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Of miracles and crises: (re-)interpretations of growth and decline in East and Southeast Asia

Jonathan Rigg

Abstract: *In the last two decades of the 20th century Asia stumbled from miracle into crisis. The crisis not only had manifold social consequences but also demands a reconsideration of the multiple explanations offered for Asia's miracle years. This paper examines these explanations in the light of the crisis and briefly discusses the ways in which scholars of different orientations have adapted and refined their views. In particular the paper looks back on the influential East Asian miracle report of the World Bank, how it was interpreted at the time of publication, and how the report did (or did not) reflect the dominant Washington consensus. The paper then offers a discussion of the post-Washington consensus concluding that the crisis has seen some convergence of the revisionist developmental state and neoliberal positions. However, this convergence should not be seen as a paradigm shift but rather as a reworking of existing positions in the light of debates that predated the economic crisis.*

Keywords: *East and Southeast Asia, miracle, crisis, World Bank, Washington consensus, post-Washington consensus*

In the years running up to 1997, a select band of East and Southeast Asian countries experienced perhaps the most rapid and sustained period of economic growth in human history. This growth was not a mere statistical sleight of hand: never before had so many people been plucked out of poverty over such a short space of time. There were, to be sure, many negative ramifications connected with this extraordinary period of economic expansion: environmental degradation on an unprecedented scale, growing inequalities between the so-styled haves and have nots, rampant corruption, social malaise, and a widening in the gap between a prosperous core and a lagging periphery. But in the light of Asia's fall from economic grace it is all too easy to forget that this period of economic growth brought significant and real benefits to the great majority of the populations concerned. Nor have these benefits been erased by the crisis.

Author: Jonathan Rigg, Department of Geography, University of Durham, South Road, Durham DH1 3LE, UK. E-mail: J.D.Rigg@durham.ac.uk

Table 1. Growth and decline in Asia, 1980–2000

	GDP growth						
	1980–1990	1990–1995	1996	1997	1998	1999	2000
Crisis countries							
Indonesia*	6.1	7.6	8.0	5.0	–13.2	0.2	4.8
Malaysia*	5.2	8.7	8.6	8.0	–7.5	5.4	–
Philippines	1.0	2.3	5.5	5.1	–0.5	3.2	3.9
South Korea*	9.4	7.2	7.1	5.5	–6.7	10.7	9.3
Thailand*	7.6	8.4	5.5	–0.4	–10.4	4.2	–
Wider Asia							
China**	10.2	12.8	9.5	8.8	7.8	7.1	–
Hong Kong*	6.9	5.6	4.7	5.0	–5.1	2.9	–
Japan*	4.0	1.0	3.8	–0.7	–2.5	0.5	–
Lao PDR	–	6.5	7.1	6.9	4.0	4.0	–
Singapore*	6.4	8.7	6.9	7.8	0.3	5.4	10.1
Taiwan*	–	–	5.4	6.8	4.6	5.4	6.3
Vietnam	4.6	8.3	9.3	8.1	5.8	4.0	–

* World Bank designated HPAEs or 'miracle' economies.
** The World Bank also listed southern (coastal) China as a nascent HPAE.

Sources: Various.

The Asian economic crisis, usually dated from July 1997, brought all the hubris connected with the Pacific Century, the Asian Way, Asian Values, and the Asian Miracle to an end. Countries which had never grown so fast experienced one of the most calamitous declines of economic fortune and their economies shrunk, in some cases even faster than they had grown (see Table 1).

The Asian crisis has been used to promote many – and often diametrically opposed – positions: to challenge the Asian miracle and the Washington consensus, to suggest that there is some Occidental conspiracy at root, and to argue the case for farm-based, traditional economic systems. It has also been used to highlight the dangers of dependent development, to further the case for globalisation, to emphasise the weaknesses in Asia's crony capitalist tendencies, to undermine entrenched political dynasties and to highlight the dangers of integration into the global economy.

In a sense, the Asian crisis has the ability to be all things to all people. This, of course, is both a problem and, from an academic perspective, a delight. Regarding the former, it is far from immediately clear what lessons can be drawn from the crisis and therefore what the wider policy implications of the crisis might be. Scholars and practitioners have their own ideological axes to grind and the evidence is sufficiently mixed to afford most people the luxury of squeezing the crisis into their personal ideological boxes.

This paper is not intended to be another dissection of the crisis. Rather it is intended to do two things. First of all, to reflect on the explanations that have been deployed to account for Asia's 'miracle'; did scholars and politicians of a whole variety of persuasions get the foundations of Asia's growth

fundamentally wrong? Secondly the paper investigates whether a new 'paradigm' has emerged from the wreckage of the Asian economies. The paper's axis of discussion is the miracle/crisis dichotomy and the way in which key institutions (and individuals) have modified their positions over time. Perhaps perversely, the paper does not address the two really important questions: Why did Asia crash? And, how has the crisis affected people in the crisis countries?

At the outset it is necessary to admit to a certain academic deceit. 'Asia' here is used as shorthand for the countries of East and Southeast. A very large group of self-evidently diverse countries are lumped together for the sake of argument. Furthermore it is accepted that the 'Asian' crisis did not exist – at least to the extent that the bulk of Asia (in population terms) was barely affected. The key crisis countries are Indonesia, Malaysia, the Philippines, South Korea and Thailand (although a numbers of other countries also felt the hot breath of the economic malaise). There is method in this madness: the intention is to highlight the ways in which 'paradigms' are constructed to explain a highly complex and contingent process – 'development' – which then feeds back to inform policy initiatives. All development experiences are *sui generis*, and all economic crises are *sui generis*.

Prediction – or the failure to predict

The Asian crisis has engendered a good deal of humility because of the collective failure of the academic and professional communities to predict the fall of Asia. Indeed, when it comes to Asia the failure of 'experts' accurately to gauge trajectories of change has a glorious history. At the end of the Second World War, it was the Philippines and Burma that many people saw as the likely winners in the Asian development game. Twenty years later, Gunnar Myrdal in his magisterial two-volume work *Asian Drama* (1968) failed to foresee the growth of (East/Southeast) Asia. Indeed his book is full of darkness and foreboding as he surveyed the 'abysmal reality' of life in Asia. At the same time the sociologist Max Weber was constructing reasons why Confucian China would never match the growth of Protestant Europe and North America.

And then, around three decades on from Myrdal's book and Weber's work, no one accurately predicted Asia's economic collapse. Paul Krugman may have been awarded the title 'The Man Who Predicted the Asian Crisis' but even he accepts that he was 90 per cent wrong.[1] His much discussed paper in *Foreign Affairs* (1994), 'The myth of Asia's miracle', did not deal with the issues that he later came to expand upon in explaining the crisis (see Krugman, 1998). There are also a number of other scholars who challenged the Asian miracle from different positions but, again, none did so in such a way that we can point to them as being ahead of the game. The closest we get to prescience is the Basle-based Bank for International Settlements' (BIS) austere 1996–1997 annual report.[2] In a section entitled 'Financial fragility in Asia' the BIS warned:

> Very rapid growth in Asia . . . created a climate of ever-rising demand conducive to an extraordinary expansion in the ratio of bank credit to GDP that has no recent parallel in the industrial countries. . . . The recent cyclical downturn in several Asian countries has exposed structural weaknesses in their banking systems (BIS, 1997: 107–108).

The report goes on to suggest that bank fragility is due to difficulties in adjusting to a more open and liberal environment. The report also highlights violent asset price cycles (including property boom bubbles), the growth of bad loans in the banking sector, concern over a mismatch in connection with fixed exchange rates, and the dangers associated with state-directed lending (BIS, 1997: 107–114) – all factors that we now know played a role in the crisis. The scholars who, today, dissect the crisis demonstrate the advantages of hindsight, rather than the skills of foresight. This, as the World Bank's chief economist Joseph Stiglitz said in a speech in Manila 1998, 'should induce a modicum of humility about our ability to predict crises' (Stiglitz, 1998a).

The crisis – the essential facts

There are few topics that have generated such a mass of literature quite so quickly as the Asian crisis. The 'chronology' of the Asian crisis provided on Nouriel Roubini's website for 1997 and 1998 alone runs to 147,490 words.

The crisis is usually dated from 2 July 1997 when the Central Bank of Thailand, after spending some US$9 billion, gave up its futile attempts to support the baht and protect its peg to the US$ (Table 2). The newly 'floating' baht promptly collapsed, losing about a fifth of its value. Fairly quickly the 'contagion' spread to other Asian economies that investors and speculators felt shared some of Thailand's problems. These included Indonesia, Malaysia, the Philippines and South Korea. Companies that had not hedged their foreign currency exposure were bankrupted and the associated fall in asset values further accentuated the problem. As a result, the proportion of non-performing loans held by local banks – already high – rose still further. Over a short period of time large numbers of domestic corporations were rendered, technically, bankrupt.

In this way a currency crisis in Thailand was transformed into a wider, regional, banking, financial and economic crisis. In time the crisis spread beyond the Asian region. As the crisis hit the so-called 'real' economy, so the economic crisis became a human crisis and, in some cases, a human tragedy (see Pasuk Phongpaichit and Baker, 2000; Masina, 2002; Rigg, 2001; Rigg, forthcoming). The IMF stepped in to rescue Asia's ailing economies while the World Bank tried to support the people behind the statistics. The Philippines was permitted to extend its US$1.1 billion IMF standby agreement in July 1997. Thailand's rescue package of US$17 billion was approved by the IMF in August 1997, Indonesia's of US$40 billion in November, and South Korea's of US$58 billion in December 1997. Malaysia, significantly, turned down the IMF's offer of assistance.

Table 2. The diary of a crisis, July 1997–December 1998

1997	
July 2	Thai baht collapses under speculative pressure
July 11	Philippine peso allowed to float
July 14	Philippines permitted to extend by US$1.1 billion an existing IMF standby agreement
July 24	Malaysian ringgit hits a three-year low
July 28	Thailand calls in the IMF
August 20	IMF-led rescue package of US$17.1 billion approved for Thailand
September 2	Philippine peso falls to historic low against the US$
October 8	Indonesia announces its intention to call on the IMF for assistance
October 17	New Taiwan dollar allowed to float
October 20–23	Hong Kong stock market loses a quarter of its value over four days
November 5	Stand-by credit of US$43 billion approved by the IMF for Indonesia
November 7	The government of PM Chaovalit Yongchaiyut in Thailand falls; the first political casualty of the crisis
November 21	South Korea, wracked by economic instability, states it will seek IMF assistance
December 4	IMF-led rescue package of US$58.2 billion approved for South Korea
December 18	Former dissident Kim Dae-jung is elected President of South Korea
1998	
May 4	The governor of the Central Bank of Thailand resigns ahead of a critical report of the bank's handling of the crisis
May 4–21	Demonstrations and riots in Jakarta, Medan and elsewhere. Many of Indonesia's ethnic Chinese population flee as they and their businesses are targeted by rampaging mobs.
May 21	Indonesia's President Suharto resigns
September 1	Currency and capital controls introduced in Malaysia
September 2	Prime Minister Mahathir of Malaysia sacks his Deputy and Finance Minister Anwar Ibrahim because of deep differences over how to handle Malaysia's economic crisis
December 16	Thai government auctions US$10 billion worth of assets seized from liquidated finance companies

Note: for a truly comprehensive diary of the crisis see http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html

Nor, of course, was the crisis restricted to economies and livelihoods. Many of the governments of the countries most seriously affected had built their credibility on the basis of their economic performance. Their legitimacy was based on their ability to deliver a steadily improving standard of living for the great bulk of their populations through the achievement of economic expansion and modernisation. It was no coincidence that President Suharto was known as Bapak Pembangunan – the Father of Development. With economies in free fall it was not long before leaders and governments would go the same way. Thailand's Prime Minister Chaovalit Yongchaiyut resigned in November 1997, former dissident Kim Dae-jung was elected President of South Korea a month later in December and, most spectacularly, President Suharto, after

more than 30 years in power, was forced by sustained demonstrations in Jakarta to resign in May 1998. Even Prime Minister Mahathir Mohamad of Malaysia found his government in crisis and, following disagreements with his Deputy Prime Minister and Finance Minister Anwar Ibrahim over how the economy should be managed, sacked his heir apparent.[3] The subsequent trials and imprisonment of Anwar, against the political and economic turmoil of the Asian crisis were, putatively, over corruption and sexual misconduct but many observers chose to interpret them as 'political'.[4]

As Table 1 shows, the crisis was particularly acute in Thailand, Indonesia, South Korea, the Philippines and Malaysia. But Hong Kong, Taiwan and Singapore were also infected, as were transitional economies like the Lao PDR and Vietnam. It is for all these reasons that the Asian crisis can be seen as a turning point in Asia's economic and political history. But the Asian crisis is also important because it is seen in some quarters to have been instrumental in leading to a profound change of position by the institutions of the Washington consensus and because it has encouraged scholars to re-evaluate the miracle years.

(RE-)INTERPRETING THE 'MIRACLE' IN THE LIGHT OF THE CRISIS

Prior to the Asian economic crisis there were three schools of thought – in broad terms – that sought to identify those magical ingredients in Asia's recipe of growth. We can label these the neoliberal; the revisionist; and the culturalist schools. Such a division is clearly an artifice. The schools are not discrete and many people embraced elements of all three. However, for the sake of clarity and argument they are separated out here. Rather more time is allocated to describing the culturalist position because this is, probably, the less well known.

The neoliberal position

The orthodox position held by the neoliberals, sometimes termed the Washington consensus, is well documented and encapsulated (but see below) in the World Bank's important *East Asian Miracle: Economic Growth and Public Policy* (1993) report. The report identified eight so-styled High Performing Asian Economies (HPAEs),[5] and then highlighted those shared features that, in the World Bank's view, 'set them apart from most other developing countries' (World Bank, 1993: 2). This then led the World Bank to pick out what the report termed the 'essence of the miracle' – a recipe for economic success. This was summed up in the belief that the countries concerned achieved rapid growth because they had 'got the basics right'. The links between Asia's recipe for economic success and the more generic Washington consensus are clear and are set out in Table 3. The term 'Washington consensus' was coined by John Williamson in 1990 to encapsulate ten axiomatic beliefs held by neoliberals. The explicit location of such a consensus in Washington was because

Table 3. The Washington Consensus and the Asian miracle

The Washington Consensus	The Recipe of Asian Success	A Revisionist Report?
Fiscal discipline and austerity	Fundamentally sound macro-economic policy	Efficient public administration
Public expenditure priorities	High levels of domestic saving and investment	Disciplined government intervention
Tax reform	Tax policies favouring investment	Investment in building human capital
Financial liberalisation	Secure, bank-based financial system with strong regulation and supervision	Investment in physical capital
Exchange rate reform	Competitive real exchange rates	
Trade liberalisation	Pro-export trade incentive structure	
Foreign direct investment	Openness to foreign technology and investment	
Privatisation	–	
Deregulation	–	
Property rights	Legal and regulatory environment hospitable to private investment; security of property rights	

Sources: Characteristics of the Washington consensus adapted from Reed and Rosa (n.d. [1999]) and Standing (2000), and the recipe of Asian success extracted from World Bank (1993).

three key institutions of the neoliberal establishment – the World Bank, the International Monetary Fund (IMF) and the US Treasury – all had their headquarters there. As will be argued below, the 'consensus' was probably always less of a consensus than the word implies. Nevertheless we can point to a number of guiding principles that, to a greater or lesser extent, were embraced by many of those in the establishment.

The revisionist position

The revisionists reject the neoliberal view that East Asia's growth was founded on a judicious mix of market-friendly, investment-promoting and export-oriented policies and instead make a sustained case, pre-crisis, for the presence of a Developmental State as the critical ingredient in the region's success:

> The key to the superior industrial performance of the East Asian NICs does not lie in the general superiority of export-oriented industrialization strategies over import substitution, or of market-oriented policies over state intervention . . . It is rather the ability of the state to direct the accumulation process in the direction which is required by capitalist development at particular points in time which is crucial. This in turn has to be located in the existence of a developmental state with a high degree of relative autonomy from local classes and class factions (Jenkins, 1991: 224).

Leftwich argues much the same in writing that developmental states are those '. . . whose policies have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives . . .' (Leftwich, 1995: 401; see also Berger and Beeson, 1998; Jenkins, 1991). Essentially the revisionists, while accepting an important role for the market, maintain that the market must be mediated, regulated and guided by the state. Wade calls this 'governing the market'. In this way the revionists propose a significant, even leading, role for the state in development.

The culturalist position

A noticeable thread in discussions of Asia's successful modernisation – particularly among commentators and officials within the region – is what might be termed the culturalist position. Governments have been at the forefront of espousing what has become popularly known as the Asian Way.[6] This interest in a distinctly Asian approach to development has come about because of the apparent ability of the countries of Asia to achieve high rates of economic growth while avoiding many of the perceived social costs of progress such as rising crime and rampant individualism. In accounting for Singapore's economic success, for example, former prime minister Lee Kuan Yew explained: 'We were fortunate we had this cultural backdrop, the belief in thrift, hard work, filial piety and loyalty in the extended family, and, most of all, the respect for scholarship and learning' (Zakaria, 1994: 114). In Singapore, the National Ideology is based on a number of so-styled Asian core values (see Tremewan, 1994: 146).

Significantly, Lee observed shortly after the publication of the *East Asian Miracle* (World Bank, 1993) that one of the report's shortcomings was its failure to address the issue of culture in economic development.[7] It is the unique cultural context of East Asia which made, he argued, the transferability of the miracle to other developing countries so difficult (Zakaria, 1994: 116–7). This view echoes the insistence of some scholars who argue from a very different ideological position, that development must be contextually defined (see Brohmann, 1995; Escobar, 1995). It was not culture *per se* which explains Asia's growth pre-crisis but the specific historical and political-economic context and position of these countries at the time.

Perhaps inevitably, with its underlying theme of cultural determinism, the Asian Values thesis has been vigorously contested. In particular, critics like Buruma (1995) and Tremewan (1994) have pointed to the difficulty of ascribing a single set of values to such a culturally diverse region. Fukuyama (1999) adds the further point that values can only be important if they have an impact on behaviour, and behaviour is mediated through institutions. The causes of growth, he states, 'are much more likely to be found in the institutions that were created . . . like stable governments, systems of property rights and commercial law' than in Asian cultural values which existed long before the region attained the status of a miracle region (1999: 2). It is this, perhaps, that explains the irony of Asian Values theorists using Confucianism (or something

close to it) to account for the region's former economic success, when not very long ago Max Weber was using Confucianism to explain China's failure to modernise (McVey, 1992: 9). Asian cultural values are a distraction from the core factors which lie in the quality of institutions and the policies of governments. Culture and values, to be sure, do have a role to play but this is easy to overstate.

Nonetheless, whether the cultural ingredients were wrongly identified is, for some, beside the point. Crawford, for example, makes a sustained case for the importance of culture in moulding regional patterns of capitalism: 'Given the centrality of culture in the creation of social capital and the importance of social capital to the nature of economic organisation, he argues, 'it follows that articulations of capitalism will be diverse as long as cultures are diverse' (2000: 74). For Crawford, it would seem, there is a direct line that can be drawn between culture, institutions, and the form that capitalism takes. For others the links are much looser.

What does the 'Miracle' report really say?

The *East Asian Miracle* report has been described as a 'profoundly political document' (Berger and Beeson, 1998: 495; also see Amsden, 1994: 627) justifying – as it appears to do – a particular ideological position regarding Asia's progress during the 1980s and early 1990s. But what is not clear is *which* ideological position it justifies. The two critical and competing schools of thought in the interpretation of Asia's growth pre-crisis – the neoliberal and the revisionist – both used the *East Asian Miracle* (1993) to support their cases. To unravel this conundrum it is necessary to discuss the background to the report.

Robert Wade (1996) makes it clear that the report was written under the influence of three very different constituencies. First of all the report was (*de facto*) commissioned and financed by the Japanese government who were intent on bringing their own views to bear in an institution (the World Bank) and a project (development) which had, for too long, been dominated by an Anglo-American coterie of economists who can be broadly described as orthodox and neoliberal. Second it was written by a group of economists in the World Bank who were being encouraged to 'think out of the box' by the then chief economist. And third, albeit in the background, was the arm-twisting of the neoliberal establishment in the World Bank, the IMF and the wider Washington establishment. The result, perhaps unsurprisingly, was a report that is not only in places inconsistent in its argument but one which can also be used to justify a range of apparently contradictory positions. Wade (1996: 28) notes how Japanese newspapers and columnists seized on the report to further the cause of the Japanese model of guided development, while British and American publications used it to re-emphasise the dominance of the neoliberal view encapsulated in the Washington consensus. Even when we look at people closer to the report and in the wider academic community a similar difference of opinion emerges.

John Page (who directed the research), in his later summary of the study in a special issue of *World Development*, makes it clear that, for the World Bank at least, the market was more important than the state in explaining the region's economic success. He explains that it is 'virtually impossible' to measure the relative impact of economic fundamentals versus state interventions in explaining the East Asian growth experience (1994: 619). 'Moreover,' he says in the following paragraph, 'all interventions carry costs.' The conclusion that Page arrives at is that:

> . . . the promotion of specific individual industries was generally not successful . . . Government interventions played a much less prominent role in the success of the newly industrializing economies of southeast Asia . . . The fact that interventions were an element of some East Asian economies' success does not mean they should be attempted elsewhere, nor should they be used as an excuse to resist needed market-oriented reform (Page, 1994: 624).

For Page, it seems, East Asia's success was not because of government intervention, but in spite of it. Kwon takes this even further to suggest that the 'report makes an all-out effort to assert that East Asian economic success has nothing to do with government' (1994: 635).[8] Taylor (1997: 146) also states that the Japanese were probably disappointed that the report's main message, as he interprets it, was a market-friendly one and that state interventions were counterproductive. That this message should have emerged in the foreground may have partly been a product of the fact that the team of six people assembled to guide the core study underpinning the report were all economists and, incredibly, 'none had adult experience of living and working in Asia' (Wade, 1996: 18). For Gore (2000), the authors of the *East Asian Miracle* shoe-horned the Asian experience into their pre-ordained neoliberal box, even though it was a distinctly uncomfortable fit.

But not all the authors who contributed papers to the special issue (Alice Amsden, Jene Kwon, Sanjaya Lall, Dwight Perkins and Toru Yanagihara) read the report in quite this way. Lall, for example, states, and apparently in contradiction to Kwon, that the report's 'main contribution may be that it admits the extent and pervasiveness of interventions in most HPAEs' (1994: 645). Even Stiglitz, admittedly in the wake of the Asian crisis, argued that the foundations of the *East Asian Miracle* was the recognition, 'contrary to the spirit of the Washington consensus', of the role of industrial policy in Asia's growth (Stiglitz, 1998b: 2).

As the different gloss put on the report by Lall and Kwon (and rather later, by Stiglitz) indicates, hidden in the neoliberal padding was reference to the potentially important role of the state in economic development.[9] Wade goes so far as to state that the report 'may even be looked back on as an early landmark in the intellectual ascendancy . . . of Japanese views about the role of the state' (1996: 5). Proponents of the revisionist developmental state embraced this as an indication that even the World Bank took the state to be critically important in development. Berger and Beeson, for example, believe that subsequent World Bank publications indicate a (qualified) 'endorsement of the

"Asian Way" of managing government-business relations in particular and the process of development more generally' (1998: 500).[10]

EXPLANATIONS AND DILEMMAS OF THE CRISIS

Pre-crisis, the Asian miracle could be all things to all people: a justification for market-led development policies and the neoliberal Washington consensus; a ringing endorsement of state intervention and the developmental state; and a pillar of support for a culturalist interpretation of Asia's development. That there is a dilemma here was quickly recognised in the World Bank itself: 'Curiously many of the factors identified as contributors to East Asian economies' current problems are strikingly similar to the explanations previously put forward for their success' (Stiglitz, 1998a). Depending whether we choose to take the Asian miracle as support for a neoliberal, or a revisionist, or for a neo-Confucian position, the crisis called for a reconsideration of all three. As Gore puts it, the fall of the countries of East Asia also meant, on all sides of the debate, the fall of their 'legitimating angels' (2000: 799). How did the three schools of explanation respond to the challenge of the crisis when, just a few months previously, they were offering their own rather different interpretations of the miracle?

The 'orthodox' dilemma

The orthodox explanation for Asia's problems links the crisis to the nature of Asian capitalism. This stresses the degree of 'crony capitalism' in the region, the guiding role of the state, the implicit guarantees offered (especially) to government-linked businesses, the tendency to create special interest groups, and the role that 'moral hazard' played in the collapse.[11] Taken together, these factors led to inefficient, and often excessively risky investment decisions, and the misallocation of resources (see Chang, 2000; Crafts, 1999; Krugman, 1998). This orthodox interpretation of the crisis follows in the Washington consensus tradition. In this schema the need, in the light of the crisis, was for more transparency, greater openness, and less cronyism. Nayan Chanda, writing for the *Far Eastern Economic Review*, summed up the view held from the offices of the World Bank and the IMF in Washington to the business clubs of Bangkok and Jakarta: 'In country after country the story was remarkably similar. Corruption and crony capitalism had weakened solid economies built on years of hard work and prudent investment' (Chanda, 1998: 46–7).

Supporters of this perspective of the causes of the crisis point to the fact that Singapore, despite being closely integrated into the region, survived the crisis without the severity of impacts evident in Indonesia, Malaysia and Thailand. The fact that it is the 'cleanest' country in terms of corruption and nepotism is seen as convincing proof of the importance of the quality of government and economic management – ie good governance – in explaining the progress of the crisis in individual countries. Transparency International's 1999 survey of corruption in 99 countries places Singapore in 7th position

while Malaysia is 31st, South Korea 50th, the Philippines 54th, Thailand 68th, and Indonesia 96th.[12] This is a view that the World Bank expounds in *East Asia: Recovery and Beyond* (World Bank, 2000a) in a section entitled 'Responding to the governance challenge'.

This interpretation of the roots of the crisis comes up against the difficulty that the World Bank had, earlier, in the *East Asian Miracle* made the case that Asia was growing because governments had 'got the fundamentals right'. Thus scholars such as Jayasuriya and Rosser argue that orthodox economists were caught on the horns of a dilemma: '. . . the problem for orthodox economists has been to explain why the East Asian economies collapsed without either raising doubts about the presumed benefits of economic liberalisation for developing countries or contradicting the earlier orthodox assumption that East Asia's economic success was the result of free market policies' (1999: 2).

This difficulty led to a refining of the 'crony capitalism' explanation for the crisis to a position where regulation and the sequencing of liberalisation become central components. As Stiglitz stated at the time, Asia's problem 'is not that government has done too much in every area but that it has done too little in some areas' (1998b: 3). Asia crashed because it was not prepared for liberalisation. Thus it is not that global integration and economic liberalisation are necessarily detrimental to the interests of developing countries but rather that countries and their institutional frameworks must be adequately prepared for the transition from closed to open market economies. Asia – and especially Thailand and Malaysia – were not adequately prepared to handle the enormous increase in international capital mobility brought on by capital account liberalisation. Between 1996 and 1997 there was a net outflow of capital from Thailand, Malaysia, South Korea and the Philippines of US$105 billion.[13] This was the trigger that ignited the crisis.

This view entered the mainstream in the World Bank's 1999/2000 *World Development Report*: '. . . foreign capital . . . comes with a challenge: to devise policies and institutions that tip the balance so that capital mobility benefits developing countries rather than injuring them' (World Bank, 2000b: 6). The key problem in East Asia was that liberalisation (and especially capital account liberalisation) was too rapid. Countries were not prepared for the massive inflow of speculative funds. From this emerged a concern for the sequencing of liberalisation measures (see World Bank, 2000b: 69–85).[14]

The revisionist and culturalist dilemma

While Jayasuriya and Rosser (1999) focus on the dilemma faced by proponents of the Washington consensus, the dilemma does not stop with the neoliberals. Those who subscribed to the revisionist position regarding Asia's growth were also faced with a challenge. Having spent much of the 1990s explaining away Asia's success in terms of the role of the developmental state, here was an event that would seem fundamentally to undermine their former position. Supporters of the developmental state emphasised the intimacy of the

relationship of the state with the private sector (Leftwich, 1995: 403). Yet it was also this intimacy that, it seemed, created the economic conditions that led to crisis.

The revisionists resorted to a tactic very similar to that adopted by the neoliberals (in so far as it focuses on the sequencing of policies). Namely, to argue that while a developmental and activist state may be important in promoting growth during the early stages of development, over time it is 'perverted into opportunities for rent-seeking and corruption that ultimately undermine economic growth' (Crafts, 1999: 156; also see Bello, 1998: 437). Thus in advanced economies, state-led development quickly becomes dysfunctional. It seems that while an interventionist state might have been critical during the 'miracle' years, by the mid-1990s it had, so to speak, outstayed its welcome. The irony is that the crisis came at a time when the role of the state (and the degree of cronyism) was actually falling in the region (Chang, 2000: 785). Perhaps it just did not fall fast enough.

Nor could the culturalists avoid searching questions about their former position: what on earth happened to the Asian Way? As Mahbubani writes: 'On the Asian side [of the Asian Values debate], after the spectacular stumble of several hitherto dynamic East Asian economies, there is a genuine hint of regret at having spoken so confidently of the rise of Asia' (1998: 12). Linda Lim, while acknowledging the role of exogenous factors in the crisis also suggests that the 'origins of the Asian crisis – macroeconomic imbalances, structural deficiencies in the financial sector, loss of market confidence, and rising political risk – can all be attributed to some extent or other to failures in political governance' (Lim, n.d.: 3). This in turn can be linked to some of the specific features of Asian capitalism that were, during the heady days of growth, highlighted as positive features of the region. They include 'network capitalism' or 'alliance capitalism', both regarded as hallmarks of Asian business methods.[15]

The response from the culturalists has been, again, similar in style to that of the revisionists and those who embrace a neoliberal position: namely to argue that Asian capitalism will learn the lessons of the crisis and adapt, satisfying 'Western desires for greater transparency in financial markets and firm structure, but [retaining] some of the cultural characteristics crucial to doing business in the [Southeast Asian] region' (Crawford, 2000: 83–4). Such a view accepts some deficiencies in the culturalist interpretation of the miracle but does not suggest a fundamental rethinking of the general position.

The middle ground is never very intellectually enticing, but that is the position that many scholars are beginning to populate. As Mahbubani writes in the preface to his book *Can Asians Think?*, 'both sides have retreated from the [Asian Values] debate with a sense of embarrassment that each side may have overstated its case' (1998: 12). One can discern a retreat on several fronts: the neoliberals from their market evangelism; the developmental statists from their former positions; and the culturalists from theirs. But while there is little doubt that scholars have shifted their positions post-crisis it is also true that the evidence suggests that 'paradigms' have been refined rather than rejected.

If this is so, then the post-crisis rethinking of the development of Asia should be seen as something less than a paradigm shift. The critical component (and, again, the categorisation of responses above hides the diversity of positions held by scholars) has been the temporal element and, in particular, the importance of the sequencing of reforms for neoliberals; and the concern among revisionists that developmental states adapt to the changing circumstances created as economies modernise. But although all three 'schools' have had to adapt their positions post-crisis, it is the shift of the neoliberal position from a Washington to a so-styled 'post-Washington' consensus that has generated the greatest attention.

WASHINGTON TO POST-WASHINGTON CONSENSUS?

It has been argued in many quarters that the Asian crisis, more than any other event, has caused scholars of the neoliberal persuasion to re-examine some of their assumptions about the best means of achieving development and growth. To quote Jayasuriya and Rosser again: 'the East Asian crisis has shattered the legitimacy of the Washington consensus and triggered a need for a fundamental re-evaluation of the Washington consensus' (1999: 2).

But before examining the manner in which the Asian crisis has propelled this change of perspective it is first necessary to look to the origins of the post-Washington consensus because they pre-date by some years the crisis. Indeed the *East Asian Miracle* report, schizophrenic though it may be, anticipates some of the changes that were to harden following the economic collapse of (parts of) the Asian region in 1997–98. In a sense – and it would be surprising if it were otherwise – the Washington 'consensus' has always been a consensus on the move. The emergence of a 'post'-Washington consensus post-crisis, more than anything, reflects the attempt to give a name to something that was already broadly accepted. Not only was the consensus evolving but it was also far less monolithic than usually imagined. Under the umbrella of the consensus many schools of thought within the orthodox persuasion could reside and even during the heyday of the neoliberal wave in the 1980s, the practice of development pursued by the World Bank (especially) was less extreme than the rhetoric of the consensus of the time might have suggested. Charles Gore (2000: 790) may propose that the Washington consensus was akin to a paradigm and the emergence of a post-Washington consensus to a paradigm shift (in Kuhnian terms), but this obscures the internal debates noted above and also the extent to which the coherence and integrity of the paradigm was subject to negotiation right from the beginning.

Anne Krueger, chief economist at the World Bank in the early 1980s, recognised that export-promotion, trade liberalisation and market-orientation were not necessarily at odds with a degree of state direction (Bresser Pereira, 1995: 222–225). The 1991 *World Development Report*, while stressing the necessity for 'market-friendly' policies also emphasises the need for governments to 'intervene cautiously and judiciously' (1991: 1). It is the 1997 *World Development Report*, however, that represents the clearest attempt – pre-crisis

– to reconcile the Washington consensus with the East Asia 'model' of development. The report sets out a strong argument for the necessity of a state with vibrant and strong institutions and with the ability to select 'wisely' from a range of possible interventions (World Bank, 1997). This is not to say that the report rejects the market-friendly policies of the Washington consensus; rather they are allied to a more, but still limited, interventionist state (Cornia, 1998). Like the *Miracle* report, the 1997 *World Development Report* is open to multiple interpretations. It either represents an unsuccessful attempt to reconcile the 'states versus markets' debate, or a successful attempt to move the debate on from what had become an ideologically-driven and increasingly unproductive situation (see Moore, 1998). One of the reasons why it is sometimes difficult to ascertain what message is being purveyed by the World Bank is because the World Development Reports are generally so lacking in reflective self-criticism. As Mawdsley and Rigg say in a discussion of the discursive strategies employed in the reports, they 'rarely confront criticism head on, but at best discuss previous prescriptions or now-discarded ideas obliquely' (2002). This may be one of the reasons why, despite its unparalleled resources, 'few new or original ideas appear to have originated within the Bank' (Gilbert, Powell and Vines, 1999: F608). Indeed it raises questions about the Bank's ability to be a self-proclaimed 'Knowledge Bank'.

What, exactly, is the post-Washington consensus? It would seem to embody the acceptance of a series of positions that modify – and to some extent codify – the already accepted shortcomings of the Washington consensus. These include a recognition that markets can have unintended negative effects, an acceptance that there is a critical role for the state in development and an appreciation of the value of (limited) state intervention. It also embraces a consensus that markets and institutions need regulation and a belief that policies must be pro-poor and people-centred (giving as much weight to social as economic performance).

The post-Washington consensus has, in effect, led to a narrowing in the difference between the orthodox and revisionist positions outlined above, and a partial return (although, see below) to the principles that guided the World Bank when it was founded: 'state action and private entrepreneurship' (Bresser Pereira, 1995: 214). The bank's original name, the International Bank for Reconstruction and Development (IBRD), indicates as much. To put it simply: the post-Washington consensus accepts the need for a guiding state which can limit market distortions, while developmental state theorists would seem to accept that a strong state needs to be tempered by a vibrant civil society. 'State-less' models of development are no longer *de rigueur*, even in the key Washington institutions. For Phillips and Higgott (1999: 6), the role of states is not so much to promote public 'goods' but to ameliorate public 'bads' and, in particular, those that result from globalisation; for Stiglitz, market reforms often fail because there is not the institutional infrastructure present to make markets work (1999: 587–8). This is not to eject the market from the equation – market-friendly policies never implied such – but to accept that the state has a key role to play and that capacity building is central to the success

of market reforms: 'The PWC [post-Washington consensus], therefore, purports to recognise what has long been treated as axiomatic in many developing countries: that the divorce of politics from the dominant economistic understandings of globalisation is both conceptually unsound and socially destructive' (Phillips and Higgott, 1999: 15).

This 2000/01 *World Development Report* takes another step back from the neoliberal position and offers a yet more moderate and refined vision of the inter-relationships between markets, the state and people (or civil society) than is evident in earlier bank publications. The report states, for example, that 'at times, market reforms fail entirely – or have unintended consequences for poor people' (World Bank, 2000c: 76). Reforms, in this report, must be tailored to the particular economic, social and political circumstances of a country. It also, unsurprisingly, continues to endorse 'fiscal prudence, free markets, and outward orientation' (page 192) but at the same time emphasises the extent to which these must be adapted (compromised?) to country conditions and that 'agreement on the right policies in particular conditions has tended to elude donors and recipients' (page 192). The fear, perhaps, is that Asian states lack both the capacity and the will to achieve the ends that the post-Washington consensus articulates. This, of course, neatly links with the World Bank's concern with capacity building (see Gilbert, Powell and Vines, 1999) and also with its recent pronouncements on, for example, poverty.[16]

There is the important question of the motivation behind the World Bank's articulation of a post-Washington consensus. Scholars have wondered whether it is truly an attempt to advance the consensus onto new ground, or merely a cynical attempt to preserve the old order by giving the Washington consensus a human face (see Gore, 2000: 799–800; Fine, 1999). Others such as Phillips and Higgott, (2000: 17) and Standing, (2000: 760) argue that the post-Washington consensus is just as reductionist as the Washington consensus assuming, as it appears to do, that it is appropriate to all countries irrespective of their endowments, history, political situation, and 'stage' of development. Furthermore, while the post-Washington consensus is concerned with governance and institutional capacity building it does not give due attention to politics. Politics, in the classical sense, is absent and, in this sense, as Phillips and Higgott suggest, it is 'post-political' (Phillips and Higgott, 1999: 18; see also Fine, 1999). Finally there is the issue of whether there is anything particularly new in the 2000/01 *Report* and, indeed, whether the post-Washington consensus takes the debate onto any new ground. As noted above, most of the elements of the post-Washington consensus can be seen trailed in earlier publications of the World Bank (see Shepherd 2001). To be fair, Stiglitz's discussion of his vision of a post-Washington consensus accepts that the Washington consensus is 'incomplete', sometimes 'misguided' and that it does not, moreover, offer a solution to the crisis (Stiglitz, 1998b). He also accepts that 'whatever the new consensus is, it cannot be based in Washington' (1998b: 33).

At first glance it would seem that the post-Washington consensus has brought the debate back to the developmental state. But this developmental

state is not akin to that which characterised the pre-crisis order but something closer to the new institutionalist position. Fine (1999) argues that social capital has become the conceptual link between the old neoliberal order with the developmental state.[17] It permits economics to accept a role for the non-economic without dislodging economics as the central pillar in the edifice of development: 'In short, where the developmental state literature previously stood as a critique of the old [neoliberal] consensus, it can now either be overlooked or be repackaged as new in terms of a much less radical content attached to market imperfections and social capital' (Fine, 1999: 13–14).

The developmental state has been coopted and, critics of the post-Washington consensus maintain, emasculated. Absent from the post-Washington consensus is any real consideration of class and power. Of course the rediscovery of the state and society by economics and the World Bank is seen as ironic by radical scholars who have long maintained that markets do not exist independently of political systems or that capital is anything but embedded in societal relations. Markets are the creation of states, and capital has always been social.

There is one further point. This concerns the illusion of 'consensus' purveyed by the terminology that is used. It has already been noted that the Washington consensus was probably less of a consensus than usually imagined. This is even more so of the post-Washington consensus. As Wade (2001) describes, the question of how to respond to the Asian crisis led to a falling-out between the IMF, the US Treasury and the World Bank – the triptych of key Washington institutions. Wade argues that Lawrence Summers, Secretary of the US Treasury (and a former chief economist at the World Bank), made support for World Bank President James Wolfensohn's second term conditional on the non-renewal of Joseph Stiglitz's position (Wade, 2001: 128–129). So the key personality in the promulgation of the post-Washington consensus, Joseph Stiglitz, found himself elbowed out by the Washington that he is presumed to represent. The 2000/01 *World Development Report*, to be sure, reflects many of his views but whether they will have any great longevity will depend on others picking up the baton.

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NOTES

1 While, in a classic Krugman-esque backhander, saying that others were 150% wrong.
2 The report went to press between 15 and 23 May 1997.
3 Mahathir sacked Anwar the day after imposing currency controls against the advice of the IMF, most orthodox economists, and Anwar.

4 See the articles in the *Far Eastern Economic Review* between 1998 and 2000 (www.FEER.com).
5 The East Asian countries of Japan, Hong Kong, South Korea and Taiwan; and the Southeast Asian economies of Indonesia, Malaysia, Singapore and Thailand.
6 This is not to suggest that the debate has been a singular one, even among leaders in Singapore. See Hill (2000) who highlights the degree to which key thinkers have been sceptical about whether there is any such thing as 'Asian Values'.
7 Oddly, many academic critics of the *East Asian Miracle* argue just the reverse.
8 The report itself is rather less fundamental in its conclusions. In making the market-oriented case for East Asia's performance, the authors of the *East Asian Miracle* write: 'Does this mean that selective interventions played no role in East Asia's superior growth? Our conclusion is that selective interventions were neither as important as their advocates suggest nor as irrelevant as their critics contend' (World Bank, 1993: 325).
9 It is widely believed that this reference to the role of the state in development was inserted at the express wish of Japan.
10 The *World Development Report 2000/2001* accepts that states have a crucial role to fill in managing economic development and that markets can sometimes be destructive (World Bank 2000c).
11 Moral hazard is the notion that investments are protected – or insured – because governments or institutions will not allow such investments to fail (for a variety of reasons). This can be applied at several scales: governments will not allow certain companies to fail; the IMF will not allow international banks to fail; and, possibly, the IMF will not allow governments to fail. These guarantees create the conditions where risky and imprudent lending can flourish.
12 http://www.transparency.de/documents/cpi/index.html.
13 In 1996 there was a net inflow of private capital to Thailand, Malaysia, South Korea and the Philippines of US$93 billion. In 1997 there was an outflow of US$12 billion – a net turnaround of US$105 billion.
14 This is all very well, but accepting sequencing as important does not tell us what form sequencing should take and what it should involve. As Standing says (2000: 742), it depends where you want to go.
15 For critics of the Asian way, such capitalisms are pejoratively titled 'crony'. As Fukuyama notes: 'Many observers today claim that Asian values, far from explaining economic success, are themselves the prime cause of the cronyism that afflicts the Asian countries' (1999: 1).
16 In *Assessing aid: what works, what doesn't and why*, the World Bank (1998) argues that aid should be channelled to those countries with sound public institutions because it will have a greater impact in terms of lifting people out of poverty. For critiques of the study see Morrissey (2000), Hansen and Tarp (2000), and Lensink and White (2000).
17 Fine sees little to recommend social capital and suggests that it is a 'totally chaotic concept' (page 8) which 'merely serves as a convenient peg on which to hang collections of dull and mechanistic empiricism' (1999: 6). Standing is also dismissive believing the notion of social capital to be 'infintely elastic' and ultimately 'obfuscating' (2000: 754).

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