1 The Strengths and Fallibilities of Asian Capitalism

1.1 PERCEPTIONS OF ASIA

Asia is vast and varied, its physical contours subject to many different demarcations. For many centuries, European chroniclers considered that Asia started at Constantinople, although over time this boundary was displaced eastwards. In this book, the Asia that we are talking about starts thousands of miles east of the Bosphorus in the flat and densely populated Indus and Gangetic plains of Pakistan and India before traversing the massive and desolate highland spaces of the Himalayas and Tibet, passing into the very diverse topologies of the many Chinese provinces and at its eastern perimeter, the Koreas, before falling into the sea opposite Japan. Beneath China lie the states of Southeast Asia, stretching from Myanmar and Thailand through to the Mekong Basin with Vietnam curled around its outer edge, while further south stretch the elongated archipelagos of Malaysia and then Indonesia, the latter extending far in the direction of the Antipodes. Over this immense terrain, it is scarcely any wonder that disparities in climate, ecology, social and political organisation and culture are so large. Yet in recent decades, there has been a marked tendency to speak as much about regional attributes as those at a national or local level. Indeed, talk of an Asian miracle or the Asian twenty-first century has become a new staple.

Until Vasco da Gama's voyage to India in 1497–99, European cartography and knowledge had extended no further than western Persia and the Gulf, despite the chronicles of some earlier explorers. Thereafter, as the frontiers of territory and knowledge were pushed back and gradually revealed, later explorers and visitors were often dazzled by the splendour of Asia's courts and rulers but also the quality of its products, natural and man-made. For example, China's abilities in science and technology were comparatively advanced.[1] In 1700, India alone accounted for around a quarter of the world economy and a similar share of the global textile trade. The Chinese economy was only slightly smaller in that year.[2]

Yet, as innovation and growth picked up in western Europe in the late eighteenth and nineteenth centuries, the desire to dominate trade elided into a desire to dominate territory and with it came the colonial moment in which most of Asia fell under the direct sway of one or more European power. Despite acute rivalry between those powers and a recognition of the political and strategic differences across dominions, intellectual currents, such as orientalism – a fashion for pooling traits of behaviour and systems of rule – often simply rolled up most of the Asiatic world into a common space, albeit one with attributes that were deemed mostly outmoded, if not reprehensible, and almost always inferior to their European comparators. But even when devoid of colonial condescension, it has not been uncommon for more recent writers to portray Asian government as inherently different from its more western counterparts. For instance, historian Karl Wittfogel argued in the 1950s that the Orient was doomed to despotism due to the pre-eminent need to harness and allocate water resources through the implementation of large-scale public infrastructure works. He also argued that this induced a profound continuity so that, for example, communist rule in China was in many respects similar to earlier systems.[3]

Although such ways of typifying the world have by no means entirely disappeared, more modern narratives about Asia tread a rather different path, balanced once again between marvel at its recent and dramatic successes – not least the massive cumulative growth in

[1] A point established at length in Joseph Needham's (1954–2015) magisterial volumes on Chinese science and technology.
[2] Maddison (2010); see also www.visualcapitalist.com/2000-years-economic-history-one-chart/.
[3] Wittfogel (1957).

income achieved since 1980 – but also the dangers and threats that this resurrection poses to the dominant world order. Those dangers may come from the participation of giant countries such as India and China in global trade and production and the ensuing consequences for workers in the advanced economies of Europe, Japan and North America, but also from the accretion of political and military power that has accompanied economic success. China's growing nationalist rhetoric and expansive claims to territory and influence in the region have proven, unsurprisingly, to be unsettling. More generally, China's extraordinary growth in the size of its economy and in the average income of its people has also unleashed dire prophecies of future dominance and threats to American hegemony, in particular.[4]

Whatever the inferences and particular interpretations, it is quite clear that Asia's re-emergence as a grand regional and, increasingly, global force now focusses interest in ways that could scarcely have been imagined even fifty or so years ago. Then, the dominant narrative was to bemoan the vast amount of entrenched poverty, especially in the Indian subcontinent, as well as the periodic excesses of communist rule, such as the Great Leap Forward and the appalling famine that ensued, in China. Now, it is more about whether Asia's resurgence will result in a region that rivals either North America or Europe. This rivalry extends way beyond the political to embrace technological and productive capacity, including the ability to innovate.

To begin to address these questions presupposes, of course, that the direction of travel that has been unleashed this past half-century will be sustained and that the foundations of greater prosperity that have been laid prove to be exactly that. Here, there is no single voice among the myriad number of commentators, whether in relation to the future of the region as a whole or at the level of individual countries. Some have suggested that these economies will struggle to attain rich country levels of income because of institutional and

[4] For example, Spalding (2019).

other failings that will hold them back. One consequence is likely to be the inability to create large knowledge-intensive sectors of economic activity that are innovative. This notion is sometimes summarised as the middle-income trap. Others point to the ability of some of these countries not only to marshal resources and to create new sectors and activities, but the way that this has been in innovative spaces, such as software and artificial intelligence (AI), that many would have expected to be the domain of the richer world. But whatever the balance of interpretations, politicians and citizens in the region have increasingly adopted a more optimistic tone – including through responses to public opinion surveys – about their futures and the respective places of their economies in the global system, especially in the two giant countries, China and India. Recognition of this weight and dynamic has also been reflected in secondary ways, such as the composition of the G20 or voting rights in international organisations. Perhaps most significantly, it is clear that attempts to address carbon emissions and climate change cannot succeed without Asian action both on the ground and in terms of accepting constraints within the context of international agreements.

1.2 PILLARS OF ASIA'S RESURGENCE: COMMONALITIES TRUMP PARTICULARITIES

Given Asia's extraordinary renaissance and the resulting recalibration of the world economy, our concern in this book is with understanding whether that resurgence can be expected to retain its vitality so that these countries can continue along a path towards substantially greater wealth and opportunity. To do that requires, of course, that we understand very well how Asia has got to the position that it currently finds itself in and what have become the main characteristics of these economies following decades of rapid expansion. We should also clarify that when talking about Asia in this book, we are primarily concerned with the larger emerging economies of the region. These are indicated in Figure 1.1, where the countries that form the focus of this book are named. Although Japan and the smaller

Map of Asia

Source: Natural Earth, 1.50m Cultural Vectors: Admin 0-Countries

FIGURE 1.1 Map of Asia

island states – Taiwan and Singapore – are not our main focus, their various experiences post-1945 in the former case and since the 1970s for the latter are, of course, very relevant in understanding the policy models followed by the countries on which we are concentrating. Indeed, it is very clear that South Korea – an economy that has successfully become a high-income economy – based much of its strategy on Japanese post–Second World War experience. And, in turn, China has aimed to pursue policies that have been tried and tested in South Korea. In short, these earlier experiences of development are used to cast light on what has happened – and what is likely to happen – in those economies of Asia that are our main interest.

What is evident is that the various models that have driven Asia's transformation have been strikingly different from earlier templates of capitalist development that accompanied the ascent of the older rich worlds of Europe and North America. Moreover, despite some major differences within Asia – China and Vietnam (not to forget the current-day anomaly that is North Korea) pursued a Soviet-like path of the planned economy for several decades, something that was not followed in most other countries – there are some surprisingly powerful and common features that cut across differences in political systems, institutional organisation and geography and that also intrude substantially into underlying patterns of economic behaviour and governance.

These common features are centred on the pervasive use of connections – familial, commercial and political. They trump the particularities of countries' political systems and their associated institutions. Even when countries have made transitions from autocracy to democracy, it is striking how such networks of connections have survived and entrenched themselves. We term this resilient and powerful phenomenon as the *connections world*. It is in no small measure due to the way in which such connections between businesses, politicians and the state have played out that Asia has been able to achieve so much cumulative growth. But this path comes with its costs, in terms of both how these societies and economies currently function and their potential functioning in the future.

A notable feature of the various Asian capitalisms has been the pivotal role of the state and public policy in driving growth and productivity. The intellectual and practical precursor was post-1945 Japan.[5] Using state guidance of the economy through industrial policy while mobilising public resources to stimulate selected sectors and activities was an approach that was then explicitly imitated by South Korea, Singapore and Taiwan, among others. Most other countries in the region also relied on a prominent role for the state, along with an active industrial policy, but in ways that generally involved protection of domestic industries and rarely involved the successful nurturing of new activities and sources of productivity growth. In China and

[5] But also, elements of Meiji Japan; see Beasley (2018).

Vietnam, the entire economy effectively became subject to the priorities established by government. Not surprisingly, this led to massive inefficiencies but also some remarkable accumulations of productive capacity and knowledge in activities that benefitted from support by government and the related channelling of resources. In almost all instances, the leading role of the state included the establishment of major state-owned enterprises (SOEs) across wide swathes of the respective economies.

The role of an activist state has been widely acknowledged as a driving factor behind Asia's success. What has been far less widely discussed is the way in which the state and the private sector have interacted and engaged with each other. To our mind, as striking – and undoubtedly more long lasting – has been the way in which many Asian economies have come to be populated by often substantial, highly influential and acquisitive private businesses, many of whom have been, and continue to be, organised in family-owned and -controlled business groups. Business groups are confederations of firms that are bound together in both formal and informal ways, including in many instances through ownership vested in families and dynasties. Ownership and control are often highly opaque, and many business groups suffer from weak governance and oversight. Such entities have tended to benefit from public largesse or preferential access to assets, finance and other sorts of privilege, including of a regulatory variety. Consequently, not only have the boundaries between public and private been difficult to draw but major pockets of private market power and economic concentration – sometimes explicitly fashioned by the actions of the state – have also been created. With this have come networks of economic and political influence that web together politicians, political organisations and business. Such networks have proven very capable of perpetuating themselves even while tolerating some changes in composition and shape. As we shall see later, the consequences of these organisational forms and the networks that underpin them have by no means been unambiguously adverse, but they have often had deleterious effects at both economic and political levels. Those costs have proven difficult to address, not least because their network nature has made them far more able to resist attempts at change.

1.3 CONNECTING BUSINESS AND POLITICS

The connections between politics and business take many forms, and these forms depend in part on the political and institutional arrangements that exist in each country. Even so, there are several, recurring patterns that emerge irrespective of these institutional and other differences, such as the following. One-time public officials commonly choose to move directly into political life, either standing for office or taking up non-elected appointments with clear political dimensions. Similarly, businesspeople very often choose to move explicitly into the political sphere – a wide selection of prime ministers and presidents, such as Nawaz Sharif in Pakistan, the Rajapaksa family in Sri Lanka and a fair number of recent Filipino presidents – are highly visible cases in point. The process also proceeds in a very widespread way at lower levels of the political hierarchy, including at provincial and municipal levels. Although the motives vary significantly, a common motivation is the perceived need to protect, or further, their business interests. In a similar vein, private businesses tend to make financial and other donations to political parties or campaigns – sometimes within the legal limits but often outside those limits. Public officials or politicians may also be shareholders – sometimes openly but more often covertly – in private businesses.

The ties between politics and business materialise in a large and diverse set of ways. Figure 1.2 lists the channels of interaction that run between them. For example, among the more common manifestations are the awarding of public contracts to favoured businesses or business groups by politicians. This may or may not occur with side payments or bribes, but almost always there is some underlying reciprocity or bargain involved. Well-connected companies may also be able to garner access to finance in amounts that may not be warranted or on terms that can be preferential, such as through

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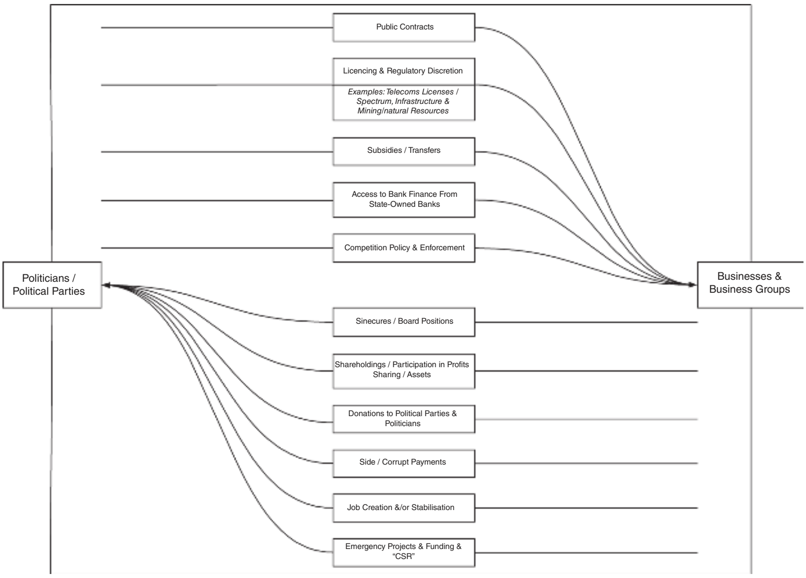

FIGURE 1.2 Channels of interaction between business and politicians

subsidies or transfers. This is often through the channels of state-owned banks with the consequences commonly including the accumulation of large portfolios of non-performing loans and other impaired assets by those banks. As such, state-owned banks with large market shares have over many decades made lending decisions that do not reflect market-based criteria. This has been a pronounced and hugely recurrent feature in the Indian subcontinent, but also in China.

Private businesses have used connection to politicians and political authority also to influence the regulatory context and, sometimes, even the regulatory framework. Telecoms has, notably, been one area where this has been a major feature. For example, in India, the mobile company that has captured the largest market share – Reliance's Jio – has deftly attained that position in part through helpful treatment by the regulators, including the terms on which crucial spectrum and operating licenses have been obtained. In the more tightly controlled economies with a dominant Communist Party, party membership has also proven to be a useful way of facilitating support, whether financial, market access or other. Further, in China there is a common pattern among successful companies. Some have started originally as SOEs, but as the state's share has been diluted over time, former managers and insiders have emerged as the dominant players in the company. The ZTE Corporation is one of the more notable cases in point. Even when a company has been ab initio private, such as Huawei, its founder's close connections to the Communist Party and the People's Liberation Army were critical in securing finance from state banks, contracts with public agencies as well as protection from competitors.

The leading new generation companies in China – such as Baidu, Tencent Holdings and Alibaba – also have very strong links to government which may comprise access to finance but, more often, takes the form of protection from competition, including foreign competition. Reciprocation, not surprisingly, takes the form of compliance with government's preferences and overall objectives. Irrespective of the type of political regime, there is a clear trade-off for connected businesses. When asked by government to take specific actions or finance specific projects, they will always oblige even when it runs counter to their immediate financial interests. Connected businesses are also expected to rise to the occasion at times of national emergencies. It is no accident that across the region, the ravages of COVID-19 have induced many declarations of financial and other commitments by leading businesses to health care or other public agencies. In the Philippines, for example, two of the most powerful business groups – Ayala and First Pacific – made large emergency donations to hospitals and health workers that led the country's president to declare a cessation of hostilities on his part towards these companies.

Aside from listing the channels of interaction, Figure 1.2 also highlights the way in which these interactions tend to have some reciprocal component, whether of a financial or other nature. It further suggests that some sorts of activity are more prone to reliance on connections. In a nutshell, any activity that needs a license or is