

# EAST ASIA'S TUMBLING DOMINOES: FINANCIAL CRISES AND THE MYTH OF THE REGIONAL MODEL

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At the height of the Vietnam War in the late 1960s it was common for East Asian elites and their counterparts in the US foreign policy establishment to use the image of **falling** dominoes to portray the grave threat posed by the spread of a 'monolithic communism' from country to country across the region.<sup>1</sup> **Thirty** years later it seems preposterous to have supposed that anti-colonial wars of national liberation led by Leninist parties in some of the world's poorest countries could have toppled most of the authoritarian, pro-capitalist regimes in Southeast and Northeast Asia. In other words, the dominoes never fell; that is, until 1997. It was not a mythical monolithic communism that ultimately brought the dominoes of the region tumbling down, but the contradictions of dependent capitalist development and the pressures of the globalisation of production and finance. The economic boom associated with 'export-oriented development' has given way to widespread currency depreciation, plummeting asset prices, the disappearance of liquidity, ever-increasing insolvency, rampant unemployment and the accompanying social unrest that has led, among other things, to the resignation of the **region's** longest ruling authoritarian, Indonesian president Suharto. These are the manifestations of a region in obvious crisis, a far cry from the miracle depicted in the World Bank's 1993 celebration of export-oriented capitalist 'development' in East **Asia**.<sup>2</sup>

This crisis, like crises more **generally**, **provides** a vantage point from which to see clearly into the processes and complex relationships that have given the region its shape. Contradictions that are otherwise present, but not always discernible, become exposed. Crises also offer new opportunities for **reconfiguring** power and reorganizing the material and ideational practices and institutional arrangements that

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buttress it, although as Marx reminded us, these opportunities are constrained by the limits of what is 'possible'. In the current conjuncture, elites, and the intellectuals who serve their interests, tend to regard crises as moments of disequilibrium to be 'managed' and rendered stable. In the discussion of East Asia's financial crisis, this managerial inclination is reflected in the 'debate' among academic neo-classical economists and their counterparts inside international financial institutions (IFIs) and agencies of the advanced capitalist ~~states~~.<sup>3</sup> In these accounts, the crisis is portrayed as essentially excessive foreign borrowing coupled with a mis-allocation of these funds by domestic banking sectors lacking accepted standards of prudential **supervision**.<sup>4</sup> Financial reform is held out to be the next inevitable step in the region's modernisation, coupled with the removal of obstacles to the **deepening** of market **regulation** of ever greater aspects of social life, a remaking of the role of the state to facilitate this end and the strengthening of the real social power of investors under the banner of democratization and reform.

The financial crisis also presents an opportunity for those opposed to this neo-liberal **managerialism** to rethink the contradictory nature of capitalist development in the region, its specific class relations and state forms, and its articulation with various aspects of globalisation. Capitalist development across East Asia came to be marked by a series of political and ecological impasses that could only be transcended by a remaking of the social order, and in most cases by a recasting of the relationship between transnational and local forces. The crisis has created the context for **precisely** such a reordering. But this in no way means that the region was locked in some sort of static pattern. The regional 'model' vilified under the rubric of 'crony capitalism' by neo-liberals, and celebrated for the successes of the 'developmental state' by neo-institutionalists, never existed in a generic form. The terms of its transformation were already being contested and struggled over by specific social forces responding to already existing contradictions well before the devaluation of the Thai baht in July, 1997.

It is important to point out that prior to the crisis, many on the left also heralded capitalist industrialization in East Asia as a more progressive variant of capitalism than the neo-liberalism that has emerged in most advanced capitalist countries over the past two decades. The centrality of the state in the region's various political economies was seen as inherently 'progressive' **merely** because the state, even an avowedly capitalist one, is not 'of the market'. East Asia appeared to be the only region in the world where, according to some

**left-inclined** observers, the forces of globalisation, particularly of finance, seemed to be kept at bay through the 1980s and into the 1990s by the existence of 'strong **states**'.<sup>5</sup> The second pillar of a progressive **reading** of East Asian capitalism was the idea that the configuration of state-society relations that existed around the region (especially in Japan and the first generation of so-called Newly Industrialising Countries [NICs]) managed to produce flexible institutions and practices that amounted to progressive and internationally competitive social relations of production. These two features were the basis for the argument put forward by some authors, such as Linda Weiss and Paul Hirst & Grahame Thompson, that while neo-liberal globalisation might be irreversible, East Asia showed that certain kinds of states can promote the interests of nationally-based capital in a **progressive way**.<sup>6</sup> This led to the conclusion that elites in other 'developing countries' should adopt this 'model' of political economy, and that the left in advanced capitalist countries should also espouse what Gregory **Albo** has critically referred to as a 'progressive competitiveness' alternative to **neo-liberalism**.<sup>7</sup>

This reading of East Asian capitalism and its appropriateness as an alternative to neo-liberalism has obviously been undermined by the financial crisis, as people within the region who have long been identified as 'progressive', such as Korea's newly elected President Kim Dae-Jung and Indonesian labour leader Mochtar, embrace major components of IMF-imposed restructuring. But even prior to the onset of the crisis, this so-called 'progressive' view based on the combination of industrial policy and flexible production, rested on a naive and superficial reading of the region's political economy. It assumed that there was a single region-wide 'model' that could be identified and extracted from divergent historical contexts even though key features of this 'model' were absent from the actual historical experiences of many of the countries in question.<sup>8</sup> More importantly, the state-centric focus on 'shaped advantage' and export competitiveness obscured the class and ecological bases of East Asian industrialisation and the contradictions and limits this produced. In the 1980s, with the erosion of the material basis of corporatism in Northern Europe, East Asian capitalism appeared to offer a new, more economically robust alternative to Anglo-American neo-liberalism that helped sustain the illusion that capitalism could be **both** internationally competitive and allow for a high degree of social solidarity.

In this essay I will explore the contradictions of East Asian capitalist development by treating it dialectically and locating the recent 'crisis'

in its larger context. I will ask three inter-related questions: How should we best theorize dependent capitalist development in the region? What were the contradictions that precipitated the crisis? And to what extent does this moment of crisis represent a discontinuity? Posing these questions in this way implies rejecting the more conventional readings of the financial crisis of 1997-8 as representing either the end of a golden age of 'growth' or economic miracle, or merely a 'financial' crisis amenable to correction through a painful but short-lived implementation of 'structural adjustment' that will return the region to the *status quo ante* once its financial structures are modernized. While the events of 1997-8 represent both a financial crisis and a structural disjuncture, the question is not just whether or not economic growth resumes, but what kinds of political economies will emerge out of the restructuring, including the pattern of state-society relations, the nature of class power and the way globalisation and the rights of investors that it promotes coexist with 'democracy'.

If the crisis reflected the impasse of export-oriented dependent capitalist development, both in its internal dimensions and in its incorporation into the 'globalising' capitalist world order, in its 'resolution' there also lies the potential for reconfiguring domestic structures of power and re-organizing the way various fractions of global capital are inserted into the region's equally various political economies. Neither the crisis nor its aftermath can accordingly be conceived of as existing merely in the realm of 'finance'. It is as much a crisis of production and political regulation; the crisis marks the end of an export-oriented, dependent capitalism that was instantiated in locally specific ways. This assessment raises **two** further questions which I will return to by way of conclusion: first, is this a 'universalizing moment' for the region, with the weakening of the deep-rooted structural and ideological resistance to neo-liberalism that has characterised the region's political economy? Second, what does this crisis portend for dissident forces and the possibilities of a deepening of democratic practices that transcend mere electoralism.

## I. RE-THINKING DEPENDENT CAPITALIST DEVELOPMENT

In speaking of 'dependent capitalist development' I am not referring to 'dependency theory', with its state-centric conception of underdevelopment whereby post-colonial countries remain structurally locked into the periphery by virtue of their dependent place in a 'world

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system' dominated by a core country or region. There is a lengthy tradition of writing on East Asian political economy that has framed the development of the region in just such core-periphery terms.<sup>9</sup> Among the many problems inherent in such a framework are its inability to deal with questions of agency, or with concrete class relationships and state forms; the historical variability of world order structures; and, most importantly, its treatment of problems that are associated with *capitalism* as problems of *national dependency*.

Dependent capitalist development transpires inside actual social formations. Irrespective of the extent of transnational pressure and control, each social formation contains a nationally specific configuration of class forces and form of state. They emerge from the local nature of class struggles and the way the internal balance of social forces shapes the production, appropriation and distribution of surplus in relation to the local ecological base. What makes this form of capitalism 'dependent' is not the structural dependence of a 'peripheral' state on a 'core' state, but the way that state elites and the dominant classes or class fractions within states maintain and reproduce their own social control through specific relationships with agents of transnational capital or with state elites in advanced capitalist countries. Local elites are dependent on flows of money, technology, military assistance and legitimating ideologies from advanced capitalist countries, but at the same time they possess an autonomous local base of political and social power, including their power to regulate the exploitation of local workers or peasants and the appropriation of local ecological assets to maintain levels of profit as well as levels of consumption, both in the advanced capitalist world and among local urban-based elites.

This analysis concurs with the position on **globalisation** advanced by Leo Panitch in his essay on 'globalisation and the state' in the 1994 *Socialist Register*. Panitch, building on Poulantzas' theorization of the internationalization of the state, argued that 'even an internal bourgeoisie implicated multiple ties of dependence in the international division of labour and in the international concentration of capital still maintained its own economic foundation and base of capital accumulation at home and abroad, as well as exhibited specific political and ideological features with autonomous effects on the state.'<sup>10</sup> While Panitch was not explicitly concerned with the relationship between globalisation and the state outside North America and Europe, his argument that globalisation involves a social and institutional restructuring that is largely internal is important in allowing us to think

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through the link between globalisation and dependent capitalism. This takes us a long way from the mechanistic, top-down 'neo-Marxist' formulations of dependency and underdevelopment of the 1970s, where the 'local' was thought of as structurally determined by a more or less fixed international location.

An important aspect of East Asia's dependent capitalist development is that it has ushered in a rapid industrialisation across the region and with it, a reduction in the levels of absolute poverty for many people and the creation of diverse new social relations that are unambiguously capitalist. The idea that the hallmark of dependency was the way it necessarily acted to inhibit the advent of capitalist industry was always a crude overstatement, to say the least. The important questions are what is the specific nature of the dependency, what kind of social order does it give rise to, and to whose benefit; and looking at the matter in this way forces us instead to turn our attention toward the manifold contradictions that are produced by the specific ways that dependent capitalism is locally instantiated.

This more dialectical formulation allows us to avoid the reified and oft-repeated misconception that there is some kind of a 'regional' East Asian model or, at a minimum, variants of a model, e.g., the NIC 'model' in Korea or a 'second tier' NIC model in Thailand or Malaysia." To acknowledge that the region's various countries were not made by uniform external forces or by a uniform historical legacy allows us to accept the fact that dependent capitalist development has taken a number of forms. This point is both theoretically and empirically important because of the frequent attempts to *identify the* central component of an East Asian 'model', ranging from the neo-classical emphasis on free-trade and macro-economic probity and the neo-institutionalist focus on state capacity to promote 'late' development; to the unlikely convergence of some Japanese economists and 'world systems' theorists in the claim that it was the workings of the product cycle, in the guise of Japanese investment, that diffused a homogenous industrial structure to country *after country*;<sup>12</sup> and most recently, to attempts to see the region as a model of crisis-inducing 'crony capitalism'.

While attempts to construct a region-wide model of developmental capitalism highlight the limitations 'of ignoring diverse national contexts, they do - inadvertently - point to the significance of the broader 'macro-region' as a component of dependent capitalist development. While recent theorizations of globalisation have gone a long way to *clarifying* the relationship between the local and the global, they have not adequately dealt with the renewed prominence of macro-

**regionality.**<sup>13</sup> This refers not to any convergence of the region's different societies, but to the way different societies with their different class structures are connected to each other. This involves various types of formal and informal arrangements, depending on specific trans-regional class alliances and on the kind of institutions that exist within the relevant national social formations. It is, however, difficult to draw a formal distinction between the macro-regional and the domestic realms. Rather, **regionalised** structures and practices have constituted integral components of individual social formations without in any way implying any homogeneity of the social formations **involved.**<sup>14</sup>

Region-formation is also an important but often under-theorized component of globalisation. Locating national social formations in a regional context does not mean that regions are antithetical to either the local or the global. Rather, regions lie at the intersection of the local and the global. Regionalisation can in fact be a manifestation of global processes such as the transnationalization of capitalist production, the organization of credit or the diffusion of commodified culture. They may be manifestations of globalisation yet acquire regionally specific characteristics.

## II. DEPENDENT CAPITALIST DEVELOPMENT AND THE EAST ASIAN BOOM

The region's political economies were forged by the confluence of three processes: the particular forms of state and class configurations that emerged from de-colonisation, the advent of the Cold War in East Asia, which enmeshed the state elites in America's anti-communist alliance, and the **regionalisation** of Japanese industrial capital in a manner that integrated fractions of local capital with their Japanese counterparts. It is important to explore how these three processes were intertwined.

### *The case of Thailand. Globalisation, regionalisation and dependent capitalism in East Asia? first domino*

Thailand's dubious distinction of **being** the first of the East Asian dominoes to fall is particularly illuminating as to the tenuous nature of Southeast Asia's capitalist boom. Long looked upon as a bastion of corruption and rent-seeking by transnational capitalists and technocrats in the Bretton Woods institutions, Thailand came to be praised by the World Bank at the height of the boom as a paragon of '...outward looking orientation, receptivity to foreign investment and

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a market-friendly philosophy backed up by conservative macro-economic management and cautious external borrowing **policies**.<sup>15</sup> While openness to **foreign** capital did make Thailand a bastion for Japanese manufacturing, precipitating the late-1980s boom, this same openness was ultimately instrumental in Thailand's collapse. But this openness needs to be read in conjunction with the changes in the configuration of power within Thailand.

In what is otherwise a very **insightful** account of the Thai bubble of the 1990s, Walden **Bello** also **begins** with the role of foreign capital.<sup>16</sup> He does so because he views Thai 'dependence' on foreign savings, which he contrasts to the case of Korea, as having fomented the crisis in the first place." But while various fractions of global capital were indeed central agents in the bursting of the Thai speculative bubble, the origin of the crisis lay in the way these forces of globalisation were intertwined with the Thai power structure. The configuration of power inside of Thailand, and in particular, the nature of Thai capital and its links to the state, is a good illustration how capitalism takes root in different locations in different ways, how the local bourgeoisie emerge from locally specific contexts and how struggles to appropriate social power are ultimately local **affairs**.<sup>18</sup> The Thai bourgeoisie that grew rich on quixotic high-tech gambits, real estate speculation, maniacal property development and the denuding of the country's forests and littoral may have been tied to Japanese developers and bank-rolled by transnational lenders, but their formation and ongoing reconstitution as a class have been determined by the way capitalism and the modern Thai state emerged and have been constantly **recon-**figured.

It is a supreme irony that while Thailand avoided colonisation, it entered the post-World War II period with a political economy of a type more commonly associated with neo-colonialism than did a country like Korea that had experienced Japanese colonization. An ethnic Chinese commercial bourgeoisie had emerged in the late nineteenth century with a material base **predicated** on royal monopolies and on serving as intermediaries for British traders and financial capitalists operating under unequal treaties. These merchants were able to parlay their roles as tax 'farmers', rice millers and timber and mineral exporters into burgeoning financial **empires**.<sup>19</sup> The royal court-based elites were content to cede control of the financial, processing and **marketing** functions to **these** politically dependent merchants. In an effort to minimise foreign indebtedness and build up exchange reserves as a way of fending off the imperialists they also permitted the opening

of new agricultural land rather than trying to expand production by undertaking large-scale infrastructure **improvements**.<sup>20</sup> This interaction of imperialist pressures with the domestic class structure helped create several **long-term** structural features of the Thai political economy: a merchant bourgeoisie caught between the state and foreign capital, and a fiscally conservative Thai state vulnerable to foreign pressure.

After World War II, five main Sino-Thai banking groups emerged to dominate Thai finance and commerce. With their roots in shipping, **trading**, insurance and rice milling, these banking interests forged an alliance with a succession of **military** governments who needed private financing for their statist **projects**.<sup>21</sup> Tariffs were levied on imported manufactures but with the aim of generating state revenue rather than promoting 'import substitution industrialization' as was the case in other parts of East Asia and parts of Latin America. Light manufacturing came to be controlled by the Sino-Thai financial conglomerates which realised rents from production for a protected domestic market. With the demise of the British presence in Southeast Asia and with the rise of the army as the dominant institution in society, Thailand's key external link was increasingly with the US army. The Vietnam War and the US decision to make Thailand the centre of its broader regional operations, combined with Thailand becoming a key destination for mass tourism, proved pivotal in the terms of Thailand's incorporation into the postwar capitalist world **order**.<sup>22</sup> Coinciding with the American escalation of the Vietnam war came the ascension to power of Field Marshall Sarit who presided over the Americanisation of the Thai army and put in place conditions that would make Thailand attractive to foreign capital.

American army investment in war-related infrastructure and an influx of holiday-makers into Bangkok precipitated a development boom in the late 1960s, characterised by real estate speculation and the increased concentration of land in the hands of those with access to capital and 'inside' information. The beneficiaries were not merely the privileged Sino-Thai commercial capitalists, but also top-level bureaucratic and military officials as well as rural economic elites. The boom began the long process of dispossessing subsistence farmers of their land, spawning a burgeoning class of agricultural tenants and an exodus of rural youth into Bangkok to form the beginnings of a Thai working class. They provided the cheap labour for tourism and other service industries and ultimately for the industrial boom of the late 1980s and early 1990s. While Thailand was eventually to become a

central export **platform** for Japanese industrial capital, during the 1970s Japanese industries **sought** to overcome their own domestic crisis of over-production by taking advantage of Thailand's protected market and the historic absence of any indigenous industrial **capitalists**. They did this **by forging** alliances with prominent Sino-Thai capitalists who facilitated their presence inside Thailand's high tariff walls as vendors of locally-assembled manufactures to Thai elites, and suppliers of locally-made inputs for local **production**.<sup>23</sup>

Prior to the boom of the mid-1980s Thailand was affected first by the surging price of oil which it imported, and subsequently by the dramatic downturn in commodity prices which deleteriously affected commodity exports. When monetarist policies in the United States drove up interest rates, Thailand, like other **neighbouring** countries, became saddled with an unsustainable debt burden. In a move reminiscent of Latin America and Sub-Saharan Africa, Thailand was forced in 1982 to become a ward of the IMF, and subject to a structural adjustment programme. Two components of this restructuring were central to the boom and bust of the subsequent ten years; the **changing** role of capital vis-a-vis the state, and a more explicit attempt to promote export-oriented **manufacturing**.

The first change involved the privatisation of public enterprises and state promotion of a more formal role for business associations in policy-making and decisions concerning the allocation of public **assets**.<sup>24</sup> A key element of this restructuring involved senior officers in the Thai army converting their political power into private economic assets and corporate **directorships**.<sup>25</sup> This coincided with the increased importance of elections by the second half of the decade and with it a more influential role for 'party politicians' many of whom, like the recently deceased former Prime Minister Chatichai, were ex-Generals or state technocrats. This shallow electoralism, held up by neo-liberal apologists of globalisation as part of the 'third wave' of **democratisation**,<sup>26</sup> actually increased the influence of regional capitalists and more generally increased the power of capital both by enhancing the monetary rewards that induced businessmen to enter parliamentary 'politics', and by offering new degrees of influence to those able to finance electoral campaigns and the day-to-day **maintenance** of a power **base**.<sup>27</sup>

While the first component of restructuring created the class conditions for a domestic economic boom, the second change paved the way for the influx of Japanese capital. The IMF made its adjustment loans conditional upon the creation of certain conditions attractive to foreign industrial capital; currency realignment and tariff **reduction**.<sup>28</sup>

This combination of a reconfigured class structure and forced **liberalisation** created the structural basis for Thailand's emergence as a **low-wage** 'export platform'. But it was the rapid appreciation of the Japanese yen in 1985 and the subsequent lowering of Japanese interest rates two years later that precipitated the diffusion of labour-intensive Japanese **manufacturing** throughout Southeast Asia, and especially to **Thailand**.<sup>29</sup> As Bello points out, this influx of Japanese industrial capital, supplemented by Taiwanese investment, precipitated a manufacturing boom that undermined the **leverage** the IMF was able to exert on the Thai state, ensuring that structural adjustment in Southeast Asia was short-lived and **partial**.<sup>30</sup> Massive infrastructure projects that the World Bank held hostage to structural adjustment in the early **1980s**, for example, were subsequently funded through Japan's development assistance in the late **1980s** without any of the bank's neo-liberal **conditionality**.<sup>31</sup>

The Bangkok metropolitan area, replete with a spate of new factories, a large influx of unskilled workers from the provinces and world-class traffic congestion, had literally overnight become a major platform for assembly-intensive products manufactured for re-export to third countries. In the period from 1985-1992 over US \$5.2 billion in Japanese investment poured into Thailand, precipitating a dramatic rise in exports. Not only was much of this increase in production attributable directly to Japanese capital, but hitherto **domestically-oriented** corporations like Siam motors came to rely so heavily on Japanese capital and technology that two mainstream observers, Hatch and Yamamura, liken Thailand's most prominent industrialists to 'compradors' of the colonial **era**.<sup>32</sup>

The Thai boom, however, entailed more than just the **regionalisation** of a division of labour. Yen appreciation meant that assets in other Asian countries appeared **ludicrously** cheap to Japanese developers. The Japanese state and tourist agencies also heavily promoted cheap holidays and the regionalisation of golf, Japan's prime form of corporate leisure. Developers soon followed Japanese industrial capitalists with a wave of investments in Thai golf courses, resorts, theme parks and retailing. By 1988 service and real-estate related investment had climbed to a quarter of Japan's total stock of investments in **Thailand**.<sup>33</sup> With restrictions on foreign ownership of **real-estate**, Japanese developers and tourist corporations allied themselves with Thai capitalists and army **generals** who controlled the construction industry. Military elites took equity positions in **joint-venture** developments, obtained licences to 'develop' protected forests

and coastlines and used the coercive power of the state to appropriate land from peasants.

Finally, Japanese trading companies allied themselves with Thailand's Sino-Thai oligopolists whose roots lay in **agro-business**, **buying** up large amounts of land, and introducing export-oriented mono-crop agriculture and aqua-culture to meet the exploding demand for exotic fruits, vegetables and seafood in **Japan**.<sup>34</sup> Besides causing severe ecological damage, this 'booming' **agro-business** furthered the proletarianisation of the Thai **peasantry**.<sup>35</sup> Formerly self-sufficient rice producers were now 'freed up' either to stay in their villages as agrarian wage labourers or to migrate to the greater Bangkok area to work in foreign-controlled or joint-venture factories or in the ever-expanding tourism and sex trade. The precipitous increase in exports of manufactures and agricultural produce, the escalation of asset prices, especially the cost of land, the expansion of an urban technocratic and professional class and the massive influx of **foreign** visitors to Thailand created a euphoria among transnational 'development' technocrats and industrial and financial capitalists, prompting many to hold Thailand up as East Asia's next full-fledged '**tiger**'.<sup>36</sup> Less discussed of course were the ecological and class bases underlying this boom. Also attracting little attention at the time was the bursting of Japan's asset bubble in early 1990 which led to a collapse of asset prices in Japan, the beginning of a decade-long deflationary spiral and, for Thailand, the **gradual** drying-up of the flow of Japanese investment. The entire Thai power bloc - the expanding bourgeoisie, the state technocrats and the upper echelons of the military - were all caught up in a speculative frenzy and the zeal of capitalist growth. Lacking the capital to sustain it, they threw themselves into the embrace of global finance.

It has been **argued** so far that the contradictions creating the context for the financial crisis were deep-rooted and structural, lying in the way the patterns of accumulation reflected nationally specific structures of power and the way shifts in these structures, in particular the harnessing of state power to the interests of fractions of local capital in the **1980s**, combined with distinct forms of incorporation into the global political economy<sup>37</sup> This articulation between local structures and global processes was in turn partially mediated through the regional diffusion of aspects of Japan's political economy. This **region**-alisation helped Thailand **reflate** following the collapse of commodity prices in the early 1980s. It was both made possible by the **reconfig**-uration of the Thai power structure and contributed to its continuing

transformation. The ensuing boom created the demand for foreign money among capital-poor Thai elites on the one hand, and the perception that Thailand was merely the latest example of the Asian miracle among global lenders on the other.

*'Global finance', 'liberalisation' and the fall of the first domino*

Before discussing the way that **globalisation** of finance has affected Thailand, the making of Thailand's debt crisis and the unravelling of dependent capitalist development, it is necessary to digress briefly to consider the nature of 'global finance' that the political economies of Southeast Asia encountered. While neo-liberal technocrats have dwelt on improvident lending by local financial institutions, political elites across East Asia have decried the impunity with which speculators can target a currency. Chalmers Johnson, in his analysis of the crisis, uses the terms 'global financial system' and 'global lenders' **inter-changeably**.<sup>38</sup> This lack of clarity necessitates making two points to clarify what I mean when I refer to '**global** finance'.

First, reference to '**global** finance' represents a reification of finance capital. The globalisation of finance that has accompanied the demise of the Bretton Woods system of fixed exchange rates and the dismantling of national regulatory frameworks has given rise to a hierarchy of forces. Each fraction of finance has its particular form of agency that embodies specific sets of interests and relationships. Each has been able to insinuate itself into local arrangements in specific ways. A key element of globalised finance is its fragmentation, reflected in the decentralization **and** privatization of the global organization of credit and the mechanisms for recycling **capital**.<sup>39</sup> This is crucially tied to the changing location of power at **global**, regional and national **levels**.<sup>40</sup> New forms of intermediation make the channels of credit and networks of monetary agents that link savers and borrowers more complex, more de-centralized and less subject to any sort of public or social control.

If we **disaggregate** these manifold agencies we can delineate a pyramid-shaped array of investor interests, with those having the greatest stake in a particular country, owners of a stock of fixed assets, at its base and those with no stake at all, hedge **funds** managers who merely speculate in currencies, at its apex. Located in the middle are institutional investors such as mutual and pension fund managers, **foreign** commercial and merchant banks, local banks and financial institutions, **IFIs** and state aid-granting agencies. Each of these interests has a distinct structural relationship to each national political economy.

**Secondly**, finance has been **globalised** in ways that at least partially reflect the regionalisation of production. In East Asia the regionalisation of Japanese capital helped precipitate a regionalisation of Japanese credit allocation in two ways. One was through the lending activities of Japanese banks that directly financed the activities of Japanese affiliates in Southeast Asia. The other was through the emergence of Tokyo and Hong Kong as regional centres of credit organization.

The Thai boom generated a prodigious demand for financing at **precisely** the time that institutional investors such as mutual funds were emerging as increasingly important sources of credit. North America's protracted recession at the beginning of the 1990s pressured fund managers to 'discover' **higher** yielding investment opportunities in 'emerging markets'. In order to attract highly coveted capital from abroad the Thai state put in place conditions to attract a range of **foreign** financial interests. Between 1990 and 1994, it undertook several significant initiatives to deregulate the financial system and make it accessible to foreign **capital**.<sup>11</sup> The first was the deregulation of domestic finance by removing constraints on portfolio management, loosening rules on capital adequacy and expanding the permitted field of operations of commercial banks and financial institutions. The second was the **dismantling** of all significant **foreign** exchange controls and the establishment of the Bangkok International Banking Facility (BIBF) in 1993. Under the BIBF Thai and **foreign** banks were permitted to engage in offshore borrowing in foreign currencies, to convert those funds to Thai baht and re-lend them to local borrowers. BIBF dollar loans soon became the conduit for most foreign capital flowing into Bangkok, amounting to about \$50 billion over a three-year period. The third element of financial liberalization was the informal near-pegging of the baht to the US dollar by the Bank of Thailand. A fourth initiative involved maintaining interest rates at levels significantly higher than in advanced capitalist countries. Finally, although not part of the liberalization programme of the Thai state, the consistent and fulsome praise for this liberalization by the **IFIs**, as illustrated by the World Bank statement cited above, constituted an explicit vote of confidence that encouraged foreign investment and lending.

These initiatives served the interest of various fractions of local and transnational financial capital in different ways. Institutional investors poured money into local equity and bond markets. Mutual **funds**, which were primarily American-based and managed out of Hong Kong, were driven to the region by low real interest rates and, in the

early 1990s, declining rates of return in the stock market at home. Fund managers sought open equity and bond markets and often demanded exchange rate stability as a pre-condition for market entry. The influx of these institutional investors resulted in a dramatic increase in the capitalization of equity markets **throughout** Southeast Asia. **Bello** notes how foreign investors became the largest buyers of equities on the stock exchange of Thailand while on the Jakarta exchange, the influx of foreign money increased its capitalization almost four-fold, from 69 trillion rupiah (US \$23.4 billion) in 1993 to 260 trillion rupiah in 1996, with **foreign** trading accounting for an astronomical 85% of the **volume**.<sup>41</sup>

Foreign banks took advantage of the arbitrage opportunities provided by interest rate differentials. In this regard, cheap money in Japan came to play a central role in a regionalised organization of credit, with Japanese, European and American banks borrowing in Japan and lending to local financial institutions throughout the region in what came to be known as the 'carry **trade**'.<sup>42</sup> Japanese banks also used Hong Kong as a base for the provision of **non-governmental** project finance in infrastructure and power generation, indirectly promoting the rise of 'regional' investment houses based in Hong Kong such as the now defunct Peregrine Investments. In fact, the rise of Hong Kong as a centre of regional finance during the early 1990s is directly attributable to the regionalisation of Japanese

With the collapse of domestic Japanese demand in the 1990s and a seemingly intractable financial crisis at home, there was little demand for credit inside Japan. Japanese financial institutions had not fared well in their forays into South America, the US and Western Europe in the late 1980s, and had a collective sense that Asia was more familiar and safer territory due to cultural similarities and the greater influence there of Japanese **capital**.<sup>43</sup> From the setting up of the BBIF mechanism, Japanese net bank lending in Thailand by banks reporting to the Bank of International Settlements was \$63 billion, of which more than 80% went to Thai financial **institutions**.<sup>46</sup>

Financial liberalization, of course, directly benefitted local Thai capital as well. This was **particularly** true for banks and finance companies which were now unencumbered by regulation. Once it became known in financial circles that the Bank of Thailand was planning to issue highly coveted new bank licences, finance companies competed with one another to establish themselves as major 'players' by borrowing large sums of 'carry trade' money through the BBIF and

re-lending them locally, focusing on short-term investments, particularly in property **development**.<sup>47</sup>

Easy credit and willing foreign **buyers** of stocks and bonds also facilitated the emergence of a new stratum of would-be industrialists who entertained visions of translating cheap money into high-tech industries or Chinese empires. The historic political inability of the Thai state to direct lending for industrial policy purposes and the willingness of local banks to lend on easy terms allowed the owners of a host of emerging companies, like Shinawatra, TT & T, and the then celebrated and now defunct Alphatech, to parlay their political connections into lucrative licences for local control of new-fangled services such as mobile phone networks and satellite television **broadcasting**.<sup>48</sup>

The first visible weaknesses appeared in 1994 when the People's Bank of China devalued the Chinese renminbi to promote labour-intensive exports. This was followed by a 1995 agreement between the Japanese Finance Ministry and the US Treasury to depreciate the Yen against the **dollar**.<sup>49</sup> These exchange rate shifts did not upset the baht-dollar peg that provided financial investors with 'stability' but they did undermine the viability of cheap Thai exports. The ten-year increase in Thai exports peaked in 1995, **forcing** the Bank of Thailand to use its reserves to defend the peg.

By the end of 1995 it was already clear to local developers that there were no buyers for their luxury housing and modern office space. The stock of vacant units in Bangkok already had an estimated value of \$20 billion. In June 1996 the Bank of Thailand began to prop up local banks by taking a thirty-two percent position in a prominent local bank on the verge of **failing**.<sup>50</sup> By early 1997 non-performing bank loans to Thai institutions stood at over \$3 billion. The final blow to this elaborate house of cards was an intimation by Japanese Ministry of Finance officials that an interest rate hike might be necessary to strengthen the Yen which had fallen a full 40 yen, to 127 to the dollar, in the preceding two **years**.<sup>51</sup> The possible removal of one of the pillars of the 'carry trade' created the impetus for a run on the baht and the collapse of Thai asset prices. Commercial and investment bankers immediately began to call in their Thai loans. This sent local lenders who had borrowed in dollars but had lent in local currency scurrying to exchange baht for dollars or Yen. As local investors began to dump equities, institutional investors sold off all of their Thai holdings, precipitating a collapse of asset prices. The last act in the drama was the desperate but ill-advised attempt by Bank of Thailand to preserve the peg by borrowing money from the same lenders who were

dumping its currency. The **sight** of an under-funded central bank defending an over-valued currency that the entire world was selling off presented an irresistible opportunity for hedge funds. Selling the baht 'short' constituted a bell-weather for other financial interests, triggering a further round of capital flight, and a withdrawal of virtually all lines of credit to Thailand. By the beginning of July the Bank of Thailand was left with no choice but to float the baht. When the Thai finance minister's request for a loan was turned down by Japanese financial officials, there was little alternative but to call in the IMF. Fifteen years after its last economic debacle, Thailand was once again subjected to IMF structural adjustment.

### III. PARTIAL LIBERALIZATION AND THE IMPASSE OF OLIGOPOLISTIC CAPITAL IN KOREA

Before considering IMF restructuring and the broader implications of the crisis it is important also to look briefly at the Korean 'crash'. The composition of the Korean ruling bloc and its matrix of structures differ significantly from those in Thailand and other Southeast Asian countries. While Thailand featured an open capital market, a fixed exchange rate, and an absence of industrial **policy-oriented**, state-directed lending, Korea had neither a fixed exchange rate nor inflows of 'hot' money. If Thai bureaucratic elites hoped that foreign capital would do what the state and the local bourgeoisie could not (i.e., foment an industrial transformation of the country) Korea, whose state had long channelled lending into heavy industry, and whose bourgeoisie was dominated by oligopolistic industrial capital that exported capital-intensive products world-wide, encountered no such problem. Yet Korea, the 'classic NIC', celebrated by state institutionalists and progressive competitive social democrats alike, was no less an example of dependent capitalist development. Korea went from OECD candidate-member to the recipient of the single largest financial bailout in the history of multilateral lending in a mere two years!

Korea's financial crisis again is as much a manifestation of the impasse its dependent capitalism had **reached** prior to **the** implosion of December 1997 as it is a debt crisis. An understanding of this impasse once again requires a mapping of the domestic class structure and the nature of state-society relations, as well as Korea's global and regional linkages and the contradictions inherent in these **relationships**.<sup>52</sup>

Prior to the **mid-1980s**, Korea's political economy does bear some

resemblance to the neo-institutional accounts of Korean **political economy**.<sup>53</sup> A powerful class of 'political capitalists' emerged in the 1950s, acquiring the privatised assets of the vanquished Japanese colonial regime. In return for **funding** of authoritarian politics, they were granted privileged access to **foreign** capital, which at the time meant US aid, and scarce commodities that they were able to parlay into industrial conglomerates known as *chaebol*.<sup>54</sup> For more than two decades after the advent of military rule in 1961, Korean finance was characterised by the tight relationship between the state and these capitalists. The state borrowed money from abroad and funnelled it through state-controlled banks at low interest rates to the *chaebol* to develop industries that it designated strategic. In the 1970s the state took advantage of its strategic alliance with the United States to gain access to large amounts of petrodollars that were available at negative interest rates.<sup>55</sup> It channelled these funds to the *chaebol* to promote rapid heavy industrialization and to maximize manufacturing exports. **Allocative** decision-making was made by the newly-formulated Planning Council which reported directly to the **president**.<sup>56</sup> In addition to being dependent on state-controlled finance, the *chaebol* became intertwined with Japanese industrial capital, developing a lasting dependence on Japan for technological know-how and intermediate inputs. This pattern of political economy precipitated what continues to be a key contradiction in Korean capitalism even in the aftermath of the crash; because this low-cost financing was **geared** to creating industrial capacity rather than profitability, the *chaebol* had staggering debt-to-equity ratios and a large accumulation of non-performing loans. The size of the debt and the potentially devastating social impact of the bankruptcy of any of the largest employers in the country required the socialisation of this high-risk industrial expansion.

This structure of industrialization was also a structure of political rule. The strategy of creating economies of scale in capital-intensive industries meant that there were insufficient funds available for the remainder of Koreans who were forced to borrow informally at excessive interest rates.<sup>57</sup> It was underpinned by state-controlled corporatist unions, strict enforcement of ideological conformity and overt suppression of labour protest. **Dependent** development was also characterized by the inability or unwillingness of Korean capital to externalize the ecological costs of rapid industrialization, resulting in devastating levels of air, water and soil pollution that earned Seoul the dubious honour of being the world's second most polluted city after Mexico City.<sup>58</sup>

This phase of Korea's political economic development, which has been reified in the neo-institutionalist 'development' literature as the East Asian developmental model, could not survive the passing of a specific set of historical circumstances. By the early 1980s, cheap **foreign** money and the ability to keep foreign capital at bay, two of the pillars of Korea's political economy, were removed: *i.e.*, the USA's embrace of monetarism, and pressure by the Reagan administration to force open Korea's financial markets to ensure that it didn't become 'the next Japan'.

Internally, a new military regime led by Chun Doo-hwan seized power in response to a triple crisis of hyper-inflation, local recession and the assassination of President Park Chung-hee. The Chun regime, deprived of any domestic legitimacy by its bloody suppression of the Kwangju uprising, relied on support from the Reagan administration which viewed the new regime as a useful ally in the 'Second Cold War'. It undertook a **reconfiguration** of the Korean ruling coalition by distancing itself from the chaebol in order to tap into the anti-chaebol attitude of a rising stratum of middle-class managers, **professionals** and **technicians**.<sup>59</sup> The Chun regime also endeavoured to differentiate itself from its fallen predecessor by shifting the locus of economic decision to the more technocratic Economic Planning Board, privatizing **state-owned** banks, increasing interest rates to attract the high rates of household savings into the banking system, and promoting equity markets as a continued source of cheap funds for the chaebol. It did so while resisting American pressure to grant US financial institutions meaningful access. Bank autonomy was, however, constrained from the outset. Banks were instructed by the Ministry of Finance both to favour **lending** to small and medium enterprises over the chaebol, and to reschedule debt payments and grant new credit to the same chaebol for industrial upgrading."

Further **change** accompanied the opening up of the political system in the late 1980s. Former **political** and bureaucratic elites were not strong enough to maintain the previous state structure in the face of nation-wide mass-protests. But neither were the 'democratic forces', notably labour and the middle class, strong enough or sufficiently united to dislodge the ruling **elites**.<sup>61</sup> The state came to reflect a grafting of the least progressive of the democratic elements. *i.e.*, the reform politicians, onto the existing structure. These politicians quickly distanced themselves **from** the working class and sought to build electoral bases of middle-class support by pledging liberalisation and democratisation of the state and economy. Their ascendancy was

highlighted by the advent of Kim Young-sam as Korea's first civilian president in 1993. For their part, the chaebol became increasingly uncomfortable with the heavy-handed attempts of the new regime to extract money to fund the new electoral politics. Chaebolowners began to argue for an end to state micro-management of industry.

From the late 1980s through the middle 1990s the impasses of Korean capitalism were to prove unsustainable. The end of military rule opened up the space for organized labour to demand large-scale wage increases and improvements in the abominable working conditions workers were subjected to. A proliferation of 'social movements' across the country also demanded the environmental regulation of industry and clamoured for the state to force capital to pay for the clean-up of local pollution. Korean capital now came to regard itself as 'burdened' by the high cost of local money, excessively high labour costs and unreasonable social regulation. The advent of Southeast Asia, and subsequently China as new sites of low-cost production, followed by currency devaluations in China, further undermined the chaebol strategy of low-wage, capital-intensive mass production. The final straw resulted from the strategy of channelling funds into the expansion of capacity to assemble random access memory chips. Both industrial capitalists and state elites were counting on this as the sector in which Korean capital was at long last to break its dependence on Japanese and American technology. However, in January of 1996, a glut of memory chips led to a precipitous fall in unit prices, accompanied by dramatic reductions in Korean exports.<sup>42</sup>

This confluence of events created an impetus on the part of Korean capital to both reduce costs and find new avenues of profit generation. This included renewed demands to gain access to cheaper money abroad and the adoption of a 'new management strategy' that would roll back many of the gains recently made by labour. The state negotiated three compromises with the chaebol. First, without changing the basic domestic financial structure and without allowing anything more than partial and modest incremental increases in foreign access to the Korean financial system, the state relaxed its limitations on foreign borrowing by Korean firms and ceased monitoring these borrowings. Second, the state completely abandoned its role of co-ordinating industrial investments. Finally, the state agreed to make Korea's labour market more 'flexible', thereby removing the restrictions on the unilateral laying-off of core blue collar workers.<sup>43</sup>

The first two of these compromises led directly to the debt crisis and the third led to the general strike of January 1997. Unlike countries

such as Thailand which were wholly dependent on opening their capital markets to attract pools of portfolio investment, Korea was able to finance most domestic investment through domestic savings. The problem was the high cost of domestic money. By 1996, with Japanese interest rates the world's lowest, Korea's fledgling merchant banks and finance companies, with no experience raising funds offshore and a paucity of staff skilled in assessing credit worthiness and risk evaluation, began borrowing prodigious amounts of money from Japanese banks and the Japanese branches of US and European banks. These transactions, no longer scrutinized by the Korean state, featured poor maturity structures, with over 70 per cent carrying less than one year's maturity and more than half with a maturity of 90 days.

The domestic corollary of unregulated **foreign** borrowing was the availability of easy credit in Korea. As export earnings dropped, the major *chaebol* embarked on a course of rapid and ambitious expansion of **capacity**.<sup>64</sup> But **equally** important was the prolific lending to medium-sized companies that **sought** profits outside of manufacturing, venturing into a range of service-related and speculative activities.<sup>65</sup> The result of these patterns of off-shore borrowing and easy domestic credit was that by 1997 over \$150 billion in debt was owed by Korea's financial institutions to foreign banks and more than \$300 billion in debt was owed by Korean companies to Korean financial institutions. When the state refused to allow a major *chaebol*, **Kia Motors**, to go bankrupt, the bond rating agency Standard & Poors downgraded Korean debt, and hedge funds, fresh from their killing in Southeast Asia, moved in to attack the won. Over the ensuing few weeks the primary holders of Korean debt, the foreign banks, insisted on calling roughly 75 per cent of the loans due, precipitating a run on the Korean won and a precipitous asset deflation as \$1 billion a day flowed out of Korea. Korea had quickly gone from being insulated from the flows of 'hot money' and their **destabilising** effects in the early 1990s to becoming yet another ward of the IMF.

#### IV. IMF RESTRUCTURING AND THE FUTURE OF EXPORT-ORIENTED DEPENDENT CAPITALISM

IMF austerity programs increased in severity and scope as the dominoes continued to tumble. However in all instances the Fund sought to remake the respective financial systems by demanding the closure of suspect financial institutions, the establishment of new regulatory practices and the complete opening of the capital market,

including the right of foreign capital to attempt hostile mergers and **acquisitions**.<sup>66</sup> It also ensured a prolonged deflation and continued liquidity crisis across the region by insisting on capping public spending, reducing the role of the state and maintaining high domestic interest rates. In addition, the IMF assured foreign banks that their outstanding debts would be compensated in full and then, in conjunction with the US Treasury and the Japanese Ministry of Finance, proceeded to broker the rolling over of some of the debt from short- into long-term debt. This was done by compelling various states to socialize private debt. If this were not sufficiently intrusive, the Fund further took it upon itself to demand the breaking up of cartels, the privatization or dismantling of state-owned enterprises, the creation of flexible labour markets in Korea and the elimination of food subsidies in Indonesia, even as millions of subsistence farmers faced drought, crop-failure and possible starvation.

The actions of the IMF in orchestrating rescue packages and imposing structural adjustment have already come under heated attack on a number of counts: the thinly disguised advancement of American interests; its acting as a collectibn **agency** for bankers who profited greatly from imprudent lending; paying lip-service to country-specific conditions while insisting on 'one size fits all' neo-liberal programmes; and characterizing the crisis as 'financial' in its analysis while in practice demanding comprehensive restructuring of public and private institutions and state-society **relations**.<sup>67</sup>

While all of these criticisms have merit, they all point implicitly to the real issues that revolve around the refashioning of social power. As Robert Wade points out, the IMF has used this crisis to promote the interests of a 'Wall Street-Treasury Complex', the goal of which is nothing short of the institutionalization of a global regime of complete, unfettered capital mobility that further enhances both the structural and direct power of financial **investors**.<sup>68</sup> This will be further enhanced by the opportunities that structural adjustment creates for the widespread transfer of local assets, particularly in Korea, to foreign capital.

Related to this attempt at **global** reordering is the local struggle to reconfigure power. IMF conditionality creates an opening for the obliteration of class compromises or impasses that underpinned social order. By making the flexibilization of Korean labour markets part of IMF conditionality, for example, the Korean state and Korean capital can use the 'national crisis' as a pretext to attempt what they were politically unable to accomplish one year earlier, the diminution of the

power of organized labour. This highlights a point that was made at the outset of this essay, that the imposition of IMF-mandated austerity on the majority of the population, like globalisation, has to be put in place locally and under the auspices of state power and with the support of key social forces. IMF programmes that have already depressed wages and wiped out millions of jobs have been legitimated by appeals to national solidarity. In countries like Thailand, while the urban middle class hail the crisis for bringing about a new 'democratic' constitution and weakening the role of the military, a large part of the migrant working class have been thrown out of work and in the absence of any social welfare system, have been forced to seek refuge in their home villages in the impoverished Northeast of the country.<sup>69</sup> However, land speculation and export-oriented cash cropping have increased peasant vulnerability to fluctuations in food demand by breaking down forms of subsistence agriculture and making it difficult to welcome back returning family members.

Just what are the implications of this crisis and of IMF restructuring for East Asian dependent capitalist development? What has likely come to an end is not some 'East Asian miracle'. Many of the region's capitalists will undoubtedly prosper and as long as global finance remains unaccountable to anybody but shareholders, global investors will almost surely return to the region once asset values have been driven down far enough and investor confidence has been restored. What is more plausible is that export-oriented dependent capitalist development as a continuing alternative to more liberal forms of capitalism has become unsustainable. There are several reasons for this. The first relates to the old **fallacy-of-composition** problem that was frequently raised in the 1970s and 80s, i.e., that export-oriented development based on the export of labour-intensive manufactures is viable only when it is practiced in a handful of countries with small populations. But as an increasing number of low-wage countries with large populations such as China engage in export-oriented manufacturing, the proclivity in capitalism toward over-production is quickly realized. The often-asked question, who will buy all these cheap exports, remains pertinent. In this regard, the dramatic disruptions of the Thai and Korean economies by the surge in Chinese exports in the mid-1990s was only the beginning. The effective nationalization of debt coupled with the political economy of forced austerity will make state elites desperate to promote exports just to generate the hard currency to repay the debt plus interest. This could possibly lead the region into a vortex of competitive devaluations.

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Second, Japanese capitalism's own impasses, and the prospects of domestic restructuring in Japan, will ensure that the role previously played by Japanese capital in the formation of trans-regional class alliances with local capitals will not likely continue in the same organizational forms. It is indeed ironic that the contradictions in Japanese capitalism contributed to the tumbling down of the regional dominoes and promises to exacerbate and prolong the crisis that began in 1997. In fact the IMF-imposed neo-liberal restructuring is predicated on a regional solution, i.e., a Japanese reflation to counter the deflation being exported from the rest of the region in the form of lower-cost exports. However Japan is mired in its own bad-debt crisis, Japanese industrial capital is still burdened with excess capacity from the late 1980s, and a collapse in domestic demand since 1991 has loosened long-term sub-contracting relationships and is precipitating a discernible increase in unemployment and under-employment, especially among young **people**.<sup>70</sup> Far from the prospects of Japanese imports rescuing the region and vindicating the imposed austerity, regional imports to Japan actually declined as a dramatically depreciating Japanese yen further contributed to the threat of a **regional** spiral of currency **depreciations**.<sup>71</sup>

Third and perhaps most importantly, structural adjustment is aimed at breaking the non-arms-length nexus between the state and capital as well as between fractions of finance capital and **commercial/industrial** capital. It is these relationships that contributed to East Asia being the region of the world most resistant to market 'freedoms' such as mergers and hostile acquisitions by foreigners, bankruptcies, and precipitous layoffs of core workers. Restructuring is aimed at making all fractions of capital subject to the discipline of the maximization of shareholder value and profitability. Here it must be remembered that the kind of financial system associated with Anglo-American style equity markets that is being prescribed for the entire region is itself based on a mythology that direct equity market-centred financing represents a less politicised, more 'efficient' form of finance. As Doug **Henwood** has shown, contemporary equity markets are much more institutions for configuring the ownership of **large** corporations than institutions concerned with raising funds for productive investment. This has been reflected in the prevalence of mergers and acquisitions in the United States and in the transfer of family- and state-owned enterprises in 'peripheral' countries into the hands of private **shareholders**.<sup>72</sup> This appears to be precisely what is **likely** to emerge in East Asia as restructuring gathers momentum. The collapse of asset prices and dramatic

currency devaluations make assets, particularly in Korea, a bargain for North American or European corporations, no longer barred from acquiring local assets. Furthermore, the IMF requirement of **high** domestic interest rates and tight fiscal policy has created a deflationary environment in which the Korean state and Korean capital have been desperately selling off assets in return for any infusion of **funds**.<sup>73</sup>

Finally, the crisis has highlighted the glaring class contradictions that were already prevalent but muted by authoritarian political power: the centrality of the state in all aspects of social life, the defeat of the left, virtual full employment and the continuation of some traditional forms of social solidarity. The weakening of all this, plus the harshness of more liberal forms of finance, is likely to exacerbate class conflict. But since restructuring is ostensibly promoting more transparency and accountability it is worth also speculating about democracy in the era of restructuring. The resignation of president Suharto and the promise of open and fair elections at the national level in Indonesia may help institutionalize procedural democracy as liberals suggest, but electoralism is likely to offer little more than a new mechanism for elite control that uses elections as a legitimating device while at the same time suppressing the demands of popular sectors. To be reminded of the limits of electoralism, we only need to be reminded of how all three candidates for the Korean **presidency** felt compelled at the height of the campaign to publicly **profess** support for the terms of IMF conditionality. Moreover, given how intractable the region-wide deflation will likely be, it is difficult to envisage democratically elected elites allowing any space for independent labour organizations or local ecological movements that threaten to disrupt accumulation and drive up costs. Here again we need look no further than the great democrat Kim Dae-jung and the way he has allowed labour to sit at the table solely to ensure that the mass layoffs of Korea's unionized workforce are accomplished relatively smoothly. President Kim's appeal to workers in his nationally-televised 'town-hall meeting' to accept layoffs and other hardships, illustrates how the coercion of neo-liberal restructuring can readily be modulated into modern, democratic 'public-opinion management' **practices**.<sup>74</sup>

Despite the warranted pessimism, there is perhaps a progressive moment that comes out of the crisis. The region's melt-down opens up space for people once again to entertain alternative conceptions of 'development' and the range of possible political strategies to achieve their implementation. Alternative thinking had been blocked by the widespread acceptance of the illusion of **permanently high growth** rates

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and ever improving material circumstances. In the short-term there is likely to be a good deal of support among a stratum of the elite and the middle class most adversely effected by liberalization, within each of the domino countries, for some modest reimposition of controls on capital, such as the adoption of the **Tobin** tax on cross-border flows of capital. There may even be support for promoting social welfare through a modicum of redistribution, especially in Korea, as previously secure workers are thrown out of work in increasing numbers without either a social safety net or a traditional extended family support network to fall back on. But even modest departures such as these require dissident forces to think beyond the restoration of some variant of state-centred dependent capitalism as a desirable alternative to the imposition of neo-liberalism. Trade union leaders desperate to protect jobs, and left-leaning intellectuals, have responded to the crisis by constructing a nationalist politics of resisting foreign-imposed austerity in alliance with the very domestic capitalists at whose hands they have been marginalized or oppressed. They have also called for the nationalization of private debt even **though** it places a long-term burden on the bulk of the population and makes the state even more susceptible to the pressure of creditors. Similarly, many foreign state-institutionalists, like Robert Wade and Chalmers Johnson, argue for a return to the 'developmental state' with its capacity to formulate industrial policy and to mobilize high rates of household savings for 'national development'.<sup>75</sup>

Ultimately any momentum for financial or other social re-regulation that might emerge in opposition to IMF-sponsored austerity needs the support of a coalition of social forces for a different conception of development. This requires a basic acceptance that a return to the *status-quo ante* is neither possible nor desirable. The recent boom and bust shows clearly that the hitherto **widely** accepted notion of **growth** based on export promotion, the suppression of labour and rapid ecological depletion as a recipe for 'sustainable' development, is a grand illusion. But any political project that seeks to challenge elite power while promoting social justice and ecological sustainability must begin by exposing the false idea that neo-liberalism and state-centred capitalism constitute the only possible options. The roots of the current crisis lay, as we have seen, in local and global structures of power and how they shaped production and the accumulation of surplus. A progressive project would have to be built around a challenge to and a re-fashioning of these structures of **power**. The latter would require a democratization of the state, the re-orienting of local

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production toward local demand, and the socialization of decisions about technology and the relationship between production and local and national ecological carrying capacities. It would also require a commitment to an alternative solution to the debt crisis; one that avoids the protracted transfer of funds to a transnational coalition of **creditors**.<sup>7</sup> While the balance of class forces obviously militates against this as a political project likely to compete successfully with the **elite**-driven nationalist or neo-liberal alternatives in the short-term, its social basis has to lie in worker and peasant collective action to gain more control over their work contexts, and in the assertion by local communities of greater control over the way the state, national and foreign capitalists acquire and appropriate locally-based assets. It is therefore hardly surprising that despite the increased prevalence of electoralism in Korea and Thailand, and its possible deepening in post-Suharto Indonesia, these are precisely the terrains of greatest resistance, where the struggles for and against real democracy are being waged most vigorously.

### NOTES

I would like to thank Stephen Gill and Eric Helleiner for their helpful comments and suggestions.

- 1 Throughout this essay East Asia refers to both Northeast and Southeast Asia.
- 2 World Bank, *The East Asian Miracle: Growth and Public Policy*, New York: Oxford University Press, 1993.
- 3 For several examples of the burgeoning literature from varied perspectives see Lester Thurow, 'Asia: The Collapse and the Cure', *The New York Review of Books*, February 5, 1998, pp. 22-26; 'The Currency Crisis in Southeast Asia And the Republic of Korea', Asia Development Bank, Manila, 1998; Paul Krugman, 'What Happened To Asia?', <http://web.mit.edu/krugman/www/DISINTER.html>; and Walden Bello, 'The end of the Asian miracle', *The Nation*, 12-19 January 1998.
- 4 A representative example is the Asian Development Bank's report on the crisis. See *The Currency Crisis in Southeast Asia and the Republic of Korea* (Manila: Asian Development Bank, 1998).
- 5 For a view of the East Asian state as a bulwark against globalisation which did **not**, however, automatically assume its progressive character, see Manfred Bienefeld, 'Capitalism And The Nation State In The Dog Days Of The Twentieth Century' in R. Miliband & L. Panitch eds., *Between Globalism And Nationalism, Socialist Register 1994* (London: Merlin Press, 1996), pp. 94-129.
- 6 Linda Weiss, 'Globalization and the Myth of the Powerless State', *New Left Review* 225 (September-October 1997), pp. 3-27. Also see P. Hirst and G. Thompson, *Globalization in Question* (Oxford, Polity Press, 1994).
- 7 For an important critique of the general **principal** of 'progressive competitiveness'

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see Gregory **Albo**, 'Competitive Austerity' and the Impasse of Capitalist Employment Policy' in R. **Miliband** & L. **Panitch** (eds.), *Between Globalism And Nationalism, Socialist Register 1994* (London: Merlin Press, 1996), pp. 148-57. For a critique of the empirical and theoretical appropriation of a reified Japanese 'model' as something 'progressive' see Paul Burkett & Martin Hart-Landsberg, 'The Use and Abuse of Japan as a Progressive Model' in L. **Panitch** (ed.), *Are There Alternatives? Socialist Register 1996*, pp. 62-92.

There are a number of ways that a regionalised model of East Asian capitalism has been constructed. For an extended critique that takes class-formation seriously see M. Bernard, 'States, Social Forces, Regions and Historical Time in the Industrialization of Eastern Asia', *Third World Quarterly*, 17:4, pp. 649-665. There are analysts such as Linda Weiss who distinguish between states that are 'rent-seeking' and those which have the capacity to promote 'competitiveness'.

For an example that focuses on Japan as core and the rest of the region as periphery see Rob Steven, *japan and the New World Order* (London: MacMillan, 1996). For an example of dependency writing focused on the Asian NICs see Walden **Bello** & Stephanie Rosenfeld, *Dragons in Distress* (San Francisco: Food First Publications, 1991).

10 Leo **Panitch**, 'Globalisation and the State' in R. **Miliband** & L. **Panitch** (eds.), *Between Globalism And Nationalism, Socialist Register 1994* (London: Merlin Press, 1996), p. 67.

11 For a discussion of why social formations in Southeast Asia are not merely fledgling versions of Korea or Taiwan that takes class-formation seriously see M. Bernard, 'States, social forces and regions in historical time: toward a critical political economy of Eastern Asia', *Third World Quarterly*, 17:4 (1996), pp. 649-665.

12 On this point see M. Bernard & J. Ravenhill, 'Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy and the Industrialization of East Asia', *World Politics*, 47 (1995), pp. 171-209.

13 For a more elaborate discussion of 'region-formation' see M. Bernard, 'Regions in the Global Political Economy: Beyond the Local-Global Divide in the Formation of the Eastern Asian Region', *New Political Economy*, 3:1 (November 1996), pp. 335-354.

14 This point is more fully developed in M. Bernard, 'States, Social Forces, Regions'.  
15 *World Development Report, 1996*, World Bank.

16 Walden **Bello**, 'The Rise and Fall of South-east Asia's Economy', *The Ecologist*, January 1998, pp. 1-9.

17 *Ibid.*, p. 1.

18 R. J. Muscat, *The Fifth Tiger: A Study of Thai Development Policy* (Armonk, NY: M.E. Sharpe, 1994).

19 For a description of the Thai bourgeoisie and their emergence see A. Suehiro, *Capital Accumulation in Thailand, 1855-1985* (Tokyo: UNESCO Centre for East Asian Cultural Studies, 1989). On the origins of capitalism in Thailand more generally see Chaiyan Rajchagool, *The Rise and Fall of the Thai Absolute Monarchy* (Bangkok: White Lotus, 1994).

20 R. Doner and D. Unger, 'The Politics of Finance in Thai Economic Development' in S. **Haggard** et al., eds., *The Politics of Finance in Developing Countries* (Ithaca, N.Y.: Cornell University Press, 1993), pp. 95-6.

21 **Akira Suehiro**, 'Capitalist Development in Postwar Thailand' in R. **McVey** (ed.),

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- Southeast Asian Capitalists* (Ithaca: Cornell Southeast Asia Program, 1992), pp. 42-50.
- 22 For a discussion of Thailand and the affects of the Vietnam War see from Benedict Anderson, 'Withdrawal Symptoms: Social and Cultural Aspects of the October 6 Coup', *Bulletin of Concerned Asia Scholars*, 9:3 (1977), pp. 13-30.
- 23 On the successive stages of regionalised production see M. Bernard, 'The Pattern and Implications of Trans-National Production in Eastern Asia', *Eastern Asia Policy Paper Series, No. 2*, University of Toronto - York University Joint Centre for Asia Pacific Studies, 1994.
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