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Response to Woo-Cumings

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Response

Andrew Latham

Rather than attempt a detailed summary and critique of Dr. Woo-Cumings's essay, I will limit my remarks to a few words about one aspect of her argument that I found particularly interesting—that is, what one might call the Western cultural framing of the contemporary crisis in East Asian capitalism. Somewhat more specifically, my response will proceed in two parts. First, after providing a brief summary of what Dr. Woo-Cumings says about nineteenth-century European representations of East Asian capitalism, I will argue that, during the last century, Western social scientists and state officials tended to view East Asia through the prism of what I call “economic Orientalism”—that is, a set of primarily European discourses that represented East Asian capitalism and forms of corporate governance as being abnormal, backward, and irrational and, therefore, in need of reform and “modernization.” Second, I will extend Dr. Woo-Cumings's historical observations by discussing *contemporary* Western representations of East Asian capitalism. I contend that Western responses to the recent economic crisis in East Asia have been informed by a new form of economic Orientalism, one that naturalizes Anglo-Saxon *neoliberal* state forms and governance practices by contrasting them with the particular and “backward” forms of socio-economic governance (especially “crony capitalism”) that have evolved in East Asia.

Dr. Woo-Cumings states that capitalism has always assumed different forms in Western Europe and East Asia. The reason for this, she says, is relatively simple: as capitalism took root in different social, cultural, and institutional settings, it assumed the imprint of these settings. Thus, corporate governance in the West acquired an impersonal and legalistic form, reflecting the rational (in the Weberian sense of being based on impersonal rules) and legalistic social matrix within which it evolved. In such a socio-institutional context, “good governance” meant holding corporate management accountable to shareholders, or reducing *agency costs* (meaning the costs to shareholders of managerial behavior not consistent with their interests). The preferred means for achieving this goal were formal and legalistic.

In East Asia, on the other hand, capitalism evolved in a far less rationalistic and legalistic sociocultural and institutional setting. In this environment—“where trust is low, contracts are not strictly enforced,

laws may be unfair, and the politics of ruling parties can lead to riches or ruin" — corporate governance came to focus on "reducing *transaction costs* by building and investing in stable and long-term commercial relationships among transacting companies." Dr. Woo-Cumings argues that in Northeast Asia (especially South Korea) this was informed primarily by the need to insulate private enterprises against the vast discretionary power of the autocratic developmental state. She contrasts this with the case in Southeast Asia (especially Indonesia and Malaysia), where the goal of the state has been development that enhances the dominant ethnic party's political base. She concludes that, in both cases, the evolution of patterns of corporate governance that involve kinship-based closed corporations, the cultivation of political patrons, and bribes and payoffs to state officials is perfectly understandable and "rational." She further concludes that both forms of East Asian corporate-governance structure have proven themselves to be effective local adaptations in the interests of capital accumulation.

Beyond this basic point, Dr. Woo-Cumings also draws attention to the fact that "there is a remarkable consistency in the way that Westerners have problematized capitalist enterprise in East Asia over the past century." Beginning with the work of Max Weber, Dr. Woo-Cumings provides a thumbnail genealogy of the basic discursive categories that have been used to describe contemporary East Asian state-society relations: "political capitalism," "bureaucratic capitalism," "booty capitalism," "predatory capitalism," and, of course, "crony capitalism." Her argument here is that although both Western and East Asian forms of capitalism have historically been "functional" (in the sense of being effective local adaptations in the interests of capital accumulation), when viewed through the cultural lens of the late nineteenth-century West, which judged Western (or Occidental) forms to be "modern," "progressive," and "rational," while Eastern (or Oriental) forms were deemed abnormal and backward — and, therefore, in dire need of reform. She goes on to argue that, at least since Weber, Western efforts to make sense of East Asian capitalism have been unconsciously informed by these Orientalist terms and concepts.

Finally, Dr. Woo-Cumings maintains that, despite this legacy of economic Orientalism, as recently as the early 1990s, East Asian forms of corporate governance were being lauded as inherently superior in many ways to Western forms. She usefully reminds us that only a few years ago it was fashionable to argue that Western forms of corporate governance were counterproductive because they reduced investment

and forced managers to work within “short-term” planning horizons. In contrast, she points out, during the early 1990s many observers argued that the rapid economic growth in East Asia was largely attributable to the prevalence in the region of forms of corporate governance that actually encouraged managers to adopt relatively long-term investment strategies.

Dr. Woo-Cumings’s comments raise what I think are three interesting and important questions. First, how is it that, in the late 1990s, the West (and the institutions of global economic governance that the West dominates) once again have come to represent East Asian forms of capitalism as inherently dysfunctional and in dire and immediate need of root-and-branch reform? Second, why is it that the current crisis is being defined as one of “crony capitalism” rather than neoliberalism or global capitalism? And third, how is it that the basic categories of economic Orientalism (which seemed to be dormant for many years) have now been reactivated and redeployed with such vigor? In other words, why is it that the prevailing Western diagnoses of the dysfunctionality of crony capitalism differ so little from those first advanced during the nineteenth century?

The obvious answer, I suppose, is that the current economic crisis proves that East Asian (crony) capitalism is inherently unstable and dysfunctional. But I don’t find this answer wholly persuasive. Without elaborating at length on my reservations regarding the rationalist ontological premises of such an argument, I think I can dismiss this line of reasoning fairly easily by making the following points. First, the current crisis was triggered by a relatively simple policy failure (not a structural failure). Second, as Woo-Cumings points out, there have been economic crises in the region before. Although these may have provided the occasion for limited self-initiated reform in some countries, I do not believe they triggered a widespread global condemnation of crony capitalism; nor did they give rise to any sustained international pressure for reform.

But if characterizations of crony capitalism are not perfectly faithful mimetic representations of the realities of East Asian capitalism, and if schemes for the reform of crony capitalism are not objective responses to self-evident problems, how do we explain recent rather vigorous efforts to impose neoliberal reforms on “crony capitalist” states? The answer, I suggest, lies in three relatively recent changes in the global political economy.

First, the Cold War has ended. This is important because, during the Cold War, the discourses on economic Orientalism were partly muted as the West sought to enlist allies in its global struggle with the Soviet Union. Simply stated, during that era, capitalism of any stripe (including the most authoritarian and illiberal East Asian variants) was supported and defended by the West for politico-strategic reasons. As a result, there was a tendency to overlook the anomalies and shortcomings of friendly East Asian states such as Korea and Indonesia. Indeed, Western governments were disinclined to encourage the reform of these “backward” capitalist states, and actually insulated them from transformative pressures by bailing them out of economic trouble. The end of the Cold War, however, saw the end of the socio-military logic that shielded East Asian economies from Western pressures to reform. No longer locked in a global struggle with the Soviet Union, Western states are decidedly less willing to ignore or tolerate “deviant” forms of capitalism in the Third World. I would suggest that this change of attitude was a necessary (if not sufficient) condition for the reemergence of economic Orientalist discourses in recent years.

Second, and I think more importantly, there have been important changes in the global structures of material life over the last twenty years or so. The world economy has generally evolved from a spatially “parcelized” form of capitalism organized around/within nation-states to a more thoroughly globalized form of capitalism increasingly organized on a worldwide basis. This transformation of the material underpinnings of global politics has occurred as a result of the emergence (or perhaps merely unleashing) of a powerful new social force—global high finance—that has its own very particular interests, needs, and demands (the most important of which promote the unfettered flow of financial capital across borders and around the world). As this social force has become dominant at the global level, it has mobilized its considerable social resources to re-create the basic institutions of global governance in its own image. As a result, these institutions have evolved from being pillars of the post-World War II Fordist/Keynesian international economic order into agents of contemporary neoliberalism.

Third—and I think this is key—there has been a change over the last two decades in the global cultural norms that specify the legitimate forms and functions of states as instruments of economic governance. Simply stated, as the global political economy has been materially transformed, parallel cultural changes have also occurred.

Thus, the old set of norms that legitimized the “welfare-national” and “developmental states” of the Fordist/Keynesian golden age has been displaced by a new regulative ideal—the “liberal-international” state. This new ideal-type naturalizes and legitimizes a form of state that more closely resembles the traditional “night-watchman” or minimal “regulatory” state prescribed in classical liberal theory. According to this new global cultural norm, the appropriate role of the state in the modern economy is to facilitate the unfettered movement of global financial capital (i.e., to make national economies attractive to global *haute* finance). Such “modern” neoliberal states have the following characteristics:

- They promote market efficiency.
- They exercise fiscal discipline.
- They have policy credibility/consistency (as understood in orthodox neoliberal terms).
- They are transparent (i.e., open to surveillance by the global market and global regulatory institutions such as the IMF and World Bank).
- They are largely insulated from the vagaries of domestic politics.

“Good governance”—that ubiquitous neologism that pervades neoliberal economic discourse—is really nothing more than a shorthand for this set of norms.

Perhaps not surprisingly, one effect of the evolution of this new set of global cultural norms has been to marginalize, delegitimize, and stigmatize earlier forms of state. This is why the forms of state-society relations that have evolved in East Asia are now considered “obviously” dysfunctional; they simply do not conform to the now hegemonic norms of the internationalized neoliberal state. Indeed, they are now viewed as the very antithesis of the contemporary neoliberal ideal-type. It is this, and not the objective properties of the East Asian developmental state (in all its various forms), that accounts for the recent stigmatization of the “crony capitalist” states of Korea, Indonesia, Thailand, and Malaysia.

This stigmatization has not taken place in a cultural vacuum. Rather, the now ubiquitous delegitimizing representations of East Asian capitalism have been assembled out of the cultural and linguistic materials at hand. As state officials and others warranted to speak authoritatively about economic matters have attempted to make sense

of the contemporary crisis, they have (sometimes reflexively, sometimes consciously) exhumed and rearticulated the traditional categories of economic Orientalism, including “booty capitalism” and “pariah capitalism.” “Crony capitalism,” while clearly a neologism, is powerfully informed by these Orientalist discourses.

In summary, since the mid-1990s, Western policy-makers have read the global economic order in a way that has essentially transformed a contestable interpretation of the sources of financial instability, recession, and underdevelopment (that is, the failure to adopt neoliberal political practices) into a set of supposedly objective and incontestable facts regarding the sources of turbulence in the international financial system (which are “crony capitalist” states that are inherently unsound and crisis-prone). The current financial crisis brought together the various elements of this evolving discourse into a coherent and powerfully resonating whole. But this discourse is not simply reducible to the realities of the recent crisis, nor can it be fully explained in terms of objective changes in the global capitalist order following the end of the Cold War. Rather, the evolving discourse took the form it did because Western officials and experts reassembled and rearticulated existing cultural resources and linguistic categories to create a new “common sense” regarding the nature of capitalism, the market, and the appropriate role of the state as an agent of economic governance. This perspective legitimizes certain forms of state (especially states that have been “internationalized” or restructured in order to make them more responsive to the demands of global financial interests), while stigmatizing and delegitimizing (in traditional Orientalist ways) other forms of state, especially those still organized in ways that make them more responsive to local economic and political elites). In this way, Western/global policy-makers, diplomats, and experts actually created the problem to which they subsequently responded.

Calls for reform of East Asian economies are not simply technical responses to objective problems in the global political economy. They are, rather, part of an ongoing campaign conducted by the major Western-dominated institutions of global economic governance to coercively restructure state-society relations around the world so they will conform to the new norms of the neoliberal state. Significantly, the delegitimization of the East Asian developmental state that this entails

is done in terms of a discourse on economic Orientalism that would have been familiar to nineteenth-century social scientists and state officials who were also involved in the restructuring of Asian economies.