Forms of Capitalism in Emerging Countries

Interview with Robert Boyer

In our conversation with Robert Boyer, he situates his analysis at the junction of the economic situation and the major trends of a globalized world in which emerging countries already play a leading role.

How is an emerging country defined?

The category is problematic because it refers to very different situations depending on the country. Some observers group under this label countries that have a higher growth rate than mature economies, but the term still leads to confusion if only because it was invented by external analysts, mainly financiers, who have little understanding of the countries involved. They have called "emerging" those countries in which they could make investments, carrying high risks but with potentially a high level of return due to strong growth. The category fits into the context of ever-increasing long-distance economic relations and the perspectives these open to investors. Even though overseas and overland trade already existed at the dawn of capitalism—think of the Silk Road—interpenetration is much more developed and concerns not only trade but also production methods, even life-styles in some cases, and of course finance.

In fact, it would make sense today to analyze the duopoly formed by the United States on one side, and China and India on the other. Is it not significant that American macroeconomists themselves, who are traditionally used to reasoning in a closed economy, have realized that they could no longer analyze the United

States economy without taking into account its relations with Asia? Thus the major change in contemporary international economics is not only the extreme variety of countries that have shown an economic takeoff, but especially this bipolarization, the key to many contemporary phenomena.

Is growth the only common denominator among so-called emerging countries?

The long view of economic history shows that around 1800, all countries had practically the same standard of living and productivity level. Beginning at that time, Europe and the United States experienced a takeoff, whereas the rest of the world continued to stagnate. So-called emerging countries are those experiencing a similar process today after having been released from colonization. The characteristics of colonization, then decolonization, are what for instance explain the stark contrast between the trajectories of Latin American countries and those of Asian countries.

In Latin America, dependency theory[1] at first had some success in justifying industrialization by import substitution. It later ran into a series of crises which led to the development and then implementation of the Washington consensus, which on the contrary advocates the opening and liberalization of economies. Success was neither swift nor assured, to the point that Latin America's trajectory is associated with a form of economic failure. The introduction of modernity in fact was accompanied by several dramatic incidents, and many national institutions still bear the traces of colonization. China's history unfolded along an entirely different trajectory: an early boom of merchant institutions, later curbed by internal political conflicts and then predatory colonization which in 1949 led to assertion of a demand for national independence. Furthermore, in China but also in India, the political elite believes in its own future and that of its country, which has rarely been the case in Latin America. Argentina is emblematic of extreme wariness about a nation's future.

What, then, is the common denominator between emerging countries of yesterday and today?

The success of emerging countries is located at the junction of national political strategies—often resulting from a new awakening that grows out of serious crises—and a favourable configuration of the world economy. Poorly informed observers are tempted to attribute this coincidence, usually an unintentional one, to the virtues of a model which they see as the outcome of explicit and conscious

1 The theory that holds that unequal exchange mechanisms imposed by the North account for the poverty, political instability, underdevelopment and economic dependency affecting Southern countries.

strategies. But very often the synchronization of internal and external forces tends to jam, thereby producing a more serious crisis. Contemporary emerging countries are not exempt from this paradoxical sequence.

What brand of capitalism would you say characterizes emerging economies?

In fact, they do not all follow the same trajectory. The effect of opening up to the international scene has been to create considerable differences in the institutional architecture of these countries, leaving behind the rhetoric postulating that the combination of market and democracy had only one stable configuration, represented by the North American model. Suffice it, for example, to compare China with Russia and Central and Eastern Europe.

In China, personal relations continue to play an important role both in the coastal provinces and in the more remote areas. Indeed, contrary to a common interpretation, the Chinese Communist Party (CCP), far from being an obstacle to the conversion to capitalism, is a catalyst, even a key actor. It is constantly forging ties between public and private, and makes sure that the benefits of economic activity are partly redistributed in order to ensure the stability of social ties, and, consequently, the legitimacy of the Communist Party itself. We are thus a far cry from the caricatural view of the state and the market as alternative coordination mechanisms. They are basically complementary, even if tensions between politics and economics can naturally resurface. The originality of this model like no other is plain to see. Incidentally, corruption can be interpreted as the expression of transaction costs required to convert a purportedly communist structure into a typically capitalist configuration. It is sometimes the lubricant that enables seemingly collective institutions to be converted into instruments of capitalism. There are certainly flagrant instances of personal enrichment, but these then provide the government with the opportunity to announce spectacular decisions in order to show everyone that it ultimately maintains control. In most other cases, and particularly at the provincial level, corruption is actually an implicit, socially controlled and relatively well-accepted redistribution mechanism. It is thus not always or everywhere detrimental to growth and economic efficiency, whatever experts and international organizations may think, even though they make it out to be the main obstacle to development.

The Russian trajectory is radically different because, in that country, the government's logic tends to supplant that of entrepreneurs, as evidenced by the ease with which property rights can be redefined in key sectors such as energy or the media. The economy is again tending to be encompassed by the political arena, which is in keeping with a long Russian, then Soviet, then again Russian tradition. This can be seen as a consequence of the fact that struggles are mainly over the appropriation of rents. It is thus difficult for real entrepreneurs to gain a foothold, unlike what can be observed in China where, at the risk of exaggeration, the Communist Party is an incubator for seedling companies at the local level. Though the latter don't claim to innovate, they strive to place themselves at the technological frontier, which explains the very high growth in productivity. Nothing of the sort can be observed in Russia.

The Central and Eastern European countries (CEECs) are inventing still other models. Depending on the relative length of their submission to the Soviet regime and their past experience with the market and democracy, each is developing its own strategy. Government strategies are often presented as the result of a choice between the Anglo-Saxon model and the social-democrat model. It is more likely that new forms of capitalism are being created before our eyes but that the social sciences do not yet have the tools to understand the outcome of the institutional destruction/creation process that the various CEECs are undergoing.

What are the constants?

Studies on Europe, the United States and certain Asian countries that take the long view suggest that beyond a succession of growth regimes, certain common features specific to each country travel down through the ages. A number of features described by Tocqueville can still be recognized in contemporary North America. By the same token, the state's central role in initiating economic liberalization procedures seems to be a permanent feature of France. I have pointed out the particular irony of the Russian trajectory. One last example: the Danish model of flexicurity seems to many observers as the distant relative of the 1899 agreement between entrepreneurs and wage earners; however different they may be, these histories derive from a foundational compromise which then evolved into different forms depending on the world context, the type of technological paradigm or internal social changes. I might thus suggest that even during structural crises, both private and public actors draw from the repertory of coordination procedures inherited from the past and legitimated by this foundational compromise.

Do emerging countries have a notion of the international common good?

If official Chinese declarations are to be believed, the answer is affirmative. The government's official line is indeed to organize growth through autochthonous and endogenous innovation in a harmonious society that maintains peaceful relations with the rest of the world. International stability would then be a highly important public good. This position is logical for a country whose economic dynamism has partly to do with its successful integration into the world economy on which it is increasingly dependent in terms of markets as well as for raw materials and energy. Both the Chinese and the Indians have every interest in international relations being organized according to a multipolar model to prevent the dominant power, the United States, from putting their rapid development in jeopardy. In so doing, they concur with the European Union standpoint. Moreover, certain observers, probably being ironic, have put forth the idea that the obsolescence of the Washington consensus will produce another series of norms, drawn from the Chinese experience, if not proposed by the country's authorities themselves. Indeed, the pacification of international relations also requires the stabilization of social and political relations within each domestic space.

It is precisely for this reason that outside observers can harbour certain concerns. Indeed, social tensions are on the rise in China both in rural milieus and among migrants to the cities and urban dwellers. If their demands find a political outlet, as happened in South Korea in 1985, a rebalancing of the growth regime towards the domestic market might be expected, which would lower the competi-

table 1: **From the Washington to the Beijing consensus: what are the consequences?**

Characteristics	Consensus	
	Washington	Beijing
1. Vision	• Static: reforms once and for all	• Dynamic: gradual series of reforms
	• Large determinism of change	• A certain degree of unpredictability
	• Aim: attract foreign capital through finance	• Aim for social and political stability
2. Axioms	• Adopt the outdated technology of developed economies	• Cutting-edge technology reduces the cost of transition and autochthonous innovation
	• First growth, then social and political progress	• A sustainable and equitable development model
	• Accept the rules of the game set by the hegemonic powers	• Self-determination and bargaining power in defining the rules
		• National development without international tensions or war
3. Diffusion and international impact	• Via international organizations	• Chinese imports from the most advanced countries and primary exporters
	• Mainly at times of severe financial crises	• *Ad hoc* development assistance
	• Conditional development assistance	

Source: Freely adapted from Joshua Cooper Ramo, *The Beijing Consensus*, The Foreign Policy Centre, London, March 2004.

tive pressure on the rest of the world while satisfying domestic needs, especially social ones (healthcare, education, retirement, living environment, housing etc.). But the CCP's monopoly on political expression makes it difficult to satisfy these social demands.

World stability is also prey to the danger of the American authorities misjudging the threat China represents. What would happen, for instance, if the Chinese investment funds were used to acquire the finest American high-tech company on the NASDAQ stock exchange? Would Americans make a virtue of necessity as they did by allowing sovereign funds to bail out various US banks and financial institutions?

Is the confusion between public and private not another specific feature of Chinese capitalism?

Indeed, the Chinese economy serves as a remarkable example of the lack of any major antagonism between public and private. There are no fewer than 11 forms of company ownership, ranging from vestiges of the nationalized sector to multinationals. But in most of these forms, the Chinese authorities keep a rein on the instruments of control, which, although they have been loosened over time, remain firm (administrative authorizations, subsidies, access to credit, etc.). When you visit provinces far from Beijing as I have done recently, you find that companies considered private in the statistics are actually closely dependent on the political authorities for movement of people, subsidies, the prescribing of norms, permission to open branches, personnel recruitment, support in the event of difficulties, etc. In a way, contemporary China is rehabilitating a form of mixed economy.

Sociopolitical regulation seems much stronger than strictly economic regulation.

Indeed, the quality of microeconomic management seems to matter less than appropriate social regulation. There can be no doubt that capital is poorly allocated in China owing to overinvestment and constant overcapacities, but its main goal lies elsewhere—in constantly striving to improve worker productivity, a source of profits and higher standing of living. In a way, static inefficiency is offset by the quest for such dynamic efficiency. One of the major government tasks is to preserve social stability even when the dynamism of capital accumulation is eating away at former socioeconomic forms. For the Chinese political leaders, democracy is not a solution to this problem for the moment, because it is the Communist Party, permeating all strata of society, which is in charge of making the necessary arbitrages, without much concern for transparency.

Who defines the general interest? The Chinese Communist Party?

The Communist Party's explicit goal is not to directly provide the public goods needed for the current transformation phase of Chinese society. Its primary objective is stay in power as long as possible. It achieves this in part via the early detection and then reduction of the most glaring social, economic and financial imbalances. Basically, as we know, the fundamental compromise in this society rests on a tradeoff between the Communist Party's monopoly of political power and a form of economic freedom and the possibility of enrichment left to the rest of the society. In a way, economic performance is the condition for political stability.

It should also be pointed out that the central feature is the competition among the provincial authorities, which favour economic growth to better solve problems of employment and standard of living. Once again, the dynamism of growth is the result of competition in the political sphere.

Is it sustainable in the long run?

Not necessarily, because this growth regime is exposed to several tensions. First of all, if official statistics are to be believed, in the past ten years the rate of capital accumulation has gone from about 30% to nearly 45%, which amounts to over-accumulation: consumption should increase faster by bringing investment down to a more reasonable level. Secondly, the foreign trade surplus helps to restore the balance between production and demand, but this is not without posing problems with the United States and Europe in bilateral discussions of the reduction of Chinese trade surpluses. As a corollary, social tensions are rising in the rural milieu and among migrants who do not have the same social rights as urban dwellers do. Finally, the ecological limits of Chinese growth, thought to be far away on the horizon, have become pressing owing to rising raw material prices which have triggered an inflationary process, contrasting with the prior deflationary trend—not forgetting the environmental and urban planning problems pointed up by preparation for the 2008 Olympic Games.

There is another limitation that could appear on a much closer horizon, which has to do with the organization of the Chinese financial system. The authorities have started to reabsorb much of the non-performing loans made to finance risky investments. Yet we cannot bank on the resilience of the Chinese financial system, given the skyrocketing prices on the Shanghai Stock Exchange and the risks of real estate speculation. It should be remembered that the Asian countries, which had been very good pupils of industrial modernization, experienced a major crisis in 1997 due to their financial vulnerability. A similar crisis cannot be ruled out, but the authorities probably have the means to fight back quickly and effectively by mobilizing the considerable reserves of the central bank or implementing a public rescue plan for banks and financial institutions in distress.

If a major financial crisis were to occur in China, a rebound similar to the one observed in South Korea is more likely than the long stagnation and lost decade that affected Japan. Actually, the longing to consume, unmet social needs (education, health care, retirement) and the dynamism of entrepreneurs should rapidly revive a more balanced and new growth regime.

Is it a very libertarian economic model?

Not exactly, because the appearances of this economic system must not be confused with its essence. Staying on the surface of things, the Chinese economy could be considered to fit within Hayek's conception: unfettered competition would stimulate a virtuous dynamic with no conscious intervention by a government authority. It is true that competition is at the heart of this economy. On the one hand, as already noted, the provinces, cities and counties are rivals as regards the development of production capacities and the ability to attract foreign investment. On the other, the Chinese market is so promising that all multinational firms want to break in. The conjunction of these two strategies, public and private, only serves to fuel a permanent trend towards overcapacity that constantly relaunches the competitive process. Company product margins are relatively slim or eroding, as they are for multinationals. In the automobile sector for instance, profit margins, which were originally comfortable, have diminished considerably despite the strong growth in demand, because production capacities have grown even faster.

The primacy of competition does not contradict the mixed nature of the Chinese economy because at the macroeconomic level, through monetary and fiscal policy, and locally via the web of Communist Party networks, the political authorities maintain a capacity to influence the trajectory of the Chinese economy. This capacity for control may dwindle in time, with for instance a systemic crisis resulting from the gradual erosion of the tools for public intervention, under the effect *inter alia* of the affirmation of the liberal ideology embodied in new generations.

We might have expected to see fragmentation occur, with regions protecting themselves by taxes or some other means, whereas there is actually a unified market...

This danger is often mentioned by China specialists. It should probably be qualified. First of all, competition between regions and Beijing's attempt to maintain control are at the heart of both political and economic evolution in China. Next, and above all, authorities in Beijing over the centuries have managed to develop a whole series of methods to thwart any tendency towards a breakup of the country's unity. In the contemporary period, large transfers have been made to foster the takeoff of peripheral regions. Lastly, a transport infrastructure policy is aiming to unify the Chinese economic space.

What about the role of the law to codify and regulate conflicts over power, property, etc.?

Traditionally, in communist societies the law is an arm of political power. Individuals are formally granted rights, but in practice have little means of obtaining their enforcement. With economic liberalization and opening, property rights and corporate law have been strengthened. In contrast, individual rights remained embryonic and are far from being unified, since two statuses continue to coexist: that of rural dwellers whose right to own property is limited and that of urban dwellers who enjoy much broader property rights. Last, intellectual property law is very likely to develop in the coming years as it is a major stake in the plan to strengthen innovation as a vehicle for China's future growth.

What is the situation in India?

In studies of emerging countries, India is often likened to China—an entirely debatable assumption, because there are major differences between the two. First, the legacy of British colonization gave India relatively stable democratic political institutions with the development of a market economy. Secondly, if the Chinese accumulation system is based on a quest for returns on scale via mass production, India's economic dynamics are the result of a conjunction of three types of regulation. In the peasant milieu, an *Ancien Régime* form of regulation prevails, in which the main goal is to survive in the face of more or less favourable climate conditions, especially the monsoon; this logic rules over most people's lives. At another extreme, the region of Bangalore provides an example of successful adaptation to the knowledge-based economy in a highly internationalized environment. Between these two worlds is the manufacturing sector, dominated by oligopolies that have long been shielded from international competition. Indian macroeconomic dynamics result in the conjunction of these three rationales: therefore they do not have the clarity and vigour observed in China.

The singularity of India's trajectory however rests on two assets that are less salient in China. The first has to do with the swift gearing up of Indian multinational corporations, which attests to one of the essential features of globalization, that is, the emergence of new actors that are in competition with the United States and Europe. The second highlights the complementarity of India's and China's respective specializations: corporate technology services for one, the production of facilities and consumer goods related to ICT (information and communication technology) for the other.

What was Russia lacking?

Practically all the ingredients for the country to become a "market economy" and a democracy! After a phase of economic depression and a decade of experimentation during which the state's power declined steadily, the reassertion of political authority has taken the form of interventionism in all sectors of the economy. The government assumed the right to redefine property rights at any time and in any sector. Certainly, these have been allocated via a rather obscure process, perceived as unfair by a majority of the population. Separation of the economic and political spheres and a certain degree of stability in property ownership are indeed two prerequisites for establishing a capitalist economy—China being the exception. Contrary to the assertions of several American experts, Russia is not at all in transition towards a market economy and democracy.

Russia's evolution is not unrelated to the role played by the appropriation of rents in the dynamics of its economy. If financial resources come mainly from the utilization of rents, it becomes clear why appropriation of these rents is a stake in both political and economic struggles, and entrepreneurs in the literal sense are so rare in this country. Why undertake risky investments that only produce returns in the long term when it is enough to capture a rent passing in transit through the state apparatus? In short, Russia is poles apart from China and is exploring a *sui generis* model: a sort of controlled economy, no doubt different from the one prevailing under the Soviet regime, but fitting in with the long-term trajectory. Since both new and old industrialized countries have energy and raw material needs, the rise in these rents makes this atypical model viable, and this is a direct consequence of globalization that in no way implies the convergence of organizational models, but quite the contrary.

Poland has successfully managed a top-down market reform...

The Polish transition should be seen in the light of three groups of countries. At one end, continent-sized countries (the United States, China, India and Russia), by virtue of their size, have a capacity to solve most of their problems internally and if necessary transfer the attendant costs to other economies. Deepening internationalization fosters the strategy of externalizing any internal imbalances. On the other end, small open economies (the Netherlands, Denmark, Finland, Sweden) have always had to develop institutions and an economic specialization that enable them to integrate the world economy on a lasting and favourable basis. In the face of today's globalization, these countries can easily adapt their forms of organization to the new trends, for instance those of the knowledge-based economy. The position of medium-sized countries (Japan, France, Italy and to a lesser extent Germany) is more problematic in the face of globalization, because in the past the governments of these countries could attune the national situation to typically domestic objectives. With internationalization and financial globalization, their institutional configuration has been thrown off track and has to be reformed to fit in with the new international situation—a difficult and laborious task.

In this context, the case of Poland is an interesting one, because theoretically, the country belongs to the third group. But through a vigorous liberalization process, promoted by the successive governments, Poland finally found its own growth pattern. According to one interpretation, the countries of Central and Eastern Europe have enjoyed the benefits of opening up to the European and world markets. Another interpretation emphasizes how much the strategy of European Union accession facilitated the resynchronization of most economic and political institutions. The extreme uncertainty involved in structural adjustment was thus reduced, European procedures having helped to attenuate domestic conflicts before the country even benefited from the *acquis communautaire* and financial transfers provided by the European treaties. The European Union has been a remarkable vehicle for adapting to modernity and democracy. Besides, compared with the ups and downs of the Russian trajectory, the process has been to a large extent transparent. Europe should be proud of these achievements, but it is too modest and has proven incapable of protecting its model of organization as well as its model for multilateral resolution of international conflicts.

Is there an alternative model to the Washington consensus?

I have already pointed out the emergence of an implicit Beijing consensus. But it is probably in the Latin American countries that the most significant turnaround can be noted. This is not surprising since they were in the vanguard of the liberal counterrevolution, following the example of Chile. The excesses and social imbalances thus created therefore had to be corrected. With the spread of the "fair growth" ("*crecimiento con equidad*") leitmotif in Latin America, the government of Luiz Inacio Lula in Brazil and the presidencies of Nestor and then Cristina Kirchner in Argentina seem to be ushering in a new strategy to combat poverty and apply less inegalitarian social policies in order to encourage development. These policies will have to be innovative because it is impossible to import the social-democratic model and institutionalize very protective and universalistic labour laws in countries where informal labour can account for up to 70% of total employment. Other roads absolutely must be found. One example is the institution of subsidies for families so that they send their children to school, as Brazil has done. In Argentina, the informal sector has reached such a level that specific family benefits had to be created for the poorest households, because social security coverage was no longer available except to a very small minority of wage earners.

These policies concur with the recommendations made by Armatya Sen who claims that it is possible to conduct social policies that guarantee access to basic goods for the most disadvantaged populations while stimulating development. Economic and financial liberalization was devastating for many former forms of solidarity. Now corrective reforms must be undertaken to make viable societies that have become highly inegalitarian. Such is the challenge facing most Latin American countries, including Argentina—formerly reputed to be a typical middle class country.

Thus commences a new era in which international organizations such as the IMF and World Bank are no longer the only instigators of intellectual frameworks that govern development. The Indians, the Chinese and the Latin Americans are all in the process of devising strategies adapted to their own context, and national experiments are multiplying. A clear alternative to the Washington consensus may not yet have taken shape, but unilateralism in development is a thing of the past, and a much more open conception is gradually taking hold in a context of multilateral international relations.

Interview conducted by Christophe Jaffrelot and Jérôme Sgard