

## **Competing Capitalisms and Neoliberalism: The Dynamics of, and Limits to, Economic Reform in the Asia-Pacific**

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Abstract: This paper explores the impact of neoliberalism on the 'Asia-Pacific' region generally and on Japan and China in particular. It argues that while the impact of neoliberal ideas is having an important long-term impact on the countries of East Asia, there remain important differences in patterns of political practice and economic organisation which continue to distinguish the region. Indeed, there is evidence that the region as a whole may be developing arrangements intended to militate the impact of neoliberalism.

A revised version of this paper will be published in England, Kim & Ward, Kevin (eds.), *Neoliberalism: States, Networks, People*, (Oxford: Blackwell), forthcoming.

### Introduction

The 'Asia-Pacific' region occupies a unique place in the history of capitalist expansion generally and the consolidation of neoliberalism in particular. Depending how the region is defined – and, as we shall see, this is contentious in itself – the Asia-Pacific contains a number of countries that have been enthusiastic advocates of neoliberal reform, as well as many countries that have either actively resisted neoliberalism, or that have developed alternative forms of capitalist organisation in which market mechanisms are less prominent. The 'Anglo-American' economies like The United States, Australia, Canada and New Zealand, have generally favoured a much more market-oriented economic system than their counterparts in East Asia, where governments have played a prominent role in actually controlling the impact of market forces (Zysman 1983; Whitley 1999; Weiss and Hobson 1995). Consequently, the Asia-Pacific contains a number of competing forms of capitalism which makes this region a major site of contestation about the appropriate sorts of regulatory frameworks within which economic activity occurs.

To understand the significance and nature of this contestation it is necessary to say something about some of the most economically important and politically significant countries of this highly diverse region, and the specific historical circumstances that have shaped such disparate outcomes. Although the primary focus of attention in this chapter is the economies of East Asia, it is important to recognize at the outset that the US exerted a powerful influence on the overall international order within which East Asia's post-war development has occurred. As we shall see, despite the US's strategic dominance it has not easily been able to encourage or impose the sort of neoliberal order it has promoted so assiduously (Mastanduno 2000). On the contrary, East Asian nations have generally responded to and actually mediated market forces or neoliberalism in highly distinctive ways. The key historical interactions that have shaped capitalist development in East Asia are briefly mapped in the first section of this chapter, before moving on to a more detailed consideration of some of the most important countries of the region and their distinctive patterns of economic organization. Particular attention is paid to Japan and China; not only are they the largest economies of the region and the most influential political actors, but their

respective experiences exemplify much that is distinctive and at odds with increasingly pervasive neoliberal model.

The central argument of this chapter is that, although the organization of economic activity retains many distinctive features that are deeply embedded in the societies and political practices of the East Asian parts of the Asia-Pacific, ideas and modes of organization associated with neoliberalism – understood here as the privileging of market forces in public and private sector activities<sup>1</sup> - are becoming more influential. China's integration into the wider global economy and the profound domestic changes this is generating are the most dramatic examples of this trend. But Japan is also undergoing a major process of economic restructuring, one that is having a concomitant impact on the ideas and values that have shaped both Japanese society and the array of political and economic relations that are associated with the 'developmental state' Japan pioneered. And yet, despite these important long-term changes, there is a continuing desire on the part of many East Asian governments to continue 'managing the market' and the impact of neoliberalism, albeit on a regional rather than simply a national basis.

### **The Asia-Pacific in Historical Context**

The idea of the Asia-Pacific highlights the contested and socially constructed nature of regional identities (Dirlik 1992). This is a potential problem for political elites anywhere that may wish to impose or encourage the adoption of uniform economic structures and regulatory environments in order to facilitate economic activity and reduce 'transaction costs'. It is an especially acute dilemma in the Asia-Pacific region, however, because such an entity not only has little resonance with many of the elites of the putative region (to say nothing of the mass of the individual nationally-demarcated populations), but the arbitrarily conceived region contains countries that have profoundly different views about how states, societies and markets should be organized. This remains an issue that shapes interactions between the various countries of the region.

When seen in historical context the artificiality of the Asia-Pacific, the potential contradictions and tensions it contains, and the persistence of difference in economic structures and political practice that distinguishes it, becomes more explicable. It is important to remember that the East Asian parts of the Asia-Pacific have been incorporated into the expanding global economy relatively recently, generally under fairly traumatic circumstances. China and Japan highlight the very different ways countries can respond to the historical challenge of capitalist expansion, initially from Western Europe, and more recently from the United States (Moulder 1977). In China's case European imperialism inaugurated a 'century of shame', internal collapse, and the eventual turn to communism. In Japan's case, although the accommodation of 'western' economic, political and strategic challenges sparked a domestic transformation, Japan's response was much more successful in that it remained independent, maintaining the array of distinctive political and economic relationships that would eventually underpin what Chalmers Johnson (1982) famously described as the developmental state.

The significance of the developmental state, in which the state - or more accurately in Japan's case – technically competent, bureaucratic elites, plan the course of national

development in the 'national interest', cannot be underestimated. Despite the problems that the Japanese economy experienced during the 1990s (Katz 1998), the influence of the developmental state model across the region has been immense (Woo-Cumings 1999). While not all other countries may have had the requisite 'state capacity', especially uncorrupt, competent planners, or the favorable historical circumstances to replicate Japan's success, the key point to emphasize is that the planned approach to economic development stands in stark contrast to the idealized neoliberal model. Before considering the implications of this in any detail, however, it is necessary to explain why a state-led approach to development has persisted for so long in East Asia.

The key comparative question to ask about East Asia is: Why do neoliberal ideas seem to be making major inroads into former bastions of state-led development and more interventionist styles of economic management at this particular moment of history? While the dynamics are complex and multifaceted, one of the most important factors is only indirectly connected to questions of economic reform. The geopolitical context in which initially Japan, and latterly a subsequent generation of developmental states, emerged in East Asia was dominated by the Cold War. The idea of an East Asian, let alone an Asia-Pacific region was foreclosed by the bipolar nature of the post-World War II order. Consequently, the sort of liberal economic order that the US successfully institutionalized in much of 'the West' either directly or through the auspices of new, influential international financial institutions (IFIs) like the International Monetary Fund (IMF), the World Bank, and what would become the World Trade Organization (WTO), did not take hold in the same way in East Asia (Latham 1997). The ideologically fractured nature of East Asia, and the concomitant privileging of security issues by the US meant that, not only did the US assist the emerging capitalist economies of the region with their reconstruction and development, but in the context of the geopolitical stand-off with their communist adversaries, the Americans were prepared to tolerate an array of mercantilist, state-dominated practices which they did not condone (Beeson forthcoming).

As a result, the institutions and practices that the US created and championed in the aftermath of the Second World War did not have as much influence in East Asia as they did in Western Europe. At one level this was simply because countries like China remained communist and were thus out of the American-led sphere of influence. But even those countries that were allied to the US were not pressured to impose potentially difficult or destabilizing reforms. On the contrary, the US tolerated East Asian-style state intervention if it meant the successful development of capitalist allies. Indeed, the US actively supported the generally authoritarian regimes that oversaw economic development in much of East Asia (Cumings 1997). The key points to stress from this highly truncated but vital historical background are that, first, a very different form of political and economic organization has developed and *persists* in much of East Asia; second, the geopolitical environment in which East Asia's erstwhile 'miracle' economies took-off has changed profoundly. The end of the Cold War and the acceleration of a range of process associated with 'globalization' has fundamentally altered the context within which East Asian economies operate. Not only is the US freed from its Cold War constraints and able to pursue its own national goals and reformist agendas, but the way formerly discrete national economies are integrated into the wider global economy is forcing a reassessment of public policy settings across the region. Before we assess the impact of these changes

and the extent of pro-market reform, however, it is necessary to explain what is distinctive about East Asia and what must change if neoliberalism is to make further inroads there.

### **Capitalism in East Asia**

Japan and China are the two largest economies in the East Asian region, although China has only recently achieved this status as a consequence of its remarkable economic expansion since the 1970s (Hale and Hale 2003). Japan has been a crucial source of investment for the region, and China's sheer size, its expanding market and its concomitant strategic significance mean both countries will be central determinants of East Asia's future trajectory. The original reason that East Asia attracted so much attention was Japan's unparalleled economic transformation in the post-war period, which saw it rapidly move from war-time devastation to become the second largest economy in the world. The story of Japan's post-war reconstruction has been told many times and there is no intention of adding to this vast literature here (but see, for example Tabb 1995; Johnson 1982), but a couple of aspects of 'the Japanese model' are worth emphasizing as they remind us that there is nothing inevitable about the style, course, or end-point of the developmental experience.<sup>2</sup>

#### *Japan: Managing the market*

A number of features of Japanese-style capitalism are fundamentally at odds with the economic ideas and assumptions that dominate in the Anglo-American countries. Not only is there a strong tradition of radical and Marxist thinking in Japanese economic thinking (Morris-Suzuki 1989), for example, but more fundamentally perhaps, the history and structure of economic development in Japan has also entrenched very different patterns of relationships between key actors in business, government and the bureaucracy. Despite the best efforts of the Americans when they occupied Japan in the post-war period, it is revealing that they were unable to erase the earlier patterns of business-government cooperation which had resulted in the self-conscious creation of large business conglomerates in the pre-war period (Johnson 1982). The willingness to 'interfere' in market processes and to self-consciously *plan* the course of economic development has been one of the defining qualities of the developmental state.

It is noteworthy that competition, which has frequently been seen as the normatively desirable cornerstone of an 'efficient' market economy in the West, has traditionally been looked upon with great suspicion in Japan and in other parts of Asia that have followed Japan's lead (Encarnation 1992). The market, is something which should be 'governed' (Wade 1990), rather than allowed to dictate economic and even social outcomes. At one level this is an expression of the guiding rationale of the developmental state: economic development is not something that simply 'happens' as a consequence of the fortuitous, unplanned influence of market forces, but is a result of policymakers intervening to direct or guide economic outcomes. The notion of comparative advantage – a central tenet of orthodox economics, which suggests that individual countries should exploit their endowments and do what they are 'naturally' best at – is comprehensively refuted by the historical experience of development in most of East Asia. Japanese planners, in defiance of the conventional western economic wisdom, and lacking any relevant 'natural' advantages, set out to *create* a

comparative advantage in a range of manufacturing industries that ultimately provided the backbone of its industrial economy.

In its heyday, the Japanese developmental state was instrumental in transforming both the structure of the Japanese economy and in underpinning the particular social accommodation that provided benefits for much of Japan's population. At an elite level, a tight nexus of political, economic and bureaucratic actors developed a highly effective set of relationships with which to guide economic development. At a mass level, the general pay-off was rapidly rising living standards and – for a privileged minority, at least – the guarantee of life-time employment. Compared with the neoliberal alternative, such outcomes may seem appealing; but it is important not to take too rosy or uncritical a view of some of the alternatives to the neoliberal model, either. The 'iron triangle' between business, government and the bureaucracy ultimately degenerated into a corrupt and self-serving pattern of behavior that invariably served elites at the expense of the general population (Beeson 2003a). Indeed, even life-time employment was something of a double-edged sword that compromised labour's independence as much as it guaranteed employment (Tabb 1995). In short, while the achievements of the developmental state were unprecedented and remarkable, they were not without their problems either.

Nevertheless, given the undoubted success of then Japanese economy for the first three or four decades after the war, why would Japan's planners or the more general population wish to abandon such a successful model and move toward a more market-oriented model? The answer to this puzzle is a complex mix of the structural, the agential and the ideational. The key actors are to be found both in and outside Japan. Most obviously, Japan's dependence on the US strategically and economically – especially the lucrative North American consumer markets – has made it especially vulnerable to American political pressure (Hughes and Fukushima 2004). As Japan's economy grew, and as Japanese exports poured into American, the US initiated a long-running series of bilateral trade negotiations designed to open Japan up to American exports and liberalize the Japanese economy as a whole (Schoppa 1997). While these negotiations may not always have had the dramatic impact that the Americans hoped, it is clear that they have contributed to a gradual erosion of Japanese trade barriers and a greater integration of Japanese-based economic activity with that of the rest of the world.

The structural changes that have seen Japan move toward the market model are multifaceted. On the one hand, the general restructuring of the international political economy that has seen multinationals from Japan and elsewhere become outward-looking and mobile (Ruigrok and van Tulder 1995), has subtly changed the orientation of what were formerly unambiguously 'Japanese' firms. While it is important not to overstate this as there are important continuing differences in the way that companies from different countries organize themselves (Doremus et al. 1999), foreign competitive pressures have forced many Japanese companies to shift production offshore or to raise finance in international bond markets. Indeed, the migration of Japanese firms and the steady liberalization of the financial sector have fundamentally changed the internal relationships and structures of the formerly discrete 'Japanese economy' (Pempel 1999). The tight relationships that were so central to the operation of the Japanese economy have begun to erode and the sense of national orientation and commitment has also diminished. Such changes have also

undermined the efficacy of the developmental state. When firms can borrow freely in international capital markets, and when the Japanese finance sector lobbies for greater liberalization, the policy tools that allowed Japanese planners to guide the course of development simply no longer work: the state can no longer use the promise of access to scarce finance to cajole the private sector into behaving as it might wish (Leyshon 1994).

Japan has been vulnerable, perhaps uniquely so among the developed economies, to pressure from the US. It was America that insisted that Japan allow its currency to appreciate during the 1980s, an initiative that failed to address its intended target – America's trade deficit with Japan – but which ultimately led to the 'bubble economy' in Japan (Wood 1992). The greatest significance of the bubble economy - which saw a massive rise and fall in the value of Japanese shares and real estate - as far as this discussion is concerned, is that it undermined the performance of the Japanese economy and confidence in the bureaucratic elites charged with managing it. In such circumstances, the ideational consensus that had already taken hold across the Anglo-American economies about the superiority, if not the inevitability, of neoliberalism as the preferred mode of public policy became more prominent in Japan. It is difficult to overstate just what a transformation has occurred in the way the 'Japanese model' is now viewed (see, for example, Porter, Takeuchi and Sakakibara 2000), potentially paving the way for a transformation of public policy along neoliberal lines. However, the crucial difference between Japan and countries like the US and Australia, is that while the rhetoric of neoliberal-style reform may be endlessly invoked, its application is uncertain and partial. There are powerful vested interests that continue to benefit from the existent order: unemployment rates remain comparatively low in Japan despite the economic slow-down and significant market-oriented reform would undoubtedly further erode job security. Similarly, the iron triangle has not disappeared and is still capable of frustrating reformist efforts. In short, many Japanese benefit from the old order and resist the untried and potentially disruptive market model (Lincoln 2001). The flip side of embodied obstacles to change is a comparative lack of political leverage amongst the domestic champions of liberalization (Tilton 1998).

The Japanese experience suggests a number of things about the potential impact and significance of neoliberalism. First, the Japanese model demonstrated that - in particular historical circumstances, at least – not only are there major alternatives to the sort of market-dominated model promoted by the US and the IFIs, but that it can be highly successful and widely emulated. The second point to make is quite different, though: once the state's ability to manage the 'national economy' is eroded by long-run structural changes in the international political economy, which affect the way local firms and financial institutions are articulated with 'external' economic forces and actors, then there is an inevitable diminution of the capacity and legitimacy of the state as a consequence. This last factor is vital, because for decades Japan's developmental state was seen as legitimate and competent. Once this status was undermined, especially as a consequence of the poor performance of the Japanese economy and revelations about corruption within the ranks of Japan's ruling elites, the potential for an ideational shift to an alternative model is clearly greater. Indeed, the third point to make about the Japanese experience is that it is testimony to the highly institutionalized and embedded nature of the old order that so little has changed. In other words, even if advocates of neoliberal reform amongst some of

Japan's business, academic and even bureaucratic elites could win the ideational or technical battle about the optimal form of economic organization – which remains highly debatable – there would still be powerful institutional obstacles to its implementation.

### *China: Embracing the market*

That China should be the focus an inquiry into the extent of neoliberalism's possible impact is remarkable, given its history and its continuing status as a nominally 'communist' country. Indeed, it is only as a consequence of major geopolitical turning points like China's rapprochement with the US in 1972 and the ending of the Cold War in 1989 (Yahuda 1996), that a discussion of the possible impact of neoliberalism on China makes any sense at all. But China has a particular significance in contemporary debates about economic reform for a number of reasons, not the least of which being its former status as one of the last major alternatives to what is now a ubiquitous capitalist system. Because China accounts for around a fifth of the world's population means that whatever happens there is crucially important. The fact that China's transformation into a market economy has been far more successful, better planned, and much less traumatic than in the Soviet Union's is also important for comparative purposes. Even if there are still questions about the extent of market-oriented reform in China, its embrace of the market and the fact that it is rapidly becoming a capitalist economy in all but name is a transformation of world historical significance. Indeed, in this regard Susan Strange (1997) is surely correct to observe that for all the continuing importance of, and debate about, different forms of capitalism (Coates 2000; Hall and Soskice 2001), it is the fact that economies are capitalist at all that is the significant point. In other words, the similarities between broadly market-oriented economies are greater than their differences to non-market economies. Seen in the long-run evolution of economic systems there is a degree of 'convergence' in economic systems (Beeson 2002), and it is this that makes neoliberal ideas potentially influential on a truly global scale.

Thus, examining the way that capitalism is realized in different locations at different times reminds us of a couple of possibilities. First, contingent factors will shape the precise form that any systemic form of economic organization will take: 'Chinese socialism' was very different to the Soviet Union's, so it should come as no surprise that 'Chinese capitalism' retains distinctive local features. Second, capitalism and neoliberalism are not synonymous, despite the increased influence of the latter. The state's desire to retain as much control as possible over market forces which has been such a distinctive characteristic of East Asia remains important, even if it appears to have been steadily eroded in the long term. However, we should not presume that such processes constitute a one way street or are impervious to change: the very size of China in particular means that it will inevitably exert an influence on the rest of the world in the future

The story of Peoples' Republic of China's (PRC) embrace of the market has been told in detail elsewhere (Shirk 1994; Lardy 1992), and it is sufficient to highlight some of the more important aspects of this change that are significant here. Two points are worth noting briefly, however. First, while there had been some significant economic development under Mao Zedong, the prospect of accelerated economic development through integration into the global capitalist economy was attractive to China's

political elites because it offered a vital source of legitimation for the Communist Party of China (CCP) (White 1993). The second point to make is that prior to the economic opening instituted under Deng Xiaoping in 1978, domestic institutions had prevailed over economic forces, allowing the CCP to effectively control the national economy. Once the reform process was embarked upon, however, international economic integration may have helped to accelerate dramatically the pace of economic development, but it was at the cost of diminished control over what became an increasingly internationalized economy (Shirk 1996). Although China's decision to embrace the market and an international order dominated by the established capitalist powers has clearly accelerated economic development, like Japan before it, China's elites have discovered that once the process of structural opening and integration is embarked upon, there is an inevitable diminution of both political control and change in the nature of 'the Chinese economy' itself.

Whereas Japan has deliberately tried to limit foreign investment and the degree of foreign ownership of its economy, especially during its high growth developmental stage, China has welcomed foreign direct investment and it has grown enormously as a consequence. However, foreign ownership, especially when combined with a more general move to reduce the size of the public sector and encourage private enterprise, is fundamentally altering the structure of the Chinese economy. Privately owned companies are now estimated to account for about 60% of China's overall GDP, but state owned enterprises (SOEs) still employ something like 35% of the urban workforce (*Economist* 2004a). More importantly in the long term, perhaps, wholly foreign owned enterprises not only accounted for more than 55 per cent of China's exports in 2003, but they are notoriously poor at transferring technology to the host nation (Gilboy 2004). China's industrialization may be rapid, but it is highly dependent on external economic actors. Managing such a structural transformation would be a challenge for any government, but for one that is nominally communist and with a claim to represent the interests of the proletariat it is especially acute.<sup>3</sup>

What is of greatest significance in the context of this discussion is that, like Japan, China's transformation has structural, agential and ideational components. Significantly, however, China's communist rulers have taken the advice of the major IFIs about the best ways of integrating their economy into the wider world. In Nicholas Lardy's (1999: 209) view, 'it would be difficult to overstate the impact of China's interaction with the World Bank and the IMF'. The IFIs have assumed an especially important role in promoting neoliberal ideas across the East Asian part of the Asia-Pacific, especially following the economic crisis of 1997/8 (Beeson 2003b). In China there has been an important internal debate about the impact and merits of 'globalization and the most appropriate ways for China to respond to its manifold challenges (Garrett 2001). This is not to suggest that such ideas are necessarily uncritically adopted (see Beeson and Islam forthcoming), but when combined with more subtle, structural effects, they clearly have the potential to be highly influential (Woods 1995). Like Japan, China's economic leaders discovered that once China became involved in the international financial system through its extensive borrowings from the World Bank, and especially through its activities in international bond and equity markets, its bureaucratic elites have been socialized into the informal norms and practices of the global financial sector (Lardy 1999).



The extent of China's embrace of the market can be seen in a number of revealing and significant ways. The impact of the IFIs, for example, is not limited to guidance and as agents of socialization. One of the most important manifestations of both China's acquiescence to broadly neoliberal reforms, and to the influence of the IFIs, was the decision of China's elites to seek membership of the World Trade Organization (WTO). This an institution established and dominated by the major capitalist powers and a key instrument for the promotion of economic liberalization, which required China to make fundamental and far-reaching legislative changes that were designed to lock-in market-oriented reforms. Not only did such reforms entrench a general move away from direct management of the economy through the elimination of formerly powerful planning agencies (Fewsmith 2001), but they also required China to revise the PRC Constitution to create a non-discriminatory trade and investment regime (Potter 2001).

In addition to such high profile institutional reforms, attitudes amongst significant sections of the Chinese population are being transformed; something that suggests the process of reform is irreversible. Significantly, opponents of 'globalization' generally, or market-oriented reform in particular are 'generally outside policymaking circles and have little impact on Chinese policy' (Garrett 2001: 417). Indeed, many Party officials are no longer concerned with attempting to reconcile the precepts of communist ideology with the 'contradictions' of the market but are, instead, frequently using their positions to 'informally' privatize state assets and turn themselves into entrepreneurs (Ding 2000). The fact that capitalists have now been invited to join the CCP is indicative of the new more 'pragmatic' attitude to economic development, famously captured in the Dengist aphorism: 'it doesn't matter whether a cat is black or white, as long as it catches mice'. Certainly the rising educated and increasingly wealthy young generation in China's rapidly developing Southeastern provinces seem to have taken to the capitalist road with alacrity, and are more concerned with designer labels than Party ideology (*Economist* 2004b).

That 'communist' China could so rapidly have embraced capitalism is testimony to the pervasiveness of and – it has to be acknowledged – the effectiveness of market-oriented reform. Clearly, China's opening up and adoption of increasingly market-oriented rather than state-planned practices has been central to its rapid development of late. While it is important to acknowledge that such process were initially driven by internal political forces rather than external systemic factors (Pearson 1999), the extent of the transformation and the self-reinforcing nature of the process once in place is hard to exaggerate. This is not to say that 'China' will rapidly become a variant of Anglo-American capitalism, however. The scale of China, the limited impact reforms have had on economic practices and living standards in the West, the continuing importance of agriculture, the persistence of powerful vested economic and political interests that are, if not hostile, then intent on ensuring that capitalism has Chinese characteristics, all suggest that neoliberalism will continue to have a limited purchase. There are other, constraints that could derail the seamless embrace of the market, too: the non-negotiable nature of Taiwan, coupled with a rising tide of nationalism and China's continuing wariness of American hegemony could all conspire to make continuing integration into the global capitalist economy more of a geopolitical than a technocratic issue (Deng 2001; Sheng 1999).

## **Regionalism and neoliberalism**

The two most important economies of East Asia have, therefore, been significantly affected by their integration into the international political economy. This is especially true of China, which has made a major transition from a centrally-planned, state-dominated economic system to one increasingly predicated on market mechanisms - all within the space of three decades. And yet, for all the significant restructuring that has taken place in both China, Japan and many of the other dirigiste economies of East Asia, there are still important and continuing differences in the way economic and even political activity is organized across much of the region. This is most obvious in 'communist' China, but in much of the region close relationships between government and business remain much closer than they do in the Anglo-American economies, and the state still plays a more prominent role in shaping economic outcomes (Gomez 2002).

If we think of neoliberalism as 'the mobilization of state power in the contradictory extension and reproduction of market(-like) rule', as Tickell and Peck (2003: 166) suggest, then the significance of East Asia is that it is widely associated with a particular form of market organization, one in which the state not only continues to play a prominent role, but which also seeks to mediate the impact of market forces. In other words, while all states may play a crucial role in providing the regulatory framework without which any form of capitalism would be impossible (Heilbroner 1985), what is distinctive about many East Asian governments is that they deliberately seek to 'interfere' with market processes for a variety of social and political purposes in ways that are at odds with the neoliberal vision espoused by the US and the IFIs. This economic apostasy is not simply an ideological challenge to the dominant neoliberal model, it is also frequently seen as a source of 'unfair' advantage in international economic competition. Perceptions about the competitive implications of different forms of economic organization become especially significant when the US judges that its chronic trade deficits with East Asia are a consequence of illegitimate interference in market processes, and has the power to press for reform (Mastanduno 2000). The inherent potential for a 'clash of capitalisms' became apparent in the aftermath of the economic crisis that gripped much of the region in the late 1990s (Johnson 1998). However, it is important to recognize that ideational contestation over, and political tension about, the most appropriate form of capitalist organization pre-dated the crisis; the significance of the crisis was to provide the economic and political leverage with which the US and the IFIs could try to compel reform along more neoliberal lines (Bello 1998).

As we have seen, the IFIs have been crucial mechanisms in the world-wide promotion of a more Anglo-American form of market-order, one associated with the Washington consensus. This well known paradigm of trade and financial sector liberalization, privatization and deregulation has never been enthusiastically embraced in East Asia (Beeson and Islam forthcoming), despite the existence of a number of organizations that were specifically intended to promote such an agenda. The Asia Pacific Economic Cooperation (APEC) forum is perhaps the most important example of institutional innovation with the express intention of pushing trade liberalization amongst the traditionally protectionist East Asian economies. While APEC's consensual, technocratic approach and lack of organizational leverage may help to account for its minimal achievements and profile (Ravenhill 2001), it is also

emblematic of a more fundamental disjuncture between the East Asian and Anglo-American members of the more broadly conceived Asia-Pacific region. Many of the East Asian members of APEC were far less enthusiastic about the pace and extent of trade liberalization than were the Americans and Australians who were its principal champions. In short, 'Asia-Pacific' institutions charged with promoting neoliberal reform were unable to definitively win the battle of ideas about economic policy, or overcome the institutionalized obstacles that inhibited reform.

Although the promotion of financial sector liberalization initially made significant inroads in the region, in the wake of the financial crisis, there has been some re-thinking, and unprecedented moves designed to insulate the region as a whole from potentially destructive flows of mobile financial capital. In this regard, the financial crisis was a critical turning point in attitudes about wholesale liberalization and 'deregulation'. As a consequence of the crisis many of East Asia's political and economic elites took the view that, not only were highly mobile, volatile flows of capital the principal causes of the 'contagion' that gripped one economy after another as 'investors' fled the region (Winters 2000), but that despite the risks and questionable benefits as far as the region was concerned, the US was continuing to promote further liberalization because it suited the collective interests of 'Wall St' to do so (Wade 2001; Beeson 2003b). In such circumstances there was both a ground swell of resentment about the sorts of neoliberal reforms that were being encouraged upon the region (Higgott 1998), and a determination to create new mechanisms and relationships with which to resist them (Webber 2001). The emergence of 'ASEAN+3', an exclusively East Asian regional grouping that includes both Japan, China, South Korea, as well as the countries of Southeast Asia, is evidence of a region-wide reaction and resistance to external political and economic pressures (Beeson 2003c). While some of the major cooperative initiatives like monetary cooperation may be somewhat arcane and technical, they reflect a continuing desire on the part of East Asian governments to control the manner and pace of economic integration, a recognition of the growing importance of capital flows as opposed to trade (Dieter and Higgott 2003), and an unwillingness to simply 'leave it to the market', or – more accurately – the agencies and actors that have historically encouraged more radical neoliberal reform.

It remains to be seen how such relatively embryonic regional processes will work themselves out. The scale of regional initiatives means that it is difficult to generalize about their effects. Indeed, it is important to recognize that there are growing numbers of supporters of neoliberal ideas within the region, partly as a consequence of long-run structural change and integration into the global economy, partly as a consequence of ideational contests in which key exemplars of Asian exceptionalism like Japan have diminished credibility (Ravenhill 2004). This truncated discussion of East Asian regionalism highlights a number of important aspects about the way in which market-oriented behavior has expended globally. As we saw in the first section of this chapter, the historical circumstances in which parts of East Asia were drawn into the expanding capitalist system were unique, frequently traumatic, and overlaid on an existent array of institutionalized social, political and economic practices. Paradoxically, however, such factors, especially when combined with the impact of major historical turning points like the decolonization process, and the Cold War, have provided the basis for a sense of region-wide identity and mobilization (Stubbs 2002). While states have been critical determinants of the course of economic

development across the region, the very nature of contemporary transnational or 'global' processes means that individual nation states may of necessity need to cooperate to respond to such challenges. This is most obvious at the level of corporate restructuring, but it is also clear that the actions of either hegemonic powers or influential inter-governmental organizations may not be easily resisted by individual nations. Regional cooperation provides one possible means of more effectively mediating material, political and ideational forces.

### **Concluding remarks**

When attempting to make sense of the expanding impact of capitalism generally or neoliberalism in particular, much depends upon where and when we direct our attention. When seen in a time frame of centuries rather than decades, it is East Asia's rapid integration into the increasingly global capitalist system that is likely to prove of greatest significance in the long term (Braudel 1992). The reality that, to paraphrase Margaret Thatcher, there is no alternative to capitalism of some sort, is one of the most distinctive and constraining features of the contemporary world order. And yet within that overarching, pervasive order there are significant and continuing differences in the way broadly capitalist systems are organized, and the way in which market forces are mediated. The Washington consensus is not universally admired and has not been adopted everywhere. Indeed, a substantial backlash against some of the major precepts of neoliberalism on normative and pragmatic grounds has forced a significant re-thinking of the model to include things like social safety nets and greater accountability (Higgott 2000; Beeson and Islam forthcoming). The point to emphasize is that the precise way markets are realized depends upon a specific array of historically contingent social and political forces that determine the way economic activity is organized and the relative influence market mechanisms. While market forces may have swept aside all other competing forms of economic organization – for the moment, at least - what a particular focus on the status of neoliberalism suggests is that the precise form they assume may continue to deviate from the idealized neoliberal model in significant ways.

What the East Asian experience suggests, therefore, is that capitalism continues to display significant variation across different regions. The precise historical circumstances that pertain in different regions will delimit the possible range of economic structures, practices and relationships that are feasible in different parts of the world: it is not simply that there are substantial political and economic interests resisting Anglo-American neoliberalism in Asia, but there are significant doubts about whether the sort of non-state, private sector dominated patterns of relationships that predominate in Western Europe could be replicated in East Asia in the short-term even if there was a desire to do so (see Beeson 2001). In other words, in much of East Asia, where civil society and the private sector remain comparatively underdeveloped, there may be no alternative to major state intervention in promoting economic developmental and regulating economic activity. In such circumstances, neoliberalism will not only continue to be powerfully mediated by local political and social forces, but will continue look rather than different in East Asia to the ideal type so assiduously promoted by the Anglo-American nations and the IFIs they dominate.

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<sup>1</sup> The basic tenets of neoliberalism have been captured by John Williamson's (1994) idea of the 'Washington consensus', which provides a template for both neoliberal public policy, and for an 'appropriate' environment for private sector economic activity. The key ideas are now the familiar staples of much governmental rhetoric in the 'west', at least: small government, low taxation, deregulation, privatisation, and enhanced competition.

<sup>2</sup> It is important to note that Japan's reconstruction was actively supported by the US which saw it as the lynchpin of capitalist development in East Asia and as a bulwark to Soviet expansionism. See Moulder (1977).

<sup>3</sup> Reconciling the competing, possibly antithetical demands of successful integration into the global capitalist economy, whilst simultaneously paying lip service to a Marxist-inspired ideology that is increasingly flouted in practice, remains one of the central challenges facing the Chinese government. See, Ding, X.L. 1994. 'Institutional amphibiousness and the transition from communism: the case of China.' *British Journal of Political Science* 24:293-318.