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## To What Extent is 'crony capitalism' a Reasonable Explanation for Recent Experiences of the East Asian 'developmental state'?

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PIA MUZAFFAR, FEB 1 2008

*The main problem in East Asia was not macroeconomic, but structural. Deep flaws afflicted the financial system. They include excessive leverage, and a banking system based excessively on directed lending, connected lending and other collusive personal relationships. Ten years ago, finance experts called it relationship banking, and thought it might help to minimize "problems of asymmetric information and incentive incompatibility;" today we call it "crony capitalism"... the rules of economics turn out to apply to East Asia similarly to elsewhere.*

(Frankel 1998:2)

Despite being a view propagated by numerous official bodies such as the US Treasury and the IMF, as well as numerous neoliberal scholars, the notion that the 1997 crisis was all "the result of some politicians in Bangkok who got their hands caught in the cookie jar" (*International Herald Tribune* 14/08/98) is both empirically flawed and theoretically dubious. This essay first outlines the orthodox or neoclassical understanding of 'cronyism' and its pejorative connotations, before considering the 'developmental state' paradigm that emerged with East Asia's 'miracle' growth. I then attempt to recast the concept of cronyism within its historical and cultural context, dispensing with neoclassical ideas of 'correct' economic practice and notions that crony capitalism itself represents either an explanation or a necessary outcome. In other words, this essay is not so much concerned with the extent to which such practices did or did not contribute both to the high growth rates in the region and later to the 1997 crisis; rather it asks *how* we should view cronyism – as a deviation from the 'natural' workings of the market system, or as somehow constitutive of particular variants of capitalist practice? I stress the value of a comprehensive institutionalist approach, as opposed to the neoclassical vs. developmental state inter-paradigmatic debate.

### THE NEOCLASSICAL VIEW [Cronyism as Deviance]

Like many neoliberals, Frankel (1998) concludes – somewhat triumphantly – that the East Asian crisis proved the Anglo-American economic model to be the most successful after all, which in turn demonstrates that the neoclassical 'rules' of economics do apply universally. From this perspective 'crony capitalism', a term used to describe a variety of practices including nepotism, preferential treatment, favouritism, or more generally "forms of trust violation that can occur whenever a state tries to manipulate incentives or, in other ways, alter market outcomes" (Johnson 1998:654), is perceived to be a deviation from liberal or neoclassical standards like transparency, regulatory frameworks, and competition policy. The *dirigiste* state represents not an alternative model of political economic conduct, but a failure to institutionalise these universally applicable norms (Hughes 1999). This ideology is premised on the separation of

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capital and state, on a system in which the free market provides the most efficient and fair allocation of resources. Thus cronyism is not only imbricated with 'corruption' – defined as the abuse or appropriation of public roles and resources for private benefit (Robinson 1998:4) – and therefore subject to all the moral associations of deviance and theft; it also exemplifies a model of capitalism characterised by the intermingling of the otherwise pristine spheres of public and private, by excessive state intervention in the economy with 'market distorting' structural consequences. There is assumed to be a negative correlation between economic and financial liberalisation, and the incidence of corruption (World Bank 1997), whilst cronyist practices are perceived as fundamentally unsustainable – the worm in the apple that would inevitably have undermined the Asian 'miracle' sooner or later.

## THE 'DEVELOPMENTAL STATE' PARADIGM [Cronyism as 'culture', or a Necessary Evil]

An alternative view within mainstream discourses heralded the Asian 'miracle' as counterevidence to the *dependentistas'* critiques of the capitalist world system, arguing that state-directed development was indeed possible – and thus there is some reluctance to dispense entirely with the notion of Asian economic success. Neumann admits that cronyism's "impact has not always been benign as recent events persuasively showed", but argues that nevertheless the vertical patron-client relationships which, for him, characterise the region can in fact be conducive to economic growth despite micro-economic 'distortions' – for example by maintaining conditions of political stability so that "insulated technocrats" are free to pursue conservative economic policies (2002:11). This kind of interpretation posits a very different idea about how the market should be organized in relation to the state, implying that East Asian economies, in "co-joining private ownership with state guidance" (Woo-Cumings 1999:2), have demonstrated that the public/private distinction fundamental to neoclassicism need not necessarily be upheld. Lee and Naya (cited in Moon and Prasad 1998:17-8) describe these Asian state/society or government/private enterprise networks as *actually integrated* into a "quasi-internal organization" characterised by "extended bounded rationality, reduced opportunism and uncertainty, reduced small-number indeterminacies, better information, and a group-oriented atmosphere" (Lee 1992:193). This exemplifies the 'developmental state' model, which emphasises endogenously generated growth created by, for example, state-directed interventionist or protectionist measures, in contrast to the neoclassical stress on orienting economies to the exogenous imperatives of the world market.

Within this paradigm there is a tendency to excuse cronyist or corrupt practices as somehow indigenous to Asian societies, and therefore permissible insofar as they continue to promote economic growth. There is an attempt to remove the pejorative connotations associated with such practices, pointing out the inappropriateness of applying neoclassical assumptions about the nature of motivation and exchange to societies generally characterized *not* by the atomistic individualism and horizontal relationship ties of Western post-industrial societies, but rather by a more collectivist model in which vertical patronage networks remain predominant. In these contexts, exchanges are not necessarily contractual, nor are they necessarily regulated by an impersonal rationalist-legal framework (Dean 1999). In this view

crony capitalism was not the intent but a by-product of the structural characteristics of the Asian-type economies. These structures include cartelization of the keiretsu-chaebol variety, bank-based systems of capital supply, mercantilism and protectionism vis-à-vis external economies, and rule by bureaucratic elites despite a pretence of democracy. The intent of these structures was to enrich the nations of East Asia, not to meet consumer demand, global efficiency, individual choice, or any of the other motives posited by neoclassical economics.

(Johnson 1998:655)

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## DIVERGENCE, OR DIFFERENCE? [An Institutionalist Approach]

The problem, however, in the representation of cronyism according to both analytical perspectives outlined above, is that they possess severely limited explanatory value. Each remains preoccupied with notions of success and failure, seeking to account first for the East Asian states' miraculous growth despite their apparent disregard for certain liberal fundamentals, and then for a crisis which in different ways threatened to undermine both perspectives. Indeed, "[i]ndicting crony capitalism for the crash of 1997 is like blaming the Roman empire for its fall: in that case, you should also praise it for its long success" (Godement 1999:55). Furthermore, each typologises a model or norm which necessitates too-broad generalisations and reinforces the state/market dichotomy. Thus ideological factors and normative concerns are here inseparable from theorising about the East Asian experience, and any such analyses thus tend to be incomplete. As Moon and Prasad argue, "we must realign the ontological foundations of the East Asian political economy" (1998:19), advocating a more broadly institutionalist approach. This methodology rejects more orthodox notions of universally applicable models through which to interpret state and market behaviour; insisting that political economy is inseparable from the social institutions in which it is embedded. It challenges not only the state/market dichotomy, but also the separation of culture, belief, legitimisation and ideology from the study of political economic processes. From this perspective cronyism must be viewed not as deviant behaviour from some established pattern, but rather as the crystallisation of different institutions, structures and practices which are continually interacting and synthesising (Clark and Chan 1998).

In fact, the very separation of state and market – i.e. of economic and political modes of authority – in Anglo-American and European societies, by which the state as a rational-legal authority combined with a bureaucratic administration took on its ostensibly public character (rationalising currency, taxation etc.), has been shown to be a process both historically and geographically *specific* (see for example Silberman 1993; Teschke 2003). And in fact the economic/political separation itself is highly dubious, since much recent historical materialist scholarship details how what is taken to be a natural or universal phenomenon is in fact a socially constructed distinction which serves to obscure the inherently political or power-based nature of economic or market transactions (Wood 1995; Rosenberg 1994). Furthermore, and of greatest import for this study, in no sense can it necessarily be replicated elsewhere: as Hamilton-Hart (2002) points out, the gradual process of state-rationalisation in Southeast Asia (with the exception of Siam/Thailand perhaps) was a process bound up with the political, administrative-bureaucratic and cultural institutions of colonisation and the processes by which formal independence was achieved, in addition to the cultural and religious institutions that already existed.

So, rather than seek to draw generalisable conclusions and prescriptions, we can note important differences in how 'crony capitalism' manifests itself in the experiences of different East Asian societies. For example, the Marcos and Suharto regimes in The Philippines and Indonesia respectively have been characterised as 'client-pathological' (Clark and Chan 1998:27;36), whereby a 'weak' state or government permits manipulation of the economy by powerful groups, as opposed to the 'client-paternalistic' state-society complex evident in countries such as Malaysia. Here a "constitutional bargain" between Malay political elites and Chinese business elites has been enshrined in policy and law, with elite-mass relations best described as 'feudal', patrimonial and authoritarian (Case 1998:153) – an innovative method of exercising control over a highly pluralistic society. In this very stable regime, "UMNO elites, granting the state licences and contracts that sustained Chinese business, in turn received campaign contributions, "secret funds," and memberships on the boards of Chinese-owned companies. Top Chinese business people, for their part, were given some political voice through the Malaysian Chinese Association (MCA) in the governing coalition" (Case 1998:151).

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Still more forms of what has been broadly characterised as Asian 'crony capitalism' are evident in the patriarchal Chinese Confucian models in Hong Kong and Taiwan, promoting strong familial ties, and in the more feudal Confucian traditions of Japan and South Korea, supporting large corporate cartelisations such as the *keiretsu* and *chaebol* (Clark and Chan 1998:31-2).

Clearly, then, the relationship between cronyism and economic growth must be wrenched away from its causalist moorings, and interpreted with reference to factors such as religion, demography and colonial history, just as much as to individual policymakers and state strategies. 'Crony capitalism' represents a theoretically and empirically inadequate explanation for either the Asian miracle or the crisis, or indeed the specific natures of individual societies, and its continued, habitual usage tells us more about those employing the term than it accurately reflects a reality.

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<!--[if !supportFootnotes]-->[1]<!--[endif]--> And indeed, state-market relations in the US and Europe are by no means clean of the supposedly corrupting influences of cronyist practices (see for example Shorrock 2002 for a discussion on the Carlyle group, or more generally van der Pijl 1998), suggesting that cronyism and the overlapping of political and market spheres may in fact be a normal behavioural tendency under capitalism, and not a deviation. Given this, the stereotype of Asian 'crony capitalists' can only be viewed as a hypocritical and vaguely racist representation – as Dr Mahathir of Malaysia suggests, speculating on the prospect of Malaysia implementing IMF-advised policy reforms along neoliberal lines: “there will not be any giant *Bumiputra* [lit. 'people of the earth' – generally used to refer to the Malays, who benefit from favourable treatment under Malaysian economic policy] companies. And we will be happy as there will not be any more *Bumiputra* 'billionaires' and 'millionaires' with their Mercedes, private jets and luxury yachts. All those who are accused of being political leaders' cronies will be got rid [of]... The foreign workers will earn high wages. They will in turn be the millionaires and billionaires with the Mercedes, private aircrafts and luxury boats” (Mahathir 1998:61).

<!--[if !supportFootnotes]-->[2]<!--[endif]--> The Chinese 'minority' constitutes nearly a third of the total population.

<!--[if !supportFootnotes]-->[3]<!--[endif]--> UMNO is the United Malay National Organisation – the Malay-dominated main political party.

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