

**Hüseyin Emrah
Karaoğuz**

Kadir Has University,
Istanbul,
Turkey
✉ emrah.karaoguz@gmail.com

Varieties of Capitalism in Asia: Beyond the Developmental State

by **David Hundt and Jitendra Uttam**

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What explains the diversity of capitalism in contemporary political economy? Why and how did some states develop in the twentieth-century while others fail? What accounts for the unique development successes of the Asian countries? Has there been variation within Asia in capitalist development? David Hundt's and Jitendra Uttam's *Varieties of Capitalism in Asia: Beyond the Developmental State* takes on these and alike questions to contextualize and elucidate the capitalist diversity in Asia. The book aims at contributing to the scholarship by providing novel theoretical arguments based on case studies.

On the theoretical front, the book primarily speaks to two influential approaches in comparative political economy: the varieties of capitalism (VoC) approach and the developmental state (DS) framework. The goal is to contribute to the two literatures in different ways by first stimulating a fertile dialogue between them. On the one hand, Hundt and Uttam argue that the DS paradigm has failed to provide "a genuine theory of capitalism" since it has mainly focused on relatively autonomous states (p. 3). DS has prioritized the state as a unit of analysis and has been subject to the criticism of "methodological nationalism" (p. 3). Equally importantly, the proponents of the DS have underestimated the extent to which state and society are mutually embedded in a capitalist system. On the other hand, the VoC framework is said to fail to explore the capitalist diversity in Asia even though the approach has broadly conceptualized capitalism due to its focus on Western countries. Most importantly, both the DS and the VoC are claimed to have paid insufficient attention to the "social origins of capitalism" (p. 4). Thus, the main objective of Hundt and Uttam is to elaborate "the socioeconomic bases of capitalism, contestation by economic agents over the goals of capitalist development, and variation in the sets of policies (regimes) used to promote capitalism" in the context of Asia (p. 4).

On the empirical front, the book covers Japan, (South) Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, India, and China. While Japan is investigated as a stand-alone case, the other countries are selectively compared in pairs in line with "most-similar systems" research design. The paired countries are similar in various aspects (culture, economic path, history, and geographic location) but different in one crucial dimension: social embeddedness. In this manner, the authors pair Ko-

rea with Taiwan, Hong Kong with Singapore, Malaysia with Thailand, and China with India. Each comparison is done in a different empirical chapter. The overall analysis reveals three idiosyncratic generations of capitalism in Asia. Japan constitutes the first-generation, Korea, Taiwan, Singapore, and Hong Kong constitute the second-generation (the 1960s onwards), and Malaysia, Thailand, India, and China constitute the third-generation (emerged in the 1970s and the 1980s).

The concept that lies at the heart of Hundt's and Uttam's analytical framework is "social embeddedness". Social embeddedness reveals "the degree to which capitalist regimes are socially inclusive" (p. 4). The main proposition is that "the broader the social base of capitalism (social embeddedness), the better the system is likely to perform" (p. 12). A high level of embeddedness corresponds to a mass-participatory political economy in which maximized market size and mature consumer class, and wide network of investors and high-quality investments, enhance the efficacy of capitalism. Furthermore, social embeddedness has been a prerequisite for the emergence of strong states in Asia, has boosted state capacity, and has positively affected policy effectiveness. Different degrees of embeddedness also lead to capitalist diversity by giving birth to differing forms of state-business relations, industrial orientations, corporate governance structures, etc. The overall conclusion is that Japan, Korea, Taiwan, and China (mainly due to successful land reforms) and Hong Kong and Singapore (mainly due to advantages of being small) have enjoyed high social embeddedness; Thailand and Malaysia have had moderate embeddedness; and India has had the lowest degree of embeddedness in the group.

Numerous "socioeconomic orders" are claimed to affect social embeddedness and accordingly capitalist diversity in Asia (p. 5). The first one is the legacy of colonialism. To exemplify, while Japanese colonialism significantly affected the emergence of "statist developmentalist paradigm" in Korea and Taiwan, British colonialism led to different forms of state intervention in Hong Kong and Singapore. The second order is the US influence during the Cold War. As the ideological struggle between capitalism and communism had unfolded in Asia, the emergent political-economy climate "provided space for the indigenous social forces to demand equitable political economy and as a tactical compromise to counter communism ... the US tilted its weight behind the popular social demand to redistribute land among the centuries-old impoverished majority" (p. 6). However, US influence has had differing consequences in Northeast Asia and Southeast Asia. In the latter, the US "persuaded its anti-communist allies to combat demands for egalitarianism by offering side-payments", but in the former "satisfied social demands for redistributive justice by advocating for comprehensive land reforms" (p. 156). Land reforms have more effectively widen the social base of capitalism in Japan, Korea, and Taiwan.

The third socioeconomic order is the nationalist feelings stemmed from independence struggles and decolonization. As Hundt and Uttam argue, nationalist sentiments brought various political-economy actors together including the state, bureaucracy, conglomerates, banks, and society to form a "developmental alliance". The other socioeconomic orders are the Asian financial crisis of the late 1990s (as the crisis shook the confidence in state-led development model), the growing demands for further democratization (capitalism has evolved to address this new encounter),

and the overall distinctive success of Asian capitalism (proved to be a viable alternative to neoliberalism in theory and practice). All these socioeconomic orders are deemed crucial and elaborated in empirical chapters.

As the first two chapters outline the theoretical stance and main arguments of the book, the following five chapters turn to the investigation of cases. The analysis starts with Japan. Hundt and Uttam label Japanese capitalism as “collective” where the state has managed to form an alliance with banks, the bureaucracy, and business to pursue collective interests. The appreciation of collectivism has intensified because of land reforms since the reforms diminished class divisions. Therefore, the writers consider Japan as a highly embedded variant of capitalism “that is sensitive to the needs of most members of society” (p. 48). Throughout the chapter, Hundt and Uttam elaborate the socioeconomic base of collective capitalism in Japan, question the durability of the Japanese model, elaborate capitalist institutions, and discuss various policy fields such as industrial policy and science and technology policy.

Due to their adherence to Confucian philosophy that encourages learning and hierarchical organization of social life, Korean and Taiwanese variety is dubbed as “Confucian capitalism” by Hundt and Uttam. As the writers argue, despite many similar conditions they share, the two systems have been different in degree of social embeddedness, which has affected the countries’ regime and policy choices and institutions. Being the most import one, while ethnic homogeneity in Korea led to the dominance of conglomerates and made the system “organized from the top”, ethnic heterogeneity in Taiwan contributed to the “reorganized from the bottom” trait of the system – a wider social base more effectively participated in political economy *via* an SME-based development model. As a result, the Taiwanese capitalism has been superior to that of the Korean one in terms of dynamism and efficiency. This is said to be evident in the fact that Taiwan managed to avoid the Asian financial crisis’ detrimental effects while Korea suffered immensely. Korean capitalism seemed to be more successful when measured by economic growth though.

Hong Kong and Singapore, having a form of “entrepôt capitalism”, is said to differ from other DSs. The two countries have had more open economies, been more dependent on international economy and actors, and have not been able to follow national projects that are supported by a mobilized domestic population. Hundt and Uttam contend that in the absence of a powerful rural aristocracy there was no need to “level the playing field” as in other cases, and facing a high “systemic vulnerability” (small population and domestic market, resource scarcity, and dependence on external actors), Hong Kong and Singapore have nurtured a highly embedded variant of capitalism. Especially in the face of high “systemic vulnerability”, “there was little in the way of organised societal force that was capable of resisting the imposition of the new capitalist order” (p. 125). A “regulated state” has had considerable autonomy and legitimacy, and with a strong reliance on the market, has led to a powerful “co-existence of markets and states” (p. 119). Alongside similarities, there have been numerous differences between Hong Kong and Singapore. For instance, capitalism has been relatively more embedded in the latter since the system has been more legitimate in the eyes of citizens. Governing elites used industrial policy to directly inter-

vene to the market in Singapore, but the market has been respected more in Hong Kong.

Malaysia's "state capitalism" and Thailand's "alliance capitalism" are claimed to be less socially embedded than their counterparts in Northeast Asia. Although Thailand managed to somewhat remedy its urban-rural divide and Malaysia relatively more effectively utilized New Economic Policy (NEP) to converge interests between Malays and ethnic Chinese minority, both through side-payments, side-payment strategy has been less effective in embedding capitalism than land reforms. Thus, "the legacies of a highly uneven distribution of resources still haunt capitalist development in (Thailand and Malaysia)" (p. 149). In both countries, the main cause of low embeddedness has stemmed from the colonial period as the expansion of colonialism had promoted the emergence of a "privileged minority" that impeded the widening of capitalism's social base. By way of joining forces with colonial businesses to expand their own political and economic power, those "privileged minorities" steered the development of capitalism in Thailand and Malaysia. While in Thailand a variant of "royalist nationalism" had largely benefited the royal family and eventually led to the urban-rural divide, in Malaysia the trading community dominated the political economy by developing profitable economic relations with European firms.

The last empirical chapter compares India's "democratic capitalism" with China's "market socialism". Both India and China are said to be substantially different from Japan, Korea, Taiwan, Singapore, Thailand, and Malaysia since the two countries tested different economic regimes in the post-1945 period. Whereas India adopted a variant of democratic capitalism, China pursued Maoist communism. Furthermore, both countries did not become a US ally. Hundt and Uttam argue that differing degrees of social embeddedness has accounted for the differences between India and China. On the one hand, China enjoyed a mass-participatory economic system through mass manufacturing and subscribed to the developmental model of Asia. This choice, conditioned by supportive socioeconomic orders, widened the social base of capitalism. On the other hand, India opted for a strategy that prioritized "capital" and "knowledge" over labor. Although this approach fitted elite's interests, it ignored the fact that cheap labor was abundant in India. Thus, "India's army of unemployed people contrasts with China's increasing labour shortages (and while) China successfully mass-manufactured goods for export markets ... India ... wasted time and resources in the search for capital, technology, and knowledge" (p. 221). Thus, whereas China has enjoyed a highly embedded system, India has suffered from low embeddedness.

Throughout the book, Hundt and Uttam provide a thought-provoking analysis that any political-economy scholar would benefit from. The book is written on a highly relevant and important topic and have several strengths. At the same time, many suggestions can be made based on the meticulous analysis of the authors – an utmost indicator of a high-quality work.

To begin with, I think the book's main purpose, "bringing society back in to the analysis of Asian capitalism" (p. 28), which certainly has broader implications on the study of capitalism itself, is quite significant and timely. On the one hand, alt-

though the recent literature on DS acknowledges the fact that changing socioeconomic conditions have necessitated a change in the structure and formation of contemporary DSs (for instance democratization and new ideas have led to demands for participatory policy-making and social inclusion), it still tends to characterize the classic DSs (Japan, Asian Tigers, etc.) without making an analytical reference to social embeddedness. Therefore, I think what Hundt and Uttam show, in a way, is what is relevant now had in fact been relevant back in the twentieth century. On the other hand, many scholars in different sub-fields have concluded that the issue of legitimation is crucial in understanding any political-economy system. For instance, there has been a revival of interest in legitimation in the study of authoritarian regimes. Hundt's and Uttam's social embeddedness concept is all about legitimation in one respect, and a systematic analysis of social embeddedness in the context of DS has significant implications for other sub-fields of political economy.

The DS scholarship, both classics and recent contributions, demonstrates how various development-promoting institutions deliver satisfactory long-term economic performance. However, the literature tends to be salient on the origins of those institutions. Hundt's and Uttam's analysis sheds light on this crucial issue. On the one hand, the writers occasionally make references to "systemic vulnerability" concept (Richard F. Doner, Bryan K. Ritchie, and Dan Slater 2015) to highlight that certain constraints and vulnerabilities may significantly affect the emergence of "good institutions". On the other hand, Hundt and Uttam further elaborate the concept by linking it to the socioeconomic orders that determine social embeddedness. I think this is quite valuable since we need to learn more about where development-enhancing institutions come from.

Many suggestions can be made to further scholarship based on Hundt's and Uttam's study. I think one of the most important ones is related to the conceptualization of "social embeddedness". Although the writers outline many factors that affect social embeddedness and elaborate possible indicators of the concept in an early chapter, I think a more explicit and thorough attention is required to draw precise boundaries for the concept. In its most simplified form, what factors lead to high social embeddedness and under which conditions? Which factors are relatively more important, when, and why? How do we measure embeddedness exactly? Because so many factors are said to influence social embeddedness, varying from material world to ideas, perhaps a more explicit and simplified elaboration would help to clarify the concept's analytical merit. I also think that many of these questions can be traced in a more systematic way by comparing Asian countries with their counterparts in Latin America or elsewhere, and more importantly, pairing similar countries in different regions *via* a "most-similar systems" research design to see whether social embeddedness leads to diversity. Thus, the promising questions may be: can the concept travel easily to shed light on capitalist diversity in other parts of the world? If yes, what would be the broad features of the analytical framework? Hundt and Uttam conclude their work by proposing that it can, and I think this constitutes a fertile research agenda.

The book rigorously makes the point that social embeddedness is important in understanding and demonstrating capitalist diversity in Asia. However, it seems to me that the concept is claimed to determine too many dependent variables that in

many cases a more careful analytical focus and demonstration is needed. For instance, social embeddedness is said to have affected the emergence of strong states in Asia, enhanced state capacity, and increased policy effectiveness in diverse domains. Although it seems straightforward, these variables do not automatically affect each other in a pre-determined way, and for each one, a different analysis is required for us to believe that social embeddedness indeed affects all of them (equally strongly). As an example, it is not easy to link policy-making process to impact straightforwardly since many factors other than policy-making may influence impact. Social embeddedness is also claimed to affect too many concrete political-economy variables and likewise require demonstration. As a case in point, Hundt and Uttam argue that different degrees of social embeddedness have led to divergences in Korea's and Taiwan's industrial orientations, which in turn influenced accommodation of foreign experts, openness to foreign direct investment, and means of technology transfer in the two countries. These divergences, in turn, are said to affect each capitalist systems' efficiency. Even though Hundt and Uttam carefully make this argument, they do not seem to demonstrate the concrete links and steps through which social embeddedness manifested its effects. In my opinion, all these considerations lead to promising research questions that can be analyzed in their own right with a narrower focus.

David Hundt's and Jitendra Uttam's *Varieties of Capitalism in Asia: Beyond the Developmental State* is a valuable contribution to the field. The book is especially interesting for scholars who follow varieties of capitalism (VoC) and developmental state (DS) scholarships. The study is a must-read for students of Asian capitalism and offers crucial insights for other sub-fields of political economy. The main concern of the book, "bringing society back" in to the analysis of capitalist diversity, has immense implications for development and is timely to study.

References

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