

Stateless Economies:

The Case of Overseas Chinese Capitalism

Overseas Chinese Capitalism

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In the last decade or so, many writers have tried to explain the post-World War II industrialization of East Asia. Most writers focus on what might be called "country studies." Specialists in one East Asian country or another examine the country of their expertise and try to account for that country's industrialization. A few of these country studies emphasize the role of culture, a larger number the role of unfettered market economies, and a yet larger number--the clear majority--the role of East Asian states in creating the Asian miracles.⁽¹⁾ Most of these country studies end with a pronouncement that the favored thesis may be generalizable to other East Asian cases and possibly to cases throughout the developing world as well. ⁽²⁾

A smaller, though still significant, number of writers develop what could be called "comparative studies." The standard approach, common to at least nine out of ten of these studies, is to test the generalizability of a favored thesis by examining several countries, one or more of which is East Asian. The same three perspectives--culture, economy, and politics--predominate in comparative studies as in the country studies, and in roughly the same proportion. ⁽³⁾ The usual conclusion to these comparative studies is to announce that the thesis is indeed generalizable--that, for instance, the state is important in all cases of successful industrialization. ⁽⁴⁾

As informative as these studies often are, they rest on a fundamental error in explaining Asian industrialization. Scholars doing both country and comparative studies make the assumption that each country constitutes one independent case.⁽⁵⁾ Like individuals lined up in row--some big, some small, but all autonomous and self-contained-- Japan, Taiwan, South Korea, Hong Kong, and Singapore, as well as all the other countries in Southeast Asia, are all assumed to be independent cases, each requiring a separate explanation for their successful industrialization.

Using this line of reasoning, proponents of both approaches begin with the presumption that national boundaries constitute autonomous units and that the causes for something that occurs within a given set of boundaries in a given time frame are necessarily endogenous. Thus the following logic applies: In Country X at Time 1, there is no industrialization, but in the same country at Time 2, industrialization is present; the causes for that case of industrialization must have occurred internally and after Time 1. Using this logic, writers examine the interval between no industrialization and successful industrialization to discover what new factors were introduced that would account for successful development.

It is, therefore, logical that many writers should credit the Asian states for the Asian miracles. In the interval between World War II and the present, one of the most apparent new features of the region is the emergence of new governments. These new Asian states are modeled after strong Western states; they have constitutions, legislative bodies, court systems, leaders chosen through prescribed procedures, and a clearly delineated administrative structure that contains at least one ministry devoted to economic planning and implementation. Examining these states, many writers observe that they use strong-armed tactics to eliminate internal opposition and do not always obey the constitutionally prescribed procedures for maintaining and transferring power.⁽⁶⁾ They conclude that the states are authoritarian and that authoritarianism can move entire societies toward economic policy goals. A label first applied to Latin American states--the Bureaucratic-Authoritarian Industrializing Regimes (BAIR)--is thought to fit the Asian cases best.⁽⁷⁾ The more authoritarian the state, the more likely that industrialization will occur. Because Asian states are more industrialized than Latin American states, then, ipso facto, they must also be more authoritarian.⁽⁸⁾

Assuming that national boundaries define the units and that exact temporal dimensions bracket the topic to be explained, then one can muster a lot of support for the strong state thesis. The same argument, though not with the same persuasiveness, can be made for the effects of "strong cultures" or for the "strength of free markets." All these factors, singly or in combination, work endogenously to produce the industrial transformation.

States, markets, and cultures are indeed important in explaining Asia's economic transformations, but the assumptions that states are autonomous and most appropriate units of analysis and that the post World War II period is the correct time frame within which to explain Asian industrialization do not hold up under close analysis. In this essay, I argue that Chinese capitalism is not confined so precisely to defined temporal and geographical boundaries and that Chinese and Japanese capitalism differs in nearly every respect.

Let me start by locating geographically what I mean by Overseas Chinese capitalism, and then in each subsequent section I will contrast a dimension of Chinese capitalism from that found in Japan. I am defining Overseas Chinese as all Chinese who do not live within the People's Republic of China. The topic of investigation in this chapter is economic activity undertaken by the Overseas Chinese in those locations where they live in the greatest concentration, in such places as Hong Kong, Singapore, and Taiwan, as well as in the overseas Chinese communities that are spread throughout the Pacific rim and are particularly concentrated in Southeast Asia.

By every measure, the economies of Taiwan, Hong Kong, and Singapore are industrial and capitalistic. Hong Kong and Singapore are world-class cities second to none in their modernity and their profit orientation, and Taipei is approaching the same levels, if only a bit more slowly. The hinterlands of these cities--in South China, in Malaysia and Thailand, and throughout Taiwan--are filled with factories. The places bubble with industry. Extrapolating from the latest GATT report, I would calculate that the three countries dominated by the Overseas Chinese--Taiwan, Hong Kong, and Singapore--contribute almost 6% of the world's total trade, but only contain 1/2 of 1% of the world's population.⁽⁹⁾ These countries produce clothes, radios, televisions, shoes, computers, bicycles--so many items that one can hardly enumerate them.

Although these areas have industrialized, are they the products of Chinese capitalism? To answer this question is the purpose of this paper. The answer, however, is not an obvious one. On the world map, Taiwan, Hong Kong, and Singapore are easy to locate, but Chinese capitalism is, I believe, less easy to locate, because it is not readily confined to a time in history, to a place in the world, or even to what we might think of as a capitalist mode of production. In this chapter, I want to discuss these ambiguities by outlining the temporal, spatial, and organizational dimensions of Chinese capitalism. In the course of my discussion, I will show the weaknesses of what I have labeled the "country studies" and "comparative studies" approaches, and I will suggest a more historically grounded alternative.

Chinese Capitalism in History

Most people would date the development of modern Chinese capitalism from the post-War World II period. Certainly, it is from this period that the three Chinese NICs--Hong Kong, Singapore, and Taiwan-- began their industrial development. But the assignment of this beginning point ignores two facts. First, it ignores the fact that the groundwork for this development had been laid long in advance. The Chinese were already "capitalistic," that is profit-oriented in the private sector, well before the skylines of Hong Kong, Singapore, and Taipei became dotted with skyscrapers; these cities are the outcomes, not the causes, of Chinese capitalism. Second, the actual industrialization of these countries was not an isolated phenomenon, occurring only in that corner of South China and Southeast Asia, but rather was set in a rapidly developing capitalist world economy that produced economic changes in many other societies. As I demonstrate below, the formation of Chinese capitalism cannot be understood apart from the dynamics of the global economy, because--and I want to emphasize this point--Chinese capitalism is not a domestic capitalism, is not a product of indigenous economic growth, but rather is integral to world capitalism itself. It is a capitalism born not of industrial might but of commercial success. In a word it is commercial capitalism.(10)

It is this lack of a pattern of indigenous growth that makes Chinese commercial capitalism such an elusive phenomenon. Many interpreters of East Asia's recent history have argued that there was no capitalistic development in late nineteenth and early twentieth century China, thereby giving the post-World War II date substantial credence. In fact, it is conventional to argue that, whereas Japan industrialized in the late nineteenth and early twentieth century, China remained economically backward. This is a standard thesis that many scholars have offered, including Marion Levy, Norman Jacobs, Immanuel Wallerstein, and Francis Moulder.(11)

The Japan/Chinese contrast is central to the entire interpretation of modern Asian industrial development. The point of this contrast in economic terms always dwells upon the obvious and early industrial capacity of the Japanese, particularly in heavy industries, such as in iron and steel, and in the related products that come from these industries, such as ships, trains, and automobiles, and the lack of these industries in China. With these industries, so the interpretation goes, the Japanese developed modern armies and navies that won wars against the Chinese in 1895 and against the Russians in 1905. By contrast, the Chinese did not do so well in the obvious ways. While it is true that the Chinese developed some heavy state-owned, merchant-run industries in the nineteenth century, these industries were not particularly successful,(12) and besides the Chinese lost every war they fought with an outside power from the time of the Opium Wars in the 1840s until World War II, and even then it was outside circumstances that defeated the Japanese.(13) Based upon these obvious comparisons, the Japanese industrialized and the Chinese did not.

But if we take another look at these "obvious" comparisons, we may find that they are not very persuasive because the time frame is too narrow and the definition of capitalism too rigid. If we would make exactly the same comparisons today, that of industrial capacity based upon heavy industry, we would reach nearly the same conclusions: Japan is an industrial power, whereas Taiwan, Hong Kong, and Singapore are relatively undeveloped. The three Chinese countries do not have much in the way of heavy industries. But does that mean that today they not industrialized or capitalistic? This is, of course, nonsense. Today, Hong Kong, Singapore, and Taiwan lead the world with the highest percentage of manufactured exports to total output. Even so, it is still true that none of these countries make a car for export.(14) Chinese-dominated areas in the world economy are not characterized by heavy industries; rather, by comparison, the Chinese specialize in small and medium sized industries. These modest sized factories make consumer non-durables--products such clothes, shoes, TV sets, calculators, computers--manufactured items that fill houses throughout the United States and Europe. Economists know that one cannot compute a country's rate of economic growth and its GNP based upon only the developments in one or two industrial sectors. Why then should historians and sociologists, with their comparisons between Japanese and Chinese economies, implicitly do that for the nineteenth and early twentieth centuries?

Even if we would take all the sectors into account, the historical comparison between Japan and China would still be clouded by the political dimension. China neither won its wars nor developed a successful political economy, and therefore, failed, so the judgment goes, as an industrializing society. Is political power, in the form of a strong state in war and peace, necessary for or even synonymous with capitalist development? As I mentioned earlier, in the literature on economic development, most writers confidently conclude that centralized political power and capitalistic success are causally interrelated.(15) Indeed one can list numerous examples where the two are interrelated, but can one not also envision successful forms of capitalism without a state structure and without an integrated political economy? Let me submit that Chinese capitalism is such a case.

Consider again the two Asian cases--Japan and China in the late nineteenth and early twentieth centuries. What we see in this contrast is not the presence of capitalism in the one and absence of capitalism in the other. Rather, I would argue that we see two different versions of capitalism that emerge more or less simultaneously with the opening of these economies to global economic and political influences. These same two versions of capitalism have become very important in the late twentieth century.

On the one hand, Japanese capitalism was largely an indigenous economic development--a product of political economy--that the Japanese consciously created through borrowing industrial technology and economic organization from the West and adapting and refining these social and scientific inventions to the social and economic conditions existing in Japan.(16) Recent research in Japan suggests that Japanese officials selected this course of action by recognizing their own limitations vis a vis their chief opponents in Asia, the Chinese.(17) The Japanese determined that they could not beat the Chinese at their own game of being Asia's chief merchants, and so they began to develop internally, by promoting industry. The Japanese elites had sufficient control over the other groups within society to mobilize and then to channel the rapidly changing economy in the late Tokugawa and Meiji periods.(18)

The Japanese elite also had the support of both Tokugawa and Meiji regimes. These regimes, however, did not serve as a strong, authoritarian state.(19) The Japanese emperor was a powerful symbol but a weak political force. The imperial presence provided a point of unity, a source of legitimacy, but not a center of authority. So apparent is Japan's centerlessness that Karel van Wolferen called Japan a "stateless nation" and governmental power "elusive."(20) Staffed by upper-class bureaucrats, the state apparatus became a site to resolve disputes among different segments of society, including the various factions within the elites. As Richard J. Samuels put it, the Japanese state "does not dominate, it negotiates."(21) The combination of state and elite forces promoted a consciously designed and well-implemented political economy that was created to achieve industrialization through a strategy of decentralized political control and sponsored development of the productive forces within the domestic economy.

In Japan, during the nineteenth and early twentieth centuries, the primary carriers of capitalist development grew to be cooperating coalitions of political and economic elites. Japanese capitalism was not a creation of a merchant class, although a few merchants participated in the elite coalition. Nor was Japanese capitalism a creation of the peasants, although peasants certainly changed their productive and labor outputs drastically. By comparison with the Chinese case, Japanese capitalism is a creation of political economy, of a mutually reinforcing system of governmental controls and elite privileges. In a very short period, the Japanese were able to shift from small scale production of handicraft goods to large scale production of industrial products, and from small factories to a hierarchy of bureaucratic corporations organized into conglomerate networks known as zaibatsu.(22)

There was a rapid circulation of elites in the early period of industrialization, and there were considerable changes in the nature of social mobility into elite

groups, moving from privilege based upon heredity to privilege based upon educational achievement; nonetheless, Japanese society was and continues to be fundamentally a society dominated by elites. The economy is also elitist. Even today, sixteen conglomerate business networks—including Mitsubishi, Mitsui, Sanwa, and Toyota—have a ratio of total non-financial sales to GNP of 82%. They employ over 20% of the total workforce.⁽²³⁾ From the outset, Japanese capitalism was a powerful, indigenously developed, and politically bounded form of capitalism, and remains so today.

Chinese capitalism historically, as well as in the present, was nothing like this. Chinese capitalism rests on very different political, economic, and social foundations. It was not and is not today an elite-based capitalism, and it does not rest upon an explicit political system. The carriers of Chinese capitalism have been heads of households. These people were peasants, merchants, artisans, and occasionally scholars; they were not organized as distinct classes of people; but rather they were family heads that moved into and out of these ambiguously-defined political and economic roles. Chinese capitalism rests largely on family enterprises and uses consanguineous relationships as the organizational medium for the economy.⁽²⁴⁾ In other words, it is not an economy organized through institutions controlled directly by the state.

This household-based economy nurtured a distinctive form of enterprise structure. Because Chinese kinship relationships cannot mobilize many people for very long, Chinese enterprises have usually been small and without a separation between family and firm.⁽²⁵⁾ If family businesses were really successful, the firms, like the households of prominent scholars, grew larger as more relatives and employees were included into the expanding circles of household members. Huge businesses, however, were the exception, because most wealthy businessmen did not try to create larger and larger horizontally or vertically integrated firms. If they remained economically active at all and did not retire to the countryside, as so many wealthy businessmen did, they invested in extensive networks of small and middle sized firms, often covering several areas of business.

The reasons for this strategy are several. The first reason is the effects of kinship systems upon shaping business practices.⁽²⁶⁾ Japanese kinship rests on the centrality of the stem family (ie) and upon the practice of primogeniture. In contrast, Chinese kinship rests on the importance of the patrilineage and upon partible inheritance, with each son receiving an equal share of his father's estate. If the father worked to create a single large business, it would almost certainly be broken up and the assets divided (fenjia) after his death. A more reasonable strategy would be to start multiple small businesses that would be divided intact among the sons after the father's death.⁽²⁷⁾ This inheritance pattern is reinforced by an institutionalized system that creates economies of scale, not from individual firms, but rather from networks that interconnect firms. Business men and women use these networks, based on reciprocal relationships (guanxi networks), to raise investment capital, to secure the necessary labor, to manufacture products, and to distribute commodities.⁽²⁸⁾

This form of economy, composed largely of small and medium sized family firms linked together through various types of social relationships, is not conducive to developing heavy industries. Nor does this form of economy have an affinity for firms that produce world-famous products known by their brand names. Instead, this household-based economy produces a type of petty capitalism. It is a non-politically based form of capitalism that is very flexible and readily adaptable to external economic opportunities, such as those offered with the expansion of Western capitalism in Asia. The Chinese integrated themselves into the expanding world economy; they followed the currents of Western capitalism and, based upon their flexible networks, quickly monopolized selected economic niches in many countries throughout the world. In contemporary terminology, we would say that they monopolized segments of the service sector in the world economy in the nineteenth and early twentieth century. They were retailers, wholesalers, and financiers; they were the world's most prominent capitalist merchant group.

In the full version of this paper I give two brief examples of the integration of Chinese commercial capitalism in the world economy: the mass migration of Chinese to Southeast Asia starting in the 1850s and the success of Chinese merchants on the China coast in the late 19th century. In both cases, the Chinese came to dominate the service and manufacturing sectors of the local economies in which they were heavily involved. All of this occurred without the support and the coordination of a strong state. In Japan, the state legitimized capitalism, coordinated elite interests, and resolved conflicts among the elites. In the same period in China, the state collapsed. That fact, however, did not hinder, as much as it freed, Chinese entrepreneurs to create networks that spanned political boundaries. The weakening and ultimate defeat of the Chinese state opened commerce and industry on the China coast and connected the Chinese with capitalist developments elsewhere. Chinese migration ensued from this. Moreover, with the decline, collapse, and disintegration of the Chinese political order, the real forces of Chinese commercial capitalism moved to where money could be made—to such safe havens on the coast as Shanghai, Canton, and other treaty ports, and overseas to Southeast Asia, Hawaii, and the American West Coast.

To summarize, then, on the one hand, in historical perspective Chinese peasants rode the waves of capitalism around the world—in Shanghai, California, Australia, England, the Caribbean, and Southeast Asia; wherever they worked, they typically occupied service sector niches; they began as laborers and merchants and only later became bankers and industrialists. Being so responsive to market demands, this household-based form of capitalism became integrated in and dependent on the world economy, but it was independent from any one political order.

In the post-World War Two period, political stability in Asia led to the creation of three politically stable areas dominated by the Chinese—Taiwan, Hong Kong, and Singapore. Previous accumulations of wealth and capitalistic know-how allowed the Chinese in these locations to industrialize the societies quickly in response to burgeoning consumer demands in the West, mainly in the United States. These three societies, however, are not three separate instances of capitalism, but rather are so interconnected with each other and so similarly integrated into the world economy that they are, in truth, part of the same case of Overseas Chinese capitalism.

On the other hand, the Japanese elite initially resisted becoming dependent on the demand structures of Western consumerism. Instead, they created their own internal markets and built their own version of a strong corporate-oriented political economy. They started as industrialists producing for local and regional markets and from there expanded into the service sectors, by organizing their own banks and trading companies, and then and only then did they begin to integrate themselves into the world economy. They created products and then created markets for those products. The Japanese and Chinese responses are separate reactions to the spread of Western imperialism; both are equally capitalistic and both have led historically to distinct trajectories of economic development.

Chinese Capitalism in Space

In the full version of this paper, I use this section to discuss the spatial dimensions of Chinese commercial capitalism. Herein, I show that Chinese commercial capitalism is not confined to a political space the way many other forms of capitalism have been, including Japan. Rather, Chinese commercial capitalism fills an economic space.

The Organization of Chinese Capitalism

In order to explain Chinese capitalism, one needs to understand its organizational dimensions. Here again one must distinguish between political economy of an economic system, on the one hand, and the underlying organizational principles of capitalism, on the other hand. In many instances of capitalist economic

development, political economy and business organization are closely linked; in the West, for example, such key economic institutions as property rights, contracts, standardization of weights and measures, banking, and insurance are institutions maintained or guaranteed by the state apparatus. Western nation-states themselves rest on a legal system that created the conditions for and established legitimacy of an economic order that spawned capitalism. In a somewhat different way, the Japanese political system created the institutional environment that nurtured its industrialization. In the case of Chinese commercial capitalism, however, the tight linkage between a set of state-supported institutions and the organizational principles of business does not exist as it does in the West and in Japan.

Overseas Chinese have been one of the most prominent groups leading to the economic development of East and Southeast Asia. In each location where the Chinese entrepreneurs control the economy outside the People's Republic of China--in Taiwan, Hong Kong, Singapore, Thailand, Malaysia and to a lesser extent in Indonesia and the Philippines--the Chinese were historically in a position to mobilize economic resources quickly and early in the industrializing period. In doing so, they have created complex business networks spanning political boundaries. The linkages among the Chinese in each location are similar in character. However, because of differences in the Chinese states in the region, the configurations of Chinese business networks also differ somewhat from place to place.

The Chinese way of organizing is based upon utilizing fixed patterns of social relationships and relies particularly upon two sets of relationships. First, at the center of Chinese business networks, in terms of ownership and control of businesses, are kinship relationships. What Suehiro Akira reports for Thailand is true throughout the region, "regarding their capital ownership and corporate structure, most of the [Chinese] industrial groups are owned and operated by a single family...Only three or four groups can be identified as multiple family-owned."[\(29\)](#) The same conclusion applies to the other locations in Southeast Asia and to Taiwan as well.[\(30\)](#)

Family ownership in a Chinese context, however, means something quite different than it does in the West. Whereas a "family" for Westerners is an organization with set members and fixed boundaries, for Chinese the family itself is a rather flexible network that can be extended out to include many people, not all of whom are related by blood.[\(31\)](#) Kinship relationships typically underlay the ownership and control of the core firms in Chinese business networks. Although most firms in a Chinese business network are small in size, the family-owned network of firms can include many firms and can also incorporate some very large individual firms into the network.[\(32\)](#)

The second set of relationships is regional or subethnic ties (*tongxiang guanxi*) that link people who come from the same general area in China. These people share dialects, cuisines, perhaps even surnames, but these commonalities merely add to the force of complying with the normative requirements of being a fellow-regional.[\(33\)](#) These and other forms of relational ties (*guanxi*), such as graduating from the same school, represent important types of linkages that can be used to build extensive networks connecting core firms controlled by families to other sets of firms controlled by other families. Chinese *guanxi* networks can serve as the basis for creating production, distribution, or investment networks.

These two sets of relationships are used to construct business networks that span political boundaries and that create a normative system of behavior that is, conceptually, a substitute for Western legal institutions. The Chinese family and the Chinese firm have remained institutionally linked, and therefore the stability of Chinese business organization does not depend upon a set of externally developed political and legal institutions. Continuity and predictability--both of which are required for ongoing businesses--are generated internally from relational principles in society and are not legitimated by or imposed through political means from the outside.

If we trace the development of Chinese business networks in Taiwan, Hong Kong, and Singapore, we find some distinct differences in the early periods of industrialization that remain important in understanding the development of those economies. But we also find many important similarities. In each location, the state structure was remained distinct from the business sector, so that industrialization was largely controlled by people independent of national politics. In Taiwan, most of the successful businessmen have been Taiwanese rooted in local *guanxi* networks; the political structure, however, was controlled by mandarin-speaking Chinese migrating with Chiang Kai-shek in 1948-9. In Hong Kong, the British controlled the government and let the Chinese create the industrial sector of the economy largely independent of their control. In Singapore, Lee Kuan Yew established a centralized regime that created privileges for the state-run industries and for multinational firms, but disadvantages for local businesses, including the local Chinese. Their expansion occurred despite the state, not because of it. In each case, the formation of Chinese business networks were linked neither to government patronage nor to government planning and supervision.

The differences in the political economy of these three cases, however, did create differences in network configurations. In Singapore, because the state favored its own infra-structure businesses and foreign manufacturing firms, local Chinese entrepreneurs became prominent in adjacent economies, in Malaysia, Indonesia, Thailand, and even Hong Kong.[\(34\)](#) In Hong Kong, the colony's economic policies allowed the large British firms to dominate the financial and service sectors, thereby blocking Chinese firms from increasing their share of these sectors. Chinese entrepreneurs instead expanded into petty manufacturing and later into property, where they gained a substantial foothold. Subsequently, Chinese entrepreneurs have bought out some British businesses in Hong Kong and have expanded their business networks into the Pearl River Delta and Southeast Asia, as well as into North America.[\(35\)](#) In Taiwan, being a country rather than a city state, local manufacturers grew successful before they expanded their networks outside of Taiwan. Therefore, the network formations inside Taiwan are denser but less international than was the case in Hong Kong and Singapore. In the past five years, however, this situation has greatly changed. After Taiwan's currency appreciated against the US dollar, thereby driving up labor costs, Taiwan entrepreneurs started offshore production units in Southeast Asia and in Mainland China. This soon became a mass movement, as Taiwanese investments surpassed even the Japanese and American investments in several locations in Southeast Asia.

Conclusion

In sum, Chinese commercial capitalism rests on a form of social organization that is legitimated through kinship principles and that is not dependent upon a system of political economy. These principles nurture the formation of business networks that are extremely flexible and that give Chinese entrepreneurs a comparative advantage in demand responsive settings. Utilizing these principles, however, Chinese entrepreneurs do not normally engage in businesses requiring high overhead or large factories. There is not an affinity between heavy industry and Chinese business organization, and for this reason large infrastructure projects have usually been undertaken by the Chinese states. The preference for small and medium sized businesses, however, does not make the Chinese less capitalistic or less oriented towards profit and expansion. Instead, the preference for family firms and networked business structures leads to the formation of a different type of capitalist development and a different type of market structure than that found in Japan or in the West. It is a capitalism based on commercial prowess.

In closing, I want to argue that this distinctive Chinese economic organization is at the base of the rapid industrial expansion that is now occurring in the People's Republic of China. If my analysis in this paper is correct, then I believe we are in the beginning stages of another very large capitalist transformation

in Asia. Until very recently the Chinese state tried to form a political economy that would industrialize Chinese society from the top down. That attempt at political economy has failed. It has failed at the top in the creation of an unworkable set of state-centered economic institutions, and it has been undermined at the bottom by the development of the very patterns that characterize Overseas Chinese capitalism. These patterns have been fed by the direct foreign investments from Hong Kong, Taiwan, and other Overseas Chinese sources, in addition to investments from other capitalist countries. As a privatized economy has deepened, the state has had to retreat from its former patterns of economic control. The People's Republic of China have now reached a critical moment. Will the government try to reinstitute a system of political economy that attempt to dampen the Chinese system of family economy? Or will the government develop a new political economy that tries to build on and encourage the commercial capitalism that has become so important in other Chinese-dominated economies? If the government takes the latter route, economic growth in the PRC will continue. If, however, they return to a constraining political economy, then I believe both the government and the people will go through a period of struggle and collapse. It may be the case, however, that the private economy has already grown so strong in so many areas that continuing changes are inevitable, that a capitalist transformation will occur regardless of what the PRC government does. I do not know the answers here. But the real lesson to learn from this analysis is to recognize that Chinese capitalism will follow its own trajectory, that it will develop its own market institutions, and that these will surely differ from that which has occurred in both the West and Japan.

Endnotes

(1) The best of the "country studies" can be very good indeed. For examples of those emphasizing the role of the state see Alice H. Amsden, Asia's Next Giant, South Korea and Late Industrialization (New York: Oxford University Press, 1989); Alice H. Amsden, "The State and Taiwan's Economic Development," Bringing the State Back in, eds. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985); Thomas B. Gold, State and Society in the Taiwan Miracle (Armonk, NY: M.E. Sharpe, 1986); Stephan Haggard and Chung-in Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile?" in The Antinomies of Interdependence, National Welfare and the International Division of Labor, ed. John G Ruggie (New York: Columbia University Press, 1983); Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975 (Stanford: Stanford University Press, 1982); Edwin Winckler and Susan Greenhalgh, Contending Approaches to the Political Economy of Taiwan (Armonk, NY: M.E. Sharpe, 1988); For examples of those studies emphasizing the roles of markets and firms, see Masahiko Aoki, Information, Incentives, and Bargaining in the Japanese Economy (Cambridge: Cambridge University Press, 1988); Walter Galenson, Economic Growth and Structural Change in Taiwan (Ithaca, NY: Cornell University Press, 1979); Samuel P.S. Ho, Economic Development of Taiwan, 1860-1970 (New Haven: Yale University Press, 1978); Lawrence B Krause, Koh Ai Tee, and Lee Yuan, The Singapore Economy Reconsidered (Singapore: Southeast Asian Studies, 1987); Shirley W.Y. Kuo, Gustav Ranis, and John C.H. Fei, The Taiwan Success Story (Boulder, Colorado: Westview Press, 1981). For examples of those studies emphasizing culture, see Peter Berger and Michael Hsiao, eds., In Search of an East Asian Development Model (New Brunswick, N.J.: Transaction Books, 1988); Michio Morishima, Why has Japan "Succeeded"? (Cambridge: Cambridge University Press, 1982); William Ouchi, Theory Z (Reading, Mass.: Addison-Wesley Press, 1981); Hung-chao Tai, ed., Confucianism and Economic Development: An Oriental Alternative (Washington D.C., The Washington Institute Press, 1989).

(2) For instance, Alice H. Amsden's study, Asia's Next Giant, concludes with the generalization that all late industrializing can successfully follow South Korea's example of strong states and big corporations.

(3) For examples of "comparative studies" that emphasize the state, see Frederic C. Deyo, ed., The Political Economy of the New Asian Industrialism (Ithaca: Cornell University Press, 1987); Gary Gereffi, ed., Manufacturing Miracles (Princeton: Princeton University Press, 1990); Robert Wade, Governing the Market (Princeton: Princeton University Press, 1990); Gordon White, ed., Developmental States in East Asia (London: Macmillan Press, 1988). For examples of such studies that emphasize the role of markets, see Bela Balassa, Development Strategies in Semi-Industrial Economies (Baltimore, Md.: Johns Hopkins University Press, 1982); Jagdish Bhagwati, Anatomy and Consequences of Exchanges Control Regimes (Cambridge, Mass.: Ballinger, 1978); Edward K.Y. Chen, Hyper-growth in Asian Economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore, and Taiwan (London: Macmillan, 1979); Lawrence Lau, ed., Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan (San Francisco: Institute for Contemporary Studies, 1986). For one of the few successful comparative studies on economic development emphasizing a cultural point of view, see S. Gordon Redding, The Spirit of Chinese Capitalism (Berlin: Walter de Gruyter, 1990).

(4) For example, Wade, in Governing the Market (pp. 345-381), concludes with the "Lessons from East Asia" in which he recommends that industrial and industrializing countries need to improve the "effectiveness" of the state in order to play the same roles as the states play in East Asia.

(5) In the literature on comparative methodology, the issue of determining independent units for a proper comparative analysis is called of "Galton's Problem," so named after Sir Francis Galton, whose first showed that the lack of independence among the units of analysis hopelessly confuses the issue of diffusion vs independent causation. For a discussion of Galton's Problem, see Adam Przeworski and Henry Teune, The Logic of Comparative Social Inquiry (New York: Wiley-Interscience, 1970), pp. 51-57.

(6) For some examples of this interpretation, see Amsden, Asia's Next Giant; Gold, State and Society in the Taiwan Miracle; Deyo, The Political Economy of the New Asian Industrialism; and Winckler and Greenhalgh, Contending Approaches to the Political Economy of Taiwan.

(7) Bruce Cummings, "The Origins and Development of the Northeast Asian Political Economy," International Organization 38 (1984): 1-40.

(8) Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americanists" in The Political Economy of the New Asian Industrialism, ed. Deyo, pp. 203-226.

(9) General Agreement on Tariffs and Trade (GATT), 1989.

(10) The term is from Yen-p'ing Hao, The Commercial Revolution in Nineteenth-Century China (Berkeley: University of California Press, 1986), who characterizes the late imperial economy as "commercial capitalism." The term is still adequate even though a great deal of modern economic expansion that occurred is industrial. But the term "commercial capitalism" applies because the same family principles and the same type of networks are still being used, but this time to put together small firms to manufacture industrial products—the garments in Hong Kong and the bicycles in Taiwan

(11) Norman Jacobs, The Origin of Modern Capitalism in Eastern Asia (Hong Kong: Hong Kong University Press, 1958); Marion Levy, "Contrasting Factors in the Modernization of China and Japan," Economic Development and Cultural Change 2,3 (October, 1953):161-97. Frances V. Moulder, Japan, China and the Modern World Economy (New York: Cambridge University Press, 1977); Immanuel Wallerstein, The Modern World-System (New York: Academic

Press, 1974).

(12) See for instance, Kwang-Ching Liu, Anglo-American Steamship Rivalry in China, 1862-1874 (Cambridge, Mass: Harvard University Press, 1962), and Albert Feuerwerker, China's Early Industrialization (Cambridge, Mass.: Harvard University Press, 1958).

(13) I should perhaps qualify this statement by noting that while China lost all its wars with outside power, it continued to have some success in battles in inner Asia.

(14) Taiwan's government has tried to create automobile exports, but to date has had no success, even though there are a number of automobile producing firms in Taiwan. On Taiwan's automobile industry, see Gregory Noble, "Contending Forces in Taiwan's Economic Policymaking," Asian Survey 27, 6 (June, 1987), pp. 683-704.

(15) One of the first statements of this point was made by Alexander Gerschenkron, Economic Backwardness in Historical Perspective (Cambridge: Harvard University Press, 1962), and one of the most recent by Alice Amsden, South Korea and Late Industrialization (New York: Oxford University Press, 1989).

(16) One of the finest analyses of Japanese borrowing of Western technology is that of D. Eleanor Westney, Imitation and Innovation, The Transfer of Western Organizational Patterns to Meiji Japan (Cambridge, Mass.: Harvard University Press, 1987).

(17) For this very innovative thesis, see Takeshi Hamashita, "The Tribute Trade System and Modern Asia," Memoirs of the Research Department at the Toyo Bunko 46 (1988), pp. 1-25..

(18) See for example, Sheldon Garon, The State and Labor in Modern Japan (Berkeley: University of California Press, 1987); Richard J. Samuels, The Business of the Japanese State (Ithaca, N.Y.: Cornell University Press, 1987); Thomas C. Smith, The Agrarian Origins of Modern Japan (Stanford: Stanford University Press, 1959); and D. Eleanor Westney, Imitation and Innovation, The Transfer of Western Organizational Patterns to Meiji Japan (Cambridge, Mass.: Harvard University Press, 1987).

(19) For a full discussion of this phenomenon in modern times, see Karel van Wolferen, The Enigma of Japanese Power (New York: Vintage, 1990).

(20) Karel van Wolferen, The Enigma of Japanese Power, pp. 25-49..

(21) Samuels, The Business of the Japanese State, p. 260.

(22) For some material on the origins of the zaibatsu, see Eleanor Hadley, Antitrust in Japan (Princeton: Princeton University Press, 1970), pp. 20-60.

(23) Gary G. Hamilton, William Zeile, and Wan-Jin Kim, "The Network Structures of East Asian Economies," in S.R. Clegg and S. G. Redding (eds.), Capitalism in Contrasting Cultures (Berlin: de Gruyter, 1990), pp. 111-117.

(24) A classic statement of the relationship between enterprise and family is found in Fei Xiaotong, From the Soil: The Foundations of Chinese Society (Berkeley: University of California Press, 1992), Chapter 12; also see references in Gary G. Hamilton and Wang Zheng, "Introduction" to Fei's book.

(25) Wong Siu-lun, "The Chinese Family Firm: A Model." British Journal of Sociology 36, 1, (1985): 58-72; S. Gordon Redding, The Spirit of Chinese Capitalism.

(26) Wong Siu-lun, "The Chinese Family Firm: A Model," pp. 143-183.

(27) Gary G. Hamilton and Cheng-shu Kao, "The Institutional Foundations of Chinese Business, The Family Firm in Taiwan," Comparative Social Research 12 (1990), pp. 107-108.

(28) For more on the importance of guanxi in business, see relevant chapters in Gary Hamilton (ed.), Business Networks and Economic Development in East and Southeast Asia, (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1991).

(29) Suehiro Akira, Capital Accumulation in Thailand, 1855-1985 (Tokyo: The Centre for East Asian Cultural Studies, 1989), p. 224.

(30) For example, Peng Hwai-jen, Taiwan chiye yeju de "guanxi" qi zhuanbian (Relationships among Taiwan business owners and their changes: A sociological analysis) (Unpublished dissertation, Department of Sociology, Tunghai University, 1989) shows the overwhelming predominance of family ownership for the largest business groups in Taiwan.

(31) Fei Xiaotong, From the Soil: The Foundations of Chinese Society as Viewed by Fei Xiaotong, Chapter 6, Berkeley: University of California Press, 1992.. Also see Gary G. Hamilton and Cheng-shu Kao, "The Institutional Foundations of Chinese Business, The Family Firm in Taiwan," Comparative Social Research 12 (1990), pp. 107-108.

(32) See Hamilton and Kao, "The Institutional Foundations of Chinese Business, The Family Firm in Taiwan," for their discussion of family-owned networks in Taiwan.

(33) For Taiwan, the best analyses of this are found in Peng Hwai-jen, Taiwan chiye yeju de "guanxi" qi zhuanbian, in Ichiro Numazaki, Networks and Partnerships: The Social Organization of the Chinese Business Elite in Taiwan, (Unpublished dissertation, Michigan State University, 1991), and in Gary G. Hamilton (ed.) Business Networks and Economic Development in East and Southeast Asia

(34) Lim Ma-hui and Teoh Kit Fong, "Singapore Corporations Go Transnational," Journal of Southeast Asian Studies 17, 2 (September: 336-365).

(35) For an analysis of the changing composition of Hong Kong's business structure, see Gilbert Wong, "Business Groups in a Dynamic Environment: Hong Kong 1976-1986" in Gary G. Hamilton ed., Business Networks and Economic Development in East and Southeast Asia.

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