, devaluation has, in some cases, advantaged peasants engaged in export-oriented cash-crop cultivation.

In Chapter 11 of this volume, Jonathan Rigg discusses this diversity in terms of the impact of the crisis and patterns of response in Southeast Asia. He illustrates how they depended also on factors such as labour specialization, gender or age. For instance, young people have shown a lower propensity and ability to 'return' to rural areas and farming activities than have older people. Moreover, male-dominated construction industries have been more severely hit than women-dominated export-oriented industries. Chapter 12 by Parnwell, however, although largely convergent with that by Rigg, presents a number of interesting distinctions. A comparison of these two chapters helps in addressing crucial aspects in the post-crisis debate, concerning the extent to which modernization has eroded traditional safety nets, the interaction between rural and urban areas, and the transformations that have occurred in Southeast Asia's rural world.

Rigg presents a criticism of the rhetoric of the 'retreat to the village', as a traditional Southeast Asian response to crises. He argues that the 'back to the farm' hypothesis is based on 'two heroic assumptions': first, that most urban people have maintained a close connection with rural areas and can 'return' in case of need; second, that these 'reverse migrants' can find a space in the agricultural world they had left. But these assumptions seem to consider neither the extent of the process of agricultural modernization and social change undergone in the last two decades, nor the kind of relations often existing between 'migrants' and their rural families. On the one hand, the process of agricultural modernization in many regions has gone too far to be easily reversed. And many young people have lost the skill and the propensity to engage in farming activities.

On the other hand, many urban Southeast Asians do not have a 'home' village to return to or the possibility to exploit agriculture as a safety net. In some cases, they have maintained formal connections with the village, but the traditional 'moral' economy and corporate solidarity have been lost. In other cases, remittances from urban areas have made it possible for small landowners with 'sub-livelihood holdings' to achieve sustainability. Not only could these marginal farmers (or, even more, rural people with no access to land) not support the return of their family members who have lost their non-farming activities, but also the whole family would drawn into absolute poverty. This analysis brings Rigg to conclude that the reverse flow of migrants back to rural areas might have been less than the scale of redundancies in urban-based formal work would indicate.

In his study of 'migration reversal' in Northeast Thailand, Mike Parnwell describes a picture that partially contrasts with the one reported by Rigg. On the basis of fieldwork in 25 villages, Parnwell concludes that these villages have shown 'a remarkable capacity for absorbing and supporting returning migrants', finding little niches for them in the labour market. The network of social relations at the basis of this 'moral' economy also provided these migrants with the connections they needed for returning to the urban areas (i.e., Bangkok) as soon as new jobs were available. The long-established, functional characteristics of the migration process from this region, therefore, proved to be an important resource in coping with the crisis.

The impact of 'modernity' on people's culture – translating, for example, into young people's low propensity to re-engage in farming activities after having experienced life in urban areas, is represented by Parnwell and Rigg in different ways, although this difference is more a matter of degree than substance. Both authors maintain that 'returning' migrants would consider the retreat to the village as a temporary solution or a 'survivalist' strategy. Parnwell reports that his reverse migrants preferred to return to the village rather than endure the hardship of unemployment in Bangkok, or to attempt a difficult entrance into the urban 'informal sector'. Rigg emphasizes the endeavour by migrants to remain in town as long as they could, and not to give up the aspiration to urban life.[3] Parnwell stresses the elasticity of the rural world, and the strong connections remaining between migrants and their rural families. Rigg accentuates the transformations undergone in rural areas, and the irreversibility of processes such as mechanization and cultural change.

The two chapters, however, agree in reporting that 'reverse migration' would not imply a permanent return to farming. In the villages visited by Parnwell, a large number of 'returnees' had subsequently exploited social networks to go back to Bangkok, even accepting wages that they would have refused at the beginning of the crisis. In the representation provided by Rigg, the son of his fictive (but realistic) ordinary Thai family had to leave school and go back to farming, and the family withdrew into a more self-sufficient and less marketoriented agriculture: but they conceived these forced choices as 'survivalist' strategies to be reversed as soon as possible.

The two chapters also agree in describing a deterioration of traditional safety nets as a result of modernization and development. Although Parnwell reports that villages provided provisory shelter for 'reverse migrants', he underlines that there is no indicator that the current crisis has led to the renaissance of socioeconomic mechanisms connected to village corporate solidarity. Thus, the differences reported by the two authors seem to result more from the angle they have adopted in looking at the same reality than from any substantial disagreement. Parnwell focuses more on the persistence of the traditional world and its contradictory adaptation to the process of modernization. Rigg looks at the emergence of new dynamics and at the rapid process of socioeconomic transformation in the region.

Kilgour and Drakakis-Smith in Chapter 13 move our attention to the urban areas of Vietnam, describing another aspect of the process of 'uneven development' in Southeast Asia. The choice to focus on the forms of marginalization and urban poverty in a country that is still predominantly agricultural, and where most poor and marginal people live in rural areas, should be understood in the context of the present volume. The country has, by contrast, been relatively less profoundly hit by the more direct effects of the regional crisis, because of the limited integration into the world economy and the non-convertibility of the national currency. However, the impact on urban areas has certainly been more visible than on rural areas, where many households still depend on self-subsistence and self-consumption. Urban areas more keenly felt the pressure from the region's economic downturn because they were more closely linked to foreign trade and investment. Like in other countries of the region, for example, the construction industry faced an abrupt halt, resulting in massive layoffs. However, in Vietnam the way in which the crisis was endured also depended on the previous conditions of integration or marginality in the development process. Paradoxically, the poorest felt the 'crisis' less because they had benefited less from the previous period of growth.

Rising unemployment and sustained migration to the major urban centres, however, are increasingly straining the ability of the 'informal sector' to accommodate new entrants in the traditional service activities on the street, such as retailing, bicycle repair or barbering. This has led to the adoption of alternative coping mechanisms, such as daily commuting from nearby villages or circular migration, which allow the use of resources from both urban and rural areas (Kilgour and Drakakis-Smith in this volume). Further, the impact of the regional crisis is reconnected to a general worsening of living conditions in urban areas (especially the two major cities of Hanoi and Ho Chi Minh City), with the degradation of the existing housing stock, problems in access to clean water and discharge of waste water, pollution and environmental degradation, etc. With economic growth forecasts reduced as a consequence of the regional crisis, national authorities will have fewer resources to address these issues. But the problems of poverty that are evident in both rural and urban areas are closely connected to serious contradictions which are associated with *doi moi*. Thus, even the return to rapid economic growth would not be a guarantee that these poverty-related issues will be addressed adequately, unless there is a significant change in the development strategy.

The notion of 'crisis' in the lives of ordinary people as a result of 'maldevelopment' is confirmed by the case of Mongolia, and its traumatic transition from planned economy to poverty. The experience of economic reform in this country, through the rapid liberalization and marketization of the national economy, presents interesting elements for reflection on 'post-crisis' East Asia. The doctrine incorporated by the 'transition' in Mongolia is based on the same assumptions of the structural adjustment programmes, which have been re-proposed by the IMF to East Asia as a way towards economic recovery. The case of Mongolia, however, also has other interesting points of contact with the analyses of the process of modernization in other East Asian countries in terms of the persistence of traditional safety nets and 'coping mechanisms' in the face of economic distress.

Contrary to the views propounded by structural adjustment theorists, Chapter 14 by David Sneath illustrates that the dismantling of socialist economic institutions and the 'transition' towards the market economy in Mongolia do not represent a 'liberation' of the economy from artificial constraints and the return to 'some timeless traditional forms of pastoralism'. On the contrary, collectives had in some ways incorporated pre-revolutionary, large-scale pastoral organizations. In the same way, the notion of division between politics and economy, which lies at the very heart of marketization and privatization programmes, does not liberate the country from an exogenous Soviet interference: the linkage between the two concepts of economy and political power is rooted in Mongolian culture and language. Thus, the process of 'transition' can be compared to a process of Western-style modernization, which resulted in a dramatic impoverishment of the population in part because of its unfamiliarity with people's cultural traditions. In this environment networks of families and friends represent the only safety net in a process of retreat to subsistence for many pastoral families.

These contributions confirm that the impact of 'miracles' and 'crises' on the lives of ordinary people can only be understood against a backdrop of the wider socioeconomic transformations that are affecting each society. Patterns of modernization and development strategies change people's means to cope with crises and economic distress. The erosion of traditional safety nets – if not replaced by alternative welfare systems – exposes the population to economic freefall. In this sense, the reality of post-crisis East Asia proves discouraging. Although a debate on new safety nets for the poor has been opened, also on the advice of international organizations such as the World Bank and the Asian Development Bank, these safety nets are conceived as tools for further implementing a 'modernization' agenda which is enforcing new forms of uneven development in the wider context of 'triadic globalization'.

## THE STRUCTURE OF THE BOOK

The present volume is organized into four thematic parts, allowing a logical structure aimed at making more visible the rationale of this joint endeavour. However, it should be noted that any partition of contributions addressing complex and interlinked questions is always problematic and arbitrary. The distribution has been based on the prevalent themes that are dealt with in each chapter, while this introduction has been conceived with the aim of drawing out the links that exist between the different contributions.

Part I presents the international and regional context of the rise and the fall of the 'Asian miracle' through analyses that interweave history, economics and politics. Part II focuses on the post-crisis debate, and discusses the role of the international financial institutions and the controversy surrounding the so-called Washington Consensus. Part III discusses national strategies and development models, introducing the diversity that exist among East Asian development trajectories. Part IV moves the focus to the human dimension of both pre- and post-crisis growth strategies, discussing the impact of macroeconomic changes on the local populations' material lives.

A conference at Roskilde University at the end of October 1998 allowed an opportunity to discuss the earlier drafts of these chapters, and to benefit from the critical contribution of other colleagues, who had either presented papers or participated as discussants. Only two contributions were not previously presented in the Roskilde conference: Jonathan Rigg's chapter, which was first submitted to a conference in Singapore in December 1998; and the chapter by David Sneath, which was prepared specifically for this volume. All the contributions have subsequently been revised and updated in relation to the common debate and the editorial imperatives of moulding diverse views and perspectives into a collective publication.

This volume (and the conference at Roskilde University before it) was conceived as a joint research effort between a group of Asian and European scholars (or more accurately Europe- and Asia-based scholars) and involved a range of expertise: economics, political science, history, sociology, geography and anthropology. The interdisciplinary nature of this work aims at providing a multi-faceted account of the East Asian economic crisis – and development strategies more generally – which presents populations and countries in a manner that is far-removed from the more orthodox and sterile description of numbers and financial indexes. The variety and complexity of the themes addressed, however, motivated the authors to consider this work as a contribution to an open debate and an encouragement to initiate new research directions rather than attempt a conclusive accomplishment and definitive statement.

## NOTES

1 The definition of 'triadic globalization' was first introduced by a *maître à penser* of the neoliberal thinking, Ohmae Keinichi (1985). This representation was confirmed a few years later by the United Nations Centre for Transnational Corporations (1991) in a report associating 'triadic globalization' with the increasing marginalization of developing countries and the dominant role in the world economy of the largest American, Western European and Japanese TNCs. Probably as a result of this report, the Centre has been put under the control of UNCTAD, several times restructured, and eventually transformed into a more docile institution. A critical assessment of 'triadic globalization' is contained in Amoroso (1988).

2 The Bretton Woods institutions are the World Bank and the IMF.

3 It could be noted here that Mike Parnwell's methodology focused only on those migrants who had returned to the village, and thus those who had managed to struggle on in the city were not reported.

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