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East Asian Capitalism: An Introduction

Amiya Kumar Bagchi

Since the 1960s, many of the countries of East Asia, large and small, have been front-runners in the race for economic growth. With the sole and significant exception of China, most of these countries have operated under a system of private property, but not necessarily under a 'free enterprise' system. While the rest of the world was also experiencing something approaching boom conditions, the performance of such countries as Taiwan, South Korea and city states such as Singapore and Hong Kong could be explained as a catching-up process: in fact, there was a tendency to bracket the East Asian lands under the general rubric of newly industrializing countries (NICs) along with Brazil, Mexico, Argentina, India and a few others. However, Japan kept on growing and maintaining a high rate of employment when practically all the other affluent capitalist countries experienced severe doses of stagflation and the four East Asian dragons (South Korea, Taiwan, Hong Kong and Singapore) faltered for just a year or two when the rest of the Third World, including most of the NICs, were locked in a severe and long-drawn-out economic crisis. This has alerted the world to the possibility that there may be something special about East Asian capitalism.

By East Asian capitalism in its purest form, we will denote the characteristics of Japan and the four dragons. However, this core has also a periphery, both in a geographical and a social sense: the social structures of most of the other countries have characteristics of various precapitalist formations along with distinct signs of capitalist development. Malaysia, Indonesia, the Philippines and Thailand may all fit into this category of peripheral countries of East Asian capitalism.

Two obvious features that distinguish East Asian capitalism from the capitalist nations of the North Atlantic coast are that they constitute a new core of development along capitalist lines and that they represent the latest

bout of successful industrialization along the capitalist path. If England represented the first case of capitalist industrialization and if England and Belgium and to a lesser extent, France could be considered to be the front-runners in the so-called First Industrial Revolution, and the U.S.A. and Germany were the leaders of the Second Industrial Revolution, then the Third Industrial Revolution has seen the emergence of Japan as the new front-runner in the process of capitalist industrialization. Socialism emerged in the era of the Second Industrial Revolution and was able to syncope the characteristics of both the first and the second industrial revolutions. (The current efforts of both the Soviet Union and China can be regarded as attempts to catch up with the processes of the Third Industrial Revolution.)

Every phase of the industrialization process has characteristic features in terms of technology, principles of organization, and international implications. Gerschenkron seemed to detect a larger role for the state and for parastatal financial organizations in the processes of industrialization of the relatively backward nations of Europe: correlatively, he also found evidence of a greater emphasis on heavy industries or capital goods industries in the later phases of European industrialization.¹ Long before, Bukharin, Hilferding, Hobson and Lenin had detected certain features in the development of European capitalism which, according to them, led the European countries to pursue imperialist policies leading to war.² Different analysts stressed different features of the system: Hobson stressed the sectional interests of the financiers overwhelming the long-term interests of capitalism and the English nation; Hilferding stressed the tendency of finance and large monopolistic enterprises to come together and generate imperialist tendencies; Luxemburg, Hobson and Lenin stressed either periodic or ever-present constraints on the market imposed by extreme concentration of wealth and sluggishness of the incentive to invest; and Lenin emphasized the competitive carving up of markets and spheres of investment by dominant monopoly groups. Controversies over the relative importance of different factors in the late nineteenth and early twentieth centuries are still raging.³ However, all later analysts have had to take account of the relations stressed by the theorists of imperialism.

¹ A. GERSCHENKRON, *Economic Backwardness in Historical Perspective*, New York, Praeger, 1965.

² For a discussion of the various theories, see A. Brewer, *Marxist Theories of Imperialism*, London, Allen & Unwin, 1980, and P. PATNAIK (ed.), *Lenin and Imperialism*, Delhi, Orient Longmann, 1986.

³ See, for example, L. E. DAVIS and R. A. HUTTENBACK, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism 1860-1912*, Cambridge, Cambridge University Press, 1986.

Alice Amsden (in this volume) has singled out learning and intensive intervention as features of late industrialization in East Asia. Other analysts will perhaps single out other characteristics or may modify or elaborate those mentioned by Amsden in particular directions. But these two features are going to be a necessary part of any analytical account of East Asian capitalism.

But one can still try to look for the roots of successful learning and successful state intervention. And in doing this, we are inevitably led to examine some of the *differentia specifica* of Japanese capitalist development: Japan is the leading capitalist country of East Asia; two of the successful 'dragons', namely, Taiwan and South Korea were direct colonies of Japan for nearly fifty years and most of the other countries had been conquered by Japan during the Second World War. Moreover, most of these countries have been dependent on Japan for technology and — to a much lesser extent — for markets and capital. Finally, technologies from other countries are also increasingly influenced by Japanese design and practice.

In spite of the existence of an enormous literature on Japan in English, scholars are by no means unanimous about the origins and the significance of various characteristics that are considered to be specifically Japanese. Take, for example, the system of the so-called permanent employment under which between a fifth and a third of the Japanese workforce (generally male, and generally the better paid employees) are employed most of their working lives in a single company. As Watanabe has pointed out (in another paper in this volume), this system does not characterize the smaller enterprises or those workers who hope to set up in business on their own. The system has evolved over decades: its rudiments are to be found in the search of Japanese entrepreneurs and managers for stability in the workforce and the rhythm of work and their efforts to retain the skilled workers.⁴ But it has been claimed that it was a response of Japanese management to the pro-labour laws passed during the period of U.S. occupation of Japan, which made it very difficult to dismiss workers and rendered trade unions immune to damage suits arising out of consequences of industrial action.⁵ Not only

⁴ K. TAIRA, "Factory Labour and the Industrial Revolution in Japan", in P. MATHIAS and P. P. POSTAN (eds.), *The Cambridge Economic History of Europe*, vol. VII, *The Industrial Economies, Capital, Labour and Enterprise*, Part 2, *The United States, Capital, Labour and Enterprise*, Cambridge, Cambridge University Press, 1978, and M. KOJIMA, "Japanese Labourers", in M. NOICHI (ed.), *Japan to America*, New York, G. P. Putnam's Sons, 1914, reprinted in J. Livingston, J. MOORE and F. OLDFATHER (eds.), *The Japan Reader 1: Imperial Japan 1800-1945*, Harmondsworth (U.K.), Penguin Books, 1976.

⁵ A. MORITA, E.M. REINGOLD and M. SHIMOMURA, *Made in Japan: Akio Morita and Sony*, London, Fontana/Collins, 1986. For an illuminating study of how Japan and the U.S.A. used apparently similar labour laws and grievance procedures in very different ways, see W. GOULD, *Japan's Reshaping of American Labour Laws*, Cambridge, Mass., MIT Press, 1984; see also R. B. REICH, "Review of Gould", *Harvard Law Review*, 98(3), January 1985.

was the growth of the system spread over a long time: it was also the result of several other complex influences. One was the ability of Japan to maintain a high rate of investment and a reasonably taut economic system from the 1890s onward.⁶ Only when the entrepreneurs knew that they could maintain a reasonable rate of growth and take care of any work-reducing productivity increase and unforeseen fluctuations in output, could they offer guarantees of long-term employment.⁷ The entrepreneurs' search for a trained labour force would also lead them to offer training facilities to the workers and incentives for them to stay on in the company. The inherited familial pattern of control over adults under which the head of the house or clan often exercised legal and actual authority over everybody in the house or clan also may have contributed to the workers coming to look upon their employers as heads to whom they owed long-term loyalty.⁸ Finally, the repressive acts of the occupation authorities and the subsequent actions of the Japanese businessmen and government in breaking up left-leaning industrywide unions also may have led to the strengthening of company unions and long-term employment relations between workers and companies.⁹

The factors enumerated above will indicate the difficulty of providing a short explanation of even the most prominent characteristics of the Japanese economic system. With this cautionary example in mind we proceed to look at certain other distinctive features of Japanese capitalism. It was maintained at one time that Japanese entrepreneurs in the Meiji era originated from the class of traditional warriors, the *samurai* and that the government played a very important role in developing entrepreneurship. This view has been revised and the role of the merchants in the break up of the Tokugawa shogunate and the peasant and merchant origins of the most important Japanese entrepreneurs have been recognized.¹⁰ What the state did, however, was to provide the ideological framework within which the extremely hierarchical system of control could be operated for the benefit of the upper classes and the expansion of the sphere of operations of Japanese

⁶ For a summary of the Japanese growth record up to 1965-66, see K. OHKAWA and H. ROSOVSKY, "Capital Formation", in P. MATHIAS and P.P. POSTAN (eds.), *op. cit.*.

⁷ See S. Watanabe's paper in this volume.

⁸ W. W. LOCKWOOD, *The Economic Development of Japan*, expanded edition, Princeton, N.Y., Princeton University Press, 1970.

⁹ For short accounts of post-war labour repression in Japan, see the excerpts in J. LIVINGSTON, J. MOORE and F. OLDFATHER (eds.), *The Japan Reader 2: Postwar Japan, 1945 to the Present*, Harmondsworth (U.K.), Penguin Books, 1976, pp. 139-86 and 440-94, and P. ARMSTRONG, A. GLYN and J. HARRISON, *Capitalism since World War II: The Making and Breakup of the Great Boom*, London, Fontana Paperbacks, 1984, Chapter 4.

¹⁰ T. C. SMITH, *The Agrarian Origins of Modern Japan*, Stanford, Calif., Stanford University Press, 1959; J. G. ROBERTS, *Mitsui: Three Centuries of Japanese Business*, New York, Weatherhill, 1973; K. YAMAMURA, "Entrepreneurship, Ownership and Management in Japan", in P. MATHIAS and P. P. POSTAN (eds.), *op. cit.*.

business both at home and abroad. The builders of the Japanese state retained the feudal values and much of the framework of control over the peasants and workers while connecting the ruling strata to the newly refurbished focus of authority, the emperor.¹¹ From the point of view of the subsequent history of East Asia, what is interesting is that the *samurai*, who theoretically had the topmost position in pre-Meiji Japan, had already been detached from the land. So it was possible to curb the power of landlords and use a land tax (which, of course, impinged most heavily on ordinary peasants) to finance a large fraction of the costs of early industrialization in Japan. (The parallels with modern Taiwan are striking here except that the class which was instrumental in abolishing local landlordism in that island were the occupying Kuomintang from the Mainland, and the U.S. authorities aiding them, rather than the indigenous Taiwanese.)

The new Japanese ruling classes went about systematically to exclude foreigners from all positions of control even while doing everything possible to acquire the learning that made the western countries economically and militarily powerful. Internally, they introduced the teaching of science and technology at many different levels and even adopted some of the trappings of western constitutional authority, while rigorously eliminating all elements of the Enlightenment philosophy which might make for the assertion of the rights of individuals. The Imperial Rescript on Education issued in 1890 was taught in all schools, and asserted the authority of the state and the emperor over all citizens: the authority of the father over adult sons, of husbands over wives, and of families, natural or constructed, over their members, was reasserted in numerous ways.¹² This ideology was inculcated through the school system covering the entire Japanese school-going population by the beginning of the twentieth century and underpinned the elite control over ordinary workers and the extreme degree of exploitation young women were subjected to in the Japanese factories.¹³

The new class of Japanese rulers wanted to imitate the western powers in everything, including their imperialist activities. In any case, they saw

¹¹ E. H. NORMAN, *Japan's Emergence as a Modern State*, New York, Institute of Pacific Relations, 1940; W. G. BEASLEY, *The Modern History of Japan*, New York, Praeger, 1963; K. TAKAHASHI, *The Rise and Development of Japan's Modern Economy: The Basis for 'Miraculous' Growth*, translated from the Japanese edition by J. Lynch, Tokyo, Jiji Tsushin-sha, 1969; E. O. REISCHAUER, *The Japanese*, Cambridge, Mass., Harvard University Press, 1981.

¹² K. TAKAHASHI, *op. cit.*; J. LIVINGSTON, J. MOORE and F. OLDFATHER (eds.), *The Japan Reader 1 ...*, *op. cit.*, Part. II: E. O. REISCHAUER, *op. cit.*, esp. Part 3, 'Society', and M. MORISHIMA, *Why Has Japan 'Succeeded'? Western Technology and the Japanese Ethos*, Cambridge, Cambridge University Press, 1982.

¹³ Cf. S. L. SIEVERS, *Flowers in Salt: The Beginnings of Feminist Consciousness in Modern Japan*, Stanford, California, Stanford University Press, 1983, for the melancholy history of Japanese feminism.

imperialism as a natural extension of their aggressive nationalism. The conquest of Formosa and of Korea between the 1890s and 1910 fulfilled some of their imperialist ambitions and extended the base from which Japanese capitalists and the Japanese state could extract a surplus value.

The activities of the Japanese state in protecting the domestic market, providing infrastructure and promotional finance are well documented; so is the growth of the massive business combines, known as the *zaibatsu* under the protection of the Japanese state.¹⁴ The relative share of responsibility of the *zaibatsu* and the military in promoting Japanese militarism which led first to the invasion of China and then to Japan's entry into the Second World War, through the sneak attack on Pearl Harbour, will continue to be debated by historians.

What has not been highlighted in the literature is the remarkable degree to which Japanese capitalists managed to cooperate with one another in their home market, control many of the community activities, and ensure the loyalty of the workers to the company, often without explicit legal enactments to underwrite such coercive cohesiveness.¹⁵

When the US occupation broke up much of the earlier legal and organizational framework of authoritarianism in Japan the informal but highly effective system of cohesiveness based on the family, the university, the clan or the region come back into play. Moreover, in the period of the Cold War, many of the relatively pro-labour policies pursued by the American authorities were reversed, and left-leaning unions were subjected to various restrictions and outright repression. While the *zaibatsu* were broken up, enterprises belonging to former *zaibatsu* groups and many other associated firms came to be grouped as *keiretsu* (brethren) enterprises. The earlier paternalistic authority exercised by heads of enterprises over workers continued. Workers were encouraged to marry with company blessing, worship at shrines provided by the company, take their families for their annual holidays to holiday homes provided by the company. In their determination to anchor the workers' and managers' loyalty, and to prevent the leaking out of company secrets, some Japanese companies even provided bars where only company employees would be admitted.¹⁶ While the earnings within the top managerial group were made more equal than before, and managers and workers often shared the same work-space with no rigid divisions between the office space of the supervisor and his subordinates, or between factory space and work space, the hierarchical order between

¹⁴ W. W. LOCKOOD, *op. cit.*; K. YAMAMURA, *op. cit.*; J. HIRSCHMEIER and T. YUI, *The Development of Japanese Business 1600-1980*, 2nd edition, London, Allen & Unwin, 1981.

¹⁵ Cf. J. G. ROBERTS, *op. cit.*, and W. W. FRUIN, *Kikkoman: Company, Clan and Community*, Cambridge, Mass., Harvard University Press, 1983.

¹⁶ Cf. A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*, p. 212.

senior managers and workers continued to be very firmly maintained, as did the distinction between those who were offered life-time employment and those who were not. The relative positions of men and women in terms of wages, status or opportunities of promotion to higher levels have hardly changed over all these years of 'miraculous' growth. Such repressed wage levels for almost half the workforce and the incentive given to workers and managers to save for their post-retirement futures helped maintain a very high rate of saving even on the part of the working class and helped sustain the investment drive of the Japanese capitalists.

There are other aspects of the Japanese reconstruction of capitalism after the War which are worth noting. One is the role played by the Ministry of International Trade and Industry (MITI) in association with individual firms or industry associations or conglomerates (the newly resurrected *keiretsu*). The MITI drew up plans for whole sectors of the economy, identified strategic technologies and helped Japanese firms acquiring the technologies at the least cost possible.¹⁷ It has been suggested that many Japanese firms such as Matsushita or Sony who introduced major innovations, especially in the field of consumer electronics, depended little on the government for guidance or help in acquiring technologies.¹⁸

It has also been suggested that Matsushita or Sony bypassed another specifically Japanese institution, namely, the *sogo shosha*. Nine or ten Japanese *sogo shosha* or large trading companies handled most of the external trade of Japan and continue to do so even now: they provide information, markets, technologies, etc., to small or medium-sized firms and act as the agents for selling their products abroad.¹⁹

However, all Japanese firms benefited from the general framework of protection of the domestic market provided by the Japanese government. The government, even in years of U.S. occupation, did not allow foreign companies to control any significant area of production. In the rare cases in which foreign investment was permitted, it generally took the form of a joint venture in which the domestic partner exercised effective control. Japanese firms also utilised to the full the close relationship between principals and subcontractors which was already prevalent before the Second World War.²⁰ Such relations were often maintained without explicit legal

¹⁷ For the case of the introduction of the basic oxygen furnace for steel-making in the 1950s, see L. LYNN, "Japan Adopts a New Technology: The Roles of Government, Trading Firms and Suppliers", *Columbia Journal of World Business*, XIX(4), Winter 1984.

¹⁸ A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*

¹⁹ L. B. FRANKO, "The Pattern of Japanese Multinational Investment", *Multinational Business*, No. 1, 1984.

²⁰ See, for example, W. W. LOCKWOOD, *op. cit.*, pp. 213-4; J. HIRSCHMEIER and T. YUI, *op. cit.*, pp. 336-9; and S. WATANABE and APO, *International Subcontracting: A Tool of Technology Transfer*, Tokyo, Asian Productivity Organization, 1978.

contracts. Foreign firms often found it difficult to negotiate with Japanese firms which carried over this practice in trying to establish joint ventures or enter into close business relations with foreign firms and refused to enter into binding agreements written down on paper.²¹ Finally, there is another aspect of Japanese-management relations which has aroused admiration abroad, but which seems to be difficult to transplant. This is the system of quality-control circles formed by workers who pass on suggestions for improvement of quality and productivity to management. Although the high degree of quality consciousness among internationally competitive Japanese firms came to the notice of foreign buyers and competitors only in the post-1960 period, the practice of workers passing on suggestions to management had been customary in many Japanese firms in which final decisions were arrived at through a kind of group discussion rather than given as a fiat by a dictatorial owner or manager. (This remains true even if the co-operation of workers and middle management is a matter of obeying seniority rather than of conscious decision in every case.)

Many countries of East Asia in various phases of their development have tried to take over Japanese practices in government, business and social relations. Even when there has been no conscious imitation, a process of osmosis has worked through exchanges of information, products, technologies and, of course, the pressure of competition. However, it would be wrong to ignore another element besides Japanese influence, which provides a connecting link between most of the capitalist or free enterprise countries of East Asia. This is the presence of Chinese tradition, Chinese businessmen, and of the Chinese diaspora in the wake of the Chinese communist revolution in 1949.

Japan was a conscious learner from China in earlier stages of her growth. Even in the nineteenth century when the new Japanese leaders decided to adopt Western learning as a way of getting even with the barbarians, the two major elements they depended on to design their ideology and the structure of authority were Confucianism and Shintoism. While retaining the Confucian emphasis on the primacy of the family (with the father as the controller of the rest of the family, including adult sons and all the women), the Japanese put a new emphasis on Shintoism with the emperor as the supreme god-figure to which all the hierarchically ordered families were bound through loyalty and ritual and institutions to cement that loyalty.²² Confucianism and clan and family loyalty pervade the upper echelons of society in the Asian NICs and in many other East Asian countries. Even when the indigenous ruling strata in a country follow another

²¹ A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*.

²² M. MORISHIMA, *op. cit.*, Chapter 2; E. O. Reischauer, *op. cit.*, Chapters 7, 13 and 20.

religion or code of ethics (such as the predominantly Catholic Filipino ruling class, or the dominant elements in Indonesia and Malaysia practising Islam), there is often a major Chinese business community which lends some of this colour of patriarchal authority and clan solidarity to business and industrial relations.

Three of the four East Asian dragons, viz., Singapore, Hong Kong and Taiwan are predominantly Chinese in ethnic composition. In Thailand, Malaysia, Indonesia, the Philippines and Brunei, the Chinese business community controls a large fraction of trade, small-scale industry and, in some cases, banking. They are very often considered much too aggressive and competitive by local businessmen of a different ethnic composition and there have been many attempts to curb them through legal restrictions and sometimes through genocidal attacks. Anti-Chinese sentiment was an important element in the killing of hundreds of thousands of people which ushered in the present military regime in Indonesia.²³ Chinese families act as networks for the flow of capital, technology and managerial enterprise between the different East and South East Asian economies.²⁴

Paradoxically enough, the victory of the communists in Mainland China in 1949 made a major contribution to the spread of industrial capitalism in East Asia outside Japan. When Chinese businessmen fled to Hong Kong and Singapore, they had to find ways of making money outside trade in agricultural commodities, speculating in agricultural land or usurious loans to peasants. Moreover, Communist China needed Hong Kong as an outlet to the external world, especially during the period when China was subjected to an economic blockade by the U.S.A. and her allies.²⁵ A capitalist Hong Kong and a communist People's Republic of China have long had a symbiotic relationship with each other, and this relationship has become even stronger in recent times. The communist revolution in China (and

²³ For an account of the activities of Chinese businessmen and attitudes of local governments to them, see Yuan-li Wu and Chun-hsi Wu, *Economic Development in Southeast Asia: The Chinese Dimension*, Stanford, Calif., Stanford University Press, 1980.

²⁴ See, for example, the way in which families from pre-1949 Shanghai maintain a network of banking and business between Taiwan, Hong Kong, and, now, the People's Republic of China: E. CHANG, "Those Old-School Ties: Shanghai Commercial Bank Builds Quietly on the Past", *Far Eastern Economic Review*, 12 February, 1987, and C. GOLDSTEIN, "All in the Family: Size Is No Measure of Shanghai Commercial and Savings Bank", *ibid.*.

²⁵ See, in this connection, S. FITZGERALD, *China and the Overseas Chinese: A Study of Peking's Changing Policy 1949-70*, Cambridge, Cambridge University Press, 1972; A. J. YOUNGSON (ed.), *China and Hong Kong: The Economic Nexus*, Hong Kong, Oxford University Press, 1983; and C. RISKIN, *China's Political Economy: The Quest for Development since 1949*, New York, Oxford University Press, 1987, Chapter 13.

North Korea) also contributed to the capitalist development in Taiwan and South Korea in another way: it convinced the Americans of the need for thorough-going land reforms aimed at abolishing landlordism and giving land to the actual cultivators. This process had already been set in train by the confiscation of the estates owned by the Japanese; this was also hastened in Taiwan by the determination of the newly-arrived Kuomintang fleeing from the mainland to consolidate their political control over the local Taiwanese.²⁶ However, the contribution made by the post-war land reforms in Japan enforced under the direction of the US occupation forces, and by the land reforms in Taiwan and South Korea in freeing the forces of capital accumulation from the shackles of landlordism, can hardly be overestimated.²⁷

We stated in the beginning that Japan formed the core of the East Asian capitalist block. The meaning of this statement can be clarified now. Japan served more as a model for state action, for treatment of direct foreign investment, for management-labour relations, than as a source of capital, technology, information or as a market for most of the industrial sectors of the East Asian capitalist nations, at least until the end of the 1970s. In the nineteenth century, Britain, and later on, and to a much lesser extent, France, served as a major source of capital and technology embodied in machines and men for most of the continental European countries, and for the U.S.A., Canada and other countries of white settlement.²⁸ People migrated in their millions from Europe to Australia, Canada, New Zealand and the U.S.A., and European capital was invested to support the implementation of new industries and settlements in those countries, until the U.S.A. herself emerged as a net creditor nation. Technology went 'on the hoof' with migrating craftsmen, machinists, technicians and scientists. Nothing like this movement has taken place from Japan to other countries of East Asia. Most of the capital which financed the development was either generated locally or was supplied by the U.S.A. and West European countries rather than by Japan. The markets for most of the manufactures of the East Asian countries were located in the U.S.A., western Europe and other countries; with Japan as very often a resistant second to the U.S.A.-Japan bought mostly raw materials from the East Asian countries,

²⁶ R. APTHORPE, "The Burden of Land Reform in Taiwan: An Asian Model Land Reform Reanalysed", *World Development*, 7(4/5) 1979.

²⁷ A. SAITH, "Contrasting Experiences in Rural Industrialisation: Are the East Asian Successes Transferable?", in R. ISLAM (ed.), *Rural Industrialisation and Employment in Asia*, New Delhi, ILO (ARTEP), 1987.

²⁸ R. CAMERON, *France and the Economic Development of Europe*, Princeton, N. J., Princeton University Press, 1961; D. S. LANDES, "Technological Change and Development in Western Europe 1750-1914", in H. J. HABAKKUK and M. M. POSTAN (eds.), *The Cambridge Economic History of Europe*, Vol. VI, *Industrial Revolution and After*, Part I, Cambridge, Cambridge University Press, 1965; L. E. DAVIS and R. A. HUTTON, *op. cit.*

and generally had a surplus on the trading account and overall in her trade with most of these countries. Although there have been some changes in recent years, this imbalance has been a source of inter-country tension within the block of East Asian capitalism.²⁹

At the heart of the problem are Japanese attitudes and practices regarding technology transfer, foreign investment and protection of domestic markets for domestic capital. In a series of articles, Kiyoshi Kojima has sought to provide a rationalization for some of the Japanese practices in respect of technology transfer and Japanese investment abroad.³⁰ According to Kojima, Japanese methods of technology transfer utilise the principles of comparative advantage and thereby promote trade, as against U.S. methods of technology transfer, in which oligopolistic firms often transfer technologies which go against principles of comparative advantage. Kojima also argues that Japanese methods of transfers somehow preserve an international macroeconomic balance but never proves his case.³¹ Kojima has in effect described Japanese practice with respect to the less industrialized countries at least until the end of the 1970s. Japan effected her industrialization by violating the principles of comparative advantage and by deliberately targeting different segments of the world for different kinds of manufactures and countries to *anticipate* rather than wait for changes in market opportunities or relative price changes to give her the needed competitive edge.³² But Japanese firms have invested in mainly resource-using or labour-intensive industries in the countries of East and South-East Asia and have only transferred the technologies for the crude processing activities and the assembly stages of

²⁹ See, in this connection, T. WATANABE, "An Analysis of Structural Dependence between Korea and Japan", in W. HONG and L. KRAUSE (eds.), *Trade and Growth of the Advanced Developing Countries in the Pacific Basin*, Seoul, Korea Development, 1981; T. WATANABE and H. KAJIWARA, "Pacific Manufactured Trade and Japan's Options", *Developing Economics*, XXI(4) December 1983; I. YAMAZAWA, "Adjusting to the ADCs in the Face of Structurally Depressed Industries: Japan", in W. HONG and L. KRAUSE (eds.), *op. cit.*; I. YAMAZAWA, K. TANIGUCHI and A. HIRATA, "Trade and Industrial Adjustment in Pacific Asian Countries", *Developing Economics*, XXI(4), December 1983.

³⁰ K. KOJIMA, "A Macroeconomic Approach to Foreign Direct Investment", *Hitotsubashi Journal of Economics*, 14(1), June 1973; "Japan and New Economic Order", *ibid.*, 15(1), June 1974; "International Trade and Foreign Investment: Substitutes or Complements", *ibid.*, 16(1), June 1975; "Transfer of Technology to Developing Economies: Japanese Type versus American Type", *ibid.*, 17(2), February 1977.

³¹ For critiques of Kojima's view from both theoretical and empirical angles, see H. W. ARNDT, "Professor Kojima on the Macro-Economics of Foreign Direct Investment", *ibid.*, 15(1), June 1974; R. H. MASON, "A Comment on Professor Kojima's 'Japanese Type versus American Type of Technology Transfer'", *ibid.*, 20(2), February 1980; F. KOMODA, "Japanese Studies on Technology Transfer to Developing Countries: A Survey", *Developing Economics*, XXIV(4), December 1986.

³² T. BLUMENTHAL and M. TEUBAL, "The Role of Future Oriented Technology in Japan's Economic Development", *Hitotsubashi Journal of Economics*, 20(1), June 1979; S. JATUSIRIPITAK, L. FAHEY and P. KOTLER, "Strategic Marketing: Lessons from the Japanese", *Columbia Journal of World Business*, XX(1), 1985.

manufacturing in most cases. Besides the easily understandable reluctance of most firms in most countries to surrender their 'trade secrets', special difficulties surround the transfer of technologies by Japanese firms.

In the case of any technology transfer it is true that the transferee has to make special efforts to absorb the technology. Sometimes the effort to do so leads to major product or process developments: Sony had, for example, to virtually re-invent the transistor after obtaining the basic technology from Bell Laboratories. There are not many countries or firms which have shown the kind of dedication the Japanese companies have shown in absorbing and adapting foreign technology. Moreover, in the case of Japanese technology transfer, the reluctance of Japanese companies to enter into binding contracts with foreign firms regarding the detailed specifications of the technology creates problems.³³ The transfer of technology involves not only the imparting of technical knowledge, but also the management system, including specific patterns of worker-management relations, and interfirm relations: in both these respects the Japanese pattern differs considerably from the pattern in countries such as the Philippines or Malaysia and creates special problems.³⁴ The transfer of the so-called 'software technology' in general to less developed countries can be effected only when the government of the host country has the power to enforce the fulfilment of promises by the foreign companies, and to coordinate the activities of the host-country companies importing the technology in a supportive manner, and when the companies can either rely on a sufficiently large domestic market or are aggressive enough to find markets abroad. While Taiwan and South Korea fulfil these conditions, and Singapore and Hong Kong can compensate for the absence of large domestic markets through their excellent trade and financial connections with other countries, most other countries of East and Southeast Asia fulfil the requisite conditions only very imperfectly.

One of the most extreme cases of failure to satisfy the conditions for sustained growth along capitalist lines can be found in the Philippines. Much of the Philippines is dominated by landlords, the rise of whose families often goes back to the nineteenth century or even earlier. Business is dominated by subsidiaries or affiliate of transnational corporations, by Filipino business leaders with strong links to the landlords and the ruling junta and the Chinese traders and financiers.³⁵ In this set-up, under the

³³ T. HATTORI, "Technology Transfer and Management Systems", *Developing Economics*, XXIV(4), December 1986; H. WASHIO, "The Provision of Manual and Japanese Private Technology Transfers", *ibid.*.

³⁴ T. HATTORI, *op. cit.*; H. FUJIMORI, "Industrial Policy and Technology Transfer: A Case Study of Automobile Industry in the Philippines" *ibid.*.

³⁵ P. Q. MAKIL, L. A. REYES and K. KOIKE, *Philippines Business Leaders* (mimeo), Tokyo,

Marcos dictatorship, 'crony capitalism', meaning business dominated by persons and families close to the President, thrived with Eduardo Cojuangco, a cousin of President Aquino, emerging as the most powerful local businessman in the country.³⁶ This is very reminiscent of the bureaucratic capitalism that grew up during the Guomindang regime in pre-communist China.³⁷ Until the power of the landlords in the countryside is broken neither the productivity nor the purchasing power of workers and peasants will improve significantly nor will the attention of businessmen be diverted from quick gains in trade, usury and speculation. Land reform proposals being currently mooted officially, with some encouragement from the World Bank, seem to be quite inadequate for the purpose, since they aim to preserve many large landholdings for the benefits presumed to accrue from economies of scale and mixed farming, and compensate landlords for the loss of their proprietary rights.³⁸ Only confiscatory land reforms can break the power of the landlords in the countryside as Lenin pointed out long ago and as the example of the 'counterreform' in Mexico has vividly demonstrated.³⁹

As we have pointed out earlier, at least two medium-sized regions or countries (South Korea and Taiwan) and two city-states (Hong Kong and Singapore) have recorded high rates of growth even in a period of global recession. South Korea, Taiwan and Singapore have learned well the importance of a strong state apparatus to support long-term plans of growth: Hong Kong has benefited from the enterprise of the Chinese merchants, as an outpost of major transnational corporations and as entrepot for the trade between China and the rest of the world. The state-centred interpretation of Confucianism can be said to inform the policies of these States.⁴⁰ The authoritarian subjection of workers and especially of women is more or less accepted as the norm in all these countries.⁴¹ One result

Institute of Developing Economies, 1983; J. CLAD, "Claims of Cronyism Dog Aquino Government: Still All in the Family", *Far Eastern Economic Review*, 26 March 1987; S. ROOD, "Parish Politics: Gone Are the 'Good Old Days'", *ibid.*, 23 July 1987; Yuan-Li Wu and Chun-hsi Wu, *op. cit.*, Chapters 3-4.

³⁶ G. SACERDOTI, "An Oligarch with a Social Conscience", *Far Eastern Economic Review*, 7 June 1984; C. WOOD, "San Miguel's Political Potential May Be Tapped: Beer and Coconut Milk", *ibid.*.

³⁷ A. K. BAGCHI, *The Political Economy of Underdevelopment*, Cambridge, Cambridge University Press, 1982, Chapter 4.

³⁸ On evidence nullifying claims of economies of scale, see Y. HAYAMI, M.A.R. Quisimberg and L. S. ADRIANO, *Grassroots Conditions of Philippines Land Reform* (mimeo), College of Economics and Management, UPLB, March 1987, and for a summary of the official land reform proposals and alternatives, see "Philippines: Whose Land?" (cover story), *Far Eastern Economic Review*, 5 March 1987.

³⁹ A. K. BAGCHI, *op. cit.*, Chapter 6.

⁴⁰ Cf. Lin's article in this issue.

⁴¹ L. Y. C. LIM, "A New Order with Some Old Prejudices (Part of a Cover Story on Asian Women)", *Far Eastern Economic Review*, 5 January 1984; A. K. BAGCHI, *Public Intervention and Industrial Restructuring in China, India and Republic of Korea*, New Delhi, ILO (ARTEP), 1987, Chapter 3.

is the persistence of wide male-female wage and life-time earnings differentials between men and women in all these countries.⁴² This also partly explains the viability of many low-wage industries and their continued competitiveness in export markets, even though average real wages have increased in all countries.

In South Korea, Singapore, Taiwan and to a lesser extent, in Hong Kong, the government has strongly supported business in carrying out its long-term plans. Like the Japanese business which are more interested in gaining rising market shares and larger profits in the long haul than in short-run profit maximization,⁴³ many South Korean conglomerates and government firms (such as the POSCO) invested well ahead of demand in order to capture a share of the global market.⁴⁴ Most of the victories of capitalists in these economically successful countries have been achieved, as Alice Amsden emphasizes, not by moving slavishly in accordance with the market signals, but by anticipating them and creating new market niches, often helped by financial support, subsidies and protection of the domestic market provided by the government. The government has not only taken good care to protect the domestic markets from imports from abroad, but also to see that domestic capitalists retain control over the manufacturing and other enterprises. Even in the case of joint ventures, the local enterprises have managed to ease out their foreign partners in many cases, building the manufacture of hitherto imported inputs into the domestic economy and to make it more integrated in the process.⁴⁵

In Taiwan, the government helped channel resources from agriculture to industry, following the classic Japanese pattern.⁴⁶ In South Korea, by

⁴² Although data are not available on male-female wage differentials for all countries, it is instructive to see from A. V. JOSE, *Employment and Wages of Women Workers in Asian Countries: An Assessment* (mimeo), New Delhi, ILO (ARTEP), 1987, that the wage differentials between the two sexes are far wider both absolutely and relatively in Japan, South Korea, Singapore and Hong Kong than in Sri Lanka, the only country outside East Asia for which data are available. It is also interesting that just as in Japan, so also in South Korea, the participation rate of women in the work force increased enormously during the period of industrialization (S. L. SIEVERS, *op. cit.*; A. K. BAGCHI, *Public Intervention...*, *op. cit.*, Chapter 3; A. V. JOSE, *op. cit.*). In general the rates of participation of women in paid employment is far higher in East and South East Asia than in South Asia and West Asia.

⁴³ Y. TSURUMI, "Japan's Challenge to the US: Industrial Policies and Corporate Strategies", *Columbia Journal of World Business*, XVII(2) Summer 1982; Y. TSURUMI and J. TSURUMI, "Value Added Maximizing Behaviour of Japanese Firms and Roles of Corporate Investment and Finance", *ibid.*, XX(1), Spring 1985; A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*, pp. 130-90.

⁴⁴ A. K. BAGCHI, *op. cit.*, Chapter 3.

⁴⁵ For Japan, see W. W. LOCKWOOD, *op. cit.*; for South Korea, A. K. BAGCHI, *op. cit.*, and references cited therein; for Taiwan, T. C. CHOU, "The Pattern and Strategy of Industrialization in Taiwan: XXIII(2), June 1985, and I. YAMAZAWA and A. HIRATA, "Industrialization and External Relations: Comparative Analysis of Japan's Historical Experience and Contemporary Developing Countries' Performance", *Hitotsubashi Journal of Economics*, 18(2), February 1978.

⁴⁶ T. LEE, *Intersectoral Capital Flows in the Economic Development of Taiwan 1895-1960*,

contrast, industrial development was first financed by the inflows of foreign aid and loans, and agriculture was heavily protected. Furthermore, Taiwan had a far better balance between rural and urban industry and far less concentration of trade and finance in the hands of a few conglomerates than in South Korea.⁴⁷ These differences partly reflect the differences in the historical experience between the two countries and the associated difference in ethnic composition: expertise in trade and small industry was probably far better diffused among the Chinese in Taiwan than among the Koreans at the start of their industrialization processes.

The development of Japan and of the four dragons has created new tensions in the international payments and trading system. During the last few years the United States has run up huge balance of payments deficits with the rest of the world: Japan and the Federal Republic of Germany (FRG) have emerged as the countries with the largest current account surpluses in the world,⁴⁸ and Taiwan and South Korea now have regular balance of trade surpluses with the U.S.A. In spite of reassuring findings that Western Europe has not fallen behind the U.S.A. or Japan in most areas of technology,⁴⁹ repeated worries have been expressed about the lag of western Europe in many fields of technology⁵⁰ and about the insufficiency or ineffectiveness of government help in speeding up technological developments in that part of the world.⁵¹

This sense of imbalance and national insecurity has also led to increased protectionism in the major industrial countries, and realignments of all the major currencies, especially of the dollar versus the yen, the Deutschmark and the Swiss franc. In the meantime, of course, most of the countries of the Third World, including most countries of East and South East Asia, have run up large balance of payments deficits against the developed countries: in East Asia in most cases, it is Japan which has the largest balance of trade surpluses with most neighbouring countries. However, the major direction of flow of Japan's external surpluses has not been towards the

Ithaca, N. Y., Cornell University Press, 1972; K. GRIFFIN, *Land Concentration and Rural Poverty*, London, Macmillan, 1976, Chapter 7; S.P.S. Ho, *Economic Development of Taiwan 1860-1970*, New Haven, Conn., Yale University Press, 1978.

⁴⁷ S.P.S. Ho, "Economic Development and Rural Industry in South Korea and Taiwan", *World Development*, 10(11), 1982.

⁴⁸ Bank for International Settlements, *Fiftyseventh Annual Report 1st April 1986-31st March 1987*, Basle, 15th June 1987, Chapter III.

⁴⁹ P. PATEL and K. PAVITT, "Is Western Europe Losing the Technological Race?", *Research Policy*, 16(2-4), August 1987.

⁵⁰ J. HUEY, "Europeans Say They Trail in Technology", *Asian Wall Street Journal*, 7 February 1984; K. HUGHES, *Exports and Technology*, Cambridge, Cambridge University Press, 1986, Chapter 2.

⁵¹ G. J. SHARMAN and T. C. TINSLEY, "How Europe's 'Help' for R & D just Hurts", *Asian Wall Street Journal*, 26 March 1984.

Third World but towards the United States. Although East and Southeast Asia did account for a major fraction of Japan's direct foreign investment in the past,⁵² the future direction of such investment is likely to be more towards the affluent rather than the poorer capitalist countries.⁵³ However, direct overseas investment flows account for only a small fraction of the external placement of funds by the Japanese. For example, in 1985 and 1986, while the Japanese spent US\$ 59.8 billion and US\$ 102.0 billion respectively on the purchase of foreign securities, net direct investment abroad amounted to only US\$ 5.9 billion in 1985 and US\$ 14.3 billion in 1986.⁵⁴ Most of these purchases were of bonds issued by the government of the U.S.A. or other developed capitalist economies.

So Japan, the core country of the East Asian capitalist block did not contribute much to the alleviation of the balance of payments problems of the four dragons or of the other East and South East Asian countries. In fact, not only through her protectionism and her non-transparent trade barriers, but also through her positive adjustment policies, Japan has succeeded in slowing up the process of intercountry movement of industries whereby the more labour-intensive sectors are taken over by the less developed countries, leaving the more affluent to concentrate on the high-technology industries.⁵⁵ Japan has also succeeded in greatly economizing on the use of mineral resources most of which she imports from abroad, thus contributing to the balance of payments problems of countries such as Indonesia. In the meantime, the industrial growth of the other East and Southeast Asian countries tends to increase the demand of these countries for capital and intermediate goods produced by Japan and other developed capitalist countries; but the growth of Japan or the U.S.A. does not stimulate the demand for export to anywhere near the same extent.⁵⁶ The development of the East Asian block will, therefore, be affected not only by the enormous imbalances between the developed capitalist countries and continuing recession in most of these countries, but also by the imbalances between Japan, the four dragons and the other East and Southeast Asian countries.

Moreover, apart from these external imbalances and influences emanating from the TNCs operating in the region, the continued dominance of landlordism and militarism and heterogeneity in the ethnic composition

⁵² L. B. FRANKO, *op. cit.*.

⁵³ F. MARSH, "Future Trends in Japanese Overseas Investment", *Multinational Business*, No. 2, 1984.

⁵⁴ Bank for International Settlements, *op. cit.*, p. 48.

⁵⁵ I. YAMAZAWA, *op. cit.*; I. YAMAZAWA and A. HIRATA, *op. cit.*; I. YAMAZAWA, K. TANIGUCHI and A. HIRATA, *op. cit.*.

⁵⁶ T. WATANABE, *op. cit.*; T. WATANABE and H. KAJIWARA, *op. cit.*; I. YAMAZAWA, K. TANIGUCHI and A. HIRATA, *op. cit.*.

of the business community in such countries as Indonesia, Malaysia, the Philippines and Thailand will hamper their long-term investment and aggravate instability. Whenever there is serious political instability in these countries, it tends to stimulate the flight of capital, and economic instability tends in turn to produce popular discontent and strong-arm methods to contain it. Moreover, the disastrous downward slide of the terms of trade of the primary-producing economies in the region (which comprise practically all the countries in the region except Japan and the four dragons) has badly affected their growth prospects.

Whatever may be the roots or the reality of Japan, Inc.,^{57 58} many other countries of the region (and in other parts of the world too) are trying consciously to imitate Japanese practices in management and business-government relations. As we have noted, this may be a more difficult goal to attain than the would-be emulators reckon with.⁵⁹ To the extent that they succeed, however, international economic relations would be even more fraught with uncertainty and subject to political (including military in this connection) bargaining process than in the past. The militarization of South Korea and Taiwan, and the re-arming of Japan, with active U.S. encouragement, have created a new potential for overt military conflicts and more probably, of competitive expenditures for offence and defence on a huge scale in the region as a whole. The Leninist theory of imperialism may then have to be revived in a new form to understand the emerging situation.⁶⁰

The development of East Asian capitalism has created problems for many old-fashioned theories of easy diffusion of growth processes or their mirror images, the unilinear development of underdevelopment. Some of the microtheories of diffusion, such as product cycle theories, were already under

⁵⁷ Besides the references already cited, see also J. C. ABEGGLEN, *The Japanese Factory*, Glencoe, Illinois, Free Press, 1958, and M. AOKI (ed.), *The Economic Analysis of the Japanese Firm*, Amsterdam, Elsevier Publishers B. V. (North-Holland), 1984.

⁵⁸ It has been plausibly claimed, as pointed out earlier, that in fields requiring innovations in consumer products and their marketing, guidance and regulation by MITI was often obstructive rather than helpful (M. AOKI (ed.), *op. cit.*, and A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*). Moreover, with increasing affluence and shift of consumer expenditure towards services, and with rapid change in technology, there is now an increasing erosion of the lifetime employment system, even for the privileged minority, and Japan is beginning to experience pangs of mass unemployment, though not as yet on a scale witnessed in western Europe and the U.S.A. ("Japan at Work: Major Shifts Occur behind the 'Job for Life' Facade", *Far Eastern Economic Review*, 19 December 1985).

⁵⁹ Even U.S. enterprises have found it difficult to emulate Japanese practice in such state-of-the-art manufacturing processes as flexible manufacturing systems, even though in neither hardware nor computer software does Japan enjoy any obvious superiority to the U.S.A.. See, in this connection, R. JAIKUMAR, "Post-Industrial Manufacturing", *Harvard Business Review*, November-December 1986.

⁶⁰ P. PATNAIK (ed.), *op. cit.*

a cloud because of developments in the 1970s.⁶¹ The East Asian growth patterns have further damaged these theories, for, neither Japan nor South Korea nor Taiwan have developed products and processes in the kind of neat sequences envisaged by Posner, Hufbauer, Vernon and others. It might be thought that the East Asian growth processes provide a confirmation of the theory of Mandel⁶² and Gordon, Edwards and Reich⁶³ that capitalism develops new strategies in the way of restructuring of the labour force and management technique as old strategies of accumulation are worked out. Mandel has linked such changes in strategies with relocation of economic activities. It is not really possible to test these theories until comparative studies in depth have made of the strategies for rekindling of capital accumulation in post-war western Europe and of the Japanese and the four dragons' strategies for accumulation in the 1960s. We have also to look at the quite different roles stock-markets and banks seem to play in Japan, and in western Europe and the U.S.A. In the latter regions, operators in the stock market can play havoc with many old-established firms (and sometimes rejuvenate moribund enterprises), whereas it has been claimed that this does not happen in Japan.⁶⁴ The East Asian phenomenon can provide plenty of research programmes in the general area of the study of modern capitalism. The papers collected in this volume throw light on many aspects of possible research programmes.

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⁶¹ For references and discussion see A. K. BAGCHI, *Public Intervention... op. cit.*, Chapters 1-2, and M. Storper, "Oligopoly and the Product Cycle: Essentialism in Economic Geography", *Economic Geography*, 61(3), July 1985.

⁶² E. MANDEL, *Long Waves of Capitalist Development: The Marxist Interpretation*, Cambridge, Cambridge University Press, 1980.

⁶³ D. M. GORDON, R. EDWARDS and M. REICH, *Segmented Work, Divided Workers: The Historical Transformation of Labour in the United States*, Cambridge, Cambridge University Press, 1987.

⁶⁴ A. MORITA, E. M. REINGOLD and M. SHIMOMURA, *op. cit.*, pp. 171-202, esp. p. 191.