Lessons from the "Asian Flu"

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What has been underlying the syntagms "Japanese challenge", "Asian miracle" or "Seven Asian tigers" in the past thirty years or so? There are a number of economic, sociological and political explanations of the phenomenon. They refer to the "Asian way of production" which is based on several important components: the traditional diligence and modesty of Asian people, the vital importance of family ties and values among the working class, the samurai principle of mutual loyalty of employees and employers, and the non-existence of the Western tradition of unions, especially the well known triad - "8 hours of work, 8 hours of sleep and 8 hours of personal improvement." This does not exist in Asia. There is a strong link between national capital and state, which results in an aggressive, export-oriented economic policy on the one hand, and on the other hand in a maximum protectionism of the domestic production. According to Western analysts, this phenomenon may be defined as a parasitic economy based on the demand not at the place of production - i.e. in Asia, but on the demand in the West.

The solidarity of capitalistic oligarchy and local syndicates has resulted in several decades of insisting on the protectionism of the local market. In this "Unholy Alliance" between national capital and trade unions, both sides protect their own interests. The former ones protect themselves from Western goods and financial capital, and the latter ones protect their jobs. Thus, they have constantly increased employment and economic growth rates during a long period of 30 years. In Asia, the systems of traditional values, modern market economy and state are successfully combined. The combination which was considered impossible in the West, seems to be working in Asia. Based on this, comparisons with the Western model of capitalist economies are derived from what can conditionally be referred to as the "Western way of production", in which the output cost inevitably includes the system of Western values comprising high pay and other trade union rights, 30 holiday days, the high price of social standard and finally, the price tag of the legal state and democratic institutions.

If we compare the price of a Western product and the price of a Malaysian or an Indonesian product in this way, looking from a very narrow economic point of view, the Asian way of production is more profitable. Therefore, the dominance of Asian economies on the global market is obvious. The dominance has been considerably stepped up in the past five to six years, after the fall of the Iron Curtain and the opening to the global market of the entire vast area from Vancouver to Vladivostok. Another important factor is the emergence of the Chinese economy on the world market.

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Such a course of development on the global market has caused understandable concern in Western business and financial circles and resulted in some counter-activities. The counter-activities have differed from one region to another. Although the American economy is the most powerful in the world, the United States has further agglomerated its capital and reduced the level of welfare state benefits. It has offered major incentives to mean and lean companies, and most importantly, it has widely opened the door of its financial, construction and production markets. Western Europe, on the other hand, has undertaken a somewhat different course of action, putting emphasis on further integration processes. The Schoengen Agreement abolished all borders. The Maastricht agreement laid out the foundations of the European Monetary Union and the introduction of the Euro. The Amsterdam Agreement, signed a few months ago, confirmed the direction of future financial reforms by the inception of the European Bank and the expansion towards Eastern Europe. On the multilateral level, a new round of negotiations has been initiated within the World Trade Organisation, in view of the global market opening. The common element of all these activities which are being undertaken in the West is "trimming down", i.e. to provide Western European states with new vigour and endurance to cope with the Asian market, to finally unlock and open it to international competition, and thus to be able to sustain the competition which is lingering over the West.

Theoretical and political discussions are going in various directions in the international public. One of the conclusions is that the Western system of political democracy is one of the victims in the fight against the "Asian way of production". It is believed that capital is again taking over general well-being in the Western capitalist system. For a while there was a notion, especially on the European social and political scene, that general well-being is going to prevail. Now again, according to a number of assessments, capital is taking over. Democracy becomes a tool, rather than the goal of economic development. This causes major concern. The final thoughts are geared towards the conclusion that the complete liberalisation of the world market is just another form of the hegemonic concept of social and economic development, and that in this respect it is anti-democratic, and that an effort should be made to maintain a constant balance between the interests of extended capital reproduction and general well-being and social development.

The Touch of Globalization

The crisis in Southeast Asia, regarded in its narrow ideological and political meaning, gives raise to concern in the West, since it evolves in the shadow of the Chinese economy, i.e. the power of the Chinese state. The democratic West came out the winner of the Cold War having proven to be economically more powerful than the Soviet Union and the Eastern Block. Its victory was due to the economic inferiority of the administrative management of economy as opposed to the free market enterprise. However, there is no definition of the current situation in which high growth rates are being achieved within the Asian way of production which prevails in China, under the specific circumstances of a monoparty system, mixed economy, part privatisation and the unlimited power of the Communist Party. Due to the Eastern Asian crisis, linear growth will fall from 12% to as little as 8%. The trade balance surplus of $35bn will step up the Chinese foreign currency reserves to $140bn. From the point of view of Western political and strategic analysis, the Chinese economy may become a world economic giant, even before the Chinese state is democratised. In the West, this is considered a major danger, which should be prevented since it would lead to the collapse of the entire system of Western values. An economy run by an authoritarian, monoparty, totalitarian political system is threatening to assume the dominating position in the world market. However, within the process of globalisation, and at the greatest joy of financial experts in the West, the first cracks have started appearing in this seemingly faultless machinery which is generated by the "Asian way of production". Much greater dynamics of the financial market, the introduction of state-of-the-art information technology, the monitoring of financial trends and stock exchange positions, have started revealing the weak points of the Asian economies.

Some investments have not proven to be as profitable as was believed at the beginning and as the loan applicants presented them. They are proving to be unrealistic, especially in terms of hyper-production. Very strong ties between political and economic structure generate "family-like" relationships which enable economic players to raise much higher loans than can possibly be afforded by a major Western entrepreneur or developer. In this way, several hundreds of billion dollars were placed on the Asian market in a most uncritical way. In China only, $45bn worth of foreign investments were attracted last year. Due to the crisis, this figure will fall to approximately $30bn. Some of these investment have generated hyper-production in some industries (for example Hyundai car industry, etc.). All of the businesses which are run in a family-like manner, many of them with the support of the state and the ruling party officials - would actually not be able to stand foreign competition if they did not have a monopoly on the domestic market and were they not protected by tight protectionist measures.

On the other hand, if an "Asian Tiger" country undertakes to respect the expensive measures of environmental protection, it soon becomes obvious that its companies are not capable of sustaining it. They cannot sustain what is a condition sine qua non in the West, which is a prerequisite for development. The same is true of the Western criteria applied in the policies of wages, social security and social standard. The moment computer control was introduced into the "Asian Tiger" financial and banking system, and especially into construction or insurance companies, cracks and holes started to appear in the system. It becomes obvious that debts are not repaid, that loans are not being serviced. Thus, globalisation has made a first cut into the theory of high profitability and efficiency of the "Asian way of production" and the "Asian Tiger" economies. Therefore, the simplified conspiracy theories, according to which the Western centres of financial power have deliberately undertaken to destroy a more efficient competitor in order to keep the upper hand on the global market, are just not realistic. Although there may be some of this involved, the conspiracy theory does not hold water. It is all about the defects which are built into the "Asian way of production" which are now being released. With regard to overcoming the crises, there is no dilemma - the activities of the United States of America, the European Union and the International Monetary Fund are openly geared towards such a model of the reconstruction of the financial system and the overall economic stabilisation in Asian countries which surpasses the mere technical intervention and cuts deep not only into the economic system but into the prevailing system of social values.

The Impact on the Countries in Transition

The crises broke out in Thailand. It has then spread on to Malaysia. It struck Singapore and Korea. As a result of that, there was a shake-up in the Korean state leadership. The position was taken over by Kim Dae Jung, a former leftist dissident, who was for years confined and beaten. It came as a shock to the Koreans. We are now facing a similar situation in Indonesia. In the past 10 years, Indonesia has had a fantastic growth rate. The country's population is 200 million, it is rich in natural resources, it has very agile political and economic classes dominated by the Chinese minority. The Chinese population, which accounts for as little as 2 to 3% of the total population, holds as much as 70% of the Indonesian national wealth in its hands. There is a strong bond between the Suharto family and the Chinese business establishment. The country has seen a continuous high growth rate of 10 to 12 per cent. However, into this growth were built the previously mentioned defects, so that last year they started producing negative effects as a result of globalisation. Direct private investments in Indonesia have been enormous. As soon as some of it, involving for example major infrastructure building projects, proved to be blown up and unrealistic, speculative capital started retreating. The value of shares dropped, the shares in their turn dragged down the rate of exchange of the rupee against the dollar, the rate of inflation skyrocketed and the resulting situation now is that of chaos. Several million people have taken to the street, or have been laid off. The first reaction was a political, rather than an economic one. Destruction set in, there were attacks against the Chinese stores and business premises owned and run by the Chinese minority - in other words an ethnical conflict broke out. What kind of an exit is this? The International Monetary Fund offered its shock therapy. It demanded three things: the urgent reconstruction of the financial system in terms of its legalisation and the introduction of the standards of a legal state; the abolishment of all forms of Mafia-type associations, corruption, bonds between the political and business elite; the lifting of subsidies for the basic products which have a direct bearing on the standard of living, and a number of other, more or less well known measures.

President Suharto declined these measures while he was in power, since he knew that they were targeted not only at the stabilisation of the country's economy but de facto at the destruction of the pyramid of power and the influences which he had painstakingly built during the past thirty years. He hired an American economist who undertook a simple operation. Inflation is actually not a major problem for economic technicians. It can be curbed by simple monetary measures, so he proposed a concept according to which for each batch of rupees issued by the central bank, a certain number of dollars would be laid on the "currency board", as he calls it. In a very short period of time, this would provide for a stabilised exchange rate of the rupee against the dollar at the double level. This would give Suharto the breathing space to undertake major structural reforms, and what is even more important, to preserve power.

The IMF very decisively rejected this method, since it was known that binding the rupee to the dollar would cause the depletion of the dollar reserves which amounted to over $100bn. The reserves would be blocked to maintain the artificial rate of exchange, and the Indonesian economy would simply not be able to sustain it. Interest rates would go up, and again, after a short period of time, the rupee would start nose-diving at a very high speed. The IMF is offering $40bn, but not for the very banal and simplified binding of the rupee to the dollar, but for structural changes, which include political changes. So the idea was not to present a resolute and unilateral demand for Suharto's stepping down from power. The tactic, which has obviously worked, was the gradual destabilisation of personal and family power and oligarchy.

The influence of the Asian crisis on the countries undergoing transition is twofold.

The biggest problem the international capital perceives in the Central and Eastern European economies is the deeply rooted notion of egalitarianism within the population, within the social and economic structure of any society, regardless of the ruling party, and this is the same from Croatia to Russia. True, some Central and Eastern European economies, like Slovenia, the Czech Republic, Hungary and Poland are already "Post-Transitional", some other countries, situated in the Eastern Balkans, have not yet advanced from the level of "Oriental despotism" - both in their economies as well as in their politics.

The European transitional scene is very heterogeneous and the reactions of capital are bound to be different. In some places, intensive investment will continue. In some others it will not. In some places there will be no investment, but there will be pressures to create such situations as potential investors might consider conducive to investment. Conducive in every aspect: economic, social and political... ■