12 Globalizing Asian capitalisms: an economic-geographical perspective

Henry Wai-Chung Yeung
National University of Singapore

Introducing the contradiction

By the late 1960s and throughout the 1970s, there was no doubt that American firms and their counterparts from Western Europe were spearheading the globalization of economic activities through their cross-border foreign direct investments (FDI). This special genre of the capitalist firm has been described as the modern transnational corporation (TNC). Its rapid emergence especially since the 1960s became the cause of some serious political and economic concerns by the early 1970s (Vernon, 1971). In economic geography, much attention during the same period was paid to the role of branch plants externally controlled by these TNCs in local and regional economic development in advanced industrialized economies. The analytical foci were placed on industrial linkages and decision-making in these branch plants and their local and regional economic impact (Dicken 1976; Hamilton 1974).

Amidst this growing fear of external control by TNCs of local and regional economies in the host developed and developing countries, a parallel, but slightly belated, process of outward investment by business firms based in what was then known as the 'Third World' began to gather momentum (Agmon and Kindleberger 1977; Lall 1983; Wells 1983). By the late 1970s, the rise of these so-called 'Third World multinationals' was hailed by two business school professors in their *Harvard Business Review* article as 'only yesterday an apparent contradiction in terms' and 'now a serious force in the development process' (Heenan and Keegan 1979: 109). They further argued that: 'The multinational corporation, long regarded by its opponents as the unique instrument of capitalist oppression against the impoverished world, could prove to be the tool by which the impoverished world builds prosperity'.

What does this 'contradiction' of TNCs from developing countries entail and how does it contribute to the globalization and transformation of their home capitalist economies? In this chapter, I address this research problem in relation to the distinctive contributions made possible by adopting an economic-geographical perspective. In particular, I argue that an explicit attention to *business and production networks* spanning different spaces and scales has enabled economic

geographers to draw significant interconnections between the rapid emergence of these developing country TNCs and the tremendous transformations in their home economies in Asia during the past three decades – a phenomenon broadly known as 'globalizing Asian capitalisms'. Indeed, many TNCs from developing Asian countries had a humble origin as regional trading and commercial ventures; they had internationalized across national boundaries as early as the late 19th century. Their participation in globalization, however, did not occur until much later in the 1980s when the global economy was increasingly competitive, their organizational capabilities were much more consolidated, and their home governments were serious about growing 'national champions' (see Yeung 1999). In this sense, these Asian-origin TNCs are important *conduits* through which their burgeoning domestic economies become articulated into the global economy.

From an anomaly to major leagues: Asian firms in the global economy

By the early 1990s, many Asian TNCs had already grown out of their former shadow as an anomaly in the global economy. Some of them had become significant competitors in such diverse industries as air and sea transportation (e.g. Singapore Airlines and Evergreen Shipping Lines), consumer and computer electronics (e.g. Samsung and Acer), semiconductors (e.g. TSMC and UMC), textile and garments (e.g. Fountain Set and Esquel Group), hotels (e.g. Shangri-La Hotels), property development and construction (e.g. Hutchison Whampoa), and so on. They were no longer mere followers of giant TNCs from advanced industrialized economies; they had become in their own right major competitors in the global economy. To account for this significant transformation in the organizational and competitive dynamics of Asian TNCs, economic geographers naturally turned to leading theoretical perspectives in international economics and international business studies such as Stephen Hymer's market power perspective, Raymond Vernon's product life-cycle hypothesis, Peter Buckley and Mark Casson's internalization theory, and John Dunning's eclectic framework of international production. While these perspectives explain reasonably well why domestic firms engage in international production from an economic standpoint, they fail to account for the processes of *organizing* international business activities. Moreover, they are overtly based on economic considerations, ignoring the peculiar social and institutional contexts from which these Asian TNCs emerge. One such important Asian context is the role of *personal and social networks* in engendering economic processes; this critical context is clearly difficult, if not impossible, to be subsumed under the conceptual apparatus of transaction cost economics that tends to dominate most of these economic models of TNCs.

At around the same time, a heated debate in economic geography was focusing on the changing organization of production systems in different industrial districts and new industrial spaces, again, in advanced industrialized economies – the so-called flexible specialization debate. Back then, this debate represented a telling move away from the Marxist structural understanding of the role of firms

and their production systems in contemporary capitalism that came to dominate economic geography of the 1970s and the 1980s. Instead, the flexible specialization debate focused on how business firms are actively transforming their organizational processes in order to ride out of capitalist crises. In initiating what was subsequently termed the 'cultural turn' in economic geography, Peter Dicken and Nigel Thrift (1992) were one of the earliest in economic geography to incorporate the concept *embeddedness* in their conceptualization of the dynamic organization of business firms (Yeung 2003). Originally developed by Karl Polanyi to explain capitalism's institutional transformation, the concept was reinvigorated by economic sociologist Mark Granovetter (1985) to counter what he called 'under-socialized' account of economic life found in most transaction cost analysis of firms and markets. To Dicken and Thrift (1992: 285–6; original italics), the organization of production chains and production systems through business organizations can thus be conceptualized 'as a complex set of *networks* of interrelationships between firms which have differing degrees of *power and influence*'.

Inspired by Dicken and Thrift (1992)'s reconceptualization, economic geographers have subsequently expanded on this notion of social embeddedness of business firms in a business network perspective that accounts for both economic and non-economic relations at the intra-firm, inter-firm, and extra-firm dimensions (Grabher 1993, 2006; Yeung 1994). This network perspective extends earlier work in organizational studies that focuses primarily on inter-organizational networks. The advantage of this network perspective rests in its capacity to incorporate different loci of power and control within specific firms (intra-firm dimension) and significant bargaining and cooperative relationships between business firms and other institutions such as government agencies and NGOs (extra-firm dimension). Unknowingly then, this network perspective has anticipated the recent 'relational turn' in economic geography through which we place great analytical emphasis on dynamic relations among social actors in producing diverse economic geographies (see Yeung 2005).

More specifically, economic geographers have successfully applied this business network perspective and explained the internationalization of entrepreneurs and firms from Asia to North America (Hsu and Saxenian 2000; Mitchell 1995; Olds 2001; Zhou and Tseng 2001) and within Asia (Hsing 1998; Leung 1993; Qiu 2005; Yang and Hsia 2006; Yeung 1997, 1998). This economic-geographical approach pays special attention to different forms of network relationships in which Asian entrepreneurs and their firms are embedded. In doing so, it has effectively transcended the economistic approach to explaining TNCs and FDI commonly found in earlier studies of 'Third World multinationals' (e.g. Lall 1983; Wells 1983; cf. Yeung 1999). This strength of the network perspective on TNC activities is significant as most studies of TNCs and FDI throughout the 1980s and early 1990s have focused narrowly on transaction cost economizing strategies of these capitalist firms. The network perspective pursued by economic geographers thus allows us to link economic outcomes of TNC activities in one place to non-economic strategies pursued by social actors (e.g. entrepreneurs and managers) elsewhere. It represents one of the most unique economic-geographical

insights – our attentive consideration of *economic relations spanning different spaces and places.* Instead of seeing economic action as discrete decisions in the context of arm's length market transactions – a common problem in most economic models of TNCs, the network perspective identifies relational synergistic effects embedded in ongoing interaction among social actors.

One such critical synergy in the case of large Asian firms and TNCs is the role of *family* in their ownership and control. The *World Investment Report 2004* describes that in 2002, some 32 of the world's top 50 TNCs from developing economies ranked by foreign assets originated from Asia. At least 18 of these 32 Asian TNCs are family-owned and controlled. The rest are mostly state-owned TNCs from Singapore and Malaysia (about 10 of them). The dominant role of family in Asian business and thus the emergence of Asian TNCs may not be surprising (La Porta et al. 1999). What is rather unexpected is the rapid growth and expansion of these large TNCs from Asia to become significant competitors in the global economy by the turn of the new millennium. A direct research problem emanating from this economic-geographical phenomenon is the concomitant evolution of family business and homegrown TNCs in Asia.

Globalizing Asian capitalism: dynamics of change and adjustments

In explaining the cross-border investment activity of leading Asian firms and uncovering their closely-knit network relationships, economic geographers have realized that institutionalized patterns of political, economic, and cultural processes in their home economy must have played a decisive role much more than simply as a contextual factor. Rather, these institutionalized structures must have a direct bearing on the processes and outcomes of the globalization of Asian firms. For example, despite their very similar historical and geographical contexts, TNCs from Hong Kong and Singapore exhibit very different ownership structures, corporate governance, and entrepreneurial strategies (Yeung 2002). Whereas large Hong Kong TNCs tend to be organized in the form of entrepreneurial family-controlled enterprises (Leung 1993; Mitchell 1995; Olds 2001), large Singapore-based TNCs are mostly state-owned and managed by former civil servants. TNCs from both economies also have contrasting business practices and financial discipline. The same economic-geographical observation can also be applied to TNCs from Taiwan and South Korea, both of which are former Japanese colonies and yet have produced TNCs of very different organizational structures and industrial specialization (Cho 1997; Hsing 1998; Hsu and Saxenian 2001; Park 1996). These enduring home-economy institutional imprints on national firms and their globalization strategies might seem rather odd at a time (late 1990s) when the popular debate on globalization had moved in favour of a wholesale convergence in global business norms and practices in an allegedly 'borderless world' – a derisive term coined by business guru Kenichi Ohmae (1990).

In contesting this global convergence perspective, organizational sociologist Richard Whitley (1992) has developed a business system approach to

understanding the enduring influence of home country on business firms. In this approach, Whitley (1992) focuses on enduring institutions in national economies such as political systems, economic beliefs, cultural norms, employment relations, and so on. He argues that business systems vary significantly across different capitalist economies. As different forms of capitalism entail different business systems, Whitley (1999) proposes the idea of 'divergent capitalisms' to describe the social structuring of business systems. Joining a number of other prominent political scientists and economic sociologists, Whitley (1992, 1999) subscribes to the view that globalization continues to accentuate systemic differences that exist prior to the onslaught of global processes. This is the so-called 'divergence school' in studies of global political economy.

Confronting with these two contrasting schools of thought on economic globalization and its impact on capitalist economies, economic geographers have found supporting evidence for both schools in their studies of the political-economic structures of many Asian economies dominated by ethnic Chinese business firms (e.g. Indonesia, Hong Kong, Malaysia, Singapore, Taiwan, and Thailand). Just when leading Asian firms are becoming significant players in the competitive global economy through their globalization activities, their home economies are exerting structural influences on their business strategies and corporate practices. To reconcile this apparent paradox in understanding Asian capitalism, some economic geographers have begun to take on an actor-specific approach to understand the dynamics of Asian capitalism and to transcend the dualistic thinking manifested in much of the convergence-divergence debate (Olds 2001; Olds and Yeung 1999; Yeung 2000, 2004).

Drawing upon Nigel Thrift's (1996) geographical adaptation of actor-network theory, these economic geographers have revisited the earlier business network perspective and incorporated heterogeneous relationships among actors as a central driving force in their network analysis (see Coe et al. 2004; Dicken et al. 2001; Henderson et al. 2002). This actor-specific approach moves away from a structural reading of the global economy in which enduring institutions of capitalism are seen as either outdated models to be replaced by a more superior form of global economic coordination (the convergence school) or persistent stumbling blocks to global convergence (the divergence school). Instead, economic geographers have placed significant analytical emphasis on key capitalist actors such as business firms and examined how their participation in globalization processes could have generated powerful 'bottom-up' effects to transform those enduring home economy structures and institutions. In the case of Asian capitalism, this actor-specific approach has worked well when we consider the dynamics of ethnic Chinese business firms in engaging with globalization tendencies and in bringing about significant transformations in their home economies.

One of the most interesting geographical insights from this actor-specific approach to globalizing Asian capitalism is the analytical role of spatial scales in helping us to draw connections across drastically different processes. Take culture as an example. The Asian Confucian heritage and culture came to the forefront of debate on the meteoric rise of East and Southeast Asia during the late 1980s and

the early 1990s. Two significant publications by sociologists Peter Berger and Michael Hsiao (1988) and Gordon Redding (1990) have established firmly the 'culturalist explanation' of capitalist economic development in Asia. Put it in brief, the Confucian ethic of hard work and the cooperative relations in a family-centric form of economic organization have allegedly made it possible for these Asian economies to experience rapid industrialization and economic development. Rapid economic development has occurred in many Asian economies, despite the existence of authoritarian states in most of them. This culturalist-inspired explanation of the Asian 'miracle economies' not only fits well into World Bank's (1993) own triumphant assessment, but also perpetuates the myth that these cultural imprints of work ethics and family values are unique to Asian business systems – a gross generalization reinforced strongly in Whitley's (1992) approach.

The key problem in this argument for Asian exceptionalism is its serious confusion of different spatial scales of representation. The critical question is not so much about the existence of national cultures, but rather their *spatial boundedness.* While it perhaps makes good sense to talk about how economic life is bounded by culture in traditional societies relatively closed to the outside world, globalization – be it political, economic, and cultural – has clearly diminished the possibility of using the *national* scale as a bounded space to analyze economic processes, let alone their dynamic and transformative nature. This is particularly so if these economic processes are transcending and transversing different spaces that range from global and regional to local economies. The culturalist argument for Asian exceptionalism thus falls short of accounting for dynamic transformations brought about by globalization tendencies precisely because of its 'over-socialized' analytical framing, to borrow from Granovetter (1985), and its 'under-spatialized' worldview.

By adopting differential spatial scales in our analysis of Asian capitalism, economic geographers are able to connect changes at the level of elite business actors who are often both global in their outlooks and orientation and *local* in their cultural predisposition and at the level of structural systems that are commonly *national* in their nature and organization (e.g. Hsu and Saxenian 2001; Olds 2001; Olds and Yeung 1999; Zhou and Tseng 2001). Revisiting the problem of culture, the literature on East Asian capitalism, particularly one that is associated with ethnic Chinese, is often replete with cultural essentialism. The role of guanxi or relationships in Chinese culture, for example, has been unproblematically treated as an exogenous and independent variable in explaining business behaviour of ethnic Chinese actors. This conflation of national culture emanating from mainland China and the everyday economic practice of ethnic Chinese in East and Southeast Asia has led to many serious misconceptions of the so-called '*guanxi* capitalism' (e.g. Redding 1990; cf. Hsu and Saxenian 2001). Ethnic Chinese actors in Asia have been seen as inward-looking and engaging in highly personalized transactions that undermine the market mechanism and open competition.

When we focus our analytical perspective on elite Chinese business actors, however, we can identify a whole array of their everyday economic practice

ranging from corruptive activities of personalism to highly professional conduct of contracts and requisite legal processes. In other words, ethnic Chinese business elites in Asia are both local and traditional in their cultural norms and globalizing in their approach to business. In performing their capitalist organizations simultaneously at both global and local scales, these actors contribute to a dynamic process of Chinese capitalism morphing into a form of what Yeung (2004) calls hybrid capitalism. In this hybrid capitalism, there are both elements of culturally specific imprints (e.g. employment relations) and globalizing norms (e.g. international standards of corporate governance). Informed by Peter Dicken's (2003) work on major transformations in the global economy and Nigel Thrift's (2000) micro-examination of how culture is performed in capitalist firms, this concept of hybrid capitalism can capture adequately the complex duality of geographical flows (e.g. FDI) and economic landscapes in contemporary Asian economies.

Back to the future: key challenges for research and policy

What then does this review of economic geographers' work on Asian capitalism and their leading business actors (TNCs) mean for future economic-geographical research? To begin, we still know far too little about the dynamic transformations of regional economies outside North America and Western Europe. Most economic-geographical perspectives developed since the quantitative revolution in the 1960s have been situated in advanced industrialized economies, when at the same time other social science disciplines have been producing theories based on empirically-grounded research conducted in the developing world (Yeung and Lin 2003). This continual 'missing the boat' is perhaps one of economic geography's greatest contradictions. As an academic discipline that should be much more attuned to geographical differences, differentiation, and heterogeneity, economic geography has failed to deliver its verdict on a wide range of critically important research issues (e.g. the rise of China and India as economic superpowers). In the context of this short chapter, I can only outline five of them in order to drive urgent future research and policy agendas.

First, there is an urgent need to develop new theories that emanate from grounded research in economies outside North America and Western Europe. As a mix blend of hybrid capitalisms, the nature and dynamics of capitalist transformation occurring in Latin America, Eastern Europe, Africa, and Asia need to be much better theorized. Economic geographers should continue to be interested in firm-level analysis and pay more analytical attention to how business firms – indigenous and foreign – in these developing economies serve as key capitalist agents in bringing about technological change, economic spin-offs, and employment opportunities. The theoretical challenge to economic geographers is not so much about applying our existing analytical frameworks to these 'new' empirical problems, but rather about how we might develop genuinely grounded theories that in due course can help us 'theorize back' to economic-geographical problems found in advanced industrialized economies.

Second, there is now a much greater demand for comparative research that draws upon rich empirical insights into different forms of capitalist imperatives. In appreciating the manifold complexity of globalization tendencies, economic geographers can play an active role in the forefront of globalization research by examining how these global forces are impinging on different geographical realities at the same time (cf. Dicken 2004). This deep-seated concern for geographical differences and differentiation can only be accomplished in research terms through sustained comparative analysis. Whether we are concerned with industrial location, resource extraction, or business headquarters, we can always build in comparative analysis of how the same economic phenomenon works out differently in different geographical settings. In doing so, we can also develop better-grounded theories that account for these geographical differences.

Third, this chapter has clearly shown that economic geography might not seem to have a lot to offer on the globalization of Asian capitalism, a research topic that takes up some significant research efforts among political economists, sociologists and development scholars. While we may not feel comfortable to build alliances with conventional neoclassical economics (Amin and Thrift, 2000), we should be prepared to establish more 'joint ventures' with such friendly disciplines as economic sociology, international political economy, comparative management, and so on that are analytically concerned with integral relations between economy and society. In building alliances with these interested disciplines, we should take care in maintaining the intellectual integrity of economic-geographical research. Too often an economic-geographical study may be accused for being sociological, political, or economic. In participating in multi-disciplinary initiatives, economic geographers must bring to the research table some useful analytical tools that are uniquely geographical, e.g. space, place, and scale. Without losing sight of our disciplinary identity, we do have something insightful to say about economic processes and institutions in the global economy.

Fourth and on the policy front, we can offer some useful suggestions for policy formulation in the context of reshaping Asian capitalism. Precisely because we focus on dynamics of change and adjustment, economic geography has much to inform the ongoing process of economic reform. Our appreciation of the complex interconnections of economic processes across different spatial scales allows us to offer policy suggestions that focus not just on national problems, but also on how economic issues are deeply spatial in their manifestation. While Asian business systems might be changing in the context of contemporary economic globalization, we can offer suggestions on economic policies that help to retain some culturally specific practices. Arguing against a wholesale adoption of "global" standards of economic governance, we can make policy suggestions on economic reform that are much more attuned to local specificity and differentiation. One good example is the imposition of standard international accounting practice on Asian firms irrespective of their nature and organization. While greater transparency is generally good for global investors, it is important to understand the competitive dynamics of certain industries in Asia that might have a strong strategic outlook. This practice for greater transparency should be seen as an ideal state to

be achieved gradually rather than an immediate task about sorting out the messy reality of Asian business.

Lastly, there are many useful policy implications for the future of globalizing Asian firms that economic geographers might offer. In particular, the unique trajectory to globalization charted by these Asian firms shows that there are indeed many ways to globalize (see Mathews 2002). There is no single market that automatically balances and arbitrages the demand and supply of globalization opportunities. In enhancing their firm-specific competitive strengths, many Asian firms do not necessarily need to rely on market-based mechanisms. Instead, the road to global competition and success is highly uneven and sometimes utterly unfair. This calls for selective and strategic intervention in the globalization trajectories of Asian firms by other capitalist institutions such as the state and non-state actors. This policy implication may not make sense in the context of the 'Washington consensus' But in this world of neoliberal globalization, we can be sure that the condition of perfect market competition will never be satisfied and thus each firm and each economy needs to find its own way to economic prosperity and development. Ultimately, this process of economic development is necessarily different and uneven geographically.

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