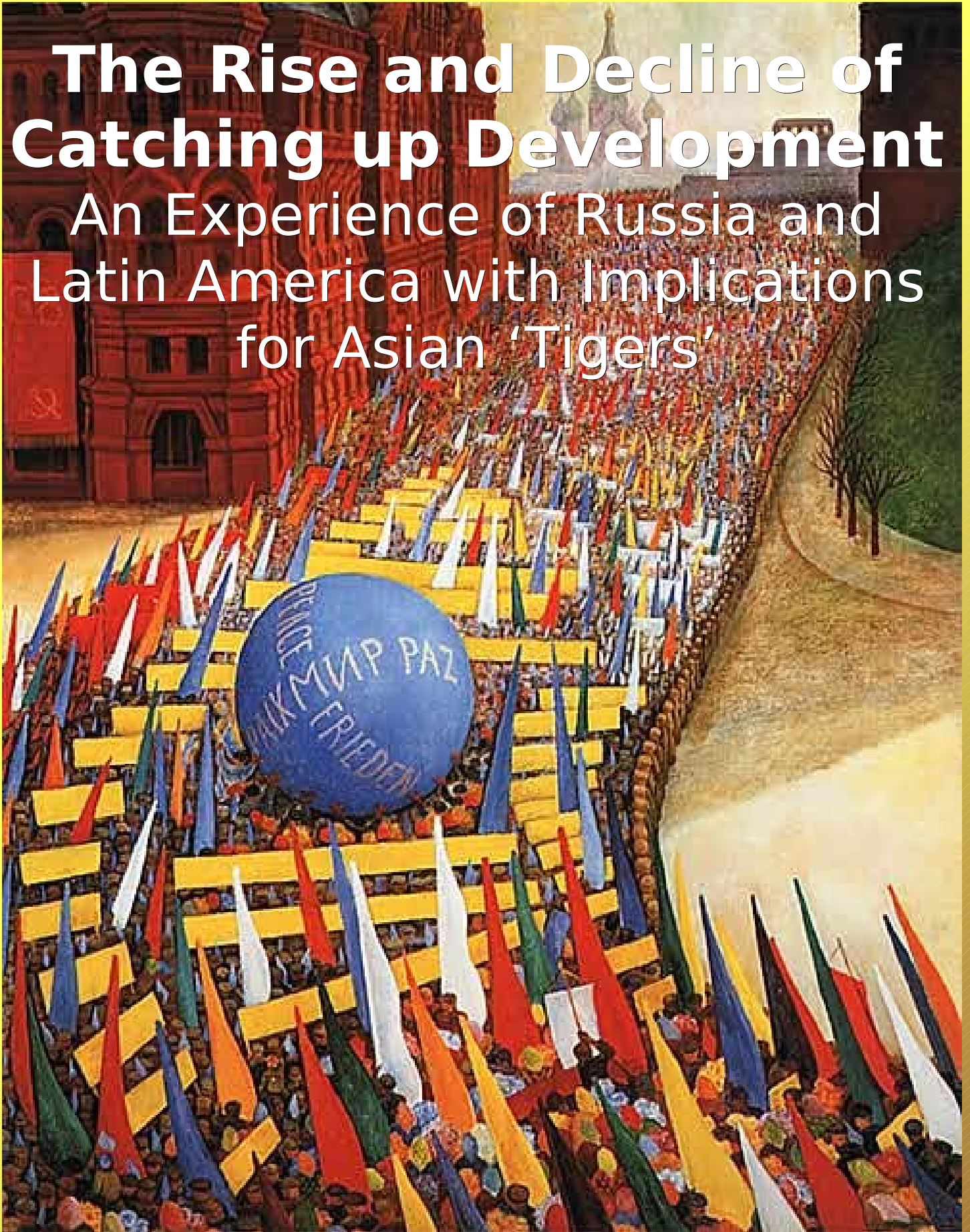


Victor Krasilshchikov

# The Rise and Decline of Catching up Development

An Experience of Russia and  
Latin America with Implications  
for Asian 'Tigers'



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An Experience of Russia and Latin America with Implications for Asian ‘Tigers’

By Victor Krasilshchikov

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2007

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## Abbreviations

<b>BID</b>	the Spanish abbreviation of IADB ( <i>Banco Interamericano de Desarrollo</i> )
<b>CEPAL</b>	the Spanish abbreviation of ECLA(C) ( <i>Comisión Económica para la América Latina y el Caribe</i> ).
<b>CIS</b>	the Commonwealth of Independent States (the Community of republics of the former Soviet Union, except the Baltic states).
<b>COMECON</b>	the Council for the Mutual Economic Aid (the economic organization of the former 'socialist' countries belonging to the Soviet block).
<b>CPSU</b>	the Communist Party of the Soviet Union
<b>E/SEA</b>	East and Southeast Asia(n)
<b>EA</b>	East Asia(n)
<b>ECLA (ECLAC)</b>	the United Nations Commission for Latin America (and the Caribbean).
<b>EU</b>	European Union
<b>FDI</b>	foreign direct investment(s)
<b>GDP</b>	gross domestic product
<b>GNP</b>	gross national product
<b>IADB</b>	Inter-American Development Bank
<b>IFC</b>	International Financial Corporation (affiliated with the World Bank)
<b>IMF</b>	International Monetary Fund
<b>ISI</b>	Import substitution industrialization
<b>LA</b>	Latin America
<b>NAFTA</b>	North American Free Trade Agreement (Canada, Mexico, and the US).
<b>NGO (NGOs)</b>	Non-government organization(s)
<b>NIC</b>	Newly industrializing (industrialized) countries
<b>NIE</b>	Newly industrializing (industrialized) economies
<b>NU</b>	<i>Naciones Unidas</i> (UN in Spanish)
<b>OECD</b>	the Organization for Economic Co-operation and Development
<b>PPP</b>	parity of purchasing power (of currencies)
<b>R &amp; D</b>	research and development (scientific-technological)
<b>SEA</b>	Southeast Asia(n)
<b>S &amp; T</b>	science and technology(ies), scientific and technological
<b>TNB</b>	Transnational banks
<b>TNC</b>	Transnational corporations
<b>UN</b>	United Nations (Organization)
<b>US</b>	the United States of America
<b>USSR</b>	Union of the Soviet Socialist Republics
<b>WTO</b>	World Trade Organization

## **Preface and Acknowledgements**

A stay in India not only excites interest to fascinating sights and romantic adventures but also is very favourable for writing of scientific papers and books. My preceding book, “Catching Up with the Past Century”, was written for a half during my stay in India in 1996 when I delivered a series of lectures under the general title “Russian Development in the XX Century in the Context of World Modernizations” for students and staff of the Centre for Russian, CIS, and East European Studies, a subunit of the School of International Studies, Jawaharlal Nehru University. Then I used the drafts of lectures prepared previously in English writing the book in Russian.

The given book has begun to be written, directly in English, in India, too, during my three months stay at the position of visiting fellow at Maulana Abul Kalam Azad Institute of Asian Studies, Kolkata (Calcutta) in January – March 2004. It deals with the general problems of catching up development, which have been considered through lenses of the concrete cases studies of the former Soviet Union and post-Soviet Russia, Latin American and East Asian countries. The book is subdivided into two parts. In the first part, I consider some general problems of development in the past century and draw attention to the cases of Russia and Latin American countries. The second part is devoted to the NICs of E/SEA.

One of the questions, which inevitably emerge in the process of studying the called three regions’ catching up development, is the following: why the models of development that enabled to overcome a social-economic backwardness over almost a half of the century, failed in the end of the XX century? Indeed, the regions chosen as subjects of analysis were ‘heroes’ of the catching up development in the past century. There were periods when each of these ‘heroes’ was apparently reaching the strategic goal, namely, attaining the level of social-economic and technological development of the West. However, then something wrong suddenly occurred to them, and a distance between ‘catchers up’ and the world economic leaders widened again, depreciating their colossal efforts and expenditures aimed at realizing ‘the historic dream’. All three regions achieved undeniable accomplishments in the process of industrialization, but in the last quarter of the XX century suffered the deep crises and appeared as victims of new, post-industrial trends in the West, although, of course, to different degrees.

In particular, the ‘socialist construction’ in the former Soviet Union allowed the Big Russia to become the second super-power and looked as a pattern of successful development for many peripheral and semi-peripheral countries. Nevertheless, the Soviet Union collapsed, and today ‘flotsam and jetsam’ of the former second super-power drift to a periphery of the world. Moreover, some parts of the former USSR are now under jeopardy to fall out of the world system at all joining *the global zone of exclusion* from development.

Since the mid-30s of the XX century, several Latin American countries attempted to win in their ‘second war for liberation’ —in struggle for deliverance from the economic dependence on the West through an accelerated industrialization under the strong state guidance. An illusion that they were capturing ‘fortune for tail’ and joining a group of the developed countries arose for no one time but it was only an illusion, even if previously it had some real foundations. Despite of the growth of Latin American industry, the economic dependence on the West did not weakened but had been strengthening, and, as a consequence, a vulnerability of the continent to fluctuations of the world market did not de-

crease while a qualitative gap between Latin America and the world leaders had not been narrowed. Such a race continued until the 1980s when the deep crisis shot on the continent. Illusions were dissipated, and a serious revision of the development practice and theory had been set up on agenda.

Over forty years, until the beginning of the 1990s, Japan performed very fast rate of the economic growth but since 1991 the Japanese economy suffered stagnation, and its recent revival does not allow us to speak about stable resumption of the growth after the long period of stagnation.

At last, the crisis of 1997-98 undermined a widespread belief in East Asian ‘miracle’, a rapid recuperation after crisis notwithstanding.

Was it occasional coincidence that such seemingly different events as a disintegration of the USSR, a series of crises in Latin America in the 1980s-90s, a stagnation of Japan, and East Asian financial crisis occurred almost simultaneously? Did these events have some common features and even common foundations?

In my opinion, there were, at least, three common features of development of the three regions under our consideration, which would allow us to treat the called above phenomena as different expressions of the single process. These features were the following:

- 1) A character of the catching up development itself;
- 2) A situation of modernization traps, in particular, as a consequence of conservative modernization;
- 3) An inability to respond to the new challenges in the end of the XX century. Neither Russia, nor Latin America, nor E/SEA demonstrated a capability to enter a post-industrial era without more or less serious troubles and losses. Moreover, strictly speaking, they entered this era, although each region to a proper degree, but rather in negative, destructive sense. In other words, their losses by its scale exceeded their benefits and gains, particularly, in the case of Russia and, less a little, Latin American countries.

The prominent French historian Fernand Braudel noted in his famous book about material civilization and capitalism that sometimes Madam History deals out cards to the social players, and new deals can be held but they are very rare. [Braudel F., 1979: 415; Braudel F., 1992: 466].<sup>1</sup> One gets trumps, and even trump ace. Will Asia take out the social-economic and technological trumps of the XXI century? Will the world race game be gainful for the East in the future, as Andre Gunder Frank predicted when he wrote that “[T]he contemporary economic expansion in East Asia may spell the beginnings of a return of Asia to a leading role in the world economy”? [Frank A.G., 2005: 217]. Can Asia become ‘globalization-maker’ but not ‘globalization-taker’, or will be obliged to abandon her pretensions to a new role in the world? In my opinion, today it is still early to give definite replies to these questions. By the way, it is not occasional that the title of the second part of the book contents word ‘afternoon’ to the contrary widespread habit to use ‘twilight’ or ‘sunset’, particularly, in combination with ‘sunrise’ (‘from sunrise to twilight’), because, the regional development after the crisis of 1997-1998 when ‘miracle’ has turned into ‘debacle’ does

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<sup>1</sup> “Although it would not be true to say that one is dealt a hand for good, new deals are rare and bring little advancement.” [Braudel F., 1992: 466].

not give foundations to assert that ‘tigers’ are declining. ‘A window of opportunities’ is not yet closed, and trajectory of the region is, therefore, not yet ascertained. May be, ‘tigers’ will find resources, ‘tangible’ and, mostly, ‘intangible’ as well, to change their catching up model for another one of self-sustaining development, not so impressive as previous in a quantitative respect but stable and effective, aimed at improvement of the life’s quality instead of the growth as itself. East Asia as a whole (as well as India) has good chances for the great success but we must not forget that an opportunity is not yet a reality.

In the book, I use term ‘modernization’. It does not mean that I am going to revive the conception of modernization widespread in the 1950s, 1960s, and in the beginning of the 1970s. This term corresponded, to a definite degree, to the processes that took place forty or fifty years ago, mainly in bygone the Second and Third Worlds, and had been conceived in a manner adequate to that time. Today, a concept of modernization looks obsolete, and it is hardly reasonable to pretend to be awarded by Nobel Prize for revival of historical and conceptual ‘deceased’. Nevertheless, the mentioned term can be used in a quality of synonym of such concepts as ‘development’<sup>2</sup>, ‘capitalist development’ or ‘industrialization’, though this use is not correct in some respects.

Certainly, I could not consider all significant problems of E/SEA development in light of Russian and Latin American experience. And let readers treat this book only a moderate contribution to discussion aimed at better understanding of our contradictory, conflictive world.

Concluding the preface, I would like to thank all persons who helped me, directly or indirectly, to write this book: professor Devendra Kaushik, former chairman, and professor Jayanta Kumar Ray, now chairman of the Executive Council of Maulana Abul Kalam Azad Institute of Asian Studies, professor Mahavir Singh, director of the same institute in 2001-2005, and all their colleagues whose hospitality and warmth facilitated my work in Kolkata, His Excellency Mr. Michael Tay Cheow Ann, Ambassador of the Republic of Singapore to Russia, and Mr. Borg Tsieng Tam, Second Secretary of the Singapore embassy in Moscow, who kindly gave me opportunity to use the embassy’s library, Dr. Andrey Foursov, co-director of the Centre for global and comparative studies, Russian State University for Humanities, Dr. Jørgen Delman, director, Inga-Lill Blomkvist, librarian, and their colleagues of the Nordic Institute of Asian Studies, Copenhagen, Dr. Daniel Fleming, Dr. Kristen Nordhaug and their colleagues on Department of Geography and International Development Studies, Roskilde University, Dr. Johannes Dragsbaek Schmidt, head of the Centre for Development and International Relations Studies, Aalborg University, Valentina Hippolitova and Vera Lukonina, librarians of the Institute for Latin American Studies (Russian Academy of Sciences), Moscow, who unselfishly sought the required books in the conditions of permanent repair for the library, Dr. Arno Tausch, Counsellor in the Ministry of Social Security, Generations and Consumer Protection, Austria, Dr. Andrea Komlosy, Dr. Martina Kaller-Dietrich, and Dr. Gerhard Drekonja, professors of the University of Vienna, Dr. Imre Lévai, senior researcher of the Institute for Political Studies, Budapest, and all other persons, who found time to discuss problems considered in the book with me.

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<sup>2</sup> Evidently, a sense of ‘development’ is much broader than one of ‘modernization’ or ‘capitalist development’.



## **PART 1. THE RISE AND DECLINE OF THE XX CENTURY CAPITALISM: DESTINY OF LATECOMERS**

### **1. Echelons of the Capitalist Development and ‘the Managerial Revolution’**

The industrial catching up development of any region beyond the civilization boundaries of West Europe and North America —whether it is Big Russia, Latin America, or East Asia— has to be treated as the derivative process of endogenous modernization in the West, an existence of some internal premises of their proper development notwithstanding. If we approach to study Russian, Latin American, or Asian industrial modernization, we have to take into account that the industrial system of production in any country is a result of the western direct and indirect impact on non-western societies. In other words, ultimately, it is a consequence of modernizations initiated by the West.

But how can we define the modernization process?

As Goh Keng Swee, one of the Singapore miracle's creators wrote once, “modernization is like the elephant, difficult to define but easy to recognize when one sees the beast.” [Goh Keng Swee, 1995a: 1]. Indeed, modernization is so multi-dimensional process of the social transformation, which extends to various spheres of the social life, which it is very difficult to find an appropriate definition of such a transformation focusing exclusively on its one or another feature. Even the first theoreticians of modernization who elaborated their conceptions in the late 50s and the 60s of the past century (C. Black, S.N. Eisenstadt, G. Germani, M. Levy and others) being biased, to more or less degree, to technological-economic determinism and sociology of Talcott Parsons,<sup>1</sup> did not ignore a fact of multidimensionality of the modernization process. However, all character features of the latter, whether they concerned economic, social, or political and cultural sphere as well, had the common foundation, namely, undeniable fact that the motherland of this process was the West Europe, where the seeds of *modernity* culture had sprung still in the Renaissance and Reformation epoch.

The culture of modernity was essential for the modernization process (Alain Touraine defined modernization as modernity in action [Touraine A., 1992: 44]). It presupposed, in particular, an active relation of man to an environment and his domination over nature by means of rational cognition and production of necessary material tools, an economic expansion, permanent changes in all spheres of society and an adherence of people to idea of the one-linear movement ‘from the good to the best’. At last (but, of course, not least!), modernity meant a treatment of everyone's personality as the highest value and proclaimed the principle of individual freedom in unity with social equity.

The countries, where the social agent of development was the civil society, and *modernity* sprang from everyday life, made up the first echelon (the core) of the world modernization and the capitalist world-system.<sup>2</sup> The Great Britain, France, Holland, Belgium, the

<sup>1</sup> T. Parsons treated the process of modernization as transition from archaic, traditional to modern, industrial society. (See, for example: [Parsons T., 1977: 25].)

<sup>2</sup> About the echelons of the world capitalist development, see: [Khoros V., Pantin I., Plimak Ye., 1988: 17-31].

Northern Germany, at last the USA, Switzerland and some others belonged to this echelon. Even such nations as Spain, Italy, Sweden, Finland that approached to real industrial modernization with notable retardation, in the end of the XIX – in the beginning of the XX century, could be considered as the first echelon countries, too, due to some essential elements of modernity in their societies' everyday life and culture.

The character feature of the first echelon countries' development was that the human, social, economic, political, cultural, juridical aspects of their modernization had been developed more or less simultaneously, in tight interconnection with each other arising from below. In other words, it was endogenous modernization, although it did not exclude very acute social-economic contradictions and political conflicts.

Such countries as East Germany (partly), Poland, Hungary, and other East European nations belonged historically to the second echelon of modernization. In addition, it may be possible, from the historical point of view, to include Turkey, Russia, and Japan as well as some Latin American countries, mainly the most developed of them, into the same group of countries, too. Their modernization was semi-endogenous and semi-exogenous. There were some real preconditions of the capitalist development (market economy, elements of individualism in culture, and so on) that gradually matured in depths of their societies, but they had been restrained by autocratic power, relics of the pre-capitalist relationships, traditions or other factors of social-cultural character. (Here I do not consider such well known historical phenomenon as a restoration of serfdom in Prussia and some other East European countries, which was a consequence of the rise of capitalism in the western part of the continent. This issue has to be subject matter of distinctive, mainly historical, studies.)

Obviously, it impeded the capitalist development, which took truncated forms and blocked the process of complete, all-sided modernization. In particular, one of the characters inherent to the capitalist development of the second echelon's countries was a weakness or even absence of the matured civil society's structures. It meant, consequently, that active, strong social agents of modernization (*prima facie*, strata of entrepreneurs, intellectuals, skilled labourers, etc.) could not arise in full measure, and their deficiency or weakness should be compensated by the state. The latter and/or the advanced part of ruling class (stratum) became the main agent of modernization in the second echelon's countries.<sup>3</sup> Factually, the state initiated 'revolution from above', a series of reforms aimed at reducing of economic, technical, and, to lesser degree, social backwardness, comparing to the advanced powers. Such important factor as political independence of the second echelon's countries facilitated a solution of this strategic task.

In political respect, this independence essentially distinguished the second echelon of the world modernizations from the third one. Another principal difference between them consisted in a character of the modernizing processes in the countries that belonged to the latter. Their modernizations were exogenous from the beginning. They had been results of these countries' involvement, in many cases, rather urged and compulsive than voluntary, into the system of colonial exploitation and international trade. The several elements of

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<sup>3</sup> In the early 1960s, Alexander Gerschenkron has formulated the following law of the catching up development: "the more backward a country, the more likely its industrialization was to proceed under some organized direction; depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the state, or in bureaucratic control." [Gerschenkron A., 1979: 44].

modernity were implanted there because of the metropolitan, economic and cultural, influence, including the so called 'demonstration effect'.

Obviously, the third echelon of the capitalist development encompassed the non-western societies in Asia, Africa, and, partly, Ibero-America where the proper premises of capitalism did not exist and could not emerge at all. However, the West attributed, thanks to its technical, economic and military superiority, the 'pro-western' model of development, as a rule, in truncated forms, to other regions of the world (exogenous modernizations). In the case of such great civilizations of the East as Chinese and Indian, which in the mid of the second millennium were surpassing the West in many technical and intellectual respects, the West turned their commenced decay, when they entered a decreasing phase of their development, into own advantage. In particular, until the end of the XVIII century, neither China nor India lost 'an inter-civilization competition' to Europe by the main economic indicators. A quantitative gap between them and the European colonizers was insignificant. Moreover, if we would be moving back on historical scale of time, we could see that in the XV-XVI centuries China and India stayed at the higher level of the economic and technical development than Europe. [Bairoch P., 1971: 115-116, 123-126, 135-143; Maddison A., 2001: 27 et ff.]. However, the East was unable to resolve the ecological and other internal problems within a framework of the pattern of its historical movement upon the traditional social and technological basis. [Jones E.L., 1981: 192-222]. In those conditions, the Oriental societies, not speaking about *Iberoamerica*, had been subjugated, directly or indirectly, to the European powers. Moreover, the capitalist (western) expansion to abroad either maintained the pre-capitalist relationships in these regions or created them anew, through mechanism of the colonial trade. (The plantation slavery in the New World and the restoration of serfdom in East European countries in the XVI century had become were 'the patterns' of such 'capital's activity'.)

It is a fact that the world capitalist system has been reproduced being divided into the centre (core), semi-periphery and periphery. Nevertheless, there were not absolute barriers between them as well as between echelons of the capitalist development. For example, Japan entered the first echelon of world capitalism due to successive modernization policy. Later, Asian NICs ('tigers') had broken, too, through the historical boundaries between the centre and periphery (see part 2). Therefore, a pertinence of one or another country to the concrete echelon of the world development was not pre-determined forever. However, over the entire period from the rise of the world system (1492) up today, the breakthroughs of several countries from one echelon to another have been rather exclusions than rules. Indeed, a way down was easy whereas a lot of obstacles set up way up.

In addition to subdivision of modernizations into endogenous and exogenous ones, which predetermined a pertinence of different countries to centre, periphery, or semi-periphery of the world system, it is possible, too, to classify modernizations by their social-technological types, or stages, which made up a single process of the world capitalist evolution.

The first stage, which may be called pre-industrial modernization, commenced in the Renaissance epoch and succeeded properly to the rise of modernity, civil society and capitalist relationships. The second modernization was industrial revolution of the XVIII-XIX centuries with the concomitant domination of mechanical tools over labourer, urbanization, *massification*, human alienation, and respective forms of the social protest. The third stage, which is the most important for our study, was the late-industrial modernization. Its

premises arose in the end of the XIX – the first decades of the XX century, and had been symbolized, in a sphere of material production, by such persons as Frederic Taylor and Henry Ford. Besides, a glorious constellation of outstanding scientists, engineers, artists, novelists, and politicians promoted, by their activity in various spheres of human life, the new state of the western societies. As Göran Therborn said, characterizing this historical period of the western society, it was ‘the high modernity’. [Therborn G., 1990: 4]. This modernization should have to overcome the old social conflicts between bourgeoisie and working class what presupposed an extending importance of the new middle class. In technological respect, its pivotal principle had been the mass assembly-line production upon the base of engineering (taylorist-fordist) organization of labour and rationalization of management. At the macroeconomic level, it presupposed a realization of Keynesian policy aimed at maintenance and increase of effective demand and full employment that required a growth of the welfare state and a regulation of market. In the end, it succeeded to the rise of mass consumption society. The latter created preconditions for the fourth, post-industrial, modernization, which represents by itself, strictly speaking, a negation of modernity, industrial production, capitalism and the West-centred pattern of development. The historical essence of this modernization consists in the global transition towards prevailing ‘production of man’ over material goods’ production and, also, in the increased importance of human capital accumulation together with the expansion of creative, intellectual activity instead of manual labour. This shift has had a crucial impact on semi-peripheral and peripheral countries, probably, more profound and serious than all previous changes in the world system.

The countries that belonged historically to different echelons of the capitalist development passed through the called stages in different ways. In particular, the countries of the second and third echelons attained each stage later than the leaders of the world system. They were urged to suffer a social pain, sometimes almost intolerable, because needed participating in the global race when they did not yet resolve many problems, which, in the first echelon countries, corresponded to the previous stages of development. It succeeded to the rise of internal tensions in the countries at periphery and semi-periphery of the world system, and these tensions conditioned the emergence of many new conflicts and contradictions before old ones could be resolved in adequate manner.

Notwithstanding the first echelon’s, advanced countries influenced on the rest of the world through a lot of channels at all stages of development, it was only the third, late-industrial (Ford-Keynesian) modernization when issues of the backward countries’ development became actual in both practical and theoretical respects. Moreover, a mechanism of the economic growth, character features of the social structure, political system and historical trajectory of the XX century capitalism as a whole, which arose due to this modernization, influenced on development of all three regions under our consideration. In particular, it created ‘the global social-economic environment’, in which the universalistic conceptions of development widespread still in the XIX century were successfully realizing, at least, as it seemed, approximately until the mid-1970s.

Here, our analysis is coming to one very important and interesting problem that could be resolved only in a framework of the XX century capitalism but was put on agenda one hundred years before. Indeed, at that time, when a seizure of colonies by the leading European powers came to finish, almost all main political-ideological currents, from the conservative ‘white man’s burden’ attitude expressed by Rudyard Kipling to the left socialists that evaluated colonialism negatively, thought that the laws of movement of capitalism

were common in India or African colonies as well as in the Great Britain, Belgium, or France. In other words, they supposed that development of the colonial countries and territories was subordinated in the end to the same, universal principles, which should destroy all obstacles to one-linear progress, whether such obstacles were of political, cultural or technological character. Differences between political currents concerning colonialism consisted in *the concrete conclusions* from these and likely assessments. Ones of them predicted ‘the bright capitalist future’ for non-western societies and attempted to accelerate its coming through missionary enlightening activity. Others argued that the capitalist expansion to the East and South, despite many negative aspects, should prepare a social-economic soil for socialism. This prevailing universalistic approach to the capitalist development was clearly expressed in the works by Karl Marx who could hardly be accused in sympathies to capitalism.

Until the end of the 1870s, Marx treated the laws of the capitalist development as universal for all countries and peoples. His approach was formulated in the preface to the first German edition of ‘Capital’: “The country that is more developed industrially only shows, to the less developed, the image of its own future.” [Marx K., 1974: 19]. Certainly, Marx saw the essential differences between the West and oriental societies, and his concept of ‘the Asiatic mode of production’ enabled him to grasp many essential features of the East. Nevertheless, Marx believed that an expansion of capital could destroy the social-economic and power structures that existed in non-western countries and, thereby, all hindrances to the capitalist development of the East should be thrown off to a rubbish-pool of History.

For example, critically assessing the British policy in the seacoast areas of China, Marx, at the same time, emphasized on a role that the English cannons and external trade played in subversion of the old Chinese social structures and order involving “the Celestial Empire into contact with the terrestrial world”. [Marx K., 1979a: 95]. Likely, he evaluated outcomes of the British colonialism’s activity in India. On the one hand, Marx put this activity under hard criticism, drawing attention to almost complete destruction of the Indian weaving and terrible famine among weavers because of imports of the cheap British goods. [Marx K., 1979b: 127-128, 132]. On the other hand, he saw some positive modernizing aspects of the given activity, which, accordingly to his implicit vision, put up genuine foundations of the future Indian independence upon the base of capitalism’s accomplishments. “The work of regeneration hardly transpires through a heap of ruins. Nevertheless it has begun” –, wrote Marx about dual character of the British colonialism in India. [Marx K., 1979c: 218]. In the same manner, he evaluated the western economic, military and cultural expansion to China, which, in his opinion, succeeded in prospects to a triumph of the principles of *liberté, égalité, fraternité* as well as to an inevitable establishment of the republican order instead of the ‘Celestial Son’s autocracy’. [Marx K., 1978c: 267]. Factually, Marx’s universalistic attitude to the capitalist development in the East implicitly led him and his successors to conclusion about the future victory of socialism in the global scale, not only in the most developed western countries.

Marx began to reconsider his universalism under influence of the contacts with Russian scholars, publicists, and revolutionaries in the 1870s when he approached to study of the social-economic situation in Russia. He supposed, although unsurely, that a peasant community, a cell of the Russian society, might absorb and use for its advantage the essential elements and functional features of modern capitalism not expecting for unless spontaneous processes could implement the capitalist institutions, particularly such one as matured private property relationships. Unfortunately, Marx did not accomplish his Russian studies

on various reasons, in particular, because of insufficient statistical data, deficit of time, and arising disease. Respectively, Marx could not make clear conclusions from his analysis of the post-1861 Russian reality, remaining in a realm of the XIX century universalism.

In contrast to Marxian universalistic views, Max Weber focused on a peculiar character of the capitalist society. He argued that the latter could rise only on the social-cultural soil of West European civilization. As it is well known, Weber emphasized on a key role of the protestant ethics in the capitalist development. [*Weber M.*, 1984: 17-22, 35-78, 155-183]. However, it was only one aspect of the Weberian conception. There was also another aspect, which concerned an experience of oriental societies. Namely, it was necessary to explain why an expansion of the western capitals to the East did not succeed to an emergence of industrially developed capitalism in Asia, and Weber elaborated his conception considering this fact.

Indeed, the established control of the western powers over a big part of Asia and Africa at the end of the XIX century notwithstanding, capitalism could hardly rise and develop, at least, in its matured forms, in any Asian country without support of the colonial authorities. Moreover, while the West conquered India, Burma, Indochina, and Indonesia, began to control the most part of Africa, the large territories of China remained to be untouched by the capitalist expansion, despite uninterrupted attempts of the western countries to subjugate the mainland of 'the Celestial Empire'. Even such seemingly favourable factor as an evident decline of the Chinese state aggravated by a moral degradation of the emperor's court and top mandarins did not help the western colonizers, missionaries and merchants, to transform the country into 'full' colony and to steer her evolution towards capitalism. The West was able to implement the capitalist order and relationships merely in some enclaves of the seacoast areas (certainly, in frustrated, abnormal forms) but had not sufficient forces and resources to involve the continental parts of China into its colonial system. The Chinese society rejected almost all elements of modernity and continued to maintain the traditions and habitual order. (See: [*Fairbank J.K. e. a.*, 1973: 563-596, 619-647].) Even after the Boxer Incident when troops of the leading capitalist powers occupied a part of the Chinese territory, 'the Middle Kingdom' did not approach to a modernization. Rather, China suffered a kind of westernization, very superficial and imitative, that affected mainly the top of officialdom and buyers strata.

Unsuccessful experience of the western expansion to the Chinese mainland was a challenge, not only to capitalism but also to widespread universalistic attitudes to the prospects of capitalist development in colonial, peripheral countries. Respectively, a response to this challenge and its explanation as well had been required. And Max Weber found such a response explaining, on the one hand, a uniqueness of the western capitalism and referring, on the other hand, to an experience of the oriental societies that allowed him to conclude that Hinduism, Buddhism, and other religious-philosophical systems of the East were incompatible with 'the spirit of capitalism'. [*Weber M.*, 1978, vol.1: 630].

Therefore, it would be naive to hope for a triumph of capitalism in the entire world and to reconcile the western capitalism's pretensions for the global dominance with reality. Moreover, at the same time, an enlargement of the world capitalist zone as well as an involvement of the non-western, peripheral territories into a sphere of the capitalist influence came to objective limits on another reason, too. A division of the world among the leading powers was finished, and an issue of its re-division stood on agenda. In such conditions, an intention of some industrially developed countries to restrain an activity of new rivals

looked as an adequate reaction to the changing situation. In other words, a further expansion of each core country to abroad met a suspicion and resistance of its competitors. Capitalism as itself put obstacles to the proper growth, development, and enlargement beyond the frontiers of its historical core. Furthermore, capitalism could not enlarge its sphere without limits even if a rivalry inside of a group of the leading capitalist countries would never emerge, because it was impossible to build up manufacturing mills and respective infrastructure in all places, which seemed to be appropriate for the purposes of capital. There were many natural, climatic, demographic, social-institutional, cultural and other factors that did not allow to install factories and necessary equipment, to construct roads and to organize a network of mail service anywhere. Besides, the mentioned above ability of capitalism to conserve and adjust the pre-capitalist forms of social-economic relationships to own needs operated as 'an additional obstacle' to the capitalist expansion set up by expansion itself. (This circumstance had been a foundation for Rosa Luxemburg to affirm that capitalism needed in existence of the non-capitalist environment and respective social strata [*Luxemburg R.*, 1963: 352-353, 357-360, 362-367], although an explanation of this fact did not look blameless from her proper, essentially Marxist point of view.)

At the same time, capitalism as a whole is able to create the pre-capitalist (or non-capitalist) forms of social relationships as the proper functional elements, or, also, it can be turned into such forms where and when it does not find a free-waged labour as its counter-agent. Hence, at certain stage of development capitalism can take forms, which do not look as adequate to its social-economic nature. What concerned the XX century capitalism, it had to take such forms for the sake of own survival. It needed to appropriate special props, which seemingly negated its essence, but supported the capitalist system as a whole. Otherwise, capitalism could not exist and function at all.

The two main (but not only!) props that the XX century capitalism should have to put up under its base were: 1) a domination of its function over private property aimed at restraining destructive, egoistic intents and endeavours of owners; 2) an introduction of some essential elements of socialism such as pensions for retired people, medical insurance, free access to school education, etc. The conjunction of these both kinds of props had been maintained by the state that should regulate markets.

However, whence and how could capitalism take and build up the called props? Regarding to the first echelon countries, these props could be taken from inside of capitalism itself. In the case of the second and third echelons, a solution of this task was more complicate and difficult. Sometimes, it required the radical social-economic, political, and institutional changes accompanied by social cataclysms and revolutions.

The rise of capital-function, which began to dominate over private property since the first decades of the XX century, has been derived from one of the internal contradictions of the commodity production. Namely, it is result of the contradiction between an endeavour of each producer to increase a mass of exchange value and a necessity to diminish a value of each commodity unit and to sell as many goods as possible.

This contradiction becomes significant and, consequently, permanently reproducible when capitalism begins to function as a system of the self-sustaining relationships between capitalists, private owners of means of production, and hired workers who have nothing in their private property except their labour force – a capacity to work. The capitalist production, even in its primitive forms, presupposes a simple cooperation of labour, i.e. assembling of several workers, which make up a single 'working unit'. (This is starting point of

the rise of capitalist production in the both logical and historical respects!) Obviously, it presupposes, too, a necessity to manage their individual labour forces. Thus, a capital appropriates a function of management; the latter becomes a function of capital. [*Marx K.*, 1974: 313-315]. Due to a combination of many working individuals and, respectively, to a management of them, capital becomes capable to increase both an effectiveness of production, including a productivity of each individual worker as well as a productivity of entire enterprise, and, thereby, a total output of goods. It succeeds to a solution of the called above twofold task: a value of each commodity diminishes while an amount of outputted value increases.

A peculiar role of capital's function took clear and matured forms in a tight correspondence with the rise of banking and stock capital. An increasing role of such capital was a direct consequence of the growth of heavy, machinery and transport equipment building industry in the last third of the XIX century. The growth of this industry with long-term period of capital's circulation would be impossible without a concentration of big amounts of financial and other resources. It required an accelerated development of banking and stock capital as well as an emergence of respective market infrastructure. This sector of economic activity became a relatively autonomous sphere separated, to an ever-extending degree, from a real process of production, which became a sphere where entrepreneurial and managerial functions of capital began to prevail over its titles of private property. Thus, a deepening self-division of the capitalist class into groups of entrepreneurs and managers (here I do not distinguish ones from others, although, strictly speaking, entrepreneurs are not the same people as managers), on the one hand, and bankers and/or stockholders, on the other hand, succeeded to growing differences between capital-function and capital-property, and, further, to a separation of them from each other. Moreover, in its turn, managerial functions of capital were separating from entrepreneurship. Certainly, Karl Marx could not ignore these trends studying the movement of capital [*Marx K.* 1978b, chapters XXIII, XXVII, esp. pp. 370-384, 386-389, 436-440], but he did not accomplish a study of the called tendencies (as in the case of his Russian studies). Besides, he had not sufficient facts and data to make far going conclusions from the described trends of deepening separation between two main fractions of capital. Such facts and respective statistical data appeared in sufficient quantity only on the eve of the XX century, and non-occasionally Max Weber paid a serious attention to an increased significance of managers, bureaucrats, and officials of various kinds. He clearly explained why "capitalism in its modern stages of development requires the bureaucracy". [*Weber M.*, 1978, vol. 1: 224; see also vol. 2: 956-1003.] It meant that the system of private property and market relationships needed the large stratum of salaried managers that might not be private owners at all. (It is worth to note that Max Weber, recognising an increased role of managers and bureaucrats, nevertheless, did not make principal conclusions from this fact and did not preview possible modifications of the capitalist system.)

Meanwhile, capitalism stood on a threshold of big perturbations and changes. Its 'classical' model based upon 'the sacred principles' of private property and free market was transforming, in some respects, into its opposite because of the growth of monopolies, which were incompatible with free competition. The system had been moving towards a blind alley, and, indeed, it had come to the catastrophic crash in August 1914. The long – in the social-historical respect – XIX century finished completely. The short XX century knocked on doors.



The tendencies towards a separation of capital-function from capital-property and an increased significance of bureaucrats became the evident character features of capitalism. A growth of large-scale production and big corporations which required a concentration of immense resources belonging to a lot of private proprietors as well as a complication of management as a whole made up a foundation of these processes.<sup>4</sup> A formal ownership, on the one hand, and a function of control and management, on the other, diverged from each other. And it was not only their separation but also a predominance of the managerial functions in relation to the ownership of stockholders. "Industry and business gradually split apart", and 'the captain of industry' began to dominate over businessman. [Veblen *Th.*, 1923: 106-111; see also: Berle A. A., jr., Means G. C., 1932: 66; Berle A. A., jr., 1959: 69-76, 80-83]. It meant 'the managerial revolution' [Burnham J., 1941], or, that in essence was the same, 'the XX century capitalist revolution'. [Berle A. A., jr., 1954: 23-24, 30-35]. Words 'the capitalist revolution' of Adolf Berle-jr. should have to signify a coming of the new, XX century capitalism instead of the old, private property and free market capitalism of the XIX century. Certainly, it was *capitalism* but *another* one.

What did it mean for peripheral and semi-peripheral, colonial and semi-colonial countries? Potentially, it could mean that a new 'window of opportunities' might be opened for them. By the way, such theoretician of 'the managerial revolution' as James Burnham wrote about an inability of old capitalism any longer to manage the development of backward countries [Burnham J., 1941: 34] whereas, in his opinion, the rising 'managerial society' (=new capitalism) should resolve this problem. Nonetheless, new opportunities could be realised only under definite conditions. One of them was a borrowing of the development model based upon a domination of the managerial function of capital, not expecting for unless all elements of productive forces corresponding to the stage acquired by the core countries would mature as a result of the evolutionary, gradual economic growth. In other words, peripheral countries might attempt to compensate their relative social-economic and technological backwardness by effective management of the production process, including a definite compulsion to respective behaviour of the social-economic agents, aimed at the accelerated growth of economy. However, since in the conditions of social-economic backwardness such agents, entrepreneurs and/or managers, were weak as social strata and few, the main actor, which could compel people to pro-development behaviour, was *the state* that should be able to accomplish a function of capital. The *will* of political leaders and officials became, to a big degree, one of the decisive factors of success and might compensate, at least, partly, a deficit of necessary material conditions for development. An experience of this compensation was demonstrated in Germany under 'iron chancellor' Otto von Bismarck, in Japan during the 'Meiji revolution', and in Russia where the autocratic regime under tsars Alexander II, Alexander III, and Nicolas II stimulated the capitalist, industrial development. However, this experience did not surpass a framework of the old capitalism model whereas the XX century required new approaches to a solution of the development strategic task. Hence, it was necessary to search for the new responses to the new challenges.

In Russia a search for alternative to the collapsed old system started when real, material and social as well, premises for realization of such alternative did not exist or existed in embryonic, underdeveloped forms. The country should have to respond to a lot of chal-

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<sup>4</sup> "...a large measure of separation of ownership and control has taken place through the multiplication of owners." "Formerly assumed to be merely a function of ownership, control now appears as a separate, separable factor." [Berle A. A., jr., Means G. C., 1932: 4, 118].

lenges when there were not social backgrounds to do it. Nevertheless, as outcome of many tragic events and circumstances, the Russian way to new epoch had been indispensable option for sake of survival.



## 2. Russia and Latin America at the Start of the Great Experiment

**B**ig Russia and Latin America were the first regions beyond the frontiers of West that approached to the accelerated industrial development under guidance of the state in the XX century. (Certainly, there were also such countries as Japan, which continued to follow on way opted in the Meiji epoch and Turkey under rule of Kemal, the country that suffered a horrible defeat and subsequent disintegration of the Ottoman Empire. Turkey was enforced adapting to the changed conditions and initiated her modernization, too, but neither Japan nor Turkey is under consideration in the book.)

As it was said above, Russia belonged historically to the second echelon of the world capitalist development. Since a deliverance from the Tartar yoke in 1480, the country had never been a colony of the foreign powers and had defended her independence in 1612 and 1812 when the enemy invasion threatened to it. At the same time, Russia had sufficient capacities and resources for an expansion abroad, mainly to the South, Southeast, and East.

Nevertheless, despite a political independence of Russia on the leading western powers, Russian development as a whole was dependent development although unlike to one which was inherent to almost all peripheral countries and was described in details by the theoreticians of dependency in the late 1960s and 1970s (A. Aguilar Monteverde, S. Amin, A.G. Frank, Th. dos Santos, O. Sunkel, and others). The Russian development presupposed a dependency of the particular character. Over the last three centuries, since Peter the Great it depended mainly on impulses and impacts from abroad to more degree than on internal motives and premises of the proper evolution that arose in the country. Russia had to be adjusted to permanently changing conditions and to respond to the challenges, which had been initiated in the West. Simultaneously, maintenance of the far-reaching expansion to eastward required non-ordinary efforts and more or less effective state-ruling apparatus.

Thus, a necessity to achieve the next stage of social-economic evolution conditioned by rivalry with the West and proper expansion emerged before the internal premises of its achieving matured. “The great country cannot expect” –, said Sergey Witte, one of the most prominent political figures of the autocratic regime under Alexander III and Nicolas II. The objective impossibility to expect until the internal preconditions would allow maintaining a military power of the empire, ‘unpreparedness’ for the self-sustaining capitalist development determined the particular Russian way of modernisation. It was the so-called *empire model of modernisation*. Its object consisted in neither improvement of the life conditions of the population nor increasing the level of elite’s consumption. It was aimed at strengthening of military-political power of the country. The key actor of this modernisation was the state whose main purpose was to create a military-technical ‘fist’ and to build a bureaucratic machine correspondingly to this purpose. The state borrowed and imitated several scientific, technical and organisational accomplishments of the West, looking rather at the external, superficial material aspects of the western societies than at the real social-economic and social-cultural basis of their development.<sup>5</sup> This model of modernisation presupposed an option of priorities and a colossal concentration of resources in the prior spheres of economy and government’s activity. It required a super-exploitation of peasants

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<sup>5</sup> “Western ideas and institutions had been imported but not assimilated.” [McDaniel T., 1988: 29].

and inevitably succeeded to a permanent reproduction of the central-peripheral structure of the world system within Russian boundaries. [*Krassilchtchikov V.*, 2003: 37-38].

At the same time, in Russia, particularly since Catherine the Great, the central-peripheral structure of economy and society arose not only as consequence of the specific character of modernisation but also as result of the country's involvement into the world trade in quality of the raw materials and agricultural goods supplier. As Immanuel Wallerstein assumed, the share of primary goods in the Russian exports increased from the mid-XVIII century and had reached 95 per cent to the end of that century. This 'structural shift' and the quantitative growth of primary goods exports as well conditioned the strengthening of direct exploitation of serf labour. [*Wallerstein I.*, 1989: 141-142, 155, 160-163]. In poetic form, Alexander Pushkin described a social-economic mechanism of Russia's drift to periphery of the world-system:

“Whatever for caprice of spending ingenious London has been sending across the Baltic in exchange for wood and tallow; all the range of useful objects that the curious Parisian taste invents for one – for friends of languor, or of fun, or for the modishly luxurious – all this, at eighteen years of age adorned the sanctum of our sage.” [*Pushkin A.*, 1977: 22].

A desire to purchase 'whatever for caprice of spending' could be satisfied augmenting the exports of 'wood and tallow' (as well as those of corn and other primary goods!). It was the main motive of landlords to exploit serfs in ever-extending degree and, thereby, to eternalise a division of the Russian territory into internal centre and periphery.

Certainly, it is difficult to overestimate a significance of Russia's involvement into the world trade for an emergence of the internal structure of the economy and society. In the case of Russia, this involvement was much lesser significant than in the case of Latin American countries where the exports of cotton, sugar cane, coffee and raw materials for purchasing imported commodities for the prestigious consumption of rich (the colonial trade, in other words) had been decisive factor which attributed all essential characters to the local social economic systems.

Nevertheless, the external trade of Russia undoubtedly contributed to a division of the country into the internal centre with quasi-European image (St.-Petersburg and, to a less degree, Moscow) and the large peripheral territories. At the stage of industrialisation and construction of railways, a role of the external trade in reproduction of the internal central-peripheral structure essentially increased. A necessity to import machinery and other capital goods for the catching up industrialisation required exporting corn and raw materials in ever-extending scale. “We shall underrate but we will export” – this principle of the economic policy of Ivan Vyshnegradsky, the minister of finances under Alexander III, explained an essence (and cost!) of the Russian development in the last third of the XIX century better than a lot of scientific treatises. The enforced economic growth aimed at strengthening military-technical power of the Russian empire had a reverse side – an impoverishment of the peasantry and urban 'underclass' pushed out from the accustomed, traditional way of life.

Besides an obviously widening social-economic gap between the advanced enclaves and the large backward areas, the internal central-peripheral structure of Russian society had

also the social-cultural dimension. Several aspects of modernity introduced by authorities from above, while the large territories and tremendous masses of ordinary people remained out of the modernisation processes, estranged the most of population from development, which had been perceived as somewhat negative, destroying traditional way of life and centurial customs. This estrangement (alienation) of the most people from modernisation succeeded to deep social-cultural split between the ruling elite and upper classes, on the one hand, and the peasant, traditional society and marginalized masses of the population, on the other. Because of this split, the social-economic conflicts that inevitably took place in the course of modernisation in the Russian conditions were peculiarly acute and did not allow acquiring a mutual compromise between the upper and low strata. The social-cultural split pierced all society and became one of the unsurpassable obstacles to further modernization. Thus, the catching up development spoiled the immense human and material resources subverting an ability of society to survive in the urgent conditions of crises.

Since the 60s of the XIX century, the processes of social disintegration and disorganization in Russia overtook the growth of modern, capitalist structures. The authorities attempted to countervail these processes of social destruction, mainly by means of political and administrative repressions, but these attempts could not stop the social erosion and maturing of a spontaneous revolt from below against the estranged, alien modernization.

The First World War destroyed a fragile, unstable equilibrium in the Russian society, which turned into a realm of spontaneity and anarchy, moving to the anti-capitalist revolution. The traditionalist reaction of rejection to the capitalist development under the autocratic guidance played very important, might be, decisive role in this revolution. [McDaniel, T., 1988: 14-16 et ff., 278-281; McDaniel, T., 1991: 12-13, 185-217].

The Bolshevik party picked up the state power that lied on a road. However, to pick up the power was necessary but insufficient condition to prevent a terrible anarchy and social disorder. It was also necessary to manage and to rule at the tremendously large territory with underdeveloped infrastructure and colossal distances between 'the points of power'. In addition, a crash of the old regime meant an insistent necessity of modernization, which was indispensable condition of the country's survival and further existence. Evidently, an accomplishment of any modernization strategy would be impossible without the strong and effective organization of political institutions that should be able to canalize a disintegration of society and to absorb spontaneity of popular uprisings. The Bolsheviks were the only real force capable to establish control over destructive processes in the country. They used energy of the social disintegration for strengthening of their power, supporting 'the organized violence' by means of 'the spontaneous violence' and enforcing Russia to the accelerated industrial development. Such enforcement could take place only in a definite context of the world capitalist development, including, *prima facie*, the tendency towards an increasing role of capital-function and management. Lenin and some (but not all!) Bolsheviks grasped these tendencies, so they won in the civil war.

Today we can assess one of the most famous Lenin's work, 'The State and Revolution', as his most utopian work from the point of view of Marxian idea of the future society that should be *the knowledge-based society*, accordingly to the attitude of Marx to the main trends of capitalism. Nevertheless, at the same time, this Lenin's work encompassed the exclusively practical recommendations how utilize *capital-function without capitalists*. Mistakenly assessing socialism as the first stage of communism (?), Lenin wrote about a necessary and inevitable existence of 'the bourgeois right' concerning a distribution of in-

comes accordingly to the labour contribution of each economically active individual to the growth of social wealth. Respectively, at this stage, 'the bourgeois state', but without bourgeoisie, should have to exist, too. [Lenin V.I., 1974a: 476]. Later, he deepened his idea of 'the bourgeois state without bourgeoisie'. In the article "Can the Bolsheviks Retain State Power?" Lenin wrote about the apparatus of big banks and industrial syndicates created for accounting and control for the movement of financial and material resources. He underlined that this apparatus should be not destroyed but subordinated to the organs of new authority, it "must be wrested from the control of the capitalists; the capitalists and the wires they pull must be *cut off, lopped of, chopped away from* this apparatus; ... it must be expanded, made more comprehensive, and nation-wide. And this *can be done* by utilizing the achievements already made by large-scale capitalism..." [Lenin V.I., 1974b: 106].

At last, in 1918, an idea of utilising capital's function without capitalists as well as an idea of nation-wide accounting and control was added by a recommendation to borrow the Taylor system and to "adapt it to our own ends". [Lenin V.I., 1974c: 259]. (In this respect, the Bolsheviks anticipated a practice of 'sanguinary Taylorism' that had been imposed over a half of century in some developing countries which initiated the delayed industrialisation under guidance of the authoritarian regimes. [Lipietz A., 1982: 41-44; Lipietz A., 1983: 757-758; Lipietz A., 1986: 9, 71-72].)

Factually, the Soviet government should have to accomplish the historical mission of capitalism but without capitalists. In the concrete conditions of Russia, it could be done through acquiring the historical compromise between the Russian universe (and the Russian particularism, including widespread people's inclination to spontaneity and anarchy), on the one hand, and the main trends of the modern, capitalist development, on the other hand. And, indeed, such compromise was really acquired. [Foursov A., 1996: 112-113, 120-124]. It was essentially significant in the society where a tradition of negative relation of the most population to private property, material wealth, and individual dignity was rooted in the core of culture and had strength of the people's superstition. But, at the same time, this compromise constituted a ground of *the conservative modernisation* as the XX century variant of empire model modernization in Russia. [Vichnevsky A., 2000: 65-70, 225-231, 252-261, 290-304].

A key to adequate comprehension of such phenomenon as *the conservative modernisation in Russia* could be found, on the one hand, in the approach to post-revolutionary policy proclaimed by Lenin. He said: "We can (and must) begin to build socialism, not with abstract human material specially prepared by us, but with the human material bequeathed to us by capitalism. True, that is no easy matter, but no other approach to this task is serious enough to warrant discussion." [Lenin V.I., 1974d: 50]. On the other hand, Lenin insistently recommended to subordinate an apparatus of accounting and control created by industrial capitalism to the proletarian Soviets which were actually the archaic forms of rule and decisions' taking. In essence, he proposed to subordinate and adapt a function of capital to traditional perceptions of masses that were evidently biased to 'simple solutions' of the real, complicate problems the country had to resolve. Really, only professional managers and officials, through the state apparatus, could accomplish functions of management and rule. Therefore, James Burnham was not far from the truth when he assessed 'the Russian way' and the Russian revolution as a whole as a kind of 'the managerial revolution'. [Burnham J., 1941: 206-226].<sup>6</sup> However, this revolution might hardly be not 'modified' un-

<sup>6</sup> Later, Alexander Gerschenkron noted: "Soviet evolution may be considered a special case within the general pattern of European economic development." [Gerschenkron A., 1979: 2]. Idea that the Soviet communism

der a pressure of ‘the human material bequeathed’ by the past social order, namely, by truncated capitalism merged with pre-capitalist, archaic social forms.

As it was said above, in the West the managerial revolution led to domination of function of capital over private property but it did not abolish the latter at all. Moreover, such domination became one of the indispensable conditions to rescue the private property system as a whole from the anti-capitalist revolutions.

A situation in Russia was another matter. In Russia, the country of extremities, the managerial revolution had been realised in their radical, utmost forms. It was aimed at the complete abolition of private property for the sake of creation of industrial economy capable to compete with the West, particularly, in a military-technical sphere. This strategic task should have to be solved over very short period; otherwise, an existence of Big Russia (in form of the USSR) as independent power might be put under a question.<sup>7</sup> Considering the First Five Years Plan of industrialisation (1928/29-1932/33), Alexander Gerschenkron wrote: “Again, in the best Russian tradition, it was to be a race against time.” [*Gerschenkron A.*, 1979: 145]. (The tragic events of the late 1930s and afterward approved that the accelerated industrialisation was indispensable; otherwise, the country could not stop the Nazi invasion.) Meanwhile, ‘a race against time’ corresponded to stereotypes of ‘defence consciousness’ of the most population that dreamed to see the country being ruled by the strong, powerful state and, at the same time, perceived the accelerated industrial development as the best way to ‘a realm of equality, justice, and truth’.

A solution of the strategic task of modernisation (by means of use of capital’s function) required to implement the respective ‘technology of power’ and institutional structures of *statism*. Manuel Castells defined the latter as “a social system organized around the appropriation of the economic surplus produced in society by the holders of power in the state apparatus.” ... “Statism is a specific social system oriented toward the maximization of state power, while capital accumulation and social legitimacy are subordinated to such an over-arching goal.” [*Castells M.*, 1998: 7, 9].

Obviously, statism as a social system could function due to an activity of the stratum of people who personified by themselves the management and power. Strictly speaking, these people were neither salaried bureaucrats nor officials of traditional society, although this stratum bore in itself some features of the both, so my Russian colleague Andrey Foursov proposed another definition of the system existed in the Soviet Union and other ‘socialist countries’. He named this system as a *cratocracy*, i.e. as a power of authority, or, in other words, a power of those people who had an access to it and exercised power. Certainly, the proposed definition, to a big degree, is tautological. Nevertheless, it reflected very important feature of the Russian/Soviet system, in which a power at all levels really was and had been perceived as an absolute concept, like a speed of light in physics and the material universe.

However, a concrete term or concept is not a matter in the given case. We can call stratum that ruled in the USSR ‘new class’, as Milovan Djilas did [*Djilas M.*, 1957: 37-69], or ‘nomenklatura’ whose shank was a twofold function of administration and the exercise of

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had been the Russian way of development (non-capitalist way to industrial society) was widespread among non-orthodox western scholars in the mid-XX century. (See, for example, [*Marcuse H.*, 1958: 11-12, 86-90].)

<sup>7</sup> J. Stalin said: “We are fifty or a hundred years behind the advanced countries. We must make good this distance in ten years. Either we do it or they crush us.” (Quoted on: [*Hettne B.*, 1992: 38] with reference to [*Holloway D.*, 1981: 9].)

power. [Voslensky M., 1984: 70]. What is a matter here is concrete functioning and results of the mentioned stratum's activity.

Over a long time, the most of Russian people believed that they chose 'the best way' to 'the bright future'. This naïve belief, although packed into the rationalistic cover of 'Marxism-Leninism', the west-centred doctrine by its roots and sources, helped to surpass obvious difficulties of an adaptation to rapidly changed conditions and facilitated an adjustment of many people to industrial production based on a subordination of human labour to material factors. It helped, too, to become accustomed to strong technological discipline and to the measures of compulsion, rather administrative than economic, to labour. An exploitation of the people's enthusiasm and dreams about 'the best world' they, as seemed, built for themselves and all humankind (it was an exploitation of the spiritual factors of production!) enabled to alternate the widespread regards to techniques. The latter ceased to be treated as an alien force, embodiment of Evil and began to be conceived as a tool that helped to reach 'the bright future'. A tremendous mass of the social marginal whose protest against old capitalism and *any* social order had been expressed in spontaneity and 'omni-permissiveness' in the first years of revolution was engaged into hard work at manufacturing plants, collective farms, and railways depots, etc. Many of these people got opportunities to be graduated and to become qualified specialists in various branches of industry and science.

It would hardly be relevant to describe all social-economic and institutional mechanisms of the Soviet industrialisation since the end of the 1920s because such description, at first, would not add something new to the understanding of our study's subject matter, and, secondly, lies beyond a topic of the book. Nevertheless, two additional notes in regards to the Soviet experience have to be considered here.

At first, the whole Soviet/Russian catching up development can be assessed as the pattern of restoration of the pre-capitalist relationships in the course of accelerated industrialisation. Since the latter was conditioned, to a big degree, by rivalry with the core capitalist countries, it can be said that, in the case of Russia, the development in the world-system centre created the pre-capitalist (or non-capitalist) forms at (semi-) periphery as their 'functional elements'.<sup>8</sup>

Secondly, the Russian industrial modernization aimed at catching up with the world leaders affirmed a verity of words of Marx who resembled human progress to "that hideous, pagan idol, who would not drink the nectar but from the skulls of the slain." [Marx K., 1979c: 222]. The Soviet super-power with all her undeniable accomplishments was built up on bones of millions people who became victims of 'hideous idol' of progress which had an immensely contradictory character. The latter attributed a fascinating dynamism to the Russian catching up development but, simultaneously, set up hidden limits and insurmountable obstacles to it, that conditioned the collapse of the USSR in the end.

The well-known fact that Latin American countries suffered deep crises and social perturbations only twelve years after the crash of old capitalism in Russia was not an occasional coincidence by time.

The Great Depression of 1929-1933 in the United States and other industrially developed countries revealed a deep dependence of Latin American countries on the West.

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<sup>8</sup> "The production of surplus value and exploitation by the *nomenklatura* class has resulted in a strange regression to pre-capitalist forms." [Voslensky M., 1984: 175].



The catastrophic fall of demand for sugar cane, cotton, coffee, and other goods that had been imported by the western countries from Latin America subverted the external trade of the continent. The decline of exports affected dramatically the trade balance and imports of Latin America. For instance, in 1932 Latin American imports had fallen by 60 per cent (to 39.5 % of the pre-crisis level in 1929). [Maddison A., 1985: 16]. There was no one country in Latin America that could avoid of the crisis. Consequently, a wave of mass contests against the bankrupted oligarchic economic system and political power had arisen from 'bananas republics' of the Central America to *Tierra de Fuego* in the South. The continent became an arena of revolutions, counter-revolutions, and coups d'état. Sometimes, the old oligarchy could retain a power, mainly, due to an aid of the Northern *buen vecino* ('good neighbour') interested in an existence of 'sons of a beach' if they defended Uncle Sam's profits and privileges (the cases of Nicaragua, Cuba, and some other countries). Nevertheless, despite support of the US monopoly capital, the trade-agrarian oligarchy lost its important positions, particularly, in the large and relatively developed countries of Latin America, though did not disappear completely from political scene of the continent. The populist regimes headed, in some cases, by charismatic leaders, displaced the old oligarchic rulers whose policy led to crash.

The Latin American populism, like the Russian Bolshevism, could emerge only in the conditions of retarded industrialization when the pre-capitalist forms of social relationships still existed and had not been modified impeding to the 'normal' capitalist development. The all-embracing dualism, either social-economic, or political, or cultural and ideological, that was the outcome of uneven and dependent development when enclaves of the modern society co-existed with large zones where the traditional structures dominated, conditioned a weakness, segmentation and amorphousness of the social classes. [Touraine A., 1976: 96-104, esp.: 101-102; Touraine A., 1988: 45]. None of them could pretend performing itself as autonomous, independent, self-sufficient social force capable to express and realise a proper programme. Neither the national bourgeoisie, nor the working class, nor the middle classes were able to become the leading force and to steer the anti-oligarchic contest raised after bankruptcy of the old system. Each of them could act only in coalition with other strata and groups. Such an amorphousness of the social classes, which could potentially become, perhaps, in a prospect, the agents of modernisation, conditioned, particularly, in the time of deep crisis, the rise of populism.

The Latin American populism combined social-economic modernisation with cultural (and political, too!) nationalism [Touraine A., 1988: 166] rooted in the pre-modern structures and traditions. The leaders of populism in Latin America represented, by themselves, the historical compromise between traditionalism and modernity, communalism and individualism, social justice and development, revolt against the old order and semi-utopian dreams about 'happy life', accordingly to 'appeals of indigenous soil'. They were able to unite the diverse social forces around the general interest – the national development aimed at weakening the destructive external dependence on the core of capitalism. [Touraine A., 1976: 189]. Even 'the late' populist policy that had been realized in the 1960s, for example, under the presidency of João Goulart in Brazil, was oriented towards a consolidation of the large masses, the population of rural areas (peasantry and agricultural waged workers) as well as the urban low strata, around the aims of national development. [Cardoso F.H., Faletto E., 1970: 117, 119-122; Cardoso F.H., Faletto E., 1978: 138-139, 140-143]. However, the stratum that was the main benefactor of the populist policy being, at the same time, the social pole of gravitation, had been the urban middle class. (In this respect, *per-*

onism in Argentina was the best and brightest pattern of policy advantageous mostly for this stratum, including its largest part, the trade-unionized industrial workers.) This circumstance allows resembling the populist policy (and politics) in Latin America to the policy of social-reformism (social democracy) in the developed countries.

Factually, as in the case of Bolshevism in Russia, it was a form of ‘the conservative modernization’, extremely contradictory in itself, which, nevertheless, attributed a complementary dynamism to the process of development but, in the future prospect, should become one of the internal obstacles to a further progressive transformation. In particular, as José Luis Fiori characterized the Brazilian development over the whole XX century (and even since independence!), it was a situation of ‘*the conservative pact*’ between modernity and traditionalism – the social condition of specific modernization. [Fiori J. L., 2001: 497-498, 501, 506-509]. But this compromise was not only that between the modern classes and the old ones. It pierced all social strata and groups, although, of course, to a different degree, and had been rather the symbiosis of modernity and traditions *inside of* each stratum, including the social and individual as well consciousness of people.

However, despite a certain similarity between ‘the conservative modernizations’ in Russia and Latin American countries, there was also either essential difference between them. In the case of Russia, it was a compromise between modernity and traditionalism (conservatism) of the low classes, namely, the urban underclass and rural poor. On contrary, in the case of Brazil, for example, it was a compromise between modernity and traditionalism of the upper class, on the one hand, and traditionalism of the low strata, on the other hand, but with a dominance of the interests of elite. In Brazil and some other Latin American countries as well, ‘the conservative modernization’ had been designed to prevent the uprising of masses and other ‘undesired events’, mainly, such as the social-political Leftist revolutions. For instance, Antônio Carlos Ribeiro de Andrada, the Brazilian politician at the time of 1930 Revolution, said, “We make the revolution till the people will make it.” [Rodrigues, J. H., 1965: 91]. Such an approach predetermined a specific correlation between reforms and anti-reforms, modernization and conservation of the old social structures in the course of almost all Brazilian (and Latin American as a whole) modernization, at least, until the early-1990s. The general vector of this modernization was mostly oriented towards a preponderance of ‘order’ over ‘liberty’. [Ibid., 183]. In particular, such populist leader as Getúlio Vargas, the president of Brazil in 1937-1945 and 1950-1954, did nothing that might contradict to the interests of landlords (*latifundistas*), the radical reforms in some other respects notwithstanding. The system of patrimonial relations [Eisenstadt S.N., 1973], including *caciquismo*, remained to be untouched over a long period in the rural areas of Latin America inasmuch as the Soviet industrialization restored the relationships of serfdom in country-side, although in modified, ‘collectivist’ forms.

At last, there was one common feature else that resembled the Russian Bolshevism and Latin American populism to each other, obvious differences of the ideological arrangements and approaches of the both social-political currents to social-economic and cultural problems notwithstanding. It was the mass mobilization of large strata for support of the ruling regimes’ policy, and this mobilization had been based, to a big degree, upon the naive belief in omnipotence of the state seemingly capable to create miracles due to its political will and ‘social engineering’. In particular, it was not occasional paradox that the regime of Getúlio Vargas in 1937-1945 promoted an idea of *homem novo* (‘new man’) who should be ‘created’, nurtured and educated under a guidance of the state – an idea that resembled to goals of the social engineering attitude of Stalin regime. [Oliveira L. Lippi, *Vel-*

loso M. Pimenta, de Castro Gomes A.M., 1982: 154-156]. By the way, the Taylorist principles of labour (let us remind Lenin's ideas!) should have to play a significant role in the process of 'homem novo' creation. At the same time, under the first rule of Vargas (1937-1945), an influence of the clerical circles, particularly, in a sphere of education, apparently increased; in addition, Vargas and his environment did not avoid of compliments in respect to Mussolini.

From the social-economic point of view, Latin American populism had properly been the form of dominance of the capital's function (namely, function of organization and management) over private property in the concrete conditions of the continent. It would be worth to remind that one of the most famous and symbolical leaders of populism in Latin America, the Argentine president Juan Domingo Perón, said about 'the imperative of organisation' as one of the pivotal principles of that time. [Perón J.D., 1974: 103]. The populist regimes, either democratically elected or authoritarian, established in Latin America (Mexico, Brazil, Chile, later in Argentina and other countries) were to accomplish almost the same historical mission as the Russian Bolshevism did – mission of the capitalist development when the class of industrial bourgeoisie was unable to become an autonomous agent of industrial development or did not exist at all. The global situation favoured for them until the mid-40s because the core countries suffered the systemic crisis and were involved into the Second World War concentrating their efforts on the internal and warfare problems. Hence, at that time, the West did not pay attention to periphery and semi-periphery of the world economy inasmuch as before the First World War. In addition, the 1920s-40s were the period of mainly inward-looking development, and the rise of Keynesianism with an emphasis on effective demand and enlargement of the internal markets did not presuppose a rapid growth of the external trade. Accordingly to statistical data, the world trade grew more slowly in the period of 1913-1950 (in average, by 1.3 per cent annually) than in *la belle époque* of 1870-1913 when it increased annually by 3.4 per cent. It concerned not only the world system as a whole but also either the Western Europe, or North America (US and Canada), or Latin America (see: [Maddison A. 1995: 74]). The total volume of the world exports<sup>9</sup> decreased after 1929 when the Great Depression had shot, and exceeded the 1929 level only after the Second World War. Thus, a painful transformation of capitalism in the centre and tragic events of the wartime were facilitating a change of the old Latin American development model. The populist regimes got a chance to utilise *the function of capital* personified by the state bureaucracy, in alliance with the growing strata of industrial capitalists, for the accelerated inward-looking industrial development.

Certainly, the rapid industrialization would be impossible in Latin America without the relatively developed 'pre-industrial' background (as in the case of Russia the Bolshevik catching up industrialization could not be accomplished without several achievements of the capitalist development under tsars). A spontaneous growth of light industry, often, contrary to attitudes of the ruling oligarchic clans, began in some Latin American countries, for example, in Brazil, in the second half of the XIX century, at least, at the level of manufactories. [Furtado C., 1972: 81-86; Soares L.C., 1984: 17-49; Cattapan-Reuter E., 1984: 51-65]. During the First World War, when the transatlantic trade was constrained because of jeopardize to trade ships, the Latin American countries were obliged to substitute a shortage of the imports by domestically manufactured goods. Some of them, particularly, Argentina, Brazil, Chile, and Uruguay, approached to import-complement industrialization

<sup>9</sup> Measured in dollars at the exchange rates at the current as well as constant prices for respective years.

[Silva H.R da, 1984: 67-82] that prepared a basis for further breakthroughs into industrial era. In the 1910s-1920s, the governments of Argentina and, to a lesser degree, ones of such countries as Chile and Uruguay, began to introduce the labour and wage regulation as well as social payments and benefits (reforms of H. Yrigoyen in Argentina).

Thus, a qualitative shift in the process of development that took place in Latin America since the 1930s when the populist leaders came to power matured gradually still within a framework of the collapsed oligarchic system.

Social-economic policy of the Latin American populist regimes was aimed at the accelerated industrialization which should weaken a dependence of the national economies on the world market and overcome social-economic backwardness as a whole. It was *the import substitution industrialization* (ISI) aimed at diminishing the imports of consumer goods and substituting them by the commodities manufactured at the national plants and factories.<sup>10</sup> The strategy of ISI presupposed a use of various, economic as well as administrative, forms of protectionism in regards to the growing local, national industry. High import tariffs protected the internal markets from the external competition while subsidies, loans and banking preferences, which had been offered by the state to private business, stimulated the growth of respective industrial branches. The state, which, in essence, was *El Estado desarrollista* (the developmental state) [Cardoso F.H., Faletto E., 1970: 123-129; Cardoso F.H., Faletto E., 1978: 143-148],<sup>11</sup> regulated the internal market as well as the external trade and foreign investments, financing, at the same time, construction of infrastructure. In addition, the state authorities established direct or indirect control over the natural resources extraction what was affirmed by respective laws. Gradually, in particular, in such large and rapidly developing countries as Brazil and Mexico, the state introduced a practice of the indicative economic planning, creating, simultaneously, the public sector that embraced the capital-intensive branches of industry, such as steel production, heavy machinery building, energy power, chemical and petrochemical plants. The heavy industry as a whole had been treated not only as the base of national economies but also as the symbol of well-being. For instance, Getúlio Vargas argued that ‘the age of iron’ had to mark ‘the time of economic affluence’, fetishising, thereby, the heavy industry almost in the same manner as the Russian Bolsheviks did it. [Sodré N. Werneck, 1976: 277]. Growth of the public sector in Latin American countries during the ISI period has been approving by data of the public (state) investment in the gross domestic investment in fixed capital. The average continental public investment (as percentages of the total fixed gross domestic investment at current prices) reached 30.5 per cent in 1960 and 36.8 per cent in 1970, what was close to the respective indicators in the OECD countries. In particular, it was equal to 36.4 and 41.8 per cent, in 1960 and 1970 respectively, in Brasil, to 25.1 and 37.0 per cent in Argentina, to 41.2 in 1960 and 56.9 per cent in 1970 – in Chile, to 38.2 in 1960 and 37.9 per cent in 1970 – in Mexico. [CEPAL/ECLA, 1981: 92]. This indicator essentially, by 1.6-2.0 times, exceeded the share of public (government) expenditures in GDP because the state invested mainly in the capital-intensive state-owned enterprises of heavy industry and infrastructure that required a huge amount of resources.

<sup>10</sup> The manifesto of ISI is presented in the study by ECLA published first time in 1949 [CEPAL, 1998a: 131 et ff., esp.: 149-150] and in the program work by Raúl Prebisch [Prebisch R., 1962: 1-22; Prebisch R., 1998: 65 et ff., esp.: 70].

<sup>11</sup> Using the term ‘*El Estado desarrollista*’ for an analysis of Latin American development, Cardoso and Faletto anticipated Chalmers Johnson [Johnson Ch., 1982: 10, 17, 51, 70 et ff.] who introduced it, studying a role of the state in Japan, for thirteen years.

The growth of the public sector in Latin America was complemented by the rise of social insurance system, introduction of labour relations' laws, establishment of minimal wage level, mass education, health care, and other attributes of the welfare state, although they did not reach a level of the developed countries. (Only in Argentina and Uruguay, the social expenditures were comparable with ones in the western countries).

What were the general results of ISI in Latin America? Perhaps, the best that illustrates the accomplishments of Latin American ISI is the ratio of the biggest continents' economies by GDP per capita to the average world level of this indicator (see table 2.1).

**Table 2.1.** The ratio of some Latin American and European countries' (including Russia/USSR) GDP per capita to the world average, 1929-1970

Countries	1929	1938	1950	1960	1970
France	2.47	2.30	2.33	2.55	2.92
Germany/FRG	2.30	2.67	1.91	2.89	3.03
Italy	1.61	1.69	1.53	1.98	2.40
Spain	1.56	1.05	1.07	1.17	1.84
United Kingdom	2.79	3.11	3.14	2.92	2.70
Russia/USSR	0.74	1.12	1.27	1.34	1.40
Argentina	2.32	2.12	2.23	1.90	1.84
Brazil	0.59	0.67	0.75	0.80	0.77
Chile	1.80	1.63	1.71	1.47	1.32
Colombia	0.80	0.96	0.93	0.85	0.78
Mexico	0.79	0.72	0.93	0.95	0.95
Peru	0.86	0.92	1.01	1.03	0.96
Venezuela	1.82	2.15	3.32	3.32	2.73
<b>World (in average *)</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>

\*) – Upon the base of 56 sample countries including 13 countries in the Western Europe, United States, Canada, Australia, New Zealand, 4 countries of the Southern Europe (Spain, Portugal, Greece, Turkey), 7 countries of the Eastern Europe (including the former Russian Empire and the USSR), 7 countries of Latin America, 11 countries of Asia, 10 countries of Africa.

Counted on: Maddison A., 1995: 23-24, 212.

As it can be seen in the table, ISI allowed some Latin American countries to narrow gap between them and the leading industrial nations of the West but this gap was not abolished at all. In addition, ISI did not deliver the continent from the external economic dependency on the western powers. This fact became evident still in the 1960s, being recognised by the most penetrating observers who were not enchanted looking on the formal quantitative indicators. (See, for example: [Sunkele O., 1969: 36-38].) Indeed, the import substitution strategy, particularly, in the conditions of Latin America, did not mean a movement towards economic autarchy, i.e. complete isolation of the national economies from the world market. By the way, even Stalin's regime in the USSR, realising a strategy of the import substitution more subsequently than the populist regimes in Latin America, did not cut the external economic ties with the foreign countries. Moreover, in all these cases, whether it was Russian, Brazilian, Mexican, or Argentine one, the external trade became one of the necessary conditions of ISI.<sup>12</sup>

In ideal, ISI presupposed a creation of the completely closed, autarchic system that could supply *all* necessary resources and equipment for itself (it would be difficult to imagine how many investments should be required in this case!). However, in the real conditions of Latin America, a replacement of the imported consumer goods from the internal market by ones that had been manufactured at the national enterprises needed to maintain the imports of necessary equipment and machines. Therefore, reciprocally, a continuation of ISI was impossible without an increase of the exports; otherwise, the required capital goods could not be imported. Over a long time, these exports as a whole remained the same as in pre-industrial epoch when a super-exploitation of the countryside with its pre-capitalist, archaic social-economic relationships enabled supplying an immense volume of agrarian, primary goods for exportation.<sup>13</sup> Hence, a necessity to import machinery and equipment for ISI eternalised the backward exports' nomenclature and, thereby, had been convivial to maintenance of obsolete, semi-traditional social-economic relationships in the Latin American agriculture. Moreover, the populist regimes, even regimes of Vargas in Brazil and Perón in Argentina that had very large social-political support, did not approach to radical agrarian reforms, which could breakdown relics of the pre-capitalist relationships in rural area and would purge the social-economic soil for rapid capitalist development enlarging, potentially, the internal markets. Thereby, a conservation of the countryside's backwardness, in combination with active industrial policy of the state, aggravated an uneven development and succeeded to the widening internal disparities and discordances in Latin American societies. Thus, it was not surprising that the Brazilian historian Nelson Werneck Sodré compared the capitalist, industrial development of his country at that time to turning of 'the square wheel'. [Sodré N. Werneck, 1973: 84].

Factually, ISI reproduced the internal central-peripheral structure, although the latter appropriated some new aspects linked not only to the central-peripheral structure of the world system but also to the internal, regional industrial centres *inside* of Latin American countries. Consequently, ISI as a form of the catching up development in Latin America, this 'second war for liberation', created a situation of the permanent structural crisis, which did

<sup>12</sup> Accordingly to some estimations, in 1929-1932, about 75 per cent of all machinery and equipment for industrial plants in the USSR were imported from abroad. To 1940, this share diminished but not significantly, by 18-20 per cent points. (Estimations by the *Institute for Economic Forecasting, Russian Academy of Sciences*).

<sup>13</sup> "The industrialization of Latin America is not incompatible with the efficient development of primary production –, Raúl Prebisch wrote. – ... Primary products must be exported to allow for the importation of the considerable quantity of capital goods needed." [Prebisch R., 1962: 2].

not exclude a possibility of the rapid growth but, in the future, set up obstacles to a further development of the continent.

Unfortunately, as it has been often in history, these obstacles were invisible over a long period and appeared to be seen when it was already difficult to cure the shouted diseases and to correct the accumulated discordances. It concerned either the former Soviet Union or Latin American industrialising countries. For both 'heroes' of the XX century catching up development, a period of the best achievements preceded to one of the deep systemic crisis.







### **3. Realities and Illusions of the Successful Development, or Emergence of the Modernization Trap**

There was time when, as it seemed, nothing could inspire politicians and academics for the negative, pessimistic evaluations of the both Soviet and Latin American realities, an obvious existence of various deficiencies and difficulties notwithstanding. Difficulties had been conceived and treated as ‘inevitable obstacles’ and ‘costs’ of the growth that should be abolished soon or later in the course of industrialization. Meanwhile, the industrial development as itself became the source of new difficulties and problems, which consisted not only in already mentioned reproduction of the internal central-peripheral structure of economy and society.

As it was said above, the cases of Soviet and Latin American industrialization at the stage of take-off, despite differences as well as similarities between them, were to be considered in the concrete world context.

On the one hand, the fordist-keynesian model accepted after the war in all industrially developed countries, could not function without cheap resources, raw materials and energy supplied by periphery of the world system. The ever-increasing consumption of broad masses of the western population had been sustained, in particular, due to the imports of consumer goods from the former colonies. Neither private capital nor political circles of the western countries could ignore needs of periphery’s development because, otherwise, it would be impossible to maintain an effective functioning of the expanding First World economies. It was fully explainable that development economics and development theory born after the Second World War were offshoots of the Keynesian policy-making. [Leys C., 1996: 19].

On the other hand, in the conditions of cold war, development of peripheral countries became the political imperative for the West, though correspondingly to its proper interests, on reasons of the rivalry with the Soviet block, too.

Accordingly to opinion of Eisuke Sakakibara, cold war “was nothing but a conflict between two extreme versions of progressivism – socialism and neo-classical capitalism. Both ideologies set a rapid increase and fair distribution of material welfare as their goal. ... The Cold War was nothing but another civil war within the West or, more precisely, within the western ideology of progressivism.” [Sakakibara E., 1995: 8]. Because of the clash between ‘two versions of progressivism’, peripheral and semi-peripheral zones of the world system became the battlefields of the both blocks for an enlargement of influence of each of them on developing countries. Obvious losses conditioned sometimes by an involvement of periphery into the direct confrontation and devastating wars notwithstanding, the developing countries could derive a definite advantage from the global conflict between the First and Second Worlds because a situation of cold war broadened ‘a window of opportunities’ for development. In the early 1960s, “a developing country could choose between a menu *à la carte* of a dozen or so models to try and emulate. There were a number of variants of Western capitalism (US, Japanese, French, German, Swedish, etc.) There were different socialist models (Soviet, Chinese, Cuban and even a Yugoslav model) and individual Third World experimentations (Arab Socialism, Asian and Latin American models, etc.)” [Valaskakis K., 2002: 282].

Nevertheless, a broadening ‘window of opportunities’ for the developing countries had a reverse side. It coincided with the rapid growth of the world trade, the rise of trans-national capital, and the structural transformations within the western economies. Such tendencies of the world development initiated by changes and transformations in the core countries meant an emergence of new challenges to and stronger, direct and indirect, competition for both Latin America and Big Russia with the West. It seemed, a continuation of ISI was the only way to catch up with the economic leaders abolishing internal and external vulnerabilities to the risen new challenges as well. However, still in the 1950s Latin America faced a problem of availability of material, financial, and human resources for further industrialisation. It presupposed either an increase of the domestic investment rate at expense of consumption or an attraction of the foreign investments and loans, which should be paid in the future due to supposedly successful economic growth. The second variant was chosen as one of the pivotal principles of development policy in Brazil under the presidency of Juscelino Kubitschek (1956-1960). A realisation of this variant of development had been combined, on the one hand, with rapid growth of the public sector. On the other hand, the state continued protecting the internal market from the external competition but paid an insufficient attention to the problem of competitiveness of the national firms and economy as a whole, in spite of the evident resumed growth of the international trade after the Second World War.

At the same time, an existence of the internal central-peripheral structure, as a twofold result of the ‘pre-industrial’ development from the colonial epoch and that of the old system’s conservation in countryside (see above), constricted an enlargement of the market and did not favour to intensifying competition. Rural areas with the unemployed population supplied an immense mass of the labour force, cheap and non-pretentious, that made the technological innovations unnecessary for entrepreneurs; it was more advantageous for them to hire unskilled workers than to worry about the technological and managerial improvements.

It is worth, omitting a description of details of the ISI economic mechanism, to draw attention to some essential difficulties the ISI strategy faced still in the second half of the 1950s – the early-1960s.<sup>14</sup>

Firstly, from the social-economic point of view, an inevitable reproduction of division into the internal centre(s) and periphery did not (and could not!) aid to resolving the unemployment problem. A social sharpness of the latter had been smoothed a little due to the large informal sector of economy and to the insufficient level of production technologies that could not displace the most part of employed in industry while the internal market was narrow. In addition, the attempts to imitate industrial achievements of the leading countries as well as the necessity to develop a heavy industry conditioned the capital-intensive type of industrialisation that had not been accompanying by the respective growth of employment. [CEPAL, 1964: 22-33].

Secondly, a continuation of ISI required importing the semi-finished, intermediate goods, equipment, and tools in ever-increasing amount. It affected the trade balance and devalued the possible positive effects of import substitution. In particular, there was an opposite dynamics of the prices for goods imported to and exported from Latin America.

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<sup>14</sup> See about the characterisation of ISI as a whole and its limits: [Conceição Tavares M. da, 1964: 5-11; Conceição Tavares M. da, 1975: 44-58; Conceição Tavares M. da, 1998: 221-227], esp. about the case of Brazil – [Conceição Tavares M. da, 1964: 11 et ff.; Conceição Tavares M. da, 1975: 59-124].

From 1928-1929 to 1960, when the region's average income per capita increased by over 60 per cent, the real price of exports' unit, or the per capita purchasing power of exports, fell by over 50 per cent. [*Conceição Tavares M. da*, 1964: 3; *Conceição Tavares M. da*, 1998: 216]. It meant that the exports of Latin American countries were depreciating whereas a realization of the ISI strategy presupposed purchasing of the imported equipment and other capital goods at relatively raised prices.

Thirdly, the imports of machinery equipment and intermediate goods for ISI required maintenance of overvalued exchange rates of the local currencies. However, it meant that the exporters of traditional raw materials and agricultural goods were enforced to purchase the imported equipment at high prices and, hence, lost a part of their incomes in relation to those they could get in the case of equilibrium or undervalued exchange rate. Besides, overvaluation of the local currencies lowered a competitiveness of the Latin American industries and, thereby, deprived them of additional market opportunities. [*Hirschman A.O.*, 1968: 26-27].

At last (but not least!), the limits of ISI were not only of 'purely economic' but also of social-political character. Even regardless the macroeconomic and trade balances, a continuation of ISI and redistributionist policy of the populist state touched the interests of influential part of the old social classes, above all, those of the 'modernized' oligarchy (and old middle strata), which were discontent with relative decrease of their incomes. [*Hirschman A.O.*, 1979: 72-78]. At the same time, the populist alliance of national bourgeoisie, working class and urban poor had been eroded while an industry grew and these strata socially matured, hence their interests diverged from each other in extending degree. [*Bresser Pereira L.C.*, 1984: 79-80].

From the point of view of the long-term world tendencies, the populist policy ceased to correspond to the new main trends that arose in the core countries. Above all, the policy of ISI under the state guidance had not been accompanied by adequate efforts of the state and business community aimed at respective human resources development, definite achievements in mass education notwithstanding. (In this respect, Latin American ISI was similar to industrialization in the USSR where, despite all accomplishments in science and education, much more fascinating than in any Latin American country, a significance of 'human capital' in large sense was underestimated, too, by the ruling 'nomenklatura'.) A poor quality of the labour force impeded to transition towards a new technological level of production conserving social-economic backwardness even in the most industrially advanced countries of Latin America.

A problem of the labour force quality was undistinguished from that of the social actor of modernisation as a whole. The path of ISI in the Latin American conditions formed a definite type of entrepreneurs and managers. Many of them pertained, at the same time, to the old oligarchic clans and were enforced, by changed circumstances, to invest in industry using their wealth accumulated in the previous epoch. They were not (and could not become!) the modern entrepreneurs because of their linkage to the past. Nowhere in Latin America, the accelerated growth of national industry duly succeeded to a formation of 'the innovative mentality' among capitalists [*Cardoso F.H.*, 1972: 133-134], which would be capable to compete at the world markets and to resolve their problems throughout innovations. 'The captains of industry' and businessmen in Latin American countries could be fortunate entrepreneurs and managers within a framework of current business activity but they were unable to make non-ordinary innovative, technological breakthroughs. In the

conditions of the state protectionism, they preferred to obtain the governmental financing and/or 'special licenses for importation' instead of the real renovation of production technologies. Such entrepreneurs required to defend 'the national producers' from the external competition but underestimated an importance of the labour force quality and the production process organisation. [Cardoso F.H., 1972: 143-147]. Despite an evident impact of the rise of managerial capitalism in the core countries on development of Latin America (see above), 'the managerial revolution' was fully accomplished in none Latin American country. For instance, still in the 1950s, when the Brazilian industry boomed, the total productivity and effectiveness of the national manufacturing enterprises were low because of poor, obsolete management approaches. [Wythe G., 1955: 44]. Only in the late 1960s, some positive changes and innovations in management began to diffuse into a practice but mainly at big enterprises pertained to or tied with TNCs.

In the late-1950s – the early-1960s, the ISI strategy guided by the populist regimes came to their objective limits. The economic growth slowed, the structural imbalances could not be reduced without socially unpopular measures. In the end of the 1950s – the early-1960s, Latin America began to lose a competition with the West by dynamics of the economic growth. The average continental level of GDP per capita fell from 55.6 per cent in ratio to the West European level in 1950 to 41.5 per cent – in 1964. In particular, that indicator decreased from 108.6 to 72.4 per cent in Argentina, from 162.4 to 116.9 – in Venezuela, from 51.5 to 43.9 per cent – in Mexico, from 83.2 to 57.4 per cent – in Chile, and from the level of 35.4 to one of 30.2 per cent – in Brazil. In ratio to the US GDP per capita Latin American countries remained at the same level as in 1950 – 26.6 per cent in contrast to 26.7. (Counted on: [Maddison A., 2001: 276, 277, 279, 288, 291]). The external debt that previously did not exceed a reasonable amount began to grow whereas the loans and foreign investments attracted for continuation of ISI did not yield an expected effect. The situation as a whole could be assessed as the deepening dissociation between the economic growth and social demands [Touraine A., 1988: 367] of both upper and low classes. In essence, it was the first crisis of catching up development upon the base of market relationships but under the state regulation in the XX century. At the same time, it was the first 'call for changes' of the ISI model in Latin America that had seemingly completed its historic mission and should be essentially modified, correspondingly to the new challenges, internal and external as well. Notably, similar 'calls for changes' began to sound in the former Soviet Union where some springs and signs of the progressive tendencies, although weak and unclear, appeared in various spheres of the society.

An emergence of these tendencies was intrinsically linked to an insistent necessity to solve the threefold task the country confronted in the 1950s, after death of Stalin.

1) It was necessary to elevate a level of consumption of ordinary people. Because of the enforced industrialisation and wartime, this level was extremely low staying beyond medical norms and did not provide for formation of the new labour force that could be engaged into the production process, which was complicating to an extending degree.

2) Besides objective imperatives of the industrial system to increase a standard of life of the population, also there were political motives to attain this social goal of the primary importance; it was necessary to strengthen the system of power and, in particular, to reduce the growing alienation of people from authorities.

3) The global confrontation between two blocks and cold war dictated a definite 'logic of behaviour' aimed at attaining 'new heights' in the arms race. Moreover, due to the Yalta-

Potsdam world order, the Soviet system enlarged a sphere of its influence, and it meant the rise of new opportunities and new problems as well. Big Russia became responsible for maintenance of stability in Eastern and, partly, Central Europe, thereby, she should have to expend additional resources to accomplish this mission. The control over tremendously large territories was very costly and could be held only through increase of its effectiveness.

These three problems could not be resolved simultaneously within a framework of the old Stalinist system because a solution of each of these tasks contradicted to one of two others, so, it was absolutely necessary to search for new approaches to development in the changed internal and external conditions.

Furthermore, the arms race led to a creation of such kinds of weapon that a possibility of the direct military clash of two blocks became less and less probable on a cause of jeopardy of the reciprocal annihilation by the both conflicting sides. The increased probability of humankind's global suicide became an important factor restraining irresponsible military-political actions. This circumstance attributed new aspects to cold war that appropriated rather peaceful dimension encompassing, in ever-extending degree, a competition between two blocks in the social-economic sphere. Who could create a more effective economy, achieve and demonstrate a higher standard of life of ordinary people, and sustain broader opportunities for individual self-fulfilment and expression of human capacities? These questions became increasingly important for the both confronting blocks. A demonstration of proper achievements by competing super-powers and their allies in the social sphere turned into an indistinguishable element of *modus vivendi* for each of them.

Obviously, the Soviet system could respond to the new challenges only upon the base of essentially renewed productive forces but a renovation of the latter was impossible without a new quality of the labour force that presupposed, above all, an increase of life standard of the most people. Factually, the Soviet system (as well as the economies in Latin America) fell into a vicious circle: it could not increase a standard of life without an elevation of the economic effectiveness upon the base of new technologies while an implementation of new technologies required training skilled workers and professionals. However, a solution of this task was incompatible with the people's consumption at the level of physical subsistence what had been inevitable consequence of the country's militarisation. It was necessary, resolving the given contradiction, to revise the proclaimed priorities; otherwise, the Soviet industrial system should slip towards deep structural crisis, which could appropriate the permanent character.

Thus, either Soviet, purely functional model of development, or Latin American one, which combined developmental functions of the state and essential features of 'the classical', private property capitalism, initially *dependent*, faced the similar problems almost at same time. In particular, the both regions should overcome (or had to be delivered from!) the proper heritage of 'the conservative modernisation'.

The year 1964 was the turning point for the Soviet Union and Brazil, the largest country of Latin America. Namely, in 1964, conservative political forces dismissed Nikita Khrushchev, the Soviet leader, and João Goulart, the Brazilian president; both were the last sincere populists in power. (Also, it is worth to draw attention to the fact that both dismissed leaders were accused almost in the same 'vices': voluntarism, neglecting of the 'scientific approaches' to rule, misunderstanding of the objective character of economic laws, etc.).

Either the former Soviet Union or Brazil (and some other Latin American countries as well) faced the surging problems as result of their preceding development combined with the neo-patrimonial structures inherited from the past and semi-modernised, semi-traditional social consciousness. In the first half of the 1960, an indispensability to change the model of development became evident for dissenting as well as conservative circles in the both cases. The former wanted 'to move forward' – to the Left in political sense, the latter suggested 'to strengthen order' and then to move to the Right realising a strategy of new modernisation.

In Brazil, as result of the bloodless *coup d'état* on March 31- April 1, the authoritarian regime was established. It was the regime of new type, *the military-bureaucratic authoritarianism*. [Cardoso F.H., 1977: 24-25, 50-82; Cardoso F.H., 1979: 33-57; Collier D., 1979: 19-32; O'Donnell G., 1979: 285-318].

Headed by army generals historically tied to the old trade-agrarian elite, the regime, at the same time, had been supported by a part of cosmopolitan bourgeoisie and influential groups of the civil bureaucracy (technocrats) initially linked to the oligarchic clans.

An ideology of the established authoritarianism was rooted in conceptions that had been elaborated by military-political analysts of 'Sorbonne' – *Escola Superior de Guerra (High War College)*. The leading conception was that of 'national security' adjusted correspondingly to the requirements of economic modernisation. It sounded as a slogan '*segurança e desenvolvimento*' ('*security and development*') and later was borrowed, with insignificant modifications, by the military-fascist juntas in Chile (A. Pinochet since 1973) and Argentina (J.C. Onganía – R.M. Levingston – A. Lanusse in 1966-1973, J.R. Videla – R. Viola – L. Galtieri in 1976-1983).<sup>15</sup> Accordingly to the 'security and development' doctrine, the nation should be defended from 'subversive activity' of the external and internal enemies – from the world communism and Marxism, which infiltrated into Latin America. Since people were paralysed by the 'social institutionality' (i.e. the democratic institutions) and had lost a vigilance –, this doctrine taught, the army should have to fulfil a function of the political leadership of the state fighting against the enemies of nation. [Briones A., 1978: 305-306; Macedo Soares Guimarães J.C. de, 1981: 87-95]. The first member of this binomial, 'security', was interpreted as 'factor of production', the most important condition of development, whereas the second one, 'development' – as premise of the national security. The latter had become *idée fixe* of a big part of the ruling elite and the US politicians who assisted, directly or indirectly, to the military coup. (Lincoln Gordon, the US Ambassador to Brazil in 1964, accomplished a mission of 'the supervisor for event'.) Indeed, they were worried looking for a growing social-political instability in Brazil and intended to prevent the 'Cuban variant', i.e. the Leftist revolution in the largest country of Latin America. A fear of 'new Cuba' widespread among the top strata of the continent and the US politicians played a definite role in taking decision to dismiss the legally elected president of the country ignoring the Constitution. [Bresser Pereira L.C., 1977: 118-121, 153-155; Bresser Pereira L.C., 1984: 82-84, 109-111; Skidmore Th. E., 1967: 223-228, 253-256, 322-330; Skidmore Th. E., 1973: 3-5; Skidmore Th., 1988: 3-4, 12-17]. (By the way, as the US president Richard Nixon said later, in 1972, appealing to his Brazilian colleague, general Emílio Garrastazu Médici, "the way, which Brazil will follow, will trace development dir-

<sup>15</sup> The regime established in 1966 in Argentina was more 'traditional' and less 'modernizational', oriented towards interests of the old classes (oligarchy) to more degree than that in Brazil. [O'Donnell G., 1973: 154-165].

ection of the rest of the continent”.<sup>16</sup> (Quoted in: [Gilbert I., 1973: 23]). The US could not admit a possibility to lose Brazil because it would mean a loss of Latin America as a whole. Respectively, the leaders of Brazilian regime pretended contributing to defence of ‘the Atlantic security’ from ‘enemies of the Free World’. [Couto e Silva, G. do, 1981: 33; Meira Mattos C. de, 1975: 74].

At the same time, the leaders of new regime understood that the best way to oppress ‘subversive elements’ is to erode their social soil, a poverty and backwardness of the large masses of population, i.e. to build the Brazilian model of mass consumption society. They proclaimed a course towards the new modernization as their strategic goal. Interpreting the *coup d’état* as revolution (the Revolution!), leaders and ideologues of the regime focused on issue of the country’s accelerated development. “...Development is the axial piece of Brazilian revolutionary process... –, wrote general Carlos de Meira Mattos. – ...a mission of the Revolution of March 31 consists in carrying Brazil to attain in 2000 her place among the most developed nations of the globe. [Meira Mattos C. de, 1975: 102, 103]. Simultaneously, the regime promised a radical ‘social transformation’ of the country through “broad diffusion of the results of economic progress”. [Simonsen M.H., Campos R. de Oliveira, 1974: 71].

Nevertheless, as it is known, the designed goals may be very far from the real purposes of those who proclaim them. One of the main purposes of the new rulers was a ‘new edition’ of the conservative modernisation with focus on advantages of the elite groups. In other words, this regime attempted to adjust the essentially old but, in some respects, already modified social structure and new tendencies of the world development, which affected Brazil, to each other.

Any industrial modernisation presupposes a growth of investments. In this respect, modernisation initiated by the military-bureaucratic authoritarianism in Brazil was not exclusion from the rule. The gross domestic investment rate as percentage of GDP increased in the country from 22.0 per cent in 1965 to 23.5 – in 1970 and then to 32.4 per cent (!) in 1975 with subsequent small decrease to 30.2 per cent in 1978. [CEPAL/ECLA, 1981: 57]. It was result of the regime’s policy aimed at stimulating the accumulation of capital due to its taxation policy, inflow of external loans, FDI, and increased rate of profit. The latter raised because real wages and salaries of the low working strata were restrained through repressions in regards to the trade unions and Left political organisations. Furthermore, in contrast to the populist regimes, the military-bureaucratic authoritarianism did all possible for *de-mobilisation of masses* and applied non-ordinary efforts to maintain apathy of various social groups. In addition, as F.H. Cardoso noted, it (the regime – V.K.) was “afraid of the mobilisation of followers even if these could be recruited from the middle, rather than from the lower, strata of society. [Cardoso F.H., 1978: 5]. The regimes, established in *el Cono Sur* (the South Cone) of Latin America, consciously emphasized on propaganda of individualism and individual success’ ideas, particularly, among the lower social groups. Such practice should have to accomplish the twofold function: to modernize a consciousness of people, and, simultaneously, to destroy all ‘relics’ of the mass solidarity that could facilitate a resistance to repressive policy.

Certainly, it did not mean that the authoritarian regimes underestimated or neglected a significance of the social support. For example, the regime in Brazil attempted primarily to improve conditions of the upper and upper middle classes – those people who seemingly

<sup>16</sup> “Nous savons que la voie que suivra le Brésil marquera la direction du reste du continent».

played an essential role in the process of development, mainly in the new branches of economy, and were directly interested in the structural shift towards the mass consumption society. Instead, the model of development that had been realised by the regime in Brazil, was the modified variant of ISI but oriented toward augmenting the output of durable consumer goods for an advantage of the upper and upper middle classes [*Carneiro Vieira J.P.*, 1976: 846-854], which dreamed to obtain a level of consumption of the same social strata in the West. What concerned the poverty problem, the regime, either sincerely or demagogically, hoped for ‘the invisible hand’ of market that should indispensably provide yields of the economic growth for poor.

Meanwhile, there was, probably, an intrinsic truth that military and civil leaders of the established regime in Brazil interpreted the *coup d'état* of March 31, 1964, as the Revolution. Indeed, it symbolised a re-orientation of the Brazilian state and its development policy towards the upper classes, so this event could be treated as the revolution of rich directed against poor. In this respect, the Brazilian authoritarian modernisation anticipated ‘the neo-conservative turn’ in the West that began twelve-fifteen years later.

In practice, economic policy of the regime, which presupposed selective (but not complete!) liberalisation of the economy, external trade and finances had been combined with the state regulation, growth of the public sector (!) and attraction of the foreign direct investments. These measures should aid promoting an exportation of the manufactured goods instead of the primary ones. [*Furtado C.*, 1972: 38-39, 54-55].

The alliance of military circles supported by ‘the advanced’ part of oligarchy and top civil bureaucracy (techno-bureaucracy!), on the one hand, and TNCs, on the other, made up social skeleton of the Brazilian system in 1964-1985. In this system, the national private capital accomplished a function of complementary element and was of the secondary importance. (A similar alliance of the national developmental state and TNCs seemingly emerged in Malaysia and Indonesia, or earlier, but to a lesser degree, in Singapore as well, where the strong state regulation stimulated an inflow of FDI into new enterprises and branches oriented to the external market.)

An emergence of the alliance of military-bureaucratic authoritarianism and TNCs as well as its significance in the process of modernisation of Brazil could be understood only in the concrete context of tendencies which arose in the core, industrially developed countries in the 1960s-1970s. Certainly, it would hardly be correct to explain the authoritarian modernisation in Brazil or somewhere else referring to those tendencies only, as some Leftist observers did.<sup>17</sup> There were also the proper, internal backgrounds and insistence for the new industrial modernisation in Brazil and some other Latin American countries as well, including both technical base and human capacities, although deficient, accumulated in the course of ISI. However, there was not doubt concerning the role of foreign, transnational capital in the process of transformation initiated by the military-bureaucratic regime.

This process as well as the tragic events in Chile (1973) or Argentina (1976) was, to a big degree, one of the consequences of decline of the fordist-keynesian social-economic model in the West. In the second half of the 1960s, this model confronted difficulties arisen as results of its proper functioning. Maintenance, not speaking about an enlargement, of the

<sup>17</sup> Cf., for example: “...Dependent development is viable only if it has support from the larger system of imperialism. The entire success of the dependent development is predicated on multinational willing to invest, [and] international bankers willing to extend credit.” “...The Brazilian model cannot survive without its allies from the center.” [*Evans P.*, 1979: 290, 329 – quoted on: *Deyo F.C.*, 1987: 14, 15].



effective demand, alpha and omega of Keynesianism and social-reformist policy, presupposed a raise of salaries and wages what affected the western economies as a whole succeeding to the profits squeeze and falling general effectiveness. This circumstance gave a foundation arguing the crisis of fordism. [Lipietz A., 1983: 758-764; Lipietz A., 1986: 40-42]. Deterioration of environment (air pollution, acid rains, and other similar 'inconveniences') aggravated the negative trends of the late-industrial capitalism and required searching for new ways of development.

At last, the crisis of fordism-keynesianism had also a social-cultural dimension that was conditioned by changes of the labour force quality. In particular, it was an extending discordancy between the monotonous character of assembly line labour, on the one hand, and labourers' requirements to broaden 'a space for self-fulfilment' in the process of labour, on the other hand. [Gyllenhammar P.G., 1977: 9-10].<sup>18</sup> In addition, due to the welfare state, a significance of labour incomes decreased while that of the pensions, stipends, etc., became more important than wages and salaries. [Rousselet J., 1974: 48 et suiv., 165-168; Carton M., 1984: 19-25]. It undermined the labour ethics, one of the basic social-cultural foundations of capitalism. (The attempts of big corporations to resolve these problems by 'traditional' economic mean raising wages did not prevent a fall of the economic effectiveness as a whole.)

Capital, searching for ways to sustain an economic effectiveness in the global scale, sought (and found) zones, where minimally suitable conditions for profitable investment already existed, mostly at semi-periphery. One of the main of such conditions was the existence of a relatively cheap but sufficiently skilled labour force capable to work at assembly lines. [Lipietz A., 1986: 66-69]. The development of transportation and communication means undoubtedly favoured to such replacement of some manufacturing industries towards a periphery of the world system. Thus, the new international division of labour began to emerge through the accelerated industrialization of some Third World, developing countries, as a rule, under a guidance of authoritarian or 'semi-authoritarian' political regimes, which provided 'a favourable investment environment'. Therefore, the crisis and decline of the fordist-keynesian (late-industrial) 'economic engine' in the West facilitated, at least, indirectly, to the new round of catching up development at periphery and semi-periphery. This development became the intrinsically integrated into the global capitalist development on the eve of decline of late-industrial capitalism. Hence, it was not surprising that the accelerated industrialization of Brazil under the military-bureaucratic regime (the post-ISI or new phase of ISI) was called as 'associated-dependent development'. [Cardoso F.H., Faletto E., 1970: 135, 144-150; Cardoso F.H., 1973: 144-149; Cardoso F.H., Faletto E., 1978: 150, 159-164]. Either several enterprises or entire branches of the industrial economy had been replaced from the West to the East (see below) or Latin America where the costs of production, whether at the local or TNCs' enterprises, were lower than in their 'native', western countries. (See: [Fröbel F., Heinrichs J., Kreye O., 1980: 44 et ff., 63-64, 90-96, 106-131, 222-226, 339-364; Fröbel F., 1983: 108-114].) In essence, it was the same process as the practice to hire 'gastarbeiters' from the North

<sup>18</sup> "By its nature, routine factory work has no correlation with what we seem to offer people in the educational system. Until they are eighteen or so, students are encouraged to learn about ideas, sciences, history, literature, languages, art, and music and to develop some related skills as well. Many go to university with the idea that it will improve their job chances. Then from eighteen, or twenty-two, to sixty-five, we expect them to do exactly the same thing for eight hours a day, minus coffee breaks, sick leave, holidays, and strikes." [Gyllenhammar P. G., 1977: 9-10].

Africa, Turkey, Middle East, Spain, Portugal, and Yugoslavia, widespread in the 1960s in some developed OECD countries. [Hersh J., 1993: 47].

The given restructuring of the world economy could be interpreted as the consequence of Kondratiev cycles in the core countries for peripheral and, particularly, semi-peripheral ones. In brief, when the first echelon countries stayed on the eve of phase B (decreasing) of the fourth big cycle, Latin American industrialising countries came to phase A (increasing) of the same cycle. [Briones A., 1978: 45-55, 108-118; Pérez C., 2001: 115-136, esp. 128-131]. Certainly, it would be erroneous to think that the new stage of industrialisation in Brazil or Mexico in the 1960s-1970s had been exactly the same process that previously took place in the US or France but with retardation for twenty – twenty-five years. Besides this evident retardation, there were many other factors, including internal ones, which influenced on dynamics of the long waves at semi-periphery of the world economy. [Bobrovnikov A., 2002]. Nevertheless, an impact of the long-term cyclical dynamics, when signs of the crisis of the fordist-keynesian system in the centre appeared, on development of Latin America had not to be doubtful.

What were yields of modernisation proclaimed by the military-bureaucratic regime in Brazil and assigned to be a pattern for other countries of Latin America and the Third World?

On the one hand, the authoritarian modernisation in Brazil enabled to attain some undeniable achievements. In 1970-1980, the annual rate of growth of the country's GDP was 8.7 per cent, or 6.1 per cent per capita – the fastest rate in Latin America. [CEPAL/ECLAC, 1993: 68-69]. The regime policy promoted the rise of new manufacturing industries (aircraft, electronic, nuclear energy power). The regime supported and intensified the scientific researches, improved the national higher education, reduced the mass illiteracy rate, although to insufficient degree because emphasised mostly on the tertiary (elitist) education. The share of illiterate people (in age of 15 years and more) decreased from 34.1 per cent in 1970 to 25.5 per cent in 1980 and then to 19.7 – in 1987. (Counted on: [IBGE, 1989: 197, 201].) The poverty in Brazil diminished by 10 per cent points – from 49 per cent of all households in 1970 to 39 per cent in 1979 (in Latin America as a whole – from 40 per cent in 1970 to 35 per cent in 1980). [CEPAL/ECLAC, 1993: 45]. Finally, under the military-bureaucratic rule, a structure of the Brazilian external trade changed in positive direction: the share of manufactured goods increased from 2.2 per cent in 1960 to 41.4 per cent in 1984 (the last year of authoritarianism). Respectively, the share of primary goods in the national exports fell from 97.5 per cent to 58.5 per cent – it was the best dynamics of this indicator in Latin America. [CEPAL/ECLAC, 1987: 183-184]. At last, the regime, not touching essentially the system of *latifundismo*, approached, nevertheless, to modernisation of the agrarian sector of economy, a significance of which had been neglected under the populist governments at the ISI stage.

However, obvious achievements of the authoritarian modernisation in Brazil (not speaking about other countries of the South cone where the authoritarian regimes were established, too) were of excessively high cost. They had been accompanied by the fast growth of external indebtedness – free capitals over-accumulated in the developed countries had been offered as loans to the regime to invest for 'the future accomplishments'. While the country's GDP increased 2.7 – 2.8 times over the period of 1965-1980, the public external debt augmented from 2 067.9 million US dollars in 1965 to 9 302.9 million – in 1975, i.e. 4.5 times. The total external debt (i.e., including the private and corporate debts) increased

from 52 285 million dollars in 1978 to 70 025 million in 1980 and, then, to 101 920 million dollars in 1985, or almost two times for seven years. (Counted on: [CEPAL/ECLA, 1981: 54, 316-317; CEPAL/ECLAC, 1987: 143, 514-515]).<sup>19</sup> (In opinion of Fernando Henrique Cardoso, the skyrocketing growth of indebtedness but not the regime's activity as itself was the genuine ground of Brazilian 'miracle' in 1967-1974. [*Cardoso F.H.*, 2004: 9].) It restrained the opportunities for investment in the future and deprived the 'miracle' of sustainability. Furthermore, there was also such internal obstacle, probably, the most essential of all ones, to achieving the proclaimed goals as the elitist character of modernisation policy. The latter was fruitful mostly for the upper and upper middle strata, whereas neither the mass poverty nor the large zones of backwardness, particularly, in the North and North-east (the developmentalist efforts of the state in these areas notwithstanding) were abolished. These zones remained to be suppliers of the cheap labour force for industrial areas of São-Paulo, Santa Catharina, or Minas Gerais in the South. The regime did not intend to initiate a real agrarian reform, which could destroy dualism of *latifundias* (the big landlords' ownership) and *minifundias* (the small parcels of peasants' property) in countryside. Obviously, it conserved obstacles to an enlargement of the internal market and restrained the growth of consumption of the large contingents of the working people. In its turn, the low level of consumption of the most workers and peasants impeded to the training of contemporary labour force that should be corresponding to the mass consumption society.

In addition, the regime's modernisation policy, which presupposed a concentration of resources, human, material, and financial as well, in prior, selected branches of the national economy inevitably succeeded to a deficit of resources in other spheres. Thereby, the authoritarian modernisation as itself reproduced the internal central-peripheral structure of the Brazilian economy and society. Moreover, an augmenting misbalance between rapidly developing branches and regions, on the one hand, and backward areas, on the other, had been a permanent factor that influenced on pace and direction of the country's modernisation, which factually meant *desarrollo excluyente y concentrador* (excluding and concentrating development) [*Hirschman A.O.*, 1979: 79-80]. Eduardo Galeano had all foundations to note that the development is a banquet with few invited though its splendour has been cheating and the principal plates have been reserved for foreign jaws. [*Galeano E.*, 1971: 436].

The attempts to realise a strategy of new modernisation under guidance of authoritarian regimes in Argentina, Chile, and Uruguay were else more mournful than in Brazil. The military-fascist junta of J. Videla, by the way, one of the best 'friends' of Brezhnev regime in the western hemisphere after Fidel Castro because sold a wheat to the Soviet Union, trusted to 'modernise' the Argentine industry to the civil minister of economy José Martínez de Hoz who accomplished this 'honourable mission'. When the military regime in Brazil built up fundamentals of the national electronic and computer industry, the output of electronics' components in Argentina had dramatically fallen from 1974 to 1983 by 91 per cent, i.e. declined completely. A number of engineers in electronic industry decreased by 49 per cent over five years, from 1978 to 1983. [*Nochteff H.J.*, 1995: 164]. These and

<sup>19</sup> The petroleum prices shock of 1973-1974 negatively affected the Latin American countries that imported petroleum. It slowed the growth of their economies but did not cease it at all. Moreover, the growth of Latin America as a whole continued though it was a little slower than in 1965-1974. The exports increased, too, and a deficit of the trade balance because of the surged petroleum prices had been covered thanks to the external loans. Perhaps, in the second half of the 1970s, the TNBs began to play the more important role in development of the continent than the TNCs whose business was manufacturing production. This shift towards TNBs anticipated the raise of external indebtedness in the 1980s.

similar 'achievements' had been combined with widespread tortures, exiles of opponents, and – as crown of 'deeds' of the *junta* – thirty thousand *desaparecidos* (disappeared) without whatever traces.

In Chile, the neo-liberal social-economic policy of Pinochet junta was shockingly devastating, too. As a direct outcome of the bloody coup d'état of September 11 (!) in 1973 and repressions in respect to the Left parties and trade unions, the real wages were cut by 2 times from 1971 to 1975 and then raised slowly being reached the level of 1971 only in the 1990s. [ECLA, 1984: 29; ECLA, 1993: 89]. Simultaneously, because of the economic ultra-liberalism, the industrial employment fell from 555,000 persons in 1973 to 378,000 persons in 1983 (the year of depression); a slow recovery had raised this figure to 449,000 in 1985. [Hirschman A.O., 1987: 15; Dos Santos Th., 1999: 514]. At the same time, over the while of 1975-1985 the GDP grew very unevenly and increased by 40 per cent only. (Counted on: [CEPAL/ECLAC, 1987: 300-301].) A part of GDP the national industry produced in 1982 had fallen to that of 1967 in its absolute magnitude, and, as percentage of GDP, it corresponded to the level of 1950. [Dos Santos Th., 1999: 514]. Might be, the only positive result of the dictatorship's economic policy – among 'a heap of ruins' – was a complete destroying of personal ties between business and authorities and a separation of property from power, a combination of which with the former in various forms was undistinguished element of ISI and created a base for the systemic corruption. In addition, it is worth to note that after the deep crisis of 1981-1983 A. Pinochet, the admirer of 'free market's operation' under muzzle of machine-gun, dismissed the shamefully failed team of 'Chicago boys' and appointed Hernán Buche as the minister of economy. Under his guidance, 'the macroeconomic programme' was elaborated aiming at 'thin support' of the export-led growth by means of the state regulation. However, it was the growth based upon partial modernisation of old, technologically non-advanced branches of the economy.

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Probably, concept of the military-bureaucratic authoritarianism proposed by G. O'Donnell, F.H. Cardoso or D. Collier and applied to the repressive regimes in Brazil and some other Latin American countries, could be relevant to characterise rule of Brezhnev in the USSR, although, of course, with stipulations concerning its social nature. After the decade of 'political thaw', the ruling *nomenklatura*, having a fear of democratisation that might jeopardy to its power and privileges, decided 'to freeze' the country intending 'to eternalise' the Stalinist system but without mass repressions. Moreover, the uprising of workers in Novocherkassk (summer of 1962) oppressed by mass massacre of protestors indicated the growing estrangement of ordinary people and ruling stratum from each other as well as the rising fear of 'nomenklatura' in front of masses whose fear began disappearing. Therefore, it was already impossible for the Soviet 'rulers' to hope for repressions only. It was clear that a situation required searching for new ways to govern in the changed conditions.

In the Soviet Union, maintenance of the macroeconomic equilibrium when a labour force became, to an increasing degree, one of scarce resources, presupposed the exchange of labour for energy resources, or, in other words, the gradual replacement of labour-intensive technologies by energy-intensive ones. In technical-economic respect, such replacement enabled to solve simultaneously all three strategic tasks mentioned above, at

least, for a medium-term. An involvement of the fuel resources, mostly from West Siberia, into economic turnover became one of the props for economic growth in the conditions when the Soviet system had not been transformed. Probably, if the country would not have innumerable natural resources, the ruling circles should be obliged to initiate reforms, approaching to gradual, regulated 'creative destruction' of the system in the 1960s- early 1970s. Then the all-Union Prime Minister Alexey Kosyguin could become the Russian Deng Xiaoping, anticipating the great Chinese reforms for decade. But this variant did not occur because the most part of *nomenklatura* was not interested in reforms (except those which corresponded to its intentions!) and resisted to any attempt to change the system. It expected to compensate the growing difficulties due to exploitation of the discovered gas and petroleum fields. Furthermore, contribution of the Soviet Union to 'struggle for the New International Economic Order', in particular, the raise of petroleum prices in 1973-1974, bore an illusion of well-being, which concealed the real problems.<sup>20</sup>

Due to the structural changes in the Soviet industrial system over the 1950s-1960s, this system in the early-1970s economically depended on: 1) an inflow of the primary, mainly fuel, resources; 2) a supply of capital goods, a technical/ technological backwardness of which conditioned the ever-extending demand for basic resources. Such 'model of the growth' succeeded to the increasing production costs and diminished an amount of resources available for the technological innovations. A necessity to increase the output, mostly in the so-called basic branches of industry, undermined equilibrium between different sectors of the economy. It aggravated a permanent deficit of all goods, both capital and consumer, and succeeded to the rise of situation, which can be called the structural-investment funnel when only few resources were available for the needs of civilian goods industries.<sup>21</sup> Namely, maintenance of 'the imbalanced equilibrium' (or 'the balanced disequilibrium'?) required an attraction of additional resources for acquiring new resources (so, the Soviet economy looked as the system of production for production regardless to real needs of the people). An acuteness of the structural-investment funnel situation had been redoubled as a result of the extending appetites of military-industrial complex that attracted an immense amount of resources of good quality and, in essence, made up the core of the Soviet industrial system as a whole. An illustration of those appetites had been the super-secret decision taken by Politburo of the Central Committee of the CPSU under Brezhnev in 1974. Accordingly to this decision, the USSR, together with satellites on the Warsaw Pact, whose real weight being compared to the Soviet one was of small importance, should have to exceed by the military-industrial capacity all countries of NATO plus Japan and China, too, up to 1990. Obviously, it was crazy decision that did not correspond to real economic potential of the country, and the declared goal could not be attained at all, but attempts to do it, particularly, in the conditions of the mentioned structural-investment misbalance, wasted the Soviet economy. The hyper-militarization, when defence expenditures had grown from 1965 to 1982 by 70 per cent at constant prices of 1982 (counted on: [Steinberg D., 1990: 685-686, 689]) and reached 20 per cent of GNP [Ibid.: 695-696] inevitably led to an enlarged reproduction of the internal central-peripheral structure of eco-

<sup>20</sup> To the sorrow of many 'fighters for justice', attempts to establish the New International Economic Order that should be based on 'the fair trade' between the core and Third World countries failed, partly because of resistance of the West, partly as a consequence of the new technological revolution [Inozemtsev V.L., 2001: 322-326], which depreciated the exports from the Third World.

<sup>21</sup> A priority in elaboration of the concept of structural-investment funnel, which is used here, belonged to the Soviet/Russian academician Yu. Yaremenko (1935–1996) and his successors from the Institute for Economic Forecasting (Russian Academy of Sciences).

nomy. In this respect, the Soviet situation had been resemble to that existed in Latin American societies, evident differences between them, mostly in a sphere of techniques, science and education notwithstanding. Moreover, the Soviet authorities consciously conserved an existence of the central-peripheral structure because it became a necessary condition of the macroeconomic and social stability. Simultaneously, they manipulated by socially retarded groups of the population, indulging their work of poor quality, deviant behaviour if it did not exceed beyond the penal code, and widespread alcoholism.

Nonetheless, there were also some peculiar features of the Soviet central-peripheral structure of economy and society, which distinguished it from one existed in Latin America. In the latter case, particularly, in Brazil, a division of the economy and society into centre and periphery was mostly linked to the territories (regions), whereas in the case of the former USSR such a division was mainly conditioned by inter-branch differences – between military-industrial enterprises and R&D centres, on the one hand, and ‘the rest’, on the other hand. Certainly, a concentration of various segments of the Soviet industry in different regions was uneven: some territories pertained mostly to the internal centre(s) while the others belonged rather to the peripheral zones.

An existence of the central-peripheral structure of the Soviet society led to a permanent re-emergence of the following dilemma: either to smooth an internal diversity reducing the gap between centre and periphery through slowdown of the growth rate, or to accelerate development supporting the advanced sectors while an exploitation of the internal periphery would be strengthening and, therefore, the social-technological gap should be widening. However, really, the structural crisis that pierced the Soviet system had been deepening but its overcoming was postponing for ‘better times’. Such postponement was a kind of political opportunism, which would be impossible without use of ‘compensating levers’. One of them was the external trade, which played an important role in the Soviet industrialisation even in the period of Stalin rule (see above). The Soviet Union exported raw materials, fuel, and agricultural products importing advanced machinery equipment and some consumer goods that enabled to diminish their deficit and to upgrade the material base of industry. The external trade looked as substitution for or addition to investment in the reconstruction of several leading branches of the Soviet economy. It helped to economise the resources, which, otherwise, should be invested in the economy. But, evidently, the Soviet external trade was not isolated from the whole Soviet system and the world market as well. It was worsening by its structure while the Soviet industrial system suffered the augmenting difficulties. For instance, the share of fuel and electric energy in total Soviet export increased from 15.6 per cent in 1970 up to 52.3 per cent in 1982 whereas that of machinery and equipment decreased from 21.5 to 12.9 per cent, respectively. [*Narodnoye khoziaystvo.*, 1981: 540; *Narodnoye khoziaystvo.*, 1983: 535].

Other lever, which had been used to compensate a misbalance between the internal centre and periphery in the USSR, was an existence of this periphery as itself. In the 1950s-1960s, the vacant working places of low social status, with hard, unsuitable conditions of labour had been offered to people who migrated from countryside and small towns. It was the same process of migration from the internal peripheral zones to the industrial centres as one, which took place in Brazil and other industrialising countries. These flows of labour resources, as a rule, of poor quality with respective level of education and intelligence, favoured to conservation of such jobs with low wages and obsolete, inhuman practice of management. They did not stimulate technological innovations and improvement of the production process organisation. Thereby, the internal periphery reproduced it-

self and, at the same time, socially marginalized type of labourer, dependent on the state, namely, on authorities at all levels of society but inclined to negative, anti-social and even criminal types of behaviour.

Nevertheless, a big part of the ruling *nomenklatura* had been orienting to the socially backward social-professional groups – it was a form of quasi-populism and political demagoguery. These groups were sufficiently numerous, so their preferences and inclinations might implicitly influence on a situation in the country. In particular, even on a peak of the Soviet powerfulness, the share of manual, unskilled workers reached 40 per cent of all employees in industry, 55-60 per cent – in construction, and 70-75 per cent – in agriculture. [*Narodnoye khoziaystvo*, 1987: 109]. At the end of the 1960s, 38 per cent of the total labourers in the Soviet economy were occupied at jobs of pre-industrial and early-industrial, poorly mechanised type, and only 13 per cent were employed in a sphere of high-tech, ‘scientific-industrial’ production. At the beginning of the 1980s, the share of the former category decreased a little, by 3 per cent points (to 35) while that of the latter did not change at all. [*Gordon L.A., Nazimova A.K.*, 1985: 102-112, 123, 130]. Such a ‘dynamics’ of the labour force’s structure witnessed to a stagnation of the economy. Meanwhile, under Brezhnev rule (1964-1982) the incomes of low social-professional groups increased much faster (they had grown two times for urban manual workers and three times for peasants over this period) than those of professionals (university professors, scientists, engineers, etc.) which did not change essentially since Stalin’s death. This social-economic policy had been performed as assistance to the poorly waged workers who were interested in conservation of the obsolete economic structure.

Correspondingly to the stagnating economy, a definite model of consumption emerged in mid-1960s. Its main features were the following:

- the primary needs (in food, clothes, lodging, although the latter was often of poor quality) had been satisfied whereas consumption of services and durable goods remained at the low level;
- the incomes and consumption patterns were insignificantly differentiated being centred to those of the mass middle stratum with unified standards of life;
- the system of social services and benefits (healthcare, mass education, pensions, and so on) was extended to the most population, and an access of ordinary people to this system did not depend on the economic relationships; the state guaranteed such an access to the social services almost for all groups of the population, including those of the low social status. Certainly, a quality of these services was not equal for all groups. Nevertheless, none social group was deprived of access to social services and benefits at all.

Did the Soviet model of consumption exclude the mass poverty in the USSR? No, it did not, despite the egalitarian policy of authorities regarding the incomes and social benefits distribution. Certainly, the Soviet officials did not recognise an existence of the poverty problems and spoke about the ‘low-waged workers’ in combination with the word ‘still’, and the statistical data directly concerning this issue were not available. Nevertheless, there were some data and publications, including official ones, which could clarify what the real situation was. Analysing them, the British sociologist Mervin Matthews concluded that the total share of poor households in the USSR in the mid-70s (in the best time of the so called ‘real socialism’) reached 40 per cent of all families [*Matthews M.*, 1986: 23-24, 27-28]. It corresponded to the Latin American (in particular, Brazilian) level of poverty and depreci-

ated all achievements of the USSR in education, science and technology impeding the human resources development to a bigger degree than all ideological and administrative constraints.

Certainly, neither the conscious policy aimed at reproduction of the internal central-peripheral structure nor the quasi-populist demagoguery of the ruling *nomenklatura* could prevent an inevitable decline of the Soviet system. On contrary, they destroyed it, denuding the objective limits of 'conservative modernization'. The great compromise between traditionalism and modernity under the ideological slogans of Marxism-Leninism came to a threshold where it could not function. In the mid-60s, the Russian Universe began to contradict to a solution of the further modernization's tasks. Habits and traditions of the Russian peasant society, including such ones as stereotypes of communalism and egalitarianism, neglecting of material well-being, prodigality in regards to natural resources, inability to appreciate time as the main resource, and preference of leisure instead of work, ignoring of human dignity and many other qualities, which had been oppressed by administrative and ideological tools in the 1930s-1960s, became, in ever-extending scale, insurmountable obstacles to new modernization.

Furthermore, a situation of the permanent economic misbalance and shortage of many goods was a favourable condition for the rise of shadow economy which, in the prospect, could make up a fruitful soil for the thievish economy.

It would be necessary to recognize that hidden revival of archaic patterns of consciousness and behaviour, this indistinguishable satellite of stagnation, had objective foundations. The two or three generations of the Russian people were tired of mobilizations and deep social transformations. The people allowed themselves 'to rest', particularly, when the system of control and compulsion had been 'decompressed'. (Here I do not consider a situation in the Transcaucasian republics and Central Asia where an incompatibility of the local universe with new modernization was much more evident than in Russia. In particular, in the late 60s – the early 70s, the Islamic fundamentalism, mostly in clandestine forms, began to rise in Ferghana Valley being a reaction to truncated modernisation /industrialization obtruded from above, by the Russians.) Hence, it was not surprising that many economic and managerial experiments that concerned new approaches to the labour organization, undertaken in the late-60s under a supervision and protection of Alexey Kosyguin, failed because of double resistance: from the side of managers accustomed to work in old manner and from that of workers who preferred to get low wages instead of well-paid but intensive work.

While obvious signs of decline of the Soviet system appeared in ever-extending degree, the social-cultural split, temporarily smoothed in the years of catching up industrialization and mass terror under Stalin, had been restored in the society again. The social consciousness of one part of the society, mainly in the big cities, was orienting towards the Western values, mostly at the level of primitive imitation of consumption patterns. Another part of the population, particularly, in small towns and countryside, demonstrated an evident inclination to traditional values and various forms of the social paternalism. [Krasilshchikov V., 2003: 40].

At the same time, the *nomenklatura*, which personified 'pure' capital-function, in the 1960s-1970s demonstrated a drift towards 1) political and intellectual provincialism;<sup>22</sup> 2)

<sup>22</sup> Milovan Djilas grasped this tendency still in the mid-1950s when he wrote about "mediocrity in the form of collective leadership." [Djilas M., 1957: 52].



self-enlargement and ‘economization’. Correspondingly, enlarging groups of ruling circles imitated ‘a governing activity’ instead of real work.

While the Soviet economy and social system as a whole grew and became increasingly complicate, the supreme apparatus of governance lost its efficiency. Indeed, it was necessary to allot functions of management and distribute resources among the increasing number of authority and economic entities. This practice succeeded to growing importance of ‘the middle officialdom’s strata’ in the economic branches and regions, whereas the central authority bodies were gradually losing their monopoly for power and managerial functions. A power, as a main resource in the Soviet /Russian system, had been dispersed among augmenting number of different groups of the *nomenklatura*. The relationships between them had been sustained only through ‘an informal exchange’ of services, resources and kinds of activity. Thus, in the 1950s-60s, the golden period of the Soviet /Russian history in the XX century, the seeds of corruption were sown in the tissue of society. At the same time, an existence of the internal central-peripheral structure of the economy conditioned a separation and relative autonomy of different industry branches. In these conditions, the old system of development priorities eroded whereas ‘informal procedures’ of concordance and conciliation of different interests, capacities, and resources’ allocation displaced strategic goals as a whole. A realization of the single development strategy turned into a formal process; on contrary, maintenance of ‘the current equilibrium’ – compromises between various groups and their corporate interests, became one of the main purposes and priorities of the Soviet system.

However, despite an existence of different interests of various groups of the ruling stratum (*nomenklatura*), there was their general common interest. It consisted not only in endeavour to an imitation of activity or having nothing to do but also in raising of their private incomes. This interest was objectively conditioned by private, individual character of consumption. [Fehér F., Heller A., Márkus G., 1983: 60-64 et ff.].<sup>23</sup> Certainly, according to social nature of the Soviet system as a pure embodiment of the capitalist function without private property, it should be necessary to abolish a private character of consumption or, at least, to restrain it. Nevertheless, it was practically impossible, particularly, in a framework of the catching up, imitative model of development, and when an opportunity to increase the level of people’s consumption had a little arisen, the ruling *nomenklatura* was the first in a race for personal enrichment.

Michael Voslensky described many details concerning both *nomenklatura*’s consumption and social differentiation under ‘the real socialism’ were by [Voslensky M., 1984, Ch. 5], so it is unnecessary here to draw attention to this issue. However, what is worth to be noted concerns a character of this differentiation. The latter was not only that indispensable, to a reasonable degree, but also presupposed the social segregation. Over the 1970s-1980s, it had been expressed in decline of the social mobility, very important indicator and feature of the successful modernization. The opportunities to make professional career, to enter prestigious colleges and then to occupy good positions in some spheres of economy and social activity had increasingly been concentrated within a relatively narrow circle of the ruling groups. In essence, the latter approached to a hidden *privatisation of opportunities* for their children to make professional career. For example, in the 1970s-1980s, the

<sup>23</sup> Unfortunately, a reality proved that Leon Trotsky was right in his prediction when wrote: “In regard to the bureaucracy as a consumer, we may, with the necessary changes, repeat what was said about the bourgeoisie. There is no reason or sense in exaggerating its appetite for articles of personal consumption.” [Trotsky L., 1980: 142].

most schools with the advanced learning of foreign languages beginning from the 2<sup>nd</sup> form in Moscow were located in districts where the *nomenklatura* preferred to be settled – in the centre, west, and southwest ends of the city. Meanwhile, in two southeast industrial districts with total population about one million inhabitants where the families of manual workers dominated, such schools were not opened at all. [Trushchenko O., 1995: 64].

Undoubtedly, the experienced observers and large groups of the population as well, whether in the former Soviet Union or Latin American countries, were aware of the negative tendencies, which witnessed to attaining limits of the existed model of catching up industrial development emerged in the 1930s. Nonetheless, these tendencies had often been perceived rather as ‘temporary difficulties’ of ‘several deviations’ from the general way of development than as ‘internally inherent vices’ of the both systems. Moreover, in the course of the 1970s good indicators of the growth camouflaged the negative tendencies that arose in the both semi-peripheral regions. For instance, in Latin America as a whole, including the Caribbean, the annual rate of GDP growth in the 1970-1980 was 5.5 per cent, or 3.0 per cent per capita [CEPAL/ECLAC, 1993: 68-69], the surging difficulties, particularly, the growth of external debt, notwithstanding. Respectively, in the former USSR, GDP per capita measured by the international currency (US dollars) on PPP reached the ratio of 1.5 to the average world magnitude of this indicator. (Counted on: [Maddison A., 2001: 330]). It meant that the gap between Russia and the West at that time shrank to its minimum over the entire while of their rivalry since Peter the Great. In addition, by some indicators, such as a life expectancy, level of education, literacy of adults, the USSR belonged to a group of the advanced nations.

However, the systemic crisis matured invisibly, only sometimes slowly knocking on a door. In the 1980s, it had crossed a threshold appearing in its whole ‘beauty’.

#### **4. The Crisis of Statism and Neoliberal Reaction**

The long-term premises of crisis that matured in the conditions of seemingly rapid development turned into apparent reality in the 1980s. The both regions, which were industrializing under a pressure of circumstances, Latin America and the former Soviet Union, entered a period of difficulties. Modernization trap, Madam History carefully built up around the both 'catchers up', invisibly operated, and they had fallen into it trying to deliver them from quagmire on the same way that led them to there.

Certainly, an entanglement in modernization trap was mostly result of the previous, in some respects, successful, development of the both regions, which had become victims of the proper accomplishments.

Modernization trap, to a big degree, has been built over due to a fast development when a deficit of time and resources for complete transformation of the old social structures and relationships requires concentrating efforts in a prior direction while the rest remain to be untouched by modernization. However, otherwise, a high rate of the economic growth would be unreachable at all. In other words, modernization trap is an outcome of dilemma: either a fast and successful development of the selected, prior spheres, branches and areas at expense of the rest, or gradual, slow but balanced development of all of them. A situation of such choice is always consequence of the internal processes and internal shifts in a society.

Nevertheless, the external factors have been significant for an emergence of the modernization trap situation, too. In the 1980s, the general world context, in which Big Russia and Latin American countries slipped to crisis, was no less important than in the 1930s, at the start of their catching up industrialization.

Notwithstanding an evident fact that insurmountable difficulties the both regions met in the 1980s were a result of interaction of the internal and external factors, it could be argued that it was mostly the internal situation that allowed neither the former Soviet Union nor Latin American countries to find adequate responses to the external challenges.

In the 1980s, Latin America faced an effect of the four external factors that compelled the continent to approach to the structural adjustment of economy to the new conditions, and such an adjustment previously aggravated the profound systemic crisis. These were: 1) the augmented volume of external financing; 2) the rate of interest at the international markets of capital; 3) the real pace of the international trade growth, and 4) the negative, unfavourable dynamics of the prices for goods Latin America exported. [CEPAL, 1998b, vol. II: 736-737]. These factors could be reduced to two major ones: a deterioration of the trade conditions for Latin America and an elevation of the rate of interest at the markets of countries-creditors. [CEPAL, 1998c, vol. II: 807-813].

In the beginning of the 1980s, namely in 1982, Latin American countries suffered a slowdown (and, several of them – even a fall) of their manufactured goods exports. On the one hand, they met the new forms of protectionism implemented by the developed countries in respect to their commodities. [CEPAL, 1985: 66-70]. On the other hand, and it was more important and essential for the continent than the protectionist barriers their OECD partners built up, Latin American countries began to lose a competitiveness in the changing conditions. Objectively, a new round of the scientific-technological revolution, namely, its

microelectronic and informatics stage, debilitated the previously attained comparative advantages based on cheap resources and cheap labour. [Fajnzylber F., 1989: 97-106]. New technologies allowed to diminish a consumption of fuel and 'hard matter' per unit of GDP and 'commodities scope' what was widely recognized in Latin America— as well as an undoubted fact of the surged vulnerability of the continent to the new technological challenges as a whole. [CEPAL, 1988: 15-16, 19-22]. Inertia of the ISI strategy, although in modified forms, succeeded to an exceeding dependency of Latin America on the exportation of primary goods whereas a significance of the latter had been devaluating. [CEPAL, 1985: 57 et ff., esp. 58-64]. Latin America appeared neither economically, nor technically, nor institutionally to be ready to face, in adequate manner, the microelectronic revolution. Furthermore, she was unable not only to face it but, at least, to adopt passively its accomplishments and opportunities.

Undoubtedly, the protectionist policy of the OECD nations, particularly the US, discriminating for Latin America, had a definite significance for inability of the latter to be adjusted to the new technological reality. For example, in period from September 1985 to October 1989 the United States applied genuinely non-ordinary efforts to the trade negotiations with Brazil, intending to attain the privileges (for themselves, of course!) to seize advantageous positions at the Brazilian market of software and electronic goods, mainly computers. The US announced retaliation against Brazilian trade expansion to their market, particularly, in regards to the exports of footwear, orange juice and airplanes for local and regional distance. Affecting the interests of exporters of orange juice, the US obtruded, through the respective parliamentary lobbies, an acceptance of the additions to the bills regulating the trade. As a consequence of the US pressure supported by small but influential groups of their 'allies' in Brazil, the Information Law approved by the Brazilian Congress in December 1984 was 'corrected'. This 'correction' opened doors for the US software and hardware equipment's invasion into market of the largest Latin American country. Soon, it debilitated and partly subverted positions of Brazil as the rising electronic and information power. (See: [Bastos M.I., 1994: 380-404].<sup>24</sup>)

Nevertheless, independently on whether the US pressure on Brazil and other Latin American countries was efficient or not, neither Brazil nor the continent as a whole had sufficient scientific-technological capacities, which could enable to be active new technologies makers but not passive takers. The first reason of such weakness was the elitist, purely technocratic approaches to the scientific-technological R&D when a decisive role had been attributed to a sphere of the tertiary education, research centres, training of qualified engineers, etc. [Bastos M.I., 1995: 74-75], whereas a significance of the ordinary executives and the labour force quality was underestimated. The second reason was a widespread practice of the imitations of innovations borrowed from abroad instead of creation and promotion of the proper scientific-technological capacities. As Jorge Katz once noted describing the technological development in Latin America, its essential feature was "the bureaucratic innovative culture". [Katz J., 1999: 15]. This "bureaucratic innovative culture" meant a realization of the scientific-technological policy through orders and campaigns, accordingly to decisions taken by bureaucrats. By the way, the same approach to the R&D and innovations had been inherent also to the Soviet system, which had not the proper impulses for technological innovations. The latter should be sprung 'from above' being initiated by the advanced groups of officialdom.

<sup>24</sup> About the rise and development of the Brazilian electronic and software industry from 1972 and onward see: [Piragibe C., 1985].

Indistinguishable element of the modernisation trap ‘construction’, where Latin America was entangled in the 1980s (later, some East European ‘socialist countries’ found themselves in the same place!) was ‘the debt trap’, namely, the ever-increasing external indebtedness, which became intolerable and destructive in the beginning of the decade (in 1982). When either governments or private business groups in Latin America borrowed money for ‘the future achievements’ of industrialization (1974-1977), the rate of interest at the world markets was negative in real terms. Due to the orthodox monetarist Reagan Administration’s policy —‘reaganomics’ in operation!— the real rate of interest in 1981-1982 had taken-off to 6.0-8.1. [Cardoso E., Helwege A., 1992: 117]. It, firstly, raised ‘the cost of money’ Latin America needed for maintenance of her financial system and economy, and, secondly, stimulated the outflow of capitals to the US financial market. The continent was enforced to borrow money for the payments of interests and debts amortization on old loans. A dynamics of the Latin American indebtedness by country, at least, the largest and/or the most developed of them is presented in table 4.1.

**Table 4.1.** The external debt (billions US dollars) and the ratio of interests’ payments as percentage(\*) to exports of goods and services in Latin American countries, 1980-1990.

Countries	Debt			The ratio of debt services		
	1980	1985	1990	1980	1985	1990
Argentina	27.2	49.3	61.0	22.0	51.1	38.9
Brazil	70.6	105.1	122.2	34.1	40.0	30.9
Chile	11.2	20.4	18.6	19.3	46.4	17.8
Mexico	50.7	97.8	99.7	30.2	37.2	24.1
Uruguay	2.1	4.9	7.4	11.0	34.2	27.2
Venezuela	29.6	34.3	33.1	8.1	26.4	16.9
<b>Latin America in total</b>	<b>228.2</b>	<b>378.7</b>	<b>431.5</b>	<b>47.1</b>	<b>70.3</b>	<b>44.6</b>

(\*) – counted upon the base of current prices in US dollars.

Counted on: CEPAL/ECLAC, 1993: 432-433, 436-437, 444-445, 450-451, 468-469, 484-489.

All ‘benefactors’ and ‘well-disposed advisers’ from IMF, World Bank and OECD countries governments or private banks recommended to Latin America: export, export, and export! However, the real growth of exports, including those of manufactured goods, could not reimburse for losses from the increased indebtedness whereas the general technological weakness and backwardness did not allow Latin America to repeat a success of East Asian ‘tigers’ transcending to the export-oriented growth.

It cannot be said that Latin American politicians did not conceive an essence of the changes that occurred in the world, particularly, a key role of science and education in the process of development. For example, in 1990 Carlos Andrés Pérez, then the president of Venezuela, said: “...Education is clearly the great strategic line along which we must advance, because it is the gateway to research, science and technology.” [Pérez C.A., 1990: 13]. But a raise of competitiveness and resolution of other problems as well Latin American countries met in the 1980s presupposed a realization of the long-term measures which could give an effect only in the future prospect. Meanwhile, in the conditions Latin America found itself at that time, it was impossible to think about the long-term prospects of development. A task of survival seemed more essential and insistent than a task of development, so nothing, or, at least, a few, was done to change the crisis situation.

As an outcome of the augmented difficulties, in the 1980s GDP per capita in Latin American countries decreased, and some countries, as, for example, Argentina, suffered a fall of the absolute size of GDP. Respectively, the mass poverty and social inequality have grown. Inflation, this permanent satellite of Latin American industrialization over decades, slipped out of control being a genuine economic plague. All attempts to resolve the surged problems and to overcome deepening crisis did not allow attaining positive results because they remained within a framework of the old system and touched neither economic structure, nor institutional mechanisms (the system of governance) at the both, macro- and micro-levels. On contrary, all these attempts weakened and destroyed the latter. It was somewhat similar to zugzwang in chess party – a situation when any move ahead should lead to a serious disadvantage and defeat. For example, in the course of the 1980s, the Argentine governments, from the military junta to democratically elected president Raúl Alfonsín, accepted about dozen of programs of macroeconomic stabilization but these programs failed one for another. Even if a stabilization had been attained, it was only short-term, and then new waves of the crisis overflowed the agonizing economy. Therefore, the 1980s were non-occasionally called *la década perdida* (the lost decade) for the Latin American continent. (Unfortunately, the same characteristics could be applied, too, to the Soviet Union that became the country of omitted opportunities; probably, some of those opportunities were lost forever.)

At the same time, the difficult period of the 1980s was not the lost decade in all respects. A part of political and business elites of the continent learnt to reconsider its approaches to the mode of Latin America's inclusion into the world system and began to comprehend how the long-term dynamics can be combined with the short-term economic equilibrium. In addition, in the 1980s, Latin America had become the world leader of the political democratization processes outside of the First World —then these processes spread to the Central and Eastern Europe, the former Soviet Union, and some Asian countries. The civil society in Latin America, mostly in the relatively developed countries of the Southern cone, had been consolidated in the fight against dictatorships, particularly in Chile and Argentina. Thus, the experts of CEPAL/ECLAC had serious foundations to treat the given period not only as the lost decade but also as *la década de aprendizaje doloroso* (the decade of painful learning). [CEPAL, 1990: 11]. Unfortunately, the same period did not become the decade of painful learning for the USSR. Namely, it had become the decade of pain, although mixed with expectations and hopes for radical improvements, but without learning.

Apparently, from the point of view of the world market's observer, the Soviet Union met in the 1980s almost the same problems as those Latin American countries faced: at first, a fall of competitiveness and deterioration of the world market positions, and, secondly, a rapid growth of the external debt. For instance, the Soviet gross debt increased from 15.4 billion US dollars in 1975 to 31.4 billion in 1985 and then to 61.6 – in 1990; respectively, the debt service increased from 29.1 per cent of the hard currency exports in 1986 to 68.2 per cent in 1990. [ECE, 1993: 289; Mohanty A., 2003: 65]. Such dynamics of the external indebtedness meant that some improvement of the economic situation in 1985-1987 was extremely vulnerable; in the conditions of institutional disintegration and declining governance in 1988-1990, it changed for self-accelerating deterioration and fall of the main social-economic indicators while the rate of inflation surely extended. Simultaneously, the growth of indebtedness meant that the second super-power moved towards bankruptcy.

An essence of the Soviet problems was, to a big degree, the same as in the case of Latin America – inability of the industrial structures to generate or, at least, to absorb new technologies as a consequence of misunderstanding of the human capital's importance because of 'industrial fetishism' and the corporate, egoistic interests of the ruling strata as well in both regions. As Fernando Henrique Cardoso wrote on the Soviet economic planners and strategists, "they still saw the world through infrastructural lenses. 'Production' was their watchword, and productivity was to be improved only by investment in the 'hard' industries - nothing 'soft', no 'human capital', no telemetrics for them." [Carnoy M. e. a., 1993: 155].

The same words could be said about the state bureaucracy and businessmen in Argentina, Brazil, or Mexico. Such an approach to human capital, implicitly connected with the permanent reproduction of the internal central-peripheral structure, blocked all impulses for innovations that might aid to increase competitiveness and to overcome crisis.

At last, not least, there was also one more feature of the situations in the Soviet Union and Latin American countries that resembled them to each other. It was 'a loss of governance' and, as a direct consequence, a rise of deep disappointment of the masses in the state and its ability to control situation. A decline of the old systems based on statism in the both regions became inescapable fact. A task of transition towards another system had arisen on agenda.

However, what should this another system be?

The prominent Hungarian scholar, brilliant specialist on the Third World Tamas Szentes was one of the few skeptics who insisted not to reduce a transformation in East Europe to a transition 'from socialism towards capitalism'. "What is a type of socialism that has been under consideration? What is a type of capitalism towards which it is possible to transcend?" – he put questions in one of his papers. [Szentes T., 1990: 126].

Answers to these questions should have to depend on diagnosis of the social-economic disease that afflicted either Soviet, or East European as a whole, or Latin American societies. In this connection, another question has to be posed: Did the statism, whether in the case of the former Soviet Union and East/Central Europe, or the state capitalism in the case of Latin America, accomplish its historical mission completely by the end of the 1980s?

Yes, it did, particularly in front of the commenced processes of transition towards a post-industrial, knowledge- and creativity-based society in the advanced countries. However, taking into account what the real level of development in the USSR, Poland, Hungary, Argentina or Brazil was obtained up to the eve of the 1990s, an answer to the given question should be negative. Indeed, either the former Soviet Union together with COMECON allies or Latin American industrializing economies should have to accomplish industrial modernization, i.e. to transit to the stage of late-industrial capitalism with the strong system of social security. In other words, they had to attain, as their strategic goal, the level of social-economic and technological development reached by the OECD nations in the mid-60s. This level could be treated as a post-industrial threshold, which would become a real base for movement ahead, gradual but successful. However, in the conditions of deep systemic crisis, a choice of adequate strategy of reforms depended on the political will of different social actors that were able to take necessary decisions. Despite a possibility to follow way of the developmental state (as in Japan and the NICs of E/SEA), gradually reducing the state interventionism into economy, the real interests of people in power, whether in the former USSR or the states of Latin America, prevailed over the strategic

goals of development. A situation of the profound crisis of statism and the state capitalism in the former USSR and Latin America, respectively, made a choice of the renovated statist variant of the Russian and Latin American development to be almost improbable.

Both Russia and Latin America had chosen, although with various modifications, the neoliberal strategy of reforms that presupposed, to a more or lesser degree, 'the shock therapy' policy and adherence to the Washington consensus principles.

Was this choice enforcedly imputed to the regions, formerly industrializing 'catchers up' and now profoundly crisis-affected, from abroad?

Certainly, it would be difficult to disagree with Helio Jaguaribe when he noted: "Pure liberalism is an exportable doctrine for use by third-world innocents". [Jaguaribe H., 1997: 208]. The role of IMF and other odious international institutes as decision-makers concerning 'the emerging market economies' was undeniable. (In particular, it is sufficient to refer to the plans of James Baker and Nicolas Brady, the State and Treasury Secretaries of the US, respectively, which were aimed at solution of the external indebtedness problem of Latin America through privatization of her state-owned enterprises. In Russia, assistance from the West was promised only if the government of Yeltsin-Gaidar would accept the programme of stabilization proposed by IMF. [Mohanty A., 2003: 77-81; Reddaway P., Glinski D., 2001: 290-298]. Nonetheless, it would hardly be correct to exaggerate the role of foreign institutes in reforming of the Russian economy if the recommendations of IMF and new prophets of 'the bright capitalist future' would not meet a friendly reaction of those people who were biased to present their vested interests as recommendations of 'the world science' and 'authoritative international organizations'.<sup>25</sup> Moreover, these vested interests were not the only factor that had played a key role in the concrete choice. In addition, there was also a peculiar vision of the situation by decision-making people, and that vision was, particularly, in the case of the former Soviet Union, conditioned by 'an ideological heritage' of the past.

The so-called 'young liberals' who moved in the scene of Russia's drama in 1990-1992 were genuine children of the Soviet system's decline and disintegration. ("Don't require so much from us, we are children of the stagnation period" –, one pretty studentess said in 1986 when I lightly reproved her for pseudo-Marxist dogmatism.) They inherited vulgar Marxist, economic deterministic approach to social phenomena, purely technocratic, quasi-Bolshevist vision of society, including such one as belief in omni-potency of social engineering, that had been expressed in 'market fetishism' and naive reductionism based upon a primitive dichotomy 'public – private' concerning the property relationships. (See: [Reddaway P., Glinski D., 2001: 236-241].)

Being 'children of the stagnation period', the Russian 'liberal reformers' were, at the same time, grand-children of the Bolsheviks (in both literal and figurative senses) and had

<sup>25</sup> In 2002, at one of the sessions of the X General conference of EADI (European Association of Development Research and Training Institutes) in Ljubljana, the rector of Ljubljana university pronounced the replica that would be worth to be reproduced here. He said: Certainly, before 1991 when dissolution of Big Yugoslavia started, we, Slovenians, lived better than many other people in the country. However, after 1991 we did not follow recommendations of IMF, World Bank and other international institutes, so today our conditions are much better than in many post-socialist countries and we are ready to join European Union. Indeed, why IMF, IFC, etc. did not impose their policy to small Slovenia whereas they could do it in regards to larger countries: Poland, Argentina, Ukraine, and, particularly, Russia? It inspires us to presuppose that matter is not only an approach of the West but also (and more important!) the so-called vested interests of local ruling circles.



been inspired by an idea of catching up, imitative development having intentions ‘to do all as in the West’. Indeed, the neoliberal choice of Russia and most Latin American countries as well in the late 1980s – the early 1990s was conditioned, to a big degree, by well-known ‘demonstration effect’, too. Hence, both Russian and Latin American admirers of neoliberalism could be characterized as “second-hand dealers in ideas” (this characterization was used regarding to the Thatcherite think tanks but is applicable in the given case). [Desai R., 1994: 31].

The visible successes of the microelectronic/information technologies, which coincided (not occasionally in the concrete situation of the West!) with the rise of market fundamentalism, inspired an influential part of the ruling groups in the regions under consideration to adopt the neoliberal programmes. Presupposedly, these groups, including ‘the young liberal reformers’ in Russia, were excited for implementing ‘free market mechanism’ looking at superficial, exterior side of the processes that had been developed in the advanced western countries, mainly in the US. They paid attention rather to the changes in a sphere of consumption than to the hidden transformations in production. The words, written about widespread endeavours of many people in Latin America, could completely be applied to the Russian situation: “Public opinion, as expressed by consumers, wanted Miami not the Silicon Valley.” [Erber F.S., 1995: 221]. They refused understanding that Miami exists for weekend whereas the Silicon Valley required being engaged into hard, intensive work from Monday to Friday.

I have not a fear to repeat a banal truth that ‘the market renaissance’ and the rise of neoliberalism in the West has been a reaction to the crisis of fordist-keynesian model. Simultaneously, it was an approach to search for the new balance between the state and civil society resolving the problems of the late industrial, managerial capitalism, correspondingly to new technological opportunities and principles of organization. Meanwhile, the 1980s were not only the time of crisis but also that when the social and technological premises to overcome this crisis matured in the depths of western societies. In 1971, “Intel” introduced a microprocessor that opened way to the microelectronic era and made up a ground of the information technology boom. At the same time, due to the preceding social-democratic, Keynesian policy of the welfare state, the large, higher college educated new middle class had arisen as the actor of social transformations and new technological revolution. This social stratum, particularly, its upper and the most active, advanced part, was interested to cut taxes, to rationalize the welfare state expenditures, to constrain the egalitarian tendencies in incomes distribution and the pretensions of trade unions for growing piece of the national income pie. It had the proper purposes and pretensions for a peculiar, even elitist role in society. At last, this social stratum endeavoured to a self-fulfillment, particularly, in a sphere of own business, mainly, in the new branches of economy.

These endeavours had a solid background – an immense volume of the accumulated human capital embodied in intellectual, creative capacities of this social group. In the beginning of the 1990s, I attempted to estimate a magnitude of this capital in the US at the time when ‘reaganomics’ commenced to function, i.e. in the first half and mid-1980s. I used the official statistical data, in particular, the US Statistical Abstracts, and the literature comprised a methodological approach to estimating a volume of the human capital as well. The latter had been compounded from different kinds of expenditures and human efforts expressed in their monetary equivalent’ form, such as the following: parents’ child-care; education, including all public, corporate and private expenses for this goal; culture and recreational sphere, including public and private expenditures for sport, excursions, visitation of

museums, theatres, concertos, art galleries, etc.; own efforts of schoolchildren and college students for learning and studying, including their efforts for sustaining of 'good fitness'; efforts of adult graduated specialists aimed to improve their professional skills and intellectual capacities. (See in details: [Young D.R. e.a., 1986: 14, 93].)

Accounting, at least, approximately, all these major kinds of expenditures and efforts required for 'production of labourer' adequate to the contemporary conditions, it was possible to estimate the total human capital in monetary form, which had been accumulated in the US. In the early and mid-1980s, when 'the neoconservative revolution' triumphed in America, this amount reached 44-45 trillion of 1981 dollars. Hence, the annually accumulated human capital estimated accounting a movement ('inflow – outflow') of the labour force exceeded 2.0-2.1 trillion dollars, a magnitude, which was approximately equal to a half of the US GDP at that time. [Krasilchikov V., 1993: 169-171]. It was an approximate, quantitatively expressed amount of the genuine human background of new technological breakthroughs realized by the U.S. and other western countries in the second half of the 1970s and onward. Since a bigger part of this amount had been created in households and was funded, too, due to social expenditures of the welfare state and/or public foundations, it lied beyond a sphere of the market relationships. In other words, 'the market renaissance', as a response to decline of the fordist-keynesian system, had been based upon the non-market ground.

The interests of new middle class coincided, to a big degree, with those of big business, including transnational corporations, and banking capital. They all tended to restrain the trade unions for increasing a profitability of production in the national and global scale. In addition, their common purpose consisted in a deliverance from domination of the managerial, functional capital, which lost its previous dynamism and was aimed at attaining stability (=stagnation). Factually, 'the anti-managerial revolution' was posed on agenda as a restoration, at the new stage, of the pre-XX century capitalism thoroughly a liberalisation and de-regulation of economy. Such goal, in particular, corresponded to the attitudes of TNCs, which were interested to oppress a resistance of the national states, whose activity, from the TNCs' point of view, was incompatible with rational allocation of resources and economic 'effectiveness'. In its turn, the banking and financial capital was openly inclined to a full liberalization of financial markets, and financial players were key actors of 'the market renaissance'. Neoliberal economics and market fundamentalism became their new religion and *raison d'être*.

Therefore, the rise of neoliberalism in the end of the 1970s in the western countries had real, social-economic and even social-cultural, foundations, facing a support of different social groups.

Did the same social 'pro-market' actors, who promoted 'market renaissance' in the West, exist in the former USSR and Latin America in the end of the 80s? No, they did not, but this fact did not mean that other 'free market' agents nor emerged in both regions at that time. The social actors of a transition from statism towards 'free market' in the former Soviet Union and Latin American countries can be presented as following (table 4.2).

Table 4.2. Social actors of free market economy

The former USSR/ Russia	Latin American countries
- the CPSU and economic management nomenklatura (cratocracy)	- bourgeoisie affiliated with TNCs
- actors of shadow economy	- old but modified trade-agrarian oligarchy
- self-employed people and independent entrepreneurs (very weak sector)	- financial players, bond market agents - self-employed and people of 'informal sector' of economy

Certainly, what concerns Latin American economies, they were market economies since the colonial times, hence, there were always the social agents of market relationships, some constraints and state regulations, particularly, in the XX century, notwithstanding. The period of the 1970s, when some Latin American countries began to export their manufactured goods to the external markets, strengthened positions of those circles of national bourgeoisie which were directly interested in deliverance of the economy and private initiative from the state wardship. At last, it is hardly necessary to mention the groups of financial players that had been enriched in the situation of storms at the market of capitals and were supporting any economic liberalization, as far-reaching as possible.

A situation in the former Soviet Union at the stage of disintegration was another matter. The Soviet society, mainly in the Russian Federation, had none experience of the genuine market relationships, except a bazaar trade. Nonetheless, an objective disintegration of the entire Soviet industrial system and an expansion of the shadow sector of economy (as one of this disintegration's consequence) created a specific social-economic environment favourable for an emergence of market and commercialization of the social relationships. It opened new opportunities for quick personal enrichment. To the mid-1980s, the ruling nomenklatura had matured and was ready – as Leon Trotsky forecasted in 1936 [Trotsky L., 1980: 253-254] – to approach to redistribution of the accumulated social wealth for proper benefits. At the same time, it was necessary to legitimize this process before ordinary people. The proclaimed and actually insistent economic reform had been the best way to do it.

It would be worth to note that often in the former Soviet Union and Latin American countries the same people and political organizations who some years back could not imagine a development without the state control suddenly turned into the admirers of free market. Such a transformation took place, for example, in Mexico, Argentina and Bolivia where el Partido Revolucionario Institucional, el Partido Justicialista or el Movimiento Nacionalista Revolucionario, respectively, being previously adherent to the populist and statist attitudes, became mettlesome promoters of the liberal economic reforms. In particular, in Bolivia, Víctor Paz Estenssoro, president in 1952-1956 and 1960-1964, initiated to realise the programme of radical social-economic liberalisation whereas in 1964 he was dismissed by general Rene Barrientos through the military coup because of his excessive, from the point of view of Uncle Sam, populist policy. In Argentina, the candidate of peronism for presidency, Carlos Menem, being elected had become “the author of populist dismantling” [Adelman J., 1994: 90] and approached to ultra-liberalisation of the national economy. At last, in the USSR, whether in the Russian Federation or any other republic of the Union, turning of the former ‘statists’ into the free market admirers had been the widespread phenomenon. The first president of post-soviet Russia Boris Yeltsin demonstrated such turn in literal manner.

One of the most character features of the market emerged in the course of transformation in Russia consisted in its unity with the system of power. Even those niches of the Russian market, which were not under direct control of authorities, might exist only because they were not interesting for ‘economised’ *nomenklatura*. This market did not arise from below, the countryside bazaar, as that in China had been developed. (This circumstance explains why all comparisons of the Russian and Chinese reforms have none real sense if the principal, ‘genetic’ differences between them are ignored.)

The genesis of specific Russian (CIS’s as a whole) market can be divided into the three periods of different length.

1) The period before 1987 that had some long sub-periods when the necessary premises matured within framework of the Soviet system.

2) The period from 1987 to July-August 1990 was marked by a rise of hidden ‘cratocratic’ trade capital(ism) with focus on trade and financial operations but not on productive activity. In this period, small semi-private, semi-cooperative firms headed by unknown persons of small rank raised as mushrooms after summer rain.

3) The period from August 1990 and afterward had been characterized by the call for commercialization of the CPSU organs. The Central Committee of the party had taken decisions that ‘legalized’ an engagement of the party’s authority bodies into ‘economic activity’ but the party’s business should be presented in a form of the business activity of private firms and banks. A strategic task that should have to be solved in this period consisted in a creation of influential private sector under control of the *nomenklatura*, and the general movement in this direction did not depend on various events, even such important as the failed putsch in August 1991.<sup>26</sup> Indeed, accordingly to sociological studies in Russia, in the mid and end of the 90s, about 70 per cent of new political and business elite at the federal level and 82 per cent at the regional one were recruited from the former party and state *nomenklatura*, level. [Kryshtanovskaya O., 1996: 118-120]. This is a record, perhaps, shared with Ukraine and some other CIS countries, among all East European nations where the ruling elite was renovated for 60-80 per cent.

The neoliberal ideology corresponded, particularly, at the stage of the former state-owned enterprises and assets’ appropriation to the interests of ‘privatisers’. Neoliberalism had become the best ideological explanation and theoretical foundation of wild privatization (=appropriation) of the state property. In its turn, a liberalization of the external trade and financial system opened an access to ‘the goods of civilized world’ in exchange for raw materials, petroleum and gas.

Liberalization/privatization of the former Soviet economy, as a result of the Soviet system’s disintegration, predetermined, to a big degree, a character of the Russian, as well as Ukrainian, etc., economic (neo-) liberalism. In this connection, it seems relevant to remind what Karl Marx said about ideological views and their real essence. “The label of a system [of views - V.K.] –, he wrote, – differs from that of other articles, among other things, by the fact that it cheats not only the buyer but often also the seller.” [Marx K., 1978a: 360]. Meanwhile, ‘the practical’, operating (neo-) liberalism in post-soviet Russia was as far from genuine western liberalism as the Soviet ‘Marxism-Leninism’ differed from the authentic Marxism. In the Russian conditions, either ‘the economized part’ of the former *no-*

<sup>26</sup> About the transformation of the old Soviet system into the *nomenklatura*’s market see, for example: [Kryshtanovskaya O., 1996: 94-107].

*menklatura*, or the large strata of ordinary people treated neoliberalism as conception justifying ‘a free expression of personal will’, a justification of the omni-permissiveness without restrictions and constraints. Such an attitude had nothing common with the Western liberal idea of freedom, which presupposed recognition of the right to private property and private activity for each individual. The Western liberalism meant a reciprocal respect of individuals in their relationships: the personal freedom of anybody should be restricted if it would violate the same right of other people for their privacy. Perhaps, it would be relevant to quote words of such classics of liberalism as Adam Smith, words that illustrate how a gap between the Russian version of ‘liberalism in operation’ and the genuine liberal world view is wide: “Every man, as long as he does not violate the laws of justice (my italics – V.K.), is left perfectly free to pursue his own interest his own way, and to bring his industry and capital into competition with those of any other man, or order of men.” [Smith A., 1976: 687]. The Russian ‘operating’ (neo-) liberalism constantly violates ‘the laws of justice’ and rejects the pivotal principle of different people rights’ equality. Strictly speaking, it alternates the latter for ‘the laws of jungles’. Accordingly to such an anarchistic, archaic approach, economic man, *homo oeconomicus*, as an agent of the market relationships is interpreted as absolutely egoistic person who does not think about other people and is capable to destroy the whole world if this destruction is beneficial for him/her.

Evidently, this attitude can hardly be treated as rational; instead, an immoral, insolent regard of any person to his/hers neighbours is irrational because it provokes their responsive reaction to anti-social behaviour of this person who appears as unable to think even about his/her long-term interests. Meanwhile, an irrational, socially destructive egoism has become widespread in Russia at all levels of society. Therefore, a triumph of neoliberalism in its Russian version represents, by itself, a restoration of archaic attitudes strewn by the imported powder on surface.

At the level of the former *nomenklatura*, the called above omni-permissiveness under liberal slogans has been expressed in privatization of power, although, in this respect, Russia and the CIS as a whole have not been ‘deviating’ from the global trend. Privatizing the state has become widespread phenomenon at periphery of the world system in the era of globalisation. [Hibou B., 2004: 1-46, esp. 3-4]. This fact is a key to adequate comprehension of the Russian market relationships. Such privatization of the state functions and institutes proceeded to privatization of the economy and succeeded to emergence of the criminal-bureaucratic capitalism (quasi-capitalism), a substantial and undistinguished element of which is corruption that pierces all society and has many facets.

What concerned the large strata of ordinary people in Russia, neoliberalism in its vulgar version had become for many of them a form of ‘social escapism’ or ‘negative deliverance’ from any responsibility in regard to the state, colleagues at work, technological and labour discipline, and even... themselves. The large masses of people in Russia had felt ‘a taste to freedom’, which had been understood as ‘a freedom from...’ (but not as ‘a freedom for’), as a right to be independent on whosoever and any social ties. Such ‘a deliverance’ from sociality was a delayed reaction to the former mobilization for enforced accelerated modernization in the past. In the course of the industrial development under the Soviet power, the most people were tired of this mobilization, although it was the only way of progress in the Russian history. This social tiredness, on the one hand, and an emerged opportunity to earn ‘fast money’, even despite a down of the social status in many cases, on the other hand, compounded the social-psychological condition of the support of Yeltsin regime from below in the first years of reforms in Russia.

Nevertheless, all similarities and differences between Russian and Latin American motives for adoption of neoliberalism notwithstanding, the both variants of the neoliberal policy offered 'the best way to the brightest future'. As it has been often, the reality appeared to be insofar from the promises, and 'a liable of views' has again cheated not only buyers but sellers as well.



## **5. Latin America: The Limits of Successful Neoliberal Reforms or Neoliberalism as Limit to Development**

At first, it is necessary to note that when I use word ‘successful’ speaking about the neoliberal, pro-market reforms in Latin American countries, I do not intend to glorify their results ignoring serious problems that had arisen as results of neoliberal social-economic policy in its radical version. They look ‘successful’ only being compared to the outcomes of ‘market transformations’ in Russia or the CIS as a whole but it does not mean that neoliberalism has brought prosperity to Latin America. On contrary, an experience of the Latin American market reforms approves an insistent necessity to reconsider and reassess the neoliberal principles; otherwise, an attempt to implement them wherever, including East Asia with her strong statist traditions, can succeed to serious negative consequences.

What was ‘the Latin American balance’ between the results and costs of the neoliberal strategy realisation, mainly in a social sphere?

One of the most acute problems that tormented the Latin American continent over decades of industrial development was inflation. Either poor or rich strata of the Latin American societies might be, except a narrow group of financial and currency speculators were tired of the permanent depreciation of money. They agreed to adopt any stabilization programme that could help to deliver economy from this sickness. And a real constraint of inflation had been very important achievement of the neoliberal strategy in Latin America, particularly, over the first years of reforms when the economic growth resumed, despite essential losses in social respect. From the start of ‘macroeconomic stabilization’ (understood as financial stabilisation), though attained at different years in different countries, the annual rate of inflation exceeded 10 per cent only in Costa-Rica (1996-2000), Colombia (until 1998), Mexico (in 1995 because of tequila crisis with a slow decrease to 1999), Paraguay (in 1991-1995 and 1998), Peru (up to 1996), Uruguay (1991-1997). Only in such unstable countries as Venezuela and Ecuador, the annual rate of inflation never fell below 12 per cent over the past decade. In the course of the recent decade, 10 per cent annual rate of inflation (measured at consumer prices) was exceeded in Argentina (after default of December 2001 and in 2005), Brazil (2002), Costa Rica (2000-2001, 2004 and 2005), Dominican Republic (since 2002), Honduras (2000), Jamaica (2003-2004), Nicaragua (2005), Paraguay (2002 and 2005), and Uruguay (2002-2003). Perhaps, only Venezuela remains to be afflicted by two-figure inflation that has become the chronic economic disease of the country while Ecuador reached a stabilization due to enforced dollarisation of the economy. [CEPAL, 2000a: 85; CEPAL, 2004a: 189; CEPAL, 2005a, cuadro A-23]. Certainly, the reached level of financial stabilization is far from ideal but, despite some fluctuations in various countries, Latin America as a whole achieved an ‘acceptable’ rate of inflation in contrast to that in the preceding decades.

An oppression of inflation had been accompanied by a large-scale privatization of the state-owned enterprises.

Here it is hardly worth to describe a process of privatization in various Latin American countries in details. In some cases (Brazil, Chile), privatization had been gradual, accord-

ingly to the principle of maximal effectiveness. Sometimes, as, for example, in Argentina and Mexico, this process had been promoted by ‘genuinely Bolshevist pace’, correspondingly to the approaches of market fundamentalism (=market Bolshevism). Then it created a ground for corruption and other abuses for advantages of highly ranked swindlers. There were many cases when shocking, scandalous exposures of such abuses in the process of privatisation disturbed the public opinion. Nevertheless, even in Argentina, which became the continental leader by pace (but not effectiveness!) of privatization<sup>27</sup>, these cases looked as schoolchildren pranks in comparison with criminal affairs that took place in the course of privatisation in Russia and other former Soviet republics.

For better understanding of the privatization processes in Latin American countries, on the one hand, and in Russia/CIS, on the other hand, it is relevant to illustrate them, comparing values of the privatized state-owned enterprises in the both regions with each other. In 1990, on the eve of neoliberal transformations, the total GDP of the eight core Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela) was 1961,787 million US dollars measured by PPP. The same indicator for all, large and small, 47 Latin American and the Caribbean countries was equal to 2239,815 million US dollars. At the same year, the GDP of the Russian Federation was 1151,040 million dollars, and the GDP of the USSR – 1987,995 million dollars. [Maddison A., 2003: 99, 111, 140]. Factually, the Russian Federation either the former USSR had the volume of GDP comparable to one of Latin American, either the eight core or all countries, in total. Moreover, as it is well known, all industrial and infrastructural enterprises in the former USSR pertained to the public sector whereas, in the case of Latin America, the latter co-existed with the powerful private sector. However, the total sum attained in the course of privatization of the state-owned enterprises in all Latin American countries in the 1990s amounted to 178 billion US dollars that exceeded the respective ‘yields’ appropriated by the treasury in Russia 20 (!!!) times. [Weisbrot M., 2005]. These data affirm that a tremendous amount of the public assets in Russia was allotted, almost for nothing, among few people appointed by authorities ‘to be millionaires’.

The privatization as well as financial stabilization enabled to attract capitals to the Latin American economies. The FDI prevailed (compounding 75 per cent!) over the capitals for bonds purchasing in the total amount of capitals’ inflow into the continent in the course of the 1990s [CEPAL, 2002: 136, 138]. These investments were important in particular, for modernization of the banking system and telecommunications initiated almost immediately after the start of reforms. At the same time, the share of investments and savings in GDP of Latin American countries resumed to increase after a drastic fall in the 1980s. Nevertheless, this indicator in its ratio to GDP fluctuated about 20 per cent from 1991 up today, what was, probably, insufficient magnitude taking into account that Latin America needed in a huge amount of investments for development of infrastructure and new industries. Only in few countries, this indicator sometimes exceeded 25 per cent (in Chile in 1995-1998 and 2005, in Honduras in 1993-1994, 1997-2000 and 2004, and in Nicaragua where it did not fall below this level since 1997). [CEPAL, 2001a: 84; CEPAL, 2005a, cuadro A-4]. Respectively, GDP and GDP per capita resumed growing, too, after the reforms’ start. In 1991-2000, the total continental GDP increased by 38 per cent or by 16 per cent per capita [CEPAL, 2001a, cuadros A-1, A-2]. At the beginning of the new millennium, the economic growth of the continent as a whole slowed: Latin America suffered a notable slowdown of

<sup>27</sup> Even such public services enterprises as cemeteries, subway in Buenos-Aires, zoos, and the Mint were privatised in Argentina.



the growth in 2001-2003, and not only because of the crisis in Argentina but as the general tendency that dominated over three years. Moreover, since 1990, when Latin American economies began to recuperate after the lost decade, up today, the annual rate of growth in the continent as a whole did not reach the rate of 1965-1974. Seemingly, 2004 was the year when this tendency has changed (the total continental GDP has grown by 5.9 per cent, by 4.4 per cent – per capita); however, it is hardly possible to speak about the long-term positive changes because of the moderate indicators of 2005. [CEPAL, 2005a, cuadros A-2, A-3].

Certainly, in several countries, such as Argentina, Chile, or Uruguay, the rate of growth sometimes exceeded the same indicators of the import substitution industrialization epoch but Latin America, as a whole, did not recuperate the pace of her development that was obtained in 1945-1980. There were only four countries, Argentina, Bolivia, Chile, and Uruguay, where the rate of growth after 1990 was higher than in the industrialization period. [CEPAL, 2000b: 55]. The largest country of the continent, Brazil, grew unevenly and slowly comparing to the pace she demonstrated in the years of ‘miracle’ under the authoritarian regime.

In the second half of 1998, the economies of the leading Latin American countries entered the period of recession and slow growth. In particular, the Chilean ‘miracle’ finished, and the country suffered a little decrease of the GDP by 0.5 per cent. (It was the first GDP decrease in Chile after the crisis of 1981-1983) In Argentina, slowdown of the growth turned into the three years recession that ended by the catastrophic fall almost by 15 per cent in 2001-2002. Might be, it was the clearest example of practical and conceptual inconsistency of the neoliberal strategy, aggravated by currency board policy, in the country where a lot of structural imbalances appropriated a permanent character and became indistinguishable feature of the national economy.

Slowdown of the GDP growth in most Latin American countries after relative success of 1998 has not been an occasional episode of conjuncture whereas the accomplishments of 2004-2005 can be treated, rather, as temporary, short-term improvement of the general development trend. It has demonstrated that the neoliberal strategy, particularly, in the conditions of peripheral and semi-peripheral countries, has had the objective limits because it cannot abolish structural, macroeconomic disproportions inherited from the past. On contrary, it aggravates them succeeding to a rise of new problems in addition to old ones. In particular, the neoliberal reforms did not reduce instability of the economies. (The financial crises in Mexico, 1994-1995, Argentina, 1995 and 2001-2002, and Brazil, 1998-1999, that apparently looked as results of the currencies and bonds speculators’ attacks affirm this increased instability and vulnerability to various ‘free market’ fluctuations. A liberalization of the external trade was one of additional factors attributing an uncertainty to the Latin American development.

A liberalization of the external trade in Latin America intensified a competition at the internal markets. It enforced many entrepreneurs to diminish the cost of production, to improve management and to pay more attention to marketing of their commodities. Moreover, at the first sight, it has been accompanied by apparent improvement of the Latin American exports’ structure. For example, the share of primary goods in total Latin American export of commodities decreased from 67 per cent in 1990 to 41 per cent in 1999 while the share of manufacturing goods increased, respectively, from 33 per cent to 59 per cent. In several countries, changes were even more fascinating. In particular, Mexico indic-

ated growth of the share of manufacturing goods from 43 per cent to 85 per cent of the total commodity exports, and Costa-Rica – from 27 to 62 per cent over the same period. Some positive changes in the same direction, though more moderate, can be seen, too, in Chile (growth from 11 to 17 per cent), in Brazil (from 52 to 54 per cent) and Colombia (from 25 to 31 per cent) [CEPAL/ECLAC, 2001: 100-101]. The export of machinery, including plane-jets and other aviation technique, in 1999-2001 occupied the first position in the total Brazilian exports. However, from 2000 up today, the ratio between primary and secondary goods in the Latin American exports has gradually been deteriorating. In particular, the share of primary goods in Latin American exports has increased in 2003 to 44.3 per cent, and that of manufactures has diminished, respectively, to 55.7 per cent. [CEPAL/ECLAC, 2005: 138-139]. The richest and most developed countries of the continent did not avoid of such negative shifts, too. The share of manufactures in the Argentine exports decreased from 34 per cent in 1995 to 27 per cent, in the Brazilian ones – from 58 per cent in 2000 to 51.5, and in the Uruguayan – from 41.5 per cent in 2000 to 33.7 per cent in 2003. [Ibid.: 139]. Even Chile and Mexico suffered a little decrease of the given indicator by few per cent points.

It is possible, generalizing different tendencies of the outward-looking sector of Latin American economies, to make two principal conclusions. (See: [CEPAL, 2000b: 60-62; CEPAL, 2002: 180].)

Firstly, despite the faster growth of exports from Latin America in relation to the growth of economy as a whole and to the preceding period (1960s-1980s), excepting Brazil that slowed her export expansion comparing to the while of authoritarian modernization, none country of the continent could ‘ennoble’ her exports and elevate it to the new technological level. The increased share of manufactured goods in total exports must not delude us. These goods have mostly been produced upon the base of old technologies with only few ‘intrusions’ of new ones, with supremacy of ‘iron’, hardware over ‘intangible’ elements in the process of production that remains to be capital- and resources-intensive. Evidently, this circumstance does not preserve from turbulence at the world market, and the rapid growth of intraregional trade can hardly countervail possible difficulties that can emerge.

Secondly, a boom of the high-tech goods exports, which is seen in Mexico, Costa Rica and some small Caribbean states,<sup>28</sup> does not mean that these countries achieved a high stage of technological development. As a rule, their high-tech goods have been manufactured at assembly enterprises, *maquiladoras* in Mexico, with use of imported details and components, often under supervision and assistance of the invited foreign specialists. (Nevertheless, such practice is ‘a step forward’ for them witnessing to a definite culture of production and management.) In addition, the high-tech enterprises in Mexico are mostly oriented to the NAFTA, US and Canada, markets but not to the internal production systems of Latin America; furthermore, they are not distinguished by high level of productivity. [Gómez Vega C., 2004: 72-74].

Therefore, a liberalization of the external trade that took place in Latin America since 1990-1991 cannot automatically provide conditions for transcendence to the more ‘intelligent’ structure of exports.

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<sup>28</sup> The share of such goods in total exports was: 23.3 per cent in Costa Rica and 17.6 per cent in Mexico (2002) what exceeded the similar indicators for such developed countries as, for example, Germany (14.6 per cent) and Sweden (13.0). (Counted on: [World Bank, 2004: 262-263].)

Moreover, the industrial structure (as well as the structure of economy as a whole) of many countries was simplifying relatively to the preceding stage of industrialization. For instance, such countries as Argentina and Uruguay where the neoliberal policy had probably been realized in more radical forms than in many other states of the continent suffered the process of obvious de-industrialization. The share of manufacturing industry in GDP declined in Argentina from 26.8 per cent in 1990 to 17.2 per cent in 1995 and to 16.5 – in 2000. Then it increased to 22.5 per cent in 2003 due to a spontaneous import substitution because of the peso threefold devaluation. The same indicator in Uruguay fell from 28.0 per cent in 1990 to 16.9 per cent in 2000, and increased a little to 18.9 per cent in 2003. (Counted on: [CEPAL/ECLAC, 2005: 214, 294].) These structural shifts have not been accompanying by the growth of high-tech exports or the boom of software, technologies and know-how outputs. The constructors of ‘market paradise’ in Argentina, Carlos Menem and Domingo Cavallo with their teams, continued doing work initiated under the rule of fascist junta when the minister of economy José Martínez de Hoz began to destroy the most advanced branches of the national industry. Exterior *façades* built up under guidance and supervision of IMF could not hide the general trend towards industrial degradation. The shameful collapse of the Argentine economy and banking system in December 2001 had been the inevitable culmination of this destructive process. It is hardly possible to find brighter illustration of the neoliberal strategy’s failure than the events in Argentina in 2001-2002. (Even the case of Indonesia in 1998 when the IMF obtruded recommendations to Sukharto government how to extinguish a fire by kerosene looked lesser significant for exposure of the monetarist alchemy than the Argentine crisis. For many Argentines, ‘a structural adjustment’ to globalization in the IMF arrangement became an adjustment to famine (see below) that could not be imagined in the country over the whole XX century.)

As it is well known, economic growth has to be considered in correspondence with the resolution of social problems, including, of course, such problem as poverty. Unfortunately, uneven development of the continent and broadening heterogeneity of various countries and regions should inevitably have to impact on a social situation.

In the course of the lost decade, the mass poverty in Latin America increased from 35 per cent of all households (40.5 per cent of population) in 1980 to 41 per cent of households (48.3 per cent of population) in 1990. The absolute numbers of poor people in Latin America were 136 and 200 millions, respectively. Due to the resumed economic growth, the share of poor families (households) in the continent declined from 41 per cent in 1990 to 35.5 per cent in 1997 and 35.3 per cent (=43.8 per cent of the total population) in 1999 but, in absolute terms, a number of poor people increased to 203.8 and 211.4 million, respectively. The share of those who live beyond the misery line diminished from 22.5 per cent (18 per cent of households) in 1990 to 18.5 per cent of the total population (13.9 per cent of households) in 1999. More 150 millions of them in the second half of the 1990s had an income of less than 2 dollars per day (measured by purchasing power parity!), i.e. below the world line of poverty. After a little decrease of poor people in 2000 (by 4.3 million, or 1.3 percent point), their number has begun to increase again and reached 221.4 million people (44.0 per cent of the total population, or 36.1 of all households). [CEPAL, 1999b: 17-18, 36, 274; CEPAL, 2001b: 13-15, 36-38, 44-45, 221-222; CEPAL, 2003: 50-51, 54-55]. Despite the resumed growth of economies in 2003-2004, an essential decrease of poverty is not observable: indeed, the share of poor has declined by 2.6 percent points only, and that of people living in misery – by 1.8 points. [CEPAL, 2004c: 56]. Accordingly to the ultimate estimations, these indicators should have to diminish to 40.6 and 16.8 per cent,

respectively, in 2005. [CEPAL, 2005b: 8-9; CEPAL, 2006: 64-65]. Particularly shocking increase of poverty occurred in Argentina where the rate of poverty has grown more two times from 1999 to 2002 reaching 41.5 per cent of the population in area of Gran Buenos Aires while the share of those who lived beyond the misery line has increased four times, from 4.8 to 18.6 per cent. [CEPAL, 2003: 53]. All these data enable to affirm that Latin America, from the point of view of social development, had lost two decades.

Obviously, considering the indicators and level of poverty, it would be relevant to clarify what is the criterion of poverty in Latin America.

Accordingly to the CEPAL/ECLAC approach, a household is poor if its expenses for food purchasing exceed a half of the total current expenditures for consumption. Certainly, such criterion is 'harder' than one in the US where a threshold of household's poverty is lower – expenses for food purchasing have to be at the level of one third of all family's consumer expenditures. The criteria that have been proposed by EU are ever more 'socialist': the level of 60 per cent of the median income is the so-called risk-of-poverty threshold. Nevertheless, in its turn, Latin American criteria of poverty are 'softer' than in Russia and many Asian countries. Evidently, the lines of poverty expressed in monetary form are not the same in different countries. In each case, the concrete level depends on the general development, economic and social structure of country, exchange ratio of local currency, cultural traditions, habits, patterns of consumption, and many other factors of big and small importance.

It is not difficult to presuppose that the level of poverty in any country has tightly been correlating with the social-economic inequality. (In Latin America, this inequality has deep historical roots in a character of the continent's development and peripheral position of Latin America in the world system from the colonial times and onwards.) The neoliberal reforms allowed neither to abolish poverty nor to reduce inequality. Furthermore, in some cases, when the level of poverty was reducing, the social-economic inequality increased. Indeed, neither governments nor international organizations can alter the historically grounded distribution of assets and resources that determines, to a big degree, the recent distribution of incomes and benefits, or disparities of rewards between skilled and unskilled labour. Certainly, due to adequate social policies, "government can help modify the channels through which inequality is perpetuated." [IADB, 1998: 179]. However, the governments' efforts in vast majority of Latin American countries could not neutralize the negative effect of economic liberalization for the social-economic inequality. (Exceptions from this general trend are insignificant and not fascinating: Colombia, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Uruguay. [CEPAL, 2003: 301-302]. The income distribution as a whole has become, in most cases, much more inequitable than it was before the reforms. In particular, it is notable that even such Latin American country as Uruguay where the income inequality measured by Gini coefficient is the least in the continent (0.455 in 2002) has still more unequal distribution of incomes than any OECD or East European country (except the Russian Federation).<sup>29</sup> [CEPAL, 2003: 301-302; UNDP, 2004a: 188-190; Ferranti D. de, Perry G.E., Ferreira F.H.G., Walton M., 2004: 1, 2, 17].

An inequality in Latin America is result of inequality of opportunities, including such ones as unequal access to productive assets, different levels and quality of education, unequal supply of credit/financial resources for different groups of the population, uneven de-

<sup>29</sup> Gini coefficient in Russia was equal to 0.456 in 2000 [UNDP, 2004a: 189]; since the beginning of the millennium the social-economic inequality in Russia has increased, as we will see in the next chapter.

velopment of infrastructure, and so on. In the specific conditions of Latin America where the states either markets are weak, inequality of opportunities has been aggravated by the system of patron-client relationships when an access to assets and resources is based upon the personal ties. Factually, it means an exclusion of the large social groups from the beneficial kinds of activity. [Ferranti D. de, Perry G.E., Ferreira F.H.G., Walton M., 2004: 125-127]. A practice of clientilism and cronyism accompanies, as a rule, unsatisfactory defense of the property rights, a situation when neither the state nor any other authority body can guarantee maintenance of the law.

Evidently, an issue of the property rights is undistinguished from a broader problem of corruption. In contrast to predictions of the market fundamentalists, the neoliberal reforms in Latin America, except a few of countries where corruption was really declining (for example, Chile), did not succeed to a triumph of equity and victory over corruption. Furthermore, a situation in many countries has been worsening in the course of neoliberal transformations that opened new fields for illegal enrichment, rent seeking and corruption. Such an apparently civilized country as Argentina, a favourite pupil of the IMF till 2001, occupied the shameful 92-nd position (of 133!) by corruption perception index (2.5 of 10.0) while Brazil where the market reforms have been proceeded in 'soft forms' shared the 54-th position with Bulgaria and Czech Republic with index 3.9. Mexico shared the 64-th position with Poland (3.8). (The most 'honest' and transparent country in Latin America has been Chile – the 20-th position with index 7.4 in 2004, just between the US (7.5) and Israel (7.0).) [TI, 2004: 146, 163, 173, 284-285].

The reforms did not improve a situation to such degree that it would be possible to speak about radical positive changes in relation to the property rights in Latin America, including the right of people to apply their labour forces in the most effective manner. The economic and financial liberalization influenced on a dynamics of wages and salaries in such way that could hardly be recognized as optimal from the point of view of income distribution and labour resources allocation. As a rule, it did not succeed to stable raise of the working, salaried people's incomes. Meanwhile, the low level of labour remuneration is one of the most important factors of poverty in the continent, and today the statistics of wages and salaries in Latin America does not allow looking forward with optimism. The economic growth that took place after the start of reforms until the mid-1998 had predominantly capital-extensive character and was accompanied by an increase of unemployment which augmented from 5.8 per cent of the total labour force of urban areas in 1991 (not counting the Caribbean countries) to 10.0 per cent in 2004. The highest level of urban unemployment was reached in Argentina – almost 20 per cent in 2002 with subsequent decrease to 13-14 per cent in 2004 and to 11-12 per cent – in 2005, in Colombia (three metropolitan areas) and Venezuela – 15-16 per cent, in Dominican Republic – 17 per cent (by approximate estimations). [CEPAL, 1999a, cuadro A-4; CEPAL, 2004a: 188; CEPAL, 2005a, cuadro A-22].

It is worth to note that the economic growth in 2004-2005 did not succeed to the respective fall of unemployment rate. Certainly, the latter has shrunk but, accordingly to estimations, to lesser degree than the GDP has grown in the most countries of Latin America. (Indirectly, it witnesses to capital-intensive character of the growth, which is based upon old industrial branches superficially affected by technological modernization.) An additional supply of labour force has been absorbed chiefly by el sector *de baja productividad* (the sector of low productivity), including its 'informal' and even illegal parts. In the 1990s, the urban employment in this sector grew annually by 4.2 per cent, three and half times faster

than in formal sector. [CEPAL, 2000c: 68]. In the course of reforms, the share of employed in informal sector of the Latin American urban economy oscillated around 44-48 per cent of the total employed urban labour force. [CEPAL, 2000b: 137; CEPAL, 2003: 163].

Meanwhile, despite deep disparities and imperfections of the labour market in Latin America where it is segmented to much bigger degree than in the advanced OECD countries, there is the same tendency that is seen in the societies transcending towards a knowledge-based economy. Wages and salaries in Latin America depend mostly on the level of education of labourers: their remuneration raises when the former increases, and an insufficient level of education as a whole is widely recognized as a main obstacle to the poverty reducing in most Latin American countries.

The level of education that enables to hope for avoidance of fall in poverty, although, as itself, with none guarantee, corresponds to 11-12 years of schooling, accordingly to the CEPAL/ECLAC experts' estimations. [CEPAL, 2000b: 13]. Meanwhile, this level exceeds an average duration of the adult population's stay in school by 3.0-3.5 years even in such countries as Argentina, Chile, or Uruguay [World Bank, 2003: 84-86] where the rate of literacy of adults was 90-97 per cent still some decades ago.

Today, in the conditions of globalization, an unequal access to such essential asset as education has probably become the most important factor of the social inequality in Latin America. However, besides disparities in the formal education levels among various social-professional groups of the Latin American population, there are also disparities in the education quality, which widen inequality and influence on the level of wages and income distribution to no lesser extent than differences of the formal mean years of schooling. [Ferranti D. de e. a., 2004: 153-155, 181-182]. In the vast majority of Latin American countries, the called quality disparities have been aggravated by the extending demand for workers with the tertiary education in several fields of knowledge what favours raising their wages. (See: [Ferranti D. de, Perry G.E., Gill I., Guasch J.L. e. a., 2003: 55, 59]). At the same time, the reforms led to the relative superfluity of workers with secondary education in some branches. Moreover, the cases when university educated specialists cannot find jobs corresponding to their qualification are not rare in Latin America. It testifies to a structural misbalance between demand for and supply of labour force even within relatively narrow top segment of labour market comprising skilled, highly qualified professionals.

What has to be done to improve the recent situation?

Today nobody doubts that the most important key to solution of the social-economic problems in Latin American countries lies in a sphere of human resources development although it is not the only direction of required policies. In addition, investments in human capital, i.e. expenditures, which are, to a big degree, independent on market, become, in ever-extending scale, one of the necessary preconditions of 'strong market' functioning. Even such foundation of successful participation in the global market competition as an enlargement and growth of R&D sector ultimately depends on a quality of human resources, including people's capacities and their bias to creative activity.

Despite the proclaimed decrease of the budget expenditures, correspondingly to neoliberal, monetarist principles, the governments of most Latin American countries augmented the public and municipal spending for education and other social needs as well. From 1990 to the mid of the recent decade, the public expenditures for education, healthcare, housing

and social security in Latin America as a whole augmented really in both absolute and per capita terms from 1990 to 2001 by 60 per cent, or from 342 dollars per capita in 1990-1991 to 540 dollars – in 2000-2001.<sup>30</sup> [CEPAL, 2003: 23, 174-175]. This growth meant an increase of the share of social spending in GDP by four per cent points. A dynamics of these expenditures can be seen in table 5.1.

**Table 5.1.** The Public Expenditures per capita for Social Goals in Latin America (in dollars 1997 and as percentage of GDP), 18 countries, 1990/91-2004/05.

Countries/Years	Expenditures in absolute terms				Expenditures as percentage of GDP			
	1990/91	1996/97	2000/01	2002/03 a)	1990/91	1996/97	2000/01	2002/03
Argentina	1211	1584	1650	1351	19.3	20.0	21.6	19.4
Brazil	786	843	936	712 b)	18.1	17.3	18.8	19.1
Chile	441	718	936	803	11.7	13.0	16.0	14.8
Colombia	158	403	337	281	6.8	15.3	13.6	13.5
Costa Rica	469	568	689	815	15.6	16.8	18.2	18.6
Guatemala	52	73	109	115	3.4	4.3	6.2	6.5
Honduras	60	56	77	133 c)	7.9	7.2	10.0	13.1
Mexico	259	352	456	632	6.5	8.5	9.8	10.5
Panama	497	653	853	719	18.6	20.9	25.5	17.3
Paraguay	57	150	148	120	3.1	8.0	8.5	9.0
Peru	76	166	187	179	4.0	7.1	8.0	8.0
Uruguay	888	1390	1494	1128	16.9	21.3	23.5	20.9
Venezuela	320	317	402	514	8.5	8.3	11.3	11.7
<b>Latin America</b>	<b>342</b>	<b>473</b>	<b>540</b>	<b>642 d)</b>	<b>10.1</b>	<b>12.1</b>	<b>13.8</b>	<b>15.1 d)</b>

- a) – counted by myself (V.K.) on the base of data previously performed in constant 2000 dollars and the US GNP deflator  
 b) – estimation based on the information about expenses at the federal level of authority, without part of the expenditures at the municipal and regional levels  
 c) – 2004  
 d) – weighted average for 21 countries, except El Salvador and Honduras previously included into list of data.  
 Sources: CEPAL, 2003: 175-176 (data for 1990/91 – 2000/01); CEPAL, 2005b: 18-19 (data for 2002/03).

In Latin America there is no one country where the public expenditures for social needs in absolute terms as well as percentage of GDP have diminished since 1990, despite the economic recession in some countries in 1998-2002; there is only one country – Colombia – where those indicators decreased after 1997.

Nevertheless, a notable increase of the public expenditures for social needs was not sufficient for radical poverty reducing in Latin America. (Obviously, without such an increase the social-economic situation in the region would be much worse.) Indeed, a matter is not only the total amounts of these expenditures but also its efficiency. Meanwhile, sometimes the social spending conceived as benefits for the poor people does not narrow but widen gap between the poor and rich. (See: [CEPAL, 2001b: 135-137; Ferranti D. de e. a., 2004: 170, 259-267; IADB, 1998: 180, 190-200]. A contribution of the increases in social spending to diminishing income inequality depends on a character and directions of these spending, a distribution of the social expenditures, their sources, and other factors. For example, in relation to spending for education, an inequality reducing depends on enrollment rate for different categories of children and youth (for ages 17-24). In particular, an increase of the public expenditures for tertiary education in some Latin American countries benefits the strata of rich people, the major ‘suppliers’ of colleges and universities students to a much more degree than the poor.

However, a regressive effect of the social spending redistribution as well as its low effectiveness in some respects may be sharpened, too, by quality disparities between differ-

<sup>30</sup> At constant prices in the US dollars of 1997.

ent kinds of spending. In a sphere of education, it concerns an essential gap in quality of education services provided by mass public schools, particularly, in rural areas, and those by schools in prestigious settlements of the upper class. The same can be said about the level of tertiary education in provincial colleges and one in metropolitan universities of São-Paulo or Buenos Aires. Spontaneously, through a play of market forces, the quality disparities in education have been expressed in differences between skilled and unskilled labour's remuneration, which are more significant than difference between formal education attainments of different groups of workers. In particular, the wages inequality in most Latin American countries is much higher than in West Europe or East Asia whereas the education inequality approximately corresponds to the average in the world. [IADB, 1998: 31; Ferranti D. de e. a., 2004: 178]. Respectively, education quality disparities make up one of foundations for differences in 'the starting opportunities' for different categories of students in the future. Hence, a simple expansion of the public spending for education may not succeed to the expected results in improvement of the education quality and equalizing of the students' chances for professional career.

Indeed, Latin American governments spend for education not as little as it can be supposed taking into account the general level of the region's development and GDP per capita. During the first half of the recent decade, they spent 4.2 per cent of GDP in average for education. (This indicator fell in the course of the lost decade of the 1980s but then resumed to rise, particularly rapidly in 1991-1996 with subsequent slowdown in the end-90s but its growth, as a whole, has not been interrupted up today.) [CEPAL, 2003: 182-184]. Nonetheless, this increase of the public expenditures for education did not allow augmenting essentially the general level of educational attainment of the population. As a whole, it is low (lower than in East Asian NICs). Therefore, although education expansion seems indispensable for the mass poverty and the social inequality reducing, it is not sufficient to resolve the poverty problem. Evidently, a quality of education becomes more significant for Latin America, from the point of view of this problem, than an extensive increase of mean years of schooling or an expansion of education spending as a simple continuation of the current trends in this field. [CEPAL, 2002: 315-318; Ferranti D. de e. a., 2003: 24-30; IADB, 2003: 105-106].

It is not secret that pro-education attitudes are widespread in all social strata of Latin America. Nevertheless, such attitudes notwithstanding, in the course of neoliberal transformations, some new factors that can become internal obstacles to education expansion arose making the pro-education policies difficult to be realized. Today, in several countries of the continent, the relative effective demand for secondary education is diminishing because, partly, there are high costs of schooling for many people, mostly in rural areas and poor suburbs of megalopolises. At the same time, some people do not see reasons and prospects for them to get a corresponding return on education because they do not feel a need to be well educated. The economic globalisation performed in Latin America not only requires education expansion but also, in many cases, devalues a significance of secondary education as a result of simplification of the economic structures, including a tendency to de-industrialization, while the demanded tertiary education remains to be inaccessible for most people from poor families.

In its turn, a part of the business elite in Latin America is not interested in active maintenance of the education system. Many entrepreneurs and firms' executives prefer to hire lower-cost labour force with low education instead of dealing with workers who are capable to defend their dignity and to find better job for themselves. This is a form of the glob-



al structural adjustment, too, but rather in negative sense, which depreciates all governments' and civil societies' efforts to accelerate the process of technological innovations across the region. Notwithstanding obvious modernization of some branches of the national economies under influence of acute competition and foreign capital inflows, the general technological backwardness of Latin America from the leading OECD nations has been widening in the course of neoliberal transformations. The continent has not the proper base of the advanced scientific researches, including such background of R&D as national scientific schools and traditions of research, and expends very scarce resources for these goals. For example, a ratio of R&D expenditures to GDP and capital assets, including the same indicator counted per worker, is much lower, 8-20 times less, than in the developed OECD and East Asian countries (see: [Ferranti D. de e. a., 2003: 37-42]). Brazil is the only Latin American country which expends more than one per cent of GDP for R&D (including expenses for post-graduation). The expenditures for R&D in Chile and Cuba in the first half of the recent decade were about 0.55-0.65 per cent of GDP, whereas such countries as Argentina, Mexico, and Venezuela expended only 0.40-0.45 per cent of their GDP for science and technologies [CEPAL, 2004b: 213-216], 5-7 times less in ratio to GDP than the most technologically advanced countries allot for the scientific-technological accomplishments. Such scientific and technological backwardness, non-corresponding to the level of GDP per capita in the leading Latin American countries, make them extremely vulnerable to fluctuations of the global demand.

As an experience of Latin America demonstrates over all period of the statist and neoliberal modernizations, a policy of the income redistribution for advantages of the poor is indispensable for the poverty and inequality reducing. Nevertheless, a real eradication of poverty cannot be obtained only throughout a redistributive policy. What is essentially important for a resolution of the given problem is, besides the adequate industrial, technological, educational and regional policies, a real democratization of the political and social life. A transparency and public debate, a control of society for an activity of local and central authorities, 'proposals from below' that concern social policy and use of resources, a permanent dialog between people in power and society, and so on, become necessary conditions for effective income redistribution aimed at the poverty decreasing. In other words, a resolution of social problems presupposes a development of various forms of ordinary people's participation in the process of decisions taking, including 'a classical mechanism' of elections at all levels of power.

At the same time, a development of democracy depends on how an eradication of poverty and various forms of social discrimination are successful.

It is notable that after defeat of the authoritarian regimes in the 1980s, a legal handover of power from one president to another throughout relatively transparent elections has become an ordinary practice in the vast majority of Latin American countries. "By the first time in history, the developing region with profoundly unequal societies is, as a whole, politically organised under the democratic regimes." [PNUD/UNDP, 2004: 36].<sup>31</sup>

Assessing the period after the end of the lost decade (the 1980s) up today from the political point of view, we can treat it as outstanding achievement of political modernization in

<sup>31</sup> India, the biggest democracy in the world, represents by herself the specific exception from the rule "democracy is incompatible with poverty and inequality". However, it is noteworthy to remember that poverty and inequality have been reducing, although unevenly, with fluctuations, in the course of all Indian development since independence.

the continent. For instance, even in Argentina, where the armed forces had a long-time experience of military coups in the XX century when a jeopardy to stability arose as a result of economic crises, the army, being discredited over the years of military-fascist dictatorship in 1976-1983 did not pretend 'to restore order' in the conditions of mass riots by the end of 2001.

Nevertheless, the future of political democracy in Latin America can hardly be performed as shine and cloudless. A reality of the region allows speaking about the specific Latin American 'triangle' that emerged in the course of neoliberal transformations: democracy – poverty – inequality. [PNUD/UNDP, 2004: 36-39]. However, as it is well known, a conservation of mass poverty and broad social inequality does not favour effective functioning of the democratic political and legal institutions. It is not occasional that number of people who are disappointed in democracy increases almost in all Latin American countries except a few of them. Respectively, number of those who consciously support democracy and share democratic values decreases. In 1996, 61 per cent of the questioned persons preferred a democracy to all other political regimes. In 2002, their share diminished to 57 per cent and in 2003-2004 to 53 per cent.<sup>32</sup> [PNUD/UNDP, 2004: 137; *Latinobarómetro*, 2004: 4-5]. In particular, the share of supporters of democratic regime has diminished by 20 per cent points (from 59 to 39) in Nicaragua and Paraguay, by 18 points – in Peru, by 14 – in Colombia, by 13 – in Costa Rica, by 9 (from 50 to 41 per cent!) – in Brazil, and by 7 points (from 71 to 64) – in Argentina. Only in three countries (of eighteen that were under consideration!) a support of democracy has increased: in Chile – by 3 per cent points, in Honduras – by 4 points, and Venezuela – by 12 points.<sup>33</sup> [*Latinobarómetro*, 2004, pág. 5].

At the same time, number of people who want to establish an authoritarian regime is seemingly not too much: their share has diminished by three percentage points – from 18 per cent in 1996 to 15 – in 2004. Meanwhile, number of those for whom a character of political regime is indifferent has increased from 16 per cent in 1996 to 21 per cent in 2004. Therefore, at least, 36 per cent of all adult citizens in eighteen Latin American countries would not protest against authoritarianism if it could be established. However, this relative minority can essentially arise if it has been proposed to choose between democracy and economic development. In 2002, 48.1 per cent of those people who prefer democracy as the best form of rule would agree to change democracy for economic development. Almost 45 per cent (44.9) of 'all admirers of democracy' would support any authoritarian government if it could be able to resolve social-economic problems of their country. Respectively, the total number of people who evaluate an economic development as more important than a democracy reached 56 (56.3) per cent in 2002, and 54.7 per cent would become supporters of authoritarian government capable to resolve economic problems. [PNUD/UNDP, 2004: 137]. In turn, sincere 'non-democrats', people who do not support a democracy as a form of rule, compounded 26.5 per cent of all Latin Americans (in 2002) but in the countries of Mercosur<sup>34</sup> and Chile, the region, which cannot be assessed as the

<sup>32</sup> Data on 18 countries of Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

<sup>33</sup> The previous, biparty democratic system in Venezuela was used by Hugo Chávez to come to power and then to establish, throughout democratic procedures, "semi-authoritarian", neo-populist regime with the mass support of the poor. This is one of cases when democracy can appear in sharp contrast to liberal principles (see in details, for example: [Zakaria F., 2004, chapter 3, esp.: 94-101]).

<sup>34</sup> Mercosur – Mercado del Sur (South Market) – the economic and trade organization of Argentina, Brazil,

poorest and the most underdeveloped in Latin America (except Paraguay, truly poor country), number of 'non-democrats' reached 34.5 per cent (while in Mexico and Central American countries, among which there are such poor and backward ones as Honduras and Guatemala, this indicator was less 20 per cent – 19.7 in 2002). It is worth to pay attention, too, to the fact that the level of education of 'non-democrats' is much higher than the average one in Latin America – 9.3 years of schooling while mean education attainment in the continent does not exceed 6 years. [PNUD/UNDP, 2004: 141, 144].

At last, there is also such problem a poor efficiency of political democracy. The recently functioning democratic institutions in Latin American countries do not satisfy even those people in who are consciously adherent to democracy and democratic principles of rule. Hence, it is not surprising that many people do not trust to the political systems and politicians in the continent. For example, still in 2002, only 2.3 per cent of the questioned persons asserted that the elected rulers keep their electoral promises but 64.6 per cent were sure that politicians do not do it because they consciously cheat voters for the sake of electoral victory. [PNUD/UNDP, 2004: 49]. Factually, the problem of confidence to political institutions in Latin America has been aggravating over the all period of neoliberal reforms. The most confident institute in the region is the church (its rating of confidence has decreased a little from 76 per cent in 1996 to 71 per cent in 2004 but essentially exceeds the rating of TV, the armed forces, police, presidents, parliaments, and political parties). [Latinobarómetro, 2004: 34].

A low level of confidence to the state and other political institutions can be explained referring to the global changes when the national state loses its positions while the supranational structures, in broad spectre from the international financial institutes to NGOs, have been strengthening instead of civil society. However, in the conditions of peripheral and semi-peripheral countries' structural adjustment, when the state are leaving the economy, realizes the deregulation policy, and refuses the practice of social paternalism rooted in the old ISI model, many people feel themselves socially disoriented. They lose accustomed economic anchors and, very often, are searching for ways of survival in a sphere of illegal activity. Hence, it is not an occasional coincidence that the economic liberalization has been accompanied by the arising criminalization. Violence in various forms has become an indistinguishable satellite of the neoliberal reforms in most Latin American countries [CEPAL, 1999b: 207-227].<sup>35</sup> It allows to speak about 'anaemia of the state' when weakening of the state does not mean strengthening of the 'new' civil society whereas 'the old' one, arisen due to the populist policy and ISI, has been eroded and suffers defeat as a result of neoliberal transformations. Such a situation generates what can be called *ciudadanía de baja intensidad* (citizenry of low intensity). [PNUD/UNDP, 2004: 63].

Factually, in many Latin American countries the democratic regimes co-exist with 'simulacra of the state', basically illegal, when formal laws are replaced by 'rules' that have been issued by criminal, Mafiosi (sinister) structures, which may function on large territories that rest out of control of the state. Obviously, an existence of such zones is incompatible with democracy. Indeed, neither police nor law-courts are able to confront with those zones if the latter accomplish real social functions ensuring the large masses of people to survive in the situation of horrible poverty, unemployment and desperation. In its

Paraguay, and Uruguay. Bolivia, Chile, and Venezuela collaborate with Mercosur being the associated members of this regional organization.

<sup>35</sup> For example, in the end-1990s, the rate of incidence of violent deaths in the poorest districts of São-Paulo city exceeded the similar rate in the richest ones sixteen (!) times. [PNUD/UNDP, 2004: 63, note].

turn, it affirms once more, although, so to speak, in negative manner, that political democracy cannot be effective without social democratization and resolution of social problems.

In positive sense, an efficiency of mutual addition of social and political aspects of democracy to each other is proved in Chile, one of few Latin American countries where an adherence of people to political democracy has gradually been strengthening. Indeed, Chile built up the effective redistributive state, which, somewhat, equalizes opportunities of people from different social strata and reduces poverty, despite remaining wide incomes differentiation. But how long will 'the Chilean model' function without serious fluctuations and disturbances? Presupposedly, taking into account what the structure of Chile's economy and external trade is, this model has to be assessed as increasingly vulnerable in front of the global demand, and the country needs 'to modernize her modernization' ('to reform her reforms') before she will face the inevitable difficulties.

In this context, it becomes evident that the main problem Latin American societies confront over the last two decades, is, perhaps, neither the economic growth as itself nor the poverty eradication but the activity of social actors [Touraine A., 1997: 440-444] who are able to change a vector of the continent's navigating in the storming ocean of globalisation.<sup>36</sup>

Nonetheless, today, although it is, probably, so early to make definite conclusions, it can be supposed that such actors have arisen in Brazil where political democracy allowed the New Left forces to come to power. For the first time of history of the largest Latin American country, the man of 'the barefoot underclass', Luiz Inácio Lula da Silva, supported, nevertheless, by a big part of the middle and upper-middle classes' voters, was elected the president of the country. In some respects, the policy of Lula is subsequent in relation to reforms initiated by social democrat Fernando Henrique Cardoso in the mid-1990s. The both administrations pursue searching for balance between macroeconomic stability and social development founded upon a reconsideration of the state capacities. At the same time, in other respects, the recent government of Partido dos Trabalhadores ('Labour Party') operates in much more radical manner than the preceding one. The main slogan of Lula in the course of his electoral campaign, *fome zero* – hunger zero programme, or "each Brazilian has a right for three mills a day", has begun to be realized.

It is necessary to note that social policy of Lula government, besides its strong redistribution aspect and direct assistance to the indigent people, has been correlating with the development – industrial, technological, and educational – policy. In particular, over 25 months (from January 2003 when Lula came to office to February 2005), his government created 2.3 millions working places, almost three times more than the administration of Cardoso did. [PT, 2005: 4]. It was achieved, to a big degree, due to lowering of taxes on enterprises, mainly in industry. The latter, in its turn, has to be reconstructed, accordingly to goals of profound modernization of the manufacturing sector.

Respectively, the government of Lula raised expenditures for education by 28 per cent – from 16.6 billion reais in 2002 to 21.2 billion (=8.76 billion US\$) in 2005. This amount comprises neither the expenditures for poor families' children schooling that have been financing from distinctive programme Bolsa Escola (aid to poor people for schooling), nor the

<sup>36</sup> "Latin America has long been a region with a deficit of actors. In contrast with its superficial image as a continent of revolutions, Latin America has experienced more revolutionary situations than revolutionary movements, and frustrated hopes have been more common than organized radical action." [Touraine A., 1997: 444].

expenses for the tertiary education (they compound the additional sum of 13.4 billion reais except the mentioned amount), nor the expenditures of the local authorities. [PT, 2005: 23-24]. A part of this sum is destined for realization of the sub-programme “ProUni” – “University for all” aimed at supporting the tertiary graduation students from poor families.

In combination with visible improvement of the main economic indicators, this growth of expenditures for education demonstrates a tight cohesion of the economic and social aspects of development in ‘post-development epoch’. In principle, this approach is adequate to the challenges Brazil, as well as other semi-peripheral countries, has met over the last fifteen-twenty years. Nevertheless, a set of ‘unforeseen circumstances’ can impede to resolving the existing problems, and we have a chance to see very soon whether the aspirations for proposed alternative to neoliberal models are efficient or not.

However, independently on the expectations in regards to the Left government’s policy in Brazil, already today the main implication of Brazilian and Latin American as a whole development for other developing nations consists in arguing that neither governments, nor business elites, nor radical intellectuals can alternate a vector and pace of society’s movement if society itself does not want and is not ready to do it. Such banal truth as well as a significance of the social actors of development has been examined, unfortunately, rather with negative results, in the course of social-economic, cultural and political transformations of Russia and other CIS countries, the formerly republics of the Soviet Union, after the collapse of their catching up development.



## **6. The Case of Russia: Decline as Pattern of Development in the Conditions of Globalization**

**A**s a result of the Soviet system's internal disintegration culminating at its crucial point in 1991-1993, the new social-economic and political-institutional state has arisen in Russia as well as in other republics of the former USSR, now the formally independent countries. There are many terms and labels to designate and define the social system recently existing in Russia and CIS as a whole – from 'semi-criminal state capitalism' to 'thievish economy'. (See, for example: [Faravel-Garrigues G., 2004: 183 et ff.].) However, whatsoever labels would be attached to the Russian/CIS social-economic and political-legal order, this system can be characterized as a kind of bureaucratic capitalism with evident inclination to the criminal activities when the state officials, corrupted in the vast majority, and criminal elements make up a single 'social body'. One of the essential features of such system is a unity of power and property: an access to power is the main condition to augment 'the material substance' of property, and power becomes the main resource for any successful economic activity of any proprietor.

Bureaucratic capitalism in its essence is a child of the XX century, functional/managerial capitalism modified in the conditions of peripheral and semi-peripheral countries. When the state is the main social actor of development (at least, because all other actors are impotent in the social-economic respect), but, gradually, becomes to be relatively weakening because is incapable to control extending flows of all resources and outputs. Then various groups of officials approach to privatizing the state's functions. In particular, officials get an opportunity to be involved into private business, directly or through their relatives and cronies, due to an access to economic resources. Bureaucrats accomplish functions of capitalists, and, in addition, positions in the state apparatus become indispensable grounds for personal enrichment. At the same time, private businessmen find themselves being subjugated to bureaucrats and dependent on them. Any official has sufficient 'capacities' ('administrative resources') to help or, on contrary, to impede to any private business. Evidently, such practice opens broad ways to rent seeking instead of real, productive business.

In Russia, it is possible to observe for a complete integration of the top officials and politicians into business activity, mainly, in the raw materials extracting branches, what is unimaginable in other countries (except the CIS, of course). For instance, seven important persons of the nearest circle of president Putin controlled the biggest state-owned or mixed, but with prevalence of the state shareholders, companies that held assets 222 billion US\$ (about 37 per cent of the Russian GDP) and got pure profit 11 billion US\$ in 2004. These persons occupied positions of the Head of the President's Administration and his deputies, the Assistants of the President, minister of finances, minister of industry and energy, and deputy of prime minister. Being the top officials, they accomplished duties of the chairpersons in the directors' or supervising boards of the respective 'business units'. [Orekhin P., Samedova Yev., 2005: 1, 3].

Due to the so-called 'liberal reforms' in Russia, the rent seeking in its various forms is more profitable activity than 'white', honest and transparent, industrial business. The rate of bureaucratic rent exceeds the rate of industrial profit and does not require applying such efforts as maintenance of the production process presupposes. An existence of many social,

political and administrative institutes familiarizes with the rent seeking. This practice depreciates human capital because neither education nor professional skills in the rent seeking society yield such ‘remuneration’ as bureaucratic rent does. In Russia, the most precious capital is ‘a complement’ of specific social contacts and interpersonal ties, which have, as a rule, an essential importance for the personal, mostly illegal, ‘success story’. An access to ‘the people who are able to take decisions’ (particularly, those concerning an allocation of resources) is more significant than individual efforts and capacities. In the end, a functioning of such specific ‘social capital’ succeeds to a negative selection of those people who have neither good qualification nor individual merits. Evidently, one of the considerable features of the rent seeking practices is corruption, which becomes an indistinguishable element of any business at all stores of the Russian economy’s building. Hence, it is not surprising that Russia is assessed as one of the less transparent countries and, accordingly to the estimations of Transparency International in 2003, shared the 86-th position (of 133!) with Mozambique having scandalously low index 2.7 (of 10.0) [TI, 2004: 246, 285]. In 2004, her ‘index of honesty’ has grown a little by 0.1, to 2.8, but the country has slipped to the 90-96-th positions (of 146!) sharing them with Gambia, India, Malawi, Nepal, Tanzania, and (again!) Mozambique. [TI, 2005: 190, 237].

What are the main results of the Russian bureaucratic capitalism ‘work’?

Perhaps, the most important of them is that “[F]or the first time in recent world history one of the major industrial nations with a highly educated society has dismantled the results of several decades of economic development – however tortuous, costly, and often misdirected it may have been – and slipped into the ranks of countries that are conventionally categorized as ‘Third World’.” [Reddaway P., Glinski D., 2001: 3].

As it is well known, one of the major proclaimed goals of neoliberal reforms in Russia/CIS and Latin American countries as well was macroeconomic, financial stabilisation, namely, the oppression of inflation. Indeed, hard measures, such as radical cut of budget expenditures, abolition of many tax exemptions, privileges and trade preferences, increase of interest rate, etc., undertaken by reformers within framework of the monetarist policy, allowed establishing control over inflation. However, since 1992 its rate was never below 11 per cent that was obtained in 1997 (‘calmness before storm of 1998’) but till today the average annual rate of inflation in Russia is higher than in most Latin American countries, the restrictions of budget expenditures and stable positive fiscal balance over the last years notwithstanding. Probably, this fact is the first ‘warning sign’ (among many other ones!) for those people in Asia who believe in the IMF tales about a direct dependency of inflation on fiscal and monetary policy. As the Russian experience indicates, inflation is much more complicate phenomenon than ‘output of money’ in extending degree.

The financial stabilization obtained in Russia to 1997, only over five years after start of ‘the shock therapy’ (!), had the reverse side – the catastrophic fall of GDP in absolute terms and per capita. Since 1989, the last year when the agonizing economy in the Russian Federation and USSR as a whole had grown a little before reforms, GDP decreased dramatically almost by 50 per cent, and Russia fell to the level of Brazil by GDP per capita measured by PPP, whereas in 1990 she exceeded Brazil at least 1.6 time by this indicator. (Counted on: [Maddison A., 2001: 288, 341].)

No one economy in the modern era knew such catastrophic fall of output in the peaceful time as the Russian economy experienced in the 1990s. Moreover, this decline performed by the Russian authorities as ‘inevitable cost of transition towards free market economy’,



had been accompanied by the rise of non-market relationships. Namely, the Russian economy over the first years of reforms suffered such phenomenon as drastic enlargement of the barter trade between enterprises as well as increase of non-payments, including non-payments of salaries and wages (in 1997-1998 the total volume of barter was equal to 50 per cent and more of all internal trade in Russia).

De-monetization of the national economy did not really oppress inflation but turned it into non-monetary form because it did not diminish demand. Furthermore, de-monetization was favourable to the growth of inflation because of decreasing output that succeeded to increase of the marginal and average costs of production, peculiarly, in the conditions of imperfect, extremely monopolized market.

Only after the financial crisis of 1998 when the government and monetary authorities refused the neoliberal, pro-IMF dogmas the barter trade began shrinking but this phenomenon did not disappear completely up today and took form of non-payments (mainly, on reasons of institutional character in regard to wages, particularly, in small towns).

In addition to the restrictive monetary policy, Russian economy was profoundly affected by the fast liberalization of external trade combined with the relative revaluation of the national currency when the rate of rouble inflation was higher than the pace of decrease of the rouble's exchange ratio to the hard currencies. It facilitated an inflow of the imported goods. The imports, at current prices in US dollars, increased from 1992 to 1997 by 70 per cent; they grew faster than GDP fell (by 37.5 per cent). (Counted on: [Russian Statistical Yearbook, 1998: 16, 743].) It succeeded to simplification and degradation of the economy's and external trade structures, i.e. to de-industrialization, which became the prevailing trend of the Russian economy and society. In contrast to most Latin American countries, which used new technologies for selective modernization of the old industrial branches and service sector, mainly in banking and communications, Russia slipped down from the level of productive technologies achieved in Soviet time, except few branches, chiefly telecommunications and finances in big cities.<sup>37</sup> The structural misbalance, which played an important role in the USSR's collapse, has been aggravated since the start of reforms. The structure of Russian economy becomes much more 'heavy' than it was in the Soviet period: a decrease of output in manufacturing branches exceeded a fall in fuel and raw materials extracting branches oriented mostly to the external markets (see table 6.1).

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<sup>37</sup> In truth, a modernization of the banking sector in Russia has been contradictory. For instance, when I twice, in 2000 and 2004, delivered a series of lectures at the economic faculty of St.-Petersburg state university, the faculty's account department could not transfer my remuneration to my personal account at the local branch of the Saving Bank (the biggest state-owned bank in Russia) in Moscow, whereas in the Soviet times such transfer was not difficult. Since remuneration has been paid to guest-lecturers with one month lag, my Petersburg colleague, head of the economics department, who invited me, got my honorarium on the warrant I previously remained to him and then sent the money to my home address through... the system of electronic transfer.

**Table 6.1.** The ratio of output in main industrial branches of Russia to the level of 1990  
(1990=100 %)

	1992	1995	1998	2001	2002	2003	2004
Industry as a whole	75.4	49.7	46.2	58.7	61.0	65.3	69.3
Electricity energy power	95.3	79.9	75.2	78.4	77.9	78.7	78.9
Petroleum industry	84.6	68.7	67.4	77.4	84.4	93.9	102.0
Gas industry	98.0	87.1	85.2	90.7	93.5	98.4	101.2
Ferrous metallurgy	78.0	59.2	53.9	71.2	73.3	79.8	83.8
Chemical/petrochemical industry	73.3	47.5	42.8	62.4	63.1	66.0	69.9
Machinery building/metals processing	76.5	40.3	37.1	54.3	55.4	60.5	66.7
Light industry	63.7	18.5	12.6	19.2	18.6	18.1	16.7
Alimentary industry	76.4	53.1	49.6	65.9	70.5	74.1	77.1

Counted on: [Russian Statistical Yearbook 2000: 302; Russian Statistical Yearbook 2004: 359; Russian Statistical Yearbook 2005: 377].

In the process of structural adjustment to the global demand, Russia is specializing on production and exportation of the intermediate goods with high share of the capital expenditures. [UNDP, 2003: 32-35]. At the same time, three hundreds of the most advanced, unique technologies were lost in the course of the first years of ‘reforms’ – lost forever! – because of poor financing and lack of interest of the ruling circles to them. Respectively, the structure of the Russian exports as well as that of the industrial output degraded to an extending degree. In particular, the share of machinery and equipment in the total Russian exports to non-CIS countries fell from 9.6 per cent in 1999 to 7.1 per cent in 2003 while that of petroleum and petroleum products (without gas!) increased from 28.9 per cent to 41.9 per cent, respectively. (Counted on: [Russian Statistical Yearbook, 2003: 639, 642; 2004: 655, 661].)

The economic growth in Russia resumed only after the financial crisis of 1998 when the national currency was depreciated by 70-75 per cent.<sup>38</sup> This growth has been a consequence of spontaneous import substitution because of the increased relative prices of imported goods. The threefold devaluation of rouble built up the trade barriers and defended the internal market from external competition. The internal demand had been re-switched to purchasing of the national goods. Moreover, the semi-communist government of Primakov – Maslukov, the most pro-market government of Russia over the entire period of reforms (!), approached to industrial policy but could not realize it because of the resistance of Yeltsin’s circle and subsequent dismissal in May 1999.

After the crisis of 1998, in 1999-2003, the Russian GDP has grown by 47 per cent, accordingly to the official data. However, despite the fast growth and ambitions of the ruling regime in Russia to double GDP up to 2010 or 2012, this growth does not change the branch structure of the Russian economy. Innovative activity remains to be insignificant is not interesting for the ruling officials charged by thoughts about redistribution of money and resources flows for their private advantage. In other words, even from the purely technical-economic point of view, the growth of Russian economy does not succeed to its qualitative development.

Very often Russian liberals propagate a conception of ‘new economy’ that presupposes a priority of the innovative, creative activity as the main direction of Russian development.

<sup>38</sup> As a rule, many observers and analysts explain the Russian financial crisis of 1998 referring to the new conditions of financial globalization, the attacks of speculators, etc. Meanwhile, such main cause of the crisis as ordinary swindling and plundering of assets by the ruling “elite” (gang), in particular, a construction of financial pyramid of the state bonds, has not been considered at all.

Accordingly to such an approach, the old industrial sectors have to be treated as non-perspective and declining. Nevertheless, innovations and creative kinds of the economic activity in Russia have not the same background as in the western post-industrial countries or in East Asia where they are based upon highly developed industrial economy, which, in its turn, needs in innovations and scientific researches. In the concrete Russian conditions, few segments of the so-called 'new economy' are not linked to the industrial production and cannot really contribute something to modernization of declining industry.

The problem of the economic growth as well as one of the structural shifts inside of the national economy cannot be isolated from considering social aspects of development, including such one as the poverty reducing. Meanwhile, since 1991, Russia either other CIS countries, formerly republics of the USSR, experienced the skyrocketing increase of poverty. Because of 'the shock therapy' during the first months of reforms, the share of Russian population below the poverty line augmented some times and reached 33.5 per cent (50 million people) in 1992. Simultaneously, special ordinance of the government voluntarily removed down the line of poverty by a half. Hence, by criteria of poverty established in the last period of the Soviet Union's existence, the share of poor people in the total population of Russia reached 50-60 per cent, as many independent experts argued. In the following years, this share gradually diminished (to 20.8 per cent in 1997) but after the crisis it jumped up to 28.3 per cent again. In 2002, the total number of poor was about 35 million, or 25.0 per cent of the population. In 2003, due to good conjuncture at the world petroleum market, it has shrunk to 29.6 million, or 20.6 per cent of the total population; in 2004, the total number of poor has declined to 25.5 million people, or 17.8 per cent of the population. [Russian Statistical Yearbook, 1998: 207; 2003:169; 2004: 175; 2005: 205]. Comparing these figures to the rate of economic growth indicates that the latter in Russia has been much faster than one of the poverty alleviation. It means that yields of the growth have been distributing in extremely unequal manner.

Considering the poverty, it is worth to examine how the Russian indicators of poverty correlate with those in other countries, particularly, in Latin America. If one applies the CEPAL/ECLAC criterion of poverty (poor people are those who expend a half or more of their incomes for purchasing food) to an analysis of poverty in Russia, it is possible to estimate the real level and size of poverty in the country using the data about households expenditures (see table 6.2).

**Table 6.2.** The share of expenditures for food purchasing (without alcoholic beverages) in the total current expenditures of the Russian households, 1997-2004 (by deciles)<sup>39</sup>

Deciles	1997			2000			2003			2004		
	A	B	C	A	B	C	A	B	C	A	B	C
I (the lowest)	68.8	15.6	53.2	65.4	14.4	51.0	63.1	13.4	49.7	61.2	11.5	49.7
II	66.1	15.1	51.0	63.5	13.5	50.0	60.7	12.6	48.1	59.2	10.6	48.6
III	64.5	14.9	49.6	61.9	13.0	48.9	59.2	11.7	47.5	57.3	10.4	46.9
IV	62.9	14.6	48.3	60.6	12.1	48.5	57.2	10.9	46.3	55.2	9.3	45.9
V	60.8	13.6	47.2	57.9	10.9	47.0	54.8	10.0	44.8	53.0	8.8	44.2
VI	57.9	12.2	45.7	55.0	9.9	45.1	49.5	8.6	40.9	50.0	7.7	42.3
VII	52.6	11.0	41.6	50.1	8.6	41.5	46.0	7.5	38.5	44.4	6.4	38.0
VIII	49.3	10.1	39.2	46.8	7.2	39.6	41.6	6.3	35.3	40.3	5.2	35.1
IX	47.6	10.2	37.4	43.4	6.5	36.9	39.6	5.8	33.8	36.9	4.8	32.1
X	39.3	12.4	26.9	35.5	5.4	30.1	33.3	4.8	28.5	31.3	3.7	27.6

**Explanation.** Column A comprises data on expenditures for food as percentage of the total current expenditures for ultimate consumption. Column B signifies supply of food in the natural form (yields of the kitchen-gardens, gifts from the countryside relatives, etc.) as percentage of the total current expenditures for ultimate consumption, and column C – expenditures for food purchasing as percentage of the total current expenditures in monetary form, i.e.  $C=A-B$ .

Sources: Russian Statistical Yearbooks, 1998: 235; 2001: 190; 2004: 211; 2005: 225).

Looking on the table, one can conclude that about 60 per cent of the Russian families live beyond ‘the Latin American’ line of poverty, a gradual improvement of the social-economic situation after the 1998 default notwithstanding. Even the households that pertain to the sixth, seventh and eighth deciles survive balancing near the ‘Latin American’ poverty line. As in the case of Latin American countries, the main (but not exclusive, of course!) cause of poverty in Russia is a low level of wages of the most people. These wages differ insignificantly from the poverty line, to lesser degree than in Latin America. In particular, the average monthly wage in Russia exceeded the minimal subsistence level only 2.8 times (data for 2004) – in contrast to Latin American countries where it was higher than the subsistence level 4.8 times (from 3.0 – in Honduras to 6.5 times in Chile and 7.0 – in Panama. [CEPAL, 2001b: 84; Russian Statistical Yearbook, 2005: 190].

In addition, the Russian working people in their vast majority get wages and salaries that are very close to or even beneath the poverty line (the wages disparities in Russia are much wider than in Latin American countries). It has been expressed in an existence of the large group of people, about 50 per cent of the total population, whose incomes per capita are within 1.0-2.0 lines of poverty, or, in other words, exceed the minimal level only a little. Hence, there are serious foundations to suggest that a tremendous part of the employed population in Russia cannot provide a necessary subsistence for themselves. Indeed, accordingly to the independent experts’ estimations, the most people consume only 60-70 per cent of the rational, medically founded norm of qualitative food. Factually, under-eating, notably in respect to such products as meat, fish, fresh fruits and vegetables, milk and various milk products, has become a constant feature of the everyday life of many families in the country whose socially irresponsible political leaders pretend to be ‘rulers of the great power’.

In the conditions of Russia today, the mass poverty is undistinguished from the shocking inequality that encompasses wages and all other incomes as well. By the official data, the ratio of incomes between the top and bottom deciles has increased from 13.5:1 in 1995

<sup>39</sup> In the given case, we presuppose a difference between the households’ total incomes and expenditures as insignificant.

to 15:1 in 2004, whereas many social scientists and experts estimate it as 30:1 and even 40:1. (Respectively, Gini coefficient has augmented from 0.387 to 0.407 over the same period [Russian Statistical Yearbook, 2005: 203].) Furthermore, an archaic unity of the property and power as a character feature of the Russian criminal-bureaucratic capitalism, with horrible corruption at all levels of authority, inevitably aggravates the social-economic inequality. And not always in Russia today, the richest people are those who are owners of petroleum companies. Among the Russian *nouveaux-riches*, there are many high rank state officials, including governors of some regions.<sup>40</sup>

As recently the United Nations, World Bank and other international organizations argue, the problem of poverty concerns not only a low level of consumption and material deprivation but also has much broader dimension. The poverty, besides an underconsumption of necessary goods and services, has been encompassing as inaccessibility of education and medical services to people, poor environment, social vulnerability, voicelessness and powerlessness in attempts to solve everyday problems, and other forms of exclusion from social life. [Castells M., 1998: 128-165, 344-345; World Bank, 2001: 15-21]. Accordingly to such an approach to the poverty problem, many people in Russia have to be related to a category of the poor, even despite a satisfactory level of their material well-being, because they are socially vulnerable and/or defenseless in front of the police or officials' arbitrariness.<sup>41</sup> Thus, various forms of vulnerability and exclusion from social life are no less significant dimensions of poverty in Russia than material deprivations. As the Russian and foreign sociologists who study this issue in Russia assert, the prevailing forms of social exclusion, in opinion of the most respondents, are the following: non-accession to education of good quality for children; deprivation of cultural values; inability to maintain social contacts, including ones with relatives living in other cities; permanent uncertainty (impossibility to plan anything in everyday life); impossibility to find good job; non-accession to medical care; impossibility to provide good relaxation for children. [Tikhonova N., 2003b: 115-124].<sup>42</sup> (At the same time, all enquired respondents had own homes or apartments, although, in many cases, the latter were of poor quality. Perhaps, the crowds of homeless people in the big cities are still 'the bright future' of the Russian criminal-bureaucratic capitalism.) As a whole, about 40 per cent of the total population in Russia are excluded, to more or less degree, from social life and/or economic activity: 12-13 per cent of all adults are 'stably excluded' and 25-28 per cent are balancing at a bound of exclusion. [Tikhonova N., 2003a: 146, 148-154].

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<sup>40</sup> For instance, some governors, ministers, members of parliament and other VIPs paid 20-26 thousand euros (respectively, 40-52 thousand for themselves and their wives) for pleasure to trip by comfortable ship "Westerdam" to Athens where the summer Olympic games were held in 2004. At the same time, they declared that their annual incomes in the preceding year did not exceed 10-12 thousand euros. [Latukhina K. e. a., 2004: 1, 7].

<sup>41</sup> One of the expressions of such arbitrariness is the police racket and applying of tortures to people arrested or detained without law court sanctions. This practice is widespread in the Russian police and has been considered in special reports published by international organizations, in particular, Human Rights Watch and Amnesty International (see, for example: [AI, 2002: 17-47].)

<sup>42</sup> As N. Tikhonova argues, "the chief manifestations of social exclusion in Russian cities are lack of access to the main forms of social participation: regular purchase of newspapers, etc.; using cultural and leisure facilities; social visits, including to relatives living at a distance; being able to afford either extra lessons for children or to get the best out of their school studies; good health and access to essential treatment. All this is accompanied by a feeling that it is impossible to change one's own life, a constant sense of the injustice of events, bitterness, pressure, malaise, disappointment and shame." [Tikhonova N., 2003b: 123].

The mass poverty in Russia, in contrast to the poverty in Latin American countries, almost does not depend on the education level of people. The general rule of global transition towards a post-industrial, knowledge-based society, 'higher education – higher incomes', is not applicable to Russia, or, rather, this rule works only in some big Russian cities and spheres of activity: big and medium business, management, consulting, private expertise. Many people graduated from colleges and universities, schoolteachers, medical doctors, collaborators of museums, former engineers, and many scientists, doomed to survive below the poverty line. This fact proves that neither Russian business nor political leaders are interested in qualified, skill labour: the exports of petroleum and gas do not presuppose a need in services of teachers and intellectuals, which are treated as a ballast that exceedingly overloads a ship of the Russian petroleum economy.

It is not astonishing that poverty of the most population has become the main (but not the only!) factor of demographic catastrophe, which has shot on Russia. Despite migration of Russians and other Russian-speaking people from the former republics of the Soviet Union to the Russian Federation, the total population decreases almost by 1 million people a year. Another factor that affects negatively the demographic situation in Russia concerns social-psychological attitudes of people to their life and prospects. Many Russian citizens look forward without minimal optimism and are not sure in their stable future, so they have none desire to bore and care children. This is an inevitable reaction to anti-development processes in the country.

The deterioration of social-economic situation and, in particular, the rise of mass poverty inevitably affected the main source and ground of development in the contemporary world – the human resources. Unfortunately, the authors of one of the UN Human Development in Russia reports had all foundations to assert that "the state of human development in Russia... must be rated as unfavourable." [UNDP, 2003: 22]. In fact, it would be more correct to say for human degradation in the country what is approved, for instance, by negative dynamics of such universal indicator as human development index (HDI). In the mid-90s, this indicator was below the level of 1980(!). In the world, there are only few countries that demonstrate such dynamics of human development (in particular, Romania, both Republics of Congo, Côte d'Ivoire, Kenya, Lesotho, South Africa, Swaziland, Zambia, and Zimbabwe. [UNDP, 2001: 10; UNDP, 2002: 154-156; UNDP, 2004a: 144-146]). Besides, Russia has fallen out the group of countries with a high level of human development.

However, the problem consists not only in the general decline and stagnation of human development index as a whole but also in widening disparities between various regions of the Russian Federation. This trend can be examined through such indicators as the gross regional product (GRP) per capita either at the current prices or measured in US dollars by the PPP and the regional HDI over the last years.<sup>43</sup> Analyzing these indicators' trends, the authors of 2003 Human Development in Russia Report made conclusions about "increasing gap in regional development" and widening human development indices' disparities between regions and territories of the Russian Federation. [UNDP, 2003: 75, 78]. Such conclusion has been founded upon a fact of the increased coefficient of statistical variation of the GRP per capita (at the current prices) in ratio to the weighted mean GRP. In particular, this coefficient jumped from 44.8 per cent in 1994 up to 57.3 per cent in 1996, diminished a little to 55.2 per cent in 1998 but then began to increase sharply again and reached

<sup>43</sup> The author used the Russian Statistical Yearbooks for 1997-2005 and the UN Human Development Reports on Russia for 2001-2005.

57.7 per cent in 1999, 66.0 per cent – in 2001, and 71.5 per cent – in 2003. (Counted on: [Russian Statistical Yearbook, 1998: 58-59; 2003: 294-295; 2005: 334-335]).

What concerns the GRP measured in US dollars by PPP and the regional human development indices, these indicators are essentially below the national average level, too, in vast majority of Russian 79 regions<sup>44</sup>. In 2000, the GRP per capita in US\$ by PPP was higher than the national average GDP per capita in 14 regions and territories. In particular, the GRP per capita in City of Moscow was equal to four-fold GRP per capita in Vladimir and Kaluga regions (17,279 US\$ by PPP in Moscow in contrast to 4,352 and 4,454 US\$ by PPP, respectively), both are reachable by trains from Moscow within two hours. The gap between the GRP per capita in the richest region (Tyumen) and the poorest one (Tyva Republic in the East Siberia) was equal to 14 (!) times (25,178:1,795 US\$ by PPP) in 1999 and had enormously increased – to 19.9 times (30,470:1,530 US\$ by PPP) (!) – in 2001 when Republic of Ingushetia (North Caucasus) ‘displaced’ Tyva as the poorest region of Russia. In 2002, it has widened to 37.3 times (38,411:1,031) (counted respectively on: [UNDP, 2003: 80-81; UNDP, 2004b: 83-85; UNDP, 2005: 168-169]). By the end of the past millennium, there were only three regions in Russia, Tyumen region, City of Moscow, and Republic of Tatarstan, where the HDI exceeded 0.8 and, thereby, corresponded to the high level of human development. In 2001, Tatarstan has left this group, and in 2002-2003, Russia has had only two regions with high human development: City of Moscow (0.855 in 2001 and 0.846 in 2002) and Tyumen (0.847 in 2001 and 0.866 in 2002). [UNDP, 2003: 14, 80-81; UNDP, 2004b: 83-85; UNDP, 2005: 168-169].

In addition, for complete estimating, it is interesting to compare the Russian interregional disparities by HDI and GRP per capita with those in Argentina and Mexico, the countries staying approximately at the same level of development as Russia.

In Argentina, the ratio of the highest income per capita (La Ciudad de Buenos Aires) to the lowest one (Jujuy province) measured in the US dollars by PPP was equal to 4.0 in 1995 and did not change significantly in 2000 (3.9) (La Ciudad de Buenos Aires to the province Corrientes). What concerns the coefficient of variation, it has been much lower than in Russia although increased a little – from 36.2 per cent in 1995 to 39.6 per cent in 2000. (Counted on: [PNUD/UNDP, 2002a: 82-84; 2002b: 65].)

In Mexico, the ratio of the richest region (the Federal District, or La Ciudad de México) to the poorest one (the state Chiapas) by GRP per capita was higher than in Argentina but, nevertheless, looked very moderately being compared with the similar Russian indicator – only 6.1 (23,403:3,816 US\$ by PPP) in 2000 with subsequent increase to 6.6 (22,122:3,364) – in 2002. The coefficient of variation was equal to 45.1 per cent in 2000 and 49.3 – in 2002 (the variation coefficient counted for GRP at current prices in pesos was equal to 41.4 per cent in 2002). (Counted on: [PNUD/UNDP, 2002c; PNUD/UNDP, 2005: 194, 214].)

Thus, the interregional differentiation in Russia notably exceeds that in the two leading Latin American countries comparable with her. Nonetheless, it cannot be said that the Russian government ignores this situation. On contrary, the interregional social-economic disparities in Russia would be much wider if the authorities would not redistribute incomes

<sup>44</sup> The total number of regions, territories, autonomous republics, areas and districts in the Russian Federation was 89 until 2003 when the process of the regions’ merging commenced. However, it has to be taken into account that, for example, Khanty-Mansy and Yamalo-Nenetsian autonomous areas with rich gas and petroleum fields are parts of Tyumen region.

among the regions. However, these re-distributive efforts are not sufficient and do not correspond to the strategic task of the balanced regional development. Since the Russian State has neither clear strategy of the country's development as a whole nor industrial policy, at least, for several branches and territories, the transfers of resources to poor regions do not succeed to the real positive changes. Moreover, such policy (or, rather, a lack of policy) puts up objective premises for the country's disintegration.

Disastrous social and interregional differentiation provokes, certainly, a reaction of protest against the negative, destructive tendencies that enforce many people to survive even through violation of laws. In other words, the social revolt against mass impoverishment, alienation, and human degradation in Russia looks as outburst of negative, destructive social energy, taking a form of mass criminalization that pierced all levels and aspects of the Russian social life. It encompasses the mass consciousness, too, and ruins all moral sentiments, which are treated as relics and prejudices of the past.

Is the Russian society capable to avoid of catastrophic decline? In principle, yes, it is, and the main strategic task that has to be solved immediately is to stop a degradation of human capital instead of the abstract 'macroeconomic stabilization' founded upon the petroleum and gas exports. Such step presupposes, *prima facie*, a radical alternation of the education and social policy.

Meanwhile, since 1991 the expenditures for social needs – not accounting expenditures for the retired people's pensions, healthcare and education – had dramatically shrunk in the Russian Federation from 2.8 per cent of GDP to 1.1 per cent in 1999-2001. In 2004, they have fallen to 0.8 per cent. The consolidated expenses for education, public healthcare, social insurance and assistance at all levels of authorities, both federal and local, were equal in total to 13.4 per cent of the Russian GDP in 2002 and decreased to 8.75 – in 2004. This amount was approximately equivalent to 310-350 US dollars per capita at the current exchange ratio. Comparing this figure with the social expenditures per capita in some Latin American countries (see preceding chapter, table 5.1), everyone can conclude that Russia loses competition not only to the largest and/or most developed nations of Latin America (Argentina, Brazil, Chile, Mexico, or Uruguay) but also to such countries as Colombia and Venezuela. Particularly mournful situation exists in a sphere of education where the public expenditures in the course of 'reforms' were 2.0-2.5 times lower than in the late Soviet period. In 2002, their average magnitude was 420-430 US dollars at the current exchange ratio per student at all levels of education – from primary schools to universities. In 2004, it has grown to 700-800 dollars per student. However, this amount related to the total population was equal to 85-90 US dollars in 2002 – a little more than the same indicators in Honduras and other poor, less developed Latin American countries, being elevated to 140-150 dollars in 2004, the level corresponding to the average in Latin America as a whole. (Counted on: [Russian Statistical Yearbook, 2003: 30, 197-199, 209, 550; 2005: 323, 200, 608, 786]).

Furthermore, since 2004 the ruling regime has approached to 'simplification' of the schooling programmes. On the one hand, it presupposes diminishing hours that have to be devoted to studying 'complicate subjects', mathematics, physics, biology, etc. On the other hand, it means that most pupils are doomed to study only 'the minimal complement' of subjects whereas 'the intellectually (and, in fact, financially!) advanced students' will have an opportunity to be 'profoundly aware' in the chosen disciplines. Truly, a sphere of education in Russia has been suffering today almost the same processes of social segregation



(‘elitisation’) that take place in some Latin American countries, mainly, in the secondary and tertiary education. [CEPAL, 2002: 308 et ff.]. Indeed, the petrol state, accordingly to the ruling circles’ vision of the country’s future, does not need the large masses of educated people because such people can hardly be manipulated and will potentially become ‘the dissenting persons’ who are able to think critically and even to overthrow the socially irresponsible, corrupted politicians. From the point of view of the recent Russian ‘elite’, to rule the semi-literate masses is much easier than to deal with intellectually developed voters.

Certainly, despite devastating tendencies of human development and deep structural crisis that is apparently camouflaged beyond a good rate of the economic growth but soon or later will inevitably take “open forms”, Russia is still capable to stop her drift to catastrophe and to alternate the recent dangerous trends. The country has sufficient material and intellectual resources to alternate a trajectory of spontaneous slipping down to the world periphery. Moreover, in Russia there is not a deficit of the alternative ideas and projects of development aimed at a real transition towards a post-industrial stage.

Nevertheless, an elaboration of the adequate strategy of Russian development is not matter. What is matter is a problem of the social actor of development in Russia. Here it seems relevant to refer again to Helio Jaguaribe because this prominent social scientist has grasped the main problem, which concerns either Russia or many other countries in the conditions of globalization. “In effect –, says the Brazilian scholar, – most of the remaining problems of development in today’s world are concerned at some level with the question of converting status-enjoying elites into functional elites. This is the case of practically all the African countries, and it continues to be a problem in Latin America as well.” [Jaguaribe H., 1997: 210]. Actually, Russia today faces the same problem as one that torments Argentina, Uruguay, and Venezuela – the problem of functionality of her business and political elite, including counter-elite that could potentially replace the latter and initiate the real changes. Certainly, this problem has also another dimension; namely, it concerns a human dignity and decisiveness of ordinary people to resist to bureaucratic insolence and authorities’ offensive to their privacy. Very often, people are biased to social conformity and opportunistic attitudes instead of search for alternative to an existing order. They prefer to be passively adapted to a situation but not to change it, and such attitude is inherent to the most socially advanced strata that have sufficient opportunities to express their approach and to poor people as well who are accustomed to survive at the minimal level of subsistence being adherent to the conservative-paternalistic stereotypes of behaviour.

Unfortunately, a pattern of political-ideological controversy described by Samir Amin regarding to the former Third World is completely applicable to a situation in Russia and other CIS countries. As S. Amin wrote, a subdivision of political forces into ‘Right/Left’ has been replaced, in the conditions of developing regions, by another one – ‘Reaction/Development’. Hence, a choice between two poles in peripheral countries is much more important than that between conservatives and social democrats in the West. This is a real choice whereas in the latter case the problem concerns nuances and details of the secondary importance but not essence. [Amin S., 1991: 27-30]. In Russia, too, a dilemma ‘Right or Left’ does not stay on agenda today. There is another choice – between ‘functional elite’ and ultra-conservative, reactionary forces that dominate economically, politically and ideologically today.

Recently, for the first time in history of Russia over the last four hundred years, since the great turmoil at the beginning of the XVII century, the people in power are, at the same

time, so irresponsible and anti-nationally oriented. Perhaps, either tsars or Bolsheviks were, in their majority, poor, narrow-minded rulers, and did not correspond to those tasks and challenges to which Russia should have to respond. But they were not anti-national actors who thought how to weaken the country. Today, all efforts of the Russian lumpen-elite aimed at solution of twofold task (which, actually, cannot be solved at all): 1) decrease and de-intellectualisation of the population because it is the only way, from the point of view of 'rulers', to augment incomes of petroleum exports, and 140 million people are enormously big population for achieving this purpose; 2) to be recognized as a part of the world elite, to become pertaining to 'the golden billion'. Certainly, these two goals are incompatible with each other because the West (and now the industrializing East as well!) respects only those politicians who think about real development of their countries and do not plunder the state assets. However, such truth is over-exceedingly difficult and complicate to be comprehended by the Russian ruling circles.

The process of post-soviet transformation in Russia and other CIS countries has been accompanied by the rise of so-called transit, or transfer, class. This social group, ruling in Russia as well as in Ukraine, Azerbaijan or any other of the CIS dozen, personifies the core of criminal-bureaucratic capitalism. It has support of the small but influential middle strata that encompasses state officials, highly paid personnel of big companies, political 'technologists' and journalists of the state mass-media, domestic servants of the Russian nouveaux-riches, and top-positioned swindlers of various kinds. The main interest of this class consists in conservation of status quo, the recent transition period. It has none desire to restore the old system (that is impossible at all) but, at the same time, does not want moving towards an effective, innovative, competitive economy and political democracy. The ruling transit class agrees to admit a modernization only to such degree that does not threat to its privileges and power. Hence, it is not astonishing that the ruling stratum in Russia speaks about macroeconomic stability and financial stabilization in the IMF style instead of active industrial and social policy oriented to the real development. In fact, these speeches sound as invocations that have been resembling to declarations of all, military and civilian, governments in Argentina from seize of power by the military-fascist junta in 1976 to failure of the neoliberal policy in 2001 under democratically elected president Fernando de la Rúa (see, for example: Nochteff H., 1991: 339)]. Just like in Argentina, the Russian transit class treats a solution of the problems of transition towards a competitive economy with self-sustaining growth only as automatically attainable results of macroeconomic, financial stability.

Such narrow-minded approach to development is intrinsically conditioned by a lack of interests of the ruling circles in development of the country. This attitude was involuntarily manifested in genuinely brilliant manner by Victor Chernomyrdin, the prime-minister of Russia under the presidency of Boris Yeltsin and since 2001 the ambassador of Russia to Ukraine: "We wanted to make things better, but they have turned out the same as always". These words had quickly become one of the favourite Russian people's aphorisms although they sounded as mockery over an idea of development: if things turn out the same, as always, it is hardly possible to speak about progressive changes. However, the main 'secret' of things' turning as always has two aspects linked to each other. The first consists in endeavour to having nothing to do for improvement because of the evident interest to maintain status quo. The second aspect concerns an inadequate approach to situation in the country. For example, such an inadequacy was clearly demonstrated by Georgy Poltavchenko, the Authorised Representative of President in the Central federal district that

is constituted of 18 regions, including Moscow region and the capital city. This high rank official told about the demographic problems in the regions subordinated to his supervision, appealing to the regional officials, journalists and activists of the civil society organizations: "...The demographic situation is horrible, shocking. The birth rate is declining. It has immediately to be improved. We can raise the total population of the district by 400-500 thousand each year. This goal can be reached without the additional budget expenditures. What is necessary only, is a desire and capability to work. The regional mass media must be responsible for propaganda of the authorities' demographic policy. In particular, the local newspapers and TV channels must expose an image of Barbie, because this American puppet orients children and teenagers to false values, which are very far from values of family, home and child-care." [Ofitova S., 2003: 1-2].

Thus, Barbie, this artificial child of baby boom and mass consumption society, is 'appointed' responsible for disastrous decrease of the population in Russia. Such 'an appointment' reminds the times when all failures and difficulties had been explained by 'the snares of imperialism'. It would be possible to suppose that such an approach is a fantasy of semi-crazy old man of ninety-nine years. However, Mr. Poltavchenko, the person who is very close to President V. Putin, is man about fifty and, seemingly, has a good health. What is his problem is astonishing obstinacy in non-desire to recognize the social-economic and social-psychological roots of the current demographic trends in Russia. This is a case when either personal stakes or narrow-minded vision, or ordinary stubbornness makes up artificial lenses, which do not allow seeing reality.

An obvious absurdity of the ruling stratum's approach to 'the subject of rule' is conceptually undistinguished from frankly anti-developmental views widespread among the top officials, business community and journalists that use any opportunity to propagate their 'calls for destruction' of the Russian industry, impacting on mass consciousness. For instance, Elena Tregubova, formerly the Kremlin correspondent of 'Commerçant' daily, writes in her devastating book "Notes of the Kremlin Digger": "I can offer an advice to the Russian government: to destroy all plants and factories built up in the Soviet time". She quotes words of Alexander Pleshakov, the former head of Transaero Air Company and later the member of the upper house of Russian parliament (the Council of Federation) pronounced during Putin's visitation to Voronezh aircraft plant: "Indeed, all these (made in Russia – V.K.) aircraft jets should be removed to a scramble area". [Tregubova E., 2003: 13]. It is interesting to learn how Pleshakov and Tregubova explain a superiority of the 'Boeings' comparing them to the Russian jets. They both refer to neither aerodynamic parameters, nor engines' qualities, nor avionics but merely to good quality of Boeing board lavatories equipped by vacuum flush. Factually, such an approach means technophobe and anti-intellectual world-views that succeed to a triumph of irrationality and aggressive obscurantism. While the Russian science is declining because of poor financing and lack of interest of the ruling circles to any scientific-technological innovations, various forms of obscurantism and false sciences have been 'cultivated' with warmth being introduced into educational programmes of schools and universities. Moreover, the obscurant ideas are very popular on the top of Russian authorities.

S. Shoygu, the minister for emergencies situations (this authority body is responsible for rescue works after catastrophes, earthquakes, etc.), one of the leaders of pro-Putin party "United Russia", announced on TV (December 2002) that his ministry draws a peculiar at-

attention to astrological prognoses.<sup>45</sup> On January 16, 2003, the formerly minister of culture Michael Shvydkoy, performing himself as TV showman, proceeded TV-show “It is possible to trust to astrologers only” with participation of one ‘eminent astrologer’. By the way, accordingly to sociological pools, about one fifth of ordinary people in Russia believes in astrology but among businessmen, top officials and politicians this share is much higher. An astrologer occupied position in Yeltsin’s administration staff; he offered advices concerning itineraries of the president. Under Putin, astrologers are influential persons close to his administration, too. In addition, the Ministry of education published and recommended the book “Tales about astrology” for reading in schools.

All these events, which are, in essence, a propaganda of obscurantism and diabolism, as the Russian Christian Orthodox Church (as well as all other Christian confessions) teaches, have been combined with demonstrative religiosity of the top bureaucrats and political leaders. Nevertheless, the top Orthodoxy hierarchy keeps silence, avoiding of public assessments regarding to such strange and ‘suspicious’, from the point of view of Christianity, activity of the Russian politicians.

Certainly, when astrologers and other ‘prophets’ dream to court to VIP, they have obvious ‘terrestrial’ purposes. The rise of obscurantism and belief in ‘super-natural’, paranormal phenomena opens additional accesses to rack for definite category of ‘pundits’, being a form of corruption and plundering. In particular, the mentioned Ministry for emergencies supports the laboratory of ‘extrasensory activity’, which has to elaborate ‘esoteric recommendations’ concerning the natural cataclysms, earthquakes, and rescue works. The Ministry of Defense finances the ‘military sub-unit’, which proceeds experiments with... sorcerers, wizards, and witches. Someone Mr. Grabovoy, Dr. of Sc. in physics and mathematics, as he called himself, had still appeared in B. Yeltsin political environment. This ‘scientist’ asserted that he was able to ‘check thoughtfully’, without special equipment, whether the president’s aircraft is in good technical condition or not. At the same time, Mr. Grabovoy delivered lectures to the Ministry for emergencies staff and consulted... the Council of Security of the Russian Federation, the consultative authority body headed by the president of the country. The last achievement of his ‘wizardry’ consisted in promise to revive children, hostages of the terrorists who captured the school in Beslan.<sup>46</sup>

The widespread obscurantism is a witness to the rising tendencies towards fascism in Russia. (As it is well known, Hitler and other ‘fathers’ of Nazism believed in astrology and other occult ‘sciences’ rejecting any rational, ‘Jewish-liberal’ or ‘Jewish-marxist’, knowledge.)

Evidently, the ruling transit class tends to establish the regime of political reaction hoping to oppress any opposition to its dominance. These intentions have been combined with attempt ‘to revive’ some symbols and aspects of the Soviet period (such as ‘powerfulness’) what corresponds to the nostalgic feelings of many people. However, none real movement towards modernization, which maintained the military-technical power of the Soviet Union

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<sup>45</sup> These and other similar facts mentioned here are borrowed from the journal ‘Zdravyi Smysl’ (‘Good Reason’) that has been published by Russian Academy of Sciences. The total number of copies of each issue is about 1000 (one thousand) in contrast to some hundred thousands and million copies of the obscurant ‘literature’.

<sup>46</sup> At last, in April 2006, Grabovoy was arrested being accused in... deception after ten years of his activity. There are two possible explanations of this fact: either he has become victim of the conflict between two groupings of officials or he did not share his extra-incomes with top-positioned protectors, so the latter decided to punish him for greed.

in the past, accompanies these attempts. As well, appealing to the Soviet heritage, does not mean that the pro-government forces are capable to establish the authoritarian regime, which is not the same thing as police (more exactly, criminal-police) regime. As Marie Mendras, the French specialist on Russia and the CIS, has noted in her interview with *Le Monde*, “today Russia is neither democratic nor authoritarian country. President Putin has not means to exercise a power of authoritarian character.” [Mendras M., 2003].

Such an inability either to rule in the conditions of democracy or to establish the authoritarian regime is conditioned by a social background of the Russian power. The latter is an outcome of the old, preceding system’s disintegration and mutation, including such process as a privatization of the state functions by various, often fighting with each other, criminal-bureaucratic groupings at the different levels of authorities. (The police regime can co-exist with the privately appropriated functions and institutes of the state. The authoritarian regime, particularly, if it is oriented to development, on contrary, does not tolerate a privatization of the state institutes.) In its essence, the Russian system of power today is “a mustiness arisen on gas and/or petroleum pipeline”, whereas the authorities in other CIS countries are derivatives of the Russian mustiness. [Ivzhenko T., 2003: 5].

In addition to these uncomplimentary characteristics of the political inheritors of the Soviet system, it can be said that mustiness has a use to eat itself, so its existence is limited in time. A shameful, scandalous end and disappearance of the criminal-bureaucratic capitalism looks as inevitable prospect, and the main question concerning the Russian future has to be subdivided into two following ‘sub-questions’ inseparable from each other. 1) Will the Russian Federation survive within the contemporary borders? 2) Who and what will appear from under the ruins of criminal-bureaucratic capitalism? No one can exclude that a further archaisation of all aspects of the social life will be an inevitable cost of stabilization after the recent systemic crisis. Moreover, this archaisation may become the necessary condition of survival in the permanently changing world. At the same time, in the case of Russia’s disintegration into several parts, some of them, particularly ones without resources or with scarce resources, in the future can become shining, advanced countries while the other parts will experience all negative consequences of exclusion from the world system.

Nonetheless, any of such scenarios for Russia as a whole will demonstrate a multi-variability of development in post-development epoch. This multi-variability is not excluded in the region, which seemingly symbolized the most successful way of catching up development over the last third of the XX century – in East and Southeast Asia.



## **PART 2. THE ASIAN ‘TIGERS’ FROM SUNRISE TO AFTERNOON**

### **7. The Background and World Context of Wonderful Transformation of ‘Kittens’ into ‘Tigers’**

**W**hile the pioneers of the XX century catching up development, the USSR and Latin American countries, confronted difficulties in ever-extending degree moving to the deep systemic crisis; while the development policies failed in the most African and Asian countries; while the traditionalism offending to modernity arose in the Middle East and the Soviet Central Asia, it seemed, there was only one region in the globe that accomplished a function of exclusion from a mournful situation in the Third World. It was East and Southeast Asia where the rapidly growing NIEs looked as swimmers that successfully swam back up to the river’s flow. In the 1980s and afterward, until the mid-90s, when many development studies began to be resembling to catching of black cat in dark room whereas cat stayed outside of this room, the NICs of E/SEA symbolized the last hope for developmentalism, manifesting a real opportunity of the breakthrough from poverty and backwardness. Obviously, Amartya Sen has seen a real foundation to treat the Asian experience as the pattern of development with its all hidden reefs. He wrote: “Asia, I would agree, is a great source of understanding and knowledge about the process of development in general. A fuller analysis of Asia’s achievements and problems is a good way of assessing the demands and challenges of development itself.” [Sen A.K., 2000: 3].

Nevertheless, the achievements of the Asian ‘tigers’ as well as those and failures of the former USSR and Latin American countries can be conceived, on the one hand, only in the definite world context, and, on the other hand, as the outcomes of coherence of the internal and external factors and challenges. Peculiar character of the latter pre-determined, to a big degree, uniqueness of the wonderful transformation of small, weak ‘kittens’ of the world system into ‘tigers’ over historically short while.

Certainly, all wonders and miracles in economy and social life have some premises and backgrounds that have been created in the course of previous development, which appears as an accumulation of the crucial mass for qualitative changes. Indeed, the Asian NICs, even when they were not yet industrialized, had, nevertheless, some base for the industrial take-off, and this base was formed as result of their positions as colonies and vassal states in respect to the leading powers since the end of the XIX century. Seemingly, this group of countries as a whole lost to Latin American nations by GDP per capita and the general level of ‘pre-industrialization’; they were comparable with Latin America only by the level of literacy of the population (tables 7.1 and 7.2).

**Table 7.1.** GDP per capita (in US dollars of 1990 and in ratio to the same indicators in the US and Japan, %%) in the recently NICs of East/Southeast Asia, 1950-1970

Countries	GDP per capita								
	In absolute terms			In ratio to the level of:					
				the USA, %			Japan, %		
	1950	1960	1970	1950	1960	1970	1950	1960	1970
Hong Kong	2218	3134	5695	23.2	27.7	37.9	115.2	78.6	58.6
Singapore	2219	2310	4438	23.2	20.4	29.5	115.2	57.9	45.7
South Korea	770	1105	1954	8.1	9.8	13.0	40.0	27.7	20.1
Taiwan	936	1499	2987	9.8	13.2	19.8	48.6	37.6	30.7
Indonesia	840	1019	1194	8.8	9.0	7.9	43.6	25.6	12.3
Malaysia	1559	1530	2079	16.3	13.5	13.8	80.9	38.7	21.4
Philippines	1070	1475	1761	11.2	13.0	11.7	55.6	37.0	18.1
Thailand	817	1078	1694	8.5	9.5	11.3	42.4	27.0	17.4

Source: Maddison A., 2001: 206, 279, 304-305. The ratios to the levels of the US and Japan are counted by myself (V.K.) on data in absolute terms.

**Table 7.2.** Literacy of the Adult Population (age 15 and more, %%) in the recently NICs of E/SEA, 1950-1970

Countries	Year of census	Rate of literacy	Year of census	Rate of literacy
Brazil	-	-	1960	49.4
Chile	1952	80.2	-	
Mexico	1950	56.8	1960	65.4
Venezuela	1950	52.2	1961	65.8
Hong Kong	-	-	1961	71.4
Singapore				
South Korea	1955	76.8	1960	82.2
Taiwan	-	-	1956	53.9
Indonesia	-	-	1961	42.9
Malaysia a)	-	-	1957	47.5
Philippines	-	-	1960	71.9
Thailand	-	-	1960	67.7

a) – Malaysia without Sabah and Sarawak  
Sign “-” means that data are not available  
Sources: UNESCO, 1966: 39-42.

In the 1950s-1960s, the level of the recently E/SEA NICs' development measured by GDP per capita was notably lower than one in the USSR and most Latin American countries except the poorest of them. In 1960, only Hong Kong, then the British colony, exceeded Brazil and corresponded approximately to Mexico by the called indicator (3134 international dollars of 1990 in Hong Kong, 3155 – in Mexico). GDP per capita in the other countries of East Asia, which later made up a group of 'tigers', was 2-4 times less than one of the developing nations of Latin America, not speaking about such countries of the Latin American continent as Argentina, Uruguay, and Venezuela. (Even Japan stayed very closely to most Latin American countries by this indicator.) (Counted on: [Maddison A., 2001: 277, 288-291, 304-305]).

A relative backwardness of East/Southeast Asia, except the trade enclaves Hong Kong and Singapore, in comparing to Latin America, then the most advanced region in the Third World, had been result of their preceding development. Over the first half of the XX century, namely, in 1913-1950, the East Asian economies, except Japan, did not demonstrate a



fascinating rate of the growth, and a negative 'contribution' of wars was not the only factor of relative stagnation in the region over the four decades. For example, in the Philippines, GDP per capita grew by 0.4 per cent per year in this period. In Thailand, GDP per capita did not grow at all while Korea and Taiwan suffered a fall of their GDP per capita by 0.2 per cent annually in contrast to the leading Latin American countries where the economic growth had been accelerated due to a realization of the ISI strategy. [Maddison A., 1995: 63].

However, despite the relative social-economic backwardness and scarce natural resources (among the E/SEA countries under consideration only Indonesia, Malaysia and Thailand, i.e. the second-tier 'tigers') had abundant resources), the Asian triumphant 'catchers up' had initially some industries, including manufacturing ones, that arose during the long period of 'pre-industrialization'. Since the end of the XIX century, this 'pre-industrialization' enabled accumulating the necessary experience amidst the growth of low-skill industries oriented mainly to external markets. For example, 'the focal points' of industrialization in Taiwan and Korea (in the latter case, concentrated mostly in the northern part of the country) rose under Japanese rule and guidance being engaged into the metropolitan economic system. Factually, the Japanese colonial expansion facilitated and accelerated the 'pre-industrialization' of Korea and Taiwan, experiencing the local entrepreneurs with manufacturing industries, though accordingly to the Japan's proper interests. [Amsden A.H., 2001: 99-111; Cumings B., 1987: 45-47, 52-59; Harris N., 1986: 33-35; Hersh J., 1993: 51-58; Wade R., 1990: 73-75]. Moreover, in Taiwan, then called Formosa, the Japanese authorities realized the agrarian reform, bourgeois in its essence, accordingly to the principles of Meiji revolution. Land rights were removed from parasitic landlords to those proprietors who were able managing the lands and organizing their real cultivation. In the 1950s, under American supervision, the agrarian reforms were further moved on way of the capitalist development that seriously subverted and constrained any possible resistance to bourgeois evolution from the side of landlords' circles. In other words, the colonial authorities of Japan and, after the World War II, American advisers helped, independently on their personal desires and purposes, to purge and cultivate a social soil for the capitalist development in small East Asian countries, in Taiwan and South Korea as well. [Jacobs N., 1985: 82-93; Moore M., 1988: 113-152]. These reforms were very important positive factor that favoured, at least, in the prospect, to rapid industrialization of the region, in contrast to Latin America where the system of landlordism with gigantic latifundias in rural areas had been serious obstacle to the enlargement of internal markets and intensive industrialization.

All countries of the region under consideration, including the Philippines, regional failure of catching up modernization, passed through the stage of ISI and experienced all its positive and negative aspects, particularly, in the conditions of narrow, small-scale internal markets and shortage of resources for investment. In the process of real development, the stage of ISI was the first and indispensable stage of industrialization in E/SEA, as it was in Latin America. [Jomo K.S., 1997: 95-98; Kuo Sh.W.Y., Fei J.C.H., 1985: 48-50; Ranis G., 1979: 211-221; Wong J., 1979: 52-92, 163-182]. Factually, this stage preceded to the rapid outward-looking development of the region. [Cumings B., 1987: 66-69; Rasiah R., 2003: 32-41; Wade R., 1990: 77-82, 84-90; Wu Yu-Shan, 1997: 145-152]. Meanwhile, the ISI stage in the region elapsed over so short time that many researchers and students of the E/SEA development did not pay attention to this period and involuntarily considered a transformation of weak 'kittens' into 'tigers' of the world economy as result of exclusively

export-oriented industrialization. Moreover, strictly speaking, the ISI policy as the economic policy in East Asia did not cease to stay on agenda even when the outward-looking development of the region became widely recognized evidence. However, it appeared rather as an additional tool than as a mainstream of the development strategy, attributing 'flexibility' and, at the same time, 'props' to the export-led growth. For instance, In Korea and Taiwan a combination of the both, inward- and outward-looking strategies took place, though with an obvious prevalence of the latter.

The original low level of social-economic development as a whole notwithstanding, South Korea, Taiwan (Taipei) province, or Hong Kong and Singapore, being compared with the industrializing Latin American countries, had some essential comparative advantages that, in the long-term prospect, could become the important factors of their success. These advantages concerned the social-cultural aspects of East Asian societies; in particular, there was higher average level of the people's education than in most Latin American countries. Still in 1950, the mean education attainment (as equivalent years of primary education) of adults (age 15-64 years) was 3.62 in Taiwan and 3.36 in Korea while it was equal to 2.05 in Brazil, 2.21 – in Venezuela, 2.60 – in Mexico, 2.66 – in Colombia. Only few Latin American nations looked, in this respect, better than East Asia (except Japan): mean years of schooling were 4.80 in Argentina and 5.47 – in Chile. (At the same time, in such poor European country as Portugal, this indicator was equal to 2.53.) [Maddison A., 1995: 77].

However, higher level and better quality of the people's education was not the only factor that pre-determined the historical success for E/SEA. Strictly speaking, there was a whole set of factors and premises, which allowed hoping for good prospects of the region's development, the moderate indicators of GDP per capita notwithstanding. [Chaponnière J.R., 1997: 25-26].

Nonetheless, to have a potential for successful development was necessary but not a sufficient condition of the real success. This potential should also have to be used in adequate manner. In this connection, I allow myself to remind one case. Once, in the end of 1998, just after my return from Malaysia and Singapore, deputy-director of the institute where I worked and work today asked me to read and briefly review solid book written in Russian by one professor from Almaty. Book was titled "An Experience of Asian 'Tigers': Can Kazakhstan Panther Follow their Path?" (Certainly, the author implied an affirmative answer to question put in the book's title.) I had read this book and said: In my opinion, despite all attempts of the author to argue a possibility of Kazakhstan to follow way of the Asian industrial 'tigers', really he demonstrated that neither whatever panthers nor any other cats are able to do it.

The author of the called book described very well the concrete experience and mechanisms of the accelerated development of E/SEA NICs, including the governments' policy favourable to the rapid industrial growth, but he said nothing about the real world context in which 'kittens' could turn into 'tigers'. However, it is impossible to understand and appreciate the E/SEA accomplishments ignoring the external context that was probably no less important for success than the internal premises of development. Beyond the concrete conditions that existed in the region and the capitalist system as a whole in the 1960s-1970s, the East Asian 'miracle' could hardly be possible.

Meanwhile, the concrete situation in the region as itself was not beneficial for the successful industrial development at all.

Indeed, the East Asian industrial modernization began when the cold war confrontation of two superpowers took form of real, 'hot' war in the region, previously in Korea and later in Vietnam. Almost simultaneously, in the late 1950s – the early 1960s, Maoist leadership of the Communist party of China publicly announced about their pretensions to the role of 'torch' for exploited and oppressed peoples of Asia. Since it refused recognizing a superiority of the Soviet Union and CPSU in the 'socialist camp' and international communist movement, clash of their interests and those of the Soviets was inevitable, and E/SEA became the major field of this conflict. Evidently, it did not stabilize the regional situation and encouraged various political forces for either rightist or leftist radicalism. (The Indonesian tragedy of 1965-1966, when conservative part of the armed forces, on the one hand, and pro-Maoist leaders of the Communist party inspired from Beijing, on the other hand, provoked each other for 'decisive uprising' and clashed in bloody battle, was the clearest illustration of this destabilizing tendency.)

Besides the world-scale conflicts and clashes that took place in the region, there were also many local tensions and confrontations of social-cultural, religious, and ethnical character, which jeopardized to security of the countries belonging geographically to E/SEA.<sup>47</sup> In particular, there were such problems as subversive activity of the clandestine, guerrilla movements and separatist tendencies, inter-ethnic tensions which sometimes evoked the mass riots (the case of Chinese-Malaya clash in Malaysia in 1969), and, at last but, of course, not least, mass poverty of the population that lived in the conditions of semi-famine existence, lack of pure drink water, and pandemic diseases. In such a situation, each of the region's countries might involuntarily be involved into the global play of the world powers risking losing political independence and, as a result, to disappear completely from political map of the world. Hence, it was not surprising that politicians either ordinary people in the region felt themselves in a state of uncertainty and anxiety like if they were living within 'a besieged fortress'. Lee Kuan Yew, the first prime minister of Singapore, one of the main creators of the East Asian 'miracle', clearly described these feelings that disturbed many people in the region who were asking themselves: Would Britain stay in Singapore for a longer time? Could America be able to replace the British lion as the guarantor of security and stability in the region while she was deeply involved into war in Vietnam? Who could counterpoise to the Soviet and Chinese anti-American propaganda in the Third World? What should be done in regard to Indonesia which was under the pro-Maoist communist influence and wanted to destroy the city-state? "It had become a matter of life and death. All Chinese know the saying: big fish eat small fish, small fish eat shrimp. Singapore was a shrimp. People worried over their survival." [Lee Kuan Yew, 2000: 20, 133].

Presupposedly, not only the Singaporean but also South Korean, Taiwanese, or Malaysian rulers could put the same and similar questions, and there was only one way to avoid of doom to be eaten by big fishes – to cease to be 'shrimp'. In other words, there was an insistent necessity to survive in the extremely unfavourable conditions that enforced and simultaneously encouraged the countries' ruling and business elites to undertake somewhat that could neutralize a set of menaces which might surrender the nations of the region. As Lee Kuan Yew said in dramatic manner in June 1966, "...if we (in Asia – V.K.) just sit down and believe people are going to buy time forever after for us, then we deserve to perish". [Rostow W.W., 1986: 14; quoted on: Hersh J., 1993: 45].

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<sup>47</sup> About a set of jeopardies that menaced to the countries of E/SEA, particularly, to Indonesia, Malaysia, and Singapore, see, for example: [Alagappa M., 1988: 50-78].

The all-embracing vulnerability of E/SEA to a lot of jeopardies did not admit the responsible political leaders, businessmen, and intellectuals to hope for ‘manna from Heaven’ dreaming delightfully from having nothing to do. The best way to prevent possible tragic events, besides military-political alliances with ‘Big friends’, super-powers (what did not factually secure from the internal instability and devastating involvement into the global plays), should be real strengthening of the national states through accelerated development, or, that was the same, fast modernization of society and economy. The Korean dictator, father of the Korean ‘miracle’ general Park Chung Hee said about it with clarity of the military officer: “...to realize a ‘Miracle on the Han River’ is the only way to gain superiority over Communism”. [Park Chung Hee, 1962: Foreword-4].

Therefore, Manuel Castells perceived very well an essence of motives for modernization in E/SEA when he noted that for the region’s peoples economic development was not a goal as itself but a means – a means to survive in the unfavourable conditions. [Castells M., 1998: 271-272].

However, there was a problem of choice of one or another modernization model that could be adequate to the task of survival without cataclysms. Indeed, when the future ‘tigers’ were awakening after a long period of dormancy at the world periphery being small pawns on the global chess-board, or shrimps among horrible fishes in the ocean of ‘big policy’, there was, as we mentioned above (chapter 3), the broad complement of various development models. Nevertheless, some undeniable achievements obtained due to realization of the known development models notwithstanding, still in the mid-60s (not speaking about the end of that decade and afterward), the negative aspects, such as low effectiveness and arisen difficulties of these models began to be evident to ever-extending degree. It became clear that neither the ISI strategy, nor the models of self-reliance of socialist as well as nationalist character could respond to the new challenges and led to failure. Independently on ideological and political arrangements of the concrete development policy, the E/SEA countries should have to seek for strategy that could overcome the attained limits of known, seemingly verified models. Such strategy should take into account what political situation in the region was and had to be oriented towards a full integration into the international division of labour under protection of the superpower, namely, the USA, throughout the growth of industrial, manufactured exports. [Hersh J., 1993: 45-46].

Indeed, some Latin American countries, particularly, Brazil under military-bureaucratic regime, Chile under dictatorship of Pinochet and Argentina under military-fascist junta, attempted to re-orient their economies from inward- to outward-looking development. However, as we saw above, these attempts were, in the best case, ‘semi-successful’ because they did not change essential elements of the old model based on ISI (the case of Brazil) but only improved some parts of the social-economic mechanism that should be radically renovated in the process of modernization. In addition, on reason of the elitist character of these attempts and underestimation of the human resources development, they did not eradicate the mass poverty of population; hence, they did not abolish one of the main obstacles to effective development, a poor quality of human resources. On contrary, the strategy of export-led industrialization had been realized in E/SEA much more effectively and successfully.

Meanwhile, the outcomes of this strategy in the region could hardly become so effective and fascinating without support of the West, mainly, the US, the leading western player in

the region, when the Suez eastward policy of the Great Britain, formerly hostess of the colonies in the western Pacific and Indian Ocean areas, was declining.<sup>48</sup>

Certainly, the United States were interested to stabilize the regional situation, too, for the proper advantage and correspondingly to their global strategy. At first, they aimed to safe the region from 'the communist threat'. The main purpose of the US establishment was to preserve E/SEA from the Soviet and Chinese influence that could potentially spread to other areas of the Third World. From the point of view of Uncle Sam, it was too much to have headache from Cuba, rise of pre-revolutionary situation in the Latin American continent and quasi-socialist experiments designated to constrain the western interests and activity in some African and Middle East countries supported by the USSR, for not admitting 'the communist offensive' in Asia.

Secondly, however, the US administrations of Kennedy and Johnson understood that the main condition of the Soviet and/or Chinese, pro-Maoist successful influence in E/SEA was a set of real social-economic problems. Lyndon Johnson, being the Vice-President, wrote in his report to Kennedy (May 1961): "In large measure, the greatest danger Southeast Asia offers to nations like the United States is not the momentary threat of Communism itself, rather the danger stems from hunger, ignorance, poverty and disease. We must – whatever strategies we evolve – keep these enemies the point of our attack, and make imaginative use of our scientific and technological capability in such enterprises." [Rostow W.W., 1986: 199]. Hence, the US were inclined to support any policy that could help to create a vitrine of 'good', but neither peripheral, nor backward, nor truncated, capitalism in developing countries, sufficiently attractive for either elites or ordinary people in the Third World. [Cumings B., 1987: 59-66, 76-79; Hersh J., 1993: 44-50; Hersh J., 1998: 23-39, esp.: 26-30, 33-36]. In addition, the US worried over Japan, too, their main ally in the Pacific, being interested in the growth of this country, the pattern of successful capitalist development outside of the West, which needed in Southeast Asia's raw materials and markets. (Otherwise, Japan might reorient the export flows of her goods toward China, her traditional market, what looked inadmissible for America.) [LaFeber W., 1991: 232].

Thirdly, the US and the West as a whole had objective to resolve some internal social-economic problems they faced in the 1960s-70s. These internal problems, *prima facie*, the first signs of crisis and decline of the fordist-keynesian growth engine, enforced searching for appropriate solution by involving a group of peripheral countries into the world capitalist economy not as suppliers of raw materials but as producers of manufactured goods the world leaders could not more output effectively. [Harris N., 1986: 101-117]. By the way, a notable acceleration of the 'tigers' economic growth in the 1970s non-occasionally coincided with the structural crisis and recession in the western economies.

In this situation, the western countries and, in particular, the US opened, although selectively, their internal markets for several important goods exported from East Asia. [Hersh J., 1993: 48]. It was much more effective contribution to the East Asian development than all financial and economic aid of the industrial nations to developing ones. (Certainly, as Robert Wade noted, in the 1960s an access to the western markets was easier than in the 1980s and, furthermore, in the 1990s. When the NICs of East Asia, the first-tier 'tigers', Hong Kong, Singapore, South Korea, and Taiwan, approached to their fast export-led industrialization, it was time of an expansionary phase in the world trade. [Wade R., 1990:

<sup>48</sup> As one American scholar noted, "[Indeed], the key to North-South matters lies on the banks of the Potomac if it lies anywhere." [Olson R.K., 1981: xvi].

346-350]. However, this circumstance lessens significance of neither social-economic feat accomplished by 'glorious four' nor American support to them.)

Factually, the US agreed to initiate a realization of particular kind of the global social-economic reformism policy, although applied to one concrete region, E/SEA, intending to strengthen the proper positions in the Third World. At the same time, the East Asian policy of the US should have to demonstrate a vitality of capitalism, its ability to resolve serious social-economic problems in better, more effective manner than 'real existing socialism' could do it. Besides the political support and military assistance the US provided for 'the friendly states', 'fortresses of liberty' in the region (though some of these regimes had common with democracy no more than regime of A. Somoza in Nicaragua or other odious ones in developing countries), Uncle Sam did not hinder to economic policies of his local allies. (By the way, sometimes, these policies diverged from the widely recognized principles of mainstream and development economics, and did not correspond to recommendations of American, IMF, or the World Bank experts they proposed to their East Asian clients.)

Thus, the role of the US in assistance to small and initially poorly industrialized countries of E/SEA to reach the heights of industrial development can be understood only taking into account the whole complement of factors, from regional peculiarities of the cold war contest to ability of the local economies to be integrated into the global financial-technological networks of the leading western corporations. [Li Xing, Hersh J., Schmidt J.D., 2002: 35-41]. In particular, if neither the Soviet Union, nor Maoist China, nor their allies in the region, such as North Korea, North Vietnam and various communist/leftist groups as well, would exist, it should be necessary to think up them for the sake of wonderful transformation of small 'kittens' into 'tigers', this social-economic experiment of genuinely historic importance. Hence, South Korea, Taiwan, Singapore or Malaysia should glorify the cold war and declaim 'hallelujah' (*alleluia*) appealing to their former political enemies, now good partners. (Perhaps, it is historical paradox that the cold war confrontation in the region turned into the partnership and tight collaboration between two groups of the former rivalries, although, of course, not without problems and some tensions. China, Vietnam and Laos, being adherent ideologically to Marxism-Leninism, chose a variant of Lenin NEP following way of the market reforms under the Communist party leadership and the state guidance. In truth, they preferred almost the same model of accelerated industrial development, which demonstrated its efficiency thirty or forty years back in the first-tier NICs. May be, this fact is specifically Asian argument for verity of the old conception of convergence between capitalism and socialism.<sup>49</sup>)

Meanwhile, one inevitable question arises forth when we consider the world context and history of the East Asian 'miracle'. Recognizing an indispensable role of the U.S. in development of 'tigers', it is relevant to ask: 'Why East and Southeast Asia but not Latin America had become winner and favourite of the Third World fast industrialization, despite previously Latin America attracted much more attention of Uncle Sam?' In addition, undeniable fact that the Latin American continent had been and continued to be special zone of the U.S. interests on many obvious reasons attributes a peculiar actuality to this question. Indeed, the experiments with authoritarian modernization began in Latin America under supervision of the White House and the State Department almost at the same time (Brazil, 1964) as in East Asia. Nevertheless, they were not so successful as in the latter case.

<sup>49</sup> The first thinker who originally proposed this conception was Pitirim Sorokin. See: [Sorokin P., 1964: 78-130, esp.: 78-80, 86-89].

Factually, there was a situation when industrializing countries of Latin America, particularly, such ones as Brazil, Argentina, Chile in the course of authoritarian modernization, and Mexico as well competed with young Asian 'tigers' for access to the western markets and for attraction of the foreign investments. In relation to the both industrializing regions, the West created a situation of monopsony when one buyer deals with many sellers. Obviously, in such a situation, the buyer could dictate to sellers what level of prices was appropriate, correspondingly to its interests, and choose sellers that were able to supply commodities of better quality. Due to acute competition among the developing industrializing countries, the First World had an opportunity to broaden a field for manoeuvres and to select its 'more favourable' partners. As a result of this selection, still in the 1970s, the 'tigers' began to displace the Latin American industrializing countries from the western markets because of their comparative advantages. In particular, whereas the labour costs in manufacturing industries of the first-tier Asian NICs did not principally differ from those in industrializing countries of Latin America,<sup>50</sup> the growing 'tigers' overtook Latin America by other parameters, mostly by such ones as a good quality of offered commodities, which, furthermore, became technologically complicate to an increasing degree. The labour force qualities were too significant, and of no lesser importance than the level of wages, for structural shifts in the international division of labour for the E/SEA advantages. For instance, one Malaysian advertising brochure that promised the investment paradise explained why Malaysia, as the second-tier 'tiger', could be very attractive for capitals, in the following manner: "Oriental women are famous throughout the world for their dexterity. With their small hands, they work fast and pay great attention to detail. Who could be better qualified by nature and tradition to raise the efficiency of an assembly line? ... Wage rates in Malaysia are among the lowest in the region, and women-workers can be employed for about US\$ 1.50 a day." (Quoted on: [Lipietz A., 1982: 34].

At last, while various, imitative and autochthonous as well, models and strategies of the Third World development failed one for one, E/SEA appeared to be the only non-western region, which looked as 'the last fortress of development' outside of the West. This circumstance allows presupposing that the problem of the region's modernization does not consist in the US peculiar strategic interests to help to their junior Asian allies to build 'good capitalism'. What is a matter is also a complex of internal causes and factors that pre-determined, to a big degree, a pace, direction, and image of East Asian development.

<sup>50</sup> This conclusion is based upon a comparison of the wages in manufacturing industries of Korea and Mexico over the second half of the 1970s – the mid-1980s. In the both countries, the wages expressed in US dollars at the current exchange ratio were within terms of 1.0-1.3 dollar per hour. (Estimated on: [ILO, 1986: 699, 701] and the IMF data of the exchange ratios for respective years).





## **8. Conservative Modernization and the Developmental State in Asia: Confucius and Lenin *versus* Weber**

**T**igers, as all cats, are very intelligent and agile animals. The economic ‘tigers’, the NICs of East/Southeast Asia, look no lesser nimble than their alive ‘co-brothers’ with four paws and stripped fur. They were able to catch historical fortune for tail, and did it thanks to their qualities, shape and structure. This fact obliges to remind what Mahathir bin Mohamad wrote about nature of the so-called East Asian ‘miracle’. “Personally, I never liked the term ‘East Asian Miracle’, because it seemed to imply that our accomplishments were achieved through some form of magic rather than through the hard work, blood, tears and genius of our peoples.” [Mahathir Mohamad, 1999a: 27].

The first and, might be, the most important internal factor of the NICs’ accomplishments was the existence of social actors of the accelerated development – the stratum of people who comprehended their responsibility for destiny of countries where they lived and intended to change a life of people for better. In other words, there were social groups, which made up the nationally oriented and worldly thinking functional elite, using the mentioned above term by Helio Jaguaribe.

How did this elite emerge? Answer to this question presupposes observing the cultural traditions of East Asian peoples as well as the mutual coherence of these traditions and the western culture of modernity.

The fascinating growth of East Asian economies in the course of three decades encouraged many researchers and students of this ‘miracle’ to reconsider Max Weber’s approach to assessment of prospects of capitalism in Asia (see above, chapter 1). By the way, in the first half of the XX century some Chinese politicians and intellectuals, too, shared this approach although, perhaps, most of them never read Weber’s works. For example, during long while turmoil in China after the 1911 revolution, many participants and leaders of revolutionary parties and movements, including the May Fourth Movement of 1919, evaluated the Confucian heritage in the Chinese society as one of the obstacles to the country’s development. In their opinion, an adherence of the ruling elite to the principles and moral doctrine of Confucianism should be treated as an important cause of the Chinese backwardness. [Jomo K.S., 2001d: 475-476, 502 (note 4)]. At last, defeat of Kuomintang, the party that attempted to foster the capitalist modernization, and, subsequently, victory of the Chinese communists in 1949 (as well as ‘Big Leap’ or ‘Cultural Revolution’ in the 1950s-1960s) seemingly affirmed a verity of Weber’s conception and approved an incompatibility of capitalism with the Chinese traditions.

Suddenly, in the last third of the XX century, something had occurred, and reality began apparently to disaffirm the Weberian ideas demonstrating that Buddhism, Confucianism, or Taoism (and later, at the post-industrial stage, Hinduism) are completely compatible with the rapid capitalist development. In particular, Syed Hussein Alatas who considered the business achievements of the ethnic Chinese in Malaysia still in the late-1960s expressed serious doubts in a relevance of the Weberian idea on incompatibility of Chinese worldview and religious traditions with the capitalist development. [Alatas S.H., 1970: 270-277; Alatas S.H., 1972: 25-48]. All attempts to reconcile the East Asian phenomenon with sociological conceptions based on the theoretical heritage of M. Weber, T. Parsons or N. Smelser clarified nothing, whereas these attempts neglected, as a rule, a simple supposi-

tion: if the theory ceased to explain reality, might be, a matter of the problem was not the theory as itself but something else that had happened to reality, which could not be reflected by the theory.

Some authors, appealing to the theoretical heritage of Weber and his successors in sociology explained the suddenly arisen ‘compatibility’ of East Asian societies with capitalism referring to an existence of the influential ‘counter-cultural’ currents in East Asia, such as Buddhism and Taoism, which have been performed in a role of alternatives in relation to Confucianism.<sup>51</sup> Accordingly to these conceptual approaches, both Taoism and Buddhism as ‘currents of democratic culture’ should be opposed to Confucianism, the moral-political doctrine of rulers and top officials calling for overwhelming rigidity, with its cult of the strong state headed by moral, enlightened ruler surrounded by wise and responsible officials. Seemingly, Buddhism and Taoism countervailed the stringency and requirements of obedience to elders and officials that Confucianism imposed on the people’s everyday life, and justified various expressions of personal initiative or even disobedience to the authorities. Presupposedly, these ‘counter-cultural currents’ made up the common cultural ground for the rapid rise of small and medium businesses in Taiwan and then in other NICs where the ordinary entrepreneurs were mostly adherent not to ‘the Confucian principles’ of loyalty to rulers but to the everyday interpretations of Taoism and/or Buddhism, which challenged to moralism and hierarchism proclaimed by the Confucian doctrine. Respectively, in contrast to the Confucian principles that were symbolising by the state bureaucracy and the hierarchical structures of authority, Buddhism and Taoism inspired the people for a private initiative. The former, as it has been asserted, created the legal, institutional environment for business and steered it, whereas the latter justified the economic liberty for all people who were capable to entrepreneurship. [Lam D., Clark C., 1998: 126-130].

In addition, Buddhism has been opposed to Confucianism as not only ‘counter-cultural’ foundation for private entrepreneurship contesting to ‘bureaucratic stringency’ but also as specific moral justification for improvement of the world of material goods, which surround human species. Since, for example, Mahayana Buddhism locates salvation in this world, an improvement of material goods and a human engagement into activity as well have been performed as a right way to such a salvation. [Berger P., 1988: 7-8]. In this respect, the Buddhist doctrine looks very close to the Protestant ethics which treats a labour as humankind’s destiny divinely predetermined.<sup>52</sup>

Nevertheless, explanation of the cultural, spiritual roots of East Asian boom described just now seems to be very persuasive only at first sight. Actually, it does not convince arguing a significance of Confucianism, Buddhism, or Taoism for the fast rise of industrial capitalism in the region because such explanation neither resolve nor clarify the main problem. Namely, we can ask ourselves: if both Buddhism and Taoism accomplished a function of ‘counter-culture’ in respect to Confucianism, why they could not play the same role in the end of the XIX – in the first half of the XX century? Why, further, Max Weber did not oppose them to the Confucian principles, although he marked the more rational character of the latter, but considered the called oriental ‘counter-cultural’ religions and the Confucian doctrine altogether, as contradicting to the principles of rational entrepreneurship and to ‘the spirit of capitalism’. Moreover, if a doctrine or a religious tradition previously

<sup>51</sup> “It is not easy to reconcile an entrepreneurial spirit and Confucianism” –, Joseph Tamney, a scholar who studied the social-cultural aspects of East Asian modernisation, noted in his book. [Tamney J., 1996: 38].

<sup>52</sup> Erick Jones wrote in this connection: “The values of East Asia during its years of rapid growth were not significantly different from the ‘Protestant Ethic’ of the West during its industrialization.” [Jones E., 2002: 143].

did not correspond to ‘the capitalist spirit’ but later appeared as according to the latter, it would be possible to presuppose that some considerable changes had occurred to the capitalist system. Indeed, while the multi-secular social-cultural traditions and religious belief could hardly evolve so radically in the course of a half of the century, whatever so alternated capitalism that these traditions and religions might turn from factors impeding to the capitalist development into those facilitating the growth of capitalism. In other words, it should have to mean that capitalism was essentially modified, and now, on contrary, it became compatible with either ‘the Confucian system’ or its ‘counter-culture’, whether it was Taoism or Buddhism.

The capitalist development of the East Asian NICs, accordingly to the task of catching up industrialization, corresponded to ‘the spirit of capitalism’ of the XX century but not to that of the XIX century. Moreover, it is necessary to underline, it corresponded to this ‘spirit’ to much more degree than the capitalist development in Latin America where many relics of the old capitalist models grounded on private ownership capitalism had been conserved as untouchable museums’ rarities. At first, still accordingly to Max Weber, “Confucianism, like Puritanism, is rational, but that there exists a fundamental difference between the two in that whereas Puritan rationalism has sought to exercise rational control over the world Confucian rationalism is an attempt to accommodate oneself to the world in a rational manner.” [Morishima M., 1982: 1-2]. However, if Confucianism justified an adjustment to the world in a rational manner, and to the world that has permanently been changing, it meant that Confucianism called for ‘the rational adaptation’ to the changes, namely, in the given context – to the capitalist development. (Likely, this specific rationalism of the Confucian doctrine has been reflected in the widely known aphorism of Deng Xiaoping, the father of Chinese reforms since 1979: “No matter whether the cat is white or black, as long as it catches mice, it is a good cat.”)

Since catching up development and managerial capitalism as a whole – capitalism of the XX century, on the one hand, treated a market freedom not as an end of development in itself but, rather, as one of the tools for achieving the development goals [Wolferen K. van, 1989: 7], this capitalism (‘capitalism without capitalists’ [Bouissou J.-M. e. a., 2003: 13-14], as in the case of the Soviet Union!) presupposed the leading role of the state and, respectively, the state officials. On the other hand, Confucianism, being secularized ‘religion’ and moral doctrine of the Chinese officialdom as well as the conceptual justification of ‘managerial attitudes’, appeared to be corresponding to the capitalist development under guidance of the state. Thus, Confucianism became compatible, in other words, not only with ‘the spirit of rational entrepreneurship’ but also, mainly, with the character of functional, managerial capitalism. [Brook T., Luong H.V., 2000: 9]. Confucianism justified an existence of vertical hierarchy and required a hard, stringent order. In its turn, the XX century functional capitalism could not exist without a managerial hierarchy and efficient discipline at all levels of management and regulation. Therefore, in the process of East Asian modernization, ideas and attitudes of Confucius and Lenin together confronted, in paradoxical manner, with the conception of Weber that was rooted in the ‘classical’ private property capitalism.

Accordingly to the Confucian doctrine, the main, ‘central’ virtue that has to be positioned as the heart of humanity is ‘benevolence’. [Morishima M., 1982: 3-6]. It means the legitimate authority personified by wise, responsible leader who is charged by thoughts

about well-being of the people, his subjects.<sup>53</sup> As Confucius taught, the ruler ought to “keep from oppressing the helpless, and not to neglect the strained and poor.” [Confucius, 1966: 46-47]. He must care for human capacities and talents attracting them to himself: “If ordinary men and women do not find the opportunity to give full development to their ability, the people’s lord will be without the proper aids to complete his merit.” [Confucius, 1966: 103].

Respectively, the people have to be loyal to the authorities following the principle of harmony, whether in natural environment or social life.<sup>54</sup> Furthermore, an individual must demonstrate his/her loyalty to the community, whether it is a firm where he/she works or a nation to which he/she belongs. [Morishima M., 1982: 117]. Such ‘an assignment’ to demonstrate a personal loyalty has been treated as a doctrinal justification of ‘the industrial peace’ and stability in the rapidly growing manufacturing industries. [Hofheintz R., jr., Calder K.E., 1982: 110-113]. Evidently, a requirement of loyalty is incompatible with overt political criticism, public debates or any oppositional activity, which all have been evaluated as subverting the social order and, hence, cannot be allowed. At the same time, a nation as a whole has been considered as a single big family with internal division of labour and duties between parents and children, senior and junior sons and daughters. [Lawson S., 1998: 121]. Respectively, Confucianism treated a ruler as a father, head of big family, to whom people should have to obey. (“The Sun of Heaven is the parent of the people, and so becomes the sovereign of all under the sky” –, Confucius taught. [Confucius, 1966: 144].) In the same manner, the Confucian tradition evaluated a firm, or business enterprise, where proprietors and managers are responsible for well-being of their ‘children’, hired personnel, while workers ought to regard their job and firm’s business like senior and junior children, assess their duties within big family. [Wong Siu-lun, 1988: 134-152, esp.: 142-148].

It is interesting that Goh Chok Tong, the Prime Minister of Singapore in 1990-2004, often addressed the citizens as ‘sons and daughters’: “Singapore can only do well if her good sons and daughters are prepared to dedicate themselves to help others. I shall rally them to serve the country. For if they do not come forward, what future will we have?” (Quoted on: [Chew Ghim-Lian P., 2004: 6].)

Moreover, accordingly to the Confucian views, the state and authorities ought to function successfully for well-being of all family members if people in power suggest to rule correspondingly to the moral principles, which make up the genuine background for the government’s activity. It means that any government has not only right to interfere into the people’s private life and to control them but also has obligation to do something what can aid people to improve the conditions of their life. Such paternalistic attitude of ‘the common good pursuit’ has been combined with a principle of meritocracy, which presupposes a manifestation of virtues of those people who are in power. The latter can be personified by the educated man whose moral and intellectual superiority allows him to accomplish a role of the political and moral leader as well as to represent and express the interests of ‘family members’. As the 1991 ‘White Paper on Shared Values’ (published by the government of Singapore) stated, the government should be headed by ‘honourable men... who have a

<sup>53</sup> “Let the officers whom you employ be men of virtue and ability, and let the ministers about you be the right men. The minister, in relation to (his sovereign) above him, has to promote his virtue, and, in relation to the (people) beneath him, has to seek their good.” [Confucius, 1966: 102].

<sup>54</sup> It is interesting to mark that the Korean dictator, president (1961-1979) Park Chung Hee spoke about “harmony as a way of life”, in particular, about “a harmonious life with a collective entity”, frankly referring to Confucianism. [Park Chung Hee, 1979: 24-29].

duty to do right for the people, and who have the trust and respect of the population'. (Quoted on: [Chew Ghim-Lian P., 2004: 6].)

The role of leaders cannot be trusted to casual persons that may use demagogy and false promises for the sake of own egoistic, personal advantages; such people can subvert, thereby, 'a harmony within family', a pivotal principle of the internal life of society. Hence, any criticism has to be assessed as an expression of disloyalty that threatens the social stability and succeeds to disorder (see: [Lawson S., 1998: 122; Pye L.W., 1988: 86-87]). At the same time, it is impossible to argue that the Confucian tradition excludes any criticism of authorities at all. It admits a criticism but only from the point of view of moral principles. If rulers violate those principles and cease to accomplish their duties, they should be criticized for their mistakes and misbehaviour. If they will insist on continuation of immoral conduct ignoring any critique, people have a right to dismiss them from their leading positions.

It is evident that social troubles and criticism in respect to legal authorities supposedly mean a rise of opposition with alternative views on disputed issues. However, really, this opposition should not exceed boundaries of the Confucian principles, and it is difficult to presuppose what can be degree or extension of criticism based, for example, upon the Buddhist traditions. Meanwhile, it is a question whether Buddhism was able to accomplish a function of real 'counter-culture' or it was rather an important element complementing the role of Confucianism in the process of East Asian modernization.

Presumably, like the former Soviet system exploited 'spiritual' factors of production, such as belief of ordinary people in 'the bright future' and their self-sacrificing, creative enthusiasm, so the process of East Asian industrial development was successful, to a big degree, due to particular labour ethics and people's obedience to discipline. This specific mobilization of human resources and their spiritual, intellectual capacities could hardly be efficient without ordinary people's internal moral motives, which were rooted, at least, partly, in the traditions of Buddhism and Taoism, too.<sup>55</sup> Hence, in relation to the Confucian doctrine, Buddhism in all its currents has to be conceived rather as 'partner' than as contesting, 'counter-cultural' element.

Indeed, an endeavour to harmony inherent to the Buddhist doctrine, as well as its attitude orienting an individual towards uninterrupted moral and intellectual self-perfection, instigated to search ways to resolve inevitable conflicts. In addition, it sanctified a moderation of consumption<sup>56</sup> and, thereby, a propensity to saving, which was particularly important in a situation when mobilization of resources for the accelerated development had been indispensable, whereas the real yields and remuneration for efforts and 'perspiration' could be seen only over long time. Buddhism justified moderating a personal consumption and, as well as Confucianism, accustomed everyone to be obedient and respectful to senior members of community. Besides, Buddhism and Taoism as well as Confucianism comprised seeds of the achieving attitude to labour, and, too, called for collective solidarity, a specific type of interpersonal relationships' ethics, which familiarized to maintenance of order and discipline. [Berger P., 1988: 5 et ff.; Hsiao H.-H. M., 1988: 19].

<sup>55</sup> As 'The Dhammapada', one of the Buddhist sacred books, proclaimed, "do not be idle!" [*The Dhammapada*, 1965: 47].

<sup>56</sup> "He who lives for pleasures only, his senses uncontrolled, immoderate in his food, idle, and weak, Mâra (the tempter) will certainly overthrow him, as the wind throws down a weak tree." [*The Dhammapada*, 1965: 5].

However, it is clear that East Asian modernization could not be successful if it would be based, in the social-cultural respect, merely upon traditions of the past. It should have to borrow from these traditions, at first, elements, aspects, ideas, and attitudes towards life, which justified necessary changes and reforms. For example, a principle of stability and gradualness, a common one for Buddhism, Taoism, and Confucianism, did not mean a call for conservation of the obsolete order and rules. On contrary, it presupposed a realization of reforms if those helped maintaining stability in the new, changed conditions. Secondly, East Asian modernization could hardly be effective if it would not implement some values and attitudes inherent to the western culture of modernity. By the way, political leaders of East/Southeast Asian countries, initiating a series of modernizing reforms, understood very well, better than many developmentalists in Latin America or Soviet technocrats, how a transformation of ‘human matter, including people’s habits, is significant for the process of modernization. It is worth to note, for example, that still at the start of East Asian take-off, in the early-1960s, Goh Keng Swee, one of the fathers of Singapore modernization, criticized the mainstream economics for underestimation of ‘human dimension’ of the economic development (or, rather, for one-dimensional, exclusively economic, approach to the real people’s behaviour and desires in the developing, non-western countries). [Goh Keng Swee, 1995b: 46-49]. The Korean dictator-modernizer, Park Chung Hee, drew attention to such non-economic, psychological hindrance to initiation of modernization as a non-belief of the people in the prospect to eradicate poverty.<sup>57</sup> Some years later, after the tragic Chinese-Malayan contests in 1969, another, then only potential, creator of East Asian ‘miracle’, Mahathir bin Mohamad underlined how serious are people’s traditions and customs for the economic development and why Malays should change themselves if they would like to survive at their native land. [Mahathir bin Mohamad, 1977: 155-157, 59-61]. At last, on the eve of the new millennium, when Asian NICs occupied dignified positions in the world economy, many losses after the 1997-1998 financial crisis notwithstanding, Mahathir wrote, summing up a practical experience of complicate, non-linear process of the social-economic transformations in his country and the region as a whole: “The most important, and most difficult, challenges have been in the realm of culture. Even with new economic policies and new opportunities, these would not have come to life without the cultivation of certain new values. ... Modernization of the mind has been a prerequisite to the modernization of the economy. ... The primary reason lies in the value system each group has developed. In other words, a culture compatible with success will succeed, while one that is not will fail. This may be easily said, the real problem lies in the implementation of new values in a way that does not estrange or antagonize people.” [Mahathir Mohamad, 1999a: 36-37].

Factually, it is possible to suggest, paying an attention to the undeniable success of E/SEA modernization, that it has been a good example of the successful implementation of new attitudes and values in the societies with profoundly rooted traditions and habits of the past. May be, it has been much more successful than a similar reciprocal diffusion of modernity into traditions and old structures of the society in Latin America and the former Soviet Union. However, E/SEA gives us a genuine pattern of conservative modernization, perhaps, in some respects more conservative, than in two other mentioned cases.

It is worth, in this connection, to draw attention to one interesting fact that directly concerns an issue of conservative modernization, particularly, when a trace of E/SEA develop-

<sup>57</sup> “Because our people have been exhausted by poverty, there is among us a tenacious habit of thinking that this condition cannot be changed.” [Park Chung Hee, 1962: 119].

ment has been examining. Namely, an achievement of 'new frontiers' in the course of accelerated development does not always succeed to automatic erosion of the conservative elements in ideology and politics of the developmental state. On contrary, an achievement of highly performing rates of the economic growth as well as progressive shifts in the social-economic structure can be accompanied by a visible strengthening of conservatism and authoritarian tendencies in the social-political sphere. For example, Korean president Park Chung Hee demonstrated an obvious bias to conservatism tending 'to freeze' and even to suffocate all opposition in the country when such hard measures were seemingly unnecessary. When it was clear that Korean 'kitten' began to become 'small tiger', in the situation of a remarkable economic growth and increase of the life standard, the dictator appealed to "historical legacy and tradition", which were put in fundamentals of a "genuinely democratic political system" [Park Chung Hee, 1979: 38 et ff.], established in 1972 (the so-called 'Yushin principles'). In truth, this system was very far from the principles of liberal democracy of the western, modern style. The Constitution of the country was radically revised, in particular, a direct electing of the president was changed for a complicate, indirect voting by obedient deputies for a candidature proposed from above, and Korea had further moved towards frank authoritarianism, even without superficially democratic procedures and other attributes of liberal system. At the same time, Park Chung Hee began more often than originally to speak about traditions of solidarity, adherence to the community's way of life, spirit of mutual aid, and other similar things.

Meanwhile, this apparent paradox, a visible divergence between economic accomplishments and inclination to the political-ideological conservatism with clearly expressed elements of the traditionalist demagogy, had real foundations in the process of successful development as itself. What was a matter in the given case was very fast shift in the social structure of society because of the positive changes in economy. The growth of manufacturing industry that demanded an ever-extending inflow of the new labour forces from countryside, as well as the raise of productivity in agriculture conditioned an increase of the new urban population that was depriving of its country social-cultural roots but did not yet become genuinely urban inhabitants. These people, new migrants, often without appropriate housing, 'positive marginals', were accustoming with difficulty to the new conditions, pace of work, way of life, etc., and could potentially be biased to anti-social behaviour, particularly, in the situation of the democratic opposition's revival. [Jacobs N., 1985: 151-154]. In addition, the government felt a dangerous growth of the stratum of unsatisfied but well educated youngsters, very active and intolerable to social inequity, who were able to jeopardize to stability of the regime. [Amsden A.H., 1989: 221]. (This phenomenon, in principle, well known from the history of such countries as Germany or tsarist Russia, was 'a reverse side' of the positive outcomes of modernization, too.)

Thus, a visible drift to the authoritarian methods of rule in Korea in the 1970s had not only such external foundation as an evident rise of the political adventurism and unpredictability of Maoist leadership in China multiplied on confrontation between North and South in the Korean peninsula. In addition, there were objective internal reasons 'to tighten belts' through police repressions and emphasis on hard-line policy, the economic growth and the raise of well-being notwithstanding. The fast development of economy needed social-political stabilization and the latter, in its turn, required respective ideological arrangements in the forms comprehensible for the vast majority of ordinary people whose consciousness and habits remained to be rather traditional than modern. In this respect, Korea under the

rule of Park Chung Hee was not a unique exclusion from the general trend that was then observed in the region.

Certainly, 'a degree of conservatism' in each concrete case depended on various factors, such as a size of the country, social structure, cultural traditions, a level of urbanization, and so on. Sometimes, in the process of development, old essence of the social relationships has been ideologically performed in the westernized forms, which not only camouflaged a traditional character of societies but also attributed a new dimension to the obsolete social-economic structures. For example, the Chinese and Vietnamese leaders demonstrate none intention to refuse Marxism-Leninism as the official ideology of their regimes. Inherited from the war times, as an ideological cover of the peasantry's movements contesting to capitalism (and colonialism, as in Vietnam or Laos) – the case of 'the traditionalist revolt against progress', – this ideology is not thrown from its pedestal but continues to function as 'a lodestar' for the countries' modernization. In truth, a dominance of Marxism-Leninism in quality of the official, pivotal doctrine is the peculiar way to implement the western ideology of development in the societies with strong egalitarian attitudes and aspirations. In other words, Marxism-Leninism for the called countries (China, Vietnam, and, may be, also Laos), as for the Soviet Union in the past, has recently been 'ideological bridge' linking their traditions and semi-traditional societies to the western culture of modernity with its focus on values of industrial techniques, economic growth, rational knowledge, and so on. Moreover, as we see, a rejection of Marxism-Leninism by the Soviet and post-Soviet nomenklatura did not succeed to a triumph of free market and liberal democracy principles in post-Soviet Russia and other CIS countries. On contrary, it has been accompanying by the rise of traditionalism that is very far from the western, rational consciousness. Samuel Huntington grasped this problem very well, and I cannot omit a chance to quote what he wrote in his famous book 'The Clash of Civilizations': "By adopting Western ideology and using it to challenge the West, Russians in a sense became closer to and more intimately involved with the West than at any previous time in their history. Although the ideologies of liberal democracy and communism differed greatly, both parties were, in a sense, speaking the same language. The collapse of communism and of the Soviet Union ended this political-ideological interaction between the West and Russia. ... In addition, as the Russians stopped behaving like Marxists and began behaving like Russians, the gap between Russia and the West broadened. The conflict between liberal democracy and Marxism-Leninism was between ideologies which, despite their major differences, were both modern and secular and ostensibly shared ultimate goals of freedom, equality, and material well-being. A Western democrat could carry on an intellectual debate with a Soviet Marxist. It would be impossible for him to do that with a Russian Orthodox nationalist." [Huntington S., 1997: 142].

These words sound as warning to those people who criticize the Chinese and Vietnamese leaders for 'ideological orthodoxy' and adherence to 'dogmas'. Meanwhile, in the light of Russian experience, it seems necessary to declaim: "Long live Marxism-Leninism – the ideology of modernization and progress for East Asian nations!" Actually, Marxism-Leninism, particularly, in its modified forms, as the current of globalization's ideology, facilitates to China and Vietnam to become active participants of the globalization process, in contrast to Russia, which, due to destructive efforts of the ruling lumpen-elite, slips to a state of 'passive pawn', although of big size, on the global chess-board.

The other example of effective reconciliation of traditions and modernity could be seen in Singapore where the government led by the PAP (People's Action Party) decided to open



the Institute of East Asian Philosophies (IEAP) in pursuit “to advance the understanding of Confucian philosophy so that it can be reinterpreted and adapted to the needs of present society”. [Lawson S., 1998: 127]. Later, this Institute was reorganized because it became clear that Confucianism as the complement of ‘pivotal principles’ could be implemented only in ‘soft forms’, selectively, being combined with several elements of other doctrines and social-philosophical currents which were more adaptable and relevant for industrialization. Factually, Confucianism was modified and adopted as the general doctrinal ‘framework’ for the modern practice of management and rule. [Tamney J.B., Chiang L. Hsueh-Ling, 2002, chapter 3]. Such a political-ideological synthesis (or, rather, an artificial symbiosis) of the local traditional cultures and some selected universal elements of modernity has been expressed in political rhetoric and programmes of the regional leaders and politicians. In particular, in 1986, Goh Chok Tong, then Deputy Prime Minister to Lee Kuan Yew, characterized the Singaporean political system as a British style of cabinet government on which had been superimposed “a Confucian gentleman, a junzi”, moral and benevolent, who cares for the people’s well being. [Lawson S., 1998: 128].

Nevertheless, whereas a practice of the Singapore government, at least, in some essential respects, looks undoubtedly as one ‘in British style’, mainly, due to experience and culture inherited from the colonial times, a synthesis of old values and new attitudes in other E/SEA NICs was not as successful as in Singapore. What is a matter is that a gradual implementation of new values and attitudes in the conditions of old customs and social relationships has really been turning into reciprocal adaptation of the old and new sub-systems to each other. Such adjustment of new attitudes, values, principles of governance, etc., on the one hand, and old relationships, on the other hand, to each other, undoubtedly, attributes stability to the social order. However, at the same time, it enables the old structures to survive, and they, in modified forms, impede to a further modernization. A failure of many attempts, for example, to initiate a modernization in the Philippines can be explained as a direct consequence of conservation, often consciously maintained by the old local elites (oligarchy, etc.), of the archaic social-economic structures and relationships based upon a personal dependency, at the low, microeconomic level instead of development of the horizontal, market relationships. Similar mimicry of the old relationships and order took place, too, in Indonesia, the country, which looked, from the point of view of modernization, better than the Philippines. After the tragic events of 1965-1966, the top military officers, mostly linked to the old aristocracy, in alliance with ‘the advanced’, western-oriented technocrats established the authoritarian regime called New Order that existed in the country under dictatorship of general Suharto till 1998 when it crashed after the financial storm. The genuine, deep cause of the New Order’s decline was its properly vulnerable, contradictory character. As Richard Robison wrote, there was, in particular, “the fundamental contradiction... between modern political structures and traditional political culture. Because politics is conceived and structured in terms of personal relationships between clients and patrons, the increasingly complex and powerful political structures clearly developed by the New Order are harnessed to the needs of individual officials, political factions, patron-client groups and cultural streams rather than to the integration of social and political forces and the pursuit of the common good. The power and resources of the state are appropriated by state officials to further their personal and political advantage and that of their family, clique or political power base. In essence, this is another variation of the conflict between tradition and modernity.” [Robison R., 1985: 296].

Evidently, the described conflict, independently on its variations and concrete forms, required a peculiar approach to the problem of governance, so, correspondingly to an idea of gradual implementation of the western modernity values into the traditional and semi-traditional societies, a concept of 'Asian-style democracy' arose in the course of East Asian modernization. [Tamney J.B., 1996: 57-86]. Formally, this concept presupposed a diversity of forms of democracy when each form corresponds to definite traditions and customs. Therefore, in interpretation of the E/SEA political leaders, the western political democracy based on primacy of individual in relation to the state has been looking appropriate to the traditions of Europe and North America; it is not vicious in itself but does not correspond to the conditions and cultural heritage of East Asia; hence, it is not applicable to the countries of the region. In truth, a particular symbiosis of the oriental traditions and modernity in E/SEA has been a kind of neo-conservatism in the western sense but with 'Asian specificity'.<sup>58</sup>

The Confucian idea concerning a particular role of the enlightened, responsible, moral leader who governs maintaining a desirable stability and harmony within the entire society, was practically realized in the authoritarian state. This state, with a dominance of the executive over legislative power, constrained political freedoms, practicing 'soft' or 'hard' repressions in regards to opposition, issued laws, conceptually, sometimes, borrowed from the colonial times (as, for example, the Internal Security Act in Malaysia), which restricted a public critique of the authorities. The authoritarian character of the political regimes in East/Southeast Asian NICs had been culminated in the bloody terror in Indonesia after the 1965 *coup d'état* and in massacre of protesting students in Kwangju, South Korea, in 1980.<sup>59</sup>

The ruling circles and their scholars in East Asia treated their political systems as specific kind of democracy that consisted in optimal distribution of functions and responsibilities in society when top positions in the government should have to be occupied accordingly to merits and moral qualities of people in power. [Bell D., 1995; Tawney J.B., 1991: 399-411].

Nonetheless, an appeal to Confucian intellectual heritage could hardly be sufficient for ideological justification for establishment of the authoritarian regimes in E/SEA, which were initiating a large-scale modernization. What was much more significant for the rise of such regimes in the region concerned neither the cultural traditions nor the ideological arrangements but the real social-political situation and those strategic tasks these regimes intended to solve.

In contrast to the views of Fernando Henrique Cardoso presented in his post-presidency paper [Cardoso F.H., 2004: 7],<sup>60</sup> the practical experience of the Asian NICs approves an intrinsic linkage between authoritarianism and successful development.

Whereas the Latin American military-bureaucratic authoritarian regimes of the 1960s-1980s appeared to be unable to finalize modernization in the continent (see chapter 3), the regimes in E/SEA (except the regime of Marcos in the Philippines) demonstrated the real

<sup>58</sup> "Singapore's dominant ideology is basically a variant of Western conservatism." [Tamney J.B., 1996: 180].

<sup>59</sup> The total number of the police repression's victims reached 2000 people who were killed, not counting hundreds or thousands of those who were injured. [Harrison S. S., 1987: 155, note].

<sup>60</sup> Cardoso explains the authoritarian tendencies in Latin America in the 1960s-1980s referring to the context of cold war and asserts that an existence of the political authoritarianism is incompatible with real, successful development.

accomplishments of accelerated development, although they were far from liberal democracy of the western type. The main enigma of their success was neither an adherence to the Confucian principles nor the American support but a fact that they had turned into the developmental states, much more effective than, for instance, the military-bureaucratic state in Brazil in 1964-1985.

Chalmers Johnson was the first who used the term 'the developmental state' among the scholars which studied the development of East Asia. Previously, he applied it to the analysis of Japanese 'miracle' in the post-war era. [Johnson Ch., 1982: 10, 17, 51, 70 et ff]. Later, he and other researchers as well used this term considering the NICs' achievements. [Johnson Ch., 1987: 136-164]. (Almost simultaneously, Bruce Cumings introduced another but, in essence, similar term 'bureaucratic-authoritarian industrializing regimes' (BAIRs) [Cummings B., 1987: 69-75, esp.: 71] borrowed, probably, from G. O'Donnell, F.H. Cardoso, and D. Collier (see above, chapter 3).

For better understanding of social-political nature of the developmental state in Asia, it is worth to quote Manuel Castells: "A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy." [Castells M., 1998: 270-271] (italics by M. Castells – V.K.).

It can be said that the developmental state activity arisen previously in Japan and, later, spread to the NICs of E/SEA, including mainland China since 1979, has been the Asian kind of the XX century functional, managerial capitalism performed with local specific characteristics.

This circumstance allows us to recognize an existence of essential similarities between the Soviet system and the authoritarian regimes in the Asian NICs, obvious ideological and political differences between them notwithstanding. Indeed, it was not purely academic exercise when some scholars compared the authoritarian regime in one or another newly industrializing country of the region with the Soviet system as well as it was not occasional that they found out many similarities between two kinds of the states, legitimacy of which was maintained on 'the societal projects'. In particular, some character features of the authoritarian regime in Taiwan were comparing to ones of the Soviet regime, and several similarities between both, including resemblance of the organizational principles of the Kuomintang to those of the CPSU, were cleared up in the course of such comparison. [Bruce Jacobs J., 1978: 240-243; Wade R., 1988: 37; Wade R., 1990: 235-236]).

Another example of similarities between the Soviet model and the East Asian developmental states could be seen in the course of Singapore development. To mind of one Singapore diplomat who worked in Moscow, the former Soviet system was resemble, though not completely, of course, to one, which facilitated to his wonderful city-state to jump from Third to First world. Indeed, in practical respect, the PAP, dominant party in the city-state, followed some Leninist principles, including the strong internal discipline. As Castells noted, with several doze of sarcasm, describing the historic achievements of Singapore, "it is probably the only true Leninist project that has survived, outlasting its original matrix." [Castells M., 1998: 286].

Nevertheless, some similarities between the Asian developmental state and the Soviet system notwithstanding, activity of the formers, in contrast to one of the latter, was not

aimed at destroying of capitalism; rather, its purpose consisted in improvement of the society within the world capitalist system.

The developmental state did not oppose itself to market. On contrary, defining top priorities of the economic development, it intervened in the market to guide, encompass and coordinate an activity of private sector. The developmental state, particularly, in the first-tier NICs, intended to avoid of direct involvement into business of one or other entrepreneurs' groupings while had been elevating over the private business. "Keeping distance" from the private vested interests, the developmental state in the NICs, following Japanese experience, created a system of 'bureau pluralism' when those interests were aggregated and then transmitted through various business associations, councils, and so on to the state apparatus. [Okazaki T., 2001: 323 et ff.]. The developmental state stimulated economically or compelled to, using administrative levers and political instruments, the allocation of resources accordingly to the opted goals. Certainly, it constrained a play of the market forces and regulated private interests but did not oppress them completely. The competent bureaucrats, graduated, very often, from prestigious universities abroad or in the former metropolitan countries ensured the state interventionism and practice of market regulation, steering a private initiative towards achieving the stages of development one for one. Factually, the specific group of the state bureaucracy emerged in the course of accelerated development in East/Southeast Asia, the economic bureaucracy. [Wade R., 1990: 195-227)]. However, this social-professional group was primarily not the agent of bureaucratic capital because it was not directly engaged into entrepreneurship activity.

It is necessary to specify that the bureaucratic capital and, respectively, the bureaucratic bourgeoisie arose in the second-tier NICs, mostly, in Indonesia, although neither Malaysia nor Thailand could avoid of this process, too. Later, nevertheless, some elements and features of bureaucratic capitalism began to emerge in the first-tier NICs, mainly, in South Korea, because of the intensive contacts of the economic bureaucracy with the leading groups of private business. These contacts were the supporting constructions of the entire developmental state's edifice. "The strength of the CDS (capitalist developmental state – V.K.) lies in its partnership between bureaucrats and industrialists..." – Karel van Wolferen noted in his book about the enigma of Japanese development [Wolferen K. van, 1989: 6]. However, a maintenance of such constructions 'in good condition' succeeded inevitably to corruption, which became 'the structural element' of the whole economic system, as it was in Japan two or three decades earlier. [Ibid.: 127-138].

Through the economic bureaucracy, the developmental state defined both long-term strategy and concrete, short- and medium-term priorities of the country's development. It selected branches of the national economy, which should get preferences in a form of subsidies, loans with low or without interest, trade tariffs, and so on, aiming to susceptibility to pressure from the private interests. In addition, it realised the infrastructural projects and programmes of the labour force training as well as steered private business towards active engagement into R&D activities. It can be said that the economic bureaucracy personified the historic function of capital in the conditions of E/SEA. Over three decades, it looked much more efficient than its Soviet and Latin American 'analogues', but, as Confucius said, "There is no invariable model of virtue... There is no invariable characteristic of what is good that is to be supremely regarded..." [Confucius, 1966: 102]. An activity of the developmental state's economic bureaucracy created premises of the new problems' rise, and these problems required the new approaches to their resolution.

## 9. Internal Mechanisms of the Last Miracle in the XX Century

Is it possible to distill an elixir of East Asian success, i.e. to define the main factor that predetermined the rise of Asian ‘miracle’ – the wonderful transformation of weak ‘kittens’ into ‘tigers’?

Various authors call different directions and factors of the developmental state policy that, in their opinion, enabled the NICs to attain the heights of industrial development. In particular, they call either export orientation of the national economies, or liberalization of markets and free trade, or maintenance of the macroeconomic stability with effective exchange rate policy, or fiscal policy, or favourable business environment, or monetary policy, or effective public sector management and industrial policy, or input-based growth as result of the sky-height rate of savings and investments in GDP, or, at last, an operation of the mentioned above social-cultural factors. [Adams F.G., 1998: 3; Yusuf Sh., 2001: 5-10].

In addition, we can explain the fascinating industrial take-off of East Asian countries referring to well-known theory of the product life cycle that represented by itself one of the first serious attempts to study a logic of foreign direct investments and behaviour of TNCs. [Vernon R., 1966: 190-207].

At the same time, such prominent scholar as Amartya Sen, explaining the East Asian miracle, pays a peculiar attention to new development factor, namely, to an emphasis of the region’s countries on basic education that played an important role in the Japanese and then Korean, Taiwanese, Singaporean and other ‘miracles’. Recognizing a significance of other factors (land reforms, availability of credit for business, etc.), he poses an education at the first place among all conditions and premises of East Asian development. [Sen A., 2000: 6-7, 10-12, 14-19].

At last, the authors of the widely known World Bank publication ‘The East Asian Miracle’, which has generalized an experience of the NICs and up today accomplishes a role of the manual book for students of ‘tigers jumps’, wrote about two main factors of the region’s success: “Private domestic investment and rapidly growing human capital were the principal engines of growth.” [World Bank, 1993: 5].

Really, one can compile the ‘tigers’ growth factors’ list making it as long as he/she likes, and, probably, even a list comprising twenty or thirty factors of the East Asian ‘miracle’ will be correct and relevant. Meanwhile, no one of the called or yet non-mentioned factors excludes the role of others and it is hardly reasonable to reduce an explanation of the East Asian fast industrialization to an operation of exclusively one of them. Factually, it is impossible to distinct them from each other and to highlight every factor as somewhat decisive that pre-determined success. Each of the called factors attributed to the wonderful growth of ‘tigers’ in tight interaction with other ones. They all made up the entire unity of the strategy and tactical approach to the development policy, which has to be described as a combination of constant adherence to the strategic principles, on the one hand, and flexibility of the tactics, on the other.

Perhaps, it is unnecessary to describe here the industrial policy the developmental states in East Asia realized in the course of catching up modernization. There is a lot of publications – books, collections of papers, articles, etc., – devoted to this issue, so it is hardly

possible to tell somewhat new about the development policies aimed at stimulating the industrial growth. May be, only one remark concerning the given problem has to be added here, namely, regarding industrial policy in Hong Kong, which has been considered as symbol of 'the genuinely liberal economy' with minimal state intervention. Instead, in spite of bound economic liberties that really existed in Hong Kong, the local authorities did not feel themselves to be irresponsible for wellbeing of the enclave's population. They not only maintained the institutional environment favouring free market competition but also realized the industrial policy aimed at an improvement of the colony's competitiveness in the global scale. This policy took 'soft forms', without direct intervention into business. The authorities of Hong Kong used such instruments of the regulation as taxation, trade tariffs, monetary policy, and creation of the institutional conditions facilitating an attraction of foreign investments. At the same time, the authority bodies responsible for a state of economy offered a broad complement of consulting services to businessmen. Those services comprised a wide spectre of the business activities, including such ones as recommendations on design, export promotion and advertising of the manufactured commodities. In addition, the respective entities assisted to the private business in training labour force and managing personnel.

Thus, even in the most liberal economy among all 'tigers', Hong Kong, the invisible hand of market operated together with 'the visible hand' of government.

In other NICs, where 'the visible hand' was much bigger and more active, the developmental state intended to act in such manner, which looked as mostly appropriate for achieving the development's goals at the given while.

For example, the Taiwanese authorities under the Kuomintang regime, holding a huge state-owned industry, mainly nationalized from colonial Japanese property, stimulated a rise of industrial enterprises being kept to the gradual economic liberalization. They did not privatize the state-owned mills and factories but created favourable conditions for an emergence of new private businesses and co-operated with manufacturing associations assisting them to promote their goods to the external markets. The total number of manufacturing firm in Taiwan increased 2.5 times between 1966 and 1976, what inevitably succeeded to a strong competition among them. Nevertheless, a competition was intensive but not free and spontaneous. The government regulated and restrained a play of market forces if it was necessary for sustaining export expansion. [Wade R., 1990: 67]. At the same time, the government protected the domestic market from imports, which could weaken positions of the local producers, establishing either quotas or trade tariffs. The Taiwanese economic bureaucracy controlled, too, almost all infrastructure and built-up the state-owned sector of basic heavy industry. [Chin Kok Fay, Nordhaug K., 2002: 81-82; Wade R., 1990: 256-296].

The Korean developmental state in the course of its industrial policy stimulated a growth of the big business sector based on broadly diversified gigantic companies, chaebols, which comprised many industrial branches, banks, and other financial institutes. Thereby, an oligopolistic competition arose as a peculiar feature of the national market. [Amsden A.H., 1989: 115-130]. It would be interesting to note that between the called above period, 1966-1976, the number of manufacturing firms in Korea increased by a mere 10 per cent. [Wade R., 1990: 67]. Factually, the Korean government consciously encouraged a tremendous concentration of production and capital intensifying, thereby, a growth of entire financial-technological empires raising over a lot of small enterprises which were

mostly oriented towards the domestic market while chaebols had been the main engines of the exports' expansion.

The most important and often used economic instrument for creating chaebols was a credit-based system. The latter was tightly controlled or even owned by the developmental state, and investing capitals into new branches was, in most cases, the only way for businessmen to acquire profits. A set of 'pocket banks' ('pocket' in a sense of their obedience to the economic bureaucracy but not by their sizes!) enabled allocating resources through a regulation of the discount rate. In addition, the personal relations of the top economic bureaucrats and owners of the big companies had been used by both sides (but with a predominance of the state bureaucracy) as lever for steering financial flows in 'right direction'. [Nicolas F., 2003: 94-98; Wade R., 1990: 306-325; Woo-Cumings M., 2001: 347-349, 353-358]. The developmental state in Korea or other Asian NICs as well subjugated all financial and banking institutes to the industrial growth strategy (although in those countries, in particular, in Malaysia, a linkage of financial to industrial policy was not as strong and hard as in Korea). [Chin Kok Fay, 2001: 233 et ff.]. It tightly controlled this system even to more degree than industry, and none spontaneity in finances was allowed.

In Singapore, a significant role in the process of industrialization pertained to a specific alliance of the economic bureaucracy with large sector of the state-owned enterprises, on the one hand, and manufacturing subsidiaries of the leading transnational corporations, on the other. The developmental state in Singapore, being the most important, leading business entity, used, too, both economic and administrative tools stimulating the national private business to move on 'the right way' of accelerated industrialization. (See, for example: [Low L., 2001: 113-128]. It invested capitals in the new branches of economy attracting simultaneously inflows of the FDI. In particular, a part of the public investment in the gross fixed capital reached 26.8 per cent in 1980 and decreased a little to 21.3 per cent in 1994. [Margolin J.-L., 1997: 63].

In the countries that made up a group of the second-tier 'tigers', Malaysia, Thailand, and Indonesia, the state should have not only to encourage industry focusing on new branches with increasingly complicate technologies. Also, it was obliged to worry about reducing social-economic inequality between the local majority ethnic groups and the prospering minorities, mainly Chinese (in all three countries) and Indians (mainly, in Malaysia where the migrants and their inheritors from the southern areas of India played a non-ordinary role). Thus, industrial policy in Malaysia, Indonesia, and, to a lesser degree, in Thailand had to accomplish a twofold function facilitating the industrial growth and eradicating, as it was possible, wide disparities between the local ethnic groups and Chinese, which were the most advanced and richest.

An existence of several specific characteristics of the industrial policy in each of the NICs notwithstanding, in all NICs of the region there were some common features of the developmental state activity aimed at stimulating the growth of industry. In particular, many students of the East Asian miracle apply the so-called flying geese model to description of the E/SEA industrial development as a whole.

A priority in elaboration of this model belonged to the Japanese economist K. Akamatsu who was the first to advanced it in 1932 with purpose to perform a trajectory of his native country's industrial modernization since the Meiji revolution. [Akamatsu K., 1962,; Korhonen P., 1994: 93-108, esp.: 95-102; Naya S.F., 2002: 19-22; Tateishi M., 1997: 27-55; UNCTAD, 1996: 75-81]. As Seiji Naya wrote referring to Kiyoshi Kojima, successor

of Akamatsu, the essence of this model consisted in performance of E/SEA development as process resembling to a flock of flying geese. Japan, whose achievements were justly appreciated as successful development patterns for all other countries of the region, accomplished a role of the leading goose. Respectively, geese that followed beyond Japan had been Hong Kong and Singapore, then – Taiwan province and South Korea. The next that was moving afterward was tandem of Malaysia and Thailand. Beyond Malaysia and Thailand, Indonesia and People's Republic of China followed being accompanied by the Philippines, Vietnam, and the countries of South Asia. [Mortimore M., 1993: 17-19; Naya S.F., 2002: 19-20].

However, the flying geese model had also, so to speak, technological dimension. It meant that the leading country, advancing new branches of the national economy, transmitted its original technological accomplishments to sequential geese, which might use the leader's experience diminishing the costs of innovations and structural changes.

The flying geese model was actually very close to the product life cycles conception (mentioned above with reference to the paper by Raymond Vernon), and the both models operated through flows of the direct investments and trade between the countries under consideration.

In light of the both mentioned conceptions, it has to be taken into account that development of the E/SEA NIC's has been the entire regional process, which presupposes not only an interaction between different countries ('geese') but also mutual addition of one country's economy to another. In other words, the East Asian development is the linked process, nor a mechanical sum of 'separate developments' of individual countries. [Adams F.G., 1998: 13]. Indeed, in the process of East Asian 'shining', the more advanced countries that started taking off earlier relocated a part of their industries and some technologies to the less advanced ones. For example, the industrial boom in Malaysia and Thailand in the end of the 1970s – the first half of the 1990s would hardly be possible without voluntary and, mainly, involuntary aid of South Korea, Taiwan, or Singapore to junior co-brothers in 'tigeriness'. Really, the industrial development of E/SEA countries succeeded to a creation of the intraregional production system, which gradually became, to some degree, self-sufficient, an evident dependency on the US and West European markets notwithstanding. [Urata Sh., 2001: 435-442].

As it is well known, admirers of neoliberal theory and policy like to identify macroeconomic and financial stability with each other. Certainly, a complete stability implies its both aspects, particularly, in the long-term period. Meanwhile, if macroeconomic stability is impossible without stable finances, it does not mean that financial stability cannot exist without macroeconomic stability as a whole. Instead, in the short- and even the medium-term periods, financial stability can be obtained through 'shock therapy' and hard monetarist policy, which enables to oppress inflation. However, such a stabilisation, presupposing, as a rule, high social cost, does not automatically lead to the long-term macroeconomic stability. The latter can be based upon the balanced inter-branches linkages, the optimised macro-equilibrium between investments and consumption, savings and consumption, etc., and, as well, upon the self-sustaining growth that has been accompanying by progressive structural changes. A situation of financial stability without macroeconomic one is, in essence, unstable, or illusory, stability because, soon or later, macroeconomic imbalances have to explode financial system. For example, Russia in 1998 and Argentina in 2001-2002 have demonstrated what may be possible cost of the country's financial stability if the



long-term macroeconomic equilibrium does not support it. This is one of the Russian and Latin American, particularly, Argentine, lessons the 'tigers' must take into account.

In this connection, 'tigers' may remember the proper experience, too. In the process of E/SEA industrialization, financial stability was not treated as self-sufficient goal of development. On contrary, the obtained financial stability was destined to maintain the uninterrupted growth that, in its turn, was the main condition of healthy finances.

One of the widespread myths concerning the secrets of East Asian 'miracle' consists in assertion that massive inflow of the FDI has been crucial factor of the 'tigers' industrial boom. However, this assertion, frankly speaking, exaggerates the E/SEA reality.

Indeed, the FDI were somewhat significant for E/SEA industrialization, particularly, in the second-tier NICs, which attracted capitals from abroad, mainly from Japan and the first-tier 'tigers'. For example, Malaysian economy experienced a definite shift, consciously maintained by the government of Mahathir Mohamad in the 1980s-1990s, from emphasis on the internal sources of investment to that on FDI, mostly Japanese but then, too, Taiwanese, Korean, and Singaporean (although this shift did not drastically change a ratio between domestic and foreign investments). [Felker G., 2001: 134-139, 145-161; Hersh J., 1993: 64-68; Jomo K.S., 2001c: 9-13; Phongpaichit P., 1990: 31-63; Schmidt J.D., 2002: 173-180; Tateishi M., 1997: 27-28, 31 et ff.]. Moreover, it would be difficult to over-estimate a significance of the FDI for transfer of new technologies from the developed countries to Southeast Asia. Nevertheless, the main sources of investments in the NICs economies were not the FDI but the domestic savings that had been enforcedly accumulated under a supervision of the developmental state. While East Asian 'miracle' rose, from the early-1960s to the mid-1990s the share of FDI in gross domestic investment in fixed capital, not speaking about the total capital flows, never exceeded 30 per cent in any of the NICs. This maximal rate was achieved in Singapore in the late-1980s – early-1990s. Only Hong Kong extended the share of FDI in gross domestic investment to 36-37 per cent in 1997-1999 when 'miracle' declined because of the financial crisis. In other NICs, this indicator was lower, and, for example, in Korea and Taiwan province remained to be at the level of few per cent. [UNCTAD, 1994: 73; UNCTAD, 2002: 275].

At the same time, the share of investment and saving in the NICs' GDP reached a tremendously high level of 35-40 per cent and more; it was comparable with respective indicators in the former USSR in the years of bloody industrialization under Stalin rule (see table 9.1). In the post-war decades, mainly in the 1960s, the share of capital investments in the Russian GDP was diminishing and had decreased to 20-24 per cent (what corresponded to the level in the OECD countries!) but then it had grown again to 27.0 per cent in 1975, to 29.5 per cent in 1982 and almost acquired the 30 per cent level (29.8) in 1984 when the Soviet system began suffering the structural crisis. (Counted on: [Ponomarenko A.N., 2002: 214]).

**Table 9.1.** The gross internal investments in fixed capital, as percentage of GDP, in East/Southeast Asian Newly Industrialising Countries, 1970-1995

Countries	Years					
	1970	1975	1980	1985	1990	1995
Hong Kong	18.6	19.3	33.2	21.5	26.1	30.6
Korea	24.5	25.6	32.1	28.6	37.3	36.7
Singapore	32.5	35.1	40.7	42.2	32.5	33.7
Taiwan, prov.	n. a.	n. a.	n. a.	18.8	22.4	22.9
Indonesia	13.6 a)	20.3 a)	20.9 b)	23.1	28.3	28.4
Malaysia	16.1	25.1	31.1	36.3	32.4	43.0
Thailand	24.1	22.3	25.2	27.2	40.4	41.1

n. a. – data are not available

a) – including increase in stocks

b) – 1979

Sources /Counted on respective countries' tables, using the data on GDP and gross capital formation at current prices in: ADB, 1999b; ESCAP, 1980 (for 1970 and 1975); ESCAP, 1990 (for 1980).

A study of the industrial and technological policies of the developmental states led many authors to considering the concrete factors' contribution to the regional economic growth as itself. Even today, this issue looks as an extremely disputable subject that attracts attention of many scholars and students. Since 1994, when Paul Krugman has published his famous paper [Krugman P., 1994: 62-78] exposing the East Asian 'miracle' and comparing it with the growth of the Soviet industry because of extensive character of the both (might be, only the most lazy student of the region did not yet refer to this paper!), debates concerning a measurement of various factors' contribution to the East Asian growth did not cease. Indeed, was this growth based upon intensification of production, or did it depend on 'perspiration', i.e. muscle efforts of their labour force? What was more important for the NICs' growth, constantly raising productivity due to the newly applied technologies, or input of new resources in extending degree?

A contribution of the resources' input, labour and capital, as well as, respectively, one of the total productivity growth into dynamics of newly industrialized economies of E/SEA estimated by various researchers can be performed in the table (9.2) composed from various sources.

**Table 9.2.** Quantitative contribution of the total factor productivity (TFP) to the NICs' growth as percentage of the latter, accordingly to various authors, 1960-1991

Country	Ezaki, 1966-1990	Kawai, 1970-1990	World Bank, 1960-1989	Young, 1966-1990
Hong Kong	32.0 a)	-	43.9	31.5
Korea	15.0 b)	20.9	36.9	16.5
Singapore	4.0	64.7	15.0	2.3
Taiwan, province	21.0 b)	53.6	42.0	27.7
Indonesia	-	24.2	23.1	-
Malaysia	-	23.9	17.5	-
Thailand	-	27.1	36.8	-

a) – 1966-1991

b) – non-agricultural part of GDP

Sources: Ezaki M, 1998: 32-33; Abe Sh., Plummer M.G., 1998: 94; World Bank, 1993: 46-69; Young A., 1995: 641-680, esp.: 656-664. <sup>61</sup>

<sup>61</sup> See also: Felipe J., 1999: 1-4, 9-20; Hernandez Z., 2004: 8-9; Yusuf Sh., Evenett S.J., 2002: 33-34.

Various treatments of capital data, being combined with different assessments of the quality of labour and capital can be foundations of appearing dispersals in estimations of the TFP contribution to the 'tigers' growth. [Ezaki M., 1998: 33].<sup>62</sup>

Indeed, what is the most difficult is not counting a contribution of one or another factor of production to the economic growth but estimating and/or measuring a real amount of each of them. Nevertheless, independently on acquired results, a majority of researchers who studied and study a role of different factors in the E/SEA economies' growth agreed affirming that the economic growth of 'tigers' has predominantly been extensive. In other words, they assert that this growth was and is based upon involvement of additional resources into the process of production, and, in this respect, resembled to the growth in the former Soviet Union (as Krugman argued) and Latin American countries.

On contrary, Michael Sarel insisted on a prevalence of intensive factors of the growth in SEA economies. He considered a dynamics of the TFP contribution to the growth in Singapore, Malaysia, Thailand, Indonesia, and the Philippines and concluded that in the case of the first three countries the rate of the TFP growth was high whereas it was less intensive in Indonesia and negative in the Philippines. [Sarel M., 1997: 22-34].

However, whether the NICs' growth had more or less intensive character, accordingly to various estimations of its factors, it should be necessary to recognize that there were objective reasons impeding to intensification of the region's economies, particularly, at the beginning stages of industrialization, when the economic growth could not be intensive on objective causes. Indeed, an intensification of the growth through a raise of TFP becomes possible only when an industry attains a definite maturity (here I do not appeal to the concept of 'the maturity stage' proposed by Walt Rostow in his famous book on the stages of growth), i.e. becomes able to function endogenously, without props of the developmental bureaucracies. It was hardly possible to reach such stage only over twenty-thirty years of the industrial boom. Furthermore, at the same time, the suggested predominance of extensive factors of the NICs' growth does not deny an evident fact that East/Southeast Asia has been the most successful developing region in respect to the new technology diffusion.

The industrial policy of the NICs' developmental states was indistinguishable from the technological policy aimed at adopting new technologies and, thereby, at elevating the national competitiveness. In this respect, the developmental states operated simultaneously in two directions. At first, they stimulated an implementation of the new technologies through licenses purchasing and ensuring firms to borrow innovations from the more technologically advanced countries, and, secondly, endorsed the proper, nationally based R&D systems. Moreover, for instance, Korea and Taiwan preferred rather to create such system instead of expecting for scientific-technological assistance from abroad. The authorities and economic bureaucracies in Korea, Taiwan province, Singapore, and, to a lesser degree, in Hong Kong used a broad set of instruments instigating their private businesses to invest in R&D.

What concerned the second-tier 'tigers', such as Malaysia or Thailand, in the course of the long time, their governments aspired for adoption of the scientific and technological achievements mainly through the FDI flows. The latter were treated as the main channels for technologies transfer, hence, the TNCs, in opinion of the second-tier tigers' economic bureaucracies, should play a major role diffusing the new technologies into national in-

<sup>62</sup> An overview of various estimations of and approaches to the contribution of different factors to the NICs growth is contained in: *Pack H.*, 2001: 95-142; *Rodrigo G. Ch.*, 2001: 39-56, *Yusuf Sh.*, 2001: 15-19.

dustry. The only thing what would be necessary for technological innovations, from the point of view of the second-tier NICs' developmental states, was the favourable investment climate for comers from abroad, whereas the national R&D sphere remained to be underdeveloped and was not conceived as decisive engine of the economic growth. In particular, the government of Thailand factually neglected a significance of the national technological policy until the end of the 1980s, but even despite some efforts undertaken later to initiate such policy, the problem of technological vulnerability and weakness of the country had not been resolving. [Lauridsen L.S., 2002: 107-117].

Nevertheless, neither efforts of the first-tier NICs' economic bureaucracies, nor attempts of the second-tier 'tigers' states to imitate an active R&D policy could abolish the extensive character of the growth. In its turn, a high ratio of investments to GDP meant constraining of private and public consumption as it was in the former Soviet Union. Furthermore, maintenance of too high rate of investment would be impossible without strong motives to saving which was of 'voluntary-compulsory' character. Namely, the developmental state established, through mechanism of taxation and subsidies, such rules of behaviour for the economic agents that it would be much more advantageous to save and then to invest than to spoil extra-profits, earned due to exportation of the manufactured goods, for 'prestigious consumption'.<sup>63</sup> Through mechanism of taxation, appealing to the traditions of solidarity and communitarianism, the state restrained the growth of super-incomes and supervised for more or less equitable distribution of yields of modernization among different social groups. In the course of fast industrialization, the social-economic inequality diminished, although to uneven degree in each country. From the mid-1960s to the early-1990s, the Gini coefficient and deciles ratio decreased in all Asian NICs. [Jomo K.S., 2001b: 15-18; World Bank, 1993: 29-30, 72-74].

Obviously, the NICs' practice of compulsion to saving presupposed an intensive exploitation of the national labour force and a regulation of the labour market that was subordinated to the strategic task of enforced outward-looking industrialisation. Thereby, a regulation of the labour market should be corresponding to both internal conditions of the concrete country's development and requirements of the external demand. In other words, it had to solve the twofold, contradictory-in-itself task. On the one hand, it should constrain, accordingly to the goals of capital accumulation, a raise of wages and, in addition, pretensions of the working people to increase their living standard. On the other hand, the developmental state had to care training of the labour force capable to sustain the national competitiveness and export expansion. Thus, the 'tigers' governments, regulating the labour market, were balancing on razor edge demonstrating prodigies of the virtuous social policy.

The developmental state(s) constrained an activity of trade unions effectively combining 'carrot' and 'cane'. In particular, the 'Committee to Counteract to Labour Insurgency', semi-secret authority body, operated in Korea supervising for the trade unions activists who were capable to organise demonstrations or strikes and conducting 'purification campaigns' to suppress them. However, the NICs ruling regimes attempted simultaneously to integrate trade unions into the system of authority, as it was done in Singapore. [Lee Kuan Yew, 2000: 103-115; Maximin B., 1997: 208-213]. It did not allow 'free fluctuations' of wages and established terms, within which the level of wages and salaries could vary only being subjugated to the targets of industry's growth and upgrading. One of the most efficient levers used to obtain these goals was a taxation policy.

<sup>63</sup> See a brief overview of the savings and investment mechanism in the first-tier NICs in: UNCTAD, 1994a: 71-75.

Nevertheless, all restrictions and regulations of the labour market notwithstanding, the earnings of hired workers raised in all NICs, and this increase corresponded to the long-term strategy of the developmental state(s) – to elevating living standards of the population. For example, a raise of the Korean workers' wages looked as fantastic increase of the ordinary people well being. Real earnings in manufacturing sector of industry raised 2.8 times from 1970 to 1984. Only over decade of the industrial take-off, 1970-1980, they augmented almost 2.5 times. [Amsden A.H., 1989: 196-197].

Another lever that enabled regulating the labour market was a set of institutes and authorities' bodies responsible for training of skilled workers and qualified personnel as well as vocational education. [Ashton D., 2002: 127-136; Maximin B., 1997: 213-219]. Regarding this aspect of the general modernization strategy, the developmental state(s) used a broad complement of the incentives to influence on private business to share its efforts aimed at the human resources development, beginning from the tax exemption and ending by the direct subsidies to enterprises for training of workers.

Nonetheless, all obvious accomplishments attained in the labour force and human resources development as a whole did not mean that social costs of the enforced, accelerated industrialization in the region were of insignificant importance for vast majority of ordinary, working people. Instead, the workers suffered all 'pleasures' of the capitalist exploitation described by Karl Marx in the mid-XIX century, particularly, at the first stages of industrialization. [Deyo F.C., 1987: 182-201]. For example, until the mid-1970s, many Korean manual workers did not know what could be paid vacations or, sometimes, even holidays. Peculiarly cruel exploitation of labour was seen at the export-oriented industrial plants. Accordingly to the labour legislation, a duration of the working week in all countries of the region should not exceed 48 hours (in Singapore, it was formally be equal to 40 hours, as the International Labour Organisation recommended). However, very often, a real duration of the working week was no fewer 50 hours and, sometimes, reached 60 or even more hours. In the mid and the late-1980s, when the East Asian 'miracle' began to shine in its full beauty, the working week in Singapore manufacturing industry lasted 49 hours, in Korea – 54. A genuine record on the labour exploitation among 'tigers' was kept by the Thai export-led manufacturing industry where about a half of employed people worked 70 and more hours per week. In neighbour Malaysia, workers of the electronic equipment industry were occupied 14-14.5 hours per day while the extra-hours of work had been remunerated two times less than the basic part of working day. [ILO, 1991: 744, 747-750; Maximin B., 1997: 206].

Is it possible to measure the rate of exploitation in the economies of E/SEA NICs? Certainly, nobody can do it performing as the ratio of surplus to necessary time worked (in Marxian sense), or, respectively, as one of surplus value produced by workers to amount of variable capital (wages paid to workers) per unit of time. In the given case, it has to be presented as the ratio of value per worker (in manufacturing industry) to average earning per worker (or vice versa) (see table 9.3).

**Table 9.3.** The total earnings as percentage of value added per worker in manufacturing industries of some OECD and Latin American countries and NICs of S/SE Asia, 1970-1999.

The OECD countries	1970	1985	1990-94	1995-99
Austria	47	56	53	-
Belgium	46	46	41	-
Japan	32	36	34	-
Netherlands	52	57	61	-
Sweden	52	37	47	-
Un. Kingdom	52	45	43	-
United States	47	40	36	-

Latin American countries	1970	1985	1990-94	1995-99
Argentina	30	19	-	20
Brazil	22	20	-	23
Chile	19	18	-	18
Mexico	44	26	29 a)	-

The Asian NICs b)	1970	1985	1990-94	1995-99
Hong Kong	-	51	-	32 a)
Korea	25	27	26	-
Singapore	36	38	34 a)	-
Indonesia	26	21	19	-
Malaysia	29	30	27	-
Thailand	25	24	28 a)	19

a) – estimation

b) – data on Taiwan province are not available.

**Sources:** *Rasiah R.*, 2001: 99; *World Bank*, 1988: 238-239 (data for 1970 and 1985); *World Bank*, 2003: 54-56 (data for 1990-94 and 1995-99 are counted by myself (V.K.) upon the base of absolute amounts of earnings and value added when not borrowed from [*Rasiah R.*, 2001]).

Data performed in the given table indicate that an exploitation of labour in the ‘tigers’ manufacturing industry in the course of accelerated development was much more extensive than in the OECD countries (except Japan!) differing a little from one in the leading industrializing countries of Latin America. Nevertheless, a high degree of the labour exploitation in the Asian NICs did not mean ignoring a significance of the social security problem. The development policy realized in the first-tier NICs, particularly, in Singapore, can be evaluated as sequentially moderate social-democratic policy with East Asian specificities. A rise of the social protection system in combination with the fast industrial growth gave foundation to Goh Keng Swee to call the Singaporean economy, with a little irony in respect to ‘real existing socialism’ of the USSR, as “a socialist economy that works”. [Goh Keng Swee, 1995c: 94-106, esp.: 99-106].<sup>64</sup> However, the government of Singapore either the developmental states in other NICs created the system of social security and protection not

<sup>64</sup> A major role in the Singaporean social protection system pertained to the Central Provident Fund (CPF) that provided assistance for poor people, including housing for them. [Low L., 1998: 182-183, 188-190].

only for the sake of social stability. Rather, the economic bureaucracy of the NICs paid attention to the social security issues in tight connection with the industrial policy, which could not be successful without respective human resources development. The most important direction of the social policy in E/SEA was people's education that had apparently been treated as no less significant than investments or adoption of new technologies. Moreover, the industrial and education policies in the NICs were indistinguishable from each other, and a sphere of mass education had become, too, a field where the broad consensus between all social groups of the region's population was attained.

(Perhaps, in this connection, it is worth to refer to Robert Lucas jr. who, in contrast to the widespread estimates concerning the factors of East Asian growth, argued, using an econometric analysis based on modifications of the well known production function of Cobb-Douglas, that "[T]he main engine of growth is the accumulation of human capital...". [Lucas R.E. jr., 1993: 270].

It is relevant to remark that accomplishments in the mass education, particularly, those in the countries, which belonged to the first generation of 'tigers', had some important premises rooted in the colonial times as well as in their cultural traditions, including widespread reverent attitude to knowledge and studying, inherent to Confucianism and other philosophical-religious systems of the East. For example, still in the 1930s, Japanese colonial authorities developed the mass education system according to requirements of pre-industrialization in Korea and Formosa (Taiwan) island, so in the first post-war decade, about three of fourths Korean and Taiwanese school age children were literate at the primary level. In Hong Kong and Singapore, the British governors ensured the system of training for trade, banking, and transportation taking into account a significance of these cities for declining colonial empire.

All these backgrounds facilitated creating the education system that should completely be corresponding to the stage of industrialization upon the self-upgrading technological base.<sup>65</sup> Thus, a previously widespread shortage of the skilled labour force problem as a whole had successfully been resolved in the NICs where governments did not economize expenses at count of the resources for education. For example, in Singapore, a total amount of the public and private expenditures for education from 1960 to the end-1980s (i.e., during the period of thirty years!) grew faster than GDP. [Low L., Toh M.H., Soon T.W., 1991:137]. Other 'tigers' tried not to lose competition in this respect to Merlion city-state and increased their investments in education by high pace, too. In particular, at the end of the past millennium, the public expenditures for education in Korea were 4.4 per cent of GDP – lower a little than the OECD average of 4.9-5.0 %, but the total expenditures for these goals reached 13.3 % of GDP, including the private spending of the pupils' parents and firms for the personnel training. [World Bank/OECD, 2000: 15, 59]. Between 1970 and 1989, the real expenditures per pupil ("per studying capita", speaking by language of statisticians) at the primary level in Korea rose by 355 per cent whereas in such industrializing country of Latin America as Mexico, they augmented only by 64 per cent over the same period. [World Bank, 1993: 45]. (For the sake of study's 'purity', it should be noted that such fascinating increase of the educational expenditures per capita was reached, to a big degree, due to essentially diminishing share of the population of schooling age below 14 years – from 40-44 per cent in 1965 (Korea, Singapore, Hong Kong) to 22-26 per cent

<sup>65</sup> "...I stress the indispensable importance of education for training in the productive capabilities vitally essential to industrial modernization and economic reconstruction" –, the Korean dictator Park Chung Hee wrote. [Park Chung Hee, 1962: 246].

in 1989 [Vernière M., 1997: 231, 239] because of the general birth rate decrease in the course of industrialization and urbanization.)

The total raise of expenditures for education in the E/SEA NICs was undistinguished from a respectful relation to person of teacher profoundly rooted in the social-cultural traditions of the region. A profession of teacher had been evaluated very highly, and the corresponding level of teachers' salaries in the NICs approved this high evaluation in quantitative respect. For example, still at the beginning of the 1980s, when the industrial take-off in Korea was not yet completed, the starting salary of primary school teachers, i.e. the salary of young teachers who had not sufficient experience of teaching, was approximately equal to that of the army captain. College and university young teachers got the salaries, which exceeded those of army mayor. [Amsden A.H., 1989: 219]. (Obviously, there is none secret that the Korean society was deeply militarized in the conditions of cold war and confrontation with the North, so the military service had been treated as very prestigious job and was well paid.)

Augmenting the public expenditures for education, the developmental states of E/SEA simultaneously encouraged the private enterprises to finance and develop the labour force training directly at enterprises, not only accordingly to the principle 'learning by doing' but with purpose to anticipate the next stage of industrial policy and productive technologies upgrading. However, this practice of vocational training appeared as low efficient and was really of the secondary importance.

The education system in the E/SEA NICs manifested its correspondence and adequacy to the strategic goals of development these countries intended to attain. Together with radical poverty reducing, it was one of the region's outstanding achievements during the period of catching up modernization. Good, high quality of the mass education in the Asian NICs has regularly been approved by results of the international competition and tests their school pupils participate in. For example, in the Third International Mathematics and Science Study (1996), students of the eighth grade from Singapore, Japan and South Korea were the three top-scoring participants in mathematics among the forty-one countries that participated in the study. The three top-scoring countries in science were the called ones, too. The international assessments, which were held in 2000 and in December 2004, confirmed a high rank of the East Asian education system. [OECD, 2000: 302-311; Ng Aik Kwang, 2001: 98-99; Schleicher A., Tamassia C., 2002].

Nonetheless, these and other social accomplishments of the Asian NICs, mostly, the first-tier 'tigers', as well as their undeniable economic achievements could not hide some essential deficiencies of their social security and social insurance system, particularly, comparing to those in the industrial western countries. Rather, this system carried in itself the character features of the old social paternalism and patrimonialism than has been performed as somewhat similar to the western social-democratic welfare state. (See, for example: [Aspalter Ch., 2001: 23-73; Ramesh M., 2004: 8-16]). In Korea, chaebols have been not only 'the business entities' but also accomplished a function of the social protection for employed workers. The own hospitals, recreation and training centres, shops where workers might purchase needed goods with corporate discount, and many other privileges or benefits have been various forms of the social paternalism and contributed to maintenance of the social partnership smoothing negative consequences of the capitalist exploitation.



Meanwhile, a relative backwardness of the social protection and social security system in E/SEA NICs – in comparison to the welfare state in the western societies – was not the only ‘weak link’ within their social-economic ‘body’ that made them vulnerable to various turbulences and storms in ocean of the globalising economy. The successful development as itself was probably the main cause of their vulnerability and conditioned, to a big degree, maturing of the regional financial crisis in 1997-1998.





## 10. Great Achievements as Premises of the Crisis, or Miracle as Background of Debacle

The 2<sup>nd</sup> of July 1997 was a day when the East Asian miracle has begun dissipating like morning fog disappears when the first beams of sun arise from a line of horizon. On this day, Black Wednesday for ‘tigers’, the Thai baht suffered the first devaluation under attacks of the financial speculators, and, a shadow of the wide-scale financial-economic crisis emerged on a threshold of every home and every office in the region. The East Asian miracle has turned into debacle. Such turn of events reminded about the lost decade of the 1980s in Latin America and tequila crisis of the mid-90s either the experience of the formerly Soviet territory that apparently drifted towards the Third World becoming *un espacio de soledad y de olvido* (a space of solitude and oblivion), speaking by words of Gabriel García Márquez.

A lot of books, papers, articles, interviews, etc. devoted to the East Asian debacle has arisen after 1997. Probably, a batch of the published books and other printed matters that exposed the ‘tigers’ debacle is comparable, by its size, with one, which glorified the region’s miracle some years earlier. Various researchers mention different causes and factors that, in their opinions, can explain why the crisis has come and so seriously injured ‘tigers’. Their explanations refer to insufficient financial transparency of big companies and banks, tremendous concentration of property in the hands of owners<sup>66</sup> tight interventionism of the developmental state, a lack of genuinely free market, a system of ‘crony capitalism’ with inevitable corruption which replaces a market allocation of resources by ‘personal arrangements’, a speculative boom at the real estate market, an overloading of the banking system by ‘bad loans’, a low effectiveness of investments, incapacity of the innovations’ sphere to respond to the new challenges of global competition, an inadequacy of the production structures to the world demand, obsolete management attitudes, etc., etc., etc. Undoubtedly, each of these and many other factors or causes played a definite role in maturation of the crisis premises; each of them contributed, to more or less degree, to an emergence of the financial-economic storm over the region, and any approach to the Asian crisis, focusing on one or another factor or cause of the latter, reflects, at least, a small part of reality.

Nevertheless, it is necessary to take into account, studying the crisis of 1997-1998 in East/Southeast Asia, the concrete world context of debacle occurred to the NICs inasmuch as this context has to be considered when one speaks about the rise and growth of ‘tigers’.

Therefore, it seems indispensable to observe, considering sources of the crisis, both the internal causes of the financial-economic turbulence and the external challenges the ‘tigers’ could not respond to.

Leaving an analysis of all, even essential, causes and factors of the Asian crisis beyond a consideration, it is relevant to draw attention to talks about an inevitability of the crisis on a cause of the developmental state activity, namely, to assertions that the state regulation and bureaucratic interventionism have been the two main reasons of the 1997 debacle.

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<sup>66</sup> Indeed, in 1997, on the eve of the crisis, a family of the main proprietor owned, in average, 43 per cent of all assets of Korean chaebols, in particular, 60 per cent of Hyundai, 49 per cent – of Samsung, 41 per cent – of Daewoo, 40 per cent – of LG. [Lautier M., 1999: 754].

At first sight, it is very easy to attribute all failures and unhappiness that occurred to ‘tigers’ in 1997-1998 and afterward to the developmental state. In particular, the neoliberal approach to East Asian issues opposes the case of Hong Kong, which was not profoundly afflicted by the crisis, as pattern of the free market economy triumph to practices of other Asian NICs where the statism seemingly prevailed over market. [Yoshihara K., 1999: 74-76]. A verity of this view has been affirmed proclaiming banal truths similar to the following one: “The market economy is the only institutional framework which delivers a high standard of living” [Ibid.: 83].

However, no one admirer of free market could yet explain why the state regulation and interventionist policy allowed to sustain a fascinating growth during the two-three decades but, suddenly, a capability of the developmental state to accomplish a role of the main creator of miracle declined. Meanwhile, what is a matter is not a hard opposing of free market and state to each other but the East Asian development as itself. The Asian ‘tigers’ experienced serious injuries because they have fallen into modernization trap, which has been emerged in the process of fast industrialization/modernization. Namely, all previous achievements and accomplishments of the developmental state became, at the same time, the major premises of ‘tigers’ disease.

Those aspects and characteristics of the developmental state, an efficacy of which was undoubted in the 1970s-80s, became inadequate to new challenges and alternated conditions in the 1990s. [Yusuf Sh., 2001: 20-25; Ito T., 2001: 64-76]. Originally, keeping an equal distance from the private businesses and steering them to operate accordingly to goals of industrialization, the developmental state and its enlightened bureaucracy gradually submerged in below a network of interpersonal relationships with the corporate managers and shareholders. It succeeded to a situation when the developmental state ceased to be insusceptible to the vested interests, and ‘structural corruption’ became an undistinguished element of the entire system even in such country as Korea [Woo-Cumings M., 2001: 344], not speaking about the second-tier NICs. In the 1980s, the Chun Doo Hwan regime that had come to power after assassination of Park Chung Hee streamed down into a marsh of corruption experiencing a series of permanent scandals. [Harrison S., 1987: 162-164]. In SEA countries, the state protection and other character features of ‘crony capitalism’ were indispensable props and fundamentals of the economic system even to much more degree than in Korea or Taiwan. (Singapore accomplished a function of exclusion from this tendency.) Soon or later, a practice of the state interventionism led to a rise of the rent-seeking business structures accustomed to operate in the privileged conditions, although not always the rent-seeking presupposed unproductive or even parasitic activities. Sometimes, and these were mostly the cases of the second-tier Asian NICs, the rent-seeking might contribute to the real productive development, economic growth and emergence of new branches of industry. In other words, these were the cases when it would be impossible to separate ‘good’ and ‘bad’ aspects of the state activity from each other. [Gómez E.T., Jomo K.S., 1997: 5-8, 40-41, 52-53; Robison R., 1985: 295-327; Jomo K.S., 2001d: 472-473]. In particular, the E/SEA developmental state(s) confronted the same problem as that the statism in the former USSR could not resolve: an enlargement and complication of the economy, a multiplicity of inter-branch ties and modernization of the social structure, i.e. outcomes of the developmental state’s activity, did not enable to apply the obsolete attitudes to management and resources allocation in the changed conditions.

One of the positive features of the Asian ‘crony capitalism’, or ‘the developmental state protected capitalism’ in E/SEA, which differs it from the Russian bureaucratic capitalism,

concerns its involvement into the productive activity in manufacturing industries whereas its Russian 'analogue' is entirely built up on petroleum pipeline ('mustiness'!), what suggests a peculiarly parasitic character of the existing system. We can criticize the rent-seeking practices widespread in Southeast Asia and even diffused into body of such first-tier 'tiger' as Korea but we have to recognize that these practices required and require an accumulation of capital, adoption of new technologies, human resources development and many other kinds of positive activity. Otherwise, the rent-seeking would be impossible at all. Nevertheless, an experience of Russia sunk in marsh of 'structural corruption' looks as warning to the Asian NICs: if the developmental state has not been controlled from inside and outside, if it has spontaneously been navigating among waves of globalization where a corrupted bureaucracy sees only a set of tempting 'goods of the civilized world', this state can become one of the major obstacles to a further development of the country.<sup>67</sup>

Besides an objectively contradictory character of the developmental state conditioning a gradual decline of its efficiency, also there was such a circumstance, which impacted on a health of 'tigers', as a profound modification of the production system in the region. Indeed, one of the main reasons that inspired many researchers to reconsider a role of the developmental state was an emergence of the global and regional commodities production networks, very often due to an activity of TNCs, that could not be regulated from one centre remaining informally subordinated to somewhat like Economic Development Board in Singapore or omni-mighty MITI (the Ministry of the International trade and Industry) in Japan.

At the same time, the developmental state, in the process of its functioning, created social-economic premises for radical revision of its role. As outcomes of the development policy, the new social groups and classes rose in East Asia. In particular, it would be almost impossible to compare the social structure of Korea in 1961 when general Park Chung Hee had come to power and this structure in 1997 when labels of Korean chaebols had been recognized in either London suburbs or West Bengal villages. [Gereffi G., 1998: 38-59]. Therefore, it was not surprising that in the 1990s, even those authors who recognized significance and merits of the developmental state in E/SEA began to revise some original approaches to the given issue. It was becoming evident that the developmental state had accomplished its historical mission and should change its functions and attitudes to the process of development. [Moon Chung-in, Prasad R., 1998: 9-23].

Nonetheless, independently on whether we call a group of factors that facilitated an emergence of the crisis, or pay an attention only to one of them, the cause of sudden turn of the East Asian miracle into debacle has been the successful catching up development as itself. Respectively, the roots of such events that ceased a wonderful jump of 'tigers' from Third to First World should have to be found in the process of their fast modernization over the three decades before July 2, 1997.

The utmost what has to be noted here is a fact that development of the E/SEA NICs, as it is well known, was uneven development. The manufacturing branches oriented mostly towards the external markets grew very rapidly and successfully whereas other ones have been stagnated or developed slowly. The outward-looking enterprises received additional investments and adopted new technologies; the firms outputting for the internal market

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<sup>67</sup> A premature liberalisation of the economy, as a reaction to the developmental state's incapacity to operate with efficacy in the new conditions, does not exclude corruption. On contrary, it creates conditions favourable to corruption. [Schmidt J.-D., 2002: 181-183].

were almost deprived of necessary capitals, human resources and access to new technologies. In Korea, while the large-scale industrial conglomerates, chaebols, prospered being oriented towards external markets, the small and medium enterprises faced many difficulties, from high interest rate of banking loans to restrictions conditioned by their subordinated, sub-contractors' positions in relation to big companies which squeezed a spectacular part of their profits through a mechanism of unequal exchange. Small and medium enterprises' sector of the Korean economy was obliged, for the sake of survival, to hire poorly paid and low-skilled workers, restraining itself in innovations. [Jacobs N., 1985: 149-150]. Factually, the rising industry appropriated a dual character attributing it to all economy and social structure in Korea. Disparities that arose as a result of such uneven development devalued the general effect of growth and technological innovations. The similar situation could be observed in Taiwan province, too, where the outward-looking sectors of economy performed by big private and the state protected enterprises essentially exceeded the rest branches in technological respect. [Lau L.J., 1998: 55-56].

What concerns the second generation of 'tigers', their social-economic dualism existed else in much sharper forms than that in Korea or Taiwan. A concentration of capital and production in the Malaysian or Thai economies, consciously supported by the state, succeeded to the situation when a lion share of all industrial and financial assets was retained and controlled by big, leading companies. [Jomo K.S., 1997: 103 et ff., esp.: 109-115; Phongpaichit P., 1997: 77, 79-81]. The latter appropriated, probably, even independently on will of the economic bureaucracies, a big part of all benefits of the industrial and technological policies. On contrary, the small firms acquired only few yields of the state protectionism and export orientation of the national economies being capable to output mostly for the internal market. Thereby, the economic growth in Malaysia aggravated an uneven distribution of the results of 'miracle', although all ethnic and social groups of the population increased their incomes, and the general level of poverty was apparently reduced. In particular, during the 1989-1995 boom, an average real household income in urban areas increased faster than in rural ones, annually by 4.4 and 1.5 per cent respectively. [Yusof Z. A., 2001: 88, 91]. Evidently, it widened gap between urban and rural areas, reproducing the internal central-peripheral structure of the Malaysian society and impeding to enlargement of the internal market. Simultaneously, such trend in income distribution raised a vulnerability of the national economy to the world conjuncture oscillations and strengthened dependency of the country on the global market. Over the whole period from 1971 (when New Economic Policy aimed at reducing disparities between Malays and Chinese started to be realised) to 1990, the income disparity between urban and rural population dropped from 2.14 to 1.7 times but then increased again to 2.04 in 1997. [Ibid.: 76-77]. Factually, the inward- and outward-oriented sectors of the NICs economies existed, as it seemed, independently on each other, although this independence had been, rather, superficial but not intrinsic. Speaking in other words, their mutual linkages were so weak that in none country of the region (except the city-state Singapore and Hong Kong) economy did not operate as the entire national complex.

The other group of imbalances and macroeconomic disproportions that arose in the process of East Asian industrialization concerned a correlation between dynamics of GDP and investments.

The rapid accumulation of capital through mechanism of 'semi-compulsory' savings-investments inevitably widened gap between investment and consumption. This gap can be illustrated by the respective data based upon the statistics of the main macroeconomic in-

dicators from 1960, the eve of the ‘tigers’ industrial boom, to 1997 when the crisis occurred (see table 10.1).

**Table 10.1.** Indices of the consumption and domestic investments (in fixed capital) in the NICs of East and Southeast Asia, 1970-1997 (1960=1.0)

Country	Public consumption a)				Private consumption of households				Gross domestic investments			
	1970	1980	1990	1997	1970	1980	1990	1997	1970	1980	1990	1997
Hong Kong	2.3	6.1	10.2	14.5	2.3	5.9	11.4	17.4	2.0	7.0	9.9	20.8
Singapore	3.2	6.0	11.3	20.2	1.7	3.1	5.5	8.7	6.5	14.9	21.2	40.8
Taiwan, province of China b)	-	-	1.9	2.4	-	-	2.2	3.6	-	-	1.8	3.1
South Korea	1.7	3.5	6.3	9.3	2.0	3.8	8.2	13.6	8.3	23.6	76.7	117.7
Indonesia	1.1	3.4	5.3	6.3	1.5	3.5	5.5	9.7	1.6	5.7	11.2	21.9
Malaysia	2.1	5.6	7.3	11.9	1.5	3.0	4.6	7.2	2.1	6.1	8.1	21.6
Thailand	2.5	6.0	9.2	13.6 c)	2.0	3.6	6.7	10.2 c)	4.3	8.1	18.6	33.4 c)

a) – including expenditures of the commercial and non-commercial public but non-state organizations

b) – 1981=1.0

c) – year 1996

Counted on: ADB, 1999b, respective countries tables; World Bank, 1984: 224-225; World Bank, 1992: 232-233; World Bank, 1999: 210-211.

In truth, such gap, together with hard regulation of the wages, meant a relative under-consumption of the most of working people in the NICs, an evident increase of the ordinary people’s incomes notwithstanding. Even an evident eradication of mass poverty, mainly, in the first-tier NICs, did not demolish this fact of insufficient – not in absolute terms but in relation to the attained level of economy – consumption of large groups of the population, what negatively influenced on a quality of the labour force, particularly, in the long-term prospects.

As the table indicates, in the course of long time, Hong Kong was the only ‘tiger’ whose pace of the private consumption growth had been balanced with that of investment. In this respect, all other NICs performed the alternate trend of development. In the early-1980s, when the industrialization of East Asia had still been shining, even the first-tier NICs retarded for 18-20 years from West European countries by their GDP per capita (measured by PPP).<sup>68</sup> In other words, a time distance between them and the Western Europe was around twenty years. In the mid-80s, they remained behind the latter for 12-13 years. At the beginning of the 1990s, their retardation had been insignificant, about five years only. Moreover, such ‘tigers’ as cities-islands Hong Kong and Singapore exceeded many OECD countries by their GDP per capita. However, having GDP per capita approximately at the same level as the developed nations of West Europe had, the first generation of ‘tigers’ (except Hong Kong) lost a competition by the level of private consumption per capita measured, too, in the international dollars by PPP. In particular, when GDP per capita in Korea, Taiwan province, and Malaysia ‘crossed’ a line of 7000 international dollars (it was in 1988, 1983, and 1996, respectively), their real private consumption per capita was lower by 25-30 per cent, than in most West European countries when the latter exceeded this

<sup>68</sup> Upon the base of data counted by A. Maddison [Maddison A., 2001: 276-277, 304-305; Maddison A., 2003: 62-65, 184-185].

level in the 1960s. In this respect, Taiwan was closing to Hong Kong only in the 1990-s, when the province's economy began to turn to consumption instead of accumulation, while the other 'tigers' followed the original way. As a result of such tendency, in 1995, Singapore, for example, exceeding most West European countries by GDP per capita, reached the same level of private consumption per capita as it was acquired in these countries 10-15 years earlier. In addition, the government consumption did not enable 'tigers' to compensate their retardation from the West European competitors by private consumption. The share of properly government consumption in the NICs' GDP, as a rule, was equal to 8.0-11.0 per cent of GDP, and, among all 'tigers', merely Taiwan approached to the West European level, 16.0-17.5 per cent, with subsequent gradual decreasing to 14.0-15.0 per cent.

In Singapore, the share of private consumption in GDP decreased uninterruptedly since the mid-1970s. It dropped from the level of 60-62 per cent that corresponded to the respective rate in some OECD countries, when in 1977 the Singapore GDP per capita had crossed the threshold of 7000 US dollars (measured in the 1990 international dollars by PPP), to 44-47 per cent in the mid-1980s and onward. In 1995, it had fallen to 41.9 per cent, to 41.1 – in 1996 and to 40.1 per cent of GDP – in 1997. Simultaneously, the share of the government consumption over this period diminished from 16.2 per cent in 1977 to 10.2 per cent in 1990 and, at last, to 8.5-9.5 per cent in 1994-1997. The similar tendency had been observed in Malaysia where the share of private consumption in GDP declined from 53.1 per cent in 1981 to 45.0 per cent in 1997 and to 41.0 per cent in 1998, while the share of the government consumption decreased, too, from 18.1 per cent in 1981 to 11.1 – in 1997 and 10.8 per cent – in 1998. (Counted on: [ADB, 1999b: 182-183, 282-283].)

The low level of consumption and wages as well, particularly, in relation to the acquired volume of output, restrained an enlargement of the internal market and partly depreciated the developmental state's efforts aimed at human resources development. Factually, the economic bureaucracies of the Asian NICs involuntarily underestimated an importance of spontaneous accumulation of human capital, a genuine foundation of any creativity and innovative capabilities, in the private households as well as spontaneous innovative activity initiated from below. In the end, this approach to the role of private consumption did not favoured to scientific-technological innovations, which became particularly significant in ever-extending degree in the conditions of post-industrial shifts in the West and aggravating competition with the manufacturing industries of China, India, and Vietnam. Such competitive advantage as the low level of wages in manufacturing, which previously facilitated 'tigers' to sustain their export expansion, became disappearing and, furthermore, turning into its opposite. As a result, the E/SEA NICs confronted the same problem as that neither Latin American countries nor the former Soviet Union (nor its successor-states) could resolve in the 1980s and then in the 1990s. Namely, the low level of wages and private consumption as a whole, the radical poverty reducing in the region notwithstanding, had been one of the main causes that made the NICs vulnerable to oscillations of the global demand and debilitated their scientific-technological capacities.

The developmental states tended compensating an obvious weakness of the NICs' S & T potential, emphasizing on implementation of the new technologies borrowed from the advanced countries.<sup>69</sup> Hence, characteristics proposed by Jorge Katz in respect to a practice

<sup>69</sup> "For the first time in history, backward countries industrialized *without proprietary innovations*. They caught up in industries requiring large amounts of technological capabilities without initially having advanced technological capabilities of their own. Late Industrialization was a case of *pure learning*,



of the innovation policy in Latin America, ‘bureaucratic innovative culture’ (see above chapter 4), could be applied, to some degree, to the Asian ‘tigers’, too. Really, the developmental states attempted to implement innovations by orders, ignoring a set of all nuances and conditions, which were in truth necessary for the technological breakthroughs. A situation in the R&D of the E/SEA NICs as a whole not only nor corresponded to the level of R&D in the most Western countries, but also disagreed with pretensions of the first generation of the Asian NICs to ‘full membership’ in a club of the industrially developed nations. For instance, even in Singapore, the ratio of R&D expenditures to GDP did not exceed for a long time the level of 1 per cent (it was equal to 0.9 per cent in 1987), and in 1995 it increased to 1.13 per cent. In this respect, the only ‘exclusive tiger’ had been Korea where the called ratio was equal to 1.9 per cent in 1988 – an indicator, which appeared very close to that in the West European countries. [MASTIC, 1996; UNCTAD, 1995: 21]. Then it drastically elevated to 2.8-3.0 per cent of GDP before the crisis; in total, the public and private expenditures for R&D in Korea increased almost 26 times over a period of about fifteen years, from 1981 to 1996. In addition, the growth of private industry’s investment in science and technology overtook that of public expenditures in the same sphere. Nevertheless, despite a high rate of funding for R&D, an amount of these expenditures was not too big in absolute terms. For instance, in the second half of the 1990s, it was comparable with one that such industrial giants as General Motors or Siemens invested in scientific research and creation of new technologies. [Chung Sung Chul, 2001: 120, 125].

It is hardly relevant to describe here how the system of R&D in Korea or other NICs was organized, how it worked in both public and public sectors, what were mechanisms of financing, choice of priorities, etc. (See, for example: [Chung Sung Chul, 2001: 126-131, 137-143]). What is the main matter concerns the substantial results of this system functioning. Actually, it was neither an occasional mistake nor a consequence of the consciously chosen direction of policy, but, rather, an outcome of the catching up development strategy aimed at imitation of the advanced countries achievements without a transplantation of the social-economic mechanisms and institutions capable to transform East Asia into the new world pole of sciences and technologies. Even if the economic bureaucracies in the region would want to avoid of possible misfortunes and would be able to comprehend all aspects and hidden nuances of the contemporary technological revolution, they could hardly turn their countries into the leaders of R&D in the global scale because none of the NICs had significant backgrounds for endogenous technological breakthroughs. Moreover, neither Korea nor any other member of the ‘tigers’ family had sufficient time to develop basic sciences; even moderate achievements in the latter presuppose an existence of the national scientific schools with proper traditions which cannot arise from air. A situation in the sphere of basic scientific research in the region had been aggravating because of inappropriate, vicious organization of R&D. In particular, the Korean university professors were (and are) overcharged by teaching obligations and could not spend a necessary time for research activities. In its turn, university education was not linked to research, and universities were very poor in research facilities because of their “extreme teaching-orientation”. [Chung Sung Chul, 2001: 143, 145; see also: World Bank/OECD, 2000: 98-99]. In other words, inertia of industrial organization, which superficially imitated patterns of industrial development in the West, was spread to a sphere that required another approach to it. All attempts to copy the principles of industrial enterprise functioning in R&D did not and could not lead to an expected efficacy.

meaning a total initial dependence on other countries’ commercialized technology to establish modern industries” –, Alice Amsden noted in this connection. [Amsden A.H., 2001: 2].

At last (but not least), ‘a bureaucratic innovative culture’ in the NICs, mainly in Korea, was conditioned, to a big degree, by specific, ‘repressive-paternalistic’, approaches to governance as a whole, which had been expressed in relation to the university graduated specialists. In particular, the chaebols managerial elite looked on the hired professionals like on servants but not partners. [Drucker P., 1998:16]. Obviously, such practice suppressed initiative of personnel occupied in the R&D sphere.

Deficiencies and vulnerabilities of the R&D policies of the Asian developmental states were particularly obvious in the second-tier NICs, such as Malaysia and Thailand. Objective restraints and limits to successful scientific-technological development in the SEA NICs, despite efforts of the governments, did not allow them to create the R&D base that would be adequate to the pace of their industrialization. [Felker G., 2003: 136-172]. However, besides objective circumstances that impeded to the nationally based R&D, the governments of the both mentioned countries underestimated over a long time, in practical respect, an importance of the proper scientific and technological capacities. For instance, the share of R&D in GDP of Malaysia either Thailand declined from the mid-1980s to 1997, the growth of R&D expenditures in absolute terms notwithstanding. This share dropped from 0.21 per cent of GDP in 1987 to 0.12 per cent in 1996 in Thailand, and from 0.37 per cent in 1992 to 0.22 per cent in 1996, on the eve of the crisis, in Malaysia. [Lauridsen L.S., 2002: 109-111; MASTIC, 1996]. A shortage of resources for R&D expenditures as well as deficiencies of the technological policies in the second-tier NICs had been combined, mostly in Thailand, with institutional weaknesses of the state agencies and authority bodies responsible for the scientific and technological development. Sometimes, these bodies had not sufficient power to contest with other, more powerful offices and ministries, which influenced, directly or indirectly, on the industrial policy as a whole and matched the R&D with somewhat of low priority. [Lauridsen L.S., 2002: 111-113].

However, what was much more important for the E/SEA NICs R&D system efficacy, concerned the human potential and intellectual capacities of their labour force as a whole. The latter, by its structure on the levels of education of the occupied people, corresponded rather to early stage of the late-industrial modernization than to real shift towards a domination of the skilled-labour and high-tech industries based on the proper R&D background. In the first half of the 1990s, the share of employed people with tertiary education in the total labour force in the NICs was 3-4 times less than in the most advanced countries of the West and in Japan. Only Korea was able to compete with the industrially developed nations by this indicator: in the late-1980s – the early-1990s, 13 per cent of the economically active population of the country were graduated from universities and higher colleges while the share of such people in Japan reached 19 per cent, and it was equal to 26 per cent in the US. [Besson D., Lantéri M., 1994: 26; see also: Fleming D., Søborg H., 2002: 153-168].

In the second-tier Asian NICs, the enrollment in the secondary and, particularly, tertiary education ratio was essentially lower than in the first-tier countries, so their capability to respond to the crisis, from the point of view of their human resources quality, could hardly be recognized as satisfactory. [World Bank, 2001: 284-285]. For instance, in 1992, Thailand had the same GDP per capita as Taiwan in 1978, but Thailand’s gross enrollment ratio at secondary schools level languished at only 37 per cent, less than half of Taiwan’s in 1978. [Wade R., Venoroso F., 1998a: 9, note 11]. In addition, despite obvious progress in the mass education, the E/SEA NICs, particularly those of the second generation of them, indicated very unequal enrollment ratio by various areas. Unequal access of the rural and urban, poor and middle or rich strata to education in Thailand had become a serious social

problem which impeded to elevation of the labour force quality and, thereby, devaluated all efforts of the state to increase the country's competitiveness. [Pangestu M., 2001: 34].

Even such highly developed and, in many respects, socialist country as Singapore (socialism that worked!) did not avoid of the rise of inequalities and imbalances in a quality of different categories of the labour force. This problem had been aggravated in the 1990s, under impact of globalization, when the Gini coefficient increased in Singapore from 0.45 in 1987 to 0.461 in 1997 after drop to 0.432 in 1990. (Such an increase of the social-economic inequality in Singapore contrasted with the tendencies which predominated in the course of industrialization at the early stages and did not alternate in Korea and Taiwan.<sup>70</sup> However, a fascinating progress of the city-state in skills training and education concerned mostly the young people whereas the older inhabitants were almost not touched by innovations in technologies and human resources development. It was the main cause of widening disparities between rich and poor in Singapore. [Low L., Ngiam Tee Liang, 1999: 238-239].<sup>71</sup> Certainly, in Singapore, there was no misery or absolute poverty as itself, and it was impossible as well to see homeless people on the streets but it did not mean that poverty nor existed at all. It was relative, and even relative poverty became, at least, to a small degree, one of obstacles to acceleration of the scientific-technological innovations' diffusion because hindered to training of the contemporary labour force, not only 'creators' but 'creative executives', too.

In addition, a character of training and education at all levels in the NICs corresponded rather to imitative model of development but not to the strategic task of transition towards the nationally based, self-sustaining progress of R & D. All undeniable accomplishments of 'tigers', particularly, of the first-tier NICs, in education were attained being subordinated to training of skills, which should have to enable working people to utilize the imported equipment, including, of course, that of high technologies. As Alice Amsden wrote, the schooling in Korea was aimed at the successful political socialization of pupils but not at the technical training for self-sustaining industrialization. [Amsden A.H., 1989: 219]. The system of education in this country and other Asian NICs as well did not facilitate a development of the creative capabilities of students but, rather, was destined to form a responsibility for assigned job and to train skills to deal with technically complicate equipment manufactured by other people, probably, abroad. It was the system, which steered pupils and students to learn very well, sometimes, under a threat of punishments, but not to create something and to take autonomous decisions regardlessly to formal instructions and assignments. Briefly speaking, it was the system with an emphasis on learning instead of studying.

By the way, only few economists who tried to understand the sources and roots of the Asian financial crisis conceived the non-purely economic foundation of this economic phenomenon. K.S. Jomo has been one of them looking beyond the external, superficial movements of the financial flows, restate market, and banking loans the 'tigers' could not pay out because of their export expansion's slowdown. Drawing attention to the arisen difficulties the 'tigers' met in the process of their export expansion, Jomo wrote: "The problem was exacerbated by the failure to 'progress' more rapidly to higher value-added production,

<sup>70</sup> Inequality of income distribution in Korea diminished over the 1990s. For instance, the Gini coefficient counted for households stably dropped from 0.386 in 1980 to 0.336 in 1988 and to 0.31 – in 1998. [Ramesh M., 2004: 21-22].

<sup>71</sup> "...Singapore's income distribution appears to be broadly similar to those in the United States and the United Kingdom." [Low L., Ngiam Tee Liang, 1999: 239-240].

mainly due to inadequate or misallocated public investments in education and training as well as limited indigenous internationally competitive industrial capabilities.” [Jomo K.S., 2001a: 5].

Nevertheless, the problem of scientific-technological capacities and, thereby, that of the NICs’ competitiveness can be reduced to neither a shortage of R&D financing, nor a deficiency of the qualified specialists, nor a specific governance culture. The real problem the Asian NICs have faced in the 1990s is regardless to the formal indicators of R&D, education system and technological innovations; it lies much more profoundly than it has been treated in most studies. It concerns the social-cultural dimension of the E/SEA societies and consists in incompatibility of many traditions, which have had a great significance at the stage of industrialization, with an expansion of creative activity that becomes of extending importance in the conditions of post-industrial (post-capitalist) world. [Inozemtsev V.L., 1998: 141-143, 147 et ff.]. An adherence of the East Asian people to the principles of community’s entreties and paternalism does not admit whatsoever ‘expression of individuality’ and ‘capability to subvert an established order’, which are essential for creative breakthroughs. (Some researchers write about ‘cognitive conservatism’, “a constellation of attributes which leads the person to adopt a passive, uncritical and uncreative orientation to learning and to hold fatalistic, superstitious and stereotypical beliefs; as well as to be authoritarian, dogmatic and conformist.” [Ng Aik Kwang, 2001: 65].) A lack of “individually-oriented achievement motivation” [ibid.: 113] and a fear to destroy a collective harmony play very important role in an emergence of paradoxical situation when obvious, even outstanding achievements of students from the East Asian countries whether in sciences or mathematics (see above) do not succeed to respective results in the scientific-technological innovations area.

A weakness of the innovative, technological potential of the both generations of the East Asian NICs predetermined an inevitable emergence of the concrete economic difficulties. The rise of these difficulties was aggravated by definite economic policies decisions mostly taken still in the 1980s, in the other world situation. In particular, a long time before the crisis, almost all NICs currencies were pegged to the US dollar while the latter was gradually devaluing in relation to the Japanese yen from the late-80s to the mid-90s. It appreciated the East Asian currencies, mainly against yen, and, respectively, affected E/SEA competitiveness. (See in details: [Jomo K.S., 2001a: 3-7]).

Meanwhile, simultaneously, all ‘tigers’ without exclusion had been involved into acute competition with China, Vietnam, and India, on the one hand, as well as among themselves, on the other hand.<sup>72</sup> Consequently, the relative surplus of goods exported from the NICs to the world markets emerged. However, this surplus arose in the conditions of shortage of the corresponding scientific-technological capacities, which would be able to maintain the ‘tigers’ export expansion at previous rate. [Guiguet P., Simon J.-Ch., 1999: 364-373]. In its turn, an intensification of competition at the world market did not deliver the ‘tigers’ from a tight dependency on supply of new technologies and high-tech components for their manufacturing goods destined for exportation. For example, in the mid-1990s, Ja-

<sup>72</sup> Resolving the internal social-economic problems, such as over-population, unemployment, interregional disparities, and so on, the Chinese leadership favoured a development of the so-called countryside industry oriented towards the internal as well as external markets. Evidently, it strengthened competition among the region’s countries and, ultimately, depreciated the efforts of ‘tigers’ to save their positions at the world market conquered with difficulty only ten-fifteen years ago. (See in details: [Lin J. Yifu, Yao Yang, 2001: 143-195, esp.: 143-149].)

panese high-technology parts and components reached 20-30 per cent of the total value of Korean automobiles, 35-45 per cent – of Korean machine tools, 60 per cent – of Korean computers, 65 per cent – of Korean printers, 85 – of TVsets. [Hatch W., Yamamura K., 1996: 179, with reference to: Burkett P., Hart-Landsberg M., 2000: 161]. Hence, in the mid-1990s the export expansion of the E/SEA NICs had been combining with a deterioration of their external trade's conditions. The countries, which were in 1997 the most crisis-affected, Korea, Malaysia, and Thailand, in 1994-1996 suffered a deficit of the trade balance; the latter reached, in particular, 20.6 billion US dollars in Korea and 16.7 billion – in Thailand. (Counted on: [ADB, 2000b: 35-36 (tables 27-28)].) The trade deficit had been covered due to an inflow of loans and 'hot capitals', what increased the external debt of the called countries.

Moreover, a supply of some crucial, essential components of high-tech goods (computers, optical equipment, and so on) manufactured at NICs' enterprises, was controlled and regulated by producers in Japan and the Western countries because the technological capacities in the NICs did not enable to produce these details. This circumstance increased a vulnerability to decisions and conditions that were out of control of the NICs' business and political elite. In addition, as a practice demonstrated, neither the developmental states nor the export-oriented big companies in the region achieved high returns when they were exporting goods manufactured from the imported parts and components. (As Laurence J. Lau affirmed, analyzing a transfer of new technologies from highly developed to developing countries, in the most cases the so-called 'innovative rents' have been appropriated by producers and distributors of these technologies and respective equipment while the importing developing countries get a little or nothing of these rents. It diminishes or, at least, does not increase indicators of their GDP while a volume of the western countries' GDP grows due to advantageous exports of innovations. [Lau L.J., 1998: 54-55].) Thus, manufacturing and subsequent exportation of new, technologically complicate goods from the E/SEA NICs experienced a full operation of the well-known law of diminishing returns. While 'tigers' went up on technological stair, an effectiveness of their exports declined. Furthermore, what concerns the second-tier NICs, Indonesia, Malaysia, and Thailand, they were factually doomed to suffer all consequences of the diminishing effectiveness of their exports being restricted in a capability to manufacture goods with an ever-increasing volume of value added. [Rasiah R., 2003: 60-63]. In essence, the E/SEA NICs confronted approximately the same tendency at the world market, which painfully affected Latin American countries in the 1980s when the fast progress in microelectronics depreciated their exports. In the given case, difficulties had risen fifteen-seventeen years later but it did not revoke their universal character.

Because of weak R&D base, poor scientific-technological capacities and inadequate human resources development as well, the E/SEA NICs began to be experiencing a declining competitiveness still in the first half of the 1990s. [Bagchi A.K., 1998: 1030-1031; Smith H., 1999: 68-70]. A slowdown of the 'tigers' export expansion to the western and Japanese markets became an evident fact in extending degree. This fact is approved by data presented in the following table (10.2).

**Table 10.2.** The share of various groups of the OECD countries in exports from the East/Southeast Asian NICs (as percentage of the total exports from NICs)

Importing countries	Years	Exports from:		
		the first-tier NICs	the second-tier NICs a)	all NICs
Japan	1990	12,65	24,51	16,06
	1994	10,13	17,60	12,62
North America (US and Canada)	1990	30,63	20,32	27,67
	1994	23,93	22,07	23,31
West Europe b)	1990	18,03	17,31	17,82
	1994	13,93	15,69	14,52
The total on three centres of the OECD	1990	61,31	62,14	61,55
	1994	47,99	55,36	50,45

a) – Including the Philippines

b) – Since 1991, including the former GDR

Counted on: *UNCTAD*, 1996: 89 (table 25).

As we see, the share of highly developed countries in the total exports from the Asian NICs had apparently shrunk over the first half of the 1990s. The negative tendencies continued in 1995-1996 [Chandrasekhar C.P., Ghosh J., 2001: 75-77] when the first signs of the global over-production of goods that were manufacturing in the region appeared as evident fact. Moreover, in 1996 the OECD developed countries' imports from 'tigers' had increased by 6.3 per cent only while in 1994 this growth was equal to 10.8 per cent. The growth of Japanese imports from the same countries slowed from 13.6 per cent in 1994 to 3.6 per cent in 1996. [OECD, 1997: A43]. Factually, the NICs had come not only to a threshold of the effective demand for their goods maintained by a real purchasing power of buyers in the West, Japan or anywhere else. They had reached an absolute limit of needs in their goods among customers in the western countries. Thereby, 'tigers' had found themselves in a situation Manuel Castells and Laura d'Andrea Tyson previewed still in 1988, almost ten years before the region's debacle. [Castells M., d'Andrea Tyson L., 1988: 88-90].

A slowdown of the Asian NICs export expansion and a fall of their competitiveness were accompanied by a gradual but obviously premature (and 'non-prepared') liberalization of their internal markets. For instance, in 1993, the Korean government deprived the Economic Planning Board, the main planning agency in the country, of some its essential functions and obligations, whereas a control for flows of foreign capitals and private loans was relaxed. These decisions excited liberal economists to insist on further liberalization of the economy, evident negative consequences of such policy in the former USSR and Latin American countries notwithstanding. Nevertheless, the liberalization, to which some 'tigers' governments approached in the 1990s, factually did not facilitate resolving the problems conditioned by the developmental states' previous policies. It had not, as a rule, the adequate internal background. Being initiated in all NICs, though to different degree in each country, sometimes under pressure of the international organizations and the western partners [Stiglitz J., 2000], partly on a cause of proper ambitions of the local governments, the economic liberalization in E/SEA became resembling, so, in some respects, to one in Russia and Latin American countries. Meaningfully, the Asian NICs had not sufficient internal capabilities for the stronger resilience of their economies to resist to financial-economic 'tsunami' without devastating suffering because the necessary institutions able to regulate the liberalized economy were not fully implemented. Consequently, governance of the economies had been declining. For example, the liberalization in Korea and Malaysia

weakened the bureaucratic control over chaebols and rent-seekers of various kinds but did not succeed to the better technological upgrading of industry. On contrary, the premature liberalization opened doors for financial and equity market speculators interested in non-controlled inflow of 'hot', short-term capitals, and tempted many private firms to borrow liquid resources from abroad. Indeed, companies in Korea, Malaysia, or Thailand did not hesitate to attract loans aspiring for continuation of the uninterrupted growth. However, they did not foresee that a situation of over-production had already been emerged, originally, of course, in hidden forms.<sup>73</sup> [Bagchi A., 2002: 212-215; Chin Kok Fay, Nordhaug K., 2002: 80, 82 et ff., esp.: 88-92, 94-97; Nordhaug K., 2002: 11-13; Wade R., 1998: 361-364]. An availability of loans as a result of the relaxed control over banks and financial assets provoked boom at the local real estate and stock markets – rise of the so-called 'bubble economy'. In this respect, a situation in the NICs looked similar to that in Japan some years earlier. Meanwhile, the prospects and opportunities to control these dangerous tendencies appeared as somewhat foggy and uncertain.

Evidently, the growth of estate, loans and bond bubble could not last without end. Soon or later, it should be burst under impact of turbulence from in- or outside of the region.

By the way, an influence from outside neither played insignificant role in the Asian crisis. The NICs governments, pegging their currencies to the US dollar, experienced a strong pressure from Uncle Sam performed by 'three heads' of the same 'green dragon'.<sup>74</sup> These three heads were, respectively, the US government, private 'investors' (=speculators) from Wall Street, and the IMF in a full complement with other international organizations, such as the OECD, WTO and World Bank, in which the US played a major role. [Nordhaug K., 2002: 13-16; Wade R., Venoroso F., 1998a: 9-12, 18-21; Wade R., Venoroso F., 1998b: 16-26, 31-33, 40-42; Wade R., 2001: 195-226]. The United States needed attracting the liquid resources from the entire world for maintenance of their hegemony (that cannot be explained only by an existence of the gigantic belligerent machine!), including their financial strength of the unique nation whose national currency accomplished, at the same time, a role of the global, world-wide currency. In this condition, a slogan of financial liberalization served and serves now to the American interests. The proclaimed financial liberalization has been very important instrument to attract additional resources solving the internal the US tasks, in particular, for the permanent structural changes that have been accompanying by technological upgrading of the economy. Hence, it was not occasional that three-four years before the crises shouted on 'tigers', the US government, directly or through the international institutions like IMF, convinced (speaking more exactly, pressured on) the Korean authorities to initiate the economic, mainly financial, liberalization. It should have to become a 'tool' to flow out resources from the Korean and other 'tigers' economies re-orienting them towards the internal US market.

In addition, the US could not admit the rise of new international financial institutions that should become an autonomous counterpart of the IMF in East Asia out of the Americ-

<sup>73</sup> The recession and stagnation of the Japanese economy since 1991 contributed, somewhat, to development of the pre-crisis situation in the Asian NICs. Japanese banks, over-loaded by bad debts at home, lent money to Southeast Asia, attempting, thereby, to re-charge their problems to the NICs.

<sup>74</sup> Here, 'green dragon' means the US currency banknotes of green colour. In addition, the term 'green dragon' has also been used in the Russian language to signify ironically an alcohol and alcoholic beverages. At last, a dragon with three heads is the Russian folkloric personage named as Zmey Gorynych that imposes, by itself, forces of evil. As a rule, if someone, strong and brave, cuts one of these heads by his sword in the battle with this imposition of dark forces, three new heads rise instead of cut one.

an control. Meanwhile, whispers concerning an organization of the Asian Monetary Fund, without or, at least, with minimal participation of the US, had frequently been heard, and a preparatory work aimed at transforming of these talks into practical outcomes should have to start at any moment. Certainly, the US ruling circles treated even a possibility of such attempts as a threat to their financial dominance, therefore, their purpose was to prevent 'the Asian jeopardy'. From the US hegemony point of view, it should be necessary to neutralize and oppress all intentions that could undermine the status quo, even at the cost of destroying well-being of the entire region. At the same time, since after the end of cold war and the collapse of the Soviet Union neither the US nor the West as a whole needed maintaining 'a vitrine of good capitalism' in East Asia, Uncle Sam decided to have a profit on occasion reminding to the business and political elites of E/SEA who had been their 'benefactor' which blessed them for a wonderful turning from semi-alive kittens into strong tigers. In other words, at the appropriate moment, Uncle Sam decided to play a role of the magician which had previously demonstrated how it was possible to make tigers from kittens but then to have an opportunity for 'return operation'. [Bullard N., Bello W., Malhorta K., 1998:101-102, 107-109]. Hence, when Mahathir bin Mohamad explained the financial storm in the region referring to snares of George Soros and other financial 'geniuses', simultaneously accusing the IMF in indulgence for speculators, he exaggerated reality not too much. [Mahathir bin Mohamad, 1998a, #24-33, 39-40; 1998b, #6]. Thus, if the crisis has been assessed as a result of the spontaneous coincidence of various conditions and circumstances, it is worth to underline that this spontaneity was sustained due to the artificial 'dysfunction' of regisseur for whom such a spontaneity was an essential element of the set up performance.

Instead, as either Soviet/Russian, or Mexican, or Brazilian experience demonstrated, 'the enemy's snares' could be effective only if real internal weaknesses and, consequently, a lot of vulnerabilities of economy or country as a whole already existed. A matter is that the crisis in Asia could not be reduced to an activity of the financial speculators and institutions under the control of 'the three heads dragon'. Regardlessly to attacks of financial speculators, behaviour of the US in relation to their former satellites in the struggle against communism in the region, institutional 'bottlenecks' in the NICs' economies, changed role of the social-cultural traditions, and so on, the main reason of the East Asian miracle's vulnerability lied in the process of successful, fascinating development as itself. Factually, from the start of fast modernization in the region, the East Asian miracle comprised 'seeds of debacle' – as well as the collapse of the USSR and the decline of import substitution industrialization in Latin America were predetermined, to a big degree (but not absolutely!), by their undeniable achievements.

Really, the Asian financial crisis of 1997-1998 might be treated as the regional crisis of over-production, which was primarily expressed in a series of troubles and turbulence of the financial sphere. At the same time, it could be assessed as the structural crisis provoked by discordance of the NICs' structure of the export-oriented industrial production to the changed global demand as well as by the internal structural imbalances and macroeconomic disequilibrium.

Perhaps, someone who sincerely wishes 'a good health' to 'tigers' can console himself or herself referring to the fact that the crisis of 1997-1998 was not the first the E/SEA NICs survived, so they were capable to overcome its devastating consequences and their triumphant movement towards 'new frontiers' should continue.



Indeed, some of the Asian NICs experienced either slowdown of growth or even recession in the past, as, for example, Taiwan province in 1973-1975, Korea in 1980 or Singapore in the first half of the 1980s. However, all those crises differed from the crisis of 1997-1998 because they could be and were really overcome in a framework of industrial model, without drastic modification of the entire social-economic system. Merely partial improvements had been required and sufficient to resolve the arisen problem.

However, in the second half of the 1990s and onward, beyond all called as well as not yet mentioned discordances and imbalances which made up 'a bursting matter' that had detonated after the Thai baht devaluation in July 1997, it should be necessary to draw attention to the following circumstance of the primary importance. The crisis of 1997-1998, in contrast to all preceding troubles in the region, was the first that occurred in the conditions of transition towards post-industrial (and, in the prospect, post-capitalist), knowledge- and culture-based society. It expressed an objective historical limit to catching up industrial development when the leading countries have been moving towards a qualitatively new state. In addition, it should be noted that the mentioned limit is conditioned not only by post-industrial trends in the West that depreciate the efforts of 'the rest' to follow on the western way but also by the global shortage of resources for industrialization in such scale that the West acquired. In particular, it meant that further use of air-polluting resources and fuel-intensive technologies might turn from a comparative advantage as it was in the past into a serious problem jeopardizing to both environment and economy. Thereby, it could become too expensive and costly for the latter to support the industrial structures with all their social-economic and institutional attributes.<sup>75</sup>

The global transition towards post-society has depreciated efforts of the developmental states and peoples of the region to shorten inasmuch as possible a social-historical distance between the former periphery of the world system and the West. Simultaneously, the crisis signified a decline of the functional, managerial capitalism (within boundaries of the national state), which was a foundation of the catching up development strategy in the XX century. It manifested that the great historical epoch of managerial capitalism is over. In this respect, the both Asian crisis of 1997-1998 and collapse of the Soviet Union in 1991 should be treated as phenomena of the same social-historical nature, although it is difficult to compare them with each other by a scale of social turbulence and by consequences.

At last, the crisis of 1997-1998 signified also the limits of 'conservative modernization', which reconciled the local traditions and the principles of modernity adjusting them to each other. At the start of industrial modernization, such symbiosis of western and Asian values facilitated the process of transformation because attributed a stability to society, allowing to transplant new values, attitudes and customs in 'softened forms', comprehensible for the people. However, gradually, while industrial modernization moved on, the old values and traditions began to impede to a further development of the region. Traditions and social-cultural foundations of the Buddhist-Confucian universe, which, in contrast to Max Weber conception, successfully 'worked' for modernization of the region, became incompatible with imperatives of searching for responses to the new challenges. [Lee Ho-Chul, McNulty M.P., 2003: 38-41]. Hence, the Asian crisis of 1997-1998 (as well as Japanese stagnation since the beginning of the 1990s) had not only 'economic dimension'. It had also the so-called 'civilization aspect' because this crisis revealed that many obstacles to development in the region lied in a sphere of social-cultural traditions.

<sup>75</sup> The main indicators of energy efficiency and emissions had been worsened in the NICs over the period of miracle, from 1980 to 1999. [World Bank, 2003: 148-150].

Since the crisis had the two dimensions, properly economic and social-cultural as well, a cure of 'tigers' after disease presupposed applying unusual efforts in the both spheres. How successful and adequate were these efforts, and what did change in the region after 1998?



## **11. After the Crisis: What Did Happen and What Was Done to Prevent New Storms?**

From the social-economic point of view, there is only one way to avoid of new troubles resemble to those devastated the region in 1997-1998: to alleviate the imbalances and to eliminate the institutional ‘bottlenecks’ that burst the Asian NICs almost ten years ago. Respectively, an analysis of the post-crisis development of the Asian NICs should be focused on the main issue: whether causes of the crisis were really abolished or not.

Here, I do not consider such important reforms as restructuring of the financial sector, renovation of the banking system, acquisition of more transparency and accountability initiated after the crisis by the local governments, whether under the pressure of international organizations or voluntarily. There is a lot of publications dealing with these issues, so I do not think necessary to analyse them again in details.<sup>76</sup>

Considering the post-crisis reforms in E/SEA, it is worth to remember that there is jeopardy of a new illusion arising from the past experience – an illusion of possibility to resolve the existing problems following ‘approved way’, which led to success in the XX century but might not be appropriate in the new conditions. This illusion could be maintained due to some positive changes, rather spontaneous than consciously supported, that occurred after the crisis apparently, as outcomes of the governments’ policies. In the course of post-crisis therapy, the developmental states in the region used a broad set of economic and administrative instruments, which enable seemingly alleviating a sharpness of the problems. However, there are some solid foundations to suppose that taken and realized decisions do not deal with deep causes of the crisis. Verifying these suppositions, it seems relevant to subdivide the instruments and policies used to cure ‘tigers’ into two groups.

One of them has been offered by the IMF and admirers of the monetarist doctrine while another can be called as ‘the statist’, which is based upon the non-revised principles and attitudes of the developmental state. The both approaches, being in hard opposition to each other notwithstanding, correspond to resolution of some essential problems that were denuded during the crisis and can lead to acquiring positive results. This circumstance can strengthen a belief that a chosen way of cure is right but in essence it may not be adequate to the main task which has to be solved – to abolish causes of the crisis.

The fire band of the IMF was the first who had come to rescue ‘tigers’ from trap using a standard complement of the remedies for financial wizardry. After the catastrophic outflow of capitals from the Asian stock markets and banks, the IMF proposed a financial aid to ‘tigers’ to stabilize ‘the macroeconomic equilibrium’. Of course, this aid was supplied not as itself but accordingly to definite conditions and principles.

As a whole, the recommendations the IMF performed as ‘a truth in the ultimate instance’ for ‘tigers’ did not essentially differ from those proposed to Russia or Argentina and other Latin American countries at the beginning of the 1990s. They had not been extending beyond a framework of the so-called Washington consensus and were aimed at broadening ‘the market forces’ sphere. These purely technocratic approaches founded, in the theoretical respect, on an extreme monetary fetishism required diminishing role of the state with subsequent disappearance of the developmental state agencies at all. For example, in such

<sup>76</sup> See, in particular: Yusuf Sh., Evenett S.J., 2002: 74-88.

different cases as Thailand and Korea, approaches of the IMF to recuperation of the both 'injured tigers' comprised differences which were of small importance, essentially lesser ones than differences between the two economies have really been. Neglects in regards to real specificity of each economy could become particularly evident scrutinizing the memorandums arranged by the IMF with the monetary authorities of both countries.

In one of the first documents that concerned the Thai financial and banking system, the following 'simple measures' were proclaimed as the best remedy to restore the crisis-affected economy:

"At the core of the program is a comprehensive restructuring of the financial sector and a strengthening of the fiscal position. Other policies to support external current account adjustment will also be needed, including monetary and wage restraint, and structural reforms, notably privatization and civil service reform." [IMF, 1997a].

In addition, the memorandum proposed some measures that should be realized in the medium-term perspective:

"The medium-term framework also includes major initiatives involving civil service reform, public enterprise restructuring, and privatization that will increase efficiency, keep public enterprises in broad financial balance, improve corporate governance, and attract more nondebt-creating capital inflows. Time-bound programs in the following areas will be developed during the first year of the program: (i) comprehensive civil service reform; (ii) increased private sector participation in a number of transportation and power projects under build-operate-transfer arrangements; and (iii) corporatization and privatization programs in the energy, transportation, utility, and communications sectors. In addition, we expect, during 1997/98, to make considerable headway in privatizing the national airline, and expanding the role of the private sector in the electricity, telecommunications, and gas sectors." [IMF, 1997a].

Despite the Korean economy was much more diversified, complicate, and, at the same time, more monopolized than the Thai one, the IMF insisted on the similar recommendations to recuperate the Korean tiger's health. The 'Washington fire band' treated the financial stabilization and constraint of demand for money as the cornerstones of all construction assigned to sane the country's economy, even at cost of the economic growth:

"Financial restructuring and the sharp slowdown in economic growth are expected to reduce the demand for money." [IMF, 1997b].

This restructuring presupposed a complete rejection of such key instrument of all development policy as direct banking loans for industrial companies aimed at upgrading the national industrial branches:

"Directed lending will be eliminated immediately." (Ibid.) "No government subsidized support or tax privileges will be provided to bail out individual corporations." (Ibid.)

Meanwhile, the Korean authorities were obliged to agree with the intentions of 'investors' inspired by financial alchemists from the IMF to implement control over the most developed sectors of the national economy:

"The government has announced that the ceiling on aggregate foreigners' ownership of listed Korean shares would be increased from 26 percent to 50 percent by end-1997 and to 55 percent by end-1998. The ceiling on individual foreign ownership will be increased from 7 percent to 50 percent by end-1997 (excluding hostile takeovers)." (Ibid.)

Speaking about what had to be done for recovery after the crisis in Asia, Monsieur Michel Camdessus, then Managing director of the IMF, sang the old song about an indispensability of the structural reforms understood accordingly to the Washington consensus principles. He said:

“The policy programs to respond to crisis in Asian countries had to be speedily designed, to put the proper emphasis on the immediacy of macroeconomic adjustment, and to recognize the sheer magnitude of the structural reforms that had to be initiated from the outset.” [Camdessus M., 1998].

However, it would be useless to search in the speeches and lectures delivered by Monsieur Camdessus for something that could concern the real structure of the Asian economies except the economic institutions and governance. For instance, in one of his speeches devoted to an analysis of the Asian crisis, he spoke about

“strengthening structural policies—especially the policies and institutions, such as prudential supervision, needed to underpin a sound financial system. In particular, it is important that fragilities in the financial system are not allowed to become so acute that the authorities are unwilling to use the interest rate instrument in times of international financial instability.” [Camdessus M., 1997].

Really, attempts to follow recommendations of the IMF did not lead the Korean economy to expected recovery. They did not allow reaching the goals declared in the IMF – Korean government memorandums. Moreover, the Korean authorities were obliged, in contrast to the recommended measures, to increase the budget expenditures for social security and welfare because the unemployment rate augmented as direct consequence of the production system’s structural adjustment to requirements of the IMF. At the same time, neither the Korean nor any other government in the Asian NICs, victims of the financial earthquake, could cut these expenditures and labourers’ wages to the same degree as the Russian ‘reformers’ did it in the early-1990s. Despite a long experience of living under the authoritarian regime, the Korean workers were not as passive as the Russian or Ukrainian ones, and they would hardly tolerate such ‘regime of austerity’ as that the Russian people suffered in the 1990s.

Contesting the IMF advices, the Prime Minister of Malaysia Mahathir bin Mohamad, being experienced by all negative consequences of the attempts to realise them, rejected the suspicious remedies assigned by the Washington magicians. He dismissed his deputy Anwar Ibrahim (which was later arrested and confined in prison being accused in corruption and Sodomite sin) and returned to the state regulation, because, in his opinion, “[T]he free market system has failed and failed disastrously”. [Wade R., 1998: 368]. Mahathir decided to fix the exchange rate of ringgit to other currencies and restricted an amount of currency in cash that could be transferred over the state boundaries in both directions. He did not refuse a practice of the state investment into the national projects of high priority (such, for example, as MSC – multi-media super-corridor, the favourite child of his policy, the Malaysian analogue of the Silicon Valley) and supported the internal effective demand correspondingly to the Keynesian principles.

It would be worth to underline that these and some other, apparently prodigal measures were accepted, the proclaimed limitation of financial expenses notwithstanding. By the way, what should have to be focused reviewing the after crisis policy of Mahathir, con-

cerned the public expenditures for scientific research and education. They were augmented even in the conditions of the total scarcity of capitals and loans available for the state.

It is hardly relevant here to mention all other measures of the Malaysian government, which were aimed at increase of the national economy efficiency and competitiveness. In particular, they presupposed such reforms as gradual (but not shock!) liberalization and partial privatization of the state-owned enterprises, restructuring of the banking system that should be delivered from ineffective banks with bad debts, de-bureaucratization of the Malaysian developmental state, and so on, coinciding, but only in some respects, with recommendations of the IMF.<sup>77</sup> What has been essentially important concerns the results acquired due to a realization of chosen strategy of the post-crisis reforms.

The post-crisis growth in the NICs of E/SEA resumed already in the beginning of 1999. The only country among those under our consideration, which did not demonstrate a visible improvement, was Indonesia – the most crisis-affected country that suffered a tremendous fall of GDP by 13 per cent in the preceding year. Her GDP has grown only by 0.8 per cent in 1999. Private capital flows began to return to Indonesia, Korea, Malaysia, the Philippines (the country that is out of analysis here), and Thailand, whence they were gone in 1997-1998 to the biggest degree. The total amount of net inflows reached 5.1 billion US dollars in 1999 by sharp contrast to 38.6 billion outflows only in 1998. In the first-tier NICs GDP growth was 7.0 per cent in 1999, in oppose to 1.9 per cent in the previous year, though the growth rates varied among countries of this group. For example, in Korea it reached 10.7 per cent, after declining by 6.7 per cent in 1998, while in Hong Kong, SAR of PRC, it was moderate – 2.9 per cent. [ADB, 2000a: 9-11].<sup>78</sup> In the second-tier NICs as a whole, a situation was improving, too, although not to such degree as in the first-tier ‘tigers’ group. In 1999, GDP growth rate in the subregion (including the Philippines) was 3.2 per cent, in contrast to fall by 7.5 per cent in 1998. However, the growth rates widely varied among the group’s countries, too – from the mentioned above turtle pace growth in Indonesia to 5.4 per cent in Malaysia. [Ibid.: 14-15, 90, 99].

This recovery was partly acquired due to increase of the internal consumption demand that took place after the crisis. Nevertheless, the main engine of the resumed growth, like in the course of all period of the region’s fast industrialization before the crisis, had been the export of manufactured goods. In particular, despite the crisis, neither Malaysia nor Thailand decelerated their export expansion that was essentially significant for their recovery. In 1998, the merchandise exports from Malaysia and Thailand increased by 29.7 and 24.4 per cent, respectively, while the other ‘tigers’ experienced not only a slowdown of the growth or recession but even a fall of the exports. However, they restored their export capacities already in 1999, together with recovery of their economy as a whole. [ADB, 2004: 79].

Did the East/Southeast Asian NICs reach the pre-crisis economic dynamics, which in the past allowed speaking about the East Asian ‘miracle’, after the crisis? No, they did not. If we would compare the growth rates of the region’s countries over the five pre-crisis years and the post-crisis ones, we could conclude that the regional economic dynamics was

<sup>77</sup> For instance, in August 1999 the government of the country announced plans to split the national financial system into six financial groups, each comprising a commercial bank, finance company, and merchant bank, instead of 21 commercial banks, 25 finance companies, and 11 merchant banks. [ADB, 1999a: 28].

<sup>78</sup> Accordingly to data performed by ADB later, in 1999 the Korean GDP has grown by 9.5 per cent, in Hong Kong the growth rate was 3.4 per cent in the same year. [ADB, 2004: 70].

decelerating, and the recovery after financial storms did not mean ‘tigers’ capability to move forward at the previous pace. In other words, the post-crisis growth rates of the NICs’ economies were lower than the pre-crisis ones (see table 11.1).

Table 11.1. The annual growth rates of GDP and merchandise exports (f.o.b.) of the E/SEA NICs, per cents, over five years before (A – 1993-1997, 1992=1.0) and after (B – 1999-2003, 1998=1.0) the crisis.

Countries	Growth of GDP		Growth of exports		Discrepancy of the GDP and exports rates of growth a)	
	A	B	A	B	A	B
Hong Kong	5.0	3.8	9.5	5.3	-0.04196	-0.01435
Korea	6.9	6.3	12.2	7.9	-0.04839	-0.01494
Singapore	9.5	3.5	12.4	6.4	-0.02614	-0.02763
Taiwan, prov. of PRC	6.3	3.1	11.2	5.9	-0.04507	-0.02680
Indonesia	7.1	3.4	9.5	4.7	-0.02216	-0.01204
Malaysia	8.7	4.8	16.4	6.8	-0.06844	-0.01890
Thailand	6.2	4.7	17.0	13.0	-0.09685	-0.07629

a) – Counted as a difference between natural logarithms of the GDP and exports growth rates.

Counted on: ADB, 1999b: 104-105, 126-129, 154-155, 158-159, 182-183, 282-283, 312-313, 332-333; ADB, 2004a: 74 (data on Indonesia); ADB, 2004b: 70, 79-80.

Moreover, in 2001 the recession or, in the best case, slowdown affected again, although to various degrees, all ‘tigers’. In Taiwan province and Singapore GDP fell by 2.2 and 1.9 per cent, respectively, Malaysia and Hong Kong demonstrated almost zero growth (their GDP had grown by 0.3 and 0.5 per cent, respectively), the Thai economic output increased by 2.1 per cent, the Indonesian one – by 3.5 per cent. Only Korea has augmented her GDP by 3.8 per cent – the best growth indicator among all ‘tigers’. At the same time, the industrial output contracted by 3.7 per cent in Hong Kong, by 3.8 per cent – in Malaysia, by 6.0 per cent – in Taiwan province, and by 9.1 per cent – in Singapore. [ADB, 2004b: 70-71]. Did such fall mean that the Asian NICs entered the period of economic instability? The negative results in 2001 did not allow speaking about the long-term instability in the East/Southeast Asian NICs; furthermore, over the next years, their economies grew more dynamically. Nonetheless, the rates of growth have been lower than in the course of the thirty years glory industrialization, and cannot be compared to genuinely ‘tigers’ jumps of the 1980s – the first half of the 1990s.

Meanwhile, what is now essential for the E/SEA NICs’ development is not the rate of quantitative economic growth as itself but their vulnerability to financial earthquakes and other fluctuations of the global conjuncture. Factually, ‘tigers’ should have to acquire stability through diminishing their dependency on the external demand for their manufactured goods and to improve the capability for adaptation to the post-industrial challenges as well. In particular, they should change the internal structure of their entire production system (together with its financial infrastructure, approaches to governance at both micro- and macroeconomic levels, and scientific-technological capacities) that corresponded to the stage of catching up industrialization but could not be adjusted to the conditions of globalization.

When many specialists discussed a situation in the region after the crisis, they spoke about necessity for the NICs to increase the domestic consumer demand. In principle, such an advice is relevant but a reality that has been appearing on surface of the social-economic phenomena is not as simple as experts desire to see. Since 1990 to the beginning of the

recent decade (2001), the ratio of exports to GDP increased in all countries that are under our scrutiny, except Singapore where it fell by 10 percent points, from 184 to 174. Among the ‘tigers’, this ratio was the lowest in Indonesia where it had grown from 25 per cent in 1990 to 41 per cent in 2001, and was the highest in Singapore. After the crisis, this indicator, mainly due to a devaluation of the local currencies, had risen up to 43 per cent in Korea, to 66 per cent – in Thailand, to 116 per cent – in Malaysia, and to 144 per cent – in Hong Kong (all data are for 2001). It exceeded the similar indicators in Latin America where even in such country as Mexico, deeply integrated into NAFTA, this ratio remained within the limit of 30 per cent. [World Bank, 2003: 218-220].

If we will re-count the mentioned indicators accordingly to the ratio of GDP in the US dollars measured by PPP, a situation will not be performing as essentially alternate. The only ‘tiger’, which has demonstrated a decrease of the given ratio, is Singapore. In all other NICs it has increased, although to various degrees (see table 11.2).

**Table 11.2.** Ratio of the total exports (in the US dollars at current prices) to GDP measured in the US dollars by respective PPP (as percentage) in the East/Southeast Asian NICs, 1990-2003

Countries	1990	2003
Hong Kong	82.3	126.1
Korea	17.4	21.5
Singapore	219.7	138.5
Taiwan, province of PRC	33.4	n. a. a)
Indonesia	5.7	8.3 b)
Malaysia	32.8	48.6
Thailand	9.0	16.5

a) – data are not available

b) – 2002.

Counted on: ADB, 2004b (respective country tables); Maddison A., 2001: 298-299; World Bank, 2004: 256-257.

The presented data can be interpreted as testimonies to increased vulnerability of the region’s economies to the external markets’ oscillations. In other words, the pre-crisis tendency that consisted in extending dependency of the ‘tigers’ on the exportation of manufacturing goods is not radically changed. However, this process has seemingly been decelerating after the crisis. It is approved by comparing two indicators: at first, the growth rate of exports over five years before and after the crisis, and, secondly, the decreased discrepancy of the GDP and exports growth rates (see above table 11.1) although such a decrease does not allow speaking about an alleviating dependency of the region on processes that are out of control of its nations.

Furthermore, in 2003-2004 some of the Asian NICs have demonstrated an acceleration of the export growth. For instance, the rate of this growth in Korea has risen up to 20.9 per cent, continuing to surge in 2004. [ADB, 2004a: 56].

Maintenance of the ‘tigers’ economies as the export-oriented after the crisis is accompanying by changes of the trade directions. The E/SEA NICs have been re-orienting towards the regional market, mostly to the Chinese mainland [Ng F., Yeats A., 2003: 3, 5-7, 10 et ff.], instead of the initial orientation towards the US, formerly the main benefactor of ‘tigers’, though this reorientation is the long-term process. (Certainly, it does not mean that the United States have ceased to be important trade partner of the NICs; they remain as important partner but not the first, with exception for Malaysia and Thailand.) Such



changes can be seen in table 11.3a that contains data on the exports from 'tigers' to their leading trade partners.

**Table 11.3a.** Changes of the exports structure of the E/SEA NICs by direction of trade, as percentage of the total exports, 1985-2003

**Hong Kong**

Main trade partners	1985	1990	1995	1999	2003
US	30.82	24.12	21.81	23.88	18.67
China, PR	26.03	24.75	33.34	33.37	42.66
Japan	4.24	5.70	6.11	5.42	5.40

**Korea**

Main trade partners	1985	1990	1995	1999	2003
US	35.62	28.64	18.54	20.61	18.21
China, PR	--	--	6.96	9.53	20.49
Japan	15.01	18.64	12.98	11.04	8.93

**Singapore**

Main trade partners	1985	1990	1995	1999	2003
US	21.17	21.26	18.26	19.22	14.27
China, PR	1.46	1.51	2.33	3.42	7.03
Japan	9.42	8.75	7.80	7.42	6.73
Malaysia	15.51	13.03	19.18	16.56	15.82
Hong Kong	6.37	6.50	8.57	7.68	10.01

**Taiwan, province of China**

Main trade partners	1985	1990	1995	1999	2003
US	48.08	32.35	23.65	25.41	17.99
China, PR	--	--	0.34	2.09	14.85
Japan	11.26	12.41	11.78	9.79	8.26
Hong Kong	8.27	12.73	23.38	21.39	19.67

**Indonesia**

Main trade partners	1985	1990	1995	1999	2003
US	21.73	13.10	13.92	14.20	13.27
Singapore	8.74	7.41	8.29	10.13	8.49
Japan	46.21	42.54	27.05	21.37	21.40
China, PR	0.45	3.25	3.83	4.13	7.43

**Malaysia**

Main trade partners	1985	1990	1995	1999	2003
US	12.79	16.95	20.77	21.92	20.18
Japan	24.56	15.32	12.48	11.64	9.98
China, PR	1.04	2.10	2.56	2.74	10.78
Singapore	19.41	22.95	20.29	16.53	16.60
Hong Kong	1.34	3.17	5.35	4.46	4.42

### Thailand

Main trade partners	1985	1990	1995	1999	2003
US	19.68	22.71	17.62	21.66	17.00
Japan	13.35	17.20	16.57	14.12	14.20
China, PR	3.80	1.17	2.87	3.18	7.09
Hong Kong	4.04	4.50	5.11	5.09	5.38
Malaysia	4.98	2.49	2.72	3.63	4.83
Singapore	7.95	7.35	13.84	8.67	7.30

Counted on: ADB, 2004b, respective country tables.

The NICs, being subdivided into ‘the generation groups’, changed their export structure by the main trade partners in the following way (see table 11.3b).

**Table 11.3b.** Changes of the exports structure of the E/SEA NICs by main direction of trade, as percentage of the total exports from each group of these countries and as a whole, 1985-2003

The first-tier NICs (Hong Kong, Korea, Singapore, and Taiwan, province of China)

Main trade partners	1985	1990	1995	1999	2003
US	34.82	26.75	20.61	22.40	17.51
Japan	10.03	11.22	9.35	8.25	7.22
China, PR	7.18 a)	7.83	13.12	14.11	23.64
Germany	3.09	5.01	3.98	3.31	3.07

a) – mainly the exports from Hong Kong to China, PR.

The second-tier NICs (Indonesia, Malaysia, Thailand)

Main trade partners	1985	1990	1995	1999	2003
US	18.02	17.39	17.98	19.88	17.42
Japan	32.41	24.82	17.56	14.86	14.23
China, PR	1.26	2.20	2.99	3.23	8.80
Germany	2.25	3.96	3.05	2.46	2.62

All NICs of East/Southeast Asia (except the Philippines)

Main trade partners	1985	1990	1995	1999	2003
US	30.36	24.65	19.95	21.75	17.48
Japan	15.96	14.27	11.39	9.95	9.16
China, PR	5.61	6.57	10.61	11.31	19.54
Germany	2.87	4.77	3.75	3.09	2.94

Counted on: ADB, 2004b (respective country tables).

Nevertheless, a re-orientation of the regional trade towards China as an alternative to tight linkage of the NICs economies to the US and Japan will hardly deliver ‘tigers’ from a hypertrophied dependency on the external markets. The unchanged, in its essence, pegging of the local currencies (and the Chinese yuan as well) to the US dollar, which becomes one of the most unstable currencies in the world, presupposedly will not be favourable to strengthening the E/SEA NICs’ positions in the world economy. In oppose, it will weaken their immunity to the possible global economic turmoils. Since the prospects of China does not look as the cloudless and bright future because, at least, of widening interregional disparities, acute ecological problems and possibility of abrupt economic crisis, a re-orientation of ‘tigers’ towards the Chinese ‘dragon’ can pose them in a situation when they will be dependent on troubles in the mainland. Certainly, the leaders of China are capable to fore-

see and prevent the rise of negative tendencies of their country's development – in this respect, they are differing from the former Soviet party's bonzes and the recent Russian rulers as well – but even outstanding politicians may not escape of taking erroneous decisions.

In addition, also one circumstance can impede to resolving problem of the NICs' recovery in the future. This is their specialization on manufacturing of the electronic equipment designed for exportation. Such a specialization, comparable with cases of Mexico and Costa Rica, does not allow expecting for high and stable incomes because of the long-term tendency to depreciation of the main components and details due to the fast technological progress in microelectronics and information technologies. For example, "Samsung Electronics suffered a 34% drop in its net profit for the first half of 2001 due to falling semiconductor prices." [Mitton R., 2001]. In the conditions of strong competition in the region, these processes can push out 'tigers' from their accustomed 'caves' into new spheres of activity, probably, more profitable but technologically less complicate, which require neither technical skills nor advanced intellectual human capacities. One of such spheres, which can look as very profitable, is 'an industry of leisure' [ibid.]. Evidently, a similar restructuring, or 'structural adjustment' to the global demand, speaking by words of the IMF, can lead to simplification of the entire economy's structure as it has occurred in some cases of Latin American countries and Russia.

Furthermore, a gradual but rapid re-orientation of the NICs exportation to the Chinese mainland market and, respectively, the growth of imports from China, even regardlessly to profitability of one or another kind of business, may substantially impact on structure of their exports and internal production in negative manner. Namely, it can succeed to a lowering technological level of their exports and manufacturing goods. Thereby, they risk following beyond several Latin American and CIS countries where this trend took place in the 1990s-2000s. In particular, Korea, Taiwan province, Thailand and, though to a lesser degree, even Singapore indicate an increase of share of 'non-advanced' products (mineral fuels, ores and metals, chemicals) in their exports to other East Asian countries, whereas respective share of 'advanced' products grew by slowing rate after 1995. [Ng F., Yeats A., 2003: 34-35].

At the same time, as the proper experience of 'tigers' manifested over the last thirty years, a successful integration into the world system starts at home where real conditions for the technological and economic accomplishments have been created. In the given case, one of the most important among such conditions has to be the structural macroeconomic manoeuvre aimed at increasing the internal consumer demand and the wages share in GDP. Otherwise, the economic growth in the region will be resemble to that in Russia after the 1998 default or some Latin American countries where it has not been accompanying by the standard of life augmenting, at least, for the most people.

Several positive changes in this respect have become evident over the last years but they are not yet stable tendencies and have not been spread to all 'tigers' family.

After the crisis, the share of private consumption at count of one of investments in GDP has begun to increase in Hong Kong, Taiwan (where it has become the long-term macroeconomic trend), and South Korea. In the latter case, the share of gross domestic investments in GDP diminished from the Stalinist rate of 35-37 per cent in the end of the 1980s – the beginning of the 1990s to 26.1 per cent in 2002 [ADB, 2003a: 53]. It will hardly suc-

ceed to radical and quick changes of the entire labour force's quality but, at least, may facilitate solution of the long-term task to increase private consumption of ordinary people.

However, simultaneously, in Singapore and Malaysia, the rate of private consumption remains almost at the same level as before the crisis. Presupposedly, too high rate does not testify to the macroeconomic structural shifts towards a knowledge-based society. Despite some decrease of the share of gross domestic investments in GDP from 38-43 per cent in 1997 to, respectively, 18-22 per cent in 2004, the share of savings in 2001-2002 was equal to 42-43 per cent in Singapore and 44-45 per cent in Malaysia. [ADB, 2000a: 53, 100; ADB, 2003a: 80, 91; ADB, 2005: 104, 115]. It means that a big amount of resources in the both mentioned countries has been diverted from consumption.

Meanwhile, almost in all countries under scrutiny, an increase of the gross domestic investment to GDP ratio appears again, at least, as the medium-term trend after the fall in 2002. For instance, a tendency to its growth is noted in Korea (from 26 per cent upward to 30-31 per cent) and Singapore (from the bottom out level 13.4 per cent in 2003 upward to 21-22 per cent). In Malaysia, this indicator remains at the level attained after the post-crisis recovery – 21-23 per cent. [ADB, 2004a: 57, 96; ADB, 2005: 77, 104, 115; ADB, 2006: 317].

Moreover, a decrease of the share of investment in GDP after the crisis in a group of NICs as a whole does not signify a respective increase of the consumption level. Since 1998, the latter has grown by some percent points but it can hardly be recognized as sufficient for radical change in the process of labour force's enlarged reproduction. The private consumption, as percentage of GDP, has increased a little in Korea and Taiwan province; it remains approximately at the level of 1990 in Hong Kong and Thailand, while Malaysia and Singapore have indicated a diminishing propensity to consumption. The ratio of private consumption to GDP in Malaysia was equal to 44 per cent in 2002 and 43.3 per cent in 2003; the same indicators in Singapore were 43.0 and 43.1 per cent, respectively. [ADB, 2003b: 105; ADB, 2004b: 73].

As a whole, it is a fact that private consumption in the E/SEA NICs has not been essentially augmented after the crisis, the resumed growth of GDP notwithstanding. At the same time, in 2002-2004 Hong Kong has faced difficulties with employment: a number of unemployed people grew till the end of 2003, then it began to fall but slowly. It succeeded to some decrease of monthly wages. However, what is the most important is not diminishing average wage but increasing inequality of households' private consumption. For instance, the median household monthly income fell from 18,000 Hong Kong dollars (around 2,300 US dollars by exchange rate of currencies) in 2001 to 15,500 dollars in 2003 (that has been approximately equivalent to about 2000 US dollars). [ADB, 2004a: 51]. In Korea, despite the growth of GDP, the private consumption contracted by 1.4 per cent in 2003, in Singapore – by 0.5 per cent in 2003. The rate of unemployment in 2001-2003 grew in Taiwan province and Singapore, though it was much lower than in EU countries, 4.5-5.5 per cent in sharp contrast to 10-13 per cent in the latter case.

One of the most important spheres, in which the crisis affected the general level of people's consumption, had been the labour market where a situation was deteriorating. The most feeling losses in this sphere among the crisis-affected countries were experienced in Indonesia where a bout of inflation in 1998 lessened the real wages by 30-50 per cent in various sectors of the national economy. [Manning Ch., 2000: 14-16]. Nonetheless, deterioration at the labour markets in the Asian NICs, such as grown unemployment and dimin-

ished level of wages, were lesser than it could be expected taking into account a size of the production contraction. In some respects, the sufferings of workers were partly compensated due to the system of corporate paternalism and the social assistance programmes (in Korea, for example) as well as the spread of informal, artisanal sector, mainly, in Thailand and Indonesia. [Ibid.:16-17]. In these countries, the crisis hit mostly white-collar, clerical workers in urban areas and such groups as women, young workers, and first-time job seekers.

Certainly, the crisis negatively influenced on the population's well being. In Korea, the percentage of the population living beneath the national poverty line has increased from 8.5 in 1997 to 22.9 per cent in the second half of 1998 but, due to the incomes policy of the government, downed to 14.7 by the first quarter of 1999. [World Bank/OECD, 2000: 47]. Particularly remarkable impoverishment of the population occurred in the second-tier NICs, Indonesia and Thailand, which experienced the most serious devastating effect of financial storm. The crisis devalued their accomplishments in the poverty reduction and, consequently, narrowed the internal market. In Thailand, both urban and rural areas suffered a decrease of incomes. The share of poor increased by 13 per cent – 1.1 million people – between 1996 and 1999. By the end of 1998, number of the people beyond the poverty line reached 7.9 million. [ESCAP, 2001: 141; Khunkitti S., 2002: 148]. In Indonesia, an increase of the poverty level being compared with that in other NICs had dramatic character: in absolute terms, it directly affected tens millions people. The share of the population below the national poverty line in Indonesia has changed from 11.3 per cent in 1996 upwards to 18.2 per cent in 1999. Approaching to this problem from the point of view of the international poverty line – daily income per capita below two dollars measured by PPP, we see a truly mournful situation in this country that has not return to the pre-crisis indicators still in 2002. In 1996, the population share living below the international poverty line in Indonesia was 50.5 per cent; in 2000, despite the resumed economic growth, this indicator has risen to 59.5 per cent and then slowly drifted downward to 53.5 per cent in 2002. [ESCAP, 2004: 246-247]. Hence, as it might be concluded, up today, almost ten years after the crisis, the country did not yet recuperate her level of consumption. Such results allow affirming a lose of the previous dynamism of the nation and weakening of the developmental state positions in the economy as a consequence of the New Order regime's crash in 1998. The state and the new government that displaced the regime of Suharto in power could not provide an efficiency of governance as the same existed before the crisis. Such weakening of the institutional conditions of economic growth should inevitably affect the social-economic mechanisms of poverty reduction as well as the entire growth engine.

As it was noted above, fast industrialization and poverty alleviation in the region had been accompanied by the diminished social-economic inequality between rich and poor strata, some temporary deviations from this general trend notwithstanding. The crisis accelerated changes in direction towards more inequality, although, to different degrees in each country. The most remarkable growth of inequality was noted in Thailand and Indonesia where outcomes of the crisis were particularly destructive. [Pangestu M., 2001: 19-20]. However, might be, one of the most dangerous results of the crisis from the long-term prospect's point of view, was not an increase of the social-economic inequality but a partial de-industrialization and even de-urbanization that had begun in Thailand and Indonesia after the crisis. Many workers, mostly unskilled and occupied at temporary, seasonable works, lost their jobs and were obliged, rescuing themselves from unemployment and starvation, to return back to traditional non-industrial, artisanal occupations in rural areas. Ob-

viously, it succeeded to de-qualification of a lot of industrial workers that were enforced to change their jobs for elementary survival. In this respect, the post-crisis processes which were developing in Indonesia, Thailand, and, partly, in Korea had some features similar to those in Latin American countries, Russia and the CIS.

One of the factors (but not cause!) that aggravated maturing premises of the crisis was a character of corporate governance at the level of enterprises and corporations. Relative non-transparency and internal, corporate bureaucratic hierarchy were essential elements of the entire industrial system in East Asia. In the past, at the start of industrialisation, these elements contributed to the accelerated mobilisation of human and material resources for industrial take-off but then ceased to be able to respond to challenges in the conditions of globalisation. Therefore, one of the most important objectives the ‘tigers’ should have to attain consisted in profound transformation of the institutional structures aimed at disclosing of the old system when all decisions have been taken by a small group of top managers or even by one person, an owner of enterprise.

In tight connection with this problem, the post-crisis policy should strengthen a linkage between strong outward-looking, export-oriented and weak inward-looking, domestic sectors of economy. A convergence of these sectors through an alleviation of relative backwardness of the latter and democratization of management has to become one of the main directions of the post-crisis reforms.

However, efforts of the state, foreign investors, and national opponents of the corporate bureaucracy did not help to resolve these problems in appropriate manner. The attempts to restructure the gigantic chaebols in Korea making them more transparent and democratically managed were ‘semi-successful, semi-failed’ because of the bureaucratic resistance to transformations. Factually, the corporate structures of chaebols (and the same can be said about many big companies in Malaysia) demonstrated a wonderful adaptability to the changing situation without real changes. In particular, neither hard hierarchical structures nor a tremendous concentration of assets in the hands of narrow circle of people (often belonging, moreover, to one family) were touched in the course of reforming. In other words, chaebols, as well as many Bumiputeras’ big companies in Malaysia, have rather been imitating reforms not being really reformed, despite an apparent liberalization and de-regulation of market combined with restructuring of the banking system. [Bidet E., 2003: 333-337; Milelli Ch., 2003: 74, 80-89; Lee K. e. a., 2005: 24-27, 37-39]. Hence, it was not surprising to read the following remark about attempts of the Korean government to restructure the chaebols: “... when it comes to the chaebols, reforms remain more rhetorical than real.” [Lee Ch. S., 1999]. Some years later, after the recession /stagnation of 2001, another observer, in spite of drawing attention to achievements of Samsung Electronics in the expansion to the US market, wrote in 2002:

“Samsung is in many ways still mired in the old ways of Korea Inc. Though it restructured after the Asian financial crisis – as did all Korea's family-run conglomerates – its top-down hierarchy bears more than passing resemblance to the one discredited by that melt-down five years ago. The group's key companies are rigidly controlled by Chairman Lee Kun Hee and his family, who own only a small fraction of shares but exert control through a complex web of affiliate holdings.” [Larkin J., 2002]. (See also: Kim Jung Min, 2003; Song K., 2003).

At last, in 2005, i.e. after sufficient while of reforms, a group of the World Bank’s experts recognized a fact of ‘unchangeability’ of the Korean economic system:

“After the waves of the reform, the present state of the economy seems to be not much different from the initial conditions although some progress, of course, has been made.” [Lee K. e. a., 2005: 10].

A network of interpersonal ties and traditions of cronyism appears as somewhat much stronger than obvious advantages that could be expected in the future prospects as results of the management/governance reforms. Furthermore, an adherence to ‘the approved attitudes’ has inadequately operated in the situation of ‘fast liberalization’. For instance, in oppose to insistent necessity to revise the system of R&D, what should become one of the main directions of chaebols’ restructuring, some giants of the Korean industry decided ‘to diminish expenses’ in the conditions of crisis. In particular, they cut funding for university and public institutes’ R&D, and the major firms of chaebols appeared among the champions of such doubtful policy. [Chung Sung Chul, 2001: 152-153]. On the one hand, ‘a wise decision’, when a resolution of current problems contradicted to requirements of the long-term strategy, namely, to maintenance and improvement of the R&D system aimed at increasing competitiveness of the national industry, was a consequence of debilitation of the developmental state after the crisis. On the other hand, one of the most essential reasons why the chaebols’ top managers displace a real work of reforming for a bureaucratic imitation of reforms, was very weak correlation between managerial efforts and remuneration a narrow circle of the top managers got regardlessly to results of their duties’ accomplishments. [Lee Ch. S., 2001]). In essence, it was the same situation as one emerged at many enterprises in post-Soviet Russia where directors and proprietors (very often, they were the same people!), could earn salaries exceeding wages of workers and employees thousands (!) times whereas the latter and minor shareholders got nothing because of non-payments. Certainly, the Korean workers would not tolerate such practice as the Russian ones agreed to suffer when they did not get wages over several months. However, what is a matter in the given case is not a quantitative difference between wages of workers and remuneration of top managers but an essence of the management’s practice and social-economic relationships in the both cases. These relationships presuppose a super-exploitation that has been propped due to the system of personal dependency and oppression of any resistance to inhuman management and wrongdoings. An obvious fact that Korean chaebols are much more technologically advanced and competitive at the world market than Russian big companies is a weak consolation for those people who sincerely wish to East Asian ‘tigers’ to be healthy and strong.

Meanwhile, together with other ‘postponed reforms’, the attempts to eternalise the patterns and attitudes inherent to ‘conservative modernization’ may succeed to serious troubles in the future, including the second, ‘enlarged and revised’, edition of the Asian crisis.

One of such ‘postponed reforms’ concerns the objective of tightening cohesion of the internally oriented sector of economy with the advanced outward-looking branches. The growth of small and medium-sized firms that has been seen in Korea since 2002-2003 is rather outcome of spontaneous development and has not yet succeeded to radical re-orientation of the technologically advanced enterprises, regardlessly their sizes, towards the internal market. Either small firms or well-known gigantic conglomerates, if they are able to offer something of high-tech to customers, prefer to export their products but do not worry about the enlargement of domestic demand. An ever-easier access of small and medium enterprises to advanced technology enabled them to upgrade their exports shifting it from ‘traditionally industrial’ goods (clothes, shoes, garments, chemicals, etc.) to those with

high share of value added thanks to ‘intellectualisation’ of the manufacturing processes. Nonetheless, there are only few signs of the technological convergence of two sectors with each other. This circumstance as well as conservation of the old chaebols’ structures, at least, in modified forms, does not alleviate a vulnerability of the NICs’ economies to turbulent oscillations of the regional and world markets.

Summing up, how the social-economic problems, which led ‘tigers’ to the crisis and turned miracle into debacle (although, I’m not biased to magnify a devastation of the E/SEA economies in result of the financial turbulence of 1997), have been resolving, it can be said that almost all these problems remain to be unresolved, may be, only with least modifications. Therefore, the general social-economic situation in the region is becoming similar to that in Russia/CIS or Latin America where decline of the developmental state and subsequent neoliberal reforms did not abolish a majority of problems and imbalances that eroded the previous model of development.

However, consequences, as well as causes, of the Asian crisis did not and do not consist in the social-economic problems only. In truth, to a big degree, they lie beyond a realm of economy as itself.





## 12. Beyond a Realm of Economy

The crisis has influenced on the cells of civil society, which was maturing in the process of fast industrialization, urbanization and rapid structural changes in the tissue of society. It subverted belief in omni-mightiness of the developmental state and enforced many people to hope for themselves but not for 'good fathers-bureaucrats. A disappointment in the state provoked a rise of activity of the civil society's institutes, particularly, in the most crisis-affected countries, Korea and Malaysia (not speaking about Indonesia where mass riots had overthrown the 'New Order' regime of Suharto). The social need to understand causes of the crisis and searching for ways to overcome its consequences as well as the increased pressure from below obliged the governments to initiate shifts towards more transparent taking the economic decisions and to broaden 'a field of admissible critics' in mass-media, mainly in Internet. [*Bidet E.*, 2003: 343-346; *Rodan G.*, 2004: 56-61, 124-128, 151-155, 162-165]. Of course, in many respects, it was rather the state driven movement towards transparency than the spontaneous process sprung from the civil society grass-roots level, partly, because of relative immaturity and weakness of the civil society. [*Rodan G.*, 2004: 124; *Rol S.*, 2003: 390-392]. However, the post-crisis situation as a whole favoured propelling a democratization and eroding the relics of authoritarianism in the region.

The crisis and post-crisis recuperation with all fluctuations of conjuncture inevitably affected the mass consciousness and public opinion in the region. At the same time, the crisis and post-crisis development as well as reforms of the developmental state have had invisible social-cultural dimension that can impact on the long-term process in the E/SEA NICs.

Indeed, the crisis as itself and the post-crisis situation favoured eroding the previously widespread mass consciousness' attitudes to social-economic and political realities. A euphoria that was dominating before the crisis, 'vertigo from achievements', a belief in evidence of 'miracle' disappeared, though not completely, after the troubles of 1997-1998. The economic difficulties of 2001 could hardly ensure, too, people to believe in 'bright future' as convincingly as they were previously sure in their prospects before the financial storm.

In regards to the recent situation, the most people in Hong Kong, Korea and Taiwan province assessed it negatively. In their opinion (data for 2001-2002), it became worse than it was in 1996-1997, before the crisis. 52 per cent of the questioned Koreans, 62 per cent of Taiwanese, and 89 (!) per cent of inhabitants of Hong Kong shared such pessimistic opinion. (It is interesting to note that the questioned people in Thailand, the country much more crisis-affected than the called first-tier 'tigers', demonstrated more optimistic estimations of the situation: the share of people who considered it as worse than five years back was 38 per cent, and that of their opponents was the same.) Respectively, what concerned the future prospects for the next five years, they looked rather in 'grey' than light colours for most Taiwanese and inhabitants of Hong Kong whereas the Koreans expressed 'a moderate optimism'. In the first two cases, only 23 and 30 per cent of all participants of the poll, respectively, supposed that their economic conditions would improve in five years from the recent time, whereas 35 per cent in Taiwan and 30 per cent in Hong Kong were pessimists. In Korea, the share of pessimists was 20 per cent, and 40 per cent of people hoped for better conditions in the future but only 2 per cent of the questioned supposed that their conditions should become 'much better' than at the moment of poll. The rest people neither

knew what they could expect for themselves nor were expecting for essential changes. [*Globalbarometer*, 2002].

However, regardlessly to the recent and short-term prospect economic situation, the crisis scored the mass consciousness' assessments of such phenomena as globalisation and the US assistance to the regional development. In particular, it brought a disappointment in globalisation and capabilities of the US to defend 'tigers' from the financial 'poachers' as well as undermined a belief in 'the western values'. In spite of the fact that "Asian respondents are generally much more positive about the effects of globalisation on job security than Europeans taken as a whole" [*Wilson Sh., Marsh I., Breusch T.*, 2002: 11], in some NICs of Asia a negative opinion about the effects of globalisation acquired the 'European' level. For instance, in Malaysia, Singapore, Taiwan province, and Thailand a majority of people felt that the economic problems in their countries are mainly effects of the international or both the local and international causes but not of the internal character only. [*Ibid.*: 12, 8-9].

Factually, the crisis impacted on mass consciousness and people's values in the NICs almost in the same manner as the neoliberal 'shock therapy' influenced on a state of the population's mind in Russia where the rise of traditional nationalism and xenophobia was the direct outcome of 'savage liberalization' and pseudo-westernization. In the both cases, it would be possible to speak about a spread of spontaneous anti-westernism (and, of course, anti-Americanism) that could be concomitant with various forms of religious and cultural traditionalism or, even, fundamentalism. 'A blossoming bouquet' of all these reactionary '-isms' should inescapably impede to diffusion of the positive western values and motivations, such as 'achieving behaviour', rational, 'pro-scientist' mind, endeavour to permanent improvements of techniques and everyday life, ability to co-measure expenses and effects, and so on. Refuse of the called and other values of modernity, together with rejection of the recent forms of globalization, would be favourable to a further rise of reactionary populism and 'anti-developmentalism', as it took place in Russia. The similar path of events should have to be conceived as particularly crucial for the second-tier NICs, such countries as Malaysia, Indonesia, and Thailand (and the Philippines as well) where the process of catching up industrial modernization did not touch very large 'fields of traditionally'. Today these 'fields' become 'the shelters for frustrated consciousness' destructively affected by the crisis and post-crisis painful recovery. At last, it would be inadmissible to forget that a revival of traditionalism could involuntarily favour to the rising terrorism and terrorist networks in Southeast Asia, mainly in Indonesia and the Philippines, where the terrorist attacks quaked society in the last years.

Of course, terrorism is extreme form of the rebellion against 'the globalization in Americanized arrangement'. What is much more widespread but no less dangerous for the social stability, is the internal social-cultural split in society and the decline of consensus in relation to the goals of development and modernization. As one of the consequences of the 1997-1998 crisis, tensions in a sphere of the interethnic and inter-confessional relations rose in Malaysia and, mostly, Indonesia where the state was apparently weakening after the collapse of Suharto regime. Since 1998, when the 'New Order' declined, the country suffered the serious eruptions of violence soiled, also, in old conflicts between the Chinese minority and 'pribumi' (indigenous ethnic groups), between Christians and Muslims in Maluku, Dayaks and Madurese in Kalimantan. In May-June 1998, 2,244 people were assassinated or mortally injured in violent riots, partly directed at the ethnic Chinese. [*Khoo Boo Teik*, 2004: 1].

In sharp contrast to Indonesia, Malaysia did not know violent outbreaks of the interethnic conflicts, not counting for two incidences of small importance. However, it does not mean that Malaysia is an idyllic realm of interethnic harmony. After the crisis, inequality of households' incomes between the main ethnic groups, Bumiputeras (Malays), Chinese, Indians, and other, has increased, although not to a catastrophic degree. It has been approving by the changes of the variation coefficient from 1995 to 1999: being counted upon the base of weighted mean in the country, it was equal to 30.2 per cent in 1995 and 31.8 per cent – in 1999. (Counted on: [ISIS, 2002: 157]. (However, it should be taken into account that the gross households incomes of Bumiputeras grew a little faster than those of Chinese while Indians improved their standard of life faster than Bumiputeras, and only incomes of the thin ethnic minorities increased to very small degree being almost two times less than the average incomes in the country. Meanwhile, after the crisis, the variation coefficient for 2002 fell to 27.4 per cent, because of the rapid growth of incomes of other, minor ethnic groups due to the social-economic policy of the federal government. (Counted on: [Jomo K.S., 2004: 6]).)

Nevertheless, difficulties and tensions in the interethnic relations in Malaysia do not disappear while the income gap between ethnic groups is narrowing, because their reasons lie not only in a sphere of the social-economic inequality but also in some other respects the society appropriates in the course of globalisation. One of them is a social-cultural alienation the poor, socially backward and excluded people feel in front of the global turbulent processes. This alienation, as well as the contest against trends the people do not control, has been used by political forces which are not interested in social and technological changes. The mass base of these forces is mainly the inward-looking sector of economy where the large groups of the population are occupied, so its well-being is crucial for survival of a lot of people. Hence, it was not surprising when the Islamic Party of Malaysia (PAS), the leading opposition organization, attempted to introduce *hudud*, the Islamic criminal code, instead of the secular laws, in Terengganu, the state where (as well as in Kelantan) this party had a majority of seats in the legislative assembly. [Jayasankaran S., 2002]. In response, the federal authorities qualified these attempts as unconstitutional but such an assessment had become a foundation for 'clash of laws' at the different levels of rule. Certainly, today it is almost impossible to presuppose that several political and ideological uprisings of socially backward strata against modernity in Malaysia, Indonesia, or Thailand can succeed to somewhat resemble to the Islamic or other 'traditionalist revolution' in these countries. Nevertheless, a resistance of the traditional strata may oblige the governments to slow reforms for the sake of stability, and, consequently, it can 'freeze' the recent situation – the situation of transition towards new model(s) of development.

Nonetheless, notwithstanding many problems the 'tigers' have faced in the second half of the 1990s – the beginning of the 2000s, the region as a whole has better chances for success than the other developing areas of the globe have today. (See, for example: [Yusuf Sh., Evenett S.J., 2002: 177-180]). Of course, East/Southeast Asia is very heterogeneous region. Some of its nations are not completely industrialized and today are closer to the former Third World than to the advanced countries. Other nations have come to a threshold of knowledge-based, post-industrial society, and their main task is to opt how to use the accumulated potential, mostly intellectual human capacities, in the new conditions. Definitely, in addition, this heterogeneity hinders to successful collaboration of countries with each other and is not beneficial to free circulation of technologies, ideas and people who personify new 'know-how'. At the same time, an experience of such collaboration at the previous,

industrial stage of development should not be ignored; on contrary, it makes up a good background for approaching to resolution of new problems countries of the region have met after the crisis.

One of these main problems that cannot be reduced to the matter of economy as itself but, rather, has been related to ‘intangible dimensions’ of the R&D system, concerns a quality of human intellectual capacities.<sup>79</sup>

It should be noted that the ruling circles of the Asian NICs perceived an importance of the education and R&D quality’s problems still before the crisis. For example, in the early 1990s, the Singapore and Malaysian governments announced about an intention to promote the new economy in their countries. It is sufficient to mention, for example, the well-known Malaysian MSC, Multimedia Super-Corridor, an area of technopolis stretched for 50 km (with width about 15 km) from the Petronas Twin-Towers sky-scrappers in the central part of Kuala Lumpur to the new international airport, genuine technical miracle of the XXI century. The MSC was constructed accordingly to the ‘Vision-2020’ strategic goal – to transform the Malaysian nation into the highly developed society based on education, new technologies, and scientific knowledge. Respectively, the government of Singapore declared a transition towards creative economy as its main purpose, intending to turn the tropical city-state into ‘Boston of East Asia’, similarly to the role the capital of Massachusetts accomplishes in the US scientific-technological development.

Obviously, in the context of strategy aimed at acquiring the mentioned goals, a shift in the developmental state’s policy from direct interventionism in market and industrial regulation towards selective technological policy as a whole, besides the reforms in a sphere of education and R&D, is indispensable and doubtless. [*Sung Deuk Hahm, Plein L.Ch.*, 1998: 96-108]. But is such shift sufficient for profound changes of the existing relations between business and the state machine in Asia? Does it allow responding to the new challenges, or does it again succeed to a practice of technological imitations instead of creation of the proper technologies? The renovated developmental state (it would, probably, be more relevant to speak about ‘the post-developmental state’) in the E/SEA NICs should create the real conditions favourable for generating new scientific knowledge and information, which can be transformed into know-how and advanced technologies. One of the factors that could facilitate resolving this problem would be a further internationalization of the East Asian R&D sphere, including its more active integration into the global network of research centres. (See, in particular: [*World Bank/OECD*, 2000: 12-13].) The renovated, ‘post-developmental’ state can play a major role assisting the local universities and research centres to reach this goal through constructing the corresponding ‘institutional environment’ and all the rest that has been called as ‘social capital’. [*Bagchi A.K.*, 2000: 432-436].

An essential difficulty the E/SEA ‘tigers’ meet attempting ‘to catch a fortune for tail’ again, now in relation to the rising knowledge-based society, is that today a complement of factors and conditions of the effective R&D system is notably larger and more complicated than it was fifteen-twenty years ago. For instance, now an institutional regime that provides incentives for R&D is no less important than an existence of the educated labour

<sup>79</sup> “In an increasingly knowledge-based economy, the supply of workers with the requisite skills and penchant for creativity will determine how much innovation takes place and how it is used to enlarge market shares. Many East Asian economies are increasing the availability of skills, but quality remains deficient.” [*Yusuf Sh., Evenett S.J.*, 2002: 180].

force or world-class universities. In this respect, an experience of Russia, rather negative than positive, is the best illustration of the institutional environment's significance for success. In Russia, the skilled workers and the brilliant research centres existed before and just after the start of 'reforms' but a complete absence of the institutional conditions and incentives for applying results of scientific researches to technologies depreciated the colossal intellectual and technological potential over one decade of the so called 'transformation'. Today, a number of factors that determine a leadership of any country in R&D encompasses, in particular, such as an intensity of competition among firms, an interaction of R&D centres and business enterprises, a global mobility of researchers and other professionals, a production networking, and many other ones. [Yusuf Sh., Evenett S.J., 2002: 35 et ff.].

The institutional conditions necessary for the R&D system are indistinguishable from somewhat that can be called *an innovation infrastructure*. The latter presupposes an existence of both 'hard' and 'soft' elements, such as a system supplying research tools and equipment, rules regulating funding of R&D, a network of venture firms, laws defending the intellectual property rights, a complement of stimuli evoking a demand for the R&D results, and so on.<sup>80</sup> Despite the notable efforts the governments of the NICs applied to development of the both types of innovation infrastructure, 'hard' and 'soft', the region as a whole has not yet obtained remarkable results in this area. Certainly, achievements of the 'tigers', particularly, those belonging to the first-tier group, in applying, for example, the information and computers technologies (ICT) to the secondary and tertiary education or R&D cannot be ignored. [Ibid.: 198-201; World Bank/OECD, 2000: 79 et ff.]. In this respect, they surpass both Russia and the Latin American continent, pertaining to a group of the most developed nations. However, 'tigers', emphasizing on investment in 'hardware' elements of the innovation and education infrastructure, involuntarily underestimate, often in contrast to the proper declarations, a significance of the 'software' base in a large sense of this concept. [World Bank/OECD, 2000: 79-82]. It enables speaking about *inertia of the obsolete approaches* to a resolution of the long-term problems – approaches that were inherited from the period of industrialization when the developmental state blossomed together with the growing industry.

In particular, even so prominent statesman and strategist as Mahathir bin Mohamad did not avoid of intention to spread an applying of experience rooted in the process of catching up *industrial* modernization to a consideration of the problems risen at the stage of transition towards a knowledge-based economy. Pronouncing speech at the ceremony that was held on occasion of opening of Cyberjaya, the scientific-technological capital of Malaysia built near Kuala Lumpur inside of the MSC, he said:

“Over the recent past, I have been blessed with the opportunity to be part of Malaysia's growth - seeing its transformation from an agricultural-based economy to one focused on manufacturing. A key success factor in this progress was our emphasis on becoming globally competitive by creating a conducive business environment. Indeed our oil palm industry, as represented by the palms which you still see around us, still continues to lead the world. This tradition of global competitiveness continued into our industrialization phase so much so that today, we are the world's largest exporter of microchips. It will also contin-

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<sup>80</sup> A consideration of these aspects of the innovation activity and R&D system would require surpassing all reasonable limits of the text, so it is enough to refer to some publications, particularly, issued by the World Bank. [Yusuf Sh. et al., 2003: 141-180, 223-269].

ue through the third phase of our development as we capitalize on the opportunities of the Information Age.” [Mahathir bin Mohamad, 1999b, # 7].

Certainly, shift of the country’s economy from the exportation of palm oil to one of electronic microchips should be appraised as outstanding achievement. However, would it be possible to hope that the next jump – from the exportation of microchips to the worldly wide diffusion of new ideas and technologies elaborated in Malaysia could be too fascinating? Supposedly, the old, previous approaches to the national development could hardly be relevant solving the new tasks but political leaders, not speaking about ordinary bureaucrats and businessmen, were accustomed to follow definite stereotypes of mind, and it was very difficult for them to change their approaches and views, even recognizing a necessity to do it notwithstanding.

Indeed, the NICs governments reacted to the crisis adequately, at least, in their speeches and programmes, demonstrating a profound comprehension of the situation which had not been reduced merely to the economic difficulties. For instance, the Korean government announced plans to increase the total, public and private, expenditures for R&D from 2.7-3.0 to 5 per cent of GDP. [World Bank/OECD, 2000: 16].<sup>81</sup> (By the way, these ambitious plans are not yet realized.) Singapore augmented share of these expenditures two times over the six years (1996-2002) and now can be compared to the most advanced OECD countries by this indicator, which has reached 2.15 per cent of GDP. Malaysia (and it was the undeniable merit of Mahathir bin Mohamad before his honourable resignation in October 2003!) increased the total R&D expenditures from 0.22 per cent of GDP in 1996 to 0.39 per cent in 1998, then to 0.50 per cent in 2000 (growth by 48 per cent over two years!!), and to 0.69 – in 2002. [MASTIC, 2000: II, IV, 10; MASTIC, 2004: 43, 7, 16]. With such rate of the growth, Malaysia should cross a line of the R&D expenditures ratio to GDP equal to 1 per cent in 2005 what would exceed a level of those in any Latin American country except Brasil, which surpassed it already in 2001-2002. It would be much more than in Thailand, Indonesia, and the Philippines but less than in the first-tier NICs, Korea (2.54 %), Taiwan province (2.30 %), and Singapore (see above). At the same time, it is worth to draw attention to such tendency as the ever-increasing share of private sector in the total expenditures for R&D. This share in Malaysia has been equal to 57.9 % in 2000, and has grown to 65.3 % in 2002. [MASTIC, 2004: 7].

Respectively, while the R&D expenditures grew, a number of researchers and people who assist them in the NICs increased, too. In Malaysia, it reached 15.6 per 10,000 labour force in 2000 and 18.0 per 10,000 – in 2002. Nonetheless, it was notably lower than in such first-tier NICs as Korea and Singapore. In Korea, there were 60 researchers and assistant personnel per 10,000 labour force (1998), in Singapore – 83.5 per 10,000 (in 2000) (for comparison: in the US – 74 per 10,000 (1999), in the UK – 95 (1995)). [MASTIC, 2000: III, VII, 18; MASTIC, 2004: 7]. Obviously, so wide gap could not be alleviated throughout the short while of some years, whereas neither Korea nor Singapore was expecting until Malaysia would catch up with them.

In addition, it is necessary to underline that since 1996 funding of R&D in Malaysia has been characterizing by an emphasis on applied researches at count of basic ones [MASTIC, 2004: 16], though, as it is known, only the latter make up a genuine ‘intangible’ foundation

<sup>81</sup> As the authors of the mentioned OECD and the World Bank report about the Korean transition towards a knowledge-based economy noted, “it is not so much a matter of the amount of money spent as the way in which it is spent.” [ibid.: 16].

for the former. Such orientation of R&D towards solution of mainly practical tasks (what presupposes a high degree of commercialization of R&D) instead of fundamental outcomes at the theoretical level, probably, can bear good results but it will not unleash the country from the scientific-technological dependency on the world leaders. Thereby, hunting for instant effects may be very useful in the short-term prospect but can narrow 'a space of opportunities' for success in the future.

However, what concerns such countries as Malaysia and Thailand they have objective limits to development of their theoretical, basic research: these countries had never the nationally based scientific schools with definite stable traditions and could not create them over the ten-fifteen years industrial boom. Even such country as Korea that expended and expends for R&D at the level of the advanced OECD countries, in the beginning of the 2000s experienced a horrible deficit of researchers in some important field of science, including biology and biotechnology. A number of Korean scientists and assistant specialists in this field of research was less one-tenth than the US and Europe had. [*Kim Jung Min, 2001*].

The problem of the specialists' training and, in larger respect, that of the rise of scientific schools can be resolved (of course, only in the long-term perspective), at least, by two ways, and the both do not contradict to each other.

One of these ways presupposes the international co-operation and collaboration of several countries, the western and Asian as well, taking into account the scientific achievements of two Asian giants, China and India, where the theoretical researches have rapidly been developing and offer ideas, 'intellectual fuel', for the concrete applying researches.

Another way means undertaking the special efforts in schooling beginning from the secondary level of education, not speaking about necessary improvements at the universities and colleges level. All 'tigers' attempt today to elevate a *quality* of education reforming the education system accordingly to the new realities. Evidently, a solution of this task of strategic importance requires no less efforts and expenses than the radical alleviation of mass illiteracy required in the past. A simple augmentation of resources invested in the secondary and tertiary education may be insufficient and ineffective if it has not been accompanying by a reconsideration of the widespread attitudes to education. (What is a character of this revision is another matter. In Russia, it consists mainly in decreasing number of hours for studying mathematics and physics, the subjects that are necessary for promoting the rationalistic world-view, with simultaneous simplification of the subjects' programmes. The governments of 'tigers' as well as the respective authorities bodies responsible for education (the Ministries of education, Education Boards, etc.) are not going, as it seems, to follow this way, repeating post-Soviet Russia's stupidities, but a jeopardy to do it, being 'tempted' by experts of the IMF or World Bank cannot be underestimated.)

In the context of the strategic task to improve an educational quality, the teacher's role becomes as significant as it has never been before. Indeed, in the last years the NICs' governments applied remarkable efforts aimed at attracting the qualified specialists to the secondary schools. As the Malaysian government argues, a raise of teachers' salaries is very important tool to resolve this problem. At the same time, it self-critically recognizes that today teachers' salaries in the country are relatively low, four-five times less than in the OECD countries, so they must be substantially raised. [*ISIS, 2002: 33, 36, 38-39*]. Nevertheless, as the special studies indicate, a raise of the teachers' salaries as itself may be insufficient to attract the high-class specialists to work at school. [*Yusuf Sh. et al., 2003: 196-*

198]. No less important is an opportunity for specialists to realize themselves (an opportunity of self-fulfillment) in the process of teaching. A definite decentralization of teaching, as refuse of the prescribed subject programmes, broadens such an opportunity but not always. If most teachers are accustomed to deal with pupils in certain manner and recommend them the manual books approved in the course of many years, they will hardly change their teaching style accordingly to orders issued by the education authorities to modify their attitudes to work.

Perhaps, the most dangerous what can emerge in the process of reforms is not only a quick destroying of the old background of the future accomplishments but also an intention of reformers to put together diverse elements, attitudes, rules and institutions of the obsolete and new systems, which are incompatible with each other. In other words, the most destructive action for any reform is the non-systemic approach to its realization. Meanwhile, sometimes such an approach involuntarily takes place in activity of the NICs authorities responsible for the educational system in their countries.

For example, the Korean Ministry of education decided to open new high schools for the talented youngsters with aptitudes to mathematics, physics and other natural or technical sciences. At the same time, it allowed an existence of ever-accessible private schools where teaching is based upon non-standard programmes aimed at development of the students' creativity. The both initiatives have faced a criticism and resistance from a part of teachers, parents, academic circles, and education bureaucracy. Some of them criticize new schools for elitism and attraction of additional resources that could alternately be expended for improvement of the mass education for ordinary pupils. [Kim Jung Min, 2001]. At the same time, the educational bureaucrats who are adherent to 'old merry principles' of teaching assert that these schools orient the selected teenagers to 'wrong approaches to studies' and do not correspond to the youth's socialization accordingly to 'approved traditions'. One of such schools, Gandhi School, privately founded as experimental by a group of teachers, stayed on a threshold of closure because high officials thought that it should be 'inadmissible' to 'encourage creativity' at 12, 'so early' age. In opinion of the Education Ministry's bureaucrats, children until 15 are not ready for the alternative type of schooling, "they need the structure of a traditional school", so the Ministry did not suggest aiding the school to avoid of bankruptcy. [Yoon Suh-kyung, 2002]. The education bureaucrats nurtured on fundamentals of the Confucian traditions were unable to comprehend how it would be possible that schoolchildren did not spend a lot of time learning mathematical formulas instead of understanding their intrinsic sense.

Meanwhile, it cannot be said that some people, either parents of students, or education officials, or teachers, who regard to implementation of the new special schools network with suspicions, have none real foundations for their attitude. In this respect, an experience of Russia over the last fifteen years (since 1990-1991) allows suggesting, indeed, that such practice can succeed to a rise of the new kind of social segregation, now founded upon a gap between human, intellectual capacities of two, quantitatively unequal groups of students. The first, minor group will have all opportunities to be engaged into creative activity at the world level entering the global intellectual elite while the second, major group will represent 'the grey mass' of ordinary executives, probably, functionally illiterate and capable only to unskilled labour. In this case, the elitist education, particularly, in such fields of science as maths, physics, biology, and so on, inaccessible for a majority of youngsters on various reasons, will become either the system of training for intellectual outsourcing or the ladder for brains oriented to work abroad. Moreover, under such structure of the educa-



tion system, the talented youngsters graduated from high schools and prestigious universities will not have an opportunity for the proper self-fulfillment, at least, inside of the country, because no one intellectual elite, advanced and competent in sciences and technologies, can hope for success without skilled assistants and executives. Therefore, in the long-term prospect, an extending intellectual segregation based on a selection of the most talented young people throughout the system of special high schools may devalue all efforts aimed at searching for non-ordinary persons capable to make up a contingent of the outstanding students. The only way to avoid of such negative consequences in a sphere of education is to pull up the mass education for ordinary students to the respective level, correspondingly to the new challenges. In other words, the breakthroughs concerning a quality of education for creatively minded pupils can be effective only if they have been maintaining 'from the other side', by the radical improvement of education for the rest students. It means that reforms of the education system have to comprise all levels and directions of graduation. Otherwise, they will turn into its opposite becoming 'anti-reforms'.

Nevertheless, in spite of a principal importance of the secondary education as the key link of the whole education system, transition towards a new, post-industrial model of development requires drawing no less attention to the tertiary education, too. The first what has to be done in this sphere concerns the enrollment rates. If the first-tier 'tigers', Hong Kong, Korea, Singapore, and Taiwan province, have acquired the tertiary education enrollment rate at the level of the OECD countries or even better (above or, at least, about 40 per cent of young people of the university/college students age), the same cannot be said about the other NICs, Malaysia, Thailand, and, particularly, Indonesia. (See: [ADB, 2004b: 55]). Despite evident improvement of the tertiary education enrollment rate in these countries after the crisis, they are still far retarded from the world and regional leaders and have not yet reached a reasonable limit of the quantitative growth in the given direction of development.

At the same time, the problem of the tertiary education quality is important for all 'tigers', whether they pertain to the first or second generation. One of this problem's aspects consists in a structure of all graduates at the tertiary level by specialties. In particular, a share of bachelors in engineering and natural sciences at 24 years in the first-tier NICs was 33-37 per cent (in 1998-2000) (in Singapore it reached 67.5 per cent!) what surpassed or corresponded to the similar indicators in the advanced OECD countries (whereas the average world-wide respective indicator was 37.8 per cent). The second-tier 'tigers' lost a competition in this respect to their more developed 'co-brothers': the highest ratio of engineering and natural sciences specialists with bachelor's degree was in Malaysia (24.4 per cent in 1998) while both other countries of this 'tigers' group, Indonesia and Thailand, had 21.7 (1999) and 17.8 per cent (1998), respectively. [OECD, 2000: 167, 173-174; NSF, 2004; Yusuf Sh. et al., 2003: 204]. From the end of the past decade up today, a situation has not been drastically changed.

Furthermore, besides numerable indicators characterizing the countries' tertiary education and S&T achievements, there are also indirect parameters that express, too, a real state of this sphere, for example, such as the publication rate of scientific papers written by researchers from given countries, citations, and so on. [Yusuf Sh. et al., 2003: 204-216]. The visible progress of the E/SEA NICs in this field notwithstanding, the region as a whole is still losing a competition to the US and Europe by the mentioned indicators. It means that the 'tigers' have to spend a lot of resources and time to reach the most advanced level of the S&T development.

However, there are also other obstacles, which impede to successful movement of the region towards the proclaimed goals. Some of these obstacles are common for many spheres of economy and society, whether it concerns the secondary and tertiary education, the system of R&D, or governance and management at all levels. At first, it has to be said about attempts, voluntary or not, to transplant the old approaches and traditions, in particular, culture of management, that were used in the course of industrialization, to the changed situation. For example, the Malaysian government, approaching to the New Economic Policy (1971) aimed at pulling up Bumiputeras to the level of ethnic Chinese, introduced quotas for entry to public universities and colleges. In particular, 55 per cent of openings in higher education were reserved for the ethnic Malays and indigenous people, making up 66 per cent of the total population (data for the beginning of the 2000s). Certainly, in the past, such a ‘converse discrimination’ aided to equalise the opportunities for different ethnic groups and to narrow the social-economic gap between Malays and non-Malays. Nonetheless, later this order had become one of the institutional obstacles (partly, rooted in the cultural traditions) to a further development because it restrained chances to entry to public higher colleges and universities for the talented, intelligent youngsters from the Chinese and Indian ethnic groups. [Holland L., 2001]. (At last, the government was obliged to revoke this practice under pressure of business circles.)

At the same time, it would be mistaken to suppose that obstacles to the shifts toward ‘the genuine meritocracy’ were rooted in the developmental state policy only, whether it is the New Economic Policy beneficial for Bumiputeras in Malaysia or the specific character of management in Korean chaebols. The Asian crisis discovered a truth which, may be, is drastically unpleasant for recognition by many people in the region but has to be accepted as necessary condition of the developmental model’s revision. Namely, it denuded an extending incompatibility of the core of cultural traditions (i.e. ‘the civilization code’ of the E/SEA nations) with a search for adequate responses to the globalization challenges. It has been relating to either Malayan culture or Chinese traditions, particularly those grounded on Confucianism. [Shaw Sin-Ming, 2001]. The main task the ‘tigers’ have to solve lies in a character of the ‘conservative modernization’ that enabled to reconcile the ‘Asian values’ with the principles and attitudes of modernity in the course of catching up industrial modernization. During the period of thirty – thirty five years, the ruling elites and peoples of the region sought and found a balance between traditionalism and modernity. Since it was a stage of modernity that sprang in the conditions of the XX century, managerial capitalism, which presupposed a major role of the state, the conception of Max Weber concerning a compatibility of the oriental traditions and/or philosophical-religious systems with capitalism looked obsolete and scientifically inconsistent. Now, on the eve of post-capitalist era, the Weberian conception in respect to the East may become actual and relevant again, as at dawn of the past century, though on other reasons. (It approves once more that, as my Russian colleague Andrey Foursov says, sometimes sunsets have seemingly been resembling to sunrises not only in nature but also in history, too.) Today, the mentioned balance between traditions and modernity must be, at least, changed and substantially revised, and a sphere of education is, probably, the first where it has to be done. However, the education system, regardlessly to all quantitative positive changes of numerable parameters or augmenting expenditures for R&D, is not yet profoundly reformed. Furthermore, it

“may encourage the development of *cognitive conservatism*, a constellation of attributes which leads the person to adopt a passive, uncritical and uncreative orientation to learning

and to hold fatalistic, superstitious and stereotypical beliefs; as well as to be authoritarian, dogmatic and conformist.” [Ng Aik Kwang, 2001: 65].

Neither structural reforms, nor enlargement of R&D sector, nor improvements of the macroeconomic proportions for advantages of consumption will assist to the Asian NICs if their peoples will not reconsider the secular customs and traditions. *‘Tigers’ shall have to change themselves if they want to continue to be ‘tigers’*, or, at least, to keep their recent positions in the world system. They must resolve the same problem as the Russian ‘bear’ faces everyday at all levels of the social-economic life over the last three-four decades: if the Russian ‘bear’ wishes to see Russia among the great powers he has to change himself (otherwise, he will cease to be a beast which is respected by other animals).

A comparison of the E/SEA situation with the Russian one in regard to the correlation between the cultural code and the prospects of further development has also one, hidden, dimension that looks as a peculiar warning to the ‘tigers’. If nothing will be changed in respect to traditions and people’s habits, the NICs risk to fall in a situation of deep demoralization and social impatience of the most population, as it has occurred to Japan. This situation can invisibly mature over the long time but when it will appear as evidence of everyday life, it will be very difficult to cure society profoundly affected by social apathy and widespread bias to leisure. Such a social-psychological sickness can be, probably, the most dangerous consequence of the reforms’ postponement. (In the given case, reforms are interpreted in wide sense, as a series of actions touching all aspects of society, including the mass consciousness.)

In the conditions that exist in the region, a deference and custom of obedience to elders, chiefs, and teachers in the conditions of mass consumption and urban way of life may be turned into a principle ‘I know nothing, I see nothing’. The growth of private consumption, whether it has been impeding by various factors or not, destroys traditional forms of the social relationships. People become more independent on each other but this process may not tend to an emergence of the new forms of solidarity and socialization that can be seen today, for example, in the countries of North Europe. Conversely, soon or later, it succeeds to atomization of individuals and to triumph of passivity when most people acquire a high level of material well-being but are unable to fulfill themselves through whatsoever creative and socially useful activity. That was the case of the late Soviet and post-Soviet Russian society. In such a situation, even enlightened authoritarian and morally responsible leaders whose purposes consist in the social-economic prosperity and technological breakthroughs of their country will hardly be capable to mobilize necessary human resources for realization of the new development strategy. Then a spectre of development variants, within which the Asian NICs can choose ‘their proper way’, will spread from Latin American model (growth without or with insignificant qualitative development and imitation of the advanced western accomplishments) to Russian one when the economy grows mostly in quantitative respect and only weak springs of upstream, progressive changes within the general tendency to degradation, appear spontaneously in twilight. Certainly, today E/SEA as the entire region has real chances to avoid of destructive tendencies to decline. But these are only chances. The practical results will depend on will of the leaders, intellectual capacities of the peoples and many other factors that lie beyond a realm of ‘pure economy’.



## **Concluding Remarks**

An expansion is an immanent property of capitalism. It has two dimensions, which really have not been opposed to each other as endogenous entities or processes, but, rather, make up a single contradiction in itself. One dimension consists in outward-looking expansion and encompasses colonialism, imperialism, struggle for new markets and supply of raw materials, and so on. Another dimension means inward-looking expansion that presupposes a deepening division of labour, a rise of new branches of economy, an improvement of labour skills, a process of innovations, etc. The former aspect of expansion needs in the latter being its 'material foundation', while any inward-looking development requires a supply of new resources and enlargement of markets, thereby, it inevitably pushes capital to expansion abroad.

Classical, the XIX century capitalism grounded on spontaneity of free market had reached the objective limits in the course of proper expansion. It was not able to conquer the large territories extending to eastward from Ural in the North and from Himalayas in the South. This capitalism had neither forces nor resources for further expansion of the first (outward) type, and reproducing a central-peripheral structure of the world system, it restricted expansion of the second type, founded on intensive development.

The problems of expansion, which the XIX century capitalism met, could be resolved – it was another matter to what extent – by functional, managerial capitalism. A domination of the capital's function, function of management, entrepreneurship, innovations, etc., over the private property institutions enabled, to a big degree, to compensate a relative shortage of material resources needed for the capitalist expansion in the global scale. It enabled the non-western regions to approach to the catching up development upon the base of imitative industrialization when the main agent of development was the developmental state, whether together with or without an entrepreneurial class. All three regions under consideration in this book, Soviet Russia, Latin American countries, and then, in the last third of the XX century, East and Southeast Asia followed the model of catching up development with, of course, several modifications, accordingly to the local traditions, specificity, and concrete external circumstances.

Since the external challenges and insistence of modernization in the three called cases were stronger than the internal impulses for development, the catching up modernization should have to be adjusted to the existed realities. It should take a form of 'conservative modernization', balancing between the local traditions and social structures, on the one hand, and the imperatives of industrialization, on the other hand.

Certainly, strictly speaking, neither Soviet Russia, nor Latin America, nor East Asia was the pioneers of catching up development in history. In this respect, a priority belonged to Germany, Japan and tsarist Russia in the XIX century, under old, private property capitalism. However, the mentioned countries, particularly the first two of them, approaching to their modernization, did not retard from the world leaders to such degree as the regions considered here did in the XX century. Consequently, 'the catchers up' should have to take into account the really existed factors, human skills, material background, customs of people, social institutions, etc., which did not correspond to requirements of modernization. It was necessary, respectively, to adjust old and new elements (aspects) of the social-

economic, institutional, cultural, and other spheres to each other. The 'conservative modernization' was the result of such reciprocal adjustment.

The XX century capitalism bore a phenomenon of the scientific-technological revolution. This revolution, which has technological as well as social aspects, is based upon an expansion of creativity, a replacement of industrial labour by intellectual activity, and an extending superiority of 'spirit' over 'matter'. A microprocessor and information technologies are only concrete 'emanations' of these processes. However, they depreciate all efforts and expenses of 'late-comers' aimed at the catching up industrial development. This kind of development may be efficient and fruitful only if it is oriented mostly towards internal market and, in addition, has been combining with rapid and successful development of post-industrial, knowledge-based economy (the cases of Asian giants, China and India). Since neither Russia, nor Latin American countries, nor the E/SEA NICs could cross a threshold of this stage of development upon the own base, they were doomed to be vulnerable to turbulences of new, post-industrial capitalism aggravated also by financial globalization.

The crisis of 1997-1998 in Asia had, in essence, been an expression of the same global crisis of statism and catching up industrialization that affected the former Soviet Union, East European 'socialist countries, and Latin America ten years before. In spite of undeniable achievements, the E/SEA NICs had, in many respects, the same weaknesses and vulnerabilities that predetermined a rise of serious difficulties and troubles in the USSR, post-Soviet Russia, and Latin America. In the concrete case of E/SEA, these were imbalances between the outward- and inward-looking sectors of the economy, between big companies and small/medium businesses, between artificial, truncated liberalization of the internal markets and inertia of the developmental state's activity, between the proclaimed goals of technological policies and the really existed quality of the human resources, between obvious achievements and social-political institutions that in the past facilitated to acquire the recent level of development but then turned into obstacles to renovation.

Focusing on weaknesses of East Asian miracle, I would like that potential readers from East Asia would perceive my critical notes regarding their deficiencies and vulnerabilities as friendly critique. An experience of my native country, Russia, is so enormously anxious that it is impossible not to think about dangers which can threat to Asia in light of the Russian tragedy, although these dangers are objective results of the preceding stages of development.

Since the early 1990s the development (or anti-development?) of Russia and Latin American countries as well has a lot of implications for East Asia where the international organizations, including the IMF, in alliance with the local influential circles attempt to implement almost the same social-economic models, which were applied to Russia and Latin America. Such attempts have been undertaken with notable efforts after the financial crisis of 1997-98, and, probably, they will hardly be abandoned in the future.

As Latin American and, particularly, Russian experience teaches, any attempt to stabilize the social-economic situation in the conditions of deep crisis without applying efforts aimed at further development can be turned into an additional destabilizing factor threatening to the country's security. Any appeal to accomplishments of the past, if it is not maintained by real renovation, may become 'a joke of history' when a society has been involved into tenets of the reactionary utopianism. In practice, it means that neither rapid, 'Bolshev-

ist' liberalization of economy nor conservation of the developmental state in its preceding forms (statism) can help to avoid of crisis and to overcome destructive tendencies.

As mournful experience of the Russian state's evolution (or, rather, involution) demonstrates, the developmental state as itself, in the conditions of globalization and the managerial capitalism's decline, may 'initiate' the process of self-decomposition becoming a major engine of the social-economic and cultural degradation. Unfortunately, there are several, still weak but apparent, signs of jeopardy that a part of the economic bureaucracy and business elite in the E/SEA NICs, in particular, officials, top managers and owners of chaebols in Korea, may become a kind of 'transfer' (or 'transit') class that rules in Russia and is interested in conservation of the old structures not reforming but adjusting them to the changed conditions. This bureaucracy, a potential core of the transfer class, formally recognizing a necessity of reforms, can attempt to eternalise the period of transition towards... – it is unable to explain towards what this transition is because the transition period as itself has an absolute value in eyes of bureaucracy. However, the strategic task to eternalise transition cannot be solved at all (because any transition has a start and finish) but attempts to do it may succeed to the new wave of crises and turmoils, as Russian experience approves.

Can liberalization of economy be an efficient alternative to declining statism and self-disintegrating developmental state, as admirers of free market assert? To sorrow of many critics of 'crony capitalism', state interventionism and other features of East Asian 'miracle', a radical liberalization does not allow hoping for positive changes. As the tendencies that prevail in Russia and several Latin American countries over the last fifteen years, since 1990-1992, demonstrate, a liberalization of economy and external trade does not enable to 'ennoble' their structure and to occupy more advantageous positions in the international division of labour. Moreover, the Russian trajectory experience looks as warning to the Asian nations: a formal liberalization of economy does not automatically eliminate corruption and does not succeed to transparent management. On contrary, a conservation of the social relationships based upon interpersonal dependency is completely compatible with a formal liberalization, which opens new ways to enrichment through corruption.

In addition, neither Russian nor Latin American development convinces that the fast implementation of 'liberal principles' and formally democratic political institutes can strengthen an adherence of people to the liberal, western-style values of mass consciousness. In oppose, a spontaneous, 'savage' liberalization leads to deep social differentiation with subsequent exclusion of the large masses of people from the social life and, as a result, to a resurgence of various forms of traditionalism and anti-westernism. At the same time, the attempts to insist on neoliberal dogma that the recent forms of globalization are the only possible way of the world evolution can provoke a reaction of rejection in the form of radical, militant traditionalism, particularly, in such countries as Indonesia and Malaysia where the conservative political currents with definite religious inclination are very strong and influential.

Thus, a dilemma 'liberalization of economy or conservation of the developmental state' is a false dilemma. A real resolution of the problems the NICs confront since 1997-98 presupposes a fundamental but gradual reformation of the developmental state which should correspond not to the XX century capitalism but to the post-industrial (post-capitalist) trends. The developmental state, like the national state as a whole, has chances to survive under offensive of globalization only if it will assist to its country and its people to be in-

volved into the process of globalization in positive, creative sense. Otherwise, it will be fallen down.

On the one hand, the developmental state must build up institutes that are indispensable for genuine but not formal ('for report to the IMF') liberalization of economy. It must support all grass-roots initiatives of civil society that can facilitate building of the self-regulating market system. On the other hand, the developmental state in the process of self-transformation must focus its efforts on a sphere of education, access of people to cultural values, scientific researches that cannot be commercialized. The real results of activity in this sphere cannot be acquired immediately, so it is difficult to expect for new 'miracle' in East Asia. The time of industrial 'miracles' is over, the time of post-industrial (scientific and intellectual) 'miracles' has not yet come.

However, the main task the state and society in the E/SEA NICs must solve concerns a heritage of 'conservative modernization'.

Factually, the nations of the region have faced the same dilemma as one that neither Russians nor Latin Americans have still resolved: to change themselves and to go forward or save their traditions, customs, and attitudes to reality, risking, thereby, to lose the recent positions in the world system. If the peoples of E/SEA will not change themselves, the devastating financial-economic storms and other social troubles may become frequent phenomena in the region.

Today, 'tigers' are at a crossroads. In truth, it should be very disappointing and mournful if East/Southeast Asia, the only non-western region (particularly, together with India and China), which really narrowed gap between itself and the West over the last fifty years, would be incapable to overcome the recent situation of 'modernization trap'. Perhaps, somebody is afraid of the 'tigers' success, particularly, in alliance with the Chinese 'Big Dragon', because then the region will become the 'pole of force', the new competitor for the West and Japan. However, only narrow-minded strategists and wiseacres (a lot of them may be met in the US State Department, IMF and other similar entities) can have a fear of such path of events. Really, nobody in good reason should be afraid of the rise of new competitors in Asia because competition is one of the necessary conditions of development. And if 'tigers' will not jump out of 'modernization trap' they have fallen in the end of the past century, it will have extremely negative outcomes not only for them but also for the West. The possible decline of the East Asian fortress of modernity can affect all centres of development, whether they are in the western or eastern countries. It will mean a defeat of the West in front of militant traditionalism, which can be much more dangerous for mankind than 'brown plague' of Nazism in the XX century.



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