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The rise of East Asia

An emerging challenge to the study of international political economy

Henry Wai-Chung Yeung

Introduction

From the meteoric rise of Japan in the 1970s and the 1980s to the rapid industrialization of the four East Asian “tiger” economies and the recent ascendance of emerging giants such as China, the rise of East Asian economies poses a challenging analytical problem for the field of international political economy (IPE), understood as both a field of academic enquiry and a substantive issue area (see Gilpin 2001; Higgott 2007; Ravenhill 2008a).¹ Does this general rise of East Asia necessarily follow the pathways of North America and Western Europe? Or is the phenomenon made possible because of an era of hegemonic (in)stability as originally envisaged in Keohane (1984)? If so, the rise of East Asia can simply be read off and explained by existing IPE theories. The reality of East Asian IPE as a substantive issue, however, seems to be much more complicated than allowed for in mainstream IPE theories that emanate from the US-centric view of the international political economy (see Cohen 2007, 2008b; cf. Higgott and Watson 2008; Ravenhill 2008b). In his review of the subject matter, Higgott (2007: 170) noted that “IPE, in large part because of its twentieth-century location within IR scholarship, has tended to focus on the developed, the rich and powerful of the North at the expense of the developing and the poor of the South.” Yet there is a contrary tendency in the East Asian “case”; its rapid ascendance cannot be read off as a straightforward outcome of power play among hegemonic nation-states in the global arena—a traditional focus and concern in mainstream IPE theories. East Asian economies have experienced such diverse developmental trajectories that cannot be easily captured in the form of changing inter-state relations within the context of an international or global economic order. Instead, the rise of East Asian economies reflects the complex interaction between states and non-state actors embedded in different spatial scales that range from the global economy to regional divisions of labor and local specificities.

In this chapter, I seek to deal with this analytical challenge by revisiting some of the most significant substantive concerns and conceptual approaches to the study of the diverse development trajectories in East Asian economies. In unpacking this changing East Asian political economy, we need to go beyond the state-centric view in IPE to

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incorporate other important non-state actors (e.g. firms and networks) and social institutions (e.g. business systems). Seen in this broader perspective the rise of East Asia provides fertile research ground for us to “theorize back” at dominant IPE theories in the “North.” I do so in three steps. First, I locate East Asia in the mainstream field of IPE enquiry, particularly the realist perspective on the global economic order. Here, I want to question the analytic purchase of this perspective for East Asian development. Second, I expound two alternative IPE approaches to the study of East Asia, namely the developmental states and varieties of capitalism approaches. In both cases, I provide some important correctives that theorize the role of global production networks in refiguring the developmental state and in hybridizing capitalism in East Asia. These revisions demonstrate the inadequacies of mainstream IPE theories in accounting for capitalist diversity and change in an East Asian context. Third, I conclude by offering some tentative remarks on the key question of this chapter: what kind of IPE theories for what kind of East Asian development? Taken together, this chapter aims to show how the complex unfolding of political economic forces in East Asian economies tells us something important about existing IPE theories and how such theories represent a collective effort to develop context-specific theories that allow us to challenge mainstream approaches in the social sciences (see Yeung and Lin 2003; Yeung 2007a).

East Asia in international political economy

To insert East Asia into the study of IPE, we must first start with Japan as the first serious post-war challenge from East Asia to American economic hegemony. Alternatively known as the “crisis of Fordism” during the mid-1970s and through the 1980s, an earlier wave of mass production methods and economies of scale could no longer provide a competitive edge to incumbent firms and corporations in advanced industrialized economies, particularly the US. Ezra Vogel’s (1979) influential book *Japan as Number One* became widely circulated in major intellectual and policy circles. Coupled with the emergence of Asian newly industrialized economies and the 1973 oil crisis, the rise of Japan triggered what was later conceptualized as flexible specialization, post-Fordism, and globalization. Japan was also significantly featured in Piore and Sabel’s (1990) *The Second Industrial Divide* and Womack et al.’s (1990) *The Machines That Changed the World*. Both MIT products have fundamentally shaped the subsequent debates about America’s and, by extension, the world’s industrial future in the international political economy.

The meteoric rise of Japan as a major economic challenge to the US and other OECD countries coincided with the perceived relative decline of US hegemony. This finding was so significant that Robert Gilpin, himself named by Benjamin Cohen (2007) as one of the four “pioneers” and “giants” of the American school of IPE, had to devote special attention to the rise of Japan in his 1987 magisterial work *The Political Economy of International Relations*, which offers a definitive realist view on the international political economy. As Gilpin put it, “I emphasize the meteoric rise of Japan and its challenge to the liberal international economic order. The remarkable shift in the locus of the centre of the world economy from the Atlantic to the Pacific in the closing decades of the twentieth century is given special attention” (Gilpin 1987: xiv). In this view, the “transfer of the full spectrum of Japanese competitive dynamism into the American market” (260) was both significant and conflict-laden because of the tendency of Japanese investments in circumventing trade barriers, the decline of European presence in the

US, and negative responses in the US to Japanese “takeovers” in the American economy (e.g. Sony’s acquisition of Columbia Pictures). Gilpin (1987: 260) therefore concluded: “The outcome of these conflicting developments in the Nichiei economy will affect not only the future of the U.S. economy but also the shape of the international political economy.” True enough, he noted in a later work that “the concerted effort to forge a Japanese-led Pacific Asian economy has continued and signifies Japan’s increasing assertiveness and independent stance within the global economy” (Gilpin 2000: 12).

(Un)realism on Japan?

With hindsight, this realist view of the rise of Japan is inadequate. It not only ignores important domestic transformations in Japan and the wider regional context in which its production activities are embedded (see Hatch and Yamamura 1996; Katzenstein 2005). More importantly, it continues to advocate a zero-sum game view popular in IPE where the gains of Asian states such as Japan are theorized to have occurred at the expense of American power. According to Gilpin (1987: 13), realists

stress the role of power in the rise of a market and the conflictual nature of international economic relations. They argue that economic interdependence must have a political foundation and that it creates yet another arena of interstate conflict, increases national vulnerability, and constitutes a mechanism that one society can employ to dominate another.

In this realist interpretation of the international political economy,

the process of uneven growth stimulates political conflict because it undermines the international political status quo. Shifts in the location of economic activities change the distribution of wealth and power among the states in the system. This redistribution of power and its effect on the standing and welfare of individual states accentuate the conflict between rising and declining states.

(54–55)

In this conflict-laden and anarchic model of the international political economy, the rise of Japan became a paradox vis-à-vis American hegemony in the global economy (see Abegglen 1994; Katzenstein and Shiraishi 1996). On the one hand, the rise of Japan was “allowed for” in the context of US-driven Cold War geopolitical imperative or what Katzenstein (2005: 2) calls “the American imperium.” The US willingly and unconditionally opened its domestic market to Japanese exports, provided the necessary technologies for Japan’s industrialization to take off rapidly, and relieved Japan of the financial burden of national defense. On the other hand, a successful and competitive Japanese economy would pose a significant challenge to this American embrace. This realist-inspired fear of the rise of Japan, nevertheless, was a short-lived one. With the downturn of the Japanese “bubble” economy since the late 1980s and the early 1990s, as Dicken (2007: 44) aptly observed, the “United States’ fear of the Japanese threat receded; the ‘bash Japan’ literature virtually disappeared.”

The rise and fall (and rise again?) of Japan, both as an empirical phenomenon in the international political economy and as a research topic for debates in IPE, is clearly instructive in the context of this Handbook. It not only speaks volumes about the

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myopic tendency of mainstream (American) IPE theories, but also points to the analytical challenge identified in the opening section of this chapter. First, the failure of the realist perspective in predicting and explaining Japan's post-1990 economic stagnation has a lot to do with its reluctance to get out of its intellectual straight-jacket in the discipline of international relations that assumes inter-state rivalries and conflicts as its central analytical foci. The result of this imposition of a bargaining-cum-conflict realist framework in the case of Japan is clear. There is an inadequate attention in the requisite IPE literature to domestic transformations and intra-regional contexts that significantly impact Japan's economic competitiveness in the international political economy. This "force-fit" of Japan into existing hegemonic and well established theories of IPE has produced only a weak explanation of the rise of Japan (cf. the developmental state literature in the next section), let alone a dynamic theory of the subsequent decline and potential recovery of Japan in the past two decades.²

Second, the case of Japan illuminates the importance of moving away from the assumption that context-specific theories, such as those developed in the American school of IPE, are necessarily universally applicable. In other words, the rise of East Asia is clearly evident as a reality in the international political economy. And yet, we are still quite a distance away from developing the appropriate IPE theories to account for this phenomenon. If we are unable to tackle this analytical challenge, we might miss another "boat" of accounting for the rise of China in the global political economy. Indeed, even though Gilpin (1987: 294) claimed in the mid-1980s that "it is too soon to know what the effects of China's reentry into the world economy will be,"³ we are already witnessing realist-inspired interpretations in the recent literature on the alleged rise of China as a threat to the international economic order (Goodhart and Xu 1996; Brown 2000; Gertz 2000; Breslin 2007; Cooney and Sato 2007; cf. Zweig 2002; McNally 2007; Zweig and Chen 2007). How else can we conceptualize the rapid emergence of the East Asian newly industrialized economies? What might these alternative conceptualizations tell us about the inadequacies of mainstream IPE theories? To answer these questions satisfactorily, I next revisit some non-US-centric approaches that are firmly grounded in the international political economy in East Asia.

International political economy in East Asia

While the above section situates East Asia in mainstream IPE theories, this section takes a rather different approach. Here, I survey two leading theoretical perspectives on East Asian development that focus on the changing international political economy in East Asia: developmental states and varieties of capitalism approaches. This focus necessarily draws upon contributions from multidisciplinary fields beyond the mainstream of IPE, such as development studies, economic sociology, economic geography, and regional studies. In both approaches, I present the theoretical ideas emanating from research grounded in the international political economy of East Asia. I then provide an update on how some of these ideas have been re-examined in the context of regional change and global transformation. More importantly, this detailed introspection of East Asian-specific theoretical perspectives demonstrates the inadequacies of realist IPE as an allegedly universal explanation of capitalist political-economic changes and dynamics. The diverse national trajectories within East Asia point to the importance of understanding these changes and dynamics at different spatial scales, not just at the international scale as

often found in realist accounts of East Asian change. A conceptual clarification of the term “international political economy” is therefore critical here. The word “international” in an East Asian context does not necessarily and exclusively refer to the kind of transnational economic relations and international interdependence originally envisaged in the American school of IPE associated with such scholars as Keohane and Nye (1972, 1977) and Gilpin (1987). Rather, what might be counted as “international” in East Asia can encompass a much wider range of political-economic phenomena that go beyond the territorial confines of a single nation-state (e.g. development trajectories, economic organization, systemic and institutional changes, and so on). While the state remains a critical player in this approach, other non-state actors and institutions operating at different spatial scales can just be as important and influential.

In short, East Asian IPE is not just about inter-state bargaining and conflicts in search of wealth and power bounded within the Westphalian territorialized nation-states—an ontological foundation of the American school of IPE. It is about diverse political-economic transformations spearheaded by actors and forces transcending the domestic political realm. These actors and forces can be as globalizing as transnational corporations and international organizations, as regionalizing as production networks linking different territories and sub-national regions, and as localizing as social institutions and cultural foundations. This *multi-scalar* dimension of East Asian IPE differentiates it from a focus on what IPE reductively refers to as “domestic politics” and differentiates this approach from the dominant IPE theories in the “North.” In such a conception of IPE, inter-national relations are only one aspect, albeit a highly important one, of these multi-scalar formations. As discussed below, the transformative role of globalizing forces and processes in recent decades has brought into sharp relief the role of deterritorialized actors and institutions that crosscut and span different state boundaries and spatial scales.

Developmental states, not “domestic politics”

As mentioned above, the rise of Japan as an economic challenger to the US by the 1980s was noted in the American school of IPE. But it was situated within the realist framework that assumed inherent conflicts and competition in the political economy of international relations. Unsatisfied with such an external (US-centric) interpretation of the Japanese “miracle,” some political economists and political scientists began to search for an alternative answer from *within* Japan and, more broadly, East Asia. In doing so, they have developed the “developmental statist model” of economic organization that accounts for many aspects of the changing international political economy in East Asia. So how does the developmental state work exactly? Johnson (1982, 1995) and Wade (1990) have defined a developmental state as a state preoccupied with economic development through the establishment of elite economic bureaucracy to “guide” the market. A developmental state tends to engage numerous institutions for consultation and coordination with the private sector, and these consultations are an essential part of the process of policy formulation and implementation. While state bureaucrats “rule,” politicians “reign.” The latter’s function is not to make policy, but to create economic and political space for the bureaucracy to maneuver. They also act as a “safety valve” by forcing the bureaucrats to respond to the needs of groups upon which the stability of the system rests; that is, to maintain the relative autonomy of the state while preserving political stability (Evans 1995).

Ironically, Johnson’s (1982) idea of the developmental state was picked up by Gilpin (1987). But instead of acknowledging the role of the developmental state in fashioning a

distinct pathway of development in Japan, he was rather dismissive of the burgeoning literature on the role of state capacity in governing the market:

The record on the efficacy of structural adjustment policy (i.e., what is usually labeled industrial policy) is unclear; it is difficult, if not impossible, to reach any definitive conclusion. It is doubtful, for example, that the stunning success of Japan in one product area after another can be attributed primarily to the perspicacity of MITI [Ministry of International Trade and Industry] and Japan's economic managers. Indeed it is not even certain that MITI and its industrial policies have outperformed the market.

(Gilpin 1987: 213)

This outright dismissal reflects a missed opportunity to engage with this East Asian-specific theoretical approach. Instead, Japan's phenomenal success by the 1980s was explained away as simply relating to "the changing conception of comparative advantage and to its implications for national policy, trade practices, and ultimately for economic theory" (Gilpin 1987: 214). The realist status quo theory of the international political economy is visible in this interpretation. In his sequel book, Gilpin (2001: ch. 7) has devoted much more attention to the role of the developmental state in Japan's post-war economic development. This important corrective, however, has come a little too late, as Japan has since the late 1980s gone into a prolonged period of economic stagnation.

The limits of the developmental state approach

While the developmental state literature can be credited for explaining the *early* success of Japan and three of the four East Asian tiger economies (Singapore, South Korea, and Taiwan) within the context of changing international political economy, it suffers from a kind of myopia the other way round. This time, domestic state structures are seen as largely deterministic in shaping economic development trajectories; other non-state actors and institutions are viewed as simply the "followers" of state-centric economic strategies and industrial policies. Reflecting on the "market versus state debate" in understanding economic development in Asia, Hobday (2001: 25) observed that

because of the dominance of this debate, there are few studies which derive "bottom-up" policy conclusions from firm-level studies. The activities and strategies of firms in engaging with international production networks cannot be properly accounted for within theories of the developmental state, as latecomer firm behaviour tends to be treated (usually implicitly) as an automatic response to policy and economic circumstances, rather than as a shaping influence in its own right.

(see also Doner et al. 2005)

Like the realist perspective that insists on viewing domestic adjustments as structural outcomes of conflict-ridden international relations, this developmentalist perspective often appears to be too inward-looking and ignorant of the emergent and multiple connections that over time link East Asian economies to each other and to the wider global economy. In more theoretical terms, while the developmental state might be instrumental in "getting prices wrong," to use Amsden's (1989) famous phrase, this market distortion approach to economic development will eventually become ineffective, as national

champions and transnational corporations increasingly seek new ways of competing in the global, not just domestic, economy. The 1997/1998 Asian economic crisis has further discredited the developmental state approach (see Bello 1998; Haggard and MacIntyre 1998). Indeed, what we saw during the 1990s was a simultaneous process of *strategic dis-embedding* of these non-state actors from the developmental state and their *reembedding* in an organizational platform that transcends the nation-state—global production networks.

From developmental states to global production networks

This reorientation of previously domestic firms, including national champions and other non-state-sponsored entities, toward the global economy has spurred a new wave of research into the rise of East Asia. This more recent literature is particularly concerned with the strategic articulation of East Asian economies into production increasingly organized on a global scale. Instead of seeing East Asian development as a structural political-economic outcome of changing international relations (the realist perspective) or domestic state initiatives (the developmental state perspective), this non-state-centric view of the international political economy places its analytical attention on both firms and states in global competition through the dynamics of participation and incorporation in global production networks.

According to Henderson et al. (2002), the concept of a *global production network* (GPN) involves both business firms and national economies in organizationally complex and geographically extensive ways and provides a convenient conceptual point of entry to the changing international political economy in East Asia:

Production networks—the nexus of interconnected functions and operations through which goods and services are produced, distributed and consumed—have become both organizationally more complex and also increasingly global in their geographic extent. Such networks not only integrate firms (and parts of firms) into structures which blur traditional organizational boundaries—through the development of diverse forms of equity and non-equity relationships—but also integrate national economies (or parts of such economies) in ways which have enormous implications for their well-being.

(Henderson et al. 2002: 445–46)

In this view, a GPN is defined as one that is coordinated and controlled by a globally significant transnational corporation (TNC) and involves a vast network of their overseas affiliates, strategic partners, key customers, and non-firm institutions (see Dicken et al. 2001; Coe et al. 2004; Hess and Yeung 2006; Yeung 2007b). In a typical GPN a global lead firm coordinates its own R&D and manufacturing affiliates worldwide and has less than a dozen strategic partners located in different national economies. It also has to coordinate marketing activities with its key customers worldwide and to deal with non-firm institutions such as labor organizations and civil society organizations in different host countries. This diversity of firms and institutions in different countries explains why a GPN is organizationally complex and geographically extensive. It also points to a diversity of strategic modes through which any particular GPN is governed (see Gereffi 2005; Gereffi et al. 2005).

In the East Asian context, different groups of researchers have worked on several related concepts such as global commodity chains (Gereffi and Korzeniewicz 1994;

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Gereffi 1996, 2005; Appelbaum, 2000; Appelbaum and Smith, 2001), regional production networks (Hatch and Yamamura 1996; Tsui-Auch 1999; Hatch 2000; Yeung 2001; Katzenstein 2005), international/global production networks (Borras et al. 2000; McKendrick et al. 2000; Hobday 2001; Doner et al. 2004; Ernst 2004; Yusuf et al. 2004; Yang and Hsia 2007; Yeung forthcoming), and global value chains (Gereffi et al. 2005). These interrelated concepts and approaches, while grounded in different theoretical foundations, point to a common thread that asserts the central importance of using “chains” and “networks” to analyze the changing global political economy (see also Dicken et al. 2001; Hess and Yeung 2006). In contrast to both the realist framework and the developmental state approach, these approaches tend to privilege neither the nation-states nor non-state actors. Instead, they are brought together in a common analytical framework ungrounded in any necessary territorial units (e.g. the state) and spatial scales (e.g. national). This ontological accommodation of both territoriality and networks in co-constituting the international political economy tends to work well in accounting for the diverse political-economic trajectories experienced in East Asian economies.

To sum up, these “chains” and “networks” approaches in East Asian IPE have so far produced some promising results that enable us to avoid the “territorial trap”; the theoretical bias in mainstream theories of the IPE that views the state as a container (Agnew 1994, 2005; see also Ruggie 1993; Taylor 1995, 1996, 2007). They have offered an important corrective to the state-centric view of East Asian political economy in both realist and developmental state approaches. Most importantly, these “chains” and “networks” approaches have shed light on the changing spatial configurations of territorial development in East Asian economies and linked these dynamics to the changing organizing of global production under the aegis of globalization. In fact, they have compelled us to rethink the complex relationships between territorialization, deterritorialization, and reterritorialization in today’s global political economy (see an example in Yeung forthcoming).

From varieties of capitalism to hybrid capitalisms

As the debate on the nature of the developmental state moved on during the late 1980s and the early 1990s, a parallel effort in theorizing the international political economy emerged in Europe. Here, crucial insights from earlier nationally specific IPE studies fed into the wider debate on the nature and diversity of global capitalism(s), commonly known as the “varieties of capitalism” (VoC) approach (Lazonick 1991; Berger and Dore 1996; Whitley and Kristensen 1996, 1997; Crouch and Streeck 1997; Whitley 1999; Guillén 2001; Hall and Soskice 2001a; Lane and Myant 2007). In this fairly large body of work closely related to the French regulation school⁴ and its variants in the UK, theories of capitalist states not only were made in continental Europe and now in East Asia, but they also destabilized the conventional notion of Anglo-American capitalism often taken for granted as the “default” form of global capitalism. A global mosaic of different varieties of capitalism was said to exist. Although this VoC literature shares with the realist IPE a similar epistemological foundation in methodological nationalism, there is not much cross-fertilization between these two schools of IPE. Indeed, the issue of VoC was noted in Gilpin (1987: 16–17) when he argued that “Capitalism is too ambiguous a label to be used as an analytical category. There are in fact many varieties of capitalism that function differently.” But he offered neither further explicit theorization nor empirical elaboration on how these varieties of capitalism fit into his realist conception of the international political economy. Instead, he continued his realist approach to IPE by

asserting that “The contemporary world is composed largely of mixed economies that at the international level are forced to compete with one another” (17).

In an important early formulation of this approach, Lazonick (1991; see also Chandler 1990; Whitley 1999), highlighted three varieties of capitalism in accordance with their variations in the *configurations of economic institutions and competitive strategies*: proprietary (e.g. the UK), managerial (e.g. the US), and collective (e.g. post-war Japan). Proprietary capitalism is dominated by vertically and horizontally specialized firms that coordinate their inputs and outputs through market contracting (see also Sako 1992). These firms have little distinctive organizational capacity to pursue innovative strategies and typically delegate control over labor processes to skilled workers who are managed through piecework-based reward systems. Managerial capitalism, in contrast, is dominated by large vertically integrated and often horizontally diversified firms run by salaried managers organized into authority hierarchies (Chandler 1977, 1990; cf. Best 1990; Sabel and Zeitlin 1996). During much of the early twentieth century, these firms developed their own innovation capabilities through establishing R&D laboratories and competed through innovation-based strategies for mass markets. They also tended to exert strong managerial control over work processes through formal rules and procedures and mechanization. Finally, collective capitalism exhibits even higher levels of organizational integration of economic activities through extensive long-term collaboration between firms in business groups and networks, both within sectors and across them. Additionally, integration within firms is greater in this form of capitalism because loyalty and commitment between employer and employee extend further down the hierarchy than in either of the other two types. This investment in manual workers is crucial to the development of innovative organizations since it encourages employees to improve products and processes on a continuing basis.

Whether labeled proprietary, managerial or collective, different varieties of capitalism or “business systems” constitute distinctive and enduring ways of structuring market economies that are both wide-ranging and long-term in nature. Once established in particular institutional contexts, these national business systems may develop considerable cohesion and become resistant to major changes (Whitley 1998; Hall and Soskice 2001b). These institutional structures form established systems of economic coordination and control in specific market and non-market economies. They inherently shape the logics governing economic decision-making, and the market processes through establishing and enforcing the so-called “rules of the game.”⁵ How then do these different configurations of capitalism shape the organization of economic coordination and control systems? This diverse institutional structuring of organization systems is evident in the substantial variations in ownership patterns, business formation and coordination, management processes, and work and employment relations across countries and/or regions. For example, the ways in which industrial capitalism developed in the US, Germany, and Japan differ significantly as a result of variations in their political systems and the institutions governing production and distribution. To a large extent, the structure and practices of state agencies, financial organizations, and labor-market actors in these countries continue to diverge and to reproduce distinctive forms of economic organization (Whitley 1992, 1999). Pauly and Reich (1997) and Doremus et al. (1998) thus provide a succinct analysis of the embeddedness of business firms in their national political-economic structures in the US, Germany, and Japan (see also Gilpin 2001: ch. 7). Taken together, all of this strongly suggests that business firms embedded within and constitutive of different capitalist economies tend to behave differently in their organizational and strategic action.

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This VoC/business systems approach, nevertheless, has been criticized for its methodological nationalism and a tendency toward a latent institutional functionalism, a charge not too dissimilar to that leveled at the realist perspective in IPE. For example, researchers in East Asia have begun to question whether different capitalist formations and their allegedly distinctive business systems (e.g. Japanese and Chinese) can be as stable and enduring in today's context of accelerated globalization. By grounding varieties of capitalism in different East Asian national and sub-national economies, this new research frontier offers a much more geographically nuanced understanding of not just different forms of nationally based capitalisms in the global economy. It thereby helps one both understand and transcend the limits of methodological nationalism common in other approaches to the IPE. It shows how these different capitalist forms can intermesh and morph into a new form of *hybrid capitalism* at different spatial scales. In particular, it allows us to recognize and interrogate transborder flows of economic activity among East Asian economies that are critical to the process of hybridizing capitalism (see Yeung 2000, 2004; Yang 2007). Before I conclude, it is useful to discuss in the next subsection one such example of political-economic formation that is both transborder and multi-scalar in nature.

A multi-scalar phenomenon in the East Asian IPE: ethnic Chinese capitalism

In contemporary East Asia, one of the most pervasive business systems outside Japan is the "overseas Chinese" capitalism.⁶ This historically and geographically specific form of economic organization or, in Katzenstein's (2005) terminology, "regional order," refers to the social organization and political economy of ethnic Chinese living outside mainland China, particularly in East Asian economies such as Hong Kong, Macau, Taiwan, Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. This form of ethnic Chinese capitalism is a dominant mode of economic organization in East and Southeast Asia because of not only its economic significance in the host economies, but also its complex and, yet, intricate social organization and authority systems (see Redding 1990; Orrù et al. 1997; Yeung 2004; Hamilton 2006). By dropping below the level of the nation-state, it becomes common for researchers in East Asian IPE to argue that there are distinctive ways of organizing economic institutions in different parts of East Asia. This stability in capitalist organizations and patterns of economic relationships often persists in the face of rapid political-economic change external to the societies concerned. Together, these patterns of social and organizational structuring form different business systems. Their evolutionary trajectories are seen as dependent on pre-existing configurations of domestic social, economic, and political institutions (see also Whitley and Kristensen 1996, 1997; Guillén 2001; Hall and Soskice 2001a). This business-systems perspective is particularly relevant in analyzing the political economies of the Asia-Pacific region where business systems are socially and institutionally embedded.

More recently, a multi-scalar approach to capitalist diversity and change adheres to a transformative view of globalization (see Held et al. 1999; Peck and Yeung 2003; Dicken 2007), which defines globalization as a set of dialectical processes that simultaneously create a functionally interdependent world economy and accentuate the importance of all kinds of differences in societies and space. These processes include global flows of materials (e.g. people, goods) and intangibles (e.g. capital, technology, information, and services). The core argument of such an approach is that it is important to distinguish between business systems as enduring *structures* of capitalism, and key social actors in these

systems as *agents* of change. The lack of explicit attention to actors and their strategies/behavior as agents of organizational and system change is a major lacuna in most strands of IPE literature discussed above. As argued by Hall and Soskice (2001b: 5), such strategic interactions are “central to economic and political outcomes, the most important institutions distinguishing one political economy from another will be those conditioning such interaction, and it is these that we seek to capture in this analysis.”

In the case of East Asian IPE, this multi-scalar approach specifies how globalization tendencies can transform the dynamics of phenomena such as ethnic Chinese capitalism and, subsequently, its nature and organization toward a form of hybrid capitalism (Yeung 2000, 2004). It brings together key capitalist actors such as firms and states and political-economic structures such as institutionally embedded business systems. It champions the importance of different spatial scales, from the personal (entrepreneurs) and the national (states) to the regional (production networks) and the global (changing international divisions of labor). Clearly the realist idea of a single spatial scale of the international fails to analyze and capture the rich diversity and multiplicity in such a dynamic form of transborder phenomenon in the East Asian international political economy. The changing nature and organization of ethnic Chinese capitalism cannot be read off as a passive outcome of structural interdependence in the international political economy (cf. Keohane and Nye 1977; Gilpin 2001). No doubt this context of interdependence at the international scale is important, for it provides a window of opportunity for ethnic Chinese and their home economies in East Asia to emerge as a major group of political-economic players in the global economy. Still, this mono-scalar approach dominant in mainstream IPE fails to account for the dynamic and emergent forces internal to the East Asian regional political economy. Ethnic Chinese capitalism must be conceived as an “open” system and subject to dynamic changes from within, that is, at the level of actors themselves. These complex interactions between actor-networks in ethnic Chinese capitalism and dynamic business systems occur in the context of contemporary globalization. Operating on such a multi-scalar platform, we are better able to transcend the analytical limits of methodological nationalism inherent in both realist and VoC approaches. By challenging the necessary role of the US as a hegemon in East Asian development, this transformative approach to hybrid capitalism also disrupts the ontological assumption of hegemonic stability so entrenched in the realist account of international political economy.

Conclusion: toward an East Asian IPE?

This chapter has critically examined the changing international political economy in which the rise of East Asia is situated. Grounded in a *realist framework* derived mainly from the American school of IPE, previous analysis of the rise of East Asia, particularly Japan, has been shown to be fraught with analytical problems. In particular, the assumption of inter-state conflicts over wealth and power and zero-sum games in the mainstream realist framework has produced an analytical bias by seeing the rise of Japan as a challenge and threat to American economic hegemony in the global economy. This American-centric view of the international political economy fails to understand the changing political economy of East Asian economies in their own right. Drawing upon two parallel theoretical developments in what might be branded an East Asian IPE, I have shown how the *developmental state approach*, originating from the study of Japan and

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later South Korea and Taiwan, has been useful in illustrating the initial political-economic transformations in East Asian states that in turn created favorable conditions for rapid industrialization and economic development. As East Asian economies have become much more articulated into the global economy, we begin to witness the important role and operation of trans-state actors and processes at work that are best analyzed within a *global production networks framework*. Collectively, this latter literature has demonstrated how increasingly complex global production networks are spanning different states and regions in East Asia, drawing them together like overlapping spider webs with distinct nodes and centers. Couched in these terms, the changing international political economy in East Asia cannot be simply understood as a structural outcome of inter-state politics and relations. Through their embedded links and multi-scalar connections, non-state actors and their networks are contributing as much to this changing international political economy.

One particular dimension of this changing international political economy in East Asia is the dynamic transformation of the nature and organization of capitalist systems of individual East Asian economies. This brings us to the second theoretical development, parallel to the realist IPE literature, which refers to the deeper analysis of the institutional structuring of East Asian capitalisms. In this *varieties of capitalism approach*, East Asian economies are analyzed in relation to their distinctive business systems resulting from the institutional structuring of different historical political-economic processes and socio-cultural change. To some scholars, these business systems are enduring structures that are highly resistant to change even under the condition of contemporary globalization. They condition the strategic behavior of business firms emerging from these systems and limit the cross-national economic coordination of activity. Still, this VoC-inspired approach to business systems has not been accepted wholesale without immanent critique and challenge. Drawing on my own work on the international political economy of ethnic Chinese capitalism in East Asian economies, I have offered a revisionist approach to the VoC literature and demonstrated how globalization tendencies and key actors (state and non-state) in East Asia are interacting in such ways that fundamentally reshape the institutional structuring of ethnic Chinese capitalism. This interactive process at multiple spatial scales, from the global to the regional and the local, has produced a form of *hybrid capitalism* that prevails in many East Asian economies today. Conceived as such, ethnic Chinese capitalism has a certain degree of systemic endurance and, yet, is subject to dynamic transformations over time through its agents of change. At any given time, this hybrid form of capitalism evolves through the strategic interactions of key actors with globalizing forces—its hybridism represents the outcomes of these complex interactions in globalizing actor-networks.

How do these theoretically sophisticated analyses of East Asian economies matter in “theorizing back” at the mainstream IPE studies? Before I tackle this final issue in this concluding section, I must acknowledge that the mainstream IPE in the “North” might have produced the “right” kind of theories emanating from context-specific cases, issues, and geopolitical concerns in their countries of origin, albeit most likely the US. It remains unclear if these context-specific theories and concepts can be construed as “universal principles” that are equally and necessarily applicable to other more marginal regions in the global economy. Still, this inherent limit to context-specific theories does not stop mainstream IPE from venturing beyond its own epistemological and empirical contexts. In doing so, it clearly fails to heed Appadurai’s (1999: 230) telling warning—issued in the context of area studies—that “the more marginal regions of the world are

not simply producers of data for the theory mills of the North.” In the East Asian context, there is clearly a need to establish such “theory mills” that can process and create value from the “raw” data uniquely produced within East Asia. This epistemological reorientation brings me to the crucial question for this chapter: what kind of IPE theories for what kind of rising East Asia? I think there are at least three elements to this East Asian approach to the international political economy.

First, it might be seen as a *passé* for me to argue for the need to move away from state-centric analysis in the study of East Asian IPE. As confessed by Strange (1994a: 218) over a decade ago, “It becomes much more interesting to teach, to research and to write about when you drop the idea that states are the units of analysis” (see also Stopford and Strange 1991; Strange 1994b; Cerny 1995; 2006b). Even the quintessential realist, Robert Gilpin (2001: 15), admitted in his revision of the 1987 work that state-centric realism “is a philosophical position and an analytic perspective; it is not necessarily a moral commitment to the nation-state.” Whatever one’s theoretical predisposition (realist, Marxist, liberal, poststructuralist, and so on), the reality of East Asia is constituted by a messy and complex intermingling of actors and processes in global networks that “touch down” and embed in specific territories not limited exclusively to the spatial scale of the nation-state. The developmental state approach represents a good starting point in theorizing the comparative developmental trajectories of East Asian economies. But it still fails to get out of the shadow of a state-centric analysis of the international political economy in East Asia.

To destabilize this state-centrism in IPE, we need to theorize the international political economy *beyond* and *below* the nation-state and its territoriality. Indeed, some anthropologists have argued for a new perspective on sovereignty in East Asia situated within a particular zone of the nation-state. Ong’s (2000) idea of “graduated sovereignty” represents such an analytical lens of seeing the state as comprising different layers of graduated sovereignty, some of which are fairly well controlled by the existing state apparatus and others which are directly interacting with global actors and forces beyond the control of any nation-state (see also Wallerstein 1999). This idea is indeed similar to and further elaborated in the earlier perspective on global production networks. In this GPN approach, we need to consider both actors (state and non-state) and structures (GPNs and power relations) in fundamentally reshaping the global political economy. It not only encapsulates the kind of lateral inter-state analysis well performed by the realist approach, but also brings to the IPE field a new focus on globalizing actors whose political-economic activities crosscut different spatial scales in ways that cannot be captured by any realist analysis.

Second, this kind of *vertical* analysis of the international political economy, as promulgated in the global production networks and hybrid capitalism approaches, clearly brings *multi-scalar processes* back into our conceptual apparatus. As a site for these multi-scalar processes to work themselves through, East Asia provides a unique “laboratory” to develop context-specific theories of globalizing political economy that can “theorize back” at mainstream IPE. Let me give one example of this kind of “theorizing back.” In understanding how global competition operates in East Asia, we are often tempted to adopt a kind of beggar-thy-neighbor approach that shows how different East Asian states are behaving as Cerny’s (1997) “competition state” in ways that inevitably lead to a phenomenon of “race to the bottom.” Such national competitiveness approach, inspired by Porter (1990), Reich (1991), Tyson (1993), and others (e.g. the World Economic Forum’s *World Competitiveness Report*), has undoubtedly reinforced the realist notion that

nation-states are directly competing against each other in the global economy. As Krugman (1994) has passionately argued, however, there is indeed no such thing as nations competing against each other in the economic realm. Indeed, such competition should be understood as only operating at the firm level (see also Stopford and Strange 1991).

Deploying a multi-scalar approach to intensified competition, the global production networks approach clearly demonstrates the role of lead firms and their networks of strategic partners and suppliers in spearheading global competition. As different regions and states are articulated into the global economy through diverse networks of local firms and their global lead firm partners, we expect inter-regional and inter-national competition to be significantly intensified. In the East Asian context, regions are competing directly with each other through their efforts in developing indigenous firms, facilitating their coupling with global lead firms, and attracting the direct presence of these lead firms in GPNs. For example, as the Taipei-Hsinchu region, the Yangtze River Delta, Penang, Rayong, and Singapore are competing fiercely in the global ICT industry, there is a misleading perception that these different regions and their states are in head-on collision with each other within the realist context of a zero-sum game. Indeed, the reality is far more complex and interdependent than the above casual observation. There are, for example, intricate and, often, complementary relationships between global lead firms, their strategic partners in Taiwan and Singapore, and production sites in the China's Yangtze River Delta, Malaysia's Penang, and Thailand's Rayong (see Yang and Hsia 2007; Yeung 2007b; forthcoming). This "inter-regional" and "inter-national" competition in East Asia should rather be theorized as intra- and inter-GPN competition. At the intra-GPN level, different strategic partners and service providers are competing against each other for the same lead firms that may originate from North America and Western Europe. At the inter-GPN level, lead firms and strategic partners belonging to different GPNs are competing for global market shares. Grounded in an East Asian IPE, this GPN approach enables us to "theorize back" at the dominant realist framework of inter-state competition and conflict.

Third, these complex lateral and vertical relationships simultaneously operating at and permeating the national scale not only compel us to rethink our existing conceptual apparatus through the process of "theorizing back," but also require a different suite of research methods. As I have argued elsewhere (Hess and Yeung 2006), there are significant methodological challenges to GPN research. It is clear that empirical testing in the guise of the rational choice paradigm of the mainstream American school of IPE will not easily work in East Asia. The tremendous heterogeneity between and within East Asian states and their highly differentiated processes of articulation into the global economy necessitate a multiple logics and rationalities approach. The fact that East Asian IPE is governed as much by political-economic imperatives as by other socio-cultural logics makes it all the more difficult to apply a plug-and-play rational choice approach. Putting together these multiple and yet overlapping logics and rationalities in East Asia within a dynamic context of global economic change produces an international political economy not readily amenable to simplistic causal statistical analysis. The rise of East Asia will remain as an enigma in the mainstream study of IPE if the latter's context-specific theories, assumptions, and methodological toolkits are used in a direct and unproblematic way (cf. Keohane 2001). This research challenge in the IPE study of East Asia can only be satisfactorily addressed if its changing dynamics are analyzed in ways grounded firmly in its material reality and discursive contexts.

Notes

- 1 To minimize confusion in terminology, this chapter uses IPE as an abbreviation for the multi-disciplinary field of academic enquiry and “international political economy” as a label for the substantive reality of political economic configurations in the global economy.
- 2 The case of Japan, however, is curiously not an isolated case of myopic interpretation in the American school of IPE. As Susan Strange (1994a: 209) once noted in her critique of Krasner’s (1994) insistence on the use of realist international relations theories for the study of IPE,

most—not all—of my colleagues who teach international relations theory tend to suffer from some degree of myopia when it comes to the world around them. They would rather fit the facts of life into [existing] international relations theories than question the validity of the theories to explain the nature, and the causes and consequences of change in the world.

- 3 China remains not much featured in his two books published in the new millennium (Gilpin 2000, 2001).
- 4 One of the key proponents of regulation theory, Robert Boyer, is heavily involved in the VoC literature (see Boyer and Drache 1996; Hollingsworth and Boyer 1997).
- 5 Interestingly, Gilpin (2001: 18) has deployed a similar idea of the “national system of political economy” and argued that “the interests and policies of states are determined by the governing political elite, the pressures of powerful groups within a national society, and the nature of the ‘national system of political economy’”.
- 6 The term “overseas Chinese” may be contentious to some scholars of ethnic Chinese who are living outside mainland China. The term is related to the Chinese term *huaqiao* (Chinese national abroad) that has been sharply criticized in Southeast Asia for its implications that ethnic Chinese born abroad with citizen-status in another nation are still Chinese nationals in essence (see Wang 2000). *Huaren* (ethnic Chinese) has become a more politically acceptable term. Throughout this chapter, I will refer to “ethnic Chinese” rather than “overseas Chinese” in my discussion. But references to the literature sometimes require the term “overseas Chinese” to be clear. In such cases, I will use inverted commas to illustrate my discomfort with the term.

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