This paper was drafted in the months following the financial collapse of significant East Asian economies. It is really surrogate for a discussion on the nature of contemporary capitalism, how the microchip revolution that began some twenty-five years ago, has delivered unto us a world political economy of intensifying competition, speed, and scalar complexity. The extent of the impact it continues to have on developing and developed countries occupies the attention of a variety of development studies scholars of varying perspectives. Take the unresolved debates between neoliberals and statists over the cause of miracle industrialisation in East Asia and, currently, the reasons that lay behind its downward financial spiral in 1997 and early 1998. This essay takes its cue from those debates but situates the discussion on the nature of contemporary capitalism, its multilateral institutions, the role of speculative capital and uncertainties associated with short-term portfolio investment. Care is taken as well to bring politics into the debates on development and coping with globalisation. Questions are raised about the loss of safeguards in say the South Korean experience once a prior model of political
economy based on very high levels of effective state intervention in the economy complete with an authoritarian political system is replaced by a new model of competitive capitalism and the liberal state. The implications for Caribbean development praxis are nested in these discussions.

For three decades and more, the world has marveled at the growth and prosperity of the miracle economies of East Asia. From orthodox free-trade theorists and the World Bank, to left-leaning political economists, everyone, it seemed, found in the development experiences of Japan and the newly industrialised countries (NICs) of the region, something that could empirically vindicate their arguments about the most effective routes to dynamic economies. There were, of course, dissenting voices about how miraculous the various economies actually were. Many scholars pointed to the fact that the success of the NICs had been built on appalling labour repression and had resulted in untold environmental damage. Others emphasised that there were serious structural weaknesses in the NIC economies, and in their interface with the world economy, which ultimately would throw their growth trajectories into reverse, or at best would circumscribe their possibilities of ever reaching the economic big league. In spite of such wordsof caution, however, no one really foresaw that the symptoms of instability would appear so quickly, and that the dynamics of crisis would gather speed so rapidly.

The development of many of the East Asian economies in the post-World War II period represented something of an unexpected disjuncture relative to experiences elsewhere on the globe. What was unexpected was that while starting from different moments in time, and different conditions, they have all experienced very rapid rates of economic growth, right to the last few months. Currencies across most countries in the region (Thailand, Malaysia, Philippine, Indonesia, South Korea) have been in a free-fall. The extent of depreciation is phenomenal. In the past year the Indonesian rupiah, for instance, has declined by over 100 per cent, as has the South Korean won. The Thai baht has declined by about 75 per cent, and the Malaysian ringgit by around 50 per cent. These are quite remarkable rates of depreciation. The meltdown has been seized upon with alacrity by the media.

To be sure nothing that is the product of human labour is for all time. Everything has sell-by dates; and that is as true of social institutions, of business structures, of state-business relations, of relations between individual economies and the world economy, as it is of anything else. The crisis conditions with respect to East Asia's financial systems have not been greeted by this sober reflection by ideologues of the International Monetary Fund (IMF). The Fund continues to believe that it is possible to fashion economies in more or less the same sort of way; that there is indeed - ultimately - only one route (i.e. derivative of a Western approach) to a capitalist heaven. One of the things that the East Asian economies have so far demonstrated, is how patently untrue that belief is. This is not to say, however, that these economies, both in their histories and in the particular types of political, economic and social processes that have delivered them in the condition they are in today, were essentially all the same. There were commonalities, but one of the interesting things about them was the significant differences in their routes (plural) to the modern world.
In the debates on the East Asian meltdown it seems that the chaebols, state-business collusion/cooperation, and corruption are being asked to carry a disproportionate share of the explanation for the crises. Paul Roberts argues in Business Week that 'industrial policy fostered appalling investment, banking and monetary practices'. He contends that industrial policy does not work; that protectionism is a route to disaster; and that state control of credit allocation encourages inefficiency and corruption. The Economist holds up Korea as an example of the inevitable failure of any economy 'bossed by civil servants'. Some describe Korea's problems as a crisis of 'statism'. Wall Street free marketeers, openly sneer at what used to be called the 'Asian miracle'.

But up to June 1997, the world's investors showed their faith by investing billions of dollars into Asian equity markets while foreign banks contentedly handed out billions in loans. If Asia's problems are the result of these countries' statist policies, then investors' failure to recognise this earlier is a strike against the market, not for it. Importantly though, we ought to recall that free-marketeers went to great lengths to deny that such a model existed (i.e, the Asian 'statist' way). Supply-siders claimed it as proof that the only recipe for economic growth was open markets and non-intervention on the part of the state. The NICs were heralded as models of macroeconomic stability, market-driven pricing, and disciplined borrowing. In 1995 The Heritage Foundation released its index of economic freedom: 4 of the top 7 were Asian, including Japan and Taiwan. These now struggling economies were seen as models of the market-friendly. Indeed the Economist in 1990 described Taiwan and Korea as among 'the least price-distorting regimes in the world'. Jeffrey Sachs called the NICs ‘highly market oriented, with a long period of relatively free trade...and limited distortion from government regulations.' The collective claim was that they did not rely on industrial policy at all. The opposing view all along was a vigorous one: that trade barriers, subsidised credit, and strong state support for export driven industries had been essential to the development of Asian economies. Now free-marketeers disown the tigers. It is an argument they cannot lose as it is a 'heads I win tails you lose' formula.

My take on the causes of the crisis in some of the Asian economies points to structural factors that go beyond the dichotomy of blaming the state or the market. Indeed navigating the interstices between these two perspectives is the preferred option as things are often more subtle and nuanced than inhabitants of alternative paradigms would have us believe. The Asian crisis structurally relates to the changing geoeconomic and geopolitical circumstances following the end of the Cold War. The upshot is that South Korea suffers from reduced access to Japanese technology (which blocked the strategy of upscaling); increasing competition at the low end; and speculators bidding up markets, taking profits, and leaving-behind a burning ship (collapsed market) in their wake. A multiplier effect unfolded as 'me-too' lemming investors took their cue and exit. Interestingly enough the crisis originated in the countries most open to foreign capital -- Indonesia, Malaysia, Thailand -- and has bypassed those countries with incontrovertible currencies, like China and Vietnam.

As with some of the commentary that attended the economic rise of East Asia, the economic crisis that began in 1997 has been attended by a great deal of hot air;
particularly in the business press and other media), but little informed analysis of the origins and likely consequences of these events for the region and the international economy more generally.

A Sense of Deja Vu: Attendant Crises within Contemporary Capitalism

The microchip defines the current stage of the development of the productive forces. Introduced in the early 1970s, the microchip is a light, tiny, cheap device that can be widely deployed to control production processes. It was the result of an effort to satisfy the growing demand for devices to reduce production costs and to cheapen the cost of coordinating the growing world economy. The microchip and its sister developments made possible practical robotics. It cheapen the cost of the instruments of scientific production, paving the way for breakthroughs in other fields like 'smart' materials, biotechnology, and digital communications; and it dramatically reduced communication costs. The introduction of the microchip threw a radically new quality into an already global economy. Twenty-five years after its introduction, the power of the microprocessor continues to double every 18 months. As chips develop, they infiltrate new areas of production, increasing output and replacing the need for living labour--workers--in production. At the same time, production and financial markets are conditioned by intensifying competition, speed, and scalar complexity. Herein lies the crunch.

Unless global markets can absorb the constantly expanding output, the economic system freezes up and enters a crisis. As mirrored in past episodes of economic downturn, this crisis is a result of the introduction of advanced technology that brings on a crisis in profitability, but appears as a crisis of overproduction -- i.e. the inability to circulate commodities that the market cannot absorb. William W. Keller, Director of the Office of Technology in the US, has complained, 'capitalism everywhere is turning out to be too damn productive'. The intensity of the competition between states and firms is captured in government retreats from the Keynesian post-war compromise, and the capitalist search for the cheapest labour and the most technology. But the increased productiveness of capital has not been matched by a proportionate increase in markets. Greider thus defines the 'central economic problem of our revolutionary era [as] the growing, permanent surplus of goods, labour and productive capacity inevitably generated by technological innovation and the free-running industrial globalisation'. These surpluses affect steel, auto, textiles, electronic appliances -- virtually every industry except those at the cutting edge today (e.g. semiconductors or communications).

To maintain profitability, corporations must lower their break-even point, redeploying parts of the production process overseas, reducing fixed costs by selling plants and other assets, cutting out middle-level employees, and converting jobs to temporary work. This results in reserves of idle people and unused production. The problem is further complicated by the fact that some countries still have varying amounts of control over their markets. The US has tried repeatedly to break down market barriers in Japan. Japan
meanwhile has been bouncing along the bottom of its economic cycle since the early 1990s. Japan in 1990-91 experienced a collapse of its property boom, which left many companies and banks with huge debts, as companies and individuals had borrowed on the strength of property as collateral in the 1980s. China has been successful in limiting its home market, while benefitting from open markets, particularly in the US. China's strategy is to build up high-cost, high-tech exports based on technology (gained from trading foreign technology for access to their markets), while producing cheap goods made by low-cost labour for its rapidly growing domestic market. Foreign goods enter China under strict rules. The Japanese feel especially threatened by China's growth. As Harou Shimada, a Keio, University economist, bluntly puts it:

'China is a horror story for the rest of the world if it simply grows as an exporting nation. Overcapacity will have to be squeezed down. It will be increasingly unprofitable for companies to build new capacity in advanced nations. If the Chinese develop the technology and become productive without wages rising, then they will be a tremendous competitive menace against the rest of the world. If you bring in 1.2 billion workers at those wages, that can destroy the global trading system'.

*The Chicago Tribune* in February 1997 reported that already high rates of economic growth in China coupled with low wages have produced a glut in the Chinese market, with goods worth $64 billion stockpiled, representing about one-fifth of China's total production. At the same time, the US is running up huge trade deficits as it attempts to soak up excess commodities. For the first time since 1914, the annual outflow for 1994 of financial returns paid to foreign investors on the assets they held in the US exceeded all of the profits, dividends and interest payments that US firms and investors collected from their investments abroad [Greider 1997: p.201].

The upshot of all this is that a major breakdown seems to be on the cards. Christopher Whelan, a conservative financial economist in Washington, predicts that, 'We are heading for an implosion. If you keep lowering and lowering wages in advanced countries, who's going to buy all this stuff? You look around and all you can see is surplus labour and surplus goods. What we don't have is enough incomes. But the only way people find out there are too many factories is when they wake up one morning and their orders are falling. If this keeps up, we're going to face a lack of demand that's worse than the 1930s' [quoted in Greiger, p. 221]. These sentiments are echoed by George Soros, a billionaire investor, who foresees a general breakdown, beginning with the global financial system and the trading system within it. As he bluntly puts it: 'I cannot see the global system surviving .... In my opinion, we have entered a period of global disintegration only we are not yet aware of it'.

**Speculative Capital**

One of the key features of free-flowing capital today is the change in the ratio of productive capital to non-productive (speculative) capital. The use of capital for productive purposes is being replaced by capital invested for purely speculative purposes -- i.e. the hope that its value will somehow rise in relation to other speculative adventures
(e.g. Tokyo real estate versus baseball cards; New York stock futures versus rare paintings etc.). That said, there are still significant amounts of finance capital seeking out profits. The World Bank estimates that between 1988 and 1995 some $422 billion was invested in new factories, supplies and equipment in select developing countries. While there have been some benefits to these countries, the historical trend has been one that requires for a generation of profits, a depressed wage income. Thus capital in its current expression cannot generate the purchasing power necessary to circulate commodities and hence sustain profits or whole economies.

Since sufficient returns cannot be made from electronics-based production, increasing amounts of capital seek returns from speculative adventures. The attempt to maintain the circulation of goods through the extension of credit is itself a speculative exercise, a maneuver done in the hope that consumers or debtor countries will eventually be able to pay off their mounting debt. Noam Chomsky (1996) cites estimates that in the early 1970s about 10% of the capital in international exchanges was for speculation and about 90% of it was related to the real economy, for investment in productive capacity and for trade. By the 1990s, those figures were reversed -- 90% was for speculation and never destined to be invested in raw materials, or factories, or transportation systems, or for trade. As Greider (1997: p.227) elaborates:

'As capital owners and financial markets accumulate greater girth and a dominating influence, their search for higher returns becomes increasingly purified in purpose -- detached from social concerns and abstracted from practical realities of commerce.'

The chief concern of this new speculative capital is a stable currency to protect the value of its money, but its predatory nature utterly make for a precarious situation for economies pegged to the dollar.

Most of the NICs (except China, Singapore and Taiwan) aligned their currencies to the dollar in the early years of the Bretton Woods system. But since the 1970s, the rise to global prominence of hypermobile and speculative capital is a development most states have had to mediate and confront. In a sense we are speaking of the triumph of the international banking and brokerage industry. This industry has been invested, via deregulation, with immense power over the global economy. Indeed capital has been increasingly successful in freeing itself from national restraints -- i.e from restricted markets, tariffs, taxes, environmental restrictions, and organised labor. Freedom from national controls allows this capital to roam everywhere -- freely and quickly -- in the search for the highest rate of return. Some $1.2 trillion flows through New York currency markets each day. As Greider adds:

‘These transactions are carried out by a very small community -- the world’s largest 30 to 50 banks, and a handful of major brokerages … The new communications technology has created a small, elite community of international financiers -- perhaps no more than 200,000 traders around the world who speak the same language and recognise a mutuality of interests despite their rivalries.’
The Mexican financial crisis in 1995 and the current Asian crisis inform us that financial markets have become subject to occasional bouts of ‘herding’; everyone sells simply because everyone else is selling. Much of the world’s money is controlled by fund managers who will not be blamed if they do what everyone else is doing. A major consequence of herding is that a country’s currency may be subjected to an unjustified selling frenzy.

The East Asian crisis is at root a very global problem. The crisis is as a result of a) the weakness of the dollar currency system of which the IMF plays a more than significant regulatory part, b) problems in Japan, which is the largest creditor in the world, and not least to the East Asian part of the world economy; and c) an excessive reliance on seemingly infinite short term funds flowing into their economies for investment. The reasons for Asia’s melt down can thus be explained in the following ways. Foreign multinationals have been relocating/investing in North and South East Asia more than in any other region in the world economy, in the process ratcheting up production and keeping wages low. As long as Asian exports to First World (mostly North American) markets were tiny, the strategy worked just fine; all that investment stimulated local economies, and jump-started local accumulation. Since 1985, however, the strategy started breaking down, due to the sheer volume of imports. In response, the US devalued the dollar and began going deep into debt on its international credit position (i.e. borrowing from Japan and Central Europe). This kept the export machine running for another ten years, but sooner or later, the overbuilding of Asian factories was going to collide with the inability of American consumers to buy all those products.

Japan perhaps will undertake the task of buying all those products. Their multinationals are the ones investing in SE Asian production, and their keiretsus have beenprofiting from the export boom. Japan is a global creditor, to the tune of some $800 billion or so; what this means is that Japan (and that other global creditor, namely Central Europe) are going to have to create effective demand -- either by letting their currencies appreciate vis-a-vis the dollar, or by multinational Keynesianism, or by huge debt bailouts of their South Korean/Czech semi-

peripheries or some combination thereof. Indeed Japan in 1997 was talking about applying a $50 billion stimulus package, and seems to have agreed to roll over South Korea’s debts, so there is some initial, scanty evidence that East Asia will resist the Wall Street influenza. Nevertheless there remain some doubts as to Japan’s ability to jump-start Asia at this juncture -- some related to recent policy failures, some to its own financial collapse of 1989/90.

Incidentally, we may note that this is the first time in recent memory that a world recession starts in Asia and spreads elsewhere from there. This perhaps confirms AG Frank’s (1998) view based on an even longer-run perspective that Europe’s ‘rise’ may be just a temporary one bracketed on either side by eras of Asian dominance. Among a variety of commentators, however, the West becomes resurgent as IMF conditionality constrains the 6-8% growth rates to customary ‘First World’ levels. Frank however disagrees with notion which suggest that the present financial crisis and/or a real
recession spells the end of the process in Asia. As he argues, ‘it is only the BEGINNING, and in addition it will spur the East Asians on to ‘regionalise’ if not nationalise their trade and financial circuits more to get out from under the IMF etc., [a process they can undertake] which the Africans, Latin Americans and East Europeans have NOT been able to do.’

Most recently, stories filtering out of Washington pointed to major disputes within the IMF, and between the IMF and the World Bank on how to assess and respond to the East Asian situation. This raises a question about transparency within the IMF. Just who, precisely, is driving this policy agenda; what is their rationale, and can we see the basis of their policy prescriptions? Indirectly, then, the East Asian crisis is raising all sorts of interesting questions about the way the IMF police the international financial system and the efficacy of the strategies. Moreover a question could be asked about the usefulness of IMF’s policy proposals suggestive of competitive devaluations. It seems the typical solution one would expect from an institution still living within the Bretton Woods framework. The IMF has not seemed to suffer from declining self-confidence in its general policy package in the same way that the World Bank appears to have done (see recent World Bank Reports on the state); in its case, initially as a result of an increasingly high profile by the Japanese Government in World Bank operations.

That process, namely the pressure to shift the other major Bretton Woods institution - the IMF - away from its standard policy package, to try and get it to recognise that there are different routes to prosperous high value-added, high wage economies, than the ones fashioned by Britain and the United States, does not seem to have gone too far. But the chances of the South Korean economy being re-made, more or less along the lines of the dream world of orthodox neo-classical economic theory, is not a possibility. Resistance to IMF conditionality in the near future could occur along the following three fronts. Firstly, with South Korea we have probably the most nationalistic political economy in the capitalist world. For historical reasons there is going to be massive resistance to an outside foreign agency re-working the institutional basis of the Korean state and economy. Secondly, Korea in the last 20 years or so has had arguably the most militant working class in Asia. They are the ones that will suffer from IMF packages. The chances are there will be significant working class mobilisation which will put enormous pressure upon the South Korean government from the opposite end, from the need to stabilise the domestic polity, from the need to deal with the disruption of social order. And thirdly, there are the chaebols themselves. In them you have an extraordinary business organisation with extraordinary power in the South Korean economy. Bear in mind that South Korea, in terms of the ownership of assets, has one of the highest level of concentration of any capitalist economy that. For the IMF to assume that it is simply going to be able to remake the business structure of the Korean economy, in the light of the United Stages, is incredibly naive on their part.

The question of short-term portfolio investment versus longer-term FDI inflows is one that receives attention as well. Much of the FDI in Thailand and Malaysia, and to some extent Hong Kong has been channelled into the property market. So to some extent it supported the property boom, rather than being invested in directly productive assets.
Perhaps this is suggestive of basic structural weaknesses in those three economies. This has not been the case for Singapore, for instance, where the vast majority of FDI has gone into manufacturing and related services. But the figures do not match the picture being painted of FDI being an overwhelming feature of development in the region. So the story of the current crisis is not especially a story about FDI.

It seems to be a question of short-term portfolio investment. One about its need by those countries rather than others, how the investment was acquired, the circumstances which it was acquired, and the problems that the various economies have been lumbered with as a result of those circumstances. It seems that the need for foreign investment and foreign-derived lines of credit, has changed significantly in relatively short periods of time. The circumstances under which that investment has been acquired, in the case of South Korea, have changed dramatically in recent years in that the state is no longer an effective financial mediator between the major companies and the world economy. This relates to a 1993 government decision to embrace a new policy of accelerated economic liberalisation, internationalisation, and globalisation. This amounted to an abandonment of the prior model of political economy, in favour of a new model of competitive capitalism and the liberal state. South Korea is in the trouble it is today, partly because of the timing of this transition.

The World Bank in its East Asian Miracle report (World Bank 1993) and others (e.g. Krugman 1994) have argued that the East Asian NIC economies have been successful because they have been recipients of large inputs of capital and labour, but have not been able to use these to increase significantly their total factor productivity (through innovation and moving into higher value-added products etc.). So their economic growth, it has been suggested, is purely a result of the quantities of capital and labour that have been employed, and is not particularly a consequence of using these more effectively. The prediction has been, therefore, that there is going to be a big problem of transition when these factor inputs dry up.

China, Japan, the US

China seems to be out of this little dance at the moment; it does not seem to be affected, significantly, by these dramatic changes in the other East Asian economies. Is this because it is not integrated sufficiently into the network of economic relationships there? Is its economy driven by a completely different set of issues?

According to Breslin (1996) the extent of China’s global connections is quite different from that of the other East Asian economies, because of the continuing degree of state control over the economy. The extent of state control in China over the banking system, the foreign exchange system, the conditions of foreign investment is quiet different from the others. There will come a crunch over the next few months, though, and this will hinge on whether the government allows the Chinese Yuan to fall in order for the economy to remain competitive against some of the other countries, following its entry
into the World Trade Organisation. Clearly if Indonesia, Thailand or South Korea are experiencing 100 per cent currency depreciation, then that is going to erode substantially the labour cost differential from which China currently benefits.

We need not underestimate the levels of interconnectedness within East Asia. The broad trade picture reveals a striking transformation in East Asia from 1985 to 1997, namely the shift from an American-centered export model to a much more diverse, polycentric set of trade flows. According to the 1997 Direction of Trade Statistics Yearbook published by the IMF, total trade (manufactured goods plus raw materials plus services) between Malaysia and the other East Asian countries reached a total of 55.8% of total Malaysian trade in 1996; by contrast, Malaysia-US trade was only 16.8% of the total. The other East Asian countries show similar results: Hong Kong does 63.1% of its trade with Asia and only 14.2% with the US; Singapore does 54.9% with Asia and 17.4% with the US; South Korea does 41.5% with Asia and 19.7% with the US. In most of these countries, the Asian figures have been rising steadily for sometime; back in 1990, for example, Taiwan did 29.1% of its trade with the US and 42.8% with Asia. In 1996, the comparable figures were 22% with the US and 51% with Asia. Even Japan has experienced something similar: back in 1990, it was almost as dependent on American markets as Asian markets (Japan-US trade: 27.5%, Japan-Asia: 28.2%). But by 1996, all those foreign direct investments and bank loans had changed this dramatically: Japan-US trade is 25.4% of the total, while Japan’s Asia business is now 39.2% of the total.

Japan is very much then the crux of the entire question in that it is the creditor nation of the world. The relationship between Japan and the US is very important, as the recent exuberance, irrational or otherwise, of the US economy, has very much been dependent on funds flowing in from Japan. Japan has been a very artificially low interest-rate country for some time and that has pushed funds into the United States economy and into its stock markets. Take away that flow of funds and the US economy, as it stands today, will be virtually non-existent. There is a sort of an alliance of fear, a terrorist-hostage relationship between the Americans and the Japanese at the moment; the Americans being the terrorist and the Japanese the hostage, in terms of the flow of funds. Neither likes each other very much but they have to hang on to each other to stay afloat. This is a very precarious situation which may be reaching the end of its sustainability.

So my key point is that the fall-out from the current crisis will be specific to particular economies and it will have an asymmetrical impact across the region. Secondly, the interesting question with regard to the global picture is the connection between Japan and the United States and the issues raised by the fact that Japanese corporations own most of the US debt. That said, it is unlikely that Japanese corporations should liquidate that debt. It is, after all, the source of much of their earnings. It is the most profitable part of their investments. Most likely they will liquidate their non-performing assets within the region initially, but the situation would have to be especially dire in Japan for the banking system or the companies there to liquidate their high performing assets in the United States. Nevertheless the credit crunch in Japan itself could become so serious that Japanese investors will have no alternative but to start repatriating funds from the United
States and elsewhere. In the first few years of the new century, it is reasonable to expect, as the crisis thickens in East Asia:

- higher interest costs because international markets fear further devaluations;
- lower export prices because the devaluations will intensify competition;
- reduced capital inflows because of a wariness on the part of foreign investors;
- and maybe a growth slowdown.

What Caribbean governments need to be cognisant of in light of these developments is the role high value imports, short term investments and massive property developments can play in delivering economies into a calamitous downward spiral. Already Barbados, Antigua and St. Lucia have been engulfed in debates about the commercialisation of beach front space, declines in manufacturing, and rampant conspicuous consumption. The situation is ripe for a discussion into the source, character and orientation of foreign investment as it is for the sustainability of an offshore services model of development. Growing investment in property development is important as it exacerbates the feature of overinvestment in the non-tradable sectors on the part of local investors. And interrogation into the prospects for attracting higher-value added business in the area of services (software design, advertising, semi-automated assembly, etc.) is especially required at this time.