

Theorising Institutional Change in East Asia*

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One of the most striking aspects of the turmoil that gripped East Asia in the aftermath of the recent economic crisis, was the rapid change in the way the region was perceived. From being primarily associated with ‘miraculous’ development and enlightened public policy, the region rapidly became a synonym for corruption and ‘crony capitalism’. Consequently, many observers – especially, but not exclusively external ones - called for fundamental changes in the way politics and business were conducted in East Asia. Significantly, a particular preoccupation with *institutional* reform emerged, as appropriate institutions were considered a key element of successful public policy. As the Deputy Managing Director of the International Monetary Fund (IMF) observed:

...the right framework for policy formulation and execution ... includes the regulations and legislation governing economic activity *and all other areas of human interaction* ... Where the rules and regulations are clear, and where institutions apply them predictably and impartially, economic security will flourish, and social justice becomes possible (Ouattara 1999:4, emphasis added).

The IMF has been at the forefront of a campaign which has called for ‘vast change in [East Asian] domestic business practices, corporate culture, and government behaviour’ (Fischer 1998:3), on the grounds that without profound change ‘the causes of the disease’ that precipitated the crisis will not be eradicated (Lane et al 1999: 123). If successful, it is a reform agenda the scope of which would see a fundamental transformation of not simply political practices and economic structures, but of East Asian social relations more generally.

There is no intention here of either presenting an analysis of the crisis itself, or of taking issue with the technical aspects of the IMF's interpretation and subsequent management of the crisis.¹ What is of greatest interest here is the IMF's conviction that not only were the particular configurations of institutions in East Asia somehow to blame for the crisis, but that they must be fundamentally reformed if the region is to return to its former prosperity. Even if we gloss over the fact that precisely the same sets of institutions appear to have been responsible for *both* the rise and fall of East Asia, the important issue for the purposes of this volume is the preoccupation with institutions as key determinants of social welfare and economic development, and consequently as key targets of reformist pressures.

The key issue to consider, therefore, is will change occur in East Asia as a consequence of these pressures or, conversely, will change be resisted? In either case, institutions provide an important focus of analytical attention with which to consider such possibilities. For if change is occurring in East Asia, it will be manifest in the historically specific institutions that have distinguished the region. Focusing on key institutions allows us both to identify possible sources of, or resistance to change, and provides a way of conceptualising its extent. In this manner it is possible to distinguish change that may – or may not – be occurring at the national level, from developments which may be taking place at the sectoral or even the regional level. Moreover, an institutional focus allows us to identify possible sources of, or obstacles to change, and to distinguish those that may be internal to the region from those that may be external. In this way, it is possible to build up a picture of the forces that are shaping the region, allowing us to develop a more accurate picture of post-crisis east Asia, one that transcends the limitations country specific analysis.

This chapter introduces some of the most important variants of institutional theory and attempts to isolate some of the more significant insights that emerge from within it. The first section consequently assess the contributions to institutional theory from economics,

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political science, sociology and an historically based form of institutionalism. The second section extends this analysis and looks more closely at its applicability in an East Asian context. I suggest that an institutional perspective allows us to identify both the most important structures or relationships which make up a specific national political-economy or even region, as well as the internal and external forces that are likely to promote or inhibit change. The central argument here is that traumas like the recent crisis provide moments in which new policy initiatives or ideas - such as those promoted by the IMF - have an opportunity to take hold; whether they will do so is highly dependent on the way specific institutions are embedded in wider networks of power and interest within the region. Institutional theory provides an important framework with which to try and make sense of the complex dialectic between the national and the transnational, between the ideational and the material, and between the forces of inertia and change.

Institutional Theory²

In this section I review some of the key varieties of institutional theory. Although the demarcation employed here is somewhat arbitrary, as some theorists cross disciplinary boundaries, and some distinctions are inevitably somewhat artificial, nevertheless, I shall distinguish between 'economic', 'political', 'sociological' and 'historical' forms of institutionalism to organise the subsequent discussion. Before embarking on this endeavour, however, let me offer some preliminary comments about institutions and distinguish them from the 'organisations' that feature in the title of this book.

Institutions are notoriously difficult to define, but one of the common distinguishing qualities identified in much of the literature is that they intimately connected to recurrent patterns of social behaviour. At the outset it is important to stress that the relationship between institutions and social activity is complex and reciprocal; institutions are part of an intricate dialectical process that both shapes and is shaped by contingent human activity. Scott (1995: 33) defines institutions this way:

Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction. . . . Although constructed and maintained by individual actions, institutions assume the guise of an impersonal and objective reality.

One of the defining qualities of institutions, therefore, is their capacity to regulate human activities and reflect overarching norms and values. This is not, it should be emphasised, to suggest that there is anything ‘natural’ or inevitable about the development of institutions or the values they embody. Clearly, some actors or forces have a greater capacity to determine influential norms and social practices than others (Cox 1991). The important point to make at this stage is that institutions play a crucial role in defining quotidian reality.

It is the routinisation or the *institutionalisation* of patterns of activity that is such a crucial determinant of ‘the way things happen’ in a particular part of the world. While particular institutions – the law or civil society, for example – may superficially seem universal conceptions, their content and meaning may be very different because of the specific social setting within which they are embodied or realised. By looking at the way particular institutions are manifest in specific locations, and focusing on the norms and values that inform recurrent patterns of behaviour, we can identify what it is that may differentiate say a corporate organisation in the US from one in Japan, or even what may distinguish one region from another. If it makes sense to think of ‘East Asia’ as something more than simply a fairly arbitrarily demarcated geographical entity, but rather as a part of the world that shares some distinctive commonalities, it is because particular institutions either resemble each other or perform similar functions.

Finally, before looking at institutional theory in any detail, it is important to distinguish between institutions and organisations. Oran Young (1994: 26) suggests that institutions can be thought of as a ‘set of rules or conventions that define a social practice, assign roles. . . and guide interactions’, but that organisations, by contrast, are ‘material entities possessing budgets, personnel, offices, equipment, and legal personality’. This is clearly a

useful way of differentiating between the sorts of formally constituted organisations considered in this book like the Association of Southeast Asian Nations (ASEAN) or the Asia Pacific Economic Co-operation (APEC) forum. Of course, in general discussion such organisations are invariably also described as ‘institutions’. The important point to emphasise here, however, is that, on the one hand, such organisations will themselves reflect a particular institutional setting that will define their capacities as a collective actors (Scott 1995: 55), on the other, they may be directly involved in the attempted institutionalisation of particular political and economic practices. While we might want to reserve the term ‘organisation’ to describe formally constituted and recognised entities, they are involved in precisely the same sorts of processes of institutionalisation as are more loosely defined institutions. Indeed, as the IMF’s prominent role suggests, various organisations have played a key role in attempting to either consolidate existing, or establish new, patterns of behaviour. The remainder of this section considers some of the major contributions to institutional theory. It is necessarily a highly selective and impressionistic review; it is intended to highlight some of the key insights that have emerged from institutional theory’s various sub-divisions.

Institutions in economics

In both the disciplines of economics and political science, the standing of institutional theory has waxed and waned. In economics, institutional theory was pioneered by the likes of Thorstein Veblen and John Commons, and despite some important differences between them,³ the early institutionalists were united by a holistic and non-formalist approach that attempted to describe the complexity and multidimensionality of historically specific human activity. Much of the ‘new’ institutionalism in economics, by contrast, is centered on the highly abstract assumptions of methodological individualism and consequently develops a very different conception of the dynamics of social activity. In this later form of institutionalism, the theoretical influence of which can be clearly seen in the policy directives of institutions like the IMF and the World Bank, the aggregated actions of individuals making rational choices that reflect their own interests are expected to lead – when permitted – to economically optimal outcomes. Although it

is also possible to distinguish a number of sub-divisions in the new economic institutionalism,⁴ the point to stress is that from the perspective of the new institutional economics it is considered possible to utilize economic theory, especially the neoclassical variety, to assess and improve the ‘efficiency’ of institutions.

Oliver Williamson has been major contributor to a theory of institutions derived from such premises. For Williamson (1985: 17), the key concept with which to understand the general development of capitalism is the idea of ‘transaction costs’. Transaction cost economics is ‘mainly concerned with the governance of contractual relations’ (Williamson 1993: 112). Williamson and his followers are primarily concerned with how economic activity is organized and coordinated, the sorts of institutions that are necessary for its continuation, and with identifying the costs that are associated with such activities. In a world in which people are assumed to be rational, utility maximizing and individualistic, organizational development will not only be driven by such essentially atomistic forces, but the possible course of development will be fundamentally constrained by the model’s inherent logic and the necessity of reducing costs.

A couple of points are worth making about this influential perspective. First, the conception of rationality it assumes, even in its more restricted and ‘bounded’ form, displays an almost teleological view of economic and organizational development. Moreover, it is reflective of a widely held perspective which shows little appreciation of the possibility that rationality itself may be a socially constructed phenomenon that takes different forms in different circumstances (Taylor 1982). Yet even if we accept that some forms of organization are clearly more ‘efficient’ than others when judged from the limited calculus of economic rationality, this does not necessarily mean that there is only one way of solving a particular collective action problem. Indeed, when placed in an East Asian context, one of the most interesting questions that emerges from a transaction cost perspective revolves around the possibility that some institutional configurations may be socially embedded in such a way as to reduce transaction costs by replacing the potentially expensive, legalistic enforcement of contracts with a form of ‘trust’ (Fukuyama 1995). Even if the importance of trust-based economic relationships is

difficult to demonstrate and needs to be treated with some caution, the idea that institutionalized relationships may reflect broader social forces or a range of social values, not simply individualistic, market-centered ones is important; as is the idea that such relationships might persist through time whether 'efficient' or not.

The idea that institutional structures endure and display a degree of 'path-dependency' has been most fully developed by Douglas North. For North (1990: 384), institutions consist of 'informal constraints and formal rules and of their enforcement characteristics. Together they provide the rules of the game of human interaction'. While this formulation is in keeping with a number of the other perspectives considered above, what really sets North's work apart is his stress on the importance of history: institutions are shaped by past actions and effectively delimit and constrain possible actions in the present. The most celebrated example of this form of path dependency is the QWERTY keyboard configuration which, while clearly a less than optimal historical legacy has proved resistant to change (Arthur 1989). While North's work is an important contribution to our understanding of the constraining role of existent institutions and a powerful reminder that the present is ultimately shaped by the past, like Williamson, North's (1996: 5 [1990]) work is underpinned by the 'choice theoretic approach of neoclassical economic theory'. In other words, despite the sort of sophisticated historical analysis that North develops, ultimately it is the 'development of efficient economic organization' that drives economic development and human history (North and Thomas 1999:1[1973]). Like their assumptions about rationality, North's and Williamson's views of efficiency reflect the narrow preoccupations of the their discipline, which need to be complemented with insights from other areas if institutional theory is to have greater theoretical application.

Institutions in political science

The status of institutional theory in political science highlights the importance of the levels of analysis question.⁵ Institutions operate at various levels and this is reflected in the different centres of analytical attention that have emerged in political science. March

and Olsen played an important role in highlighting the importance of, and renewing interest in, institutions, especially at the ‘domestic’ level. They argued that national polities needed to be unbundled so that their institutional components – the bureaucracy, the legislature and the like – could be identified, their inter-relationships explored, and their importance as distinct political actors potentially enjoying a degree of autonomy highlighted. For March and Olsen (1984: 739) the internal processes of political institutions had the capacity to ‘affect the flow of history’, determining wider social accommodations. One of their key insights revolved around the degree of autonomy necessary for political institutions to work effectively:

Every democratic system faces a difficult problem of balancing the undoubted advantages, even necessity, of institutional autonomy with the risks that such autonomy will make popular control difficult or impossible. Ultimately, the system works only because of institutionalised limits and mutual trust (March and Olsen 1989: 166).

This is clearly an important issue when thinking about the possible reconfiguration of institutions in East Asia. If critics of ‘crony capitalism’ are correct, then there may be much to be said for establishing a greater distance between politicians and bureaucrats. And yet it is also important to recognise that in the view of many observers, much of East Asia’s erstwhile economic success could be attributed to functionally superior patterns of institutional organisation or governance. What Peter Evans (1995: 12) described as ‘embedded autonomy’ referred to the way in which the bureaucracies in East Asian developmental states were ‘embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of policies’. Rather than being seen as too close to business, a well-connected bureaucracy provided the critical link through which governments might implement policy with the *co-operation* of business. Whether this neo-Weberian perspective should be considered a concern of politics or sociology is not of major concern here. What is important is that this sort of analysis was part of a concerted effort to ‘bring the state back in’ to its ‘proper central place in explanations of social change and politics’ (Skocpol 1985: 28).

Welcome as this recognition of the state's importance may have been, much of the ensuing analysis occurred at a high level of abstraction and generalisation in which the state became the 'master' institution. While 'the state' clearly was and is a useful analytical construct, it became apparent that analyses that broadly distinguished between 'strong' and 'weak' states neglected much of the specific institutional complexity that actually determined state effectiveness (Doner 1992). Other observers argued that not only was much of the state's internal institutional architecture a highly specific legacy of contingent historical circumstances (Cerny 1990), but that this was itself a fundamental determinant of state capacity (Mann 1993). Yet perhaps the greatest challenge for state theorists and public policy practitioners alike has been the increasing international integration and institutionalisation of activities that formerly occurred predominantly within national borders.

Robert Keohane has been closely associated with the development of 'neoliberal institutionalism'. Although Keohane and his followers accept much of conventional 'realist' view of international relations – states pursue power and this is a function of their material capacities – they depart from orthodox realism in their belief that states' also have a capacity for mutually beneficial co-operation. International institutions – which may be either intergovernmental organisations, international regimes, or conventions – play a crucial role in socialising states into co-operative behaviour (Keohane 1989). In this view, the impact of a fundamentally anarchical inter-state system can, at the very least, be mitigated through the construction of various international institutions designed to address issues of common concern or resolve collective action problems.⁶ In many ways Keohane's view of co-operation is reminiscent of the economic institutionalists and borrows freely from their methodologies: states are essentially rational and co-operate to reduce transaction costs (Keohane 1984). Consequently, his earlier work is susceptible to precisely the same sorts of critiques. Nevertheless, Keohane has played a crucial role in highlighting the increasingly interconnected and interdependent nature of the international system (Keohane and Nye 1977). It is simply

no longer possible to understand ‘domestic’ institutional change without placing it in a larger international context.

Recently, Keohane has given more attention to the source and content of the ideas that institutions embody and/or attempt to promulgate (Goldstein and Keohane 1993). This is crucial for, as the Asian crisis and its aftermath reminds us, the United States has demonstrated a desire to try and *impose* particular institutional and ideational frameworks on the region. Indeed, it is worth re-emphasising that the ending of the Cold War provided a massive and unexpected shock to the international system that has fundamentally overturned much of the conventional wisdom about the possibly declining position of the United States and its relationship to East Asia. Not only is the United States often seen as the unchallenged leader of a unipolar system (Matsanundo 1997), but it has shown a willingness to try and utilise its less strategically constrained position to create an international regime that furthers its own interests (Beeson 1999b). If such an agenda is to succeed, however, it will ultimately need to have an impact at the micro, as well as the macro level. In this regard, sociological theories of institutionalisation have much to teach us.

Institutions in sociology

One of the most important contributions of the sociological approach generally has been to ‘ground’ institutions and give them an important and distinctive degree of historical specificity. In an influential and much-cited article Mark Gronovetter develops a powerful rebuttal of the highly abstract picture of atomistic actors driven by a universal rationality that characterises much economic, and by imitation, political analysis, of individual and institutional behaviour. Gronovetter stresses that economic activity occurs in a complex network of contingent social relationships that inevitably shape behaviour. Consequently, ‘what looks to the analyst like nonrational behaviour may be quite sensible when situational constraints, especially those of embeddedness, are fully appreciated’ (Gronovetter 1985: 506). Put differently, the range of influences that press upon individual actors in a specific historical and geographical setting, be they social,

economic or political, makes the expectation that they will be driven by, and respond identically to, the same sorts of universal imperatives highly problematic.

One of the key determinants of behaviour, and one of the things that the sociological variant of institutional theory highlights, is that individuals are deeply immersed in routines that impart a taken-for-granted quality to everyday life, which in turn lends a self-sustaining quality to institutions. Individuals do not choose freely amongst various institutions or norms, in the manner implied by much rational choice theory, but largely reproduce existent patterns of behaviour. Crucially, as DiMaggio and Powell (1991: 11) argue, 'Institutions do not just constrain options: they establish the very criteria by which people discover their preferences. In other words, some of the most important sunk costs are cognitive'. This is not to suggest that the reproduction of everyday life is an apolitical or uncontested process that is to be understood simply as a function of freely undertaken cognitive processes. On the contrary, Bourdieu (1991) has demonstrated just how politicised the production and institutionalisation of 'common sense' understandings of 'reality' can be. Rather, the point to stress here is that the sort of 'isomorphism' or structural convergence that is implicit in much of the economic and political analysis considered above, and which is being actively championed by organisations like the IMF, may require coercive pressure if it is to have any chance of overcoming the institutional inertia and social embeddedness that distinguishes one social system from another.

Other sociologists, particularly those interested in comparative economic systems, have demonstrated just how different, and thus how potentially resistant to change, East Asian social structures in particular are. There a number of highly distinctive business systems in East Asia which display major differences in organisational logic and associated patterns of social behaviour to those of the market-centred, Anglo-American style model advocated by the IMF. In Japan, Korea and throughout the Chinese diaspora, very different patterns of economic co-ordination have emerged under the general rubric of capitalism (Whitley 1990). The significance of these different economic co-ordination mechanisms is that private businesses behaviour is institutionalised in ways that differentially shape organisational behaviour and structure. Whether or not these are

considered to be ‘successful’ or ‘appropriate’ in the wake of the crisis is not the issue here. The point to recognise is that:

The business organisations found in each of these economies are not corruptions of technically ideal organisational forms, but represent qualitatively distinct conceptualisations of what constitutes appropriate economic activity...*To be “technically efficient”, firms must consider and comply with the institutional setting in which they are embedded* (Orrù et al 1991: 363 [emphasis added]).

Because ‘rational’ behavior is so contingent, and because institutions have the effect of embedding particular practices, existent business structures have potentially important implications, even in an era characterized by processes of globalization. As Richard Whitley (1998: 447) points out, because different economic systems are so deeply embedded, even a global competitive system would inevitably reflect ‘the national, regional and international institutional arrangements in which it emerged and be structured by the conflicts and competition between existing economic systems and their leading actors for control over its defining norms and characteristics’. What is true of predominantly economic systems may equally apply to other institutions as diverse as social security or labor relations systems.

Even though institutions evolve within, and may be redefined by, political and economic contestation, they constrain and delimit the realm of the possible. In short, history matters. To see why history is so crucial, we need to look at historical institutionalism.

Historical institutionalism

Although Douglas North takes history seriously, his analysis of economic development is ultimately framed by the underlying assumptions of neo-classical economics. Historical institutionalists, by contrast, reject the all-encompassing logic of rational choice theory and stress the way in which institutions can actually determine the nature of choice itself. For historical institutionalists, institutions not only shape actor strategies (as in rational choice theory), but their goals and interests as well (Finnemore 1996) – an insight that

reinforces the importance of cognitive dimension stressed in sociological institutionalism. Institutions have the potential to play a crucial role in delimiting both what is technically feasible and what is *considered* to be possible or appropriate:

...by mediating their relations of co-operation and conflict, institutions structure political situations and leave their imprint on political outcomes...Reconfiguring institutions can save actors the trouble of fighting the same battle over and over again (Thelen and Steinmo 1992: 9).

This perceptive passage highlights an issue that is central to the concerns of this book: because a particular institutional matrix shapes and delimits possible social activities, the construction or reconfiguration of institutions is necessarily a deeply political process. In order to change established patterns of behaviour, it is necessary to change the institutions that are both an expression of, and major influences on, social practices. Once reconfigured, the new institutional formation has the potential to 'lock in' specific patterns of behaviour – something which helps to explain the preoccupation with institutional reform on the part of external agencies like the IMF. One of the most striking qualities of established institutions is their capacity to perpetuate particular patterns of behaviour, or give continuing primacy to specific ideas, even after they may have become redundant or lost support (Garret and Lange 1996; Goldstein and Keohane 1993). The capacity to influence the reconfiguration of institutions, particularly by defining the normative values they embody is, therefore, a potentially crucial expression and consolidation of political power.

One of the key insights a more historically informed brand of institutionalism has provided is a more detailed picture of the dialectical nature of institutional transformation and 'the relationship between political actors as objects and agents of history' (Thelen and Steinmo 1992: 10). Peter Hall's (1986) seminal study of economic policy-making in Britain and France highlighted the specific 'institutional logic' that informed policy making in each country, which was itself the product of political struggles that had become institutionalised as specific social accommodations. The 'routines and

rationalities' that emerged within each country were an expression of and consolidated the very different approaches to economic management that developed as a consequence of their distinctive historical experiences. The key point that this sort of analysis highlights is that even the most apparently universal and abstract phenomenon like markets are embedded in social frameworks and institutions that are shaped by historically specific patterns of political contestation (Polanyi 1957). Although capitalism may currently be a universal and ubiquitous mode of economic organisation, it is realised in different ways that reflect the existing 'logic' of specific institutional formations. Different historical circumstances impart a degree of path dependency to individual countries because 'the institutional structure induces particular kinds of corporate and government behaviour by constraining and laying out a logic to the market and policy-making process that is particular to that political-economy' (Zysman 1994: 271).

The key point that historical institutionalism illuminates, which is especially important in the context of possible East Asian transformation, is that the past matters and exerts an influence on the present, and that the future is not predetermined, but will be at least partly shaped by contingent factors. It is worth re-emphasising this point and the others that emerge from this overview of institutional theory: in short, historical circumstances impart a degree of path dependency to institutional development. Whether this is manifest at the micro level of everyday interaction and the cognitive maps with which individuals negotiate social reality, or at the level of national or even international politics, past accretions of power and interest crystallise in specific ways that shape and delimit possible future outcomes. The task, then, is to identify which institutions are especially significant in shaping development, under what circumstances change is likely to occur, and how new ideas or patterns of behaviour may be adopted. The second section looks more closely at the sorts of contingent factors that may be influential, paying particular attention to the role of ideas – for if there is one thing that all varieties of institutional theory agree upon, it is that institutions play a crucial role as transmitters of ideational values.

Institutional Change in East Asia

The various schools of institutional theory suggest that institutions have key properties that make them significant determinants of social behaviour and economic outcomes across nations. Indeed, it is possible to argue that it is differences in the operation, density and logic of institutions within regions that makes regional differentiation analytically meaningful in the first place (Grieco 1997; Beeson and Jayasuriya 1998). In this section I shall initially identify some of the more significant sorts of institutions which are particularly important in shaping national and regional modes of governance. Following this, I shall consider the role played by ideas in attempting to encourage institutional reform in East Asia.

Social systems of production

There are a vast number of social phenomena that might be considered as institutions, some of which are plainly more important determinants of significant social outcomes than others. In a series of important articles J. Rogers Hollingsworth and Robert Boyer have developed the concept of ‘social systems of production’, which identifies a number of institutions which they suggest play a key role in determining social outcomes. The idea of a social system of production stands as a shorthand for the complex of institutional and organisational structures which, when combined with social values, distinguish one political space from another. Hollingsworth and Boyer (1998: 2) suggest that individual systems will be characterised by the way the following institutions are integrated into social configurations:

...the industrial relations system; the system of training of workers and managers; the internal structure of corporate firms; the structured relationships among firms in the same industry on the one hand, and on the other firms’ relationships with their suppliers and customers; the financial markets of a society; the conceptions of fairness and justice held by capital and labour; the structure of the state and its policies; and a society’s idiosyncratic

customs and traditions as well as norms, moral principles, rules, laws and recipes for action.

It should be stressed that even though institutions may be nominally alike across countries and regions, the precise role they play and their mode of integration in specific contexts will be dependent on their relationship with other institutions. A key variable here will be the sort of 'co-ordinating mechanism' that predominates within a given social context. Different societies may not necessarily be governed primarily by hierarchically ordered, market-dominated systems, as they are in the Anglo-American countries, but may be embedded in a range of horizontally organised, relationship-based networks. Indeed, Boyer and Hollingsworth (1998: 447) make the important point that much of the developmental success enjoyed by the more 'interventionist' states of East Asia and Western Europe flowed from their ability to develop institutional arrangements that *contained*, rather than enhanced market forces. East Asian social systems of production, therefore, while superficially similar to those of other countries, actually gave expression to differing operational logics, designed to realise particular, historically determined political and social goals. This is not to suggest that East Asian political-economies were without problems before the crisis or necessarily worked for the collective good. Rather, it is to suggest that specific historical accommodations and contingent material circumstances produce highly distinctive systems that reflect particular constellations of power and interest, which then become an institutionalised part of social reality.

Whether such arrangements remain sources of regional, national or corporate advantage is a moot point that needs to be tested in specific circumstances. The important point in the context of this discussion is that East Asia's distinctive institutional configurations clearly *were* considered to be the key to the region's development and former competitiveness (World Bank 1993: 6; 1997: 4). As a consequence, the specific institutional arrangements that underpinned the region's distinctive social systems of production became a deeply embedded and generally legitimate part of the social fabric of individual nations. Indeed, it is worth emphasising that only major crises can establish the preconditions for the sort of fundamental structural transformation that is being

encouraged in East Asia (Gourevitch 1986). Significantly, the immediate source of pressure for change has been a transformation in the way region's formerly admired institutions are now perceived. Whether this shift in perceptions is measured by the judgements of 'the markets' and the rapid exit of mobile capital from the region, or by the abrupt change in sentiment on the part of agencies like the IMF in particular, a critical change in the region's position has been *ideational*. If we want to understand both why the region is being encouraged to reform itself, and what the likelihood of alternative policy initiatives being accepted is, therefore, we need to look more closely at the role of ideas, their possible role as a catalyst for institutional reform, and the sorts of political and economic interests that are supporting or resisting their implementation.

Ideas and institutional reform

Although an interest in the role of ideas is still a relatively novel and contentious element of comparative political-economy (Blyth 1997), a focus on the ideational dimension of East Asia's possible institutional evolution is justified for a number of reasons. First, and most obviously, one of the most striking consequences of the crisis has been a change in the way the region is *perceived*. As I suggested earlier, what were formerly taken to be sources of strength and competitive advantage are now often seen as structural weaknesses that must be reformed. The potential importance of changing sentiment toward the region was most dramatically illustrated in the crisis itself, where an abrupt transformation in perceptions led to massive and rapid capital flight (Winters 2000; Beeson 1998). Nothing material had changed, but a paradigmatic shift in the conventional wisdom about the region's relative strengths and weaknesses created a self-fulfilling momentum.

The key question now that the region is seen by some to be in need of reform, is whether an alternative, market-centred economic policy paradigm of the sort being advocated by organisations like the IMF will be adopted. At a time of crisis, when confidence in existent modes of governance may be undermined, or when external actors and internal forces sympathetic to a new order may seek to exploit the opportunity to promote reform,

then the possibility of reconfiguring the existent institutional order is clearly increased.⁷ Another reason for emphasising the ideational dimension of any possible reform process or institutional change, therefore, is because of the crucial role institutions play as sources and reflections of norms and values. Tangible institutional reform will necessitate a change in the institutional logic or embedded rationality that is reflected in, and shaped by, social practice. The point to emphasise here is that ideas are not simply disembodied entities with no direct connection to material or social ‘reality’. On the contrary, as Alexander Wendt (1999: 135) has persuasively argued, ‘power and interest have the effects they do in virtue of the ideas that make them up’. Put differently, ideas give direction, intentionality and purpose to power.

Yet even if it is accepted that ideas are important determinants of the content and direction of policy in particular and social activity more generally, how are we to understand their relationship to institutions? Here we need to return to the levels of analysis question. One of the most important developments associated with processes of globalisation has been the emergence of a number supra-national institutions and organisations, which have effectively locked national governments into ‘an array of global, regional, and multilateral systems of government’ (Held et al 1999:55). Rosenau (1995) refers to this complex transnational interaction of institutional, ideational, and behavioural factors as ‘governance without government’. Although it is a moot point how extensive this mode of governance was prior to the crisis in East Asia, where national sovereignty was generally jealously guarded, it is important to try and identify how such forces are affecting ‘domestic’ institutions in the region. In particular, we need to consider the role played by specific organisations which play a role at this transnational level, especially where they are self-consciously championing – *or resisting* – particular ideas or reform agendas.⁸ One of the most pregnant characteristics of the emergent and increasingly globalised post-war order is that it appears to have socialised states into certain forms of behaviour which have become an institutionalised part of inter-state relations, effectively consolidating a particular international order (Ikenberry 1998; Ruggie 1992). The key question is how far East Asian states have adopted such practices, particularly at the level of domestic social practice.

At the national level it is important to establish whether such agendas are either being implemented, resisted, or mediated by intervening institutions in such a way so as to give them a distinctive and contingent form. A number of considerations seem pertinent in this regard. On the one hand particular ideas, especially where they are purported to provide solutions to specific problems, may be expected to be attractive to ruling elites casting around for new policies (Campbell 1998; Woods 1995). On the other, we must expect that the existing institutional matrix will – following the logic of path-dependency - continue to exert a major influence. As Hall (1999: 159) points out, ‘the existing institutional structure of the political economy will affect the kinds of adjustments most likely to be made to it or to policy’. The more conventional staples of political analysis are still important here: who wins, who loses, and what capacity do they have to promote or retard institutional reform? In this context, it is important to recognise that throughout East Asia there are already significant numbers of technocrats and business elites that are broadly sympathetic to neoliberal reform.⁹ The crucial question is whether such forces are capable of effectively challenging the existing institutional order through a fundamental ideational shift.

This serves to remind us that many of the institutions in which we are interested here are not only crucial carriers of norms and values, but they affect the populations of East Asia at the sub-state level. Although the transnational consolidation of specific behavioural norms is a crucially important part of the overarching international system in which East Asian states are embedded and an increasing constraint on governmental actions (Kratowil 1989), it is at the sub-state level that some of the most important influences of ideational change may be felt. Institutions at this sub-state or domestic level are crucial components of the ‘social construction of reality’, effectively ‘channelling’ behaviour in specific directions (Berger and Luckman 1966). It is worth re-emphasising that ‘the remarkable feature of institutional structures is that people continue to acknowledge and co-operate in many of them even when it is by no means obviously to their advantage to do so’ (Searle 1995: 92). It is not necessary to decide whether institutions like interventionist states, non-independent legal systems, or even ‘Asian values’ are

appropriate, efficient, or the result of ‘ideological’ manipulation, to recognise that they will affect the chances of reform. The challenge is to identify and weigh the various sources of continuity and change that operate at various levels across the region.

Concluding remarks

This brief and selective review of institutional theory has attempted to identify the most important contributions from the various disciplines that have employed this approach, and suggest how such an approach can be utilised to understand the forces that may be promoting or resisting change in East Asia. By way of a conclusion, I shall recapitulate the key points that have emerged from this discussion and link them to issues of institutional development in the region.

At the heart of the reform agenda being pressed upon the region is a desire to promote greater transparency in the way economic and political institutions operate, and to encourage a greater separation between business and government by making market mechanisms a more central determinant of economic outcomes. Superficially, this may seem like a fairly anodyne and technical argument about the efficient design of institutions in pursuit of reduced transaction costs. And yet, as we have seen, institutional reform will inevitably involve reconfiguring existent patterns of power and interest that currently benefit from them.

One of the most important insights to emerge from the institutionalist approach generally is that historically entrenched patterns of behaviours and social relations powerfully constrain and shape possible future outcomes. Even if – and this is clearly a big ‘if’ – there is a widely held view amongst influential policymakers and vested interests at the national and international levels that institutional reform is desirable, path dependency will inevitably give a particular cast to subsequent developments. The key question in this regard is whether existent institutionalised relationships and patterns of behaviour are so entrenched as to make significant reform difficult. Even if it could be demonstrated that the sort of neoliberal reforms adopted by a number of Anglo-American economies and

promoted by agencies like the IMF were in some way functionally superior – and this remains a highly contentious debate – would this prove enough to overcome existing institutional inertia and encourage thoroughgoing reform?

While ideas about the content and direction of reform are clearly important, their adoption depends largely on the circumstances in which they are championed. If existing institutions are perceived to be dysfunctional, especially in the wake of a crisis, then the prospects for some new paradigm being adopted are plainly enhanced. However, ideational processes are characterised by contestation and reflect the interests and power of their adherents as much as they do any inherent rationality. In this context, we need to remember that, especially within East Asia, alternative, indigenous ideational perspectives have emerged, which may serve an important legitimisation function, and which consequently make any seamless transition to, or adoption of, new ways of organising social, political or economic activity inherently problematic.

This is not to suggest that change is impossible given sufficiently compelling incentives and an attractive, alternative policy paradigm. It is simply to emphasise that the reality of institutional development in East Asia – or anywhere else, for that matter – is likely to be complex, contested and contingent. The great advantage of the institutionalist approach is that it allows us to identify the forces encouraging and resisting change, while simultaneously providing some way of making sense of the complex reality that emerges as a consequence. The multidimensional and multi-level conceptualisation that institutional theory affords provides a way of building up a picture of the distinctive patterns of behaviour that distinguish development within East Asia. Even in an era characterised by processes of globalisation, institutional theory can help us explain the different way such process are mediated and manifest in particular locations.

Endnotes

¹ For an analysis of the crisis, see Beeson and Robison (2000). For a critique of the IMF's handling of the crisis, see Sachs (1998).

² The discussion in this section draws heavily on and develops ideas first outlined in Beeson (1999a).

³ For a discussion of the differences between Commons and Veblen and their relationship to the 'new' institutionalism in economics, see Groewegen et al (1995).

⁴ See Leys (1996) for a more detailed consideration of these differences.

⁵ See Buzan (1995) for a detailed consideration of this issue.

⁶ This view is consistent with Hedley Bull's (1977:56) influential international relations perspective, which argued that the maintenance of an international society that permitted cooperation was dependent upon the institutionalization of specific rules and behaviors.

⁷ The dramatic rise of monetarism in the UK during the 1980s, for example, was clearly partly a result of the apparent exhaustion of British Keynesianism on the one hand, and the proselytizing efforts of champions of market-oriented reform on the other. See Cockett (1994).

⁸ 'Neo-Gramscian' scholars have drawn attention to the crucial role played by various international organizations and institutions in consolidating the ideational influence of neoliberal policies and seemingly constraining the sorts of policies that are deemed feasible. See Gill (1997).

⁹ Not only is it important to acknowledge that there are supporters of neoliberal ideas in East Asia, but where alternatives have been discredited or simply do not exist, this may make the consolidation of a new ideational order more feasible. Chang (1998: 1559) argues that Korea's 'relatively weak intellectual tradition' made it especially receptive to neoliberal ideas.

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