Capitalism and the Capitalist Spirit in East Asia: A View from Europe*

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Abstract

For much of mankind’s history, East Asia represented the largest part of the world economy. The industrial revolution (as the manifestation of the rise of modern capitalism) has changed this, though we are probably witnessing a return to this traditional pattern of East Asia as the largest cluster of economic activity. We do not have good answers as to why did this revolution take place at the periphery, rather than at the gravitational centre of world economic activity in East Asia - but we know that East Asia more recently has done exceptionally well, developing its own forms of modern “East Asian capitalism”, the capitalist developmental state. Japan has been at the core of this success, and continues to exercise considerable influence over the development of modern capitalism in East Asia. But the crisis of Japan since 1992, and the East Asian “financial crisis” of 1997-1998, signal the end of the useful life of the Japanese model of the developmental state. East Asia will have to shift to a new paradigm which, however, will certainly not be a copycat version of Anglo-Saxon capitalism. In addition, East Asia will have to cope with unprecedented demographic changes and solidify as yet very fragile regional security co-operation and integration.

For much of the last 5000 years of history, East Asia represented the largest part of the world economy. The industrial revolution (as the manifestation of the rise of modern capitalism) has changed this, though we are probably witnessing a return to this traditional pattern of East Asia as the largest cluster of economic activity. We do not have good answers as to why this revolution took place at the European periphery, rather than at the gravitational centre of world economic activity in East Asia - but we know that East Asia more recently has done exceptionally well, catching up rapidly and even moving towards the frontier of capitalist development. What this paper sets out to do is to explore the failure of autochthonous capitalist development in East Asia, the region’s later successes and its most recent difficulties. Against this background, the paper then speculates about the future of modern capitalism in East Asia.

1. What is “Capitalism”?

What do we mean by “capitalism”, and how do we define “modern capitalism”? Max Weber draws a sharp distinction between the two. For him (and I will follow his argument), capitalism simply means any economic activity which aims at a sustained and growing balance-sheet surplus. In this traditional sense, capitalism is a very venerable and universal phenomenon. It centred around the exchange of goods and services, i.e. around commerce.

Modern capitalism for Max Weber is a much more demanding category. It is dominated not so much by exchange (though the scope for exchanges certainly also widens dramatically under modern capitalism) but by the quantity and quality production. Traditional capitalism satisfied human needs and desires through trade, modern capitalism through product multiplication and innovation. Where traditional capitalism uses resources extensively, modern capitalism does so intensively. One implication of the shift from one to the other was that the territorial scope of economic activity could be reduced: long-distance trade played constituted a much more important share of total commerce under traditional capitalism than under modern capitalism. Modern capitalism is intricately linked with the rise of the modern nation state.
Specifically, Max Weber argues that the rise of modern capitalism required a number of essential preconditions, which together existed only in Europe, namely

- rational capital accounting on the basis of private property over all physical means of production,
- free markets,
- rational use of technology (mechanisation),
- rule of law,
- free labour,
- the commercialisation of economic life, which implied the transformation of property into negotiable paper and, related to this last feature,
- speculation.

This still seems a pretty good description today. It makes clear that “modern capitalism” could be equated with “industrialisation” or “modernisation”; it describes the fundamental changes Western, but also many non-western societies have been undergoing through the last two hundred years.

2. Why did Modern Capitalism not Arise in East Asia? Some Western Views

That capitalism did not develop spontaneously in East Asia is an indisputable fact. How this fact can be explained, however, is another matter - and trying to answer it is tricky for both Western and East Asian social scientists, as we both may have our own axes to grind: we Western may secretly indulge in triumphalism, while East Asian may wish to rationalise shortcomings.

In any case, Western views on this question diverge widely, and we clearly are far away from a clear and generally accepted answer. By way of illustration, let me briefly review some Western explanations for the rise of modern capitalism in Europe and its initial absence in East Asia.

Max Weber

Max Weber to my knowledge was the first social scientist to explore, in a highly systematic fashion, the question as to why modern capitalism developed in Europe, but not in East Asia. Others have dealt with his analysis much more competently, and more thoroughly, than I could have done. Suffice it to say here that his culprits
with regard to China were, to simplify enormously, a) the pervasive influence of kinship relations in Chinese society and economy (from today’s perspective of Chinese capitalism of family networks, a somewhat ironic position) and b) the structure of the Chinese state which obstructed the development of modern capitalism.²

**Gunnar Myrdal**

To use Myrdal’s monumental study on the “Asian Drama”³ as evidence is, of course, somewhat unfair: his analysis essentially was confined to South Asia (though his definition of this region curiously included much of today’s South East Asia, and it also claimed broader relevance). Still, it may be worthwhile to recall that he saw the origins of persistent, indeed escalating underdevelopment in attitudes and institutions. Traditional religious beliefs and traditional socio-political institutions top him represented the core obstacles to development, which could be overcome only with a “big push”. Note, however, that he had some very harsh things to say about simplistic notions about “Asian values”⁴.

**Jared Diamond**

A radically different approach to explain our puzzle has been taken by the physiologist Jared Diamond. In his book “Guns, Germs and Steel. The Fate of Human Societies”⁵ he looks to geographical and environmental conditions as determinants of human history. From this perspective, both Europe and East Asia turn out to have been favoured by nature. Indeed, the geographical and ecological environment of East Asia was so favourable that it enabled China to achieve the political unification of a large land mass and huge population earlier, and to defend this political unity more effectively than other civilisations. This, to Diamond, helps to explain the technological advantages which China achieved over others.

Yet those advantages often remained unused, and China’s great historical asset, its political unity based on advantageous geographic conditions, became a major disadvantage. In geographically and politically heterogeneous Europe, competition between states kept up the pressure for innovation. China was also more isolated from other major civilisations, but more exposed to the continuous onslaught of steppe people from East Central Asia.
Why did modern capitalism not arise spontaneously in East Asia? In the end, this brief survey of explanations does not give us a clear answer. Certainly, many necessary preconditions existed there, as much as (if not more than) in Europe. Although we have a number of plausible explanations and considerable supportive evidence about barriers to modern capitalism in East Asia, in the end those explanations and the supporting evidence are also not always compatible, sometimes contradictory and certainly not easily reduced to elegant causal theories. We are thus left somewhat puzzled by the question as to why East Asia failed to shift towards modern capitalism on its own. The simplest way to settle the issue may be to state it as follows:

Proposition One: In East Asia, modern capitalism failed to develop autonomously because there was no perceived need for it. This need in Europe was provided by the competition of nation-states through endless rounds of warfare.

3. **The Rise of Modern Capitalism in East Asia, 1868 to 1997**

It thus was the incursion of external factors - specifically, the geographical expansion of modern European capitalism in the age and under the form of Western imperialism - which introduced East Asia to modern capitalism. This historical process started with the first (abortive) effort by the United Kingdom to persuade China to open itself to trade with the West (the famous Macartney mission) in 1792-1794 and unfolded through the opium wars and subsequent external interventions in China and the arrival of Commodore Perry’s Black Ships to Japan in 1853.

It was the latter event which in retrospect turned out to be decisive for the implantation of modern capitalism in East Asia. The forced opening of Japan triggered the (already shaky) breakdown of the old order, and a determined effort by the new Imperial state of the Meiji revolution to haul Japan into the age of industrialisation.

This effort succeeded in a remarkable tour de force, though it also left a highly precarious legacy of expansionist energies and social tensions. Japan’s successful industrialisation, which was completed in its first, most important phase by 1914, represented the first of four successive waves of the expansion of modern capitalism.
in East Asia. The second wave started in the 1960s and comprised the later so-called Newly Industrialising Countries (NICs) South Korea, Taiwan, Hong Kong and Singapore. A third wave engulfed from the mid-1970s South East Asia, and the fourth wave has swept China since the initiation of the four reforms in 1978.

The impressive catch-up development of East Asia since World War II has been extensively documented. According to the much-quoted study on “The East Asian Miracle” published by the World Bank in 1993, the development of the region was marked not only by historically unusually high growth rates of overall economic activity and per capita output, but also by a quite remarkable degree of distributional justice and a successful assault against absolute poverty. While the East Asian region may have been a late developer, by 1997 it certainly had been catching up very impressively.

In sum, this leads to my

*Proposition Two: Modern capitalism has unfolded by and large very successfully in East Asia. Like waves triggered by a stone thrown in a pond, industrialisation spread from Japan throughout the region. This suggests that many preconditions for successful industrialisation already were in place.*

4. **Why did modern capitalism in East Asia succeed in this century?**

But why did modern capitalism spread so successfully since 1868 in Japan, and since World War II throughout the region, when it had failed to develop spontaneously? And what were the reconditions which existed? One obvious response to the first question is that it was precisely the opportunities to catch up, hence to adapt experiences and practices which already had been developed elsewhere, which explained the rapid rise of modern capitalism in East Asia in the late 19th and 20th century.

Yet this alone is not enough, as some blatant development failures such as North Korea or Burma show. The success of modern capitalism elsewhere was one necessary external, but certainly not a sufficient condition. Others had to exist, as well, both internally and externally. My argument would be that it was a confluence of existing internal preconditions and external influences, which catalysed internal changes and thus removed the traditional obstacles to modernisation. The first
external challenge was presented by the intrusion of the West into East Asia, and the second by modernising Japan.

To analyse in some detail this confluence of existing internal preconditions and external challenges, the case of Japan may be instructive. What catalysed the breakdown of the *bakufu* and the initiation of the Meiji reforms was the perceived threat to Japan’s independence, its external security and internal stability. Under the Damocles sword of Western imperialism hanging over Japan’s head (and China’s fate, which the Japanese elite followed closely, vividly reminded Japan of what might be in store for Japan), Japan’s new leadership launched an all-out effort to pull Japan up to the level of Western power.

In this effort, Japan’s reformers could build on strong foundations in terms of prevailing norms and values, human resources, economic, and social and political institutions:

- Norms and values: Japanese society had evolved at the beginning of the Meiji era many of the intellectual foundations of a modern capitalist society. Edo Japan was highly educated and strongly emphasised the value of education. And it was in many ways meritocratic, secular, pragmatic and empirically minded. The attachment to education reflected the influence of Confucianism, but also the importance of the feudal code of conduct for the Japanese warrior, the samurai, which came to permeate the whole of Japanese society. Bushido, which amalgamated elements from Neo-Confucianism with those of Japan’s own religious traditions, notably Zen Buddhism, may be seen as the functional equivalent to Max Weber’s protestant ethic in Europe. It emphasised live-long learning and striving for perfection in all human endeavours. Central to bushido was loyalty towards one’s superior and benevolence towards one’s vassals. Although the samurai class lost much of its previous importance during the Edo period, which effectively monopolised the use of force and thus all but eliminated the samurai’s military role, its norms and values retained their appeal. As Reischauer and Craig put it:

“...the Japanese of the Tokugawa period seem to have developed an extremely strong sense of honour, duty and obligation and a dogged determination to live up to all that society expected of them. These qualities gradually spread from the samurai classes to other classes.”
The tensions between Confucian thought and Japan’s own intellectual and religious traditions may also have helped Japan to sustain considerable intellectual pluralism and creativity. Against this background, pragmatism and a strong interest for Western scientific knowledge flourished, while religious attachments declined, making Japan - like China and Korea - essentially secular societies.

- Human resources: The strong emphasis on education meant that Japan began its reforms with a strong base in terms of human resources. Ronald Dore has estimated that by the mid-19th century, about 40 per cent of all boys and about 10 per cent of all girls had received some form of education outside their home. The degree of literacy was almost certainly considerably higher (which, given the characteristics of the Japanese script, is a much taller order than with the Roman alphabet). This level of education was probably at least as high as that of, say, Britain in Europe at that time.

- Social and economic institutions: By the end of the bakufu, Japan had become something of a proto-industrial society. Economically, it had become increasingly united and differentiated. Socially, it was highly educated and meritocratic: education had become a road towards social advancement, as the aristocratic foundations of the bakufu eroded: in the latter years of the bakufu, bureaucratic appointments were largely made on the basis of merit. There existed new middle classes, made up of rural land owners, innovative merchants, and samurai bureaucrats with a strongly “modern” orientation. At the same time, Japanese society remained very cohesive, united by a strong proto-nationalism built on territorial, ethnic, linguistic and religious homogeneity and strong common political institutions. The dialectical “unity in diversity”, which in traditional Japan had been built on the ferociously violent competition of the han (the feudal fiefdoms) within the overall framework of Japan (expressed by the institution of the Emperor), during the Edo period had largely been suppressed. Instead, the ie (originally: household) came to take the central place in Japanese society. The ie, built on the moral relationships between the patriarch and the other members of the family characteristic for the old feudal system, became the key model for organising social and economic activities, including firms. As such, the ie replaced both the traditional han and the rugged individualism which had prevailed in Japan at the time of civil war and anarchy preceding the bakufu. As Lehmann puts it:
“By the end of the Edo era, society had been significantly modernised... Economically, Japan had emerged as a national market; major centres, primarily Osaka, acted as the axes of economic life; there developed a significant amount of inter-regional trade, diversification, regional specialisation, improvement in transportation and so on. This is not to say that geographic disparities in terms of distribution of wealth disappeared. On the contrary...But geographic differentiation, like social differentiation, has been a characteristic of all industrialising societies.”

Political institutions: The Tokugawa state had played an important role in this development of a proto-industrial society in Japan. It had pacified and united the country and effectively ended the endless civil wars of earlier days. It had developed a rational bureaucracy and the foundations for enhanced commercial exchanges. A strong sense of national identity, which found its political expression in the Imperial Household and the Tokugawa shogun, held society together.

Once the new leadership (mostly made up of young samurai from peripheral han) had achieved the overthrow of the old order, it set out on a course of rapid industrialisation and Westernisation, building on those existing preconditions. It did so with a remarkably open, pragmatic and cautious approach. The aim was, with a slogan borrowed from ancient Chinese traditions, to create a “rich country, strong army”. National wealth and military-political power was to be achieved through industrialisation, which in turn required a complete overhaul of Japanese society.

In this, the state would have to take the lead. The government created a favourable environment for economic expansion by assuring internal stability, improving tangible and intangible infrastructure (such as laws and regulations governing economic exchanges) and sound macroeconomic conditions. It also took a direct role in industrial development.

None of this was very surprising, nor particularly Japanese. Japan’s path towards industrialisation reflected the thinking and experience of industrial late-comers, such as the United States or Germany. In the US, Alexander Hamilton had strongly argued for an active role of the state and infant industry protection; in Germany, Friedrich List had written extensively about national economic strategies to catch up with industrialised Britain. What developed out of Japan’s experience, the
“capitalist developmental state“ (Chalmers Johnson), was neither particularly Japanese nor particularly mysterious.

What was this particular Japanese/East Asian variant of modern capitalism? At the risk of grossly simplifying, and confining myself again to the Japanese version of the developmental state, it could be characterised as follows:

- The impulses for successful development ultimately come from the people, their resourcefulness and the “will to develop“ (A. O. Hirschmann). The primary objectives of development are national power, rather than individual wealth.
- The state plays an important direct and indirect role in the process of development, in a variety of ways. It generally provides for a framework conducive to development, organises and allocates the acquisition of knowledge and modern technologies, mobilises and allocates credit to preferred investment activities, supports and subsidises “national champions“, protects infant industries and encourages exports, and acts as entrepreneur itself through state-owned industries.
- The state mobilises society around the objectives of development, in particular through developing education and the abolition of social barriers to modern capitalism. It also demands loyalty and dedication to the state symbolised by the Emperor and, after World War II, appeals to nationalism and the desire to rebuild Japan into a Great Power on par with the West.
- The state tries to build support and legitimacy for its policies, appealing to nationalism, a sense of external threat, and unconditional loyalty and dedication to the state symbolised by the Emperor. During the Meiji period, state Shinto was developed as a religious expression of this. In the post-war era, economic growth became something of a secular religion, and general material improvements and specific side payments became the primary means of assuring legitimacy for the developmental state.

In sum, the Japanese developmental state was not the only, perhaps not even the most important reason behind Japan´s successful catch-up development. It did, however, work very well for quite some time, and acquired enormous importance for the shift of the whole of East Asia towards modern capitalism. For it really was Japan
which provided the decisive external catalyst for the break-through of modern capitalism in East Asia. It did so in four quite different ways.

- First, by way of example: Japan’s successes became a source of admiration and inspiration throughout East Asia.
- Second, by way of brutal coercion. Japan learned the Western lessons only too well, and from 1895 turned into an expansionist power in the mould of the Western imperialism. Its military advances into Korea and China (and later also into South East Asia) led to the establishment of a quasi-colonial Japanese empire in which forced industrialisation played a considerable role, particularly in Korea and Manchuria. Japanese imperialism thus tore down many of the traditional obstacles to modern capitalism which had stifled earlier efforts at modernisation in East Asia, and it also established some of the physical and intangible infrastructure of modern capitalism in its colonies - at the price of terrible human suffering and to the almost exclusive benefit of Japan.
- Third, by mobilising East Asian nationalism. Japanese expansionism tried to instrumentalise anti-Western and anti-colonial sentiments throughout the region, but its comportment alienated the other people in Japan’s “Greater East Asian Co-Prosperity Sphere” (an truly Orwellian euphemism!). East Asian nationalism matured in the struggle against the Japanese occupiers, and it was this anti-Japanese nationalism which mobilised much of East Asian societies.
- Fourth, Japanese economic success and its particular form of modern capitalism, the developmental state, became a model for much of East Asian modern capitalist development, from South Korea to China. Only North Korea, Burma, Cambodia and Laos, and “among successful developers” the formerly British colony of Hong Kong took their primary economic policy inspirations from elsewhere. The importance of the Japanese model was underpinned since the 1950s by
- Fifth, Japan’s active promotion of its particular form of modern capitalism throughout East Asia through trade, aid and credit, and above all through the foreign direct investment of Japanese firms which resulted in the regionalisation of Japan’s industrial structures."

All this is summarised in my
Proposition Three: What enabled modern capitalism to take off in east Asia was a confluence of existing internal predispositions and building blocks on the one hand and strong external influences, on the other. External circumstances threatened the very independence, cohesion and socio-cultural identity of East Asian societies, but they also provided enormous (if far from obvious) opportunities. Under those circumstances, Japan managed to free itself from the shackles of a restrictive and status-quo-oriented ancien régime and during the Meiji era initiated a series of radical internal reforms which very successfully propelled Japan into modern capitalism. Within two generations, Japan was turned into a mature industrialised country. But within one generation, it had become an expansionist and imperialist power in East Asia. The strains of the modernisation process and some of its idiosyncratic features pushed Japan into the arms of militarism, with disastrous consequences for Japan itself and the region. Still, it was Japan which catalysed the expansion of modern capitalism throughout East Asia - by example, by brutal force, and by co-optation and stealth.

5. The Rise and Decline of the Japanese Model

The East Asian Miracle, 1965 to 1997

Japan thus propelled East Asia into the age of modern capitalism and the “East Asian miracle”. What the miracle meant has often be described and need not detain us here much: very high growth rates in overall economic activity and per capita output; a quite remarkable degree of distributional justice; a drastic reduction of absolute poverty; and the spreading of affluence to rapidly expanding middle classes. That the developmental state had something to do with the successes of East Asia, has been widely documented and recognised even by the World Bank. In its already quoted study on the “East Asian Miracle”, it identified the following causes for the economic success of East Asia:

- “Getting the basics right”: above all, this involved the mobilisation of investment capital and human resources, the promotion of agricultural development, the lowering of population growth rates;
- sound policies: much of the first set of causes can be traced back to sound policies, ranging from the macroeconomic to education. Those, in turn, rested on what today would be considered aspects of “good governance”: a competent and honest bureaucracy, a functioning legal system, and generally
a “strong but socially embedded state”12 capable of setting and implementing targets and able to find societal support for its ambitions;

- specific but systematic government intervention in the economic process. Those interventions have taken various forms, which may differ from period to period and from country to country. They include credit allocation and investment credit subsidies, the protection of infant industries, subsidies for restructuring, public investments in research, firm- and industry-specific export targets and subsidies, and so on.13

**Has the Miracle Come to an End?**

In July 1997, however, the East Asian miracle came to an abrupt halt. The Thai baht was forced into devaluation, and this triggered a sustained financial and economic crisis in South east Asia which in the fall 1997 also spread to North East Asia (Hong Kong and South Korea). In fact, Japan had been in a deep recession, which sometimes threatened to turn into a depression, since 1992. East Asia now followed with more or less significant declines in the growth rates of economic activity through east Asia, and quite sharp economic contractions in some economies (notably Indonesia, Thailand, Malaysia, South Korea and Hong Kong). The much admired and reviled developmental state paradigm was now derided as “crony capitalism” and blamed for East Asia´s failures.

Things clearly aren´t that simple. The successes of East Asia have been real ? as have been recent setbacks. Part of the explanation of the crisis indeed relates to the very successes of the region: success has involved catching up with the leaders and thus exhausting the possibilities for easy catch-up growth. This has created an entirely new competitive situation at least for Japan, and to some extent even for Korea. Moreover, the crisis again represents a confluence of internal problems and external circumstances: weak financial systems and overexposed firms met with highly volatile international financial markets. The result was the crisis. It has been overcome in part already, and will be overcome completely, once internal restructuring enhances resilience against external shocks and/or once international circumstances change. Just as the developmental state does not explain the East Asian economic miracle, so “crony capitalism” does not foretell its end. East Asian capitalism will change, once more. And it will in all likelihood continue to be successful. Already now, the crisis has receded: the most recent forecasts for this
year suggest economic growth between 3.5 per cent (Indonesia) and seven per cent (South Korea) for the crisis-afflicted economies. Even Japan is credited with one per cent growth in 2000 (and three per cent in 2001).14

**Common Causes of the Crises in Japan and East Asia**

Still, the developmental state paradigm - or, more specifically, its specific variants in the economies concerned - did play a role in the recent setbacks. As one of its brilliant thinkers, Hitotsubashi economist Murakami Yasusuke, recognised already in the 1920s, catch-up developmentalism carries serious risks. While it is capable of delivering development more rapidly than other strategies, it easily falls prey to immobility and stagnation, as vested interests colonise the state apparatus and risks political corruption through its close association between bureaucrats, politicians, banks and large industries.15

Much of what has happened in Japan and in East Asia during the 1990s can be read as a confirmation of Murakami’s astute warnings. The degradation of the developmental state into crony capitalism played an important role in Japan’s crisis, which in turn again influenced developments throughout the region. Japan’s crisis started with its inability to recalibrate the developmental state in the early 1970s, when it had achieved its objectives. But Japan continued to pursue export-led growth, and to keep much of its society and economy closely regulated and shut off from (external) competition: powerful vested interests which had been promoted by the developmental state or needed to be bought off to ensure its legitimacy (such as the farmers and the small retailers, traditionally strong supporters of the ruling LDP). It also continued its policies of cheap credit and financial regulation, to channel savings in politically desired directions. The result was a misallocation of resources on an increasingly vast scale, huge over-capacities, and massive but carefully hidden bad debts.

Japan’s perennial, and perennially rising, external surpluses triggered increasingly difficult frictions with the United States. Rather than addressing the real issues of over-regulation and over-protection of much of the economy and society, the Japanese government settled for a quick fix: revaluing the yen. The result was massive and highly speculative asset inflation; when the bubbles burst, the economy nose-dived. It still has to recover.
The rising yen had accelerated the drive of Japanese firms into East Asia: both FDI and bank loans to the region exploded from the mid-1980s. Cheap Japanese money and FDI, in turn, fanned over-capacity and asset inflation bubbles in East Asia. By making a major direct and indirect contribution to the “East Asian financial crisis”, Japan’s modern capitalism thus once more had a profound impact on the development of capitalism in East Asia.

The indirect contribution of Japan to the crisis relates, of course, to the model of the developmental state which Japan has promoted throughout East Asia by example and by its own efforts. With all due respect for national and regional differences in the specifics of the developmental state model, we still can identify outlines and key features of an “East Asian developmental state”, which characterise Japan as well as most other East Asian economies. Those common features were:

- the alleged pursuit of development as a national security objective, rather than for the sake of individual wealth creation,
- active involvement of the state in the economy, notably through close co-operation between politicians, bureaucrats, bankers and industrialists,
- extensive corruption, nepotism and favouritism for personal gain, but also to retain political support, award followers, and co-opt potentially hostile groups,
- a weak financial system, cheap money policies and strong political influence over bank credit allocation decisions, hence inefficient investment decisions and speculation,
- highly leveraged large firms, which concentrated on market share and turnover rather than on profits, and thus produced low returns on investment,
- promotion of exports, but discouragement of import competition in sectors considered strategically or politically important,
- a general erosion in the ability of the state and society to learn and adapt - due to political repression or inertia, to arrogance bred by success, and the smell of power, and, perhaps most basically
- the intensely nationalist, often parochial and sometimes adversarial approach to development incorporated in this paradigm, which increasingly ran counter to dominant trends towards globalisation in the technological and commercial trajectories of the world economy.
Proposition Four: The East Asian economic crisis during the 1990s was again due to a confluence of internal and external factors. Again, external influences came both from the West (or, more precisely, from international financial markets) and from Japan. Their interaction with specific internal weaknesses of East Asia’s modern capitalism produced the crises.

6. The Future of Modern Capitalism in East Asia

Where does all this leave us at the end of the argument? I am not particularly worried about the future of modern capitalism in East Asia per se. Modern capitalism has taken root in this part of the world, and I have no doubt that East Asia will have the strength to adjust to the requirements of changing circumstances. For the immediate future, this “adjustment” will probably mostly concern the adjustment of East Asia’s internal economic, social, political and even cultural institutions to what many would see as a new phase of modern capitalism; globalisation. In the longer term, I would hope and expect that East Asia will also “adjust”, i.e. shape, the international institutions and processes of modern capitalism in line with its own preferences.

Breaking Down Old Arrangements

In the short term, changes in economic and political arrangements will have to deal with the apparent deficiencies of the developmental state, as it has evolved over time. The challenge is by far the most profound for Japan, which simply no longer can afford to play the developmental state role: it has arrived, and now desperately needs to change track towards a new paradigm which would be compatible with present international economic circumstances and its position as the third largest economic power in the world. This would need far-reaching reforms in the Japanese economy, its society, and above all in its politics.16

For the other East Asian countries affected by the crisis, adjustments will probably not have to be so far-reaching; indeed, most of them seem to have been able to come back impressively without much change. They would be well-advised, however, not to become complacent. There are at least three key areas were reforms to me seem urgent in most affected economies:
✓ The first area concerns the problems of bad debt and its causes. They lie deep in the banking and financial systems, in relations between government and industry, and in political corruption.

✓ The second area concerns transparency. Again, this is a rather complex and demanding item on the reform agenda, which ultimately relates to issues of good governance and democracy.

✓ The third area concerns openness in a different sense. The issues here relate to cross-cultural co-operative competencies, to the balance between individual rights and freedoms and group cohesion and conformity, and to what I have called above the adversarial aspects of modern capitalism in East Asia. Modern capitalism can no longer be built on exclusive territorial or cultural foundations - be they national or regional. It needs to be global, inclusive and cross-cultural.

**East Asia: “more like us”?**

In the longer term, East Asia should try to remodel modern world capitalism to its own liking. Modern capitalism should be seen as a means to an end, not to an end in itself. But its development through the last two centuries resemble more a process of spontaneous cultural evolution, rather than a project designed, implemented and carefully controlled by man. This is dangerous: modern capitalism has been a force of tremendous good, but also of enormous destruction. In my view, it should therefore be firmly embedded in a broader vision for mankind - one which focuses on a “good life” not only in a material, but a more comprehensive sense. This ultimately would be a political project, in which modern capitalism would have to be given its appropriate place.

In any case, East Asia is not going to become a clone of Anglo-Saxon capitalism, much as continental Europe will continue to adhere to its own, different capitalist traditions. The notion that East Asian economies should and would become “more like us”, which informed, among others, the key decision makers on crisis management in Washington (both at the Treasury and at the IMF) is misleading both factually and normatively. Factually, this notion underestimates the complexity and diversity of modern capitalist arrangements, which lend themselves to an infinite variety of paradigms, many of which could be more successful than what we have found so far (and, in any case, technological conditions and economic circumstances
will continue to change, throwing up new challenges for all existing arrangements). Normatively, it would be a sure receipt for decline of the presently dominant paradigm: if it is not challenged, it won’t keep up with the changes. There is no reason why the principle of competition should exclude competition between different forms of modern capitalism. What needs to be done, however, is to formulate global rules and norms for this competition, so as to avoid its escalation into military confrontation. The setting of such rules is one of the many reasons why we need more global co-operation; modern capitalism increasingly requires a firm political framework, a global infrastructure of co-operative political arrangements and institutions.

This agenda of change obviously is a tall order. Yet I would not be too worried, were it not for two other challenges for East Asia which have not been touched on so far: its demographic transition and its festering regional security risks. Again, those two challenges hit Japan particularly hard, but also will affect the others.

**Overcoming demographic challenges**

The demographic challenge for East Asia consists in the large overall changes in total population - down, in the case of Japan, up, for most other countries in East Asia (and above all, China), and in the rapid changes in composition towards a much older, and much less balanced demographic pattern. It will be enormously difficult to make the kind of passive and active adjustments discussed above against this demographic background. The size and complexity of the problems thus will need excellent political machinery, strong leadership and broad-based participation.

**Overcoming regional security challenges**

The regional security challenge concerns the as yet rather fragile, under-institutionalised and superficial nature of regional co-operation and integration. Yet it will be difficult, and probably even impossible, to grasp the opportunities of global capitalism and meet the challenges of adjustment without a serious, qualitative improvement in interstate relations throughout East Asia. Here, the bad news is that the Asian crisis has set back efforts at regional institution-building - but the good news is that existing institutions and processes have not (yet) been seriously damaged. Still, much remains to be done - and the leadership will have to come from the region itself. As far as I can see, there is only government which has seriously
tried to rise to this challenge, and that is your government here in the Republic of Korea.

By way of conclusion, let me therefore offer you my

*Proposition Five: The future of global capitalism will importantly be shaped by East Asia - for good or bad. First, east Asia will have to change itself - with Japan in the vanguard. Second, East Asia will have to try, in co-operation and competition with other regions, to change global capitalism and make it compatible with mankind’s new predicament in the third millennium. In order to do so successfully, however, East Asia will have to come to grips with the enormous implications of demographic change and deal with its unfinished regional security business.*

Footnotes


4 ibid., Vol.I, pp. 93ff

5 Jared Diamond, Guns, Germs and Steel. The Fate of Human Societies, New York: Norton 1997

6 It was Zen buddhist monks who had brought Neo-Confucian thought from China to Japan. See Edwin O.Reischauer/Albert M. Craig, Japan, Tradition and Transformation, Tokyo: Tuttle 1978, p. 92

7 ibid., p. 93


13 World Bank, The East Asian Miracle, Economic Growth and Public Policy, Oxford et al.: OUP for The World Bank 1993, pp. 5f

14 Far Eastern Economic Review, March 16, 2000, p. 62f

15 Quoted in Yamamura/Hacks, op.cit., p. 62f

16 Cf. the interesting report of an official blue-rubber commission on Japan’s future international role, which makes those points forcefully: