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# Asia Pacific: **PERSPECTIVES** *an electronic journal*

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Our task is to inform public opinion through a broad hospitality to divergent views and ideas that promote cross-cultural understanding, tolerance, and the dissemination of knowledge unreservedly. Papers adopting a comparative, interdisciplinary approach to issues of interrelatedness in the Pacific Rim region\* will be especially welcome. Graduate students, as well as established scholars, are encouraged to submit their work.

\* 'Pacific Rim region' as used here includes North America, Pacific Central and South America, Oceania, Australia, New Zealand, Southeast Asia, East Asia, South Asia (India, Pakistan, Nepal, Bhutan, and Sri Lanka), and the Russian Far East.

## To Change China: A Tale of Three Reformers

by Greg Anderson, M.A.

### Abstract

The cyclical rising and falling of historical Chinese dynasties has often been punctuated by the emergence of reformers who attempted to bring about improvements and to set the nation on what they believed to be the correct course. This paper examines the lives, motivations, reform programs, and results achieved by three such reformers—Wang Mang of the Han, Wang Anshi of the Song, and Zhang Juzheng of the Ming—in an effort to understand the conditions that drove them to reform, and to draw lessons for modern day reformers in the People's Republic of China.

Wang Mang is judged to be a nearly complete failure as his reforms were based almost solely on nostalgia for a return to the idealized Zhou era, rather than on solutions to specific problems. Wang Anshi and Zhang Juzheng were more successful in addressing specific problems, though neither made an effort to gain support for their reforms from the bureaucracy. Wang Anshi was the most successful of the three as his reforms were not only far-reaching and integrated, but they also included an important self-sustaining component that, were it not for the downfall of the Northern Song, could have led to more permanent changes.

### Introduction

Throughout its more than four thousand years of history, China has been subject to unending cycles of rise and fall, innovation and stagnation, prosperity and decline. The pattern goes something like this: A new dynasty is founded by a charismatic leader who is able to give the citizens a feeling of optimism and hope. This is followed by a phase, lasting as long as one hundred years, in which the dynasty reaches its zenith politically, economically and culturally. In the next phase, the dynasty reaches a plateau of stagnation and complacency, which is followed by a final phase of decline, destruction and the eventual fall of the dynasty.<sup>1</sup>

At some point during that final phase, history records the emergence of reformers who, often at great personal risk, attempt to change or improve what they believe to be wrong, to put an end to perceived abuse or disorder, and to redirect the course of the dynasty. However, because every Chinese dynasty, from the mythical Xia to the Qing, eventually met its demise, we know that none of these reformers was ultimately successful.

Why have these reformers so often failed in their attempts to restore China's glory? Is there a common thread running through Chinese history to explain the difficulties faced by those who have wanted to make changes to government, society or economy? What lessons can we draw from historical reform attempts that will help us to understand China's post-cultural revolution reform efforts?

In an effort to formulate answers to these questions, this paper will examine the lives of three historical reformers whose influences are separated by thousands of years, Wang Mang of the Han Dynasty, Wang Anshi of the Northern Song, and Zhang Juzheng of the Ming.

Certainly the most well-known among our three reformers was Wang Mang (45 B.C. - A.D. 23) who served as Imperial Regent under several emperors during the latter part of the Former Han Dynasty. His reforms were mostly economic in nature but were heavily influenced by Wang's reverence for the teachings of Confucius; however, Wang Mang's reforms have often been overshadowed by the fact that he dethroned the last emperor of the Former Han and established his own (short-lived) dynasty with himself as emperor.

Over one thousand years and several dynasties later, Wang Anshi (A.D. 1021-1086) rose to prominence as Grand Councilor under the emperor Shenzong (r. 1068-1085) toward the end of the Northern Song dynasty.<sup>2</sup> Wang is best known for his package of reforms known as the New Policies (*xin fa*), which contained an integrated set of reforms touching upon China's bureaucracy, military, economy and education.<sup>3</sup>

Toward the end of the Ming dynasty, and five hundred years after Wang Anshi, Zhang Juzheng (A.D. 1525-1582) served as Chief Grand Secretary under the emperor Wanli (r. 1573-1620). Having served as imperial tutor during Wanli's childhood, Zhang exercised strong influence over the emperor and, as such, was regarded as a *de facto* Prime Minister.<sup>4</sup> The reforms of Zhang Juzheng, though not as extensive as those of either Wang Mang or Wang Anshi, were focused on tax administration and stringent fiscal management.

All three of these reformers had in common the fact that they came into positions of power during times in which their respective dynasties were considered to be in decline, and all three felt they had the cure to what ailed China. Wang Mang's medicine was certainly the most drastic in that part of his prescription included the ending of the dynasty he had served and the establishment of a new dynasty known as the Xin (A.D. 9-23). Though some of his reforms began before he ascended the throne, most of his reforms came during his reign as emperor. Wang Mang's Xin dynasty lasted only fourteen years and ended with his murder in A.D. 23.

Wang Anshi's tenure as Grand Councilor lasted, with only brief interruption, from A.D. 1070 to 1076, and was preceded by various other bureaucratic posts including Vice Grand Councilor. His final year as Grand Councilor preceded the fall of the Northern Song by fifty-one years.

Zhang Juzheng served as Chief Grand Secretary from A.D. 1572 to 1582. Unlike Wang Mang and Wang Anshi, Zhang had no previous career experience as a state official. He had served as tutor to the emperor Wanli, both before and after Wanli's accession to the throne at the age of ten. Zhang's final year as Chief Grand Secretary preceded the fall of the Ming by only sixty-two years.

History has been at times, both cruel and kind to the memories of these three reformers – though mostly cruel. The proximity of their administrations to the last days of their respective dynasties, (and in Wang Mang's case, his usurpation of the throne) combined with the vehemence of their contemporary opposition, contributed to unfavorable accounts of them in the official Han, Song and Ming Histories. Later scholarship, however, has reexamined the reforms of all three, providing us with more objective accounts of their reforms and the effects of their reforms on state and society.

We will begin by observing the times in which our three reformers lived and the circumstances which motivated them to attempt reforms.

### **The Motivation for Reform**

#### **Conditions of the Former Han**

The Han Dynasty was founded by Liu Bang (206-195 B.C.) who arose from peasant origins to lead a rebellion against the oppressive, legalist Qin Dynasty (221-206 B.C.). Liu adhered to the Confucian teaching that only a just and moral government had a right to govern the people and, therefore, to maintain the "Mandate of Heaven" (*tian ming*). He relaxed many of the rules and punishments that had controlled the daily existence of the people under the Qin, and encouraged learning as a way to bring talented people into the service of the state. The leadership of Liu Bang helped to foster growth and prosperity during the early years of the Han.

The Han was begun under the official ideology of Confucianism which stressed the value of learning and self-discipline. Through learning, anyone could make himself a better person, fit to serve the needs of the state and to serve as an example of moral and just living for the common people. Liu Bang supported these notions by establishing examinations in the Confucian Classics designed to select worthy men to serve the state. These examinations, which would persist in one form or another until the early twentieth century, gave anyone with the means to study an opportunity to become a civil servant, and thus guarantee his family a comfortable living and a respected position in society. As a result, gentry status generally was not inheritable; it had to be earned through passing the exam.<sup>5</sup>

The Confucianism of the Han, however, was not pure Confucianism in that it incorporated Legalist elements which had been opposed by Confucius. John K. Fairbank refers to this Legalist-Confucian amalgam as "Imperial Confucianism" which retained some of the Legalist elements of Qin rule, particularly the use of rewards and punishments by rulers to maintain order among the people.<sup>6</sup>

Despite its good beginnings, later Han emperors, notably Han Wudi (r. 141-87 B.C.), became corrupted by their absolute power, and instituted greater government control over many aspects of life. Though Han Wudi sought to extend the Confucianist orthodoxy established under Liu Bang, he also established other practices which were decidedly un-Confucian. Han Wudi set up government monopolies over the production of staple goods such as salt and iron which would continue under many subsequent dynasties in the future. The money earned from controlling the markets for salt and iron went primarily to finance the Han army which expanded China's borders through conquest of neighboring kingdoms.

These monopolies were the subject of a now-famous debate which took place among reformist Confucian scholars and modernists during the year 81 B.C.—the Debate on Salt and Iron. The Confucian reformists opposed the monopolies on the grounds that they imposed burdens on the people to finance unnecessary wars. Modernists, however, argued that the wars were necessary to protect the common people from

conquest by China's barbarian neighbors.<sup>7</sup>

In addition to the monopolies, the state also became involved in commerce through controlling the grain trade. The government's "ever-normal granary" was established to equalize grain prices by buying up excess supplies when grain was plentiful and selling stored grain when the supply was low. Though there is some evidence that the policy was effective in equalizing prices, one result was that private merchants were deprived of this particular source of income.

Another source of government income during this time was the land tax which was levied on all land held by private citizens according to the amount of land one owned. Over time, however, land became more and more concentrated in the hands of an ever-decreasing number of wealthy landowners. Most often this would happen when, during times of drought, flood or pestilence, small farmers would borrow money from the wealthy to tide themselves over until the return of favorable growing conditions. These loans were often made at usurious rates of interest and required pledging of the land, and sometimes even the farmer and his family, as collateral. During extended periods of poor agricultural conditions, much land passed into the hands of the wealthy, and many farmers and their families became slaves of their creditors.

This concentration of landholding, one might think, would make the jobs of the tax collectors much easier in that they would have fewer landowners from whom to collect tax. On the contrary, it became far more difficult. The political and economic power gained by the wealthy landowners made it possible for them to exert influence over local government and to thereby have their tax bills reduced, or even to have their land removed from tax rolls altogether.

Another form of government 'income' at this time was *corvée* labor in which adult males were required to work for approximately one month each year in service to the government, usually on construction projects or in military service. As was the case with the land tax, the wealthy were often able to exert their influence to avoid their annual duty to the state.

This ability of the wealthy to avoid taxes and labor increasingly led to even greater pressure on the powerless to make up for lost revenue. This pressure often took place in the form of great oppression and punishment by local governments who were themselves under pressure from the central government to keep the revenues flowing. Increased pressure on the poor quite often led to resentment, banditry and sometimes rebellion.

The central government's appetite for tax revenues grew significantly over the latter portion of the Former Han Dynasty, especially after the military exploits of Han Wudi. Administration of new territories conquered by the Han, as well as continued military activity to keep the Xiong Nu, so-called barbarians along the northern border, at bay, placed a great strain on government finance.

The former Han peaked under Wudi, then under a succession of weak emperors began a century-long period of decline.<sup>8</sup> Notable during this period, from approximately the end of Han Wudi's reign in 87 B.C. to the end of the former Han in A.D. 9, was the increasing influence of the extended

families of empresses at court. Whenever a Han emperor died, power then rested in the hands of his widow, the empress dowager, who had the duty of selecting the next emperor from among the Liu clan. In many cases, the new emperor selected by the empress dowager would be a minor who was supervised by a regent appointed from among the relatives of the empress. Though holding no official political power, this regent, as caretaker of the young emperor, and as a close relative of the empress dowager, often exerted much influence at court.<sup>9</sup> The power and privilege that came with the position of regent also led to much conflict and intrigue among relatives of various empresses and empresses dowager who competed for favor and influence.

As we shall see, the latter years of the Former Han exhibited all the characteristics of a dynasty in decline: much extravagance at court, fighting among factions for influence, weak emperors, a decrease in fiscal discipline, and the increasing power of the wealthy.<sup>10</sup>

Before declaring himself emperor in A.D. 9, Wang Mang had been appointed Regent, first in 8 B.C. and again in 1 B.C., by his aunt, the Empress Dowager Wang.<sup>11</sup> Prior to his regency, three of Wang Mang's uncles and one of his cousins had occupied the position consecutively for twenty-eight years.<sup>12</sup> It is ironic, then, that the poor and weakened condition of the dynasty, which drove Wang Mang to implement reforms in the first place, was also the condition which placed him into a position to implement reforms.

Much unlike his relatives who apparently availed themselves of the privileges of their offices, Wang Mang is noted for living simply and frugally. Even Ban Gu's official Han history (*Han Shu*), which was deeply critical of Wang's usurpation of the throne, praises him for the model Confucian behavior he exhibited in his youth. He was devoted to his studies of the Confucian Classics, cared for ill family members and even helped to raise an orphaned nephew.<sup>13</sup>

An ardent Confucianist, Wang Mang, shared Confucius' idealization of the ancient times of the sage-kings, Yao and Shun, and the ruling clan of the Zhou dynasty, Kings Wen and Wu, and the Duke of Zhou. Their eras were supposedly times when all was right with the world, and leaders exemplified the Confucian virtues of benevolence, virtue, filial piety, order, observance of ritual, and a commitment to learning.

Driven by these influences, and a belief that the Han were no longer able to set the proper example for the people or to provide for their needs, Wang Mang wanted to re-establish the ideal Confucian society. Though very little recorded history of his time exists today, the *Han Shu* portrays Wang Mang as caring for the conditions of the common people. Of the Qin Dynasty rulers' treatment of the people Wang wrote in an edict:

The Qin was without principle and increased the levies and taxes for its own use, exhausting the strength of the people with its inordinate desires... profaning the will of Heaven, destroying human relationships, and perverting the principle that man is the noblest creation of Heaven and earth...<sup>14</sup>

Wang Mang also criticized the Han for the oppressive burden of taxes on the poor and for allowing property to be gathered in the hands of the rich:

(The rich)...grew arrogant and perpetrated evil deeds, while the poor, without even the dregs of grain to satisfy themselves with, were reduced to despair and turned to a life of crime. Both sank in wickedness, and punishments had to be used...<sup>15</sup>

His ideology aside, there is also evidence to suggest that Wang Mang was driven by ambition as well. Among his relatives whom he nursed to health during illness was one of his uncles, a regent who served the emperor. Even in his blind Confucianism, Wang certainly realized that by sacrificing his own interests to care for his well-connected uncle, he would be helping to ensure his future reward. Additionally, prior to his first appointment to regent, Wang Mang had a cousin who was older, had advanced to a higher post than he, and who was, therefore, better-placed to become the next regent. Through intrigues of his own, Wang Mang accused the well-placed cousin of minor wrong-doing—a crime which unfortunately ended in the cousin's execution—and placed himself next in line to be appointed regent.<sup>16</sup>

Throughout his career, Wang Mang demonstrated great political skill through exercising personal influence and masterfully spreading propaganda that legitimized his every move. He earned the support of the Confucian bureaucracy by basing his reforms on interpretations of the Confucian texts, and he gained influence by generously rewarding titles and property to those whom he thought might challenge him politically. He also took great pains to legitimize his claim to the throne, first through providing "evidence" that he was a descendant of China's mythical Yellow Emperor, and secondly through documenting numerous "portents" all of which supposedly pointed to his being selected by Heaven to ascend the throne in place of the Han.

### Conditions of the Eleventh Century Song

Moving forward in history nearly one thousand years, the founding emperor of the Song Dynasty (A. D. 960-1279), Song Taizu (r. 960-978), actually made it possible for Song Dynasty reformers to challenge the status quo. Unlike the founding emperors of previous dynasties, Song Taizu placed great emphasis on institutional continuity with the prior regime, as opposed to making his own mark through a radical departure from the past.<sup>17</sup> Because the system was not the invention of Song Taizu, himself, various aspects of the system were open to challenge. The political and economic systems of the Tang (A. D. 618-907) had been preserved in the Song but were allowed to be changed or replaced as was deemed necessary to meet the current needs of the nation. By the mid-eleventh century, some thought the needs of the country did call for a change, but few reformers had arisen to suggest radical improvements to the existing system.

Economically, Song China operated under a system similar to that of the Han in which the central government collected revenue from land taxes and monopolies on certain commodities such as salt, iron and tea. But the prevailing political thought of the time did not include the concept of a fiscally accountable government.<sup>18</sup> Additionally, the government enforced a system known as the "Commissioned Services Act," in which common people were conscripted on

a regular basis to provide services to the government. This policy of *corvée* labor, similar to that of the Han, dated back to very ancient times in Chinese history. As under previous dynasties, over the years wealthy landowners were able, through bribes or government connections, to have their taxes reduced, to have their land removed from the tax rolls, and to avoid *corvée* labor.

The agrarian-based economy of the times also depended upon regular and productive harvests, part of which were required to be shipped to the capital for storage and use by the administration. These stores of grain, and other commodities such as silk or cotton, could be accepted in lieu of cash, declining in amount the further away one lived from the capital to take into account the greater cost of shipping commodities over long distances.<sup>19</sup>

The Song Dynasty continued in the tradition of civil service examinations which had their origins in the Han. The required curriculum covered dynastic histories, poetry, and the Confucian classics<sup>20</sup>, and heavily emphasized memorization of Confucian texts and poetry composition. Although the wealthy had an advantage in their means to pay for an education, it was not impossible for members of the lower classes to pass examinations and gain entrance into the bureaucracy.<sup>21</sup> In keeping with convention, the aspirants to education and civil service postings were all men.<sup>22</sup>

Militarily, the Northern Song found itself constantly challenged by the Xixia and the Liao along its northern border. Though the Song abandoned much of the imperial ambitions of the Tang which had preceded it, the Song continued to allocate tremendous resources to national defense. Prior to the reign of Wang Anshi's emperor, Shenzong, the standing army numbered 1,162,000 men<sup>23</sup> "for whom soldiering was a full time profession. The cost of supporting this army was a crushing burden on dynastic finances,"<sup>24</sup> and the Song began to experience large budget deficits.

In 1058 Wang Anshi traveled to the capital, Kaifeng, from his home province of Jiangxi to present what would be his most famous memorial to the Emperor Renzong (r. 1023-1064). Wang's "Ten Thousand Word Memorial" outlines his general political philosophy while giving a brief preview of the elements of his New Policies which were still to come nearly ten years in the future. Wang Anshi criticizes the ineffective method of instruction in schools: This method (of instruction) calls for the recitation and memorizing of an enormous amount of literature...but even if success in this matter is gained, it does not qualify the best student for the ruler's position...they would have only the vaguest notion of what to do when they were appointed to actual office.<sup>25</sup>

Wang Anshi gives clues as to his future socialist economic policy:

...I have made some enquiry into the methods of finance adopted by the ancient rulers...this consisted of using the resources of the people to produce wealth for the State, and to devote the wealth thus accumulated to meeting the requirements of the national expenditure.<sup>26</sup>

...and his thoughts on the current method of appointing officials:

On the basis of possessing literary ability a man may be appointed to a Financial post, then...transferred to a legal position, or again to...the Board of Rites. One cannot expect anything else than that he finds it difficult...seeing that he is required to...fill any position whatsoever.<sup>27</sup>

When taken as a whole, the "Ten Thousand Word Memorial" contains, not random opinions on various problems facing state and society, but rather an integrated, self-contained system designed to return the Song to its potential greatness.<sup>28</sup> Basing his reasoning on the Confucian classics, he asserted that government should return to the ways of the ancient kings, but only in a general sense:

"I am not arguing that we should revive the ancient system of government in every detail...So complete a revival is practically impossible. I suggest that we should just follow the main ideas and general principles of these ancient rulers."<sup>29</sup>

### Conditions of the Sixteenth Century Ming

Nearly three hundred years after the time of Wang Anshi, and after a brief period of rule over China by the Mongols, Hong Wu (r. 1368-1398), founding emperor of the Ming Dynasty, returned China to Chinese rule by defeating the overstretched Mongols. A very capable emperor and dedicated worker, Hong Wu established the dynasty on a solid foundation by restoring peace and order to the country and building up a strong army to defend China's borders.

Especially characteristic of his rule was a greater concentration of powers in the hands of the emperor. This concentration of powers, though effective in the hands of a capable emperor such as Hong Wu, would eventually contribute to the downfall of the Ming, as later, less capable and less scrupulous emperors wielded these concentrated powers. By the reign of the Jia Jing emperor (r. 1522-1566), emperors had begun to neglect their governmental duties, often not even taking the time to hold court.<sup>30</sup>

During the course of the Ming, court eunuchs grew tremendously in number and in power. The emperors brought about this condition as their increasing requests for eunuchs to serve in the palace induced many parents to castrate their own children in the hopes that their sons could obtain positions in the palace. Many of the thousands of eunuchs who lived and worked in the palace sought out opportunities for influence and corruption, and were a contributing factor in the eventual downfall of the dynasty.

Perhaps the most well-known eunuch was the Admiral Zheng He, who commanded a navy of as many as 60 vessels that explored as far as the coast of Africa. These explorations, which took place between 1405 and 1433, were eventually ended, most likely because of their expense, but also because of the increasing threats the Chinese felt around their own borders. Moreover, memories of the Mongol conquest had reinforced a conservatism and xenophobia that gave China an inward focus which would persist well into the twentieth century.

Similarly to the Han and the Song, the Ming derived most of its revenue from land taxes and the salt and tea monopolies. The Ming also inherited the old system of *corvée* labor; however, by the later fifteenth century, much of the work had been commuted to silver payments for many

people. Despite its good beginnings, the Ming began to experience systemic economic problems toward the middle of the dynasty. As in the Han and Song, the land taxes became easy to evade through the collusion of wealthy landowners and corrupt officials who were very lowly compensated in their official positions.<sup>31</sup> Additionally, because much *corvée* labor had been commuted to silver payments based on local, ad-hoc decisions, there did not exist a uniform system or standard by which government ministers could forecast revenue receipts.<sup>32</sup>

Combined with revenue collection problems, the Ming dynasty was faced with an ever-increasing expense burden. In addition to government salaries and imperial household expenses, the administration carried the extra burden of providing living expenses for emperors' relatives who numbered nearly thirty thousand by the middle of the sixteenth century.<sup>33</sup> By then the imperial treasury was nearly empty and money had to be borrowed from the provinces or from government departments.<sup>34</sup>

The army, which in the early part of the Ming had become nearly self-supporting through its own farming ventures, also became a heavy burden as it came to rely increasingly on state financial support by the middle of the dynasty. Despite continued threats by the Mongols from the north, Manchus from the northeast and Japanese pirates from the east, the strength of the Ming army was allowed to decline. When the Mongols attacked Beijing in 1550, army commanders were only able to gather fifty to sixty thousand soldiers from the local regiment, which during the time of Hong Wu, had numbered more than one hundred thousand men.<sup>35</sup>

Much of the Ming educational system was similar to that of the Han and Song. Those who aspired to join the civil service were still required to pass rigorous exams involving memorization of the Four Books and the Five Classics. One notable difference, the infamous "eight-legged essay" (*ba gu wen*), which required a set form for writing examination papers, was instituted during the late thirteenth century. Though Wang Anshi had attempted educational reforms during the eleventh century which were intended to produce a more highly skilled bureaucracy, the traditional Confucian view of education prevailed during the Ming: one's morality, rather than one's level of skill, was of greater importance for a civil service position. Those who would exercise creativity by departing from the approved form or content need not apply. Arriving on the scene at a time when the Ming dynasty was clearly in decline, Zhang Juzheng believed that the continuance of the dynasty was of utmost importance. In an indication of his commitment to the dynasty, he wrote, "If it is to the benefit of the state, I would do it regardless of life or death."<sup>36</sup> In 1568, prior to his appointment as Chief Grand Secretary, Zhang Juzheng submitted his "Memorial on Six Affairs" to the emperor suggesting that the current problems faced by the dynasty were primarily due to a weakening of imperial authority and a disrespect for dynastic laws and institutions. Despite his background as a Confucian scholar, this memorial subsequently earned him the reputation of a Legalist. However, he often combined both Confucian and Legalist arguments to justify his means. Here he advises the emperor to

combine Legalist punishment with his Confucian duty to provide a moral example for the people:

"If [the emperor] desires all to return to rectitude, he must have laws and regulations, prohibitions and ordinances in order to govern them...However, if [he] does not devote attention to cultivating virtue as the basis of conducting government, then he is himself unrectified...Therefore, the sovereign in conducting government should desire only in his personal conduct actually to carry it out in order to lead them by his personal example."<sup>37</sup>

In a preview of his fiscal policies, Zhang wrote:

"To clear away tax arrears is the means by which to [ensure] a sufficiency for the state. [To guarantee that] officials, and people both have a sufficiency and that both above and below are benefited, is the means by which to plan for the strengthening of the foundation of the state, to maintain peace and expel aggression...When wealth is insufficient, contention arises...propriety and morality begin when money is sufficient...not to spare labor and expense to establish profit for a hundred generations approaches righteousness. To accumulate [wealth] and be able to disperse it approaches wisdom."<sup>38</sup>

Zhang was a proponent of autocracy and firm, but benevolent government, justifying his belief with the Han Feizi analogy of a loving parent causing temporary pain to an infant while lancing its boil or shaving its head (in order to cure an illness).<sup>39</sup>

### Motivation in Comparison

Though separated by many centuries, Wang Mang, Wang Anshi and Zhang Juzheng, all three, achieved political power under remarkably similar conditions. They served governments which derived their revenues from land taxes and monopolies, and required of their subjects *corvée* labor. All three dynastic governments faced the challenges of high concentration of wealth, tax evasion among the wealthy and military threats from across the country's northern borders. All three governments were staffed by bureaucrats who had earned their positions by following the prescribed formats and memorizing the required Confucian texts.

Although all three of our reformers began their careers by influencing their respective emperors, Wang Mang was the only one to go so far as to declare himself emperor and ascend the dragon throne. Wang Anshi and Zhang Juzheng, however, operated within the political environments under which they were called to serve, but their respective political environments differed in that the founder of the Song had established a system whereby a Grand Councilor (or Prime Minister) could challenge the status quo. The Ming founder, however, had established a system of absolute, concentrated imperial power, incapable of challenge by the bureaucracy. Until the time of Zhang Juzheng, no other Chief Grand Secretary had dared to suggest a radical change in policy to the emperor.

Though palace eunuchs served in all three dynasties, those of the Han were generally bystanders, and those of the Song were somewhat obstructionist, but in neither time did they carry significant political power.<sup>40</sup> By the time of the Ming, however, palace eunuchs were considerably greater in number, carried far greater political power, and were far more capable of corruption.

In terms of personal backgrounds, all three of our reformers were Confucian scholars from their youth. Wang Anshi and Zhang Juzheng were both holders of the *jin shi* degree and were both prolific writers of poetry and prose.<sup>41</sup> Whereas Wang Mang professed to be a devout Confucian throughout his entire life, both Wang Anshi and Zhang Juzheng, tended to be more eclectic in their beliefs, drawing from any source which would help them to achieve their goals – including Buddhism, to which both turned during their latter years.

Wang Mang, Wang Anshi and Zhang Juzheng are all three remembered as reformers, but Wang Mang is best remembered for usurping the throne of the emperor and overthrowing the dynasty which he had sworn to serve. Wang Anshi and Zhang Juzheng, however, were true activists who were serious enough about reform to risk the opposition which would arise to thwart their plans. Neither, however, had the political stature to even consider taking the reigns of power for themselves. Rather, they steadfastly supported their respective emperors and counted on their mutual support in order to implement their reform programs.

For inspiration, our reformers turned to different sources. In keeping with the teachings of Mencius, both Wang Mang and Wang Anshi believed that the ideal model for government was exhibited by the ancient sages as described in the *Zhou Li* and *Book of Rites*.<sup>42</sup> Zhang however, took the position of Xunzi that later rulers, especially his dynastic founder, Ming Taizu, were the ideal model for government.<sup>43</sup>

All three of our reformers believed that their respective dynasties had ventured off course and sought means by which they could set things back in order. Wang Mang sought to re-establish the Utopian vision of the Zhou Dynasty (c. 1027-221 B.C.), with himself as the Confucian sage-king who had ascended the throne based on merit rather than inheritance.<sup>44</sup> Because of their more pragmatic emphases on the rule of law, both Wang Anshi and Zhang Juzheng were labeled by their contemporaries, as well as many later historians, as Legalists in the school of Han Feizi, but this description more aptly applies to Zhang.<sup>45</sup> Zhang wrote specifically of the need for imperial use of the “rewards and punishments,” but the prescriptions of Wang Anshi went deeper than simple rules and regulations.<sup>46</sup> In his “Ten Thousand Word Memorial,” Wang Anshi wrote, not on reward and punishment, but he

“continually [stressed] the fundamental importance of *capable officials*, how to train them, how to cultivate them by paying them well...”<sup>47</sup> (Emphasis added.)

Nevertheless, Wang Anshi did believe that government should play a strong role in molding society. Though he did not object to the Confucian idea of moral self-cultivation, he believed that self-cultivation took “a long time to attain the desired objective,”<sup>48</sup> and that government could hurry things along by reforming the institutions of government and hiring more capable officials.

### The Reforms

What were the specific measures attempted by our three reformers to address their concerns? We begin again with the earliest of our reformers, Wang Mang.

### The Confucian Reforms of Wang Mang

Though most of his reforms came during his reign as emperor, Wang Mang also enacted minor reforms as Regent. In demonstration of his support for learning and Confucian education, he directed the improvement of provincial schools in A.D. 3 and enlarged the Imperial Academy in A.D. 4. He also sponsored conferences at the capital covering such topics as classic texts, astronomy, philology and divination.<sup>49</sup>

Also in A.D. 4, Wang Mang carried out one of his most Confucian of reforms, the rectification of names, or *zheng ming*. The essence of rectification of names is that things should be called what they are in reality, and things should be in reality what they are called.<sup>50</sup> Wang Mang took this quite literally as he changed the titles and ranks of ministers, and the names and boundaries of the commandaries to names that had been previously used during the much-idealized Zhou era.<sup>51</sup> This required much time and energy, and led to an enormous amount of administrative work – all very necessary, though, as Wang believed that a return to a golden era patterned after that of the Zhou was necessary in order to set the nation back on the right path.

Also related to his efforts to revive the Zhou period was a monetary reform ordered by Wang Mang in A.D. 7. Having read in an ancient text that the Zhou kingdom used more than one denomination of cash, Wang also ordered that the regular copper cash (a round coin with a square hole in the middle) be supplemented with several other denominations. He ordered the minting of larger denominations of round coins, as well as other coins in the shapes of a small knife and a spade which had their origins during the Shang dynasty (c. 1766-1027 B.C.) and the Zhou. These new coins, which were only allowed to be minted by the state, contributed to a substantial increase in government revenues, but because the metal values of the coins had no bearing on their face values, this also led to massive counterfeiting.

At the same time, Wang Mang announced the nationalization of the empire’s goldstock, making it illegal for anyone but kings to own gold. Privately held gold was exchanged for the newly-minted coins introduced by Wang Mang. The apparent reason for this move, in addition to providing more revenue for the government, was to decrease the power of the Liu clan, the family of the deposed Han dynasty.<sup>52</sup> Later, after he became emperor, Wang would also introduce additional denominations of coins in gold and silver as well as tortoise shells and cowrie shells – the latter two also based on coinage used in the Shang and Zhou Dynasties.

Wang Mang implemented his major economic reforms after he became emperor in A.D. 9. First on his agenda as emperor was land reform. The increasing concentration of land in the hands of the wealthy and their increasing ability to evade taxes was not only depriving the government of revenue, but also exacerbating the condition of the poor. Wang Mang began by abolishing private estates and restricting the amount of land a family could own to 100 *mu* or less.<sup>53</sup> Any excess land had to be given to poorer relatives or neighbors, or it was returned to the government for redistribution. The sale of land was prohibited, as was the buying and selling of slaves.

In keeping with his idolization of Zhou times, Wang Mang also decided to reinstitute the 'well-field system' which had been mentioned by Mencius and the author(s) of the *Zhou Li* as having been the standard for land management from China's mythical beginnings until the beginning of the Qin Dynasty in 221 B.C. The well-field system, or *jing tian* required that parcels of land of approximately 100 acres be broken into nine equal plots to be farmed by eight families who all built their houses on the ninth plot.

In an edict of A.D. 10, Wang introduced additional economic measures, again, by presenting his reforms as a revival of Zhou-era institutions. Part of this package included, not only an extension of the existing government monopolies on salt and iron, but the addition of new monopolies on liquor and on the products of "mountains and marshes." Despite the fact that Confucians had been vehemently opposed to the monopolies since their introduction by Wudi over a century earlier, Wang Mang managed to present an interpretation of the classics that legitimized the monopolies. He asserted that the word *guan*, meaning 'controls', as used in the classic texts was actually an archaic term for monopolies.<sup>54</sup>

The edict of A.D. 10 also introduced the so-called "Five Equalizing Measures," which were designed to create price stability through nation-wide price surveys and government buying and selling of commodities in an effort to equalize supply and demand. Also contained in these measures were new programs providing low- or no-interest loans for peasants to purchase seeds and tools, and to pay expenses associated with funerals and sacrificial rituals.<sup>55</sup> A final provision of the edict of A.D. 10 levied a 10% tax on income for individuals who made their living outside the field of agriculture.

In A.D. 16 one of Wang Mang's final reform measures provided a systematic approach for reducing the stipends of government officials during years of bad harvests. Though the government officials could not have been happy to have their stipends reduced, this was clearly an attempt to manage the national budget by reducing government expense in years that income was also expected to fall.

In summary, the reforms introduced by Wang Mang seem to have been designed to accomplish three things (in order of increasing importance): 1) alleviate the suffering of the peasants, 2) provide additional sources of revenue for the government, and 3) return the nation to the idealized Zhou-era Confucian Utopia.

### **The New Policies of Wang Anshi**

Wang Anshi's New Policies were enacted over a period of four years from 1069 to 1073 and can be broadly grouped into three categories: Economic, Education and Civil Service, and Military.<sup>56</sup> Wang Anshi's first broad measure, which acted as an umbrella for his subsequent reforms, established an *Administrative Regulations Commission* in 1069. Also known as the *Finance Planning Commission*, this government agency was responsible for a complete restructuring of the bureaucracy which resulted in the organizations for financial, administrative and military planning reporting to the Council of State (which was managed by Wang Anshi) rather than directly to the emperor. This centralization of authority under Wang

Anshi would make it possible for him to later introduce coordinated policies which affected the integration of all areas of state planning.

With administrative and fiscal power thus concentrated in his hands, Wang Anshi implemented his reforms. His economic measures reestablished the country's tax base through a land survey and an equitable tax system designed to lower the tax burden on peasants. Part of the tax revenues went to fund the Hired Service System which provided salaried employees for local sub-bureaucratic posts in place of conscripted labor. Wang Anshi also sought to nationalize credit for farmers by establishing a system that extended loans to farmers at a twenty percent rate of interest. Prior to this time, credit had been available only from wealthy landowners who charged significantly higher rates of interest.<sup>57</sup> An additional aim of economic reforms was to provide price stability through government buying and selling of commodity items.

Wang Anshi's educational reforms were designed to produce more useful, tangible results than those of the current system. The goal was to graduate bureaucrats who not only fit the proper Confucian profile, but who had the hard skills with which to manage various areas within the government. The new examinations for civil service required, not only the traditional essays on the Classics, but also the composition of actual policy proposals.<sup>58</sup> Wang Anshi also introduced specialized degrees in fields such as law, science and medicine. Additional bureaucratic reforms included hiring central government clerks on a salary basis in place of the existing system of conscription, and a system of strict supervision with incentive measures to reward quality work.

In support of the military, Wang Anshi introduced the *bao jia* system in which households with two or more sons were required to supply one male for military training and service in the local militia. Rural households were organized to take responsibility for community policing and eventually tax collection. Wang Anshi also introduced a horse-breeding system in which civilian households were charged with raising horses to be used by the army in times of war.

Wang Anshi's policies were interdependent in that properly managing state finances required an educational system capable of training people with the necessary skills.<sup>59</sup> But before state finances could be put in order, the financial burden of a large military apparatus had to be reduced without compromising state security. Wang Anshi's massive reform program, by far the most comprehensive among our three reformers, was clearly not intended to make everyone happy as it left no stone unturned in an attempt to set the dynasty's education, military, and finances on a firmer footing.

### **The New Austerity of Zhang Juzheng**

In contrast to the New Policies of Wang Anshi, Zhang Juzheng's reforms were less a cohesive package than a series of attempts to reimpose fiscal accountability on a profligate system. As Chief Grand Secretary, Zhang did not have the power to reform the bureaucracy or initiate fiscal policy, he therefore made use of his power over personnel management and his control of imperial documents to implement his plans.



He began by auditing the imperial accounts and directing an end to those government operations he deemed unnecessary. Remaining government operations were reduced or made subject to strict supervision. In particular, the eunuchs in charge of palace procurement came under close scrutiny, as did the hostel service provided by the imperial postal system.

On the revenue side of the equation, not only were taxes *not* reduced, but the collection of taxes was more rigorously pursued. Zhang implemented a program to combat the rampant tax evasion which had left dynastic finances in chaos, instituting severe punishment for tax evaders. All excess funds collected were put into the imperial treasuries in the form of silver ingots which bore the inscription: "Never to be spent."<sup>60</sup> A horse-breeding system, similar to that implemented by Wang Anshi in the Song, had also been established by the founding emperor of the Ming; however, in another revenue-generating scheme, Zhang directed that all army stud horses be sold and that the funds raised also be deposited into the imperial treasury.

These measures provided the needed funds to strengthen the Ming army which achieved notable victories during the time of Zhang Juzheng. The Mongols were forced to submit to the emperor, and Japanese pirates, which had been a constant threat for decades, met their final defeat as well. Under greater prospects for peace, the army then also became subject to cutbacks. Frontier posts were required by Zhang to cut up to twenty percent of their annual expenditures.<sup>61</sup>

Due to his proximity to the emperor, Zhang Juzheng also held great influence over the emperor and constantly preached the virtues of frugal living. As such, the expenses of the imperial household during the Zhang Juzheng decade were modest in comparison to those of other emperors. Zhang suggested to the emperor that lantern decorations and fireworks be discontinued, and he complained that the palace women wore too many jewels. This harshly imposed frugality would lead to strong resentment by the emperor after Zhang's death.

His austerity program in place, Zhang Juzheng began the one serious attempt at major reform in his administration. He ordered a land survey of the entire country and adopted the 6000 square foot *mu* as the nationwide standard for land area measurement. This land survey was to have been a prelude to tax reform that would end, once-and-for-all, the rampant tax evasion of wealthy landholders. Unfortunately, Zhang Juzheng died before the survey was completed, and the reform was abandoned by his successor.

### Reforms in Comparison

Throughout China's agrarian history, land has often been the source of much controversy: Who owns the land? Who will make use of it? What will be done with the fruit of the land? How much will be taken in taxes?... The fact that all three of our reformers attempted to change policies with regard to land ownership or taxes added to the controversy of their reform programs.

Wang Mang's land reform was the most controversial as its main aim was to equalize land ownership by taking from the rich and giving to the poor. Wang Anshi and Zhang

Juzheng had sought merely to equalize land *taxes*. Wang Mang's land reform seems to have been designed to punish the rich; whereas, Wang Anshi and Zhang Juzheng's reforms were designed only to punish tax evaders. All three, however, had in common the aim of increasing government revenue through equally-applied land tax.

While all three reform programs contained fiscal and economic measures, they differed in their implementation. Wang Anshi's program was more comprehensive in that it also attempted to reform the institutions and the bureaucracy surrounding the country's economy. Not only did Wang Anshi attempt to reform the bureaucracy, but he attempted reforms of the educational system which fed the bureaucracy. The reforms of Wang Mang and Zhang Juzheng, though similar in many ways to those of Wang Anshi, lacked the integration and coordination of Wang Anshi's New Policies.

Though all three reformers attempted to impose better fiscal management, their approaches to economic reform differed vastly. Wang Anshi appears to have had a much firmer grasp on economics than did Wang Mang or Zhang Juzheng, as Wang Anshi's program focused on fiscal stimulus and improvement in national productivity. Wang Mang, and especially Zhang Juzheng, seem to have focused more on building up a cash surplus through increasing taxes and cutting government expenditure.

Before taking office Wang Anshi had already observed that simple cost-cutting was not enough. One of Wang's contemporaries, Sima Guang (1019-1086), who would later become known as a famous historian, had been asked by the emperor to manage the country's fiscal crisis. Sima's solution, to simply curb government expenditure, was abandoned after a year of no apparent results. The emperor then turned to Wang Anshi for answers to the budget problem. Wang Anshi's reply was that "there was no Way (*dao*) in the governance of resources...[officials had] lost the Way of *creating wealth*."<sup>62</sup> According to Paul Smith by "Way of creating wealth," Wang Anshi referred to the

"institutions, techniques, and authority through which the state was meant to govern the ... collection and disbursement of goods and money in the economy as a whole."<sup>63</sup>

Unlike Wang Mang and Zhang Juzheng, Wang Anshi did not view excessive spending by the government to be a major problem for the national budget. Excessive spending was, however, the major cornerstone of Zhang's reforms, and it was at least a minor concern of Wang Mang's. Ironically, the two Wangs both had the reputations of simple and frugal lifestyles.<sup>64</sup> But, as we shall soon see, Zhang Juzheng, the chief proponent of frugality during the Wanli reign, apparently enjoyed a lifestyle what was anything but frugal.

Aside from the specifics of their reforms, probably the greatest single difference lay in the ultimate *purpose* of their reforms. The reforms of Wang Anshi and Zhang Juzheng were implemented because those two men sought to improve the times in which they lived; their ultimate aims were to solve specific problems in the political economy of the nation. The ultimate goal of Wang Mang, on the other hand, was to identify those aspects of society which no longer conformed to the Zhou tradition and to "re-conform" them.

Wang Anshi would have specifically disagreed with Wang Mang's attempt at a wholesale return to the Zhou era: "...responsible officials...should advocate some positive method of improvement, ...they are either stupid or misled when they advocate a reversion to the ancient ways."<sup>65</sup>

Likewise, Zhang Juzheng would have also disagreed with Wang Mang's unquestioning adoption of old methods:

Law is neither ancient nor modern. It is merely what is suitable to the times and acceptable to the people. If it is suitable to the times...it should not be abolished. If it does violence to the times...it should not be followed.<sup>66</sup>

The methods by which they chose to implement their reforms differed as well. Wang Mang, of course, took over the imperial throne in the process of implementing his vision; however, prior to establishing his own dynasty, he made great efforts to win influence among the Confucian scholars who made up the bureaucracy. He also granted titles, fiefs and marquisates to other influential people—including members of the Liu clan who had founded the Han dynasty—in order to win their support. As we have seen, however, Wang Anshi and Zhang Juzheng sought to preserve their dynasties by faithfully serving their respective emperors. Their major difference from Wang Mang in this regard being that, as Wang Anshi and Zhang Juzheng had such a strong rapport with their emperors, neither really saw much need in trying to gain influence among the bureaucracy or the gentry. Wang Mang was a politician. Wang Anshi and Zhang Juzheng were loners with support in high places.

### **The Results of Reform**

Having compared the reform programs of our three reformers, our next task is to compare their respective achievements. Did they fail or succeed? How did their contemporaries and the population at large react?

### **The Effects of Wang Mang's Confucian Reform**

Despite the fact that Wang Mang began his reign with the support of the Confucian bureaucracy, he soon found himself fighting a losing battle. His land reforms, though based on Confucian arguments, went too far in damaging the interests of the rich and powerful. The Confucian bureaucracy, though agreeing with Wang Mang in principle, had to support the wishes of the rich and powerful for very practical reasons: the bureaucrats were in their positions because the rich and powerful allowed them to be there.

How ironic then, that the Confucianists, those who despised profit and valued morality and order above all things, had an almost symbiotic relationship with the wealthy. The wealthy were wealthy because Confucian officials turned a blind eye to their tax evasion and exploitation of the poor. The Confucian officials were allowed to remain in power as long as they supported the interests of the wealthy. Wang Mang's reforms upset the balance of things and made a lot of people angry.

The land reform was such a blow to the landowning gentry that many illegal sales of land still took place, resulting in swift and severe punishment for those who were caught. By A.D. 12, the reform had generated such ill will that Wang

Mang was forced to completely rescind the land reforms. In a memorial to the throne (which must have been "pre-blessed" by the emperor since it dared to criticize his reform) a court official once again justified the attempt to reinstate the well-field system of ancient times, but admitted that, because it had fallen into disuse over more recent centuries, it would take "at least a hundred years" before the people could become accustomed to the idea again.<sup>67</sup>

Wang Mang's attempts to reintroduce the new denominations of coins based on ancient coin designs also ended in failure, but not before many people counterfeited the coins and suffered severe punishment for doing so. At this time, the notion of a currency backed by the "full faith and credit" of the governing authority was still a novel idea. Wang Mang thought, wrongly, that by simply assigning a value to a coin, irrespective of the value of metal contained in the coin, people would accept it. Not only were counterfeit coins produced, but the populace simply refused to use some denominations of Wang Mang's coinage.

One effect of Wang Mang's new coinage was certain to have been an increase in profit to the government. Though records of government receipt and expenditure have been lost, the order in A.D. 7 requiring the wealthy to turn in their gold in exchange for the newly-minted coins surely led to a great windfall for the government.<sup>68</sup>

As we have seen, Wang Mang's attempts to remove land from the hands of the wealthy, and to force the people to use coinage, for which there existed no economic infrastructure to support its value, led many to attempt to skirt the law. Not only were the punishments set in place to deter people from breaking these imperial edicts *not* a deterrent, but they were of extreme severity.

Wang Mang's use of such severe punishment must have been confusing to those members of the bureaucracy who supported him because of his Confucian background. Because he used Confucian texts to justify practically everything he did, it is ironic that he felt obliged to resort to such extreme measures of punishment. Confucius taught that, if a ruler provided the perfect moral example for the people, the people would naturally do what was right, implying that only the ruler who provided a poor example need resort to the use of edicts and punishments.<sup>69</sup>

The government monopolies, which were revived and extended under Wang Mang, also ran counter to Confucian rhetoric of the times. And aside from the Confucian arguments against them, they did not work as intended during Han Wudi's time a century before, nor did they work under Wang Mang. de Bary writes that the monopolies

"had the same effect of forcing up the prices of necessary commodities, lowering the quality, depriving many people of their livelihood, and imposing an additional tax burden upon the population."<sup>70</sup>

Wang was also forced to eventually rescind the monopolies as well, but it did not happen until A.D. 22, far too late to placate a very angry population.

The monopolies, along with the new denominations of coinage introduced by Wang Mang, did contribute, as intended, to an increase in government revenues. These

increased revenues allowed for a strengthening of the northern army during Wang's reign;<sup>71</sup> however, much of the increase in revenue went into the hands of corrupt officials.<sup>72</sup>

Unfortunately for Wang Mang, his reign as emperor of the Xin dynasty coincided with a number of natural disasters that, as we now know, had nothing to do with Wang Mang's reign. However, as Wang Mang had already made use of many naturally-occurring phenomena as portents pointing toward the transfer of the "Mandate of Heaven" from the Han to himself, these natural disasters which occurred during his reign were all the more believed to be the fault of Wang Mang himself.

A victim of bad luck, Wang Mang was blamed for a shifting in the course of the Yellow River in A.D. 11 from its northern course, entering the sea near present-day Tianjin, to a southern course, entering the sea south of the Shandong peninsula. The shifting of the river led to massive famine and displacement of thousands, possibly millions, of refugees.<sup>73</sup> These groups of refugees initially resorted to banditry out of necessity in order to avoid starvation, but ultimately grew in number and organization to become a rival power base to government forces. Though Wang Mang's forces managed to keep these peasant groups in check during his reign, they ultimately outnumbered government forces and banded together with members of the Liu clan to bring down the Xin dynasty and restore the Han.

The times of Wang Mang were never peaceful. He began by confusing the public by changing the names of places, and by introducing multiple denominations of coinage. He alienated the bureaucracy by attacking their wealthy benefactors, then by reducing their salaries during bad times. He made the entire populace angry by extending the government monopolies. Then he suffered the bad fortune of having the Yellow River change course under his watch. Wang Mang listened well enough to the people that he rescinded a number of his policies, but the anger his reforms engendered among the populace had become so widespread, few supporters remained by the time of his fall.

### **The Effects of Wang Anshi's New Policies**

The time of Wang Anshi's administration, on the other hand, was one of relative peace and prosperity. Even those among Wang Anshi's detractors had to admit that he had increased government revenues and strengthened the army. His Public Services Act freed many farmers from public works obligations, allowing them to return to agriculture; however, there is some evidence that the level of taxes required to substitute for service obligations may have been responsible for increased levels of banditry.<sup>74</sup>

Several measures resulted in giving the government a monopoly in banking and commerce, while at the same time reducing the interest burden on poor farmers and depriving the wealthy of opportunities to exact usurious interest rates on the poor. The tax burden was also distributed more equitably as wealthy landowners had fewer opportunities for evading the land tax.

The economic results, in summary, were a redistribution of wealth from the rich to the poor, nationalization of banking

and commerce, and increased revenue for the government – a textbook definition of socialism.

Militarily, Wang Anshi strengthened the country's defenses while decreasing defense expenditures. During Wang's time, the standing army was reduced from 1,162,000 men to 568,688 men. However, the standing army was complemented by a trained militia that grew to 7,182,028 under Wang's policies.<sup>75</sup> Even one of Wang Anshi's opponents, Zhang Chun, a subsequent Grand Councilor, readily admitted that the militia "after training were superior to the regulars."<sup>76</sup>

Though there is little evidence as to the efficacy of Wang Anshi's educational reforms, we do know that the emperor, Shenzong, made no attempt to roll back the educational reforms after Wang left office. However, during later administrations Chinese education reverted to its traditions of memorization over practical application.

Williamson points out that the Song Annals, despite their bias against Wang Anshi and his reforms, leave no record of peasant uprising during Wang's time. That being the case, the common people could be presumed to have been content with Wang Anshi's New Policies.<sup>77</sup> After all, the common people, who had received military training as part of their duties in the militia, were certainly capable of organizing to overthrow the considerably smaller regular army.

Many historians also raise the issue that the sources from which we draw the histories of China were written by the educated elite. The fact that much of the extant historical writing from the latter eleventh and early twelfth centuries is critical of Wang Anshi's New Policies only attests to the dissatisfaction of the rich and powerful – the very target for most of Wang Anshi's reforms. The poor and illiterate obviously had no means through which to record their thoughts at the time.

### **The Effects of Zhang Juzheng's Austerity**

Zhang Juzheng's imposition of fiscal restraint put Ming China back on its way to prosperity, effectively reversing the decline of the previous 100 years,<sup>78</sup> and giving the Ming dynasty a "new lease on life."<sup>79</sup> By curbing tax evasion among the wealthy and by checking imperial expenditure, Zhang Juzheng brought government reserves to unprecedented levels. When Zhang took office, there had essentially been no reserves, but by the time he left, the granaries in Beijing had sufficient grain for nine years. The imperial vaults held six million taels of silver; the court of imperial stud held another four million, and the vaults in Nanjing held an additional 2.5 million.<sup>80</sup>

With money flowing into government coffers, Zhang was also able to bring about a time of peace and stability. With a strengthened military, the Ming were able to force the Mongols to once again submit to the Chinese emperor. Also, Japanese pirates, which had been a threat to the Chinese coast for years, were finally subdued.<sup>81</sup>

Aside from a strengthened military, it would appear that Zhang Juzheng had no other plans for spending or investing the increased inflows of cash. Essentially, the millions of taels of silver were allowed to lie idle in government vaults,

without any plans for infrastructure or public works spending. This hoarding of cash led to a decrease in the money supply, which eventually had a deflationary effect on agricultural prices.<sup>82</sup>

Interestingly, during Zhang Juzheng's time, reform was never officially declared. Zhang simply used his power over the personnel office and control of government documents to implement his changes. Ray Huang writes in the *Cambridge History* that

"Zhang's administration matched the kind of imperial splendor usually known only after the establishment of a new dynasty."<sup>83</sup>

### The Results of Reform in Comparison

To one degree or another, our three reformers each managed to strengthen the army in his time, thereby preventing external forces from disturbing the peace along China's borders. This is not unimportant as territorial integrity was and is a national obsession for China.

Domestically, however, the results were different. The chaos caused by Wang Mang's confusing introduction of new coinage, confiscation of gold, and redistribution of land, along with the shifting of the Yellow River from its course, all combined to build up discontentment throughout the country, and across all segments of society. Moreover, the harsh punishments Wang Mang applied to those found in violation of his new decrees were universally applied, thus ensuring universal anger. In criticism of Wang Mang, Ban Gu wrote in the *Han shu*: "The people could not turn a hand without violating some prohibition."<sup>84</sup>

The domestic situation for Wang Anshi and Zhang Juzheng were different from that of Wang Mang. Aside from the fact that there were no major natural disasters during their times, their reforms were far less painful. Wang Anshi and Zhang Juzheng tried to reimpose fairness in a tax system which had been gradually undermined by the influence of the wealthy on local bureaucrats, whereas Wang Mang's land reform actually took land away from the wealthy. Though neither action won the support of the wealthy, Wang Mang's outright confiscation of their land, gold and slaves contributed to extreme discontent among the gentry.

Without a doubt, all three improved the financial conditions of their respective dynasties by some combination of increasing revenues and decreasing expenses. Though records of Han-era finances have been lost, evidence would indicate that Wang Anshi was probably more successful in enriching the Song state than Zhang Juzheng was with the Ming.<sup>85</sup> Unfortunately, under the watch of each reformer, corrupt officials helped themselves to much of the increased revenues flowing into government coffers.

Though not without its shortcomings, Wang Anshi's program was clearly ahead of its time in comparison to those of the other two reformers, as it focused not merely on increasing revenue and decreasing expense, but also on improving productivity and *managing* wealth. Only Wang Anshi's New Policies contained provisions for building some of the needed institutions and for supplying a better-educated bureaucracy to staff those institutions. It is baffling, however,

that, over the next 900 years, no subsequent Chinese government attempted such large scale economic reforms.

The reforms of all three met with opposition from those who had a vested interest in the status quo, but their methods for dealing with opposition differed. As was pointed out earlier, Wang Mang, ever the masterful politician, sought to influence those he thought might oppose him. Wang Anshi, however, almost seems to have ignored his opposition, believing that what he was doing was right for the country:

"governing is for managing resources, and managing resources is what is meant by moral duty."<sup>86</sup>

Wang Anshi naively assumed that other government officials would share his sense of moral duty in the management of public finance.

Zhang Juzheng, though holding very little power of his own, used the tools at hand to overcome his opposition. He was most often able to influence the emperor by having his associates memorialize the throne, then as Chief Grand Secretary, he would draft the official rescripts. He also used his power over the office of personnel management to have certain officials promoted, demoted or sent to far-off posts depending on whether they supported or opposed his programs.

The bureaucrats who opposed all three of our reformers were threatened by reforms of the current system. State officials enjoyed their positions of authority and were supported by the wealthy who had the most to lose from equalizing tax reform. Also, many, though not all, of those officials benefited handsomely through bribes or embezzlement, and could not have been happy about losing their extra sources of income, or in Wang Mang's case, about having their salaries reduced when times were bad.

Among those officials who were not corrupt, there remained competent and loyal officials whose help could have been useful in implementing reforms. Wang Mang did manage to maintain a small measure of bureaucratic support among those officials who believed his liberal interpretations of the Confucian classics. But for Wang Anshi and Zhang Juzheng, simply having the support of their respective emperors, likely prevented them from seeking the support of those loyal officials, and very likely ensured the opposition of those officials to their reform programs. There is no record that either Wang Anshi or Zhang Juzheng made an effort to 'sell' his programs to the bureaucracy.

Though each of our reformers managed to implement his reforms initially, the reforms of each one were eventually rescinded as a result of public pressure. Because they were based on the sole aim of a return to the Zhou-era, the reforms of Wang Mang were never intended as practical solutions to real problems. Their failure was inevitable, despite Wang Mang's ultimate power as emperor. The reforms of Wang Anshi and Zhang Juzheng, on the other hand, were intended to solve specific problems and were in force long enough to achieve positive results, but in the end, their reforms were also rescinded due to growing pressure from those who had suffered under their reforms – namely, the rich and powerful.

### ***The Legacies of Three Reformers***

How does history view these three reformers? Did their personal sacrifices leave any lasting legacy for China?

#### **The Restoration of the Han After Wang Mang**

The banditry that broke out in eastern China as a result of the changing course of the Yellow River was badly misread by Wang Mang. Rather than alleviate the suffering of the peasants by making available food from the state granaries, he sent armies to suppress what he thought was a rebellion. The bandits eventually became organized as the Red Eyebrows, the rebel group who would storm the capital and murder Wang Mang in October of A.D. 23. Following another two years of internal struggle, a ninth generation descendant of Liu Bang, Liu Xiu, restored the Han dynasty in A.D. 25. Today this restoration is commonly known as the Later Han.

Liu Xiu began the Later Han dynasty with particular efforts to restore public finances which had declined under the chaotic final years of Wang Mang. He made an effort to re-apply tax assessments fairly across the board, allowing no exemptions for the wealthy. Provincial governors who showed favoritism to the rich spent time in prison.

Unfortunately, along with the restoration of the Han, there eventually came the restoration of the status quo which had led to discontentment and decline at the end of the Former Han. Since Wang Mang's attempts at land reform had been rescinded, there was once again no check on the ability of the rich and powerful to begin taking over the landholdings of the poor and powerless. And as the rich grew richer, the bureaucracy became increasingly willing to look the other way as the rich evaded taxes. The ensuing declines in central government revenues eventually contributed to the fall of the later Han in A.D. 220.

With all the attention emperors paid to recording events for posterity, one wonders whether subsequent emperors ever went back to read those recorded histories. This cycle of rise and decline would continue to plague China for the many subsequent centuries.

Despite the failure of Wang Mang's land reforms, he still managed to have influence on later regimes. If nothing else, the disruptive effect of Wang's attempted land reforms managed to level the playing field temporarily. According to recorded history, only twenty or so of the influential clans during the former Han managed to regain influence during the later Han, and of those twenty, "less than half were eminent."<sup>87</sup> The Xin interregnum allowed for greater social mobility during the early years of the later Han.

Probably the most significant influence of Wang Mang on subsequent dynasties was his use of religious, metaphysical and intellectual evidence supporting his divine right to rule the nation. Before Wang Mang, no emperor had devoted such time and effort to documenting his own legitimizing ancestry (real or fabricated), and to documenting naturally-occurring phenomena as portents indicating a shifting of the Mandate of Heaven. From the Later Han until the twentieth century, no other aspirant to the dragon throne would attempt to take power without first meticulously documenting his divine

right to rule.<sup>88</sup> Even as recently as 1976, it was widely believed in China that the Tangshan earthquake was a portent foreshadowing the end of the reign of 'emperor' Mao Zedong.

As has been mentioned, it is difficult to find a balanced account of the times of Wang Mang and his influence on the nation. Because court historians always worked at the behest of the eminent ruling clan, anyone who would challenge the authority of that clan was essentially portrayed as evil incarnate. Ban Biao, who began the *Han Shu* or *History of the Former Han Dynasty*, and his son Ban Gu, who continued the history after his father's death, sought to ensure that Wang Mang would be remembered in history as an illegitimate usurper of the throne. To this day, some dynastic charts still list the Han dynasty as beginning in 206 B.C. and ending in A.D. 220 – without even a footnote to document Wang Mang's Xin dynasty which separated the Former and Later Han dynasties by fourteen years.

Despite the attempts of the Former Han historians to discredit everything Wang Mang did, twentieth century scholarship has provided reassessments of Wang Mang. Though many scholars still regard Wang Mang negatively, Hu Shi, a Chinese ambassador to the United States during the Republican era, praised Wang Mang as a socialist visionary, writing that "Wang Mang and his assistants were nineteen centuries ahead of their time."<sup>89</sup>

Other modern scholars such as Homer H. Dubs, noted for his translation of the *Han Shu* into English, have tended to adhere to Ban Gu's harsh criticism of Wang Mang. Still other scholars such as Clyde B. Sargent and Hans Bielenstein have combined Ban Gu's history with other evidence and logical reasoning to form more balanced opinions. Danish scholar, Rudi Thomsen, who has produced the only significant English language biography of Wang Mang, presents the view that Wang was driven by his own ambition, which was masked by his blind, yet honest belief in Confucianism.

Regardless of scholarly opinion of Wang Mang the person, Wang Mang the reformer managed to shake up society and to leave behind a legacy of mysticism which still influences Chinese thought to this day.

#### **The Northern Song After Wang Anshi**

Unlike Wang Mang, Wang Anshi had time to see his reform efforts come to fruition. He was also fortunate enough to live out his life in relative peace, and die a natural death. The last of Wang Anshi's New Policies was implemented in 1073, and in 1074 he briefly left his post as Grand Councilor to accept the position of governor of Nanjing. This move was voluntary on the part of Wang Anshi, and was due to his embarrassment over the poor implementation of the State Trade System which, according to memorials written by the opposition, had led to discontent in the capital city. However, Wang Anshi was soon to return, albeit reluctantly, at the urging of the Emperor in 1075.

Wang Anshi's final tenure as Grand Councilor was to last only until 1076, when on grounds of his poor health and grief over the death of his only son, Wang begged the Emperor to allow him to resign. He spent the remaining years of his life in literary pursuits until his death in 1086.

James T.C. Liu suggests three phases of Wang Anshi's New Policies: the Reform phase (1069-1085), the Anti-reform phase (1085-1093) and the Post-reform phase (1093-1125), the latter two phases occurring after Wang Anshi left office.<sup>90</sup> A brief account of these latter phases will shed light on the reasons for negative accounts of the New Policies in the Song Annals and other writings from the Wang Anshi era.

The Anti-reform phase began with the death of Emperor Shenzong in 1085, less than a year before the death of Wang Anshi. The emperor was succeeded by his ten-year-old son, Zhezong (r. 1086-1101), who, due to his young age, was dominated by his grandmother, the Empress Dowager Xuan Ren. As Regent, she was the *de facto* ruler of China until her death in 1093.

The Empress Dowager had been bitterly opposed to the New Policies and immediately set about to rescind them. She recalled to the capital Sima Guang, the famous statesman and historian who years earlier had left the capital in disgust over the New Policies, to serve in a provincial post. Sima accepted the post of Grand Councilor, and, one-by-one, began to dismantle Wang Anshi's entire program, until not a single policy remained in place.<sup>91</sup> This Anti-reform period was also characterized by the purging of the few remaining supporters of Wang Anshi still in service at the time. The anti-reformers, however, simply tried to restore the pre-Wang Anshi status quo. Aside from efforts to reduce government expenditures, they offered no means by which to raise enough funds to meet even the *reduced* needs of the state. In the end, the Empress Dowager's purge of the reformers led to a period of crippling factionalism which would contribute to the eventual downfall of the Northern Song.<sup>92</sup>

The Emperor Zhezong, however, adored his father and sympathized with the reformers. When his grandmother, the Empress Dowager, died in 1093, he began the "post-reform" period by returning many of the Wang Anshi-era reformers to power and reinstating many of Wang Anshi's New Policies. Zhezong was then followed on the throne by his younger brother Huizong (r. 1101-1126).

The post-reform period is characterized by a return to power of the remaining reformers and a resurrection of the New Policies. Unfortunately for the memory of Wang Anshi, the official Song Annals record that the reforms failed yet again, and even led to the fall of the Northern Song Dynasty to the invading Jin army in 1127. *Fortunately* for the memory of Wang Anshi, several other extant sources attribute the failure of the post-reform period to an emperor with a weakness for luxuries (Huizong)<sup>93</sup>, and corruption among palace eunuchs and officials who purported to be followers of Wang Anshi.<sup>94</sup> Though some of Wang Anshi's New Policies were reinstated, other so-called "New Policies," which bore no resemblance to those of Wang Anshi, were enacted. The ineffectiveness of these ersatz New Policies further contributed to contempt for Wang Anshi among the establishment.

The fifty-one years between the time Wang Anshi left office and the fall of the Northern Song dynasty were, to be sure, a turbulent period of time. But though Wang had already left the stage, he had made a lasting impact on society. Enough of his supporters remained to continue to fight for the ideals Wang Anshi stood for, and to continue to challenge those whose sole aim was to re-establish the status quo.

### **The Ming After Zhang Juzheng**

Though Wang Anshi lived just long enough to see all of his policies overturned by Sima Guang, Zhang was more fortunate in that regard. He remained in office until the age of fifty-seven, dying of an illness in 1582. Only nine days prior to his death, the eighteen year-old emperor Wanli had granted him the title of Grand Preceptor, China's highest civilian honor and one which had not previously been granted for over two hundred years.<sup>95</sup>

Though Zhang had succeeded in stemming the tide of decay, and probably in delaying the downfall of the Ming, problems did begin to arise prior to the end of his administration. The authoritarianism and centralism required of Zhang's system of tax enforcement exposed the government to greater opportunities for corruption. By the time of Zhang's death, palace eunuchs exercised undue influence over the bureaucracy, and there was much corruption in both the government and the army.

Also, because of Zhang's "single-handed" rule, he left no trained successor to continue his reforms.<sup>96</sup> The land survey, which had been intended to provide for a more equitable distribution of the land tax, was discontinued upon Zhang's death. The succeeding Grand Councilor, Zhang Juzheng's protege, Zhang Siwei (1526-85), assessed that public and court opinion had turned against Zhang Juzheng and began a movement to purge his predecessor's policies. The effect of Zhang Siwei's pronouncements was to shame those who had supported Zhang Juzheng while increasing the power of those who had opposed him.

The increased power of Zhang Juzheng's opponents then allowed them the authority to conduct investigations, not only into the effects of Zhang's policies, but also into his personal life. At this time it was brought to light that Zhang, who had lectured the emperor on the importance of frugality, who had drastically cut imperial expenditure and built huge reserves of cash – all in the name of preserving the dynasty – had himself been living a life of lavish splendor. Not only was his home very extravagantly decorated, but he was reported to have traveled in his own two-room sedan chair, ferried about on the shoulders of thirty-two attendants – hardly the picture of frugality.<sup>97</sup> One wonders, however, why the outrage became public only after the death of Zhang Juzheng. If he had truly traveled in such an ostentatious conveyance, why had it not already been noticed and reported to the emperor? Two possibilities seem reasonable: either Zhang had such power over the personnel office that no one would dare to criticize him to the emperor, or the story of Zhang's sedan chair was simply concocted by his detractors to further erode the legitimacy of his attempts at reform.

Regardless, outrage on the part of the bureaucracy at revelations such as these led to a rollback of all remaining policies even remotely associated with Zhang Juzheng. The one person most outraged, however, was the Wanli emperor. He felt betrayed to learn of Zhang's alleged luxurious lifestyle, and was humiliated to the point of taking posthumous revenge on Zhang and his family, exiling his sons to the frontier and confiscating his family's possessions.

The reaction of the emperor was so extreme that it prob-

ably hastened the downfall of the Ming. Wanli, who would continue to rule for another thirty-seven years, became a greedy “hoarder of worldly goods.”<sup>98</sup> The pleasure-seeking emperor became less and less interested in the affairs of state, leaving a vacuum that was quickly filled by corrupt eunuchs who exacted a heavy burden on poor tax payers.<sup>99</sup> The drastic increase in imperial spending and bureaucratic decay, combined with an increase in military expenditure needed to expel the *samurai* Hideyoshi from Korea, bankrupted the Ming dynasty in the early seventeenth century. Only a few decades later, the Ming fell to the invading Manchus who established the Qing dynasty in 1644.

Any years that had been added to the length of the Ming dynasty by Zhang Juzheng’s strict financial management, were more than likely lost through the profligacy of the very emperor who had given Zhang the opportunity to implement his reforms.

## Conclusion

### Did They Truly Fail?

Reforms have never been easy, anywhere or at anytime. Those who would attempt reform are driven to do so by conditions that they believe call for a change. Those conditions, however, usually exist for a reason, namely that those holding the greatest power at the time want things to remain the way they are; therefore, those who would reform are generally fighting an uphill battle.

Wang Mang’s reforms worked so disastrously that he was forced to rescind most of them himself, years before he was murdered. The fact that he was emperor really did not seem to matter as even the emperor was subject to the approval of the most powerful elements of society – in Wang Mang’s case, the wealthy. Also adding to the pressure on Wang Mang was the fact that many people, especially the Liu clan, always looked upon him as a usurper rather than a legitimate heir to the throne. Without question, Wang Mang failed to successfully implement his reforms.

Though not emperors themselves, Wang Anshi and Zhang Juzheng at least had the support of emperors who had rightfully inherited their positions. Still, the post reform phases of Wang Anshi and Zhang Juzheng consisted of both rollback of their reforms and personal character attacks. By the end of their administrations bureaucratic pressures that had built up during years of anger and resentment exploded in fury against the memories of these two reformers. The aftermath of this explosion is a history leaving the impression that Wang Anshi and Zhang Juzheng were miserable failures as well.

But were they truly failures? The fact that Wang Anshi and Zhang Juzheng both accomplished what they had set out to do leads one to conclude that they were not. Granted, their measures could have been implemented with more economic forethought; both reform programs were hampered by the lack of an underlying legal infrastructure. Additionally the outcomes of Wang Anshi’s and Zhang Juzheng’s policies, especially those dealing with the collection of taxes, were adversely affected by the corrupt implementation of unscrupulous officials. Nevertheless, the fact remains that neither Wang Anshi nor Zhang Juzheng *failed* to implement his reforms.

## The Lessons of Reform

The reason that Wang Mang failed to make any lasting impact in terms of the social and economic well-being of the people should be quite obvious. He reformed for all the wrong reasons. Yes, reform was needed; the fact that the Han dynasty was in decline was clear to many people during Wang Mang’s time. However, rather than addressing specific problems, Wang Mang sought to return to an idealized, mythical, Utopian past. Additionally, Wang Mang does not appear to have assessed the potential impact of his reforms on society. The damage that his reforms did to the personal fortunes of the wealthy ensured their complete lack of support.

*Lesson #1: Reverence for an ideology is not a reason to reform. Reform must address specific problems with targeted solutions that do not unnecessarily antagonize a particular segment of society.*

Wang Anshi and Zhang Juzheng, however, did reform for the right reasons. They saw their dynasties in decline, identified the problems, and laid out specific solutions. Their biggest shortcomings, though, were that they tried to do it all on their own, without popular or bureaucratic support.

One commonality shared by Wang Anshi and Zhang Juzheng was their desire to change, to challenge the status quo—all in the name of restoring the glory of their respective dynasties. But their reforms struck at the very reason for the declines in their dynasties: an *unwillingness* to change. The reason behind this unwillingness to change was the vested interests that the most powerful elements of society held in the status quo. State officials and the landed elite had banded together to preserve the very systems which had given them their status. As we have seen, neither Wang Anshi nor Zhang Juzheng made an effort to nurture support among the bureaucracy for their programs. Once they were both out of office, all of their hard work was reversed.

Perhaps if Wang and Zhang had made greater efforts to “win friends and influence people,” their policies would have lived beyond their terms of office. Then again, maybe they knew they would be unsuccessful in garnering support so they decided not to waste energy on such a fruitless pursuit.

Wang Anshi had laid out his arguments in his memorials and other writings, but he expected his written arguments to stand on their own. After all, if what he was doing was for the good of the country, why would the benefits not be obvious to all? Naïvely believing that his ideas would sell themselves, Wang lacked the political savvy required to move a bureaucracy.<sup>100</sup> Zhang Juzheng, on the other hand, did not seem to care whether others accepted his reforms. He used what power he had to silence his critics. If either Wang Anshi or Zhang Juzheng had possessed the persuasiveness of a Sun Yatsen, or the charisma of a Mao Zedong, perhaps they could have converted some of the more moderate among their detractors, or at least tempered some of the opposition.

*Lesson #2: Having the support of a strong benefactor is important, but brute force only works for a limited time. Eventually, the support of the bureaucracy is equally as important. Politics is a game best left to politicians. Those unwilling to play the game – even those with the most noble of intentions – will not succeed without the ability to exercise influence.*

Yet another difference remains to distinguish the results of Wang Anshi's reforms from those of Zhang Juzheng. Though Wang Anshi's reforms were immediately rolled back once his emperor died, they were later revived by well-intentioned followers during the post-reform phase. The reforms of Zhang Juzheng, however, represented the last gasp of a failing dynasty, and were never attempted again during the Ming.

Why did Wang Anshi's reforms get a second chance? Wang's reforms, unlike those of Zhang Juzheng, were very comprehensive in that they were designed not only to reform the economy, but also to reform the bureaucracy and the educational system. It is very likely that Wang Anshi's educational reforms produced a second generation of reformers who had the skills necessary to carry on his work. It was simply unfortunate that the final emperor of the Northern Song frittered away his time with pleasures and essentially gave away half the nation to the invading Liao from the north.

*Lesson #3: Reforms that only solve the apparent problem may not be good enough. There needs to be a supporting infrastructure to ensure the continuance of the reform efforts.*

Were Wang Mang, Wang Anshi and Zhang Juzheng the only reformers who emerged during this 1,500-year stretch of Chinese history? There can be no doubt that other potential reformers also spoke up, but were immediately squelched by imperial authority. Sima Qian, the famous historian who dared to question a decision made by the emperor Han Wudi in 98 B.C., spoke up and paid the price for his audacity. Given the choice of death or castration, he chose the latter and became a lesson to all Chinese for the next two thousand years: It is dangerous to challenge authority.

Though not conclusive, these three historical portraits do provide insight into the difficulty of reform in modern China. One recent reformer who faced difficulties was former Premier, Zhao Ziyang. A protégé of Deng Xiaoping, Zhao took cues from Deng's economic reforms in the 1980s, but pushed too hard in the political arena. As has recently been revealed, Zhao was among the three Politburo Standing Committee members who did not vote in favor of martial law in order to contain the Tiananmen Square demonstrators in 1989.<sup>101</sup> He was purged from office after his apparent support of the 1989 demonstrators.

Even more recently, Qiao Shi, former head of the National Peoples' Congress, was also prematurely removed from office. The reform-minded Qiao had a reputation for attacking corruption, and was an advocate for faster democratic reforms. In a speech to the 15<sup>th</sup> Party Congress in March of 1997, Qiao called for the creation of a system of law which all government officials and party members must obey, and for the government to become more transparent and accountable.<sup>102</sup> In that same meeting of the Party Congress, it was announced that Qiao would be stepping down in order to comply with Jiang's insistence that all party cadres retire at the age of seventy – even though Jiang, himself, was already seventy-one at the time and remains in office along with fellow septuagenarians Li Peng and Zhu Rongji.<sup>103</sup>

These and other reformers of post-Mao China still face the difficulties of challenging a bureaucracy that refuses to

embrace change. There still exist the vested interests in the form of Communist Party officials who fear their eventual fall from power and the loss of their official privileges. These officials live in fear of the potential results of democratic reform in China. They have witnessed the effects of democratic reforms on the lives of other former dictators such as Chun and Roh of South Korea, Ceausescu of Romania, and Suharto of Indonesia.<sup>104</sup>

Still, there is reason to hope for a China that will be more tolerant of reform in the future. Though China is still a dictatorship, it is certainly less autocratic than during imperial times. In stark contrast to the imperial era, the Communist Party relies heavily on the use of its propaganda machine in a never-ending battle to win the hearts and minds of the people. Despite the apparent lack of democratic values evident in such efforts, this indicates that the Party feels a need to continuously reinforce its legitimacy in the eyes of the people. The opinions of 1.2 billion Chinese do matter to their government, and a government concerned with the opinions of its people is a government with the potential to reform.

## APPENDIX A

### *Wang Mang's Five Equalizing Measures<sup>105</sup> according to the Han Shu*

#### 1. *The Determination of the Index Number of Prices*

"Each directorate shall use the second month of each season for the determination of the equitable price of the commodities under its management. It shall note down the highest, lowest, and the mean price of each commodity in each district. The mean price shall be the equitable price of that particular locality, and shall not be applied to the places where the other directorates are situated."

#### 2. *The Buying of Unsold Goods from the Market*

"The Office of Equalization shall buy up all such goods as wheat, rice and other foodstuffs, cloth, silk and silk-fabrics – goods which are needed by the people for everyday use but which the merchants have not been able to sell at a particular time. The cost price shall be paid to the dealers in order to insure them against loss."

#### 3. *The Stabilization of Prices*

"As soon as the price of any of these useful commodities rises one cash beyond the 'equitable price' for that particular season, the Equalization Office shall sell out its accumulated stock at the equitable price so that the people may be protected against those who make extravagant profit by cornering supplies and manipulating the market."

#### 4. *Loans without Interest*

"Persons who need ready money for funeral, burial, or sacrificial purposes may be given loans by the Commissioner of Credit from the proceeds of trade. Such loans should be without interest, but must be repaid within the specified period of time. Loans for sacrificial purposes shall be repaid within ten days; those for funerals and burials within three months."

#### 5. *Loans to be used as Working Capital*

"Poor people who need capital to start productive work may also secure loans from the Commissioner of Credit who shall charge them a moderate rate of interest."



**APPENDIX B****Wang Anshi's New Policies****Economic Measures**

*Finance Planning Commission:* established to draw up plans for key policies and recommend the reorganization of state finance.

*Investigating Commissioners:* employed to investigate conditions in agriculture, irrigation and obligatory local service and to recommend action.

*Tribute Transport and Distribution System:* established to replace the transportation of tributary items sent to the government from the provinces with government buying and selling according to market conditions.

*Green Shoots Policy:* Using government granary reserves as capital, extended loans to farmers during planting, to be repaid with 20 percent interest at harvest. Until this time farmers had borrowed from wealthy land owners who generally charged a higher rate.<sup>106</sup>

*Regulations on Agriculture and Water Conservancy:* Set up rules to manage local irrigation projects and river conservancy.

*Hired Service System:* Established a system, funded by a graduated cash tax, to hire permanent employees to staff local sub-bureaucratic posts. This replaced the previous local obligatory service policies.

*State Trade Policy:* In an effort to stabilize market prices, government offices were created in major commercial centers to buy from and sell to small merchants, thereby allowing small merchants to avoid dealing with wealthy merchant guilds acting as wholesalers.

*Land Survey and Equitable Tax Policies:* Established to survey holdings of land and land quality in order to create the graduated tax system necessary to fund other policies. Aimed at eliminating tax evasion and unfair burdens.

*Guild Exemption Tax:* Merchant guilds were assessed a tax and relieved of the burden of contributing supplies to the palace.

*Currency:* Removed the ban on private shipment and handling of copper. Increased minting of copper cash to meet the demands of expanded state financing and replacement of obligatory labor and contributions of commodities with cash tax payments.

**Education and Civil Service**

*New Examination System and Schools Policies:* Poetry was dropped as an examination item. Candidates were required to write one essay and three policy proposals, and to discuss the meaning of items from the Classics. Appointed education officials to all prefectures and reorganized the National University under a three-grade system. Those who passed through all three grades were to be appointed directly to office. Instituted a new degree in law and established training in specialized fields such as military science, law and medicine.

*Government Clerks:* Clerks without official rank hired on salary basis. Established a system of strict supervision with measures for reward and punishment for clerks.

*Bureau for Commentaries on the Classics:* Prepared official commentaries on the Classics for study in preparation for civil service examination.

**Military**

*Tithing Policy (Bao jia):* Organized rural households into units of ten. Each household with two or more adult males was required to supply one male to receive military training and to serve in the local militia. Each unit was responsible for community policing, and eventually was also charged with the duties of tax collection.

*Horse-breeding System:* Families in the northwest border regions were each assigned a horse to care for. Horses could be used as farm animals, but the responsible family was required to replace the horse at its own expense if the horse died. During times of war, the horses were to be provided to the cavalry.

*Directorate of Weapons:* Charged with improving the quality of weapons and other minor defense-strengthening measures.

**ENDNOTES**

- Rhoads Murphey, *East Asia: A New History* (New York: Addison-Wesley Educational Publishers, Inc., 1997), p. 121.
- The Song era title of Grand Councilor (*zai xiang*) is also commonly translated as Prime Minister.
- Xin Fa* can be most literally translated as New Laws; however, all major works consulted for this paper, with the exception of de Bary's *Sources of Chinese Tradition*, use the term "New Policies." Authors who produced works mentioning the *Xin Fa* since 1960 were possibly influenced by an argument from James T. C. Liu, *Reform in Sung China: Wang An-shih (1021-1086) and his New Policies* (Cambridge, MA: Harvard University Press, 1959) p. 1, 119.
- The founding emperor of the Ming had abolished the office of Prime Minister as historical Prime Ministers were judged to have been too influential upon the emperor. As Chief Grand Secretary (*shou fu*), Zhang held informal powers similar to that of previous Prime Ministers. Charles O. Hucker, *A Dictionary of Official Titles in Imperial China* (Stanford, CA: Stanford University Press, 1985). Charles O. Hucker, ed., *Chinese Government in Ming Times* (New York: Columbia University Press, 1969), p. 46, 466.
- Murphey, p. 68.
- John King Fairbank, *China: A New History* (Cambridge, MA: The Belknap Press of Harvard University Press, 1992) p. 62.
- John Meskill, *An Introduction to Chinese Civilization*, ed. John Meskill (New York: Columbia University Press, 1973), p. 46.
- The emperor Han Xuan Di (r. 74 – 49 B.C.), however, did briefly interrupt the decline by relaxing the harshness of punishments toward the common people, and reducing court expenditure. See: Rudi Thomsen, *Ambition and Confucianism: A Biography of Wang Mang* (Denmark: Aarhus University Press, 1988), p. 38.
- Fairbank, p. 59.
- J.A.G. Roberts, *A History of China, vol. 1.* (New York: St. Martin's Press, 1996), p. 57-58.
- The Empress Dowager Wang, Wang Zhengjun, had been the empress of emperor Yuan (r. 48 - 33 B.C.) and mother of emperor Cheng (r. 33 - 7 B.C.).
- Ray Huang, *China: A Macro History* (Armonk, NY: M.E. Sharpe, Inc., 1988; repr., Armonk, NY: M.E. Sharpe, Inc., 1997) p. 52.
- John E. Wills, Jr., *Mountain of Fame* (Princeton, NJ: Princeton University Press, 1994), p. 78.
- Wang Mang, *Edict on Land Reform*, from the *Han Shu*, 99B:9a-10a; William Theodore de Bary, *Sources of Chinese Tradition* (New York: Columbia University Press, 1960) vol. 1, p. 224-5.
- Ibid.*
- Thomsen, p. 43, 209.
- Winston Lo, *An Introduction to the Civil Service of Sung China* (Honolulu, HI: University of Hawaii Press, 1987), p. 11.
- Milton W. Meyer, *China: A Concise History* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 1994), p. 219.
- H. R. Williamson, *Wang Anshih: A Chinese Statesman and Educationalist of the Sung Dynasty* (London: Arthur Probsthain, 1935-37), vol. 1, p. 131.
- During this time the required Confucian classics consisted of the *Analects* of Confucius, the works of Mencius, the classics of History (*Shu jing*), Poetry (*Shi jing*), and Changes (*Yi jing*), the three classics of Rites (*Li ji*, *Yi li*, *Zhou li*) and the *Spring and Autumn Annals* (*Chun qiu*). John W. Chaffee, *The Thorny Gates of Learning in Sung China*, (Cambridge, NY: Cambridge University Press, 1985; repr., Albany, NY: State University of New York Press, 1995), p. 4.
- A small amount of statistical evidence indicates that possibly as many as thirty percent of candidates "may have come from households that had not produced officials in the immediately preceding generations." John Meskill, *An Introduction to Chinese Civilization*, ed. John Meskill (New York: Columbia University Press, 1973), p. 120.

- <sup>22</sup> E.A. Kracke, Jr., *Civil Service in Early Sung China* (Cambridge, MA: Harvard University Press, 1953), chap. 4 passim.
- <sup>23</sup> Williamson, vol. 1, p. 178.
- <sup>24</sup> Lo, p. 77.
- <sup>25</sup> Williamson, vol. 1, p. 61.
- <sup>26</sup> Williamson, vol. 1, p. 68.
- <sup>27</sup> Williamson, vol. 1, p. 73-74.
- <sup>28</sup> Peter K. Bol, "Government, Society and State: On the Political Visions of Ssu-ma Kuang and Wang An-shih," *Ordering the World: Approaches to State and Society in Sung Dynasty China*, eds. Robert P. Hymes and Conrad Schirokauer (Berkeley, CA: University of California Press, 1993) p. 162.
- <sup>29</sup> Williamson, vol. 2, p. 50.
- <sup>30</sup> Albert Chan, *The Glory and Fall of the Ming Dynasty*, (Norman OK: University of Oklahoma Press, 1982), p. 162.
- <sup>31</sup> Ray Huang, *1587: A Year of No Significance*, (New Haven, CT: Yale University Press, 1981), p. 89.
- <sup>32</sup> Hucker, *Chinese Government in Ming Times*, p. 88.
- <sup>33</sup> Chan, p. 142.
- <sup>34</sup> Chan, p. 263.
- <sup>35</sup> Chan, p. 188.
- <sup>36</sup> Robert Crawford, "Chang Chü-Cheng's Confucian Legalism," *Self and Society in Ming Thought*, ed. Wm. Theodore de Bary (New York: Columbia University Press, 1970), p. 368.
- <sup>37</sup> Crawford, p. 395.
- <sup>38</sup> Crawford, pp. 396-7.
- <sup>39</sup> Han Fei Tzu, *Basic Writings*, trans. by Burton Watson (New York: Columbia University Press, 1964) p. 128.
- <sup>40</sup> Liu, p. 93.
- <sup>41</sup> Along with Su Shi (Su Dong Po), Wang is also considered to have been "one of six great prose masters of the Song Dynasty." Kracke, p. 19.
- <sup>42</sup> Bol, "Government Society and State," p. 163.
- <sup>43</sup> Willard Peterson, "Confucian Learning in late Ming Thought," *The Cambridge History of China, vol. 8, The Ming Dynasty, 1368-1644, Part II*, (Cambridge: Cambridge University Press, 1998), p. 740.
- <sup>44</sup> Chen Qiyun, "Confucian, Legalist, and Taoist Thought in Later Han," *The Cambridge History of China, vol. 1, The Ch'in and Han Empires, 221 B.C. – A.D. 220* (Cambridge: Cambridge University Press, 1986), p. 773.
- <sup>45</sup> Han Feizi (c. 280-233 B.C.) was the Legalist inspiration for China's first emperor, Qin Shi Huangdi (r. 259-210 B.C.).
- <sup>46</sup> Crawford, p. 384.
- <sup>47</sup> Liu, p. 45.
- <sup>48</sup> Liu, p. 42.
- <sup>49</sup> Hans Bielenstein, "Wang Mang, the restoration of the Han dynasty, and Later Han," *The Cambridge History of China, vol. 1, The Ch'in and Han Empires, 221 B.C. – A.D. 220* (Cambridge: Cambridge University Press, 1986), p. 228.
- <sup>50</sup> See *The Analects of Confucius*, XIII:3. Translation by D.C. Lau (London: Penguin Books, 1979), p. 118.
- <sup>51</sup> Thomsen, p. 72 and 144.
- <sup>52</sup> Thomsen, p. 88-90.
- <sup>53</sup> Wills, p. 85.
- <sup>54</sup> Thomsen, p. 130.
- <sup>55</sup> A more detailed description of the Five Equalizing Measures is contained in Appendix B.
- <sup>56</sup> For a more detailed treatment of the individual measures, see Williamson, vol. 1, chapters 11-22. Also, a list of Wang's measures with brief descriptions is contained in Appendix C.
- <sup>57</sup> de Bary, *Sources of Chinese Tradition*, vol. 1, p. 420.
- <sup>58</sup> Meskill, p. 132.
- <sup>59</sup> Peter K. Bol, *This Culture of Ours: Intellectual Transitions in T'ang and Sung China* (Stanford, CA: Stanford University Press, 1992) p. 248.
- <sup>60</sup> Ray Huang, "The Ming Fiscal Administration," *The Cambridge History of China, vol. 8, The Ming Dynasty, 1368-1644, Part II*, (Cambridge: Cambridge University Press, 1998), p. 162.
- <sup>61</sup> Ray Huang, "The Lung-ch'ing and Wan-li Reigns, 1567-1620," *The Cambridge History of China, vol. 7, The Ming Dynasty, 1368-1644, Part I*, (Cambridge: Cambridge University Press, 1988), p. 524-5.
- <sup>62</sup> Paul J. Smith, "State Power and Economic Activism during the New Policies 1068-1085: The Tea and Horse Trade and the 'Green Sprouts' Loan Policy," *Ordering the World: Approaches to State and Society in Sung Dynasty China*, eds. Robert P. Hymes and Conrad Schirokauer (Berkeley, CA: University of California Press, 1993) p. 83-84.
- <sup>63</sup> Smith, p. 83.
- <sup>64</sup> Wills, p. 78. Liu, p. 61.
- <sup>65</sup> Williamson, vol. 2, p. 376.
- <sup>66</sup> Crawford, p. 378.
- <sup>67</sup> Thomsen, p. 127.
- <sup>68</sup> Thomsen, p. 123.
- <sup>69</sup> See *The Analects of Confucius*, II:3. Translation by D.C. Lau (London: Penguin Books, 1979), p. 63.
- <sup>70</sup> de Bary, *Sources of Chinese Tradition*, vol. 1, p. 226.
- <sup>71</sup> Wang dispatched an army of over 300,000 men to the northern border with the Xiong Nu who ventured no major attacks during Wang's reign. Bielenstein, *Cambridge History of China*, vol. 1, p. 237.
- <sup>72</sup> Witold Rodzinski, *A History of China, vol. 1*. (Oxford: Pergamon Press, 1979) p. 67.
- <sup>73</sup> Bielenstein, p. 241-3.
- <sup>74</sup> Liu, p. 111.
- <sup>75</sup> Williamson, vol. 2, p. 187.
- <sup>76</sup> Williamson, vol. 1, p. 208.
- <sup>77</sup> Williamson, vol. 2, p. 202.
- <sup>78</sup> Huang, *1587: A Year of No Significance*, p. 14.
- <sup>79</sup> Crawford, p. 367.
- <sup>80</sup> Huang, *Cambridge History*, vol. 7, p. 522.
- <sup>81</sup> Chan, p. 269.
- <sup>82</sup> Huang, *Cambridge History*, vol. 8, p. 163.
- <sup>83</sup> Huang, *Cambridge History*, vol. 7, p. 526.
- <sup>84</sup> de Bary, *Sources of Chinese Tradition*, vol. 1, p. 226.
- <sup>85</sup> Smith, p. 79. "According to estimates by Albert Fierwerker and others, it appears that the Song state was able to take in almost twice as much of its economy's total output as either the Ming or the Qing state."
- <sup>86</sup> Smith, p. 83.
- <sup>87</sup> Bielenstein, *The Cambridge History of China*, vol. 1, p. 275.
- <sup>88</sup> Michael Lowe, "The Religious and Intellectual Background," *The Cambridge History of China*, vol. 1, p. 740.
- <sup>89</sup> Williamson, vol. 2, p. 239. In his biography of Wang Anshi, Williamson includes several chapters on forerunners of Wang Anshi, one of whom was Wang Mang.
- <sup>90</sup> Liu, p. 9.
- <sup>91</sup> Williamson, vol. 1, p. 383.
- <sup>92</sup> Richard L. Davis, *Wind Against the Mountain: The Crisis of Politics and Culture in Thirteenth Century China* (Cambridge, MA: Harvard University Press, 1996), p. 40.
- <sup>93</sup> Liu, p. 97.
- <sup>94</sup> Liu, pp. 9-17 passim; Williamson, vol. 1, chap. 3 passim.
- <sup>95</sup> Huang, *1587: A Year of No Significance*, p. 30.
- <sup>96</sup> Chan, p. 270.
- <sup>97</sup> Huang, *1587: A Year of No Significance*, p. 25.

- <sup>98</sup> Huang, *Cambridge History*, vol. 7, p. 515.
- <sup>99</sup> The eunuchs and other officials used torture to enforce payment of taxes. Wanli era records describe blood-stained courtyards in which people were tortured for inability to pay taxes. Chan, p. 226-7.
- <sup>100</sup> Liu, pp. 115-116.
- <sup>101</sup> "Who Wanted Troops in the Square, Who Didn't and What They Said About It," *New York Times*, January 6, 2001.
- <sup>102</sup> "Qiao Shi's Radical Ideas," *The Asian Wall Street Journal*, March 18, 1997, p. 10.
- <sup>103</sup> "Ready for the Fourth Generation," *The Economist*, October 28, 2000, and Frank Ching, "Change is Coming to China," *Far Eastern Economic Review*, December 28, 2000.
- <sup>104</sup> Chun Doo Hwan and Roh Tae Woo were arrested, put on trial and imprisoned. Ceausescu, former dictator of Romania, was, along with his wife, put on trial and immediately executed in 1989. Suharto, who was forced out of office in 1998, is currently under investigation for alleged corruption and embezzlement during his thirty-two years as president of Indonesia.
- <sup>105</sup> From Williamson, vol. 2, p. 237-8.
- <sup>106</sup> de Bary, *Sources of Chinese Tradition*, vol. 1, p. 420.

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## Buddhist Perspectives on Contemporary Ethical Issues Regarding Life and Death

by Alison Burke, M.A. candidate

### Abstract

How do our cultural views affect our decisions on such controversial issues as abortion, capital punishment, and euthanasia? And what effect would Buddhist perspectives have on the surrounding arguments? Assuming Buddhism brings awareness to the fruits of compassion, material detachment, and the theory of mutual co-existence, in what capacity would this awareness influence the issues at hand? This paper focuses on controversial, contemporary medical issues affecting and affected by the modern world. Our understanding of what life in the face of death stands for is largely dictated by the culture in which we live. In this paper I seek to incorporate Buddhist viewpoints regarding the issue of life: bringing it into and keeping it in the world, and taking it away from others.

The trouble with death is that it happens to everyone. We can't escape it and we do everything during our living years to deny it or pretend—at least in our youth—that it only happens to other people. It is a tragedy that ends the stories to other's lives, not our own. We each harbor a silent pleading, a voice inside that begs an invisible force: "I don't want to die." Fear creeps up at the thought of it, and even more so at the thought of losing our loved ones. We perceive it as the ultimate humiliation to our constancy. What else in the world could negate our lives so fully, bring to an end everything we've gained, attained and fought for? We do all *this* just to lose it in the end?

In our denial and indignation lies a cultural pre-occupation with death in all its ugly, violent forms. On the evening news and in the papers, it manifests as so much pain wherein lives are taken by murder, car accidents, plane crashes.

It's the ultimate punishment of life. No matter how hard we try to pretend it is a disease that afflicts others, or pray that it will take us mercifully in our sleep, it keeps coming back, reminding us that it is *the* door at the end of the tunnel and you can't avoid walking through it. As Bardwell Smith states in his essay, 'Buddhism and Abortion in Contemporary Japan,' "the human problem is not that we are finite but that we have trouble living with our finitude" (Smith, 1992, 65).

How do we reconcile? How do we learn to accept this inevitability rather than live in fear or denial of it? Assuming it is culture that shapes our views, what can we learn from other cultures and religions? Would we learn through study of other viewpoints that our fear of death keeps us clinging obsessively to life? What, for example, could Buddhism teach us that would somehow allow us to live more positively?

### Buddhist Concepts

*Karma* affects us individually and as a cultural and world community. It is the consequence of mental or physical action,

the chain of cause and effect in the world of morality. Hate breeds hate. Acts of goodness breed more virtue. True knowledge and deep understanding of *karma* could radically change the way we live as members of society. Awareness of other Buddhist tenets such as dependent co-origination (*pratitya samutpada*), and the Four Noble Truths (life is suffering; suffering is caused by craving; enlightenment is achieved through liberation from suffering; liberation is achieved through the application of the Eightfold Path) could, in principle, create a wiser, more compassionate society.

In Tibet, where Buddhism is inseparably linked to its culture, death is a part of everyday life. Tibetans "look on death as a threshold, as an entrance to a different existence. And for centuries they have taught people to conduct their lives so as to be prepared for the most important and significant transition" (Mullin, 1998, preface). In Buddhism life and death are regarded as mutually co-existing in a cycle called *samsara*, and Buddhists regard themselves as dying from the moment they are given life. They are inspired to live each day as if it were their last, to "perform deeds that will accumulate happiness in this lifetime and in lives to come" (Mettanando, 1991, 203). According to Tibetan Buddhism, when a human dies, the mind enters the *bardo*, or the "in-between state." The content of one's mind at the moment of death is believed to be of the utmost importance in determining the continuation of the samsaric cycle. "If we enter the *bardo* in a negative state of mind we trigger the negative karmic instincts and are led to a miserable rebirth; similarly, to enter the *bardo* with positive thoughts triggers positive instincts, and results in a positive rebirth" (Mullin, 1998, 32).

Death awareness is a concept found in all schools of Buddhism. Central to the teaching of Theravada death awareness is the development of moderation and non-attachment in life. Non-attachment is key since both attachment and aversion to life and death give rise to negative karmic action. Training in Theravada death awareness teaches us to see things with a sense of clear, calm detachment. Mahayana death awareness focuses on the concept of compassion. "When the trainee has a deeply rooted awareness of death it is easy for him/her to feel patience toward the harm caused by others, and to feel love and compassion toward them" (Mullin, 1998, 36).

To understand death in Buddhist terms it is helpful to look at Buddhist views of life. In Buddhism, death is marked by the moment that *prana*, our vital life energy, leaves our physical bodies. The question, then, is when does it enter?

### Japanese Buddhism and Abortion

Buddhism teaches that life begins at the moment of conception. William LaFleur states in *Liquid Life*, "...Buddhism will hold to the end that a fetus is 'life'...all forms of life deserve our respect. We may not turn them into our private possessions" (LaFleur, 1992, 170). In the West, the abortion argument rages on, both sides arguing over the definition of "life." It seems we can't agree and are all looking for that exact moment in embryonic or fetal development when life begins. It is interesting then to see how modern societies historically influenced by Buddhism treat the matter of abortion.

In Japan, Buddhism still holds some influence in the way people view life and its conception. Unlike Western society, the Japanese are less likely to use terms such as “unwanted pregnancy,” or “fetal tissue.” From conception, the embryo is referred to as a child, “even when there are plans to abort it. Many Japanese Buddhists, committed by their religion to refrain from taking life, will nonetheless have an abortion and in doing so refer to the aborted fetus as a child, one that clearly has been alive” (LaFleur, 1992, 11). This perspective seemingly creates more of a dilemma for those involved in the issue of abortion than for the individuals or society who hold that the “child” is a mass of tissue with merely the potential to create life.

Japanese Buddhism holds that being born is an act of gradualism. Being born into this world is simply a step among many of moving away from the world of gods and buddhas. And it is the largest step; the one that takes us into the realm of humans. Yet even this momentous event does not make one fully human. The Japanese engage in a coming-of-age ritual for every child at the ages of three, five and seven. The annual *Shichi-go-san* (seven-five-three) Festival in Japan is held to celebrate the child’s successful transformation into a full human. Thus, becoming human is gradual and begins at a time well before birth.

If an unborn child is lost to either natural or willful causes, it is called a *mizuko*. This literally means, “water child” and is named so upon the belief that we emerge into human life from “the great watery unknown” (LaFleur, 1992, 24). The traditional belief is that the *mizuko* returns to its watery origin, the world of gods and buddhas. Whereas most people proceed through life in one direction, the *mizuko* “(is) thought to make a quick (move) to a point still near at hand. And it could do so, after all, because its entry into the human world (is) still so tenuous, so uncertain, so unfixed by social ritual. It (is), in that sense, possible for the powers of the sacred realm to pull the *mizuko* back into itself” (LaFleur, 1992, 37).

Since the *mizuko* is considered life, it is only natural for the Japanese Buddhist family to pay their respects to the unborn. According to LaFleur, in many Japanese households, a simple rite is often held in honor of the *mizuko*. In homes, a small icon of Jizo (the bodhisattva for children), can be placed on the altar and reverential bows can be made to it. If a bit more pious and concerned for such things, members of the family may also recite the words of the ‘Heart Sutra’ or a prayer addressed simultaneously to Jizo and the invisible dead fetus (LaFleur, 1992, 148).

Often, *mizuko* are addressed in letters of apology — written by the mother or parents—that are then placed outside temples memorializing Jizo. The folk belief runs even deeper with the superstition held that the child, not having been granted the opportunity to be born may, in spirit-form, seek retribution. If proper respects are not made, the *mizuko* may seek reprisal by bringing great harm and misfortune to the rest of the family. Buddhists in Japan have addressed this issue, stating that the “notion of such retaliation is a delusion,” brought upon by the individuals’ feelings of guilt. Hiro Sachiya, a journalist in Japan, states, “the belief in retaliating spirits is simply false Buddhism; it is even contrary to

Buddhism” (LaFleur, 1992, 165). The cure to fears of retaliation is to make amends with the past. It is important to respect and acknowledge the life that was taken, but more important to face the future positively without a heavy conscience.

Buddhism states that life is created upon conception, and the greatest sin is to break the first of the five precepts (the Buddhist code to living wisely and compassionately). The first precept states that no human should intentionally kill other living beings. Yet, socially-engaged Buddhists around the world do not seek to re-criminalize abortion. The object of Buddhism is not to impose behavior upon others, but to enlighten individuals on such issues so that choices can be made freely but wisely, with compassion and mindfulness.

### Medical Ethics

Buddhism’s emphasis on the impermanence of life is a very interesting concept when it comes to quality-of-life issues in medical ethics. In the West, where the belief in a transcendental deity “has been severely eroded, denial of impermanence still persists, and other saviors, such as medical technology, function to allow denial of the reality of impermanence, finitude, and death” (Gross, 1988, 148).

Our collective fear of death and denial of our impermanence may be the driving force behind the extraordinary measures taken to prolong life in today’s medical world. Many individuals, when faced with their finitude via terminal illness, seek to prolong what they have left. A fear of death or the unknown must trigger this desire to stave off the inevitable. When it is finally time for that person to pass on, when no amount of resuscitation or life support can keep them here, it must be a very fearful experience. Death then is done in ignorance, with that pleading voice inside the head at its absolute loudest; “I don’t want to die.” Hopefully, many individuals do find peace before they pass on, but what, according to Buddhism, lies ahead for those clinging desperately to living in this world? In accordance with the *bardo*, in which direction does that person’s mind go? Buddhism speaks of six realms, each realm representing the state of mind of the person at the moment of their death. The six realms are the hells, the ghost realms, the animal world, the human plane, and the two heavens of the demigods and gods.

To die in a state of anger produces a mental content similar to the hells and results in a rebirth in hell. Similarly, the nature of the ghost realms is unfulfilled craving, and this corresponds with the delusion of attachment. Thus to die with heavy attachment leads to rebirth in the ghost world. The nature of the animal world is suffering due to lack of intelligence, and consequently dying in a state of...mental cloudiness or narrow-mindedness leads to a rebirth as an animal, insect, etc. (Mullin, 1998, 32)

If the terminal patient is experiencing a negative state of mind (craving, fear, anger, attachment) at the time of death then he or she will have to face the negative consequences. It is important to understand though, that our personal states of mind are within our power, and we must decide how we want to continue in the cycle of *samsara*.

It is also helpful to be surrounded by compassionate human beings who understand the importance of passing on with a clear, positive state of mind. According to Mettanando Bhikkhu in, "Buddhist Ethics in the Practice of Medicine," it is of the utmost importance for the doctor of the terminal patient to act wisely and with compassion. He states that the doctor has a responsibility to be available emotionally for the patient and to teach him or her the best way to accept death. A Buddhist doctor is likely to teach the patient the practice of meditation, a technique that initially trains the mind to stay still, resting upon things that are happy and virtuous. As they die, meditators can recollect all their virtuous deeds and maintain mental happiness as they step through the doors of death. If the patients master meditation, they will have a happy after-life destination, and will side-step all the difficulties in dying that arise from negative attitudes toward death. The meditation technique can lead deeper still and allow the patient to enter upon the eternal dimension of existence inside called Buddha Nature. Patients who master meditation to this degree can have full control over their after-life destination (Mettanando, 1991, 207).

More controversial an issue regarding death and dying is the act of euthanasia or assisted suicide. Here, the *karma* of the doctor is at stake if he or she assists or encourages suicide in this form. In accordance with the first precept, assisted suicide is considered as sinful as murder and will generate the same amount or type of *karma* for the people involved. A Buddhist doctor understands the value of life and that, "death itself is one of the main experiences that are conducive to enlightenment if the dying person is detached and mindful" (Gross, 1988, 149).

### Capital Punishment

It goes without saying that Buddhism would never support capital punishment as a method to curb violence and crime in society. Capital punishment is just another form of violence and affects the *karma* of everyone involved. It is an act created to seek revenge against those initially victimized. Proponents for the act argue that it is a form of retribution for the lives lost and that it provides closure for the victims' loved ones. Buddhism teaches that this sense of closure is a fallacy for it only creates more suffering. Further, the continued legislation of capital punishment implies that death is in and of itself, a punishment. A society that seeks to implement death as a punishment must then be the same society that clings stubbornly to living and fears death in the worst way. As an act, it indicates just how much violence, anger and lack of compassion lie at the heart of that society. Robert Thurman states in 'Nagarjuna's Guidelines,' "Taking of life is the worst violence, especially in enlightenment-valuing nations, where the precious human life, hard won by struggle up from the tormented lower forms of evolution, is the inestimably valuable stage from which most effectively to attain freedom and enlightenment. But to take a second life to avenge the first is to add violence to violence" (Thurman, 1988, 138). Adding violence to violence serves no one. Those involved must then deal with the heavy karmic burden of having taken a human life to avenge the first. Buddhists would in this case

advocate for the non-violent treatment of capital offenders. The enlightened society would not seek revenge but would instead instate measures of reform. Compassion must be extended to every living being, most especially to those lacking their own sense of compassion, and those who, due to their actions, are difficult to love (Thurman, 1988, 139).

### Conclusion

The Buddhist concept of living in the face of death is very useful for individuals and society. Buddhism never underestimates the value of life or the importance of proceeding through the cycle of *samsara* with positive *karma*. We learn from Buddhism that all that surrounds us is impermanent and that attachment to it creates suffering. Our perspectives determine the path taken to the lives that follow. We learn from Buddhism not to cling so resolutely to life or conceive death as the final act of negation. Buddhism teaches us that all facets of living and dying are within our power to change. Our minds are ready to be turned to positive thoughts and intentions. *Karma* is not pre-determined; every moment brings with it the opportunity to create positivity for ourselves and for those around us. Buddhism embraces death and does not shy away from it.

(Death) occurs every single moment of our lives, and also in every daily cycle. Each moment's consciousness is said to be a product of the fading out and re-arising of a previous moment's consciousness. The present mind is thus a unit born from the death of the last moment's mind. This is an important concept in Buddhism, and because of it enlightenment is possible. It is due to this continual death and rebirth of the mind on a moment to moment basis that change and transformation can operate within our personality (Mullin, 1998, 35).

Finally, Buddhism values life, and not just living, but also the continuous journey we have been making through the cycles of *samsara*. It teaches us to appreciate the struggle we have made to reach this point in existence. As Mettanando states in his essay,

The probability of being born as a human is so rare, that it has been compared to the probability of a turtle surfacing at random in the wide ocean and accidentally popping its head through the center of the only yoke (harness) floating in the ocean. (It) is not a random event, yet it is exceedingly rare for someone to accumulate enough virtuous karma to be born as a human being (Mettanando, 1991, 203).

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## Globalized Chinese Capital in Central America

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### Abstract

This paper links two areas of scholarly interest: it examines globalization of capital by looking at Asian investment in Central America; and it addresses ethnic elements of migration. Our research illustrates how these two phenomena are intrinsically related. Using the example of Chinese-owned (and managed) textile factories in El Salvador and Honduras, the paper highlights both a dramatic shift in the status of Chinese immigrants in Latin America, and it furthers our understanding of the political economy of capitalist restructuring. Chinese migration and Chinese investment are intrinsically linked to the globalization of capital. This has implications for how Chinese immigrants are perceived in their adopted countries and it impacts the economic and social conditions of factory workers. Most factory workers are Salvadoran, not fellow Chinese as was the case 100 years ago. Despite a shift from a time when impoverished Chinese workers were consigned to the lowest rungs of the social ladder to a present in which Chinese are owners of capital, ethnic Chinese are still viewed derogatorily. They are stereotyped as crafty, greedy, and culturally distinct from the native population. Ultimately this paper aims to show how globalization is linked to issues of race, class, and gender.

### Introduction

This paper bridges the gap between two vibrant, but generally distinct sets of academic inquiry. On one level it is a paper about globalization of capital and the effects of Asian investment on Central America. It is also a paper about ethnicity and the politics of migration. We illustrate here how these two processes interact and re-enforce each other, and are, as Sassen (1988) points out, part of same phenomenon. The increased movement of people and investment into diverse parts of the world. The subjects of study are Chinese investors and managers of garment factories in Honduras and El Salvador, and their relations with the local people who produce the garments.

Most of the literature on globalization falls into one of two camps: those who extol the virtues of free markets and increased trade as the engine of economic growth, and those that argue it benefits large capitalists at the expense of workers and the under class. Most scholars who study globalization tend to view it as an inevitable process. As Bonacich, Cheng, Chinchilla, Hamilton and Ong note when explaining these divergent views:

“Technology allows globalization, and competition forges it; there is really no stopping the process, so the best one can do is adapt on the most favorable terms possible. Nations feel they must get into the game quickly so as not to be left behind.” (1994:9)

Scholars and activists critical of the effects of markets and expanded free trade, such as Deyo, argue that not everyone benefits from globalization and that it displaces workers who

must comply with more exploitative, flexible forms of manufacturing and production. In this paper, we aim to move past debates over the merits of globalization; rather, we will show that globalization, while it affects the economic realities of corporations, managers and workers, it is not the inevitable process described above. In fact, globalization serves to both reproduce and strengthen existing patterns and perceptions of migration and ethnic politics, while it in turn is shaped and maintained through those patterns and perceptions. While there are obvious winners and losers from increased free trade and the movement of goods and people, it is necessary to examine its everyday manifestations through local relations of class, ethnicity and gender; we aim to explore the ways in which globalization discourse is negotiated and often contested symbolically through the mobilization and reconfiguration of race, gender and class stereotypes.

The following research uses the example of export-oriented garment factories—*maquiladoras*—in El Salvador and Honduras to highlight a dramatic shift in Chinese immigrants’ status in Latin America and to further our understanding of the political economy of capitalist restructuring. Chinese migration and Chinese investment are intrinsically linked to the globalization of capital in Central America, as evidenced in *zonas francas* or export processing zones. This has implications for how Chinese immigrants are perceived in their adopted countries and for the economic and social conditions of factory workers. In El Salvador, for example, factory workers in Chinese- or Taiwanese-owned and operated factories are Salvadoran, not fellow Chinese as was the case 100 years ago.<sup>1</sup> Although there has been a shift in class levels from the time when impoverished Chinese immigrant workers were consigned to the lowest rungs of the social ladder to a present in which Chinese are owners and managers of capital investment, ethnic Chinese are still viewed derogatorily. They continue to be stereotyped as crafty, greedy, and culturally distinct from the native population; added to these traditional stereotypes is the current notion that Chinese, Taiwanese and Korean factory owners are more abusive than Central American or United States-based factories owners, capitalists and managers.

Once Chinese migrants to Central and Latin America were looked down upon because they worked as virtual slaves and remained communally separate from indigenous peoples. Now, although Chinese immigrants occupy a different socioeconomic niche, those earlier stereotypes persist, along with others mentioned above; why? In part this is due to the nature of the relationship between (male) Chinese owners and managers and their (female) Salvadoran workers, and in part because Chinese factory owners and managers are the local faces of globalized capital. Because they stand as markers of this highly contested realm where relations of power, race, money and class are at once local and cross-border, Chinese investors in Central America are treated as proxies for the seemingly anonymous forces of globalized capital. In fact, they *are* the local raced, classed and gendered faces of globalization.

At the outset it should be noted that not all recent Chinese immigrants to Central America are middle or upper



class. Like Asian and Chinese immigrants to the US, Chinese overseas communities in Latin America exhibit class polarization. At one end are well-off, often transient, investors and professionals. This new group of immigrants is not numerically large but they are visible in the export processing zones (EPZs) where they build factories, and in urban/suburban areas where they settle. While the ethnic Chinese managers and factory owners are rich in comparison to their workers, they are not always as well off as their United States and Central American managerial counterparts. Because at there is a profit squeeze at all levels of the garment industry commodity chain, which is buyer-driven (Gereffi 1994: 111), it is not always clear who ends up profiting the most within the various levels of garment subcontracting. Multinational brand-name corporations press their (Asian and non-Asian) subcontractors, who oversee the production of the garments, to cut costs and to come in with the lowest bids possible. Consequently, while managers and owners are vastly better off than workers are, they are not necessarily the main beneficiaries of the profits made from the subcontracting squeeze in the garment industry commodity chain.

The other side of the class divide among ethnic Chinese are immigrants working in low-skill, low-wage jobs. There are Chinese migrants who are smuggled into various countries throughout Latin America and who are awaiting the next portion of an illegal journey into the United States or Canada. While there has been much written about the “push and pull” factors in the movement of poor and unskilled labor from Asia to the West,<sup>2</sup> there has been far less work done on new forms of immigration involving the movement of investors and their capital from Asia to poorer countries such as El Salvador. Portes and Bach, and Sassen (1988) focus on immigration within the context of the restructuring of Asia or global capitalism, but they focus on the movement of labor to the US and do not include the movement of industries and capitalists to other parts of the world in search of cheap labor and more export quota capacity for the United States and European markets.

The reason that ethnic Chinese factory managers and owners are seen in such a negative light, especially in relation to their North American and Salvadoran counterparts, has more to do with the ways in which globalization is not necessarily a “new” phenomenon. The current period of globalization is both a product of and a reconfiguration of older histories and stereotypes that are raced, classed and gendered in localized ways. One way for Central Americans to understand the current influx of Chinese capitalists and the labor abuse in export-processing zones is through the maintenance and reproduction of racist stereotypes. These stereotypes and relations at the level of the factory floor, in individual neighborhoods, and within specific national contexts, are maintained not only through the organization of (global) capital at the local level, but the very organization of production relations, labor control, and financial practices relies upon the reproduction of these earlier stereotypes. Globalization is never free of the local—it is, itself, both constituted by history and everyday relations as it constitutes these local fields.

### **Brief History of Chinese Immigration to Latin America**

As the slave trade ended, European landowners in Latin America needed to find new sources of inexpensive labor for resource extraction and agricultural work. Chinese migration to Latin America in the late 1800s occurred to fulfill needs for male agricultural labors. This was the so-called coolie trade, or *la trata amarilla*, yellow trade. Later, from the end of the 19<sup>th</sup> century through the 1930s, there was voluntary immigration of Chinese to urban, port, and mining areas in Latin America. Throughout Central and South America Chinese immigrants in the 19<sup>th</sup> century worked on sugar plantations, built railroads, and worked at resource extraction. Some resource cultivation was particularly hazardous, for example, it was highly toxic for Chinese laborers to work in the guano mines outside of Lima, Peru, and many died within a few years of their arrival due to working in these mines. Those who came as indentured servants to Peru were legally bound to eight years of labor. Although they immigrated under a contract system, the indentured servants—called coolies<sup>3</sup>—were treated largely as slaves during the tenure of their contract. If they survived their period of servitude they were then able to regain their freedom (Hu-DeHart 1999).

In Mexico, Chinese immigrants became small shop owners. Following American investment in Mexican mining and railroads, Chinese would operate small commissaries catering to the needs of the workers. In this position the Chinese were neither owners nor workers, they were middlemen much like their fellow Chinese in Southeast Asia, to be discussed latter in the article. There were also a small number of Chinese capitalists who came to Mexico and established larger trading houses and factories in Mexican towns such as Guaymas, Magdalena, and Hermosillo. These Chinese-owned factories produced shoes and clothing for shop owners to sell. Most of the laborers in the factories were other Chinese immigrants.

In the post World War II period immigration from China to Latin and South America continued to grow but with different push and pull factors. According to 1950 Latin American census figures, there were total of 58,104 Chinese in Spanish America. A Taiwan-sponsored publication on the Chinese communities of all Latin America and the Caribbean, written by Ho Ming Chung and published in 1967 estimated 150,000 Chinese in this large region (Hu-DeHart 1999:258.)

Some wealthy Chinese came to Latin America fleeing the communists, while those less well-off may have come for family re-unification or economic opportunities. One of the interesting things about 20<sup>th</sup> century migrants is that many of them were re-migrants, coming from not just from China but also from other countries with Chinese communities. “Chinese from Peru, for example, re-migrated to Ecuador, Chile and Bolivia; from Panama, Mexico and Cuba, some Chinese went to Central America and Colombia” (Hu-DeHart: 259).

The Chinese diaspora in Latin America is very different today than it was one hundred and fifty years ago. Many of those who immigrated over one hundred years ago have become fairly well acculturated with the larger (multiethnic) societies in Latin America. Some have re-immigrated else-

where in the region or to the US, as discussed above. These earlier Chinese diasporas have been augmented by the newer migrations of capitalists and managers. Chinese from Taiwan, Hong Kong, Singapore, and even from the People's Republic of China have moved to Central America and the Caribbean as investors and managers of factories. Today, Chinese investment is altering domestic and regional political economies and is part of the larger phenomena of globalized capital and production relations.

### **Factors Impacting Current Immigration**

#### **Government Involvement in the Diaspora**

At one time, the government of Taiwan helped coordinate and organize Chinese overseas. In Latin America from the 1950s through the 1980s Taiwan created the "Free Overseas Chinese" federations which were overseen by the Taipei-based Commission for Overseas Chinese Affairs. Throughout the Chinese diaspora, in Southeast Asia as well as in North America and Latin America, the KMT (the Kuomintang or Nationalist Party in power on Taiwan) sponsored a variety of cultural, educational and political activities. In part this was to help the Chinese communities maintain ties to the Republic of China (Taiwan), and in part this involvement served a political function. KMT involvement in the diaspora was a way of maintaining a political presence within communities overseas so that there was little chance that expatriates would develop any sympathies to the Communist Party on the Mainland. It was also a way of putting diplomatic pressure on other governments not to get too close to the People's Republic of China. Overall, it was a way of perpetuating overseas opposition to the communist regime across the Formosa Strait (Kwong).

In the 1980s Taipei organized a series of conventions for overseas Chinese leaders in different Latin American countries. These were opportunities for networking and for maintaining a sense of cultural connection to the larger Chinese diaspora; they were also opportunities to build links with Latin American countries for investment and for political recognition in the international arena, where Taiwan had become more and more isolated. By the 1990s, Beijing had become more aggressive diplomatically and KMT-linked organizations overseas became increasingly weak. While Taiwan and the KMT withdrew from political organizing among Chinese overseas communities, Taiwan became increasingly active in promoting trade and investment abroad.

In February 1994, the Secretary General of Taiwan's China External Trade Development Council announced plans to invest heavily in manufacturing plants in Mexico and Latin America in order to take advantage of the North American Free Trade Agreement to export to the US (Hu-DeHart 1999:258.). Chinese investors in Latin America have also been given economic incentives to re-locate by local governments, the Taiwan regime, and by US trade law. For example, in 1974 the US passed the Multifiber Agreement (and has updated it periodically since then). Under this act countries are given quotas under which they can export garments to the US at preferential tariff rates. Taiwan has fulfilled its quota

allotment and the government has aided Taiwanese businesses in seeking out new production sites in countries that have not yet met their quotas.

New immigrant groups of overseas Chinese from Taiwan and Hong Kong may live only briefly in countries where manufacturing plants are established, or they may settle more permanently. This new segment of the Chinese diaspora is perhaps less connected to the older Chinese diasporas in the countries where they invest, and instead can be better understood as part of a larger trend towards globalized capital and production. They are taking advantage of international trade regimes like NAFTA and the Caribbean Basin Initiative to expand their production quotas, increase their export earnings and promote investment in Taiwanese companies while at the same time investing abroad.

#### **Corporate Interests**

American, Canadian and European corporations contract out to various factories throughout the world to supply them with clothing. Even some high-end retailers have been looking for low-cost, low-wage production sites keep their costs lower than those of their competitors. With the proliferation of large chain stores like Wal-Mart, retailers are forced to search for the cheapest way possible to stock their shelves. Since there is enormous pressure to maximize profits, retailers require their suppliers and subcontractors to keep labor costs as low as possible while achieving high levels of productivity for the world-wide clothing markets and quick turnover time to keep up with the latest fashions.

#### **Consumers**

Until recently, few consumers were particularly aware of where their clothing was made or under what conditions. With an increasing number of options of where and how to shop for clothing, price can become a deciding factor for many consumers. Retail companies are aware of this and have often opted to keep the cost of apparel down and to increase their own profit margin at the expense of workers at all levels of the industry. They have chosen to do this rather than try to explain to consumers that better paid workers and better working conditions may result in higher priced clothing. The 1995 campaign against The Gap, discussed later in the paper, may have served as a wake-up call to consumers that cheap goods do not come without some cost.

#### **Globalization of Capital**

As Ong, Bonacich and Cheng (1994) note in their introductory chapter, capitalism has been going through tremendous changes and restructuring over the past few decades. While prior to the 1950s capital from 'developed' countries was already invested in the 'third world' for resource extraction, by the late 20<sup>th</sup> century the nature of the investment had shifted. Much of the world's manufacturing has moved to countries with lower wages and fewer environmental, health and safety, and other regulations. Goods manufactured in these countries are mainly produced for export back to the United States, Europe and parts of Asia. This process of

capitalist restructuring has produced a “new international division of labor” (Frobel, Heinrichs, and Kreye 1980), where developing countries serve as sites of production, and developed countries increasingly become service-based economies (Ong, Bonacich and Cheng 1994:9). In this new international division of labor, workers—mostly women—in the third world are engaged in manufacturing production, while the majority of white-collar clerical and management jobs are filled by mostly white workers in the first world.

Beginning in the 1950s, corporations based in the United States and Europe, with tax and quota breaks provided by their governments, flocked to Asian countries such as Taiwan, Hong Kong, China and Singapore and built factories to manufacture textiles, toys, and other labor-intensive products turning these countries into sites of manufacturing production within this division. By the 1980s, Asian economies (with the exception of China) had joined the ranks of ‘developed’ nations and had begun themselves to invest in lower-wage countries, moving production to places where the population had fewer skills, options, and recourse against harsh working conditions. Wages in Taiwan by 1990 had climbed to US\$2.53 an hour whereas wages in El Salvador and Honduras stood at US\$.49 and US \$.60 respectively (Bonacich & Waller 1994:32, Gereffi & Pan 1994:142).

Asian factory owners are still connected to corporations and consumers in larger, wealthier markets like the United States, Canada, and the European Union. “Asia now has its own internal patterns of international investments and runaway shops” (Ong, Bonachich and Cheng 1994:13). In part, Ong, Bonachich and Cheng argue, the globalization and restructuring of development is being imposed on the United States *by* challenges from Asia. In other words, because Taiwan, Hong Kong, and other ‘little dragons’ have been so successful, capital must continually look to find new sites of investment, and manufacturers must look for new sources of cheap labor.

Quota restrictions on textile imports to the United States are a significant incentive for investment in Central and Latin America and serve to further link Chinese investors to US industry and markets. Under the Multifiber Agreement (MFA), in effect since 1974 and modified periodically since then, countries are given quotas under which they can export garments to the US. Once they meet their quotas they can continue to export goods but pay prohibitively high duties to do so, or, they can open factories in other countries to take advantage of that nation’s export quota. A 1986 Congressional Budget Office report described MFA as having created a “generation of apparel Marco Polos” roaming the world in search of production sites with unused quota. (Bonacich and Waller 1994:33)

Quota limits are being used up in China, Taiwan, and Hong Kong and so manufacturers and the companies that contract to them for apparel production are constantly looking for new sites in which to produce. Labor is cheaper in China than in Central America, but the combination of increased unused export quota capacity, low wages, labor repression, tax incentives given by the governments of El Salvador, Honduras and others as part of the Caribbean Basin

Initiative (CBI), and the ease of shipping goods only a short distance to the United States, makes these countries attractive to textile producers. As an international labor organization explains in its report on investment in free trade zones in Central America:

“Las empresas coreanas y taiwanesas, concentradas en el sector textil, han implando sus actividades en el pais con el unico proposito de aprovechar la cuota salvadorena de exportacion hacia los Estados Unidos.” [Korean and Taiwanese firms concentrate their investment on the textile sector in El Salvador in order to take advantage of Salvadoran export quotas to the United States.] (Organizacion Internacional Del Trabajo, *La Situacion Sociolaboral en Las Zonas Francas y Empresas Maquiladoras del Istmo Centroamericano y Republica Dominicana* 1996:120.)

Asian investment in Central America has created jobs for workers in countries like El Salvador and Honduras, but Asian investors have also run into trouble. Negative cultural stereotypes of Chinese persist, reinforced by the fact that Taiwanese and Hong Kong-owned factories have been accused of widespread labor abuse. The next two sections of the paper detail events within one Taiwanese-owned factory in El Salvador, in order to explore the clashes between Chinese owners and managers and the Salvadoran workers in their employ.

**Table 1**

**Asian Investment in Honduras**

Country of Origin	Number of Factories	Number of Employees
Korea	33	13,660
Taiwan	6	1,000
Singapore	4	1,500
Hong Kong	3	2,044
China	2	440
Total	48	
Total Foreign-Invested	175	48,477

(Organizacion Internacional Del Trabajo, 1996. *La Situacion Sociolaboral en las Zonas Francas y Empresas Maquiladoras del Istmo Centroamericano y Republica Dominicana*, p. 228)

**Table 2**

**Asian Investment in Textiles in El Salvador**

Country of Origin	Number of Factories
Korea	9
Hong Kong	1
Taiwan	6
Total	16
Total Foreign-owned	67

(Centro de Solidaridad AFL-CIO, 1998. *Dinamica de la Actividad Maquiladora y Derechos Laborales en El Salvador* (Proyecto de Investigacion Permanente en la Maquila Centro de Estudios del Trabajo, Centra: 15)

Asian-owned factories have had a greater number of complaints filed against them than have other factory owners citing poor working conditions and labor violations. There is

evidence of higher levels of worker-directed physical abuse and sexual harassment in Asian-owned factories than in others, as shown below by the records of written complaints:

**Table 3**

**Written Complaints Filed Against Foreign-Owned Factories in Honduras (1992-1994)**

Factory Owner's Nationality	Mistreatment	Legal Violations	Criticism	Total from Rights Organizations
Asian	24	12	10	46
Other	4	3	1	8
Total	28	15	11	54

(Organizacion Internacional Del Trabajo, 1996. *La Situacion Sociolaboral en las Zonas Francas y Empresas Maquiladoras del Istmo Centroamericano y Republica Dominicana* p. 257)

Research for this paper was conducted at Mandarin International, a Taiwanese garment factory in San Salvador's San Marcos Export Processing Zone (EPZ). The factory first opened in 1992 and since then numerous complaints have been filed by workers at Mandarin regarding violations of labor standards. Workers complained, "among other things, of being forced to work overtime without pay, of not being allowed to go to the bathroom when needed, and of not having access to drinking water at the factory site. Complaints of verbal and physical abuse of workers at Mandarin were also common" (Brooks 2000). In 1995, 350 Mandarin workers were fired for their attempt to join an independent labor union, SETMI. Those who joined the union were not only fired, but also blacklisted, preventing former Mandarin workers from finding work in other factories both inside and outside the EPZ.

Mandarin's Taiwanese management refused to recognize SETMI and attempted to weaken the union's power by offering leaders money to disband. One SETMI leader stated "The manager called us in one by one and offered us money to end our organizing, saying that other leaders had left in exchange for payment. I refused and said to the manager 'How cheaply they sold themselves.'" (Brooks 2000) SETMI was banned from entering Mandarin, and then from the San Marcos EPZ entirely after the union refused to retreat from its request for recognition. When guards at the processing zone refused to re-admit the fired workers from Mandarin, workers in other factories staged a protest demanding that Mandarin management negotiate with SETMI leaders and that the fired workers be rehired. The head of security at Mandarin hit one SETMI member and made her nose bleed; other security officers began to beat union members and a melee broke out.

When several hundred Mandarin workers were locked out of the factory for trying to organize, 5,000 workers from other EPZ factories went on strike to support the Mandarin workers. An agreement was signed between workers and management in February of 1995 stating that physical abuse in the factory would end. In the summer of 1995, two

workers from garment factories in Central America toured the United States to call attention to the plight of young women making brand-name clothing for American consumers. One of the women, Judith Viera, is a former Mandarin worker; the other, Claudia Molina, worked in a plant owned by Orion in Honduras. Both women had gone to work in the factories as teenagers and had been abused at the hands of their employers. In addition to the conditions described earlier, the women told tales of being forced to take birth control so as to prevent pregnancy and maintain their levels of productivity, and so that the factory would not be responsible for paying out health or leave benefits for pregnancy and childbirth.

The women's travels in the United States generated significant outcry from labor activists, the news media and some consumers. Bob Herbert, op-ed columnist for the *New York Times* covered the tour, and traveled to El Salvador himself to speak with garment workers and factory owners. Demonstrations were organized in the US to target companies that sub-contracted to Mandarin International for their apparel; the primary target was The Gap, Inc. The Gap was accused of being complicit with subcontractors like Mandarin in El Salvador in keeping workers unorganized and victims of their employers.

In an attempt to preserve its reputation, Gap responded to the letter and the protests in a written response addressed to the groups that had written from El Salvador, announcing the cancellation of orders from Mandarin. Gap also reworked its vendor Code of Conduct for labor practices, called its "Sourcing Principles and Guidelines." Despite the institution of Gap's "Sourcing Principles", which state that 'Gap, Inc. believes workers should be free to join organizations of their own choosing. Business partners may neither threaten nor penalize employees for their efforts to organize or bargain collectively,' one leader of SETMI pointed out that it was then that union support and membership dropped considerably. (Brooks 2000)

With the Gap's new corporate statement, why would union membership drop? At the same time that Mandarin was in conflict with members of SETMI, and while Claudia Molina and Judith Viera were speaking out against Latin American sweat shops, the owners of Mandarin initiated a pro-management organization ATEMISA, which they registered with the Ministry of Labor as an "Association" rather than a union. Management made sure that "those who joined ATEMISA kept their jobs, and got paid, despite the fact that there was no work to be done after Gap stopped its orders at Mandarin."

By the autumn of 1995 the Mandarin situation had reached a critical juncture. Gap earnings during the holiday season were threatened, and Mandarin had suspended operations. As part of a negotiated settlement reached in December of 1995, Mandarin agreed to meet with the union representatives who had been fired to address some of their grievances. The Gap Inc. promised to resume contracts with Mandarin when it could be assured that its orders would result in humane and productive employment in El Salvador. Although both The Gap and Mandarin proclaimed the agreement a 'success', the situation at Mandarin continued to

deteriorate. Independent human rights organizations confirmed that labor standards were still not being respected within the factory, and that working conditions had not changed with the signing of the resolution. At the factory, no one from SETMI who had been fired in 1995 was rehired, and factory management continued to support ATEMISA and its members. For the next year and a half, negotiations were held among management representatives from Gap and Mandarin, and with representatives from human rights organizations and the Archdiocese of El Salvador in order to urge Mandarin to rehire workers fired in 1995. Finally, in January of 1997 radio, TV, and newspaper announcements were made inviting those fired in 1995 to apply for reinstatement at Mandarin. The factory also made attempts to contact workers directly by telephone and telegram. Within a year, about 75 workers were rehired and working conditions had improved in some areas.

**The Perception of Ethnic Chinese in El Salvador and Honduras and the Social Consequences of Globalization**

Chinese have been a part of the population in El Salvador and Honduras for one hundred and fifty years. Chinese investors in El Salvador and Honduras are especially despised, mostly due to labor abuses and working conditions similar to those described in the case of Mandarin International. Although many of the garment factories in the EPZ are owned by Salvadoran and American investors, firms owned by ethnic Chinese (Hong Kong or Taiwanese, and Koreans—all colloquially called “Chinos”) seem particularly to be singled out for condemnation.

The government of El Salvador claims to be very concerned about abuses in the factories, as do the private owners and directors of the county’s EPZs. In interviews at one export-processing zone, the manager seemed eager to prove that the zone’s directors were actually doing something about workers’ accusations of abuse by their employers. To illustrate his point, the manager of the EPZ claimed to have closed down a Hong Kong textile plant for labor abuses.<sup>4</sup> It is distinctly possible that the official fabricated the story of a factory being closed because of labor abuse. It is also not a coincidence, however, that the EPZ manager described the plant in question as Chinese-owned. The factory was portrayed as being so poorly managed, and so abusive to its workers that it was forced out of business. This helps to take some of the pressure, at least rhetorically, off the government for the enforcement of local labor laws, while making the EPZ look as if it supports labor rights in its alleged expulsion of a Hong Kong-based firm. This way, the cause of labor abuse and poor working conditions is not the brutal system of subcontracting and the lack of labor law enforcement, but the individual factory that was expelled at an earlier point. The EPZ, and the industry as a whole, is again free to exploit and abuse workers, to violently ban union organizing and to make profits, because the bad example of Hong Kong managers has been eliminated.

The displacement of blame for labor abuse—from the hyper-exploitation of the industry and the repression of local

and international governments to individual factory owners—is played out not only among government and factory-level bureaucrats, but in the media, among activists and in popular culture. A particularly racist cartoon was published by *Diario Latino*, a leftist newspaper in El Salvador (5 January 1995).



Translation:  
 Title: **Abuse by Foreigners**

“In the bad old days Salvadorans suffered. Our mistreatment is an infamy endured since the Spanish conquest, always we have suffered at the hands of Mexicans, and now Koreans<sup>5</sup> have become our masters.”

**Panel 1** (upper left): “The conquistadors say they will conquer the Pipil Indians and leave them with nothing....it’s our opportunity to make ourselves rich in the name of the crown.”

**Panel 2** (upper right): The Mexican officer says: “You stupid ox what are you doing here? Why didn’t you stay in El Salvador?” The Salvadoran immigrant responds: “The recent declaration of your President ‘Do-Nothing’ Zedillo is, as you say, as useful as a donkey fart.”

**Panel 3** (bottom): “NOW.... Koreans in the San Bartolo Export Processing Zone”

The person on the ground is labeled as a beating victim. The two other figures standing, one with a whip and the woman’s hair in his hand, the other counting money, are

Korean managers at the EPZ. The captions in this part of the cartoon are a pidgin Spanish, L sounds are substituted for R sounds and the grammar is sloppy and abbreviated.

The first man says: "Salvadoleans use to be good workers, and we pay salary of slaves. Women not go out, it is inconvenient for factory."

The second man holding a cup and a packet of birth control pills says: "Take a pill now! We are to be powerful... we are unpunishable. Authorities agree, ha ha!"

The question at the bottom of the cartoon asks: "What happened to the authorities?"

### **The Intersection of Globalization and Ethnic Politics**

The cartoon and the labor abuses at Mandarin International illustrate a new phenomenon at work. Investment from Asia (Taiwan, Hong Kong, and Korea) into El Salvador and Honduras is meeting demands from American companies (like The Gap), for the supposed benefit of American consumers. In the 19<sup>th</sup> century, Chinese laborers were brought from China to Central and Latin America to work for foreign firms and large plantations; they were the work force of the global economy. Now, Chinese immigrants are the owners and managers of capital and investment, while the mistreated workers are the young women of Central and Latin America. As Brooks mentions elsewhere:

"Scholars have identified the current period of flexible, just-in-time (JIT) production systems and the 'new international division of labor' (NIDL) as being marked by an increased globalization of production and finance. The literature on globalization has also focused on space as socially and historically produced organizations that may shift over time. Such categorizations are useful in understanding the period of globalized finance and manufacturing as something new, but often the focus on 'symbolic exchanges' and signs leads us to think of globalization as happening somewhere outside of everyday relations and productive exchanges." (Brooks 2000)

As part of these "everyday relations," which are the local manifestation of Lash and Urry's economies of signs and symbols, ethnic Chinese are the locally marked adversaries of Central American and Caribbean workers. Just as they were 100 years ago, Chinese in Central America are seen as outsiders, and their presence as owners and managers of capital is seen as a graphic example of where countries like El Salvador and Honduras stand in relation to the dynamic "success stories" of East Asia—and in relation to the imperial power of globalization located in the United States. The incentives that encourage Chinese migration to Central America are part of the policies of U.S., Asian, and Central American governments, and are marks of U.S. and European consumption practices and corporate interests. In part because they are seen as racially and culturally different from their workers, Chinese managers and owners are marked particularly as agents of abusive economic interests that are at the heart of organizing and overseeing apparel production.

Within globalized economic relations, corporations have become enormously powerful—backed by the policies, practices and violence of nation-states. Retailers, through the system of commodity chains and transnational subcontract-

ing, become employers of labor around the globe and are in an exploitative power relation with a transnational workforce. Taiwanese and Hong Kong investment in El Salvador and Honduras would not have been so enticing if not for the possibility of getting around quota allowances. Interestingly, it is possible that these quota arrangements will be dismantled under new GATT/WTO regulations which would abolish the quota system now in place. However, the WTO has continually postponed this measure. Meanwhile, Taiwanese and Korean firms have been establishing textile factories around the globe to produce more goods for the American and Canadian market. If the quota system ends they could close the more expensive factories, or there could be advantages to maintaining a global production system.

To return to the case of Mandarin International in El Salvador, two significant things needed to happen before working conditions could be improved. First, when workers' attempts to organize were repressed by management, Claudia Molina and Judith Viera, with the support of U.S.-based labor activists, embarked on their campaign to educate consumers and the media about the deplorable working conditions they endured. Second, The Gap, motivated by falling profits, was forced to improve labor conditions there. It was the combination of workers' testimonies, and their appeal to consumers, and international corporate attention that worked to address problems at Mandarin International.

Labor campaigns like the one targeting The Gap had an impact both on the American retailing giant and on a range of sectors within El Salvador: low wage laborers, banks, and government officials each had a stake in the outcome of the Mandarin case. Likewise, the political-economic relations of Taiwan, Hong Kong and Korea are also affected by such conflicts. Finally, the battle over garment production and the rights of labor are most crucial for El Salvador. Peace rests on the Salvadoran government's ability to ensure 'stability' and 'productivity'—before international recognition of the abuses at Mandarin, no thought had been given among government and corporate representatives to the fact that what were seen as stable and productive political-economic relations in practice rested on labor abuse and exploitation.

One of the social consequences of the increased globalization of the economy is heightened income inequality. This is true both domestically in countries such as El Salvador and Honduras, but also internationally, between share-holders in the corporate entities on the one hand, and consumers, the subcontracting firms, and the sites of production on the other. Economic inequalities have also been, in part, responsible for ethnic hostilities in countries where Asians are the new investors. The political elites of all three countries involved in the Mandarin dispute, El Salvador, Taiwan, and the United States, have tended to shy away from direct involvement in labor-management disputes like the one at Mandarin International. The Salvadoran government (first under President Calderon, and now under President Fernando Flores) has tried to woo foreign investors from Taiwan and South Korea through tax-incentives in US and Asian-built free trade zones to facilitate textile exports to the United States. The various governments involved tended to ignore labor abuses and

working violations, until an international protest campaign was organized around labor abuses and violations at Mandarin and targeted at one of its retailers, The Gap Inc.

Both politically and economically, Taiwan has a number of incentives to want to maintain an economic presence in Latin America. The Taiwanese government and Taiwan-based capitalists are interested in improving diplomatic relations with as many nations as possible as a counterweight to the People's Republic of China's efforts at attracting diplomatic supporters. In its quest for global recognition and respect, Taiwan has implemented an active program of foreign aid and foreign direct investment (FDI). Countries in Central America have been targeted for their attention precisely because they are underdeveloped and in need of economic support. However, Taiwan is not investing in Latin America for purely political reasons. Taiwan also has significant investments in Southeast Asia. Countries that have received FDI from Taiwan include Indonesia and Malaysia, two countries with significant Chinese populations.

In both Indonesia and Malaysia, Chinese (with and without links to foreign partners) have developed a reputation for being the engine of economic growth in the 1980s and 1990s. Chinese in both countries are part of the wealthy elite who benefited from state-led development efforts of the last twenty years. Taiwanese (and Japanese) investors have developed business networks with local Chinese businesses throughout Southeast Asia. In Indonesia ethnic Chinese in particular are viewed with hatred and envy. A small number of very rich Chinese business men forged close links with former President Suharto and they were the beneficiaries of much of that country's economic growth. One of the reasons that Chinese in Southeast Asia became so dominant economically stems from their position as a middleman minority under colonial rule. Just as they were in Latin America, Chinese were treated differently than the indigenous peoples in both British Malaya and in Dutch-controlled Indonesia. Chinese were seen as useful merchants and traders so that their position was relatively protected during colonialism. After colonialism ended in Asia, Chinese had better access to capital and already had developed trading and banking networks. Therefore, they had a head start in developing independent businesses. Although Chinese in both Central America and Southeast Asia are viewed as economic elites and as part of the problem with globalization of capital, Chinese in Southeast Asia are different from their counterparts in Latin America in some significant ways. First, there are far more Chinese in Southeast Asia than in Central America; Chinese are 30% of the population in Malaysia, and between two and three percent of the population of Indonesia. Second, immigration to Central America continues today, Chinese from the People's Republic of China continue to make their way to the Americas. There has been little new Chinese immigration to Malaysia and Indonesia since the 1960s. Lastly, since the local Chinese population is so small in Central America the Chinese and Taiwanese factory managers and owners are more noticeable.<sup>6</sup>

## Conclusion

This research began with a simple question or puzzle, are Chinese migrants to Latin America treated differently now than one hundred years ago, and if so, why? From our research, it seems that while their social and class position is vastly different now than in the 19<sup>th</sup> century, they may still be stereotyped and stigmatized. Does class make a difference in the perception or treatment (or societal position) of Chinese in Latin America? Class, when combined with gender, history, race and ethnicity, works to reinforce some societal positions while breaking down others. All of these factors, closely intertwined with the globalization of capital, have contributed to the negative images of Chinese in Latin America. As their class positions have changed, Chinese immigrants in Central America are seen as the local faces of exploitative global capital. As such, Chinese continue to be viewed as distinct from the domestic population, as foreign, and as raced, gendered and classed others.

## ENDNOTES

- <sup>1</sup>For more on early Chinese immigration to Latin and Central America see Lynn Pan (ed.) 1999. *Encyclopedia of Chinese Overseas* (Cambridge, MA: Harvard University Press).
- <sup>2</sup>For a good view of this see Alejandro Portes and Ruben G. Rumbaut 1990. *Immigrant America: A Portrait*. (Berkeley, CA: University of California Press).
- <sup>3</sup>The word "coolie" has two origins. It comes from the Chinese term *ku li*, or bitter labor, and it has an Indian or Hindi origin, *kuli* meaning bonded labor. (Ding 1997)
- <sup>4</sup>There is no paperwork or corroborating evidence to support his claim that he actually closed down a Hong Kong garment factory. While the story might very well be true, it is also possible that this official wanted to look concerned and proactive to an American researcher.
- <sup>5</sup>Most people interviewed in El Salvador (workers and union organizers) did not differentiate between Taiwanese, Hong Kong Chinese, Koreans, or other Asian factory owners. All Asians were generally referred to as "Chinos". Since the cartoon appears in a newspaper, it makes more sense that the negative image of Asians in general is specified as mockery and criticism of Koreans. It would not have been surprising to see the same cartoon portray Chinese factory owners in the same light.
- <sup>6</sup>For more information on the Chinese in Malaysia and Indonesia see Amy Freedman *Political Participation and Ethnic Minorities Chinese Overseas in Malaysia, Indonesia, and the United States* (NY: Routledge) 2000.

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## Sony's Morita: A Visionary Leader

by Richard J. Lambert, M.A. candidate

### Abstract

Sony has become one of the world's most recognizable names since its inception in the war-torn rubble of 1946 Japan. Akio Morita, 15th generation son of a sake brewer, gave up a post war life of privilege to break with the past and spearhead the effort to build Sony. He did so through personal passion combining traditional Japanese personality with aggressive international business acumen, setting a standard for post-war corporate development that resulted in the hybrid method of Sony corporate management that operated to please the will of Akio Morita. This paper explores a sequence of events unique in corporate Japan, which if examined separately would have contributed to the development of a good company but when administered in sequence under the visionary leadership of Morita, culminated in Sony. Morita is seen at the center of Sony's major decisions, which he orchestrated based on his conviction of Sony's capacity to realize product synergy from their diverse resources. Morita always felt that Sony could develop and exploit the technology of the future, with Morita's success often coming from his ability to apparently see what the future would bring. Morita certainly broke with the previous concrete-like management style. The visionary leadership he demonstrated should be held as an example not only for business Japan, but as an illustration of what a leader can be for the whole of Japanese society. The nation's future into the 21st century depends on Japan's being able to produce more men like him.

### The Legend

Sony has become one of the world's most recognizable names since its inception in 1946 post-war Japan. A short-list of powerful and dynamic individuals have led the company: WWII trained physicist Masaru Ibuka, who had the unique idea of using the newly developed transistor for a radio; Akio Morita, who gave up a privileged life of becoming the 15th generation head of a 300 year-old family business in order to join Ibuka in development of Sony and whose 'sixth sense' came up with the Walkman; Norio Ohga, whose real passion was opera but who joined Sony after discovering Ibuka and Morita appreciated his audacious questions and would treat him as an equal; and Nobuyuki Idea, internationalist, picked by Ohga in 1995 to lead Sony into the digital age of the 21st century.

Until his stroke at the end of 1993 Morita spearheaded the effort of developing Sony into one of the world's best-known companies through a personal passion that combined Japanese personality and authoritarian management with aggressive international business acumen. In Sony's case, the Japanese notions of management by consensus (*ringi*) and *nemawashii* did not apply. Morita states,

"...very often the consensus is formed from the top down, not from the bottom up, as some observers of Japan have written" (Morita 1986: 198).

The result was a corporate culture that operated to please the will of Akio Morita and his small management team. Kenichi Ohmae surmised,

"It is no surprise that many of the most globally successful Japanese companies—Honda, Sony, Matsushita, Canon—have been led by a strong owner/founder for at least a decade. These leaders can override bureaucratic inertia; they can tear down institutional barriers" (Ohmae 1990: 91).

This corporate culture was kept intact while Morita had the energy to direct Sony, either personally or through his apprentice N. Ohga. As revealed by Mr. Ohga:

"The Japanese board of directors is a formality. Our Executive Committee was like our real board. That's where we made all our decisions about how much to invest and so...consensus takes time! In actual practice, Mr. Morita and I would discuss things and then tell the others of the decision and we had reached. Many things were decided in that manner, between the two of us" (Nathan 1999a: 208).

It was Morita, a graduate in physics and an expert in marketing, whose self-sacrifice, dedication, and management style brought Sony to a position of international recognition. Through Sony we witness the creation of a company in 1946 with sales of \$6,944 employing 35 persons (Lyons 1976: 2) to an international conglomerate in 2000 with sales of \$63 billion employing 189,700 persons (Sony 2000). We see Morita personally develop from an advocate of Sony to a vocal and visible advocate of Japan's right to become the first Asian nation to accede to a position equal to that of the USA and the European countries. Henry Kissinger spoke of Morita thus:

"First of all, the Japanese in my experience are not great communicators. They tend to operate within their consensus, and when they get dropped out of the consensus and get into a dialogue with other cultures it's tough because they don't feel they have the authority to make independent decisions. So, even for many of us who have Japanese friends who we value, the problem of communication is very difficult. Morita could conduct a dialogue, and while he was a very patriotic Japanese and a firm defender of the Japanese point of view, he could communicate it in a way that was meaningful to non-Japanese... He was probably the single most effective Japanese spokesman I ever met" (Nathan a: 77).

### The Early Years: Foundation Made in Japan

The founders of Sony, M. Ibuka and A. Morita, established Tokyo Tsushin Kogyo K.K. on May 7, 1946 (with a later name change to Sony Corporation in 1958). The founders had met during the war while jointly working on a heat seeking missile project for the Japanese Navy. Both were physics graduates and were eager to exercise their technological prowess in the production of consumer goods free from the wartime authorities. Prior to incorporation Ibuka had written a 10 page document entitled "The Founding Prospectus" stating the purpose of establishment:

"To create ideal workplace, free, dynamic, and joyous for engineers to realize their craft and skills. Untoward profit seeking is eliminated. Profit shall be placed as secondary motive, but our service commitment should be pure and total including explanation to customer in a manner they can understand. Our service department should include introducing the latest technology from abroad" (Nathan 1999a).

The genius of Ibuka was soon realized by Morita, which served to define the roles that each would follow in the future development of Sony. "We were fortunate in having a genius like Ibuka" said Morita, "who concentrated totally on innova-

tive product design and production while I learned the merchandising end of the business" (Morita 1986: 58). Morita's genius was to be seen in his ability to follow through with successful marketing on the products that Ibuka's engineers were to develop.

With the Occupation Forces purging the *zaibatsu* influence from the postwar environment, the founders were able to exercise real management in the establishment of Sony. Sony did receive support in its establishment from prewar men of influence: Ibuka's father-in-law Tamon Maeda, former Minister of Education; Junshiro Mandai, former Mitsui Bank chairman; Michiji Tajima, director general of Imperial Household Agency; Rin Masutani, wealthy entrepreneur; and Morita's father, Kyuzaemon Morita, wealthy 14th generation Nagoya businessman and the largest initial investor (Morita 1986; Nathan 1999a).

Sony was a beneficiary of the Japanese government's investment in war technology. During the war the Japanese authorities realized that a hope for victory was to emphasize the technological aspects of warfare through the development of advanced weapons. Most of this research was done at laboratories near industrial centers by research teams assembled from the best universities. Due to their technological prowess these men were deferred from traveling to the front lines and avoided being killed. The war's end released an abundance of such highly trained engineers ready to work for the civilian restoration of Japan's industrial base. In the ruins of 1946 jobs were scarce and Sony had no trouble finding highly trained people ready to devote themselves to the reconstruction of Japan through realization of Ibuka's dream as embodied in his prospectus.

The enthusiasm the Japanese applied in the reconstruction is evident by what was accomplished during the aftermath of the war. The mindset of the defeated Japanese was one of disciplined soldiers working to relieve the shame of defeat. Morita commented that the spirit that was evident in post-war Japan while rebuilding the nation was similar in nature to that which the Japanese exhibited in the post Meiji era. In a span of less than 40 years in order to survive the European colonialists Japan was able to militarily defeat both China and Russia (Morita 1986: 161-162).

Sony policy from its inception was to finance its independence through private capital formation rather than through large borrowings from banks. This low debt ratio kept Sony free from undue influence from Japanese banks which were indirectly controlled and regulated by the government (Reingold 1971). In 1960 Japanese industry average ownership by banks was 23%, while the holdings of Sony by banks were just 8% (Nathan 1999a: 64/65). In 1961 Sony was the first Japanese company to be listed on the NY Stock exchange for the sale of ADR's, injecting not only additional capital into the company but foreign influence. By 1976 the foreign ownership of Sony was estimated at 42% (Lyons 1976: 222), and estimated at 40% as recent as 1998 (Murasawa 1998).

Morita states that the registration of the ADR's may have been the hardest work he ever had to do, but was it a profound learning experience.

"Fortunately, Prime Minister Hayato Ikeda was pleased with the idea, because he was an internationalist and this would be a first for Japan, a first postwar capital liberalization" (Morita 1986: 94).

As part of registration it was necessary for Sony to undergo an audit by the SEC and Price Waterhouse; differences in Japanese and US business practices were noted which had to be rectified for Sony to receive approval. Principal among the changes necessary was the need to for Sony to institute consolidated accounting practices for subsidiaries (Nathan 1999a: 65-66). The adoption of international accounting practices from the early 1960's allowed Sony to avoid the pitfalls of the more arcane Japanese accounting methods.

Employment practices at Sony created an environment where employees felt they were part of Sony, and gave their utmost to accomplish its success. The war had forced liberalized labor practices that gave workers rights not available during the prewar *zaibatsu* era. A lifetime employment policy was instituted with unions that had a say in management. Sony was quick to institute these new ideas, and a consciousness sprang up in which management and employees felt a shared fate toward redevelopment, to catch up with and even surpass the Americans (Morita 1992a). Morita felt that the best companies were those that were the best at creating this shared sense of fate among all employees. Revolutionary at the time, Sony instituted one-class cafeterias at all their production facilities. Also revolutionary was the Sony recruiting system that did not emphasize college ties. Morita put into policy an idea he had outlined in his mid 1960's book, *Never Mind School Records*:

"I established a policy at my company of disregarding school records once an employee was hired so that nobody would be tempted to judge a person on his academic background rather than on his proven ability and performance..." (Morita 1986: 109).

Morita's corporate policy was simple: there had to be mutual respect between workers and management and a sense that the company is the property of the employees and not just a few top people. In return those people at the top have a responsibility to lead the corporate family faithfully and be concerned about the members (Morita 1986: 143). The corporate culture that developed was stable and allowed Morita to concentrate on the promotion of Sony's products, projects, and 'idea' to an international audience.

The tape recorder was the first product that gave Sony international exposure. In 1949 Sony had purchased the rights to a patented 'AC Bias' recording system that had been developed by a Dr. Nagai prior to the war. The technology had been introduced in the USA in 1941 but never registered due to the outbreak of the war. By 1950 Sony was developing several recording models based on this patented technology and sent letters to the world's tape-recorder makers advising Sony held the rights to this patent. This letter came to the attention of the GHQ, and Mr. Ibuka was called in by an officer from the patent department at GHQ to confirm his patent.

After an interview with a worried Ibuka, GHQ confirmed Sony's patent. Soon after this Sony learned that an American company, Balcom Trading, was importing tape recorders for

sales in Japan. After Balcom ignored Sony's letter advising of their patent rights, Sony took a bold step for a small company in occupied Japan: it filed a lawsuit in Japanese court against an American company. The court heard the plea and granted an injunction, preventing Balcom from selling their recorders until the case was aired. Balcom contacted the US manufacturer of the machines, Armour Research, which claimed to have its own patent on the 'AC Bias' system. Armour sent their lawyer to Japan, but after three years, in 1954, the dispute was settled in Sony's favor. Sony was able to receive a license fee on all 'AC Bias' machines sold in Japan or produced in Japan for export and was granted the right to export royalty-free to the USA. In addition to a welcomed revenue stream, the publicity of an upstart Japanese company taking on the Americans was a boost to a young Sony. Morita remarked about this early encounter,

"It was my first negotiation with the Americans, and it ended so well I began to feel new encouragement about the future (Morita 1986: 63).

For Sony the future started with their purchase in 1953 to the rights to the transistor from Western Electric/Bell Labs for \$25,000. Ibuka had recognized the potential of the transistor, and for 6 months lobbied MITI officials for approval of the foreign exchange necessary for license fee. It is interesting to note that if MITI had not approved Sony's request, inevitably another company would have developed the first commercially successful transistor radio and the Sony we see today would certainly be different.

But Ibuka convinced MITI, Sony received approval for the necessary foreign exchange, and Morita traveled to the USA and completed the negotiations with Western Electric. Even though Western Electric had advised that a hearing aid was the only product that could be expected, Ibuka saw the potential, exercised his genius, and Sony started development on what was to become their first international success, the portable transistor radio.

### **Made in America**

The United States was the place where Morita learned many of the skills that allowed him personally, and Sony as a corporation, to compete anywhere in the world. The size and wealth of the United States in the 50's and 60's gave Morita marketing ideas and gave Sony access to a market for consumer products that did not present itself in post-war reconstruction Japan. Early success in the United States gave Sony a competitive edge honed in an international market place that Sony could later take back to Japan and other worldwide markets.

Morita commuted between the USA and Japan, and in 1955 negotiated what he later described as the best decision he ever made: contrary to instructions from Tokyo he turned down an offer to produce 100,000 *privately branded* transistor radios for Bulova Watch. Rather than tie down the fledgling Sony's capacity by producing another brand, Morita made the decision to utilize current capacity for producing only the Sony brand. As explained by Morita

"I was lucky in those days. I didn't have much experience in business and I didn't have a boss looking over my shoulder, so

when I decided ... nobody could say no to me in the company. I made company policy as I went along" (Morita 1986: 84-86).

The early success Morita had in the USA culminated in the opening of Sony USA in February 1960. During this time Morita was extremely active: in 1961 he orchestrated what was to become the first Japanese company to list its stock on the New York Exchange through ADR's (American Depositary Receipts); he set up a direct distribution system rather than rely on the traditional trading company route; and in October 1962 he opened the Sony Showroom in a prime Fifth Avenue New York location. It was here that he displayed his patriotism, for on the flagpoles above the entrance flew side by side and at equal height both the USA flag and the Japanese flag, "the first to unfurl in New York City since before World War II" (Nathan 1999a: 67).

Morita practiced internationalism, stating,

"Eventually we must become international at our headquarters. It is increasingly important to keep the whole world in view at all times" (Lyons 1976: 184).

He moved his wife and three children to an apartment opposite the Metropolitan Museum of Art in June 1963. Ibuka was reluctant to allow Morita to leave Japan at this time as Sony was a \$77 million business (Nathan 1999a: 69), but with 50% of Sony product being exported, Morita insisted. When Morita promised he would commute to Tokyo at least once week every two months Ibuka agreed (Morita 1986: 99).

Upon moving to New York, Morita advised to his wife:

"We are not to limit our friends to Japanese. I want to meet as many Americans as possible. I want to know them, so I won't be a stranger here" (Lyons 1976: 115).

Morita was early to recognize a Japanese trait still apparent today

"Most Japanese businessmen who visited the United States in those days tended to be clannish and learned about the country from the other Japanese businessmen who had preceded them...Despite a couple of years of living in a foreign country, these Japanese businessmen were still strangers..." (Morita 1986: 89).

While living in the USA was invigorating, it was a challenge. An ad placed by Sony for employment in a Tokyo Newspaper in 1966 indicates what Morita had to face on a daily basis: "Wanted: Japanese men up to thirty years of age who can pick a fight in English!" (Nathan 1999a: 63).

In order to spread the Sony cause the Moritas entertained more than 400 people in their apartment during their New York stay. Mrs. Yoshiko Morita had not had this kind of hosting experience in Japan, but she was a quick study and upon returning to Japan wrote a best seller entitled *My Thoughts on Home Entertaining* (Morita 1986: 104). These events exposed Morita and Sony to the world of American business. By the end of the 1960s Morita, alone among Japanese businessmen, was on the international advisory boards of Pan American, IBM, Morgan Guaranty Trust, and had developed lasting relationships with many American business leaders and politicians (Nathan 1999a: 73). On a personal level it appears that even New York City appreciated the contributions of the Moritas; in 2002 the new wing of the

New York Museum of Modern Arts will be dedicated as "The Akio and Yoshiko Morita Room" (Nathan 1999a: 71).

The apparent ease with which Morita was able to fit into the American business elite from early in his career shows the extreme effort he put into adapting himself to the local environment. It was not easy for Morita to hide or lose his Japanese consciousness at will when facing the outside world. But it was necessary for him to become an internationalist for the success of Sony. When asked in a Japanese TV interview about the complexity of working between the USA and Japan, Morita replied,

"You have to switch off your Japanese way of seeing things, or they will never understand what you are saying... It's more difficult than you can imagine" (Nathan 1999a: 88-89).

Morita never forgot his Japanese roots carried on through his father's 300-year-old business. The Morita family time together in the USA was cut short because of it:

"Although we had planned to stay two years in New York, our visit was cut short by the unexpected death of my father. He had relieved me of the responsibility for the family business after the war, but I remained the eldest son and now I was the head of the Morita family and its fortunes, and so I had to be back in Tokyo" (Morita 1986: 106).

Morita started the international commuting routine again and in 1985 advised, "I stopped counting my trans-Pacific trips at 135 a long time ago" (Nathan 1999a: 69).

In spite of achieving such growth and reputation within corporate Japan some considered Sony and Morita as postwar upstarts, an indication of Sony's postwar creation without the support of *zaibatsu* or *keiretsu*. Or perhaps it was Morita's business philosophy that appeared hostile to the consensus driven status-quo managers of corporate Japan. Morita advised,

"Obsolete and meaningless business customs and practices must be done away with. I have always challenged conventionalism and I will continue to do so" (Morita 1986: 223).

Morita continued to challenge the mores of Japanese business practice, and his disdain for consensus is shown in the 1968 joint venture negotiations which resulted in CBS/Sony Records in Japan. The CBS group president Harvey Schein had for over a year pursued discussions for a possible venture with different Japanese firms, but with no results. A first meeting was arranged with Morita and as Schein says, "At that first lunch, we had a virtual agreement by the time we had gotten to the soup" (Lyons 1976: 44). CBS/Sony Records later became the largest record manufacturer in Japan.

The CBS/Sony Record venture gave valuable ammunition to Sony's launch of CD in 1982. Together with the launch of the CD, Sony was able to release the world's first fifty CD collection title, using the record software bank from CBS/Sony Records. This instant marketability of integration between the CD player and CD discs was a convincing exhibit of 'product synergy', which was to become a Morita policy used by Sony in future projects.

In retrospect the Betamax introduction of 1975 was a convincing example to Morita of a product introduction lacking 'product synergy'. The machine, one of the first VCR's launched, had the advantage of being launched prior

to the competitions VHS format, and had initial success. Apparently Disney and Universal Studios feared this success, as they jointly filed a copyright infringement lawsuit in 1976, fearing consumers taping TV shows would somehow hurt their business. The legal action forced Sony to dedicate resources in defense. During the eight-year legal contest competitors launch a VCR in VHS format that is the type finally accepted by consumers. Sony was exonerated at the Supreme Court level in 1984, but as explained by N. Ohga,

"In the final analysis, though, Sony lost the VCR wars because of content. If we had been able to offer our own rich selection of video titles, we could very well have prevailed. In that sense, the incident taught Sony a valuable lesson" (Ohga 2000).

Product synergy was evident with the launch of the Walkman in 1979, allowing Sony to sell Walkman units together with Sony/CBS music on Sony tapes. The development of the Walkman showed Morita at his best: using all his experience of marketing and knowledge of consumer psychology to make a decision and then exercising authority to complete the project. We also see Morita's audacity in claiming that no amount of market research would have foretold the success of the Walkman, using his almost mystic ability to know what product would be successful in a future market. Morita said, "But I am also a person who can apply a kind of sixth sense to people and products that might defy logic" (Morita 1986: 158).

Morita observed people's desire to listen to music anytime and anywhere and he instructed his engineers to strip out the recording function from an existing portable tape recorder, resulting in lower power consumption and weight. He equipped it with headphones, making it a play-only device silent to outsiders, and a device one could listen to even while walking. Sony's marketing and engineering teams were doubtful of its acceptance, but Morita was so confident that he advised he would take personal responsibility for the project and resign if it did not sell. He pushed it through to completion without any market research, and it became an enormous international success.

This practice of lending recordings and artists from CBS/Sony as software to sell Walkmans and CD recordings to sell CD players was successful policy of product synergy for Sony. A few years after the Supreme Court handed Sony the Betamax victory in the 1984, the pursuit of inherent content to create product synergy drove Morita to his final and largest projects in the USA. Morita stated in his 1986 book, "I believe that Sony technology will be widespread in filmmaking before the turn of the century" (Morita 1986: 243). Following through on this idea, Morita led Sony in its acquisition of CBS Records USA in February 1988 for \$2 billion and Columbia Pictures in September 1989 for \$3.2 billion (plus acquisition of debt of \$1.6 billion). At the time these were the largest acquisitions seen to date of American firms by a Japanese company (Nathan 1999: 180-181).

CBS Records had years of record history in the USA, and Columbia maintained rights to 2,700 film titles. Considering Morita's statement in 1986 that he preferred to "lead the public with new products rather than ask them what kind of products they want" (Morita 1986: 79), the acquisitions gave rise to as yet unknown potential through direct access to the

United States market. Along with a huge software bank for Sony to exploit with sound and video recordings, Columbia offered new horizons to Sony through television, syndication, films, and all the current and future technology that Hollywood had to offer that Sony could exploit. Morita felt that owning recording and picture studios in the USA would give Sony the clout necessary to establish the industry for the next generation of digital video and audio technology (Rudolph 1994).

Because the Japanese CBS/Sony had been so successful the purchase of CBS Records USA seemed a natural fit. But the fact that Sony approved the purchase of Columbia Pictures for such a huge price so soon after the CBS purchase and for a project that did not seem to have the same fit as CBS Records, was a tribute to Akio Morita. In August 1989 the executive committee of Sony met to discuss the Columbia acquisition. The high acquisition cost was a concern to everyone, including Morita. According to Sony Secretary Iwaki, even Morita expressed concerns and initially suggested abandoning the project. But that night over dinner with the committee members Morita confided that he had always dreamed of owning a Hollywood film studio. In an interview for Nathan's book Iwaki recalled,

"We decided to proceed, based on what Chairman Akio had said the night before, and we also agreed that if we wanted the studio we would have to pay the price. Since we had no real means of evaluation, we wouldn't really be able to bargain. It would be a sort of take-it-or-leave-it proposition" (Nathan 1999: 190).

The value to Sony of the Columbia acquisition can only be argued in hindsight; the decision-making process cannot. Morita was the deciding factor, as he has been in so much of Sony's development. We are not privileged to know what arguments Morita used to convince Sony's executive board, but one can imagine Morita the visionary advising of the need for Sony to have a base from which the technologies and innovations necessary for success into the 21st century could be created. We can imagine Morita the leader convincing his long time associates that even though Columbia Pictures was the largest deal in Sony history the future potential offered was worth the cost. It was time for Sony to see the future, and the future was the entertainment business.

After the decision was made and the acquisition complete, realizing the value of the acquisition was dependent on the innovation by a Sony without active participation from Morita. In 1990 Morita appoints N. Ohga as President of Sony, taking for himself the title of Chairman. As such, Morita was spared having to take responsibility for the eventual \$2.7 billion write-off from the Columbia acquisition that Ohga declared on November 17, 1994. Ohga declared the decision to write off rather than carry forward the cost as sound, in order to clean up the books for future management (Nathan 1999: 239). Whether the cost to Sony should be considered a loss or a continuing investment on value received is a matter still open to debate.

### **Japanese to the Core**

With Ohga as President, Morita freed himself from daily routine in order to pursue the position of Chairman of

Keidanren. Sony had become a force that the Japanese business establishment could not ignore. Morita had achieved international recognition, but becoming Chairman of Keidanren would give Morita the most prestigious and influential business title in Japan.

"In the Japanese economic circle, becoming chairman of Keidanren is likened to the succession of the Emperor" (Ohmae 1998).

To accomplish this Morita increased his level of activity to include that of self-appointed spokesman for Japanese business.

In the early 1990s Morita woke up both the Japanese and international communities by his public appearance together with nationalist politician Shintaro Ishihara. This resulted in the unauthorized publication in the US of *The Japan That Can Say No*, written at the time of Japan's economic zenith and economic tensions with the US. If one ignores Ishihara's portion of the publication, Morita's comments were a continuation of his effort to warn his fellow Japanese to avoid a tendency to become complacent and accept the status quo (Hanada 2000). Morita emphasized that Japan had achieved an economic status on equal footing with the US and Europe and should be treated as an equal. Along with this economic equality came Japan's responsibility to mature as a country and respond as an equal in the world community. As Morita stated in *The Japan That Can Say No*:

#### **Saying "NO" Actually Represents A Deepening of Mutual Understanding**

... Unless one registers opposition or negative reaction at precisely the right time, Americans take the situation for granted and later insist that they were right as no opposition was registered at the time of the demand. ... My purpose in advocating saying "no" is to promote that awareness. "No" is not the beginning of a disagreement or a serious argument. On the contrary, "no" is the beginning of a new collaboration. If Japan truly says "no" when it means "no" it will serve as a means of improving the US-Japan relationship (Morita 1989? "NO": 44).

Morita had no qualms about bashing Japan himself, as he did when he pre-empted Big Bang deregulators advising that Japanese corporations must re-evaluate their practice of building vast cash reserves and that they should share profits with worldwide stockholders and employees (Morita 1992c). He warned that the consumer-oriented, competition-enhancing deregulation that had taken place in the US had not taken place in Japan, resulting in government control that had developed into an intolerable situation (Morita 1993b). He wrote an open letter to the G7 economic summit members calling for lowering of all economic barriers, with non-regulation becoming the rule rather than the exception with Europe, the US, and Japan setting a worldwide example (Morita 1993a).

Morita's passionate energy is demonstrated in the schedule he set for himself at age 72 for the two-month period prior to November 30 1993. In addition to four trips within Japan, he visited New Jersey, Washington, Chicago, San Francisco, Los Angeles, San Antonio, Dallas, Britain, Barcelona, and Paris. He met with Queen Elizabeth II, GE chief Jack Welch, French President Jacques Chirac, Issac Stern, in addition to several politicians, bureaucrats, and business

associates. He was the guest of honor at a wedding, attended two concerts, a movie, and played nine rounds of golf. He even went to the Sony office in Tokyo for 17 days (Ohmae 1998).

Morita's career was preparation for what he might have accomplished had he the chance to serve as Chairman of Keidanren. With Morita having finally gained prestige among Japan's business elite, one wonders what might have occurred within the stodgy confines of status quo Japanese management if Morita had ascended to the Keidanren leadership. But fate intervened, and on November 30, 1993, the date of the intended announcement of Morita's ascension to Keidanren, he suffered a massive stroke that incapacitated him until his death in 1999. One hopes that Morita was lucid enough prior to his death to recognize the honor bestowed upon him by *Time* magazine as one of only 20 of the most influential capitalists of the 20th century (Pearlstone 1998).

Morita's stroke signaled the end of a near 50-year tradition of Sony's operation by its own owner/operators. There will not be a time in Sony's future when such a select group of individuals will have the ability to create policy for such a large corporation. Contemporary international corporations usually have a system of checks and balances to prevent one man or a select team from exercising inordinate control for the good of the shareholders. This issue never even became a question when Morita was in control, but with Morita out of the picture, the owner/operator element of Sony's organizational model became null and void.

### Restructuring

Sony undergoes a fundamental change at the time of Morita's stroke. Norio Ohga, who had been CEO since 1990, advised,

"Ever since that day I felt I had lost my mentor. Of course, on small things and daily operations I was able to manage Sony myself, but on big decisions I had always sought the advice of Morita-san" (Schlender 1995).

It became obvious throughout 1994 that Morita was not going to recover, and in early 1995 Ohga (who would reach the age of 65 at year end) had to select a person who had the strength to compete with the ghosts at Sony in order to lead Sony into the 21st century of international management.

In early 1995 Mr. Ohga choose Nobuyuki Idei to head Sony. With the passing of the original founders and the authority vested in him by the last survivor of the original team, it became Idei's responsibility to institute change at Sony. The new structure would rely on a corporate restructuring more in line with international 'professional management' rather than on the personal will of the founder. Idei acknowledged the influence of the owners:

"I knew that running Sony was impossible because it was a company driven by the founders' vision: The founders' personal vision was the basis and the standard for every decision...Normally, there is a clear line between the owners of a company and professional managers, but in our organization that separation never occurred. Ohga is not an owner, but he behaves as if he were. His logic is theirs. And Sony logic until now has been based on personal relationships, on friendships...Sony is an extraordinary company in many

respects, but one of them is certainly that we have grown to half a hundred billion dollars on the founders' logic! Now we need professional management" (Nathan 1999: 294).

The days of one-man autocracy were over with Idei, and he instituted the structural changes for which he was chosen. He shook up Sony by accepting the American concept of 'corporate governance', the notion that the Board of Directors is supposed to represent the shareholder, not management. He downsized the Sony board from 38 to 10, including three outside directors. Under Idei Sony has led Japanese corporation in adopting investor friendly measures such as share buy backs, increasing shareholder returns, stock options to executives, and higher returns on equity (Tanikawa 1998; Murasawa 1998; Gibney 1997).

Morita recognized the coming of the digital age when he said,

"In the future we will no longer be able to do business as we once did, when we made things thinking they would be useful only in themselves...with each item as an end in itself. But such thinking in tomorrow's world will not be good enough—it must be broader" (Morita 1986: 249).

Idei concurred:

"The digital revolution will shake our total business platform...we have to recognize that in the future most of our products will become part of a larger digital network. From now on, then, Sony's work is to build bridges between computers and consumer electronics and communications and entertainment, not mere boxes" (Schlender 1995).

The latest product to accomplish this goal of integration between Sony's divergent resources, including a huge dose of the Hollywood entertainment business acquired through Columbia Pictures, can be seen in the recently introduced Playstation 2, which offers the consumer an amazing mix of all that Sony has to offer.

### Visionary

Sony is the premier success story of post war corporate development in Japan. Purely and simply, the Sony of today is the legacy of Akio Morita. This does not mean that Sony was a one-man show, nor does it diminish the support and contribution of those who surrounded Morita. It means that Morita was one of those men who occur occasionally in history at the right time and place to accomplish greatness. Without Morita the Sony one sees today would not have resulted.

Morita clearly realized the need of power to cut through and break free from the constraints of the bureaucratic go-slow, consensus driven corporate model that stifled creativity. He put himself in a position of power, and he was not afraid to exercise authority to fulfill his vision for Sony's destiny. Morita made tremendous decisions based on his conviction that the value to Sony would be realized in the company's ability to exploit technology and to generate product synergy from Sony's diverse resources. Morita took huge financial risks by basing his decision on a future point in time where he projected that technology would arrive. His decisions were based on his expectation that Sony would lead the industry in creation and exploitation of as yet unknown technology. Morita's actions were based on his belief that he knew what

would happen in the future and on his conviction that his decisions coincided with what Sony would require in order to compete in this future.

Morita constantly challenged himself; success dependent on his force of will. His strength of will allowed him to take on responsibilities and make decisions that would have crushed lesser men. Morita's actions defined his being; he transcended entrepreneurship and became a leader of vision. His scheduled appointment to Chairman of Keidanren indicated that Japan's business society finally accepted Morita's leadership. But the leadership he demonstrated should be held as an example not only for business Japan, but as an illustration of what a leader can be for the whole of Japanese society. The vitality of Japan depends on the society being able to produce more men like him.

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# Vatican City and St. Peter's Square, The Forbidden City and Tiananmen Square: A Comparative Analysis

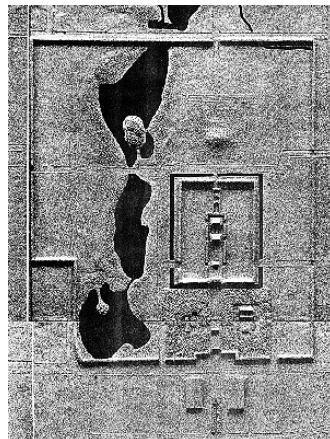
by Lauren Mallas, M.A. candidate

## Abstract

Architecture reflects the political, social, and religious forces at work within the society out of which it has evolved. Both the Vatican City in Rome, with Basilica and Piazza San Pietro, and the Forbidden City in Beijing, with Tiananmen Square reflect this principle; both were built by powerful autocrats as large-scale capital cities superimposed on the ruins of previous regimes, and both embody universal world views in the form of microcosms deliberately and clearly set off from the mundane world around them. There are also important differences between the two complexes, differences that grow out of the particular cultural and historical milieus out of which each has emerged, and which continue to play themselves out in the contemporary context.



Vatican City in Rome, Italy



Forbidden City in Beijing, China

"In the history of world architecture, politics and religion are always the main forces developing grand architecture."<sup>1</sup>

One of the most interesting aspects of architecture is the extent to which it reflects the political, social, and religious forces at work within the society out of which it has evolved. A subset of this phenomenon is the degree to which powerful individuals can use the built environment as their own rhetorical instrument. Furthermore, it is remarkable to what extent the cities and monuments they build then have the capacity to become poetic symbols in history. It has long been the goal of world rulers, both governmental and religious, to create environments which will enhance their personae, which will both awe and inspire and which will move the physicality of their functions up a step into the metaphysical realm. At the most evolved level, such structures may create an atmosphere in which one can not help but ponder the

nature of the world. Both the Vatican City in Rome, with Basilica and Piazza San Pietro, and the Forbidden City in Beijing, with Tiananmen Square, are such numinous places.

## Similarities between Vatican City and the Forbidden City:

- Both were built by men whose power was both politically and religiously derived; both the Catholic popes and the Chinese emperors were held to be God's (or Heaven's) absolute earthly agents.
- Both were built in capital cities where they were superimposed on the historic remains of previous great societies; St. Peter's was built on the foundations of the Circus of Nero, the Imperial Palace was built on the foundations of the winter palace of the Mongol Empire.
- Both were built on gargantuan scales.
- Their designs intended to convey the idea that each is a microcosm of the universe as a whole.
- Each functions as a "closed" city within a larger urban context.

## Differences between Tiananmen Square and St. Peter's Square:

- Piazza San Pietro was designed by Bernini as an expansion of the Basilica. It serves as a great anteroom for the church, both physically and figuratively. It is enclosed, yet open—huge, yet beautifully defined. It is a gathering place for vast numbers of people during the holy days. It honors and aggrandizes the basilica which rises behind it.
- Tiananmen Square is conspicuously lacking in design sensibility. It is a gathering place for vast numbers of people during political holidays. Its enormous dimensions have been established, perhaps, as a confrontation to the Forbidden City which sits before it, or behind it, depending on one's point of view. It provides a place for the citizenry to gather, a function that was purposefully not incorporated into the design of the Forbidden City.<sup>2</sup>

## Historical Background

### Vatican City: St. Peter's Basilica and Piazza and the Vatican Palace, Rome

The Emperor Constantine (306-337), the first Christian Emperor of Rome, issued the edict for building the first Basilica of St. Peter's on the site of Caligula's famous circus, where Nero staged his spectacles and martyred the early Christians. It was believed that Peter the Apostle had been crucified and buried there.<sup>3</sup> The obelisk which now stands in the Piazza of St. Peter's was moved to its present position by Sixtus V in 1586. It is the only relic left of the famous Gardens of Agrippina, the mother of Caligula.<sup>4</sup>

In 1506 Pope Julius II hired the foremost architect in Rome, Donato Agnolo Bramante to design a replacement for the old basilica which was in precarious condition.<sup>5</sup> The plan was based entirely on the circle and square and was rigidly symmetrical. This, presumably, was a representation of the church as a "microcosm reflecting the whole cosmos. According to the Platonic view, the cosmos is represented by the sphere and has completely autonomous characteristics."<sup>6</sup> Therefore the ideal type of Renaissance church was central in plan and surmounted by a dome; the centrally planned



building was the embodiment of complete unity and self-sufficiency.<sup>7</sup>

The proposed structure was of such overwhelming size that ancient Roman techniques using concrete had to be revived for its construction. Construction progressed at a slow pace until 1546 when Michelangelo took charge of the project. The current appearance of the Basilica, finally completed in 1626, is largely shaped by his ideas.<sup>8</sup> In 1612 Architect Carlo Maderna oversaw the construction of the main facade and extension of the plan to an asymmetrical configuration.

“The native Roman sense of monumentality had been given a new impetus in the Renaissance by the grandiose building projects of the popes. The most important single building was St. Peter’s. Here was a new standard which suddenly made all earlier buildings seem small and provided a great and perpetual challenge for the enthusiastic church builders of the Counter-Reformation.”<sup>9</sup>

The Vatican Palace, home of the pope, is a miniature city within a city and is complete with its own currency, post office and franking, police guard, diplomatic corps, railroad station, gas station, butcher shop, radio station, printing office, and Palace of Justice. It has its own daily newspaper and issues passports and visas. In size, luxury of appointments and value of artworks incorporated, it is in some ways the European equivalent of the Imperial Palace in Beijing as it existed during the Ming and Qing dynasties.

“...the Vatican was finally made what it is by Sixtus V and Clement VIII—the largest and grandest palace in the world, with 11,000 rooms, halls, and chapels, 8 grand staircases and 200 smaller ones, 20 courtyards, most beautiful (sic) gardens, and a great hall, 1151 feet long by 767 feet wide.”<sup>10</sup>

The list of architects and artists who were responsible for its design and realization includes many luminaries of the Italian Renaissance and Baroque including Bramante, Michelangelo, Maderna, Bernini and Raphael.

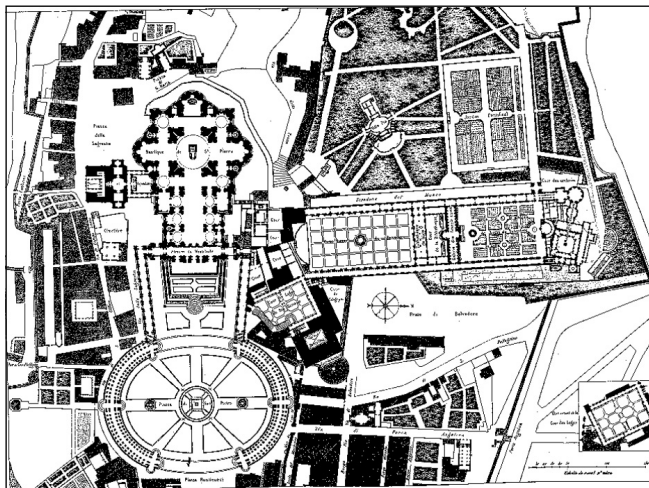


Figure 1: Plan of the Piazza, Basilica, and the Vatican Palace

In 1657 Pope Alexander VII selected the oval design of Giovanni Lorenzo Bernini for the main piazza of St. Peter’s. The plan of the piazza is an oval which measures 340 x 240 meters and is enclosed by two grand colonnades. The central

obelisk is flanked by two fountains, and the colonnades, which are four columns deep, are crowned with balustrades and statuary.

“Virtually no other square has been analyzed more often...What makes the Piazza San Pietro one of the greatest squares ever conceived are its general spatial properties...it shows how a system of ‘places’, which is related to its environment in a particular way, is capable of symbolizing a content that embraces the deepest problems of human existence.”<sup>11</sup>

The pontificate of Alexander was characterized by a revival of pomp and circumstance in religious ceremonies. He had an insatiable craving for appearances, had his grooms and servants formally outfitted, and selected a thousand soldiers from the infantry to be posted in conspicuous places throughout Rome and marshaled to attention whenever the pope passed in his sedan chair. His goal was to demonstrate his authority in unmistakable ways and he strove to restore the essence of monumental Rome. He had the nickname ‘*il papa di grande edificazione*’, which translates as ‘the pope of great learning’ and also as ‘the pope of great building’. Bernini had both the technical and artistic ability to fulfill Alexander’s passion for brilliant imagery in the design for Piazza San Pietro:



Figure 2: St. Peter’s, Aerial View



Figure 3: Colonnade of Piazza

“At most times of day the sunlit columns nearest the viewer in the piazza gradually fade into darkness row-by-row, in three installments. Behind the line bathed in brightness, the shafts fall into progressively deeper shadow. The High Renaissance *chiaroscuro*...is here elaborated into a compelling hierarchy of depth and illusion, and the result is a flickering effect of solid and void, light and dark. Moreover, because the row of columns closest to the viewer passes the eye more quickly than the rows behind it, the visual impact is stereoscopic: the more distant rows appear to move backward as the line of columns in front moves forward... Complementing these effects, the terrain of the Piazza Obliqua is contoured in dish-like fashion, shrinking the apparent distance between the basilica and the far rim of the piazza...As a result, the magnetic force of Saint Peter’s appears to have contracted the space between itself and the larger city.”<sup>12</sup>

**The Imperial City, Beijing**

The Imperial Palace was initially built from 1407-20 by the Yongle (Yung-lo) Emperor, Zhu Di (1403-24) who moved the capital from Nanjing and changed its name from Beiping, ‘Northern Peace’, to Beijing, ‘Northern Capital’. It was built in-part on the foundations of Khanbalik, the former winter capital of Kublai Khan (1267).<sup>13</sup> The initial construction took 14 years and 200,000-300,000 workers and artisans. The

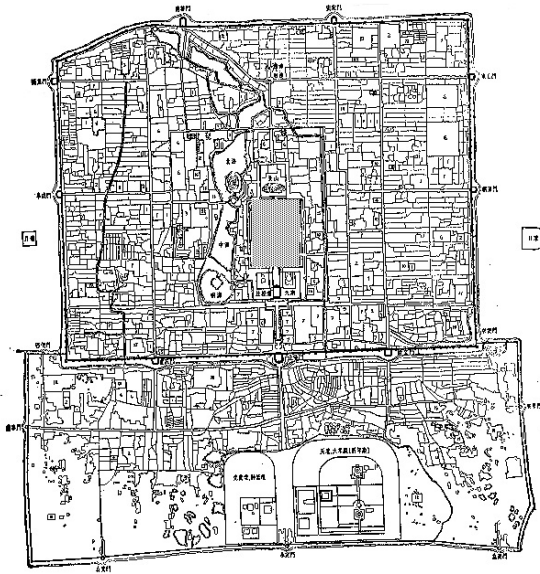


Figure 4: Beijing Plan circa 1553; Forbidden City shaded at center

layout was not original, as it was based on Chinese planning principals which had been evolving for many centuries. The planning principles of the Zhou dynasty, recorded in the *Kao Gong Ji*, and subsequently used for the planning of Han capital cities, are apparent in the layout of Beijing. The schema for the Imperial City can be understood as the culmination of the traditions of many dynasties and as the perfection of Confucian principles as influenced by cosmology. However, within this strict framework certain extraordinary facets of the design did emerge.

Terraces are a major feature of Chinese palace construction. They reflect the influence of Buddhist design in which high ranking buildings are built on elaborately tiered terraces.<sup>14</sup> The common practice, as published in the architectural treatises of the time, was the construction of double terraces. However, three-tiered terrace construction was achieved for the three buildings of highest rank within the Imperial City. The resulting edifices were spectacular in their grandeur:

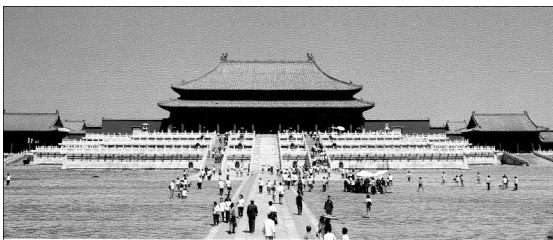


Figure 5: Taihedian, the Hall of Supreme Harmony

"The T'ai-ho-tien (Taihedian, Hall of Supreme Harmony), the principal audience hall of the palaces and the focal point of the entire Forbidden City, is the grandest individual building...the walls, columns, doors, and windows are painted vermilion, the ton-kung and architraves are blue and green accented with gold. The entire structure is crowned by a roof of glazed yellow tiles, glistening like gold in the bright sunshine against the blue northern sky. Surmounting the white marble terraces that seem to vibrate with their exuberant carvings, the great

hall is a rare feast for the eye, an unforgettable apparition of grandeur, dignity, and beauty."<sup>15</sup>

Another outstanding design feature is the enormous size and complexity of the plan, apparently of dimensions not previously or subsequently achieved in other Chinese imperial palaces. The imposition of uniformity of construction on such grand scale produced an awe-inspiring effect.

"The mere idea of laying out an axis nearly two miles in length from south to north with an endless series of avenues, courts, bridges, gates, colonnades, terraces, pavilions, halls, palaces, balanced with perfect symmetry on both sides, and all built in exactly the same fashion, in strict accordance with the *Kung-ch'eng-tso-fa-tse-le* is a most appropriate expression of the Son of Heaven and of a powerful empire. Here, the uniformity induced by the strict rules turns out to be more of a merit than a defect. Without such rigid restrictions, dignity and grandeur of such magnitude could never have been achieved."<sup>16</sup>



Figure 6: Forbidden City Aerial View

The overall layout was established by use of 'fengshui'. Astrologer Liu Bowen drew a blueprint in which buildings and open spaces of plan related to parts of the human body. There are three primary gardens, designed to create a microcosm of 'shanshui', mountains and water of the wilderness.<sup>17</sup> The Chinese Garden existed primarily as a place for contemplation and as inspiration for painting and writing poetry.

The palace was the residence of twenty-four emperors of the Ming and Qing dynasties from 1368 to 1911. In Mongol times it was the 'Great Within'. It was the residence of the emperor, the focal point of the empire and the middle of China. Entry was forbidden to all but those on imperial business.<sup>18</sup> Anyone caught inside the Forbidden City without proper authorization incurred a severe beating. If a trespasser dared to enter the imperial apartments, they would be put to death at once.<sup>19</sup>

The Imperial Palace was divided into the Outer Court, where government offices and reception pavilions for official receptions were located, and the Inner Court which was the residence of the emperor, the empress and the emperor's concubines. The Outer Court consisted of three front halls: 1) the Hall of Supreme Harmony, in which the most important rituals of an emperor's ceremonial life were enacted including enthronement, 2) the Hall of Central Harmony, anteroom to the main audience hall, and 3) the Hall of Preserving Harmony, a reception room for envoys, scholars and ambassadors.

"To the east and west of the central trio of halls are other groups of buildings, some of them set around courtyards... many of them were storehouses, offices, or archives. The Grand Secretariat had its quarters east of the Meridian Gate, and a well for the imperial kitchen was located on the same side. The Imperial Household Department, which looked after the emperor's personal property including land, bullion, and other palaces had offices to the west of the Hall of Central Harmony."<sup>20</sup>

Beyond the Three Front Halls, one passed from outer to inner court through the Gate of Heavenly Purity into the domestic quarters of the Palace, the inner court.

"...In design the halls of the Inner Court, apart from the three rear palaces, are actually the traditional Chinese courtyard house...(but very large)...they consist of a central open space flanked by halls on the sides and at the back, and sometimes a garden. Each group of halls and courtyard comprised a separate apartment, a clearly defined living spaces for the emperor, his empress, consorts, and concubines, so that they all had, as it were, their own house... Every household had its own kitchen, with a complement of cooks and servants."<sup>21</sup>

The emperor rarely left the palace walls. The total number of rooms in the palace is said to be 9,999. (The total number of rooms in Vatican City is recorded as 11,000.) In 1912 when China became a Republic, the last emperor Puyi was allowed to live on in the rear portion of the Forbidden City, but a wall was built to separate the Outer and Inner Courts. The palace became a museum in 1925.

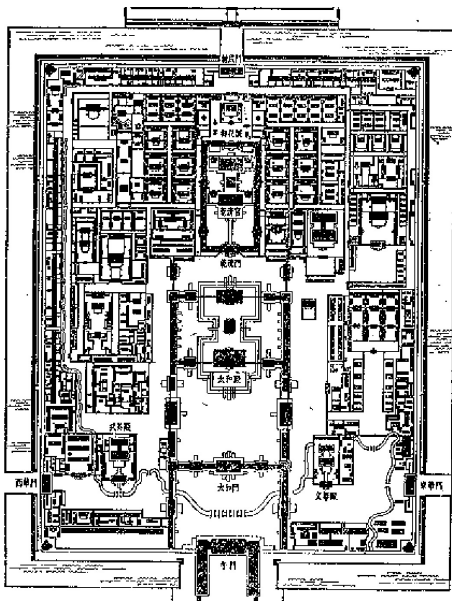


Figure 7: Plan of the Forbidden City

There was no single architect or designer in charge of the design of all or part of the city. Rather, the overall design and planning was a collaboration of the experts of the different trades and was then examined by the Ministry of Works, and finally submitted to the emperor through the eunuchs. The names of the experts who worked on the original design have been recorded as follows: master mason, Lu Xiang; master tiler, Yang Qing; master carpenter, Kuai Xiang; master builder, major designer and manager, Cai Xin; expert planners, Chen Gui, Wu Zhong, Ruan An.<sup>22</sup>

### Notes on Ming Style Architecture

The Ming Style was characterized by monumentality and emphasized symmetry, horizontal line, and the use of kilned brick and tile as building materials.<sup>23</sup> A heightened sense of permanence reflects the seemingly eternal aspects of natural phenomena. The palace was symbolically a microcosm of the universe. The planning expressed the patriarchal clan system and social hierarchy of the feudal system.

"...the city's axis ran through the centrally-located palace....This carefully planned axis symbolized the greater axis from heaven to earth, which connected the supernatural god to the human emperors, who were the channel of authority.....High massive walls, the wide, deep moat around the city and palace, and the high tower above the wall served to symbolize security and protection, while imparting the feeling that the emperor was not approachable by the common people....there was no public square in the ancient city as the government or emperor discouraged public gatherings...the lack of public gathering areas indicated that in the autocratic system of ancient China there was no place (or reason) for individuals to express their political opinions."<sup>24</sup>

Ming and Qing dynastic architectural design stagnated at some point in the early 15<sup>th</sup> century. It became locked into a restrictive code of construction from which it could not evolve. The will of the emperor to build larger structures was not sufficient in and of itself to propel the technology to a higher level. "

"...the degree of maturity and sophistication classical Chinese city design had attained was so high, it had become a completely self-referential system, a perfect expression of codified aesthetics that had gone static. Unable to make the next leap—to revolutionize itself—it had been dwelling on increasingly minute modifications of details...The problem is, raising consciousness about what exactly one is departing from, or emphasizing what is incompatible between two separately evolved systems, doesn't quite answer the question of how one should proceed from there."<sup>25</sup>

### Tiananmen Square, Beijing

During the Ming and Qing dynasties the square was narrower and in addition to the Tiananmen there were two more gates. It was surrounded by a red brick wall beside which ran a covered corridor for use by officials. To the east and west were the imperial ministries. The square was subsequently widened and narrowed again, but until the establishment of the PRC, the Imperial or Heavenly Way was left continuous and unbroken from the south of the city to the outer entry gate of the Imperial City.



Figure 8: Tiananmen, 1935



Figure 9: Tiananmen, 1997

"Standing in the centre of the stone-flagged square and looking south, there looms up before us the Ch'ien Men (Front Gate), the central south gate of the Tartar city, through which you can

nowadays see in the far distance the gate of the Southern city. In the old Imperial days this was not possible as the outer middle gate was kept closed except when the Emperor paid his state visits to the Altar of Heaven."<sup>26</sup>

In 1935 the long view north from Qianmen (Ch'ien Men) to Tiananmen was of a broad avenue defined by flowering shrubs. In October 1949, the civil war ended at the Tiananmen when Mao stood with his supporters on the gate of the Forbidden City and proclaimed the founding of the People's Republic. After 1949, the square was extended with much destruction of old buildings ultimately reaching its present size in 1958. At present the long view from Qianmen has been usurped by both the huge obelisk which is the Monument to the People's Heroes, and also by Chairman Mao's Memorial Hall (which is also Mao's Tomb where he lies in state).



Figure 10: Monument to the People's Heroes



Figure 11: View from Tiananmen to the Museum

In 1958, as part of the 'Ten Big Projects for National Celebration' effort, the Great Hall of the People and the Museum of Revolutionary History were built along the east and west sides of the enormously broadened Tiananmen Square. The architecture of these structures, as well as that of Mao's Tomb, can best be described as 'Modern Totalitarian', suffering as they do from Soviet architectural design influences left over from the 1930's, and is reminiscent of Stalin in St. Petersburg, Hitler in Berlin and Mussolini in Rome.

The enormous changes made to Tiananmen Square were only a part of the vast program of urban renewal projects imposed upon the Beijing city fabric in the years following the founding of the Peoples Republic. In retrospect, the volition to instantly modernize at the expense of all that had evolved over the previous five centuries was a reactionary philosophy which is now widely regretted.

"There is a sense of loss about Beijing. There are people who say the loss the city has endured in the past forty years is so horrible it's beyond speech. Some people say what the communists did to the city is a crime, and that they should be held as *qiangzuirren*, criminals of eternity, because they dismantled the magnificent city walls, an architectural wonder of history, and used the bricks to build useless anti-air-raid tunnels; and because they let the Red Guards run wild during the cultural revolution."<sup>27</sup>

Today's grandiose space was the scene of a momentous student uprising and massacre in 1989. The 50<sup>th</sup> year anniversary celebration of the PRC was held in the square in 1999. The reviewing stand for the President of the Republic and other high ranking governmental and military leaders was the Tiananmen. A great portrait of Mao Zedong now hangs there, flanked by slogans: "Long Live the People's Republic of China" and "Long Live the Great Union Between the Peoples of the World." The president, standing in the same position

from which the emperors' officials had delivered their imperial edicts to the people, smiled and waved to hundreds of thousands of parading military and citizenry.

### Discussion

Vatican City is today a fully-operational and functioning city complex. It exists much as it has for the past several centuries, as the capital city of the Catholic church, as a museum, as a basilica, and as a destination for tourists as well as pilgrims. It is used for religious purposes and several times a year is the site for mass gatherings, but it is not, arguably, used for public displays or parades by the Vatican City government. In the past the Forbidden City was both the governmental and religious capital, however now it is strictly a museum. Tiananmen Square, while adjacent, is not an extension of the old city in the way St. Peter's Square is an extension of the Basilica. Rather, it is a public square which has become a huge outdoor theater for governmental and political performance.

A question presents itself in regards to the location of this square. Why, given the history of The Forbidden City and of Tiananmen, did Mao decide to place the center of his new industrial capital here? Architect Liu Susheng had urged him to build in the northwest sector of the city or on the outskirts of the urban development. Apparently Mao could not resist the temptation to impose his authority directly on the physical entity which had come to symbolize domination in imperial China. Perhaps he thought he could "capitalize" (no other word comes to mind) on the architectural success of the Forbidden City. The result reveals a striking contrast, a double center of the capital in Beijing. It is a juxtaposition of the Forbidden City, once the center of power of the Chinese Empire, with Tiananmen Square, now the center of the People's Republic of China.

Was the square purposely made larger than the Forbidden City to demonstrate the desire to surpass even the greatest monument of the past? What has evolved is a fusion of opposites, each acquiring the characteristics of the other. Traditional imperial style and modern socialism present themselves in a grand duet, displaying together a "megalo-maniac vastness of scale."<sup>28</sup> The design of each is linked to the power of the rulers who created them.

As a political artifact the imperial city is a relic of the past. It functions as a museum, but physically it retains a certain amount of power. It's sheer physicality, that is, its size, its grandeur, its symmetry, its polychromatic detail and artistry all combine to inspire awe. The architecture is able to communicate messages to us which are obvious even through the distance of time. How we interpret these communications from the past may vary with our individual cultural predispositions, but the basic concepts of power, self-sufficiency, and universality are unmistakable. There is little one can do to erase the power of such places to evoke these images, short of demolishing or defacing them. This fact may have been apparent to Mao and others whose political agendas were to overcome the past and to start a new era. The brutality with which they attacked the built environment of old Beijing can be assessed in this regard.

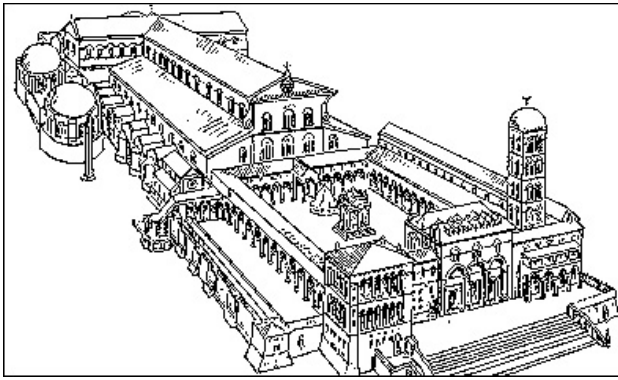


Figure 12: Old St. Peter's

The history of St. Peter's Basilica has a parallel history; the Bramante scheme of 1506 was considered a travesty by those who admired the old basilica. The previous church had been an extra-ordinary structure:

"395 feet long by 212 wide, covering 114,000 square yards, connected with all the other great Roman Basilicas by an unbroken series of covered colonnades, and containing 52 altars and chapels adorned with 700 lights."<sup>20</sup>

After 1100 years of service it had become so "ruinous" that pope Julius II decided to tear it down and start over. Many, even to this day, regret that decision and wish the old basilica had been restored. But Julius II had other ideas which may have originated from the same compulsions that motivated Mao.

The wish to transform Beijing by sheer force of will, the wish to translate the idea of revolution into the built environment of the city was, in hindsight, probably a misguided notion. Centuries old walls, buildings, streets, alleys, shops and homes were demolished to make way for new factories, modern transportation, gigantic new public monuments, and for the enlargement of Tiananmen Square. All this was done

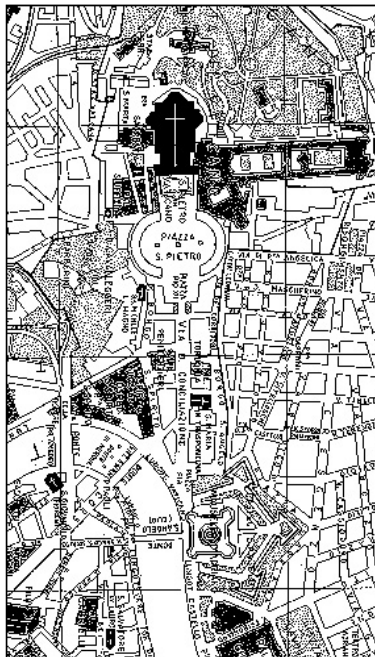


Figure 13: Axis to St. Peter's

with the same undue haste and vengefulness which historically has been characteristic behavior of conquerors when they take over a capital and want to make it their own. In this sense Mao was repeating only what past centuries of emperors had done before him.

Interestingly, the message of the Heavenly Way, that axis which is the spine of the Beijing plan, was not destroyed. In the past this was the processional route of the emperor and connected the Imperial Palace with ceremonial complexes to the south.

"Peking was laid out around the sacred way, a great processional road which led straight through the city from the great throne hall of the imperial palace to the 'Temple of Heaven' in the south of the city. It was an extremely broad road, at least 100 meters wide, paved with great slabs of stone. That it was no ordinary highway was clearly indicated."<sup>30</sup>

Conceptually, this axis is different than the axis which connects the Castel d'Sant Angelo with Saint Peters. In Rome, the great concourse leads sequentially through Piazza San Pietro, into the Cathedral, and stops there at the altar. In a sense, the altar is the final destination of the processional route.

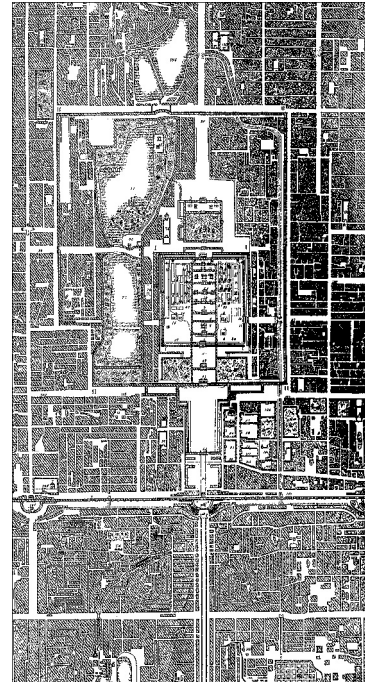


Figure 14: Axis thru the Forbidden City

But the Heavenly way is not this type of axis. In ancient Chinese cities these type of broad boulevards are symbols of eternal progression through time and space. As such, they do not visibly start and stop anywhere. Abstractly, the Heavenly Way is an axis which simply passes through the city, and does not end at the Imperial Palace at all. The plan of the city reveals that the road does, in fact, continue through the Forbidden City to the north walls. There is, inherent in the design of the axis, a concept of the 'beyond', along which spine the emperor is only one event.

The series of gates placed along the spine to demarcate the movement from outer to inner rings of walls further support this concept. Clearly, Mao wished to place himself along this axis, and he did so, even in death. His tomb is directly on the center of the axis, a kind of counterpoint to the throne of past emperors.



Figure 15: Mao's Tomb

## Conclusion

Why does Tiananmen Square lack the power to inspire thoughts of grandeur despite its extreme size? What Bernini accomplished so beautifully at Piazza St. Peter's has not even been approximated in Beijing. Conceptually the 'arms' of Bernini's rotunda were seen as an enhancement of the Basilica itself. They were meant to extend the power of the church out into the square, and, in a sense, create an outdoor cathedral anteroom. The environment within the square is a protected one, carefully modulated to inspire us with feelings of permanence, order, grandeur and so forth. Every effort has been made to focus the eye on the facade of the church itself. Yet in a sense, the square is more important as a place than the church. The piazza has established a broad-based appeal which now transcends its religious connotations.



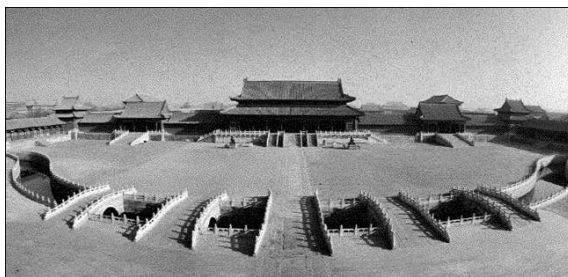
Figure 16: St. Peter's Basilica



Figure 17: St. Peter's Square

Tiananmen Square, however, was built in its current configuration not as an extension of the Imperial City, but more as an affront to it. The "negative" aspect of the space is both physical and metaphorical. Although the size is enormous, it lacks the particular architectural elements which enclose St. Peter's. The building and monuments of Tiananmen reflect an aesthetic of confusion and uncertainty. In light of the political milieu from which they have come, this is not surprising, but it is unfortunate. The vast human resources needed to create the place were squandered on mediocrity and misguided planning concepts.

Inevitably Chinese architectural design will evolve and will achieve once again a high level of aesthetic refinement. As history has demonstrated, these changes will parallel political, social, religious and technological evolution. Undoubtedly the face of Tiananmen will change yet again in response to that transformation.



## FIGURES

Cover: Vatican City in Rome, Italy; *The City, Form and Intent*, Richard Saul Wurman, 1963, plate XL.

Cover: Forbidden City in Beijing, China; *The City, Form and Intent*, Richard Saul Wurman, 1963, plates XXXIIA and XXXIIB.

- Fig 1. Plan of the Piazza, Basilica and the Vatican Palace; *Letarouilly on Renaissance Rome*, John Barrington Bayley, 1984, pg 111.
- Fig 2. St. Peter's Aerial View; *Key Monuments of the History of Architecture*, Henry A. Millon, ed., pg 386.
- Fig 3. Colonnade of Piazza; *Key Monuments of the History of Architecture*, Henry A. Millon, ed., pg 386.
- Fig 4. Beijing Plan circa 1553; *Pekin*, M. Fabre, 1937, pg 280.
- Fig 5. Tai-ho-tien, the Hall of Supreme Harmony; *Chinese Architecture*, Laurence G. Liu, pg 249.
- Fig 6. Forbidden City Aerial View; Art of China Homepage, <http://pasture.ecn.purdue.edu>.
- Fig 7. Plan of Forbidden City; *Zhongguo gudai jianzhu shi*, Liu Dunzhen, plate 153-5.
- Fig 8. Tiananmen, 1935; *Experiencing Architecture*, Steen Eiler Rasmussen, pg 139.
- Fig 9. Tiananmen, 1997; *Exploring China*, Christopher Knowles, pg 64.
- Fig 10. Monument to the People's Heroes; *Chiang shen ju ts'u to chiao*, pg 5.
- Fig 11. View from Tiananmen to Museum; *Chiang shen ju ts'u to chiao*, pg 6.
- Fig 12. Old St. Peter's; *How to See the Vatican*, Douglas Sladen , pg 84.
- Fig 13. Axis to St. Peter's; *You in Rome*, Amedeo Storti, map insert.
- Fig 14. Axis thru the Forbidden City; *Peking*, Juliet Bredon, pg 7.
- Fig 15. Mao's Tomb; Mao Zhuxi jinian tang, *Zhongguo gudai jianzhu shi*, pp 26-27.
- Fig 16. St. Peter's Basilica; *Baroque Architecture*, Christian Norburg-Schulz, pp 50-51.
- Fig 17. St. Peter's Square; *Baroque Architecture*, Christian Norburg-Schulz, pp 52-53.
- End: Gate of Supreme Harmony; Art of China Homepage, <http://pasture.ecn.purdue.edu>.

## ENDNOTES

- <sup>1</sup> *Chinese Architecture*, Liu, p. 247.
- <sup>2</sup> The palace courtyards were closed to the public, as was the rest of the Forbidden City. The urban area outside the palace walls had broad avenues, but no outdoor spaces that could be identified as plazas or marketplaces; there were no public areas for assembly.
- <sup>3</sup> *How to See the Vatican*, Sladen, pp 49-55.
- <sup>4</sup> *How to See the Vatican*, Sladen, p. 49.
- <sup>5</sup> *History of Art*, Janson, p. 354.
- <sup>6</sup> *Rome of the Renaissance*, Portoghesi, p. 60.
- <sup>7</sup> The Pantheon, built in Rome in 125 A.D., was an ancient precursor. According to Janson, *History of Art*, p. 134: "The use of concrete permitted the Romans, for the first time in the history of architecture, to create vast interior spaces." The plan of the Pantheon is a cylindrical drum to which a deep porch, reminiscent of a Roman temple, is attached. The drum is surmounted by a gently curved dome which is a true hemisphere. The top center of the dome has a circular opening which is the only source of natural light. The effect of this interior is astounding.
- <sup>8</sup> *History of Art*, Janson, p. 357.
- <sup>9</sup> *Renaissance and Baroque*, Wolfflin, p. 39.
- <sup>10</sup> *St. Peter in Rome*, Smith and Barnes, p. 27.
- <sup>11</sup> *Baroque Architecture*, Noberg-Schulz, p.57.
- <sup>12</sup> *Bernini and the Art of Architecture*, Marder, p. 134.
- <sup>13</sup> In fact it was Kublai who laid down the basic city plan and built the outer city walls. The following description of Kanbalu is from *The Travels of Marco Polo*, Manuel Komroff, editor, revised from Marsden's translation, pp 125-131:

Chapter 10: Of the Great and Admirable Palace of the Great Khan

The Great Khan usually resides during 3 months of the year, namely December, January, and

February in the great city of Kanbalu (Peking), situated towards the north-eastern extremity of Cathay...In the first place is a square, enclosed with a wall and deep ditch 8 miles in length each side...center of each side is a gate...Within this, 1 mile deep, is an open space for the troops...The next square is 6 miles length on each side with three gates on the north side and three gates on the south side. The middle of the 3 gates is larger and always kept closed for the emperor—those flanking are kept open always for “common passengers...Within this 2-1/2 miles deep, are meadows with...stags, roebuck, and fallow deer...The pastures have abundant herbage...The inner square is 1 mile in length each side, with walls 25' high and six gates, three on north and three on south...The whole plan of the city was regularly laid out by line, and the streets in general are consequently straight, that when a person ascends the wall over one of the gates and looks right forward, he can see the gate opposite to him on the other side of the city...In the public streets there are, on each side, booths and shops of every description.

<sup>14</sup> *Palaces of the Forbidden City*, Yu, p. 212. This configuration embodies the concept of *Sumeru*, the central mountain peak of the Buddhist universe.

<sup>15</sup> *A Pictorial History of Chinese Architecture*, Ssu-ch'eng, p. 114.

<sup>16</sup> *A Pictorial History of Chinese Architecture*, Ssu-ch'eng, p. 110.

<sup>17</sup> *The Forbidden City*, Holdsworth & Courtauld, p. 104.

<sup>18</sup> *Exploring China*, Knowles, p. 53.

<sup>19</sup> *The Forbidden City*, Holdsworth and Courtauld, p. 60.

<sup>20</sup> *The Forbidden City*, Holdsworth and Courtauld, p. 29.

<sup>21</sup> *The Forbidden City*, Holdsworth and Courtauld, p. 60.

<sup>22</sup> *Palaces of the Forbidden City*, Yu, p. 18.

<sup>23</sup> Liang Ssu-ch'eng divides the history of Chinese wood structures into three main periods. The 9th-11th centuries, late Tang through early Sung is identified as the 'Period of Vigor' and is characterized by "robustness of proportion and construction." The mid 11th-14th centuries, late Sung to beginning of Ming is identified as the "Period of Elegance" and is characterized by "gracefulness in proportion and refinement in detail." The 15th-19th centuries, Ming (Yung-lo) to overthrow of Qing by the Republic is identified as the 'Period of Rigidity' and is characterized by "general rigidity, a clumsiness of proportion."

Liang comments on the sudden departure from the Sung and Yuan dynastic architectural styles which occurred at the beginning of the fifteenth century with the founding of the capital in Peking. He observes: "The change is very abrupt, as if some overwhelming force had turned the minds of the builders toward and entirely new sense of proportion." Liang makes no conjecture about the nature of the change. It appears clear, however, that the wish of the Emperors to establish a renewed capital in their own images, larger, grander, and more extraordinary than anything that had come before was, in fact, the "overwhelming force" to which Liang referred. The clumsy proportions of the Ming resulted from the unwillingness (or inability) of designers to break from the rigid rules of construction which guided them—rules which were not appropriate for the larger scales they wished to achieve.

Parenthetically, it is of some interest to note that Liang Ssu-ch'eng, while primarily a historian, was recognized as the architect closest to Mao Zedong during the reconstruction of Beijing. He is the architect now famous for having urged Mao to build his new industrial city in the northwest sector of Beijing and to leave its historic center undisturbed. Nothing could have been further from Mao's intention, as was soon made clear. Liang died, perhaps of remorse, during the cultural revolution.

<sup>24</sup> *Chinese Architecture*, Liu, p. 34.

<sup>25</sup> "Beijing: A City Without Walls", Zha, p. 9. The inability of Qing China to move the society forward to a higher plain of technological and artistic development is discussed from an economic view point by Mark Elvin in *Pattern of the Chinese Past*, Stanford University Press. Elvin identifies this cultural immobility as the "high-level equilibrium trap". Because construction technology is directly related to the evolution of new architectural styles, it stands to reason that retardation or lack of growth in technology must inevitably be reflected in

architecture. The same argument may be carried forward to the 1950's and the cultural revolution in China. The lack of a truly modernized society in which the implements of technology were dispersed throughout the culture was reflected in the poor quality of the built environment. Unfortunately, the PRC showed little or no restraint in their building programs and managed to inundate Beijing with projects which blatantly expose the lack of an evolved technology and architectural design philosophy.

<sup>26</sup> *In Search of Old Peking*, Arlington and Lewisohn, p. 28.

<sup>27</sup> "Beijing: A city without walls", Zha, p. 3.

<sup>28</sup> *China Diary*, Spender, p. 50.

<sup>29</sup> *St. Peter In Rome*, Smith and Barnes, p. 11.

<sup>30</sup> *Experiencing Architecture*, Rasmussen, 1959, p. 139.

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# Globalization and Economic Crises in Emerging Countries

by Rolf Màoio Treuherz, Ph.D.

## Abstract

Any country emerging from whatever state of development into the tumult of the global economy can expect to be jolted by the experience. Some observers have claimed that the economic crises suffered by some such countries from the mid-90s onward can be attributed to the effects of globalization and the unique demands it places on national economic policy makers and economic actors. This paper will examine the course of economic crises in nine countries on four continents, tracing the existing circumstances, the challenges presented by the crises, and government responses in each case. A concluding section rates each country's experience according to a set of 'pre-requisites' for successful integration into the global economy.

**Globalization has been held responsible for stimulating and accelerating the economic and financial crises in emerging countries** between 1994 and 1999 and more recently in Turkey and Argentina. It is frequently suggested that globalization was instrumental in precipitating currency devaluations, recessions, imbalances in income distribution, poverty, and unemployment. Can these accusations be taken seriously? In this paper, we will examine the political, social, economic, and financial events that occurred before and during the crises that affected nine countries—Mexico, Thailand, Indonesia, Malaysia, South Korea, Russia, Brazil, Turkey, and Argentina. Next, we will analyze the post-crisis scenario in each of these economies to determine whether the experience gained from past difficulties has been fruitful. A discussion of the concept and main attributes of globalization will follow. The final objective is to find out if and how globalization affected emerging countries and whether the influence was harmful or beneficial after all. Rather than considering the origin of globalization from a historical viewpoint, our study is directed mainly to the relationship of globalization to the crises that took place in some emerging countries. It is indeed a fertile ground and a rare opportunity for discussion, especially now that a significant amount of information is available. Complete episodes of each crisis can thus be examined, starting at the origin, passing through the critical phase, and ending with the outcome.

## The History of Economic Crises in Emerging Countries

As an overview of each individual crisis, we shall analyze the main factors that caused so many disorders in these countries.<sup>1</sup> The description will consist of three sections. The first encompasses the political, social and government related factors. The second, consists of an outline of the economic and financial problems that contributed to the disturbances. The third shows what each country has been able to learn and

accomplish, and what may be expected for the country's future. The corresponding results are substantiated by a series of tables, with indicators until the year 2001, showing past data and forecasts.

## MEXICO

### Political, Social, and Government Related Factors

Two important events caused social and political problems in Mexico before the currency crisis of December 1994. First, on January 1, 1994, news spread that four towns in the southeastern state of Chiapas had been taken over by the Zapatista National Liberation Army (EZLN). Through a well-timed coup against the Mexican army, the EZLN declared war on the government with the objective of obtaining better conditions of "work, land, housing, food, health care, education, independence, liberty, democracy, justice and peace."<sup>2</sup>

The rebels called for the revision of NAFTA (North America Free Trade Association) at a time when President Carlos Salinas de Gortari proclaimed that Mexico was on the verge of becoming a more modernized and industrialized state. The NAFTA negotiations dealt with agricultural tariffs, the final impediment to economic reform. These tariffs protected Mexican farmers from cheap US and Canadian grains and it was the realization that NAFTA would eliminate this protection that provided the impetus for the rebellion by the indigenous population since the Mayan Indians of Chiapas relied on this protection in order to continue to trade corn, beans and other products.

Both the insurrection and the NAFTA debate raised the question of stability in the country and left foreign investors wondering if, in fact, Mexico was stable enough for their investments. Negotiations between the government and the rebels took place in February 1994, but the revolt left a definite mark upon the political atmosphere. On January 14, 1995 a cease-fire was finally established.

Secondly, in March 1994 the presidential candidate Luis Donaldo Colosio of the ruling political party, the Partido Revolucionario Institucional (PRI) was assassinated, and his replacement candidate Ernesto Zedillo Ponce de León was elected president in August 1994. The assassination aggravated not only the existing domestic tension, but also increased the fear of foreign investors that the country was on the verge of further economic problems. The devaluation of the *peso* (Ps) occurred in December 1994, leading to a banking crisis and a period of deep recession.

### Economic and Financial Factors

Mexico achieved remarkable economic progress between 1988 and 1993. The country's stabilization efforts were so successful that it became part of NAFTA. Mexico pursued a tight fiscal policy, liberalized trade and capital flows, privatized public companies, restructured its external debt, and reduced inflation from 160% in 1987 to 8% in 1993. As a result, foreign capital inflows surged considerably, with US\$104 billion entering the country between 1990 and 1994.

This sizeable inflow, however, overvalued the peso and widened the current account deficit, mainly financed by



short-term capital. In addition, monetary policy became expansionary with a resulting deficit in public accounts. Both of these phenomenon were inspired by the coming elections. Furthermore, the maintenance of the exchange rate pegged to the dollar was an incentive to borrow in foreign currencies, increasing the country's exposure. The pressure against the local currency by both domestic and international sources depleted Mexico's foreign exchange reserves and eventually forced the Central Bank to switch to a free-floating exchange regime in December 1994. Political and economic fragility was further magnified by the replacement of its peso-denominated government debt by US\$29.2 billion of so-called 'tesobonos' (treasury bonds) linked to the US dollar. This constituted a risky procedure in view of the imminent devaluation that threatened the economy. In fact, a 71.4% and 43.3% devaluation of the peso ensued in 1994 and 1995 respectively, confirming that the attempt to maintain the value of the currency had been suicidal.

improved from the 1994 low of US\$6.1 billion to US\$35.1 billion at the end of 2000 and US\$38.7 billion on February 28, 2001. In contrast to 1994, when the current account deficit was equivalent to 7.0% of GDP, in 2000 it decreased to 3.3%. Although the trade and current account balances became negative after 1996, they were being financed by foreign direct and portfolio investments. Exports increased annually, but were outpaced by imports. Presumably the trade deficits will remain at manageable levels. Unemployment rates are low, close to 2.5% and the exchange rate showed mild fluctuations around Ps9.50 per US dollar (Ps9.31 on April 17, 2001). Consumer prices decreased from 16.6% in 1999 to 9.0% in 2000 and are estimated to decline to 6.5% in 2001. Although government spending rose during the first half of 2000, the increase was financed by higher tax revenues from the stronger economy and from oil price increases in the international market. The stock exchange followed the path of the United States bear market since mid-1999, but recovered slightly as of April 17, 2001.

**Table 1: MEXICO** (Selected Indicators)

Indicators	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	-15.9	-13.5	-18.5	7.1	6.5	0.6	-7.7	-5.7	-8.0	-9.0
Current account balance (US\$ bn)	-24.4	-23.4	-29.7	-1.6	-2.3	-7.5	-15.8	-14.3	-17.7	-22.8
Foreign direct investments (US\$ bn)	4.4	4.4	11.0	9.5	9.2	12.8	11.3	11.8	12.7	na
Portfolio investments (US\$ bn)	18.0	28.9	8.2	-9.7	13.4	5.0	-0.6	11.0	-2.2	na
International reserves (US\$ bn)	18.4	24.9	6.1	15.3	19.2	28.1	31.5	33.0	35.1	38.7
Real GDP growth (%)	na	1.9	4.5	-6.2	5.1	6.7	4.9	3.7	6.9	4.5
Consumer price inflation (% - p.av.)	na	9.8	6.9	35.0	34.4	20.6	15.9	16.6	9.0	6.5
Interest rate (%)	18.9	17.4	16.5	60.9	33.6	21.9	26.9	25.9	18.3	16.5
Exchange rate (Ps / US\$ - p.av.)	3.12	3.11	5.33	7.64	7.85	8.08	9.87	9.51	9.57	9.31
Unemployment rate (% - p.av.)	na	2.4	na	4.7	3.7	2.7	2.4	2.0	1.9	2.6
Stock exchange (index in US\$)	24.0	26.9	21.3	13.9	18.1	24.8	19.4	34.9	28.3	30.1
Population (million)				91.2					97.4	

na = not available p.av. = period average  
 Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Instituto Nacional de Estadística, Geografía y Informática (INEGI) = <http://www.inegi.gob.mx/economia/ingles/fincomia.html> Bank of Mexico = <http://www.banxico.org.mx/>. Secretaría de Hacienda Y Crédito Público (Mexico's Ministry of Finance) = <http://www.shcp.gob.mx/english/index.html>. CNFR = <http://cnfrn.cnm.com>. Year 2001: Trade Balance, Current Account Balance, GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Unemployment = Feb. 28. Interest Rate = April 4. Exchange Rate and Stock Exchange = April 17.

Finally, Mexico was bailed out of this situation by the IMF, the US Stabilization Fund, and by short-term support from the G-10 central banks through the BIS (Bank of International Settlements) in a joint financial assistance of US\$47.8 billion in January 1995.

### The Outcome

The Mexican government adopted a rigorous program of internal macroeconomic and structural adjustment, with a restrictive target for monetary growth and wage restraints. The lower domestic demand in 1995 forced businesses to redirect their effort to foreign markets facilitated by privileged access to United States and Canadian markets (i.e., NAFTA). Meanwhile, the funds supplied by the IMF (US\$10 billion), by the United States (US\$20 billion), and by the Bank of International Settlements (US\$17.8 billion) were instrumental in preventing the default of the country's external debt. International credibility in Mexico's future was rapidly restored. Despite the tight money and spending cuts, the economy managed to grow from 1996 onward.

As shown in Table 1, GDP (gross domestic product) has grown steadily after 1995 and reached 6.9% in 2000. It is expected to close at 4.5% in 2001. International reserves

The redistributive nature of public expenditure was enhanced through the enlargement of basic education, widening access to health services, social security coverage for low income earners, reorientation of subsidies towards low income families, a more equitable regional distribution of programs, and greater focus on extreme poverty alleviation in rural areas. More than three million new jobs were created and the open unemployment rate dropped to its lowest level since 1985.

A new 'Financial Strengthening Program' for the Mexican economy for the years 2000-2001 was negotiated in the second semester of 2000 with various financial institutions. The program's objectives are (a) to renew and expand credit lines with multilateral and official financial institutions and the extension of the North American Framework Agreement; (b) to reduce the public external debt and servicing costs, as well as improve its maturity profile; and (c) to consider the 'Stand-By Arrangement' with the International Monetary Fund as a 'Precautionary Arrangement'. The cancellation of all current liabilities to the Fund is under review.

This Strengthening Program comprises a total of US\$26,440 million, distributed as follows:

- US\$1,540 million from the IMF, under a ‘Precautionary Arrangement’;
- US\$6,000 million from the World Bank for projects in 2000 and 2001;
- US\$4,200 million under the lending program of the Interamerican Development Bank;
- US\$8,000 million from the EXIMBANK of the United States (US\$4,000 million), Japan (US\$2,158 million), and other countries to finance commercial credit lines for goods and services imports;
- US\$6,700 million in contingency lines under the North America Framework Agreement.

President Vicente Fox, of the center-right Partido de Acción Nacional (PAN) although he lacked a majority in either house of Congress, succeeded in bringing to an end the 71-year federal predominance of the Partido Revolucionario Institucional (PRI). Overall, the performance of Mexico in 1999 established a firm image among international investors, a picture which President Fox will try to maintain through orthodox economic measures and a tight fiscal policy in 2001.

On April 4, 2001 Fox sent a new fiscal reform plan to Congress, designed to boost revenues by 4% of GDP. The plan would permit the implementation of reforms that guarantee an increase in tax revenues for 2002. One of the items, a proposed 15% tax on food and pharmaceutical products was harshly criticized by his political opponents. The prime objective of this tax is to compensate for a proposed cut of personal and corporate income tax. Mexico’s belt-tightening is being driven by the current economic slowdown—a result of the downturn in the US economy.<sup>3</sup>

Recently, Mexico has made substantial efforts to convince other Latin American countries, especially Chile, to join the Free Trade Area of the Americas (FTAA) before 2005 (maybe 2003). This endeavor received a setback at the Sixth Meeting of Ministers of Trade of the Hemisphere in Buenos Aires on April 7, 2001, where an agreement was reached among 34 countries to postpone the inauguration until December, 2005. Brazil’s pressure to maintain the date of 2005 succeeded at the end, thus maintaining the unity of Mercosur (the regional association between Brazil, Argentina, Paraguay, Uruguay, and recently Chile and Bolivia), although the new Argentinian Minister of the Economy, Domingo Cavallo, favored an earlier date, with the support of Uruguay. Other developments are likely at the Summit of the Americas, to be held in Quebec between April 20 and 22, 2001,<sup>4</sup> “where Heads of State and Government will review the progress made together both in addressing the challenges highlighted at the previous Summits of the Americas and in identifying new priorities for hemispheric action.”<sup>5</sup>

## THAILAND

### Political, Social, and Government Related Factors

As in other emerging countries of East Asia, government authorities in Thailand were reluctant to accept the timely advice of the IMF in 1995 and 1996 to take into consideration their vulnerability to external shocks. The authorities were confident that the outstanding economic situation in terms of

balance of payment surpluses, and annual GDP growth at an average of between 7.5% and 8.5% would insulate their economy from such “exaggerated premonitions”.<sup>6</sup> This turned out to be too optimistic, but making matters worse inadequate government controls over the banking system led to various concessions being made to privileged groups closely connected to government officials while, at the same time, the real economic and financial situation was not adequately displayed in objective measures at the time.

### Economic and Financial Factors

Thailand attracted almost US\$74 billion of foreign capital between 1992 and 1996, mainly in the form of direct and portfolio investments and bank loans which were more than sufficient to finance its growing current account deficit and to provide successive balance of payment surpluses. The positive development of the stock exchange, economic stability in terms of low inflation and unemployment rates, the government policy in favor of opening the economy to trade and capital flows, and an average yearly GDP growth rate between 1990 and 1995, were all favorable indicators for international investors.

However, some negative events combined to dramatically change the country’s fate. First, the Thai currency, the *baht* (Bt), was pegged to the US dollar and remained practically unchanged around Bt25.50 per US\$ for over 5 years before the financial crisis of July 1997. With the fixed exchange rate regime, the baht fluctuated in tandem with the American currency and became overvalued, affecting the country’s external competitiveness. Second, on the assumption that Thai economic growth would continue, local industries and banks increased their borrowing in foreign currencies from international banks at lower interest rates than those prevailing in Thailand. This obviously increased the country-risk in case of currency devaluation. Third, the higher interest rates in Thailand attracted capital from outside the country to be repaid in US dollars. Fourth, Thailand’s banking system suffered from poor supervision by monetary authorities and loans were preferentially granted to so-called ‘connected borrowers’, meaning those with strong ties to government. In addition, the capital of most lending institutions was inadequate relative to the size of their financial operations. Non-performing loans increased with the complacency of government officials, making it difficult to close these companies or settle accounts with creditors. Fifth, the large proportion of investments in Thailand was directed toward risky sectors such as real estate companies and to the SET Stock Exchange in Bangkok. Sixth, most of the loans were of a short-term nature, with repayment established in foreign currency. Seventh, a long period elapsed before foreign investors became aware of the situation due to asymmetric information and insufficient disclosure of crucial data by monetary authorities. This blinded investors to the actual risks they were taking and exacerbated their reactions after they realized the seriousness of the situation.

The massive of investment in property produced excessive supply and prices of real estate plunged, while investors remained unable to generate positive returns. Both

the growing deficits in the current account (almost US\$15 billion in 1996) and the instability of the banking system caused great uneasiness among international financial circles and resulted in a massive outflow of capital. This pressure forced the Bank of Thailand to deplete almost US\$12 billion in foreign reserves to defend the value of the baht. On June 2, 1997, in order to avoid further reduction of reserves, the Central Bank adopted a free-floating exchange regime. The baht suffered a devaluation of over 80% and Thailand was forced to request the financial assistance of the IMF in August 1997. A package of US\$17.2 billion was approved at the end of 1998.

### The Outcome

After the devaluation of the Thai baht and the approval of the IMF rescue package, a new restructuring plan was put into effect. Thailand would attempt to restore investors confidence by closing insolvent institutions and strengthening marginal ones. In addition, new rules allowed foreign direct investors to retain the majority of votes in Thai companies.

1998. Credit became scarce, making restructuring more difficult, while measures to attract foreign capital faced the opposition of those interested in protecting domestic industries. Slowly, however, the economy started to improve.

As shown in Table 2, GDP reached 4.3% in 2000 with a similar trend for 2001. Appropriate policy implementation during the IMF-supported program resulted in the rebuilding of international reserves from the 1997 low of US\$25.7 billion to US\$31.9 in 2000 (US\$33.2 billion on February 28, 2001). External demand remains strong, offsetting the impact of higher oil prices and weaker domestic demand. In addition, trade and current account balances have been positive since 1998 and are expected to continue throughout 2001 and 2002 according to estimates of the Economist Intelligence Unit (EIU). Inflation remains low, within the Bank of Thailand's target range. Interest rates are also decreasing to the level of 1994. However, market sentiment is weak, as shown by the drop in the stock market by 52% in 2000. Likewise, the exchange rate has depreciated since 1998, presently quoted at Bt45.66 to US\$1 on April 17, 2001.

**Table 2: THAILAND** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	-4.3	-3.7	-8.0	-9.5	1.6	16.2	14.0	11.9	10.4
Current account balance (US\$ bn)	-6.4	-8.1	-13.6	-14.7	-3.0	14.2	12.4	8.1	6.0
Foreign direct investments (US\$ bn)	1.6	0.9	1.2	1.4	3.3	6.7	3.2	1.3	na
Portfolio investments (US\$ bn)	5.4	2.5	4.1	3.6	4.8	0.0	0.4	0.6	na
International reserves (US\$ bn)	24.1	28.9	35.5	37.2	25.7	28.4	34.8	31.9	33.2
Real GDP growth (%)	8.7	8.6	8.8	5.5	-0.4	-8.3	4.2	4.3	4.0
Consumer price inflation (% - p.av.)	3.3	5.0	5.8	5.8	5.7	8.1	0.2	1.6	2.4
Interest rate (%)	6.5	7.3	11.0	9.2	14.6	13.0	9.0	6.6	7.5
Exchange rate (Bt / US\$ - p.av.)	25.54	25.09	25.19	25.61	47.25	36.69	37.81	40.27	45.66
Unemployment rate (% - p.av.)	na	2.6	1.7	1.5	1.9	4.0	4.2	3.2	3.6
Stock exchange (SET index in US\$)	na	54.0	51.0	32.0	8.0	10.0	13.0	6.2	6.3
Population (million)								61.9	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Bank of Bangkok = <http://www.bbl.co.th/main.html> Bank of Thailand = [http://www.bot.or.th/bothomepage/index/index\\_e.asp](http://www.bot.or.th/bothomepage/index/index_e.asp). CNNfn = <http://cnfn.cnn.com>. Year 2000: Trade Balance, Current Account Balance, Foreign Direct Investments, and Portfolio Investments are estimates. All other items are actual data. Year 2001: Trade Balance, Current Account Balance, GDP Growth, Consumer Price Inflation, Interest Rate, and Unemployment Rate are estimates. International Reserves = Feb. 28. Exchange Rate and Stock Exchange = April 17.

Other structural measures were taken, such as import tax cuts and restructuring of large companies with the assistance of the World Bank. Special attention was given to improving labor quality and to generate new employment openings, both aimed at decreasing existing social imbalances.

The errors committed by politicians and bureaucrats during the crisis resulted in the replacement of the Central Bank's management team by more technically oriented professionals. It was later discovered that before the eruption of the crisis the Central Bank had not been made available important information which would certainly have alerted foreign and domestic investors and would have served as an early warning sign of the coming financial problems. An example was the heavy intervention of the Central Bank in the forward market in defense of the baht, causing the depletion of large amounts of foreign currency reserves.

The planned recovery, at first failed to materialize, in part due to low commodity prices in world markets and because exports did not respond to the more favorable exchange rate after the devaluation. Difficulties in neighboring countries reduced Thai exports, but imports were reduced even further, resulting in a current account surplus of US\$14.2 billion in

Thailand met the first repayment of part of the 34-month Stand-by Arrangement with the IMF in November 2000 and emerged from the crisis with a strengthened banking system, in which all private banks meet the regulatory capital adequacy standards, and have the required regulatory provisioning against non-performing loans. However, some concern exists about the slow pace and questionable quality of corporate debt restructuring.

As a result of the Thai elections, Prime Minister Thaksin Shinawatra was confirmed on February 9 as the 23rd Prime Minister of the 54th. government of Thailand. Shinawatra is a 51-year-old telecoms tycoon, whose Thai Rak Thai (Thais Love Thais) Party won a landslide victory in the January 6 election. Before the election his party was under investigation by the National Counter Corruption Commission. Thai Rak Thai has agreed to form a coalition with the New Aspiration Party of former Prime Minister Chavalit Yongchaiyudh and the Chart Thai (Thai Nation) Party of former Premier Banharn Silpa-archa. Thaksin's coalition will control more than 320 seats in the 500-member lower House of Representatives. Critics say that Thaksin's populist, big-spending economic programs could widen government budget deficits in the next

few years. The Thai Rak Thai leader has pledged to launch a state-funded national asset management company to buy bad assets from commercial banks.<sup>7</sup>

In order to ensure the effective regulatory supervision of the banking system and enhance the independence of the Bank of Thailand, it is urged that the new government passes pending financial sector laws, particularly the Financial Institutions Law, the Central Bank Act, and the Currency Act. It will require a strong commitment to continue the collaboration with the IMF to support these objectives.

## **INDONESIA**

### **Political, Social, and Government Related Factors**

Indonesia's President Suharto held power from 1966 until his resignation in 1998. He engaged in a nationalistic program of protectionism in 1993, aimed at developing domestic industry. In 1994, however, he changed the former restrictive policy by welcoming foreign capital participation in joint ventures with Indonesian companies and allowing foreign investors to wholly own enterprises in practically all sectors of the economy. This represented a definite move in the direction of opening the country to global trade and financial markets. Suharto's approach to liberalization, however, was somewhat ambiguous. In 1996, various groups, closely connected to Suharto were granted special privileges, such as tax and tariff advantages, based on a nationalistic rationale. These concessions were finally revoked in 1998.

As in Thailand, deficient internal and government controls over the banking system became a fertile ground for the concession of advantages to those closely related to Suharto's entourage. Growing opposition against his form of government marked his last two years as president. Such political and social pressures were common in Indonesia and undermined international confidence in the country's economy. Suharto's prolonged tenure in the presidency ended with his resignation in May 1998 and the election of B.J. Habibie, Suharto's former vice-president. Habibie immediately faced difficulties in obtaining political support for his programs. One of the issues that caused great concern to his government was East Timor, annexed by Indonesia in 1976 its independence in October 1999 after a period of civil strife and military repression on the island.

### **Economic and Financial Factors**

Like the Thai baht, the Indonesian *rupiah* (Rp) was linked to the US dollar, which had been strongly overvalued in the period leading up to the crisis. Indonesia's exchange regime appeared to be fixed, but in reality it consisted of a managed floating system whereby Bank Indonesia periodically depreciated local currency within certain limits by using intervention bands. The rupiah remained stable around Rp2,200 per US dollar for a long time before the devaluation of August 14, 1997. This stability strengthened the belief that borrowers could skip necessary currency hedging procedures. Just as in Thailand, the banking system in Indonesia had deficient internal and government controls and their borrowings were mainly composed of short-term foreign

currency loans. Before the crisis Indonesia experienced a considerable growth in GDP, but investments were directed primarily toward industries strongly dependent on imports, thus resulting in current account deficits in need of continuous financing and guarantees for the payment of interest on foreign debt. Therefore, while exports declined, interest rates increased to maintain sufficient incentives for foreign capital inflow and to avoid further currency evasion. Economic instability and the demand for foreign currency to cover unhedged positions resulted in a serious attack on the Indonesian rupiah and precipitated the currency crisis in the third quarter of 1997. Even the widening of the intervention band to 6% was insufficient to halt the pressures against the rupiah, which eventually suffered a decline of 95% in 1997 and a further devaluation of 73% in 1998.

In order to avoid further depletion of its foreign currency reserves, the currency was floated on August 14 1997, followed by financial assistance of US\$43 billion by the IMF in November, at a time when the banking system was under pressure due to the liquidation of various local banks. It could be argued that the shift from a fixed exchange regime to a floating system was harmful to the country and aggravated the crisis. However, in comparing the Indonesian and Brazilian crises, it would seem more likely that the same kind of error was committed by both Bank Indonesia and the Brazilian Central Bank, in that they were too slow to recognize the seriousness of the overvaluation of their respective currencies.

### **The Outcome**

After the devaluation of the Indonesian rupiah and shortly after the first agreement with the IMF in November 1997, 68 banks were closed and others had to be backed by government funds for restructuring, re-capitalizing and rehabilitating. This program uncovered significant non-performing loans and inadequate capital structures.

On October 20, 1999 the election of President Abdurrahman Wahid demonstrated the lack of popularity of J.B. Habibie, who had been charged with corruption involving the Indonesian Bank Restructuring Agency. Wahid initially promised serious government characterized by law, honesty, transparency, and economic development. Although the government attempted to roll over its sizeable foreign debt, the bank-restructuring program reached a decisive stage only with the issuance of government bonds in May 1999. On November 2, 2000 the Ministry of Finance announced the release of bonds worth US\$1.4 billion thus showing that the bank re-capitalization was nearing completion. Even so, local banks are still burdened with bad loans and have been unable to exchange re-capitalization bonds for additional liquidity due to a lack of interest by investors. The selected indicators in Table 3 below show Indonesia's recovery from the crisis of 1997.

Even during the crisis, Indonesia managed to have positive trade balances. This is expected to continue in the following years. From 1998 onward, the current account balance returned to positive numbers while international reserves surged to US\$29.1 billion on February 28, 2001, up

**Table 3: Indonesia** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	8.2	7.9	6.5	5.9	10.1	18.4	20.6	26.7	26.9
Current account balance (US\$ bn)	-2.1	-2.8	-6.4	-7.7	-4.9	3.9	5.8	8.5	7.1
Foreign direct investments (US\$ bn)	1.6	1.5	3.7	5.5	4.5	-0.4	na	na	na
Portfolio investments (US\$ bn)	1.8	3.9	4.1	5.0	-2.6	-1.8	na	na	na
International reserves (US\$ bn)	11.0	11.8	13.3	17.8	16.9	22.4	26.2	28.4	29.1
Real GDP growth (%)	na	7.5	8.2	8.0	4.7	-13.7	3.3	3.5	na
Consumer price inflation (% - p.av.)	9.6	10.9	9.4	8.0	6.7	57.8	20.5	9.4	7.8
Interest rate (%)	8.7	9.7	13.6	14.0	27.8	62.8	12.1	11.0	13.4
Exchange rate (Rp / US\$ - p.av.)	2087	2160	2249	2342	2909	10014	7100	9725	10815
Unemployment rate (% - p.av.)	2.2	3.7	na	3.6	na	na	17.5	13.0	9.5
Stock exchange (JCI index in US\$)	279.0	213.0	223.0	267.0	86.0	50.0	97.0	42.8	33.0
Population (million)								225.0	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF)=<http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles=<http://www.eiu.com>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Central Bank of Argentina = <http://www.bcra.gov.ar>. Ministry of Economy of Argentina = <http://www.mecon.gov.ar/news/novocoi.htm>. Yahoo Finanzas = <http://ar.finance.yahoo.com/>. International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = <http://www.mecon.gov.ar/progeco/dsbb.htm#real>. Year 2000: Trade Balance and Current Account Balance are estimates. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Consumer Price Inflation = March 1. Interest Rate = March. Exchange Rate and Stock Exchange = April 17.

substantially from US\$16.9 billion in 1997. GDP reached the 3.5% estimated for 2000. Inflation declined to 9.4% in 2000 and may reach 7.8% in 2001. Interest rates, although much below the 1998 level of 62.8%, suffered a slight increase in 2001 to 13.4% (as of March). Deterioration of the exchange rate occurred in 2000 and 2001 (Rp 10,815 per US dollar, on April 17, 2001, versus Rp 7,100 at the end of 1999 and 9,725 at the end of 2000). The Jakarta Stock Exchange Index (JCI) faced a severe drop of almost 60%, in view of weak investor sentiment, partly due to poor market capitalization that deterred foreign investors, and partly due to the US stock market volatility.

On September 7, 2000, the government of Indonesia sent a letter of intent to the IMF stating that a major cabinet restructuring had come into effect on August 29, significantly streamlining responsibilities and ensuring greater coordination of economic policies. A new Coordinating Minister for Economic Affairs was appointed to oversee the country's economic program. The Government's new economic team announced its 10 Point Economic Recovery Program, as follows:

- Maintain macroeconomic stability with the support of IMF/World Bank/AsDB.
- Reduce unemployment by creating jobs in all regions.
- Improve agricultural productivity and farmer welfare.
- Increase non-oil export revenues, particularly in manufacturing and agro-industry.
- Promote domestic and foreign equity investment.
- Expedite banking and corporate restructuring.
- Accelerate privatization of state-owned enterprises.
- Initiate comprehensive small and medium scale enterprise (SME) development program.
- Ensure sustainable development of natural resources.
- Implement economic decentralization through an orderly and phased transition.

Since the last Article IV Consultation with the IMF on September 14, 2000, Indonesia underwent a major political transition to democratic government with the support of the international community. The government of President Wahid adopted a three-year IMF-supported economic program, and secured necessary financing assurances through a successful Consultative Group meeting and a Paris Club rescheduling.<sup>8</sup>

However, in 2001, the political situation in Indonesia has deteriorated markedly. President Wahid is presently facing impeachment charges by parliament for two financial scandals. Although he alleged innocence and defied the House of People's Representatives (DPR), the political pressures against him are strong, especially by the People's Consultative Assembly (MPR). It is believed that he is unlikely to remain in office much beyond August 2001. Such an assumption is corroborated by his inept and meandering leadership and by loss of support from those parties which had previously backed him. Mr. Abdurrahman's future seems to depend upon the continuing support of the vice president, Ms. Megawati Soekarnoputri, who leads the party with the largest representation in parliament (the Indonesia Democratic Party of Struggle, PDIP, with 34% of the seats).<sup>9</sup>

## **MALAYSIA**

### **Political, Social, and Government Related Factors**

The Malaysian crisis differed from those in Thailand or Indonesia. Prime Minister Mahathir Mohamad argued that the crisis his country suffered was mainly a consequence of the removal by foreign speculators of their currency and stock holdings from Malaysia and that the recommendations set forth by the IMF were totally inadequate. Furthermore, he stated that the adoption of a market-oriented economy was not exactly in line with the country's primary interests. Mahathir maintained a particularly antagonistic view of international financing agencies, particularly the IMF, for having contributed to the downgrading of the country's international credit ratings, which produced strong exchange volatility. Mahathir's statements caused great apprehension about the future of Malaysia, a situation that was aggravated by rumors that politically influential businessmen had received preferential treatment for resource allocation, further undermining international confidence in the Malaysian future. This situation was further worsened by currency and capital controls and by taxation imposed on foreign investments.

One additional political factor consisted of the open dispute inside the government between Mahathir and the former deputy prime minister of Malaysia, Anwar Ibrahim, who was finally arrested in April 1999. This dispute greatly affected the image of Malaysia vis-à-vis the international

financial community. Although some steps were taken in the direction of a more open economy, such as the opening of the Kuala Lumpur Stock Exchange (KLSE) to overseas brokers, the prevailing policy was to maintain investments under local control and under unfavorable conditions.

### **Economic and Financial Factors**

Malaysia was another victim of the financial turmoil that shook East Asia. Upon examining the main affected regions, it becomes apparent that most emerging countries had attracted the attention of foreign investors for some eight to ten years prior to the crisis to such an extent that their economies began to rely heavily on foreign investments for survival. This was also the case in Malaysia.

For many years the Malaysian *ringgit* (M\$) was pegged to a package of currencies and was quoted around M\$2.50 per US dollar. When Thailand was struck by the devaluation of the baht, the ringgit started to depreciate to M\$2.80 and reached 3.89 ringgit per dollar at the end of 1998. After the crisis, Prime Minister Mahathir promised to maintain the exchange rate at M\$3.80 per US dollar. Although Mahathir gave particular importance to the country's exports and to a conservative approach to the government budget, several factors had adverse effects upon the country's economy.

First, Malaysia's high-tech industries required imports of basic materials and foreign technology. Due to the country's dependency on export revenues, the pegging of the ringgit to the US dollar and other currencies made the Malaysian economy vulnerable to currency fluctuations, especially coming from Japan, its main trading partner. Second, although the financial system was well developed in terms of services, banks were asked to supply credit at preferential rates to privileged groups. It soon became apparent that such credits had been granted to vulnerable businesses, such as property development and stock market investments. Non-performing loans surged considerably at the end of 1997 when outstanding loans represented 170% of GDP. Third, although a more liberal approach toward foreign capital was adopted, as was the case in the new Kuala Lumpur Stock Exchange, foreign listings in the KLSE were still subject to unfavorable conditions. Fourth, the foreign capital controls and taxation instituted by Prime Minister Mahathir, his open reproach of international financing agencies, particularly the IMF, and the protection given to politically influential businessmen undermined the confidence of the international financial community in Malaysia's future. Fifth, the attempts of Bank Negara Malaysia (the country's central bank) to halt the devaluation was costly in terms of foreign exchange reserves, which decreased from US\$26 billion at the end of 1996 to US\$20 billion in December 1997.

Unlike all the other eight countries in this study, Malaysia did not accept the financial assistance of the IMF in view of Prime Minister Mahathir's resentment against foreign financing agencies.

### **The Outcome**

Among several measures deployed to improve the banking system, Bank Negara Malaysia (Malaysia's Central

Bank) created an asset management company to assist in the restructuring, re-capitalizing and rehabilitating the country's financial institutions. This was made possible through the sale of government bonds to domestic investors. The number of banks decreased by about 50% through mergers of stronger and weaker institutions. Foreign investment has been conservatively low due to the capital and currency controls introduced at the end of 1998.

The recession in Malaysia in 1998 following the currency crisis prevented prices from increasing excessively. Price moderation was achieved at fairly low interest rates (7.3% in 1999), in contrast to the approach adopted by Brazilian monetary authorities, who increased the rate to 49% after the crisis of January 1999. The result, however, was the same in that prices did not increase in either country, although different economic strategies were applied. This phenomenon fueled numerous academic discussions—most of them challenging the recommendation of the IMF to raise interest rates as a way to prevent increases in rates of inflation and to stem capital flight.

To understand the discussions that developed it is useful to see how, on the one hand, Malaysia adopted capital controls which resulted in a negative flow of foreign capital to the country in 1998, largely neutralized by an impressive trade and current account surplus. In addition, recession reduced the purchasing power of the population and moderated prices. Brazil, on the other hand, with a policy of capital and trade liberalization, needed foreign funds to finance its growing trade and current account deficits. These were partly covered by direct and portfolio investments, and by foreign loans and financing. At the same time, the successful implementation of the *Real Plan* created a new anti-inflationary mentality among the population, resulting in low inflation rates, in line with targets established by the Central Bank. High interest rates also caused problems for the Brazilian economy. Obviously, such rates were extremely harmful to domestic industry and raised the cost of the government debt, while serving to attract sizeable amounts of foreign investment. Malaysia, by not utilizing the financial assistance of the IMF and by maintaining low interest rates did not have to cope with these problems. Brazil, on the other hand, had to lower interest rates periodically to improve business activity (from 49% in January 1999, the rate reached 15.75 at the end of 2000 and was still the same on April 17, 2001).

The selected indicators presented in Table 4 below show the recovery of Malaysia after the crisis.

Malaysia's trade and current account performance has been impressive due to a significant export volume, which is reflected in GDP growth, which reached 8.6% in 2000. International reserves stabilized around US\$30 billion and inflation is within international standards. The promise made by Prime Minister Mahathir to maintain the exchange rate fixed at M\$3.80 per US dollar is being kept. The ringgit, however, has been appreciating slightly in relation to the euro and Sterling, and relative to neighboring countries, compensating for the devaluation from M\$2.53 to M\$3.89 in 1997. Finally, with low unemployment rates, the economic scenario in Malaysia looks promising; the only exception is

**Table 2: THAILAND** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	-4.3	-3.7	-8.0	-9.5	1.6	16.2	14.0	11.9	10.4
Current account balance (US\$ bn)	-6.4	-8.1	-13.6	-14.7	-3.0	14.2	12.4	8.1	6.0
Foreign direct investments (US\$ bn)	1.6	0.9	1.2	1.4	3.3	6.7	3.2	1.3	na
Portfolio investments (US\$ bn)	5.4	2.5	4.1	3.6	4.8	0.0	0.4	0.6	na
International reserves (US\$ bn)	24.1	28.9	35.5	37.2	25.7	28.4	34.8	31.9	33.2
Real GDP growth (%)	8.7	8.6	8.8	5.5	-0.4	-8.3	4.2	4.3	4.0
Consumer price inflation (% - p.av.)	3.3	5.0	5.8	5.8	5.7	8.1	0.2	1.6	2.4
Interest rate (%)	6.5	7.3	11.0	9.2	14.6	13.0	9.0	6.6	7.5
Exchange rate (Bt / US\$ - p.av.)	25.54	25.09	25.19	25.61	47.25	36.69	37.81	40.27	45.66
Unemployment rate (% - p.av.)	na	2.6	1.7	1.5	1.9	4.0	4.2	3.2	3.6
Stock exchange (SET index in US\$)	na	54.0	51.0	32.0	8.0	10.0	13.0	6.2	6.3
Population (million)								61.9	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Bank of Bangkok = <http://www.bbl.co.th/main.html>. Bank of Thailand = [http://www.bot.or.th/bothomepage/index/index\\_e.asp](http://www.bot.or.th/bothomepage/index/index_e.asp). CNNfn = <http://cnfn.cnn.com>. Year 2000: Trade Balance, Current Account Balance, Foreign Direct Investments, and Portfolio Investments are actual data. Year 2001: Trade Balance, Current Account Balance, GDP Growth, Consumer Price Inflation, Interest Rate, and Unemployment Rate are estimates. International Reserves = Feb. 28. Exchange Rate and Stock Exchange = April 17.

the behavior of the Kuala Lumpur Stock Exchange, which had a negative performance of 14.4% in 2000, (though this was not as bad as the performance of neighboring stock markets.) The Malaysian stock exchange was also affected by Wall Street volatility and declined another 17% up to April 17, 2001.

Higher overseas investment contributed to greater synergy with Malaysian corporations while also improving the potential of future exports of goods and services. Foreign direct investment, especially from the United States, may increase in 2001. Market confidence is improving due to the recovery and the gradual easing of capital controls.

Commercial banks and the private sector reduced their liabilities<sup>10</sup> in response to the relatively low domestic interest rates in 1999 (thereby weakening the capital account). However, portfolio inflows have resumed since early 2000, aided by the upgrading of Malaysia's ratings and the re-inclusion of the country in the Morgan Stanley Capital Index at end-May<sup>11</sup>. There has been progress in Malaysia's trade liberalization in line with the commitments under the WTO and the ASEAN Free Trade Agreement. The trend toward the reduction of capital controls also seems to be continuing.<sup>12</sup>

However, in view of the uncertain worldwide economic environment, the Malaysian government announced on March 27, 2001 a US\$790 million fiscal program to increase government spending and boost private consumption. The new plan is an effort to reduce the effects of a slowing economy in the United States, the destination of more than 20% of Malaysia's exports. The new plan, announced by Prime Minister Mahathir Mohamad, is intended to raise GDP to 6% this year. The government will also ease restrictions on foreign ownership of property and asset acquisition by foreigners. The prime minister also pledged to retain the ringgit peg which has been fixed at M\$3.80:US\$1 since September 1998. Rapidly slowing US orders for Malaysia's information technology exports and a weak yen may increase the risk that Malaysia could face some pressure on the external front, however.<sup>13</sup>

## SOUTH KOREA

### Political, Social, and Government Related Factors

One of the main problems faced by South Korea before the currency crisis was the long ongoing disputes arising from a divided Korean peninsula. North and South Korea are

located in one of the world's most highly militarized areas, so that a clash between the two nations represents a potential danger for foreign investors.

Another area of concern is the relationship between politicians and the large industrial conglomerates (*chaebol*) which provided political support for the ruling party in the form of cash passing between industrialists and politicians. Political pressure, not the economic and financial health of a particular company, was the criterion for granting loans. All these factors underlay the vulnerability of the South Korean economy.

### Economic and Financial Factors

Before the financial crisis South Korea had maintained high growth rates averaging 7.2% for the 5 years up to 1998. From an underdeveloped agricultural, fishing, and forestry economy, the country switched to the production of heavy steel, shipbuilding, and automotive vehicles. South Korea had a managed floating exchange regime before switching to a free-floating system of the *won* (W) on December 16, 1997.

The remarkable development of the Korean industry may be analyzed through the country's GDP growth. From a total of US\$2.1 billion, in 1961, it reached US\$484 billion in 1996. GDP per capita surged from US\$82 to US\$10,543 in the same period, a performance that qualified it for membership in the OECD (Organization for Economic Development and Organization).

However, due to a combination of circumstances the South Korean economy deteriorated and eventually faced a financial crisis, ending with a currency devaluation of the won at the end of December 1997. First, the country's production structure was highly dependent on imports of fuel, semiconductors, chemicals, and other materials from its main trading partners, the United States, Japan, China, Hong Kong, and Singapore. This affected the current account balance, which showed deficits of US\$23.0 billion and US\$8.2 billion in 1996 and 1997 respectively. Second, private companies were seriously indebted to foreign lenders due to the lower interest rates of the latter. These loans were taken without the necessary exchange hedging procedures, because of the apparent stability of the won, which remained fixed around W800 per US dollar between 1992 and 1996. Third, while most East Asian countries adopted trade and capital flow liberalization, South Korea maintained restrictions and

controls on its economy, thus affecting the confidence of foreign investors. The downgrading of several South Korean banks by the US credit agency Standard & Poors aggravated

close weaker in 2001, especially due to the lower worldwide demand of electronics and chemicals, the source of the country's main foreign trade revenues.

**Table 5: South Korea** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	2.3	-2.9	-4.4	-15.0	-3.2	41.1	28.4	16.6	8.3
Current account balance (US\$ bn)	1.0	-3.9	-8.5	-23.0	-8.5	39.0	24.5	11.0	1.8
Foreign direct investments (US\$ bn)	-1.2	-2.1	-2.3	-3.0	-2.2	0.6	5.1	na	na
Portfolio investments (US\$ bn)	10.1	6.1	11.6	15.2	14.3	-1.9	8.7	na	na
International reserves (US\$ bn)	19.7	25.0	31.9	33.2	19.7	52.0	74.1	96.2	95.3
Real GDP growth (%)	na	9.2	8.9	6.8	5.0	-6.7	10.9	8.8	6.8
Consumer price inflation (% - p.av.)	4.8	6.2	4.5	4.9	4.5	7.5	0.8	2.3	3.6
Interest rate (%)	12.1	12.5	12.6	12.4	13.2	15.1	8.9	9.3	6.8
Exchange rate (W / US\$ - p.av.)	803	803	771	804	951	1401	1188	1118	1330
Unemployment rate (% - p.av.)	2.8	2.4	2.0	2.0	2.6	6.8	6.3	4.1	4.2
Stock exchange (KOSPI index in US\$)	1.1	1.3	1.1	0.8	0.2	0.2	0.9	0.5	0.4
Population (million)								47.3	46.9

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>, Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = <http://www.eiu.com>, Bank of Korea = [http://www.bok.or.kr/index\\_e.html](http://www.bok.or.kr/index_e.html), Ministry of Finance and Economy of the Government of Korea = [http://www.mofe.go.kr/mofe/eng/e\\_econo\\_trends/e\\_public\\_data/library/keu42.pdf](http://www.mofe.go.kr/mofe/eng/e_econo_trends/e_public_data/library/keu42.pdf), Korea Stock Exchange = <http://english.bestez.com/newhome/en/main/index.html>, International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = <http://www.nso.go.kr/stat/imf/nsdp.htm>, CNNfn = <http://cnfnfn.cnn.com>. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves = Feb. 28. Interest Rate = February. Exchange Rate and Stock Exchange = April 17.

this situation. Although the government attempted to restore international confidence, by opening the domestic bond market to foreign investors, by widening the daily trading band of the won from 2% to 10%, and by increasing the capitalization of the Korean Asset Management Corporation (a bailout fund), results were negligible. In November 1997, both the won and the Korean stock market plunged significantly. Fourth, the decreasing prices of South Korean export products and the growing current account deficits were accompanied by an increase in the country's foreign debt. Most of the debt was for short-term repayment (US\$100 billion of a total of US\$200 billion) but most of this capital was invested in long-term projects. This exposed the economy to credit shortness at the end of 1997 and forced South Korea to request a rescue package from the IMF and from other institutions and countries. Thus, on December 4, 1997 a financial assistance package of US\$60 billion was agreed to by the IMF, the World Bank, the Asian Development Bank, Japan, the United States, and other bilateral lenders. As a consequence of this package, the existing controls were finally relaxed after the devaluation that began accelerating in November 1997. The won depreciated to W1,401 from the prevailing W800 per US dollar and reserves plunged from US\$33.2 to 19.7 billion at the end of 1997.

### The Outcome

South Korea had a remarkable recovery after the crisis. More than W100 trillion were spent on helping the financial sector, an amount equivalent to 20% of GDP. The success of this endeavor will depend on how rapidly the problems of the Daewoo group are resolved and whether the Hyundai group is able to contain its liquidity problems. The Daewoo problem harmed banks, forcing them to build up higher provisions for bad debts and making it harder to lend to the rest of the corporate sector.

Export volumes decreased in 2000 and are expected to

Table 5 illustrates selected indicators of South Korea.

Today South Korea's GDP per capita is seven times India's, 13 times North Korea's, and comparable to the lesser economies of the European Union. According to Economist Intelligence Unit estimates, the positive current account balance is expected to turn slightly negative in 2002, although GDP may continue to grow. As of February 28, 2001, reserves reached the amount of US\$95.3 billion in response to positive trade and current account balances. South Korea also sustained a low inflation rate of 2.3% in 2000, with an estimated 3.6% for 2001, and presented reasonable interest rates. The exchange rate of the won stabilized around W1,100 per US dollar in 2000, down from the 1997 high of W1,401. However, the currency depreciated somewhat to W1330, as of April 17, 2001. One unfavorable indicator for South Korea is the negative behavior of the stock exchange. In 2000 it declined 48%, mostly due to the slump of Samsung Electronics' (SEC) stock price in October 2000, because of cyclical fluctuations in the price of DRAM chips (dynamic random access memory), and due to competition from Taiwan in transistor-liquid crystal displays. This bear phase continued in 2001, influenced by the negative behavior of the United States stock market.

In the political arena President Kim Dae-jung will remain in power until the elections of 2002. He has been active in trying to consolidate a better relationship with North Korea, a move that has been challenged by his former adversary in the election of 1997, Lee Hoi-chang. Lee Hoi-chang won control of the Grand National Party (GNP) in opposition to Kim Dae-jung's Millennium Democratic Party (MDP), a party without potential candidates for the coming election.

Kim Dae-jung was recently awarded the Nobel Peace Prize. He enjoys international credibility and is continuing to strengthen the relationship with the United States, Japan, and China (the latter mainly to avoid Chinese interference in negotiations with North Korea). Russia is still a doubt, consider-



ing that President Putin has already paid his tribute to North Korean President Kim Jong-il. Kim Dae-jung will also continue to make efforts to obtain a higher profile in the United Nations, in the Asia Pacific Cooperation Forum (APEC) and in 'ASEAN-plus 3' (members of the Association of Southeast Asian Nations, plus China, South Korea and Japan).

Faced with declining approval ratings and still unsettled relations abroad, President Kim Dae-jung overhauled his cabinet on March 26, 2001, replacing much of his foreign policy and defense team and building new bridges to smaller political parties. In the process the president strengthened his government for what are likely to be significant new tests with the US and North Korea and with an opposition party preparing for next year's national elections.<sup>14</sup>

The economy of South Korea continues to be heavily dependent on foreign trade for economic growth, thus increasing the country's vulnerability to external factors. The main reason for this situation is the sluggishness in domestic consumer spending and corporate capital investments.<sup>15</sup>

## **RUSSIA**

### **Political, Social, and Government Related Factors**

The political situation of Russia before the financial collapse is full of illustrative examples. President Boris Yeltsin dominated the political scene before his resignation in December 1999. He followed in the footsteps of Mikhail Gorbachev with a more liberal approach, although his foreign policy consisted of only partial cooperation with the West on the main international issues. Consistent with Yeltsin's feeble method of administration, a total of five Prime ministers were dismissed, thus increasing the lack of confidence in the country's outlook. The president faced fierce opposition against his more liberal approach. Insecurity for foreign investors persists in view of the frequent accusations of corruption in the high echelons of the Russian government.

### **Economic and Financial Factors**

In 1995 the Russian foreign exchange regime was based on a corridor that kept the *ruble* (Rb) between Rb4.30 and 4.90 per US dollar. It was later replaced in July 1996 by a 'sliding corridor', widened by the Central Bank on August 17, 1998 from Rb5.27-7.13 to Rb6.00-9.50.

Foreign investment in Russia, although slow after the break-up of the Soviet Union, started to grow in 1995, with a total inflow of US\$24.1 billion in the period 1997-1998. However, Russia's indebtedness to the London Club and the Paris Club was a threat to the country's stability. At the end of 1997, US\$32.5 and US\$40 billion in debt, respectively, was restructured by these entities.

Several obstacles to Russian stability preceded the financial crisis of August 1998. Soviet production was based on state subsidies in the planned economic system. The switch to a market-oriented regime was regarded by most domestic industries as a means to evade their tax obligations. Consequently, government revenues failed to achieve budget objectives. Second, the strategy of the Soviet regime had been to obtain its industrial power from large complexes for the

production of fuel, oil and heavy machinery. This structure generated higher costs and lowered the country's competitiveness and eventually resulted in bankruptcies and increase in unemployment. Third, lack of financial assistance to the agricultural sector caused food price increases and a burden to Russian consumers. Fourth, as had happened in Brazil during the inflationary phase prior to 1994, Russian banks until 1996 profited from high spreads generated from open market operations, investments in fixed income, and stock exchange and foreign exchange speculation. As soon as inflationary pressures subsided, Russian banks were faced with lower profit margins, resulting in bankruptcies that liquidated more than 50% of banks. Fifth, the Central Bank's struggle to maintain the value of the ruble was costly in terms of foreign exchange reserves, which dropped from US\$20.3 billion to US\$12.8 billion at the end of 1997. All this undermined the country's external credibility. Sixth, falling oil prices in international markets at the time reduced trade revenues. Also, growing indebtedness, particularly in the private sector, resulted in a strong currency devaluation, caused the restructuring of domestic debt, and forced the government to declare a moratorium of 90 days on foreign debt payments. The adjustable crawling peg exchange regime was eventually replaced by a free-floating system to avoid further depletion of reserves, while the ruble/dollar rate deteriorated to Rb20.82 on September 9, 1998 and ended at Rb 26.35 on November 15, 1999.

Although monetary authorities were able to restructure part of Russia's debt of roughly US\$150 billion with the London and Paris Clubs, the country still had a sizeable service debt of US\$17.5 billion in 1999. In August 1999, however, Russia won a temporary reprieve on US\$8.0 billion and a new loan of US\$4.5 billion from the IMF.

### **The Outcome**

Russia is achieving visible economic recovery since President Vladimir Vladimirovich Putin's election in May 2000. Two positive factors helped the country to obtain better results: (a) the tripling of oil prices in the second half of 1999, and (b) the strengthening of monetary and fiscal policies. High priority was given by the government to supplementing low incomes by paying down wage and pension arrears. A structural market reform is under way in terms of deregulation and liberalization, where foreign investment is encouraged through reduction of red tape and by facilitating the setting up of and conducting business. These reforms are intended to increase the predictability and transparency of the business environment and to strengthen institutions and the rule of law. Tax reform brought good results, but there is still opposition from vested interests and from an unwieldy and corrupt bureaucracy.<sup>16</sup>

Table 6 below contains Russia's selected indicators.

As stated earlier, exports have generated significant trade and current account surpluses, with an obvious improvement in the amount of foreign exchange reserves, which surged from US\$8.5 billion to US\$29.7 billion as of March 31, 2001. The balance of payments also benefited from debt restructuring by both the Paris and the London Club creditors.<sup>17</sup>

**Table 6: Russia** (Selected Indicators)

Indicators	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	17.8	20.8	23.1	17.4	17.3	36.1	60.7	44.1
Current account balance (US\$ bn)	9.3	8.0	12.1	4.1	2.4	24.6	46.3	30.4
Foreign direct investments (US\$ bn)	0.5	1.7	1.7	3.6	1.1	1.3	-0.3	na
Portfolio investments (US\$ bn)	0.1	-1.6	9.7	17.2	8.5	-0.9	-10.5	na
International reserves (US\$ bn)	4.0	14.3	11.3	12.8	7.8	8.5	27.9	29.7
Real GDP growth (%)	-12.7	-4.2	-3.5	0.9	-5.0	3.2	7.7	4.0
Consumer price inflation (%-year end)	na	131.0	21.8	11.3	84.5	36.5	20.2	18.0
Interest rate - Interbank rate (%)	na	190.4	47.7	21.0	50.6	11.8	8.5	12.1
Exchange rate (Rb / US\$ - p.av.)	2.19	4.56	5.12	5.78	9.72	27.00	28.16	28.87
Unemployment rate (% - p.av.)	5.5	8.2	9.3	9.0	11.8	11.7	10.2	10.0
Population (million)						145.0		144.8

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Central Bank of the Russian Federation = <http://www.cbr.ru/eng/>. Business Information Service of the Newly Independent States = [http://www.bisnis.doc.gov/bisnis/country/010402russia\\_factsheet.htm](http://www.bisnis.doc.gov/bisnis/country/010402russia_factsheet.htm). Year 2001: Trade Balance, Current Account Balance, Consumer Price Inflation, and Unemployment Rate are estimates. International Reserves = March 31. Interest Rate = February. Exchange Rate = April 17. Population = January.

Foreign investors, however, are still on the sidelines, due to Russia's previous problems with capital outflows. GDP growth showed a positive 3.2% in 1999 and 7.7% in 2000 and is expected to continue for the next two years. Inflation targeting has provided better results and the exchange rate, although depreciating somewhat in 2000 and 2001, has been fluctuating between Rb 28.0 and 29.0 per US dollar. Unemployment reduction, however, is still a problem for the Russian government.

Politically, President Putin continues to consolidate his command of the country and holds a firm majority in the Russian *Duma* (lower house of parliament). He succeeded in implementing the needed tax reform and his prestige throughout the country has grown markedly. Even so, capital flight has increased in the last months. Household incomes, although rising, are still below desirable levels. Nearly 50 million people have incomes still below subsistence level.<sup>18</sup>

The results of Putin's first year in command of Russia shows a mixed record of achievements. The economy improved substantially in 2000 but a slowdown is anticipated for 2001. One of Putin's positive accomplishments originated from his style of dealing with regional leaders. At the start, he divided Russia into seven super-regions, each headed by a presidential envoy directly reporting to the Kremlin—the so-called *polpredy*—and kept regional governors under strict orders to obey federal laws. Later, however, he conceded greater autonomy to the leadership of the regions and moved from threats and coercion to a greater spirit of co-operation and consultation with the regional bosses in the State Council ahead of big policy initiatives. This political strategy seems to have ensured that the majority of the regional governors will remain faithful to the Kremlin's authority.<sup>19</sup>

## BRAZIL

### Political, Social, and Government Related Factors

As a result of the Real Plan (named after the new Brazilian currency, the *real* (R\$), President Fernando Henrique Cardoso was able to tame the persistent inflation and currency devaluation that plagued Brazil before 1994. The stabilization strategy of his government was complemented by a policy of trade and capital flow liberalization.

In 1997, however, Cardoso's re-election campaign became the main priority for a whole year, to the detriment of the most important economic, financial, and social needs and the

struggle against the public deficit and for proposed tax and social security reforms were all postponed. Such conduct played a crucial role in the gradual loss of confidence by international investors in the country's ability to comply with its urgent economic responsibilities.

Shortly before the devaluation of January 1999, two political events produced a fatal impact on the confidence of the international financial community in Brazil's future. First, in a very inopportune statement, former President Itamar Franco, at the time elected governor of one important Brazilian state, declared default of the state's short-term debt to the federal government. Although insignificant in relation to the total government debt, this statement affected most international stock exchanges and further undermined Brazil's international credibility. Second, political opposition parties demanded immediate currency devaluation, suggested a complete default of the country's foreign debt, and recommended the resignation of the president of the Central Bank.

### Economic and Financial Factors

The real was created in 1994 at the rate of R\$1.00 to the US dollar. According to the Real Plan, the currency would initially float freely. The plan was designed to drastically reduce the high inflation and currency devaluation rates that prevailed before 1994 (around 2,500% for both indicators in 1993). In addition, President Cardoso was trying to stabilize the Brazilian economy and complement this strategy with a policy of tariff reduction and liberalization of trade and capital flows. Other measures consisted of the long-awaited fiscal, administrative, tax, and political reforms.

The development of the plan suffered a series of interruptions, caused in part by the international crises that occurred between 1994 and 1998, starting with the Mexican financial turmoil. Defensive steps were immediately taken at a time when the Brazilian currency had also been overvalued. The fear of a similar attack against the real prompted the government to increase interest rates to 39% to stem foreign capital flight, a strategy that prevented the contagion from spreading to the Brazilian currency. As a result, international confidence in Brazil's future remained unharmed, especially because the country's fundamentals were different from those prevalent in Mexico. In fact, Brazil had sufficient foreign exchange reserves and was therefore less vulnerable to a

currency attack. In 1995, a new foreign exchange regime with a new system of crawling bands was adopted allowing the currency to fluctuate within certain limits.

Although the Real Plan achieved many of the expected results, especially in terms of lower inflation rates, decreasing currency depreciation, and the end of the monetary correction that had prevailed earlier, various circumstances prevented Brazil from reaching its proposed goals. First, the overvaluation of the real and lower tariffs were responsible for a severe increase in the current account deficit. The favorable development of the Real Plan and the confidence of the international financial community in the future of the economy helped to cover these deficits in 1995 and 1996 through direct and portfolio investments, and through foreign loans. Even so, the balance of payments turned sharply negative in 1997 and 1998. Second, measures aimed at fighting the public deficit were deferred due to the continuing inflow of foreign capital and the privatization of public companies, thus 'relieving' the Brazilian congressmen temporarily from this undeniable responsibility. Third, the international financial crises in Mexico, East Asia, and Russia forced the Brazilian government to take defensive steps that otherwise would not have been necessary, such as a considerable increase in interest rates which made Brazil vulnerable to speculative currency attacks. Fourth, growing unemployment resulting from the introduction of more sophisticated information and communication technology, especially in the banking sector, also undermined the Real Plan. Fifth, although the prevailing currency anchor of the crawling band exchange regime adjusted the value of the real in slow intervals, the speed of these adjustments was considered too slow by exporters who ended up losing competitiveness due to the overvaluation of the real vis-à-vis other foreign currencies. Sixth, as mentioned earlier, political, social, and governmental factors also contributed to the crisis.

this loan, nor the re-election of Cardoso to the presidency, was able to prevent the devaluation. The real lost almost 80% of its value, depreciating from R\$1.21 to R\$2.20 in a few days in mid-January 1999. To prevent further depletion of the country's foreign exchange reserves, the Central Bank established a free-floating regime. (Reserves had decreased by almost US\$40 billion between 1997 and 1999.)

### The Outcome

The Brazilian government took a number of steps to fight the effects of the crisis. With the nomination of the new President of the Central Bank, Armínio Fraga, the international credibility was rapidly recovered. He adopted an inflation-targeting framework, aimed toward a single-digit in 1999. In addition, a tight fiscal and monetary policy was implemented, with results conforming to guidelines recommended by the IMF. The pessimistic forecasts of 33% inflation for 1999, a negative GDP rate between 4% and 7%, a further overshooting of the devaluation, etc., did not materialize.

Obviously, the high interest rate of 49% directly following the devaluation of January 1999 undermined domestic production and delayed increases in exports which would otherwise have surged due to a more favorable exchange rate. Fraga also instituted an interest-rate-bias concept, similar to the US Federal Reserve's, and announced a downward trend, which would allow the Central Bank to lower rates between committee meetings. Brazil also needed to continue to finance the current account deficit by assuring that sufficient foreign funds would be available. The financial package of the IMF played a fundamental role at the start and the Central Bank was able to lengthen the maturities of the government's domestic debt from six months to a year. Very few interventions were used in the exchange market.<sup>20</sup>

**Table 7: BRAZIL** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	13.3	10.4	-3.4	-5.6	-6.7	-6.6	-1.3	-0.7	1.7
Current account balance (US\$ bn)	-0.6	-1.7	-18.0	-23.5	-30.8	-33.4	-25.4	-24.6	-23.0
Foreign direct investments (US\$ bn)	0.4	1.8	3.6	11.3	17.8	26.1	26.9	30.8	25.0
Portfolio investments (US\$ bn)	12.3	44.7	9.2	21.6	12.6	18.1	3.8	6.9	na
International reserves (US\$ bn)	32.2	38.8	51.8	60.1	52.2	44.6	36.3	33.0	34.8
Real GDP growth (%)	6.0	4.9	4.2	2.7	3.3	0.2	0.8	4.2	4.2
Consumer price inflation (% - p.av.)	2169.2	2288.0	71.8	18.2	7.7	2.8	4.9	7.5	5.8
Interest rate (%)	3284.0	4821.0	53.4	27.5	25.0	29.5	33.5	16.1	15.8
Exchange rate (R\$ / US\$ - p.av.)	na	na	0.92	1.00	1.08	1.16	1.81	1.82	2.19
Unemployment rate (% - p.av.)	4.4	3.4	4.4	3.8	4.8	6.3	7.6	7.1	6.5
Stock exchange (Bovespa index in US\$)	3217.0	5134.0	4420.0	6773.0	9133.0	5615.0	9554.0	7825.0	6578.0
Population (million)								169.5	171.7

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Brazilian Central Bank = <http://www.bacen.gov.br/ingles/economic/frmdef.asp> IBGE (Instituto Brasileiro de Geografia e Estatística) = <http://www.ibge.gov.br/ibge/default.php>. International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = <http://dsbb.imf.org/country/bra/bradisc.htm>. CNINfn = <http://cnfnfn.cnn.com>. Year 2001: Trade Balance, Current Account Balance, Foreign Direct Investments, Real GDP Growth, Consumer Price Inflation, and Unemployment are estimates. <http://www.bacen.gov.br/ingles/economic/frmdef.asp>. International Reserves = April 5. Interest Rate, Exchange Rate, and Stock Exchange = April 17. Population = April 8.

Seventh, Russia's problems at the end of 1998 delivered the final impetus that precipitated the devaluation of the real.

The Brazilian monetary authorities succeeded in negotiating a financial assistance package with the IMF in the amount of US\$41.5 billion that was approved in November 1998, shortly before the devaluation of January 1999. Neither

Table 7 presents selected indicators about Brazil.

Since 1994 Brazil has been troubled by consistent trade and current account deficits covered by foreign capital. This was also the case after the crisis, as shown by US\$25.4 billion and US\$24.6 billion of foreign direct investments in 1999 and 2000 respectively. Estimates point toward an additional US\$25.0 billion in 2001. Exports did not correspond to

expectations despite improvements in industrial productivity and a more favorable exchange rate. In order to solve the current account imbalances, a sizeable increase in international trade approaching 3% of GDP would be desirable. Such an increase would improve Brazil's economy even further by reducing dependence upon external investors.

International reserves stabilized around US\$34 billion. GDP reacted favorably in spite of negative premonitions and closed 2000 with 4.2% growth. For the year 2001, although the Economist Intelligence Unit (EIU) is predicting an inflation rate of 7.1% for 2001, the final outcome in 2001 will more likely be closer to 6%. Interest rates were periodically decreased from the initial 49% after the devaluation to 15.75% at the time of this writing (April 17, 2001). Unemployment reacted favorably, down to 6.5% in 2001. However, from the negative side, the Brazilian stock exchange showed a decline of 18% for the year 2000, in dollar terms. This bear phase was still in effect on April 17, 2001.

The social picture is still an issue of concern, (i.e., poverty, inequality, race relations, education and health, and environmental management), despite important improvements attained by the government. From the political viewpoint, the elections of 2002 are starting to agitate the parties seeking to capitalize on each side's accomplishments. On the one hand, the political power of the opposition (PT-Partido dos Trabalhadores, or Labor Party) increased markedly in the last elections, by conquering important positions in Brazilian cities and states. This gave an incentive to the 'eternal' presidential hopeful of the PT (and defeated leftist candidate in the last three elections), Luiz Inacio Lula da Silva, to announce on April 13, 2001 that he will again run for the presidency. On the other hand, President Cardoso is trying to take advantage of the healthier economic situation to increase his chances of choosing a successor although his administration can be criticized for overlooking a number of social needs.

The consolidation of Brazil's economic stability is presently being supported by rigorous control of government accounts. One of the latest accomplishments was the timely presentation of the government budget before year-end, a remarkable feat quite different from previous periods. In addition, the newly imposed Law of Fiscal Responsibility will hold public authorities (federal, municipal, legislative, executive, and judicial) personally responsible for their spending. Unexpected expenses left behind by an outgoing mayor, governor or president and not called for in the budget or not compensated for with cuts elsewhere can result in up to four years in jail for the culprit.<sup>21</sup>

Two other initiatives of the Ministry of Planning were the so-called 'Advance Brazil' (Avança Brasil) and the 'Invest Brazil' (Investe Brasil) proposals. The first is concerned with the efficiency of public spending, especially for the needs of Brazilian society, with emphasis on improving transportation infrastructure, energy, and telecommunications. The second was created to attract investments for these plans, both domestically and internationally. With the progress achieved in 2000, Brazil is bound to enter a completely new phase of sustained growth in terms of employment, income distribution, and social well being.<sup>22</sup>

Although it is unlikely that the problems in Argentina (described in greater detail in the next section) will have a material effect upon the Brazilian economy as a whole, there are obviously concerns about developments there. In fact, since the resignation of former Argentinean Minister of the Economy José Lopez Murphy and his replacement by Domingo Cavallo, the Brazilian currency depreciated almost 10% although this is also partly due to the deceleration of the US economy and, in smaller degree, to the recent currency crisis in Turkey.

With only 18 months left in office, President Cardoso is facing an intricate political scenario. First, the dispute between the former president of the Senate, Antonio Carlos Magalhães and the recently elected Senate president, Jader Barbalho, both accusing each other of corruption. Second, on April 17 the approval by the Senate of a Corruption Investigation Committee aimed at all government levels. Third, the recent creation of another Investigation Committee to investigate Antonio Carlos Magalhães and the political leader of the government, José Roberto Arruda, both accused of violating voting secrecy in the Senate. Fourth, the threat of a new interest rate increase in view of the recent depreciation of the Brazilian real to R\$2.20 per US dollar, which would affect the economy and, in consequence, the chances of a government candidate in the presidential elections of 2002. All these events divert the attention of politicians from more important issues on the agenda. Fifth, to complicate the political scenario even more, former President Itamar Franco, presently governor of the important state of Minas Gerais and presidential hopeful in the 2002 elections, is threatening to obstruct the privatization plan of Furnas, one of Brazil's largest electric power plants, located in his state. According to a recent statement, he would even use military force to prevent any attempt to privatize the company. As unbelievable as it might seem, several politicians are now suggesting postponing the privatization project on the grounds that a direct confrontation would divert votes from the federal government candidate and benefit Itamar Franco in the next presidential elections. It seems as though once again ballots have become more important than the public interest.

Meanwhile President Cardoso achieved a significant victory at the Sixth Meeting of Ministers of Trade of the Hemisphere in Buenos Aires on April 7, 2001 by obtaining an extension of the kick-off date of the Free Trade Area of the Americas (FTAA), against the wishes of the NAFTA members. President Cardoso recently proposed a new US\$33 billion action plan. It encompasses several social programs, centered on health, education, and water sanitation, as well as other economic measures such as the privatization of the electricity supply (presently at a stalemate as described above), pension and tax reforms, and the long-awaited reform to sanction the autonomy of the Central Bank.<sup>23</sup>

## **ARGENTINA**

### **Political, Social, and Government Related Factors**

Following the Brazilian crisis of January 1999, the situation in Argentina deteriorated to a point where the IMF

was once more called upon to provide financial assistance to help the country deal with its most urgent needs.

President Fernando de la Rúa has been struggling with high rates of unemployment, which reached 13% in 1999 and surged to 14.7% in 2001. He is also fighting the recession with only a few policy instruments at his disposal, mainly due to his weak power both in Congress and among governors. The opposition criticized the government for not being able to stimulate the economy or to put an end to corruption. At one point the IMF almost suspended financial aid to Argentina due to these accusations, precipitated by the governors of the opposition refusing to sign a fiscal pact that limited the expenses of the provinces and the Union. The difficulties in passing the reforms in congress forced President Fernando de la Rúa to declare a series of economic reforms by decree, imposing new policies in pension reform, health care deregulation, and infrastructure spending. However, pension reform is still vulnerable to judicial or congressional attacks, according to the IMF.<sup>24</sup>

The president's ill fortune increased when his former vice-president, Carlos "Chacho" Alvarez, resigned in protest against de la Rúa's inability to act against members of the government accused of vote-buying in the Senate. Alvarez was the most prominent representative of the political party Frepaso (Frente Pais Solidario – United Country Front). Later, de la Rúa dismissed the incriminated individuals and Frepaso remained as a part of the government coalition called Alianza (Alliance), formed in conjunction with the UCR (Unión Civica Radical – Radical Civic Union), the president's party.

Another difficult problem to be resolved by President De la Rúa, or perhaps by his successors, will be the extremely high salaries paid to congressmen of the provincial legislatures. The federal monthly expenditure per state deputy corresponds to 13 years of a minimum wage salary for the common worker, according to information supplied by the Ministries of Economics and Labor. Argentina employs 1,236 state and federal deputies, each representing an average government expenditure of US\$53,800 per month, while the average worker's monthly remuneration is US\$321.<sup>25</sup>

## Economic and Financial Factors

The year 2000 represented a difficult period for the economy of Argentina. The following domestic and external developments prevented a sustained recovery of economic activity. First, the country had to face the consequences of the devaluation of the Brazilian real in January 1999, with a decrease of exports to Brazil, one of Argentina's main business partners. Second, growing unemployment, as described earlier, brought significant social unrest, mostly due to failure to recover from the recession that affected the country since mid-1998. Third, slow productivity growth and low industrial competitiveness prevented Argentina's growth. Fourth, recurring current account deficits, which increased after 1997 and continued throughout 2000 and 2001 with no signs of improvement. Fifth, the exchange rate pegged to the US dollar, although having been responsible for lowering inflation since 1994, submitted Argentina to the fluctuation of foreign currencies. Sixth, deficits in public accounts served to weaken the economy as a whole, affecting the country's international credibility.

## The Outcome

On December 18, 2000 Argentina and the IMF reached an agreement on an economic program, aimed at boosting the productivity and competitiveness of the economy and ensuring medium-term fiscal balance. The support package consisted of a total of US\$39.7 billion and was intended to alleviate the financing constraint in 2001 and subsequent years. On January 12, 2001, the Executive Board of the International Monetary Fund approved an augmentation to approximately US\$14.0 billion of the stand-by credit first approved on March 10, 2000. Of this amount, US\$3.0 billion will be supplied under the Supplemental Reserve Facility (SFR). Other drawings will be made available to Argentina in 2001, after completion of further review of the program and according to a schedule to be specified for 2002 and 2003. In addition to the US\$14.0 billion, the package includes about US\$5.0 billion in new loan commitments from the Inter-American Development Bank, and US\$1.0 billion from Spain. It also includes about US\$20.0 billion of financing from the private sector that relies on a market-based, voluntary

**Table 8: ARGENTINA** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	-2.4	-4.1	2.4	1.8	-2.1	-3.1	-0.8	1.3	1.0
Current account balance (US\$ bn)	-8.0	-11.0	-5.0	-6.5	-12.0	-14.3	-12.2	-11.9	-13.0
Foreign direct investments (US\$ bn)	2.1	2.5	3.8	4.9	5.1	4.3	22.0	na	na
Portfolio investments (US\$ bn)	33.7	8.4	1.9	9.7	11.1	8.3	-6.6	na	na
International reserves (US\$ bn)	13.3	13.8	13.7	17.7	22.2	24.5	26.1	25.1	23.0
Real GDP growth (%)	na	6.1	-2.8	5.5	8.2	3.9	-3.0	-0.5	3.0
Consumer price inflation (% - p.av.)	na	4.2	3.4	0.2	0.5	0.9	-1.2	-0.9	-1.0
Interest rate (%)	na	na	8.4	5.9	6.4	6.6	6.1	10.1	10.3
Exchange rate (Ps / US\$ - p.av.)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Unemployment rate (% - p.av.)	9.1	11.7	15.9	16.3	14.2	12.9	13.0	14.3	14.7
Stock exchange (Merval Index)	257.7	224.1	200.7	232.9	288.1	226.7	276.3	230.5	245.9
Population (million)	33.9	34.3	34.8	35.2	35.7	36.1	36.6	na	na

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = <http://www.eiu.com>. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = <http://www.eiu.com>. Central Bank of Argentina = <http://www.bcra.gov.ar>. Ministry of Economy of Argentina = <http://www.mecon.gov.ar/news/novecol.htm>. Yahoo Finanzas = [http://ar.finance.yahoo.com/International Monetary Fund's Dissemination Standards Bulletin Board \(DSBB\)](http://ar.finance.yahoo.com/International%20Monetary%20Fund's%20Dissemination%20Standards%20Bulletin%20Board%20(DSBB)) = <http://www.mecon.gov.ar/progeco/dsbb.htm#real>. Year 2000: Trade Balance and Current Account Balance, are estimates. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Consumer Price Inflation = March 1. Interest Rate = March. Exchange Rate and Stock Exchange = April 17.

approach intended to complement Argentina's objective of accessing international capital markets.<sup>26</sup>

Table 8 above shows selected indicators for Argentina.

Early in 2001, according to estimates put forth by the Economist Intelligence Unit, a slight improvement in the trade balance in the amount of US\$1 billion was expected for this year, but still with a significant current account deficit. GDP would probably reach close to 3% in 2001, but the reduction of unemployment would still be a cause for concern. Following the trend in world markets, the stock exchange in Argentina closed the year 2000 with a decline of 17%, with a moderate upward reaction as of the time of this writing (April 17, 2001).

According to a program summary supplied by the IMF on January 12, 2000, the government intended to strengthen its policy framework and accelerate structural reforms while maintaining its present currency regime. These measures would include elimination, or at least reduction, of fiscal impediments to investment, such as the 15% tax on interest paid by enterprises, and a partial deductibility of interest paid on new mortgage loans. As a reflection of the large output gap and labor market weakness, consumer prices would likely remain flat. Deregulation and promotion of competition in the economy were also among the projects to be implemented by the government, especially in sectors such as telecommunications and energy.

The situation in Argentina, however, took a sudden turn in March 2001. Social, economic, and political unrest forced President Fernando de la Rúa to replace Minister of the Economy José Luis Machinea with José López Murphy, a political move that at first had a positive effect within the international financial community. Murphy's formula, however, was rejected by all sectors in Argentina. His proposed measures included severe job cuts, a considerable contraction in salaries, and compression in expenses for education. Strong resistance developed against his plan, especially from the opposing Justicialist Party (Partido Justicialista) which systematically criticized the new minister's neo-liberal ideas. Former President Raul Alfonsín, head of UCR, also opposed the new restructuring plan and, immediately after the presentation of the new proposition, several high government authorities resigned, leaving President de la Rúa in check and needing to obtain as much political support as possible.

On March 20, López Murphy stopped resisting the mounting pressures to which he had been exposed and resigned in favor of former Minister Domingo Cavallo (the creator of the currency board regime in 1991), who has the blessing of the majority of Argentinean political parties and the support of public opinion. His recent nomination received a positive response from the international financial community. Although Argentina has an overvalued currency, Minister Cavallo at the outset declared that he would not change the present foreign exchange arrangement. The essence of his plan relies on a restructuring of the economy through hard measures to curtail public spending, with the reduction of the fiscal deficit by about US\$3.0 billion,<sup>27</sup> and on measures to fight tax evasion and corruption.

Unlike former Minister Murphy, he will avoid cuts in the education budget and will not eliminate oil subsidies in Patagonia. He also decided against suspending the provision of special funds for the production of tobacco in the impoverished northern provinces. He feels that it is possible to comply with the country's obligations to the IMF without the need to either apply for a waiver, to pledge for additional financial assistance, or to renegotiate the country's foreign debt.

Cavallo's charisma in Argentina is high and the general opinion both domestically and internationally is that he has already been transformed into a 'super-minister', since the majority of the Senate agreed with almost all of his demands for 'special powers'.<sup>28</sup> With these special powers he will be free to act without consulting the Congress, he may alter the structure of federal institutions and privatize public companies. The Lower House of Congress quickly approved a package of measures known as the 'Competitiveness Bill', drafted by Minister Cavallo. One of the items contained in his proposal was copied from a tax imposed by the Brazilian government indiscriminately on all taxpayers, the so-called 'Temporary Contribution on Financial Transactions' (CPMF—Contribuição Provisória sobre Movimentação Financeira). This tax is levied on all bank account transactions, at the source, at the rate of 0.38%. In Argentina, it was established at the rate of 0.25%. According to another rule imposed by Cavallo, all amounts exceeding US\$1,000 must be paid by check or credit card (and will, obviously, be taxed as above). This financial burden has been switched from 'temporary' to 'permanent' in Brazil and may have the same finality in Argentina. It will probably produce an increase of about US\$3.0 billion in government revenues, and may help to reduce the estimated fiscal deficit of US\$8.5 billion, already in excess of the amount established jointly with the IMF. Another important feature of the bill is a reduction in the import tax on capital goods to zero and an increase from 14% to 35% in the import tax on consumer goods.

Cavallo's prestige gained even more from the decisive approval of his plan by the Brazilian monetary authorities, thus re-establishing the harmony within Mercosur (the regional economic union between Brazil, Argentina, Uruguay and Paraguay, and more recently Chile and Bolivia). Surprisingly, he obtained the additional backing of the mayor of the province of Buenos Aires, Carlos Ruckauf, one of most fiercest opponents within the Justicialist Party. He likewise gained formal support of the government coalition formed by Frepaso and UCR.

Domingo Cavallo is widely recognized as the savior of Argentina. In 1982, during the military dictatorship that lasted from 1976 to 1983, he was responsible for avoiding the collapse of the private sector by transferring the private debt to the federal government. In 1991 he helped former President Carlos Menem to succeed in his fight against the second hyperinflation in Argentina by creating the currency board.

According to Secretary of Finance Jorge Baldrich, Minister Cavallo is preparing a new package of measures that will affect the country's social security administration (which represents 40% of the government budget), the Ministry of the Interior,

and the Ministry of Health. It would also reduce expenditures within the country's provinces. These measures are important to help Argentina comply with the fiscal deficit objective agreed to with the IMF in the amount of US\$6.5 billion for 2001, a target which is already running behind schedule. A more optimistic statement was issued by Salomon Smith Barney Investment Bank in its 'Strategy for Emerging Markets', declaring that Minister Cavallo was President Fernando de la Rúa's political salvation and that Minister Cavallo is "capable of producing good news in adverse circumstances."<sup>29</sup>

Notwithstanding the recent shift in the political scenario, several analysts believe that the only solution for Argentina will be to devalue the currency. Such a move would have a perverse effect upon the Argentinean economy in view of the substantial amount of debt indexed in US dollars owed by both the private and public sectors. On April 17, 2001, however, Cavallo sent a new proposal to Congress, whereby the sale value of the peso would be determined by the arithmetic mean of one US dollar and one euro. However, this law would only come into effect when the sale value of the Euro on the London market would reach the value of one US dollar. In other words, everything remains the same until the euro appreciates in the exchange market. The project, however, represented one more political victory for Minister Cavallo, in that Carlos Ruckauf, the Justicialist (opposition) party mayor of Buenos Aires, once again promised to support Cavallo's initiative.

Argentina's President De la Rúa will continue to face a credibility problem if the proposed measures are unsuccessful. He will have to defeat the stagnation represented by suspicious investors and consumers. His difficulties could very well be exacerbated by the international uncertainties that are presently occurring, especially with respect to the United States' economy. On the brighter side, Argentina benefits directly from US present (and maybe future) interest rate cuts. With its currency pegged at par to the US dollar, domestic lending rates will also be lower. A stronger euro against the dollar should help Argentina's export competitiveness, while lower US interest rates in 2001 could help the domestic economy.

The challenges ahead remain daunting for Minister Domingo Cavallo. He must not only restore Argentina's competitiveness, but also ease concerns about fiscal solvency, straighten up the country's finances, reassure its creditors, and return the economy to growth.<sup>30</sup>

## **TURKEY**

### **Political, Social, and Government Related Factors**

Like Argentina, Turkey requested financial assistance from the IMF, which was approved in December 1999 in the amount of US\$11.0 billion. While Argentina is going through a recession with inflation close to zero and high unemployment rates near 15%, Turkey's inflation reached 56% and 52% respectively in 1999 and 2000, with interest rates near 50% last year. The financial assistance given by the IMF was primarily intended to help the Turkish Central Bank defend the value of the Turkish *lira* (TL), which was under

severe pressure by investors. This situation started with a controversy between President Ahmet Necdet Sezer and Prime Minister Bulent Ecevit, causing one of the greatest capital flights in Turkish history. Turkey is politically unstable and is undergoing an increasing fiscal deficit. It is also facing the consequences of a deficient banking system and negative trade and current account balances.

The defense of the currency with funds provided by the IMF was strongly criticized and eventually failed due to the strong devaluation of the lira by almost 60%, forcing the Central Bank to adopt a free-floating exchange regime. As a result, on February 21, 2001, the overnight rate was increased to 6,200% while the currency reached TL1,050,000 per US\$ on February 28, against TL 675,000 at the end of 2000. After a slight recovery to TL 985,000, the lira depreciated again, reaching TL 1,180,000 on April 17, 2001.<sup>31</sup>

The story of the Turkish crisis begins in August 2000 when the Turkish President Ahmet Necdet Sezer entered into a dispute with the armed forces over his refusal to sign a military-inspired decree allowing the government to dismiss state employees under suspicion of supporting separatist groups or radical Islamists. The controversy threatened to produce a full-blown constitutional crisis, as Mr. Sezer argued that parliament should be consulted on such a delicate issue. The government reluctantly decided to present the decree as a bill in parliament.

The government's decision averted a crisis, but the broader issue of democratization—particularly greater freedom of expression and the protection of minority rights, which must be tackled if Turkey is to become a member of the EU—remains unresolved. As a result, such issues continue to be a major source of confrontation between those who believe in the preeminence of the threat to the secular, unitary state represented by Kurdish separatism and Islamic fundamentalism (who include the military and some members of the political elite), and those who advocate the radical changes needed for Turkey to join the EU.<sup>32</sup>

Public posturing by coalition members was partly responsible for the economic crisis. Tensions were particularly high between the far-right Nationalist Action Party and the center-right Motherland Party, with the former intent on taking over the latter's centrist constituency. Early in December 2000, Turkish finances suffered a sudden loss of confidence in view of the arrest of several prominent banking figures. This turn of events, combined with disputes within the three-party coalition, caused panic that sent interest rates out of control and a severe drop in the stock exchange. This situation continued due to the vulnerability of the government's actions and serious weakness in the banking sector.

Corruption is still one of the main problems faced by Turkey and fighting it seems to create additional difficulties. Various arrests and prosecutions involving private businessmen who are not under political "protection" and minor political officials indicates that authorities may not be prepared to clean up the system, since accusations against leading members of the coalition continue to arise.

The coalition government, led by the Democratic Left

Party (DSP) with the Nationalist Action Party (MHP) and Motherland Party (Anap), is expected to remain in power for the near future. All three are eager to remain in the present government to take credit for the potential success of Turkey's first serious stabilization program in over a decade. Nevertheless, the crisis-prone political system makes it impossible to rule out a government collapse and with it the possible derailment of the IMF-sponsored stabilization program.

### Economic and Financial Factors

At the end of 1999, in response to weak macroeconomic fundamentals and a fragile financial structure, Turkish government authorities assembled a package of measures to help the country restore its confidence and avoid further consequences of the recent turmoil in financial markets. The plan envisaged a comprehensive program of stabilization and reforms. Among the objectives of the program, Turkey would attempt to reduce the inflation rate to a single digit, ensure a sustainable fiscal position, remedy chronic structural inefficiencies in the economy, and raise the country's growth level. The fiscal tightening would require improvement in the external current account balance and promote disinflation. In addition, the growth in government expenditures would be kept lower than GDP growth. The strong earthquake in the Marmara region on August 17 was the major event of 1999. Besides the very high number of deaths and injuries, the disaster caused a heavy burden on the economy in terms of reconstruction of infrastructure and housing.<sup>33</sup> However, for some time in 2000 the program was successful in strengthening public finances, improving growth, and reducing interest rates.

the IMF stand-by credit. The decision enabled Turkey to immediately draw about US\$577 million under the credit originally approved on December 22, 1999. To date, the amount of approximately US\$865 million had been disbursed from a total of about US\$3.8 billion stand-by credit, leaving an undisbursed balance of about US\$2.9 billion. The Board also decided to provide additional resources under the stand-by credit available under the Supplemental Reserve Facility (SFR) in the amount of approximately US\$7.5 billion, to alleviate balance of payments problems originating from the recent financial crisis. Of this amount, US\$2.2 billion approximately, were made immediately available.

### The Outcome

To defend the economy against the effects of the crisis, the monetary authorities agreed to restore the program's credibility, by adopting essential fiscal tightening measures aimed at reducing the use of external savings and reassuring investors that lending to Turkish banks is safe. This would be accomplished by supplying guarantees for depositors and creditors, implementing a law to remove obstacles to mergers, accelerating the resolution of banks subject to intervention, and strengthening bank supervision.

The main goals of these measures would be to reduce inflation to about 12% by December 2001, and attain a GDP growth of 4-4.5% and current account deficit of around 3.5% of GDP. Monetary and exchange rate policies would also become more flexible, starting with the opening of an exchange rate band around the pre-announced mid-point. The focus of the monetary policy would be to recover the foreign exchange reserves lost during the crisis due to the

**Table 9: Turkey** (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US\$ bn)	-14.3	-5.2	-14.1	-20.4	-22.3	-18.9	-14.1	-26.7	na
Current account balance (US\$ bn)	-6.4	2.6	-2.3	-2.4	-2.7	2.0	-1.4	-3.7	-9.7
Foreign direct investments (US\$ bn)	0.6	0.6	0.8	0.6	0.6	0.6	0.1	na	na
Portfolio investments (US\$ bn)	3.9	1.1	0.2	0.6	1.6	-6.7	3.5	na	na
International reserves (US\$ bn)	6.2	7.1	12.4	16.4	18.6	19.4	23.2	27.6	19.4
Real GDP growth (%)	na	-5.5	7.2	7.0	7.6	2.8	3.2	-5.1	6.0
Consumer price inflation (% - p.av.)	67.4	107.3	87.2	78.0	81.2	75.3	55.8	51.6	48.9
Interest rate (%)	62.8	136.5	72.3	76.2	70.3	74.6	73.5	49.7	na
Exchange rate (TL / US\$ - p.av.)	10984	29609	45845	108045	206100	315220	542703	675004	1180
Unemployment rate (% - p.av.)	7.8	8.1	6.9	6.0	6.7	6.8	7.7	6.6	na
Stock exchange (ISE index in US\$)	na	na	na	na	na	484.0	1655.0	817.5	767.6
Population (million)	58.5	59.7	60.6	61.5	62.5	63.5	64.4	65.3	na

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = <http://www.imf.org>. Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = <http://www.eiu.com>. State Institute of Statistics of the Ministry of State in Charge of the Treasury of Turkey = <http://www.die.gov.tr/ENGLISH/index.html>. Istanbul Stock Exchange = <http://www.ise.org/>. International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = <http://dsbb.imf.org/country/tur/turedird.htm>. Central Bank of the Republic of Turkey = <http://www.tcmb.gov.tr/>. CNMfn = <http://cnmfn.cnn.com>. Year 2000: Trade Balance and Current Account Balance = October. All other items are actual data. Year 2001: Current Account Balance, and Real GDP Growth are estimates. International Reserves = March 30. Consumer Price Inflation = 12 months ending February. Exchange Rate and Stock Exchange = April 17.

Late in November 2000 the combination of the sharp decline in interest rates and the difficulty in lowering inflation spurred domestic demand above the program's expectations, thereby changing the economic scenario. Coupled with the increase in international energy prices and interest rates and the appreciation of the dollar vis-à-vis the euro, Turkey was hit by a liquidity crisis among some medium-sized banks.<sup>34</sup>

On December 21, 2000 the Executive Board of the International Monetary Fund (IMF) approved the third and fourth reviews of Turkey's economic program, supported by

regime of a preannounced crawling peg with no band which had been in effect. Furthermore, other key measures in the reform agenda would be implemented with the assistance of the World Bank. Groundwork for liberalizing the tobacco and sugar markets is being laid.

The indicators displayed in Table 9 show that Turkey suffered continuous trade deficits. Estimates supplied by the Economist Intelligence Unit (EIU) indicate that the current account balance for 2001 will reach a negative volume of US\$9.7 billion. International reserves decreased markedly due



to the currency crisis and stood at US\$19.4 billion on April 9, 2001. GDP presented a negative growth of 5.1% in 2000, but is estimated to improve slightly to a negative growth of 3% in 2001.<sup>35</sup> As a result of the new economic program, inflation would settle around 52.5% in 2001.<sup>36</sup> The exchange rate deteriorated in 2000, with a devaluation of 24.4%, depreciating even more in 2001 (TL 1,180,000 per US\$ on April 17). Unemployment eased from 7.7% in 1999 to 6.6% in 2000.

In the banking sector 20 financial institutions are still experiencing difficulties, with consistent rumors that more banks could be placed under government supervision. The IMF is recommending the sale of three of the largest state banks needing financial assistance. A consolidation among 87 banks is also a possibility, as well as the sale of about 11 banks under government administration.

As in Argentina, a change occurred in the Turkish Ministry of Economy in March 2001. The new minister, Kemal Dervis, formerly a vice-president of the World Bank, was given full power to restructure the Turkish economy, a move that was very well-received internationally. The cabinet of ministers approved a comprehensive program called the "Law of 100 Changes in Turkey" encompassing political, social and economic reforms, such as the end of the death penalty and a more liberal approach to free speech. This program, apparently, does not comply with requirements of the EU in several fundamental aspects, especially with regard to the rights of the minority Kurdish people, military influence in politics, or the re-unification of Cyprus. All these initiatives are essential for Turkey's effort to join the European Union (EU) and, according to Vice-Prime Minister Mesut Yilmaz, will be effective within the next five years.

On April 14, 2001 Minister Dervis unveiled his recovery program, which received the approval of the government coalition and especially of Prime Minister Ecevit. Dervis announced that he is going to international lenders with the country's need for US\$10 to 12 billion. Once obtained, these funds would enable legislative measures aimed at reforming the public finance management and banking sectors, and at accelerating privatization (with emphasis upon Turk Telekom and Turkish Airlines), a tight fiscal policy focused on spending cuts instead of new taxes, and on macroeconomic targets. He would maintain the free-floating exchange regime.

Although the outlook painted by Dervis looks positive, it should not be forgotten that 18 IMF programs have already failed in Turkey<sup>37</sup> and that the sacrifice required by the program may cause social tension as has already been seen in the streets of Ankara in mid-April.

### **The Concept of Globalization**

Globalization is a broad process of technological, institutional and financial integration occurring on the international scene. It influences trade markets, production, services, education, labor, and competition. Globalization may also be defined as the formation of a new international framework whereby the productive and financial structures interconnect through a growing number of transactions and thus form the basis for complete interdependence between economic actors, markets, and nations.

Although international integration on a global scale has been a common fact throughout the world, never before has this phenomenon acquired greater notariety than with the advent of the most recent innovations in the fields of information and communications technology.

The desire to share the advantages provided by the Information Age has propelled countries towards transition from their more restrictive economies. Joining this new order implies the need to understand a completely new environment and the future is now seen in terms of the growing speed in all forms of human activity, which requires a new approach toward modern education. Globalization embodies this transition. Thomas Friedman, in an interview with the Brazilian magazine *Veja*, late in December 2000 said that "globalization is neither an ideology nor an economic program to be defended; it is the interpretation of what is happening in the world."<sup>38</sup> Therefore, whether an analyst is politically inclined to the left, right or center, globalization must be examined without prejudice, focusing on characteristics, advantages, and disadvantages rather than letting any political stance give rise to a mental barrier.

### **The 'Rules'**

In order to relate globalization to the economic crises in emerging countries, it is necessary to discern whether the strategies adopted by countries wishing to participate in the global economic marketplace were in line with basic rules or conditions that lead to successful transitions. These prerequisites or 'rules' are:

#### **1. Liberalization of trade and capital flows**

Although total liberalization is a fantasy, reductions in tariffs and subsidies, and decreases in capital and trade controls are necessary. Privatization is an additional tool of liberalization.

#### **2. Fundamental Conditions**

A country emerging in a globalized world must examine to what extent the economic, political, social, financial, productive, educational, and administrative structures are adequate for the transition. Aspects such as macroeconomic weaknesses, balance of payment problems, political unrest, social imbalances, inadequate banking structures, weak levels of industrial competitiveness, unqualified labor, insufficient education in terms of information and communication technology, poor methods of public administration, and excessive government controls, must be carefully weighed to avoid disastrous results when participating in the global market.

#### **3. Adequate timing**

A convenient preparation for the transition to globalization is also of importance. Consideration must be given to positive and negative indicators to decide if and when the move would be advisable or when strategy changes are required.

#### **4. Surveillance and outcome controls**

The availability of information (transparency) according to international standards is important before going global and is necessary for the surveillance and control of results.

## 5. Awareness and acceptance of worldwide organizations

Relations and interactions with institutions such as the IMF, World Bank, and other international entities should be available when needed and should be accepted, not only for financing, but also for counseling, and for crisis prevention and settlement, thus reducing vulnerability to sudden capital flow reversals.<sup>39</sup>

### **Adherence to the 'Rules'**

The description of each of the nine crises presented earlier allows us, at this point, to interpret whether the countries adhered to these prerequisites or 'rules' for entering a global economy. The arrows show the overall result within each rule.

#### **Mexico**

Rule #1: ↑ Mexico opened its economy long before the crisis.

Rule #2: ↓ The country had economic stability in terms of GDP growth, positive public accounts, low interest and exchange rates, and low inflation and unemployment, with the exception of its trade and current account balances, mainly financed by foreign capital. But Mexico also had political and social unrest, a fixed exchange rate that caused an overvalued currency, and had an inadequate banking structure, weak industrial competitiveness, and comparably low labor skills.

Rule #3: ↓ The timing for liberalization was adequate, but the government lost the opportunity to change the exchange regime earlier to avoid reserve losses and embarked on a wrong move with the issuance of '*tesobonos*'.

Rule #4: ↓ Disclosure of information was inadequate by international standards.

Rule #5: ↑ Mexico accepted financial aid.

#### **Thailand**

Rule #1: ↑ Thailand adhered to the rule and opened the economy long before the crisis.

Rule #2: ↓ The country showed a marked economic stability before the crisis, with high GDP growth and adequate foreign reserves, low interest and exchange rates, as well as low inflation and unemployment. However, trade and current account balances were negative until 1997, mostly financed by foreign capital. Aside from the extremely weak banking system, Thailand also had a fixed exchange rate and an overvalued currency.

Rule #3: ↓ The timing for liberalization was correct but, like Mexico, Thailand was too slow to change the exchange regime early enough to avoid further reserve losses in 1997.

Rule #4: ↓ Disclosure of information was inadequate by international standards.

Rule #5: ↑ Thailand accepted financial aid.

#### **Indonesia**

Rule #1: ↓ Indonesia adopted a dubious approach to opening the economy, which was only changed in 1998.

Rule #2: ↓ The country had current account deficits, but positive trade and payment balances. International reserves were low and inflation and interest rates were not as healthy as those of their East Asian neighbors. However, inflow of

foreign capital was reasonable until 1996, while GDP growth was high. The real problems consisted of a deficient banking system with inadequate government controls, a semi-fixed exchange rate, and political problems, mainly with East Timor.

Rule #3: ↓ Liberalization took too long to materialize and the change to a floating exchange regime was excessively delayed.

Rule #4: ↓ Disclosure of information was inadequate by international standards.

Rule #5: ↑ Indonesia accepted financial bailout from the IMF.

#### **Malaysia**

Rule #1: ↓ Malaysia avoided liberalizing the economy and adopted capital and exchange controls.

Rule #2: ↓ Even without opening the economy, Malaysia received direct investments from abroad but suffered some minor outflow of portfolio investment. Trade and current account balances were negative before the crisis, but the country maintained high GDP growth, adequate volume of foreign reserves, low inflation and unemployment rates. Political disputes at high government levels had some effect on the country's international credibility. The banking system suffered from problems similar to those in Thailand and Indonesia and was heavily indebted in foreign currency. The fixed exchange rate was overvalued and became vulnerable to outside currency attacks.

Rule #3: ↓ The exchange regime was not altered despite the loss in foreign reserves.

Rule #4: ↓ Disclosure of information was also inadequate by international standards.

Rule #5: ↓ Malaysia refused any assistance offered by international financing agencies.

#### **South Korea**

Rule #1: ↑ Korea avoided liberalization until shortly after receiving financial aid from the IMF.

Rule #2: ↓ From 1994 to 1997, trade and current account balances were negative, and so were direct investments (Korea exported capital). However, portfolio investments were quite substantial. Although interest rates were high according to international standards, all other indicators were positive, such as high GDP growth, low inflation and unemployment, and adequate foreign reserves. The exchange rate, however, was fixed and the banking system was not prepared for the transition, just as in other East Asian countries. Concerns about the relationship with North Korea and domestic industrial problems caused some apprehension.

Rule #3: ↓ The currency was not floated earlier enough.

Rule #4: ↓ Disclosure of information was inadequate by international standards.

Rule #5: ↑ South Korea had no other way but to accept the aid of international financing agencies.

#### **Russia**

Rule #1: ↓ Russia's stance toward liberalization was somewhat ambivalent.

Rule #2: ↓ Sizeable positive trade balances and reasonable current account balances were Russia's greatest advantages.

Although foreign direct investment was small, large sums entered the securities market. Low foreign exchange reserves did not correspond to the size of the Russian economy. In addition to the political instability that characterized President Yeltsin's administration, inflation and interest rates were extremely high, while the people suffered from extreme poverty. Unemployment started to grow in 1995, but the exchange rate remained fairly stable before the crisis.

Rule #3: ⇩ The currency was not floated earlier enough.

Rule #4: ⇩ Disclosure of information was inadequate by international standards.

Rule #5: ⇧ Russia in fact had no other option than to accept international financial aid.

### **Brazil**

Rule #1: ⇧ One of the objectives of the Real Plan was to open the Brazilian economy.

Rule #2: ⇩ After 1994, Brazil's trade and current account balances became sharply negative financed by large amounts of foreign direct and portfolio investment, and privatization, bringing reserves to exceptionally high levels. Yearly GDP growth was also among the positive factors and unemployment remained within international standards. However, interest rates were kept high to stem foreign capital flight and to avoid contagion from crises in other emerging countries. Despite government promises, budget deficits persisted and important reforms were continuously postponed due to the re-election campaign. The overvaluation of the currency and the semi-fixed exchange rate regime exacerbated the negative outcomes of the financial crisis. Internal pressures added to the country's political instability, as well as low labor skills, mainly in the banking sector.

Rule #3: ⇩ The currency was not floated earlier enough.

Rule #4: ⇩ Disclosure of information was inadequate by international standards.

Rule #5: ⇧ Brazil started negotiations with the IMF before the crisis, as a "preventive measure".

### **Argentina**

Rule #1: ⇧ Argentina has an open economy and participates in the global marketplace.

Rule #2: ⇩ The country suffered from recurring current account deficits, which increased after 1997 and continued throughout 2000 and 2001. Unemployment rates, close to 15% resulted in growing social unrest, made worse by declining industrial production, negligible productivity gains, and low competitiveness. In January 1999, the Brazilian currency devaluation plus the overvaluation of the Argentinean peso (pegged to the US dollar) affected Argentinean exports. Furthermore, deficits in public accounts contributed to weaken the economy as a whole, affecting the country's international credibility. Corruption also negatively affected international credibility.

Rule #3: ⇩ The currency board exchange regime is mainly responsible for the overvaluation of the peso.

Rule #4: ⇩ Disclosure of information was inadequate by international standards.

Rule #5: ⇧ Argentina accepted the assistance of the IMF.

### **Turkey**

Rule #1: ⇩ Turkey is still trying to enter the European Union to act more globally.

Rule #2: ⇩ The country is facing high inflation and interest rates, both around 50%, and is political unstable and troubled by corruption at high government levels. The recent currency devaluation adds to Turkish instability, accelerated by political disputes between the president and his prime minister, further contributing to loss of credibility by foreign investors, a situation that is worsened by a growing fiscal deficit.

Rule #3: ⇩ The currency was not floated earlier enough.

Rule #4: ⇩ Disclosure of information was inadequate by international standards.

Rule #5: ⇧ Turkey accepted the assistance of the IMF.

### **Globalization and Economic Crises in Emerging Countries**

A distinction should be made at this point between the crises that occurred between 1994 and 1999 and the problems that are presently afflicting two other emerging countries, i.e., Argentina and Turkey. The experience gained by the seven countries—Mexico, Thailand, Indonesia, Malaysia, South Korea, Russia and Brazil—was precious in that it brought to light the path to recovery. The most important issue that emanated from the crises was the change in mentality in each individual country and the recognition of the need to abide by the 'rules' before being able to participate in the global marketplace. The decision to participate in the global economic market is obviously a courageous one and failures are likely to occur along the way. Nonetheless, favorable results can now be clearly noticed, as shown by the recovery of the emerging countries affected by crises during these years as presented for each country earlier under the 'Outcome' headings. Although different strategies were applied, the results proved that most errors could have been avoided and, obviously, with more favorable results. The details also showed the extraordinary creativity of those in charge of restructuring, reorganizing, and rebuilding these countries after their economic and financial crises.

Both Argentina and Turkey are still in the midst of their dilemmas and are trying to follow strategies recommended by their ministers of the economy. As difficult as it may seem, various actions have been taken by each of these countries to reduce the adverse effects of the crises. Their recovery depends primarily upon the seriousness with which their governments carry out the reforms presently underway. The assistance of international financing agencies such as the IMF is fundamental at this point. Overlooking the recommendations of these institutions may result in additional setbacks.

Globalization was the motive that led so many nations to seek integration, but failures due to not playing by the rules and not fulfilling the requirements before or while attempting the transition should be attributed mainly to the countries themselves. Errors were plentiful. The contagion from other emerging countries was evidently also an aggravating factor, but all nine countries committed mistakes that intensified their dilemmas.

Pursuing integration through liberalization of trade and capital flows and through foreign competition can cause imbalances that affect a country's population in terms of income distribution, unemployment, and social unrest. In spite of the pain that an open and integrated economy can generate, the benefits of opening are still overwhelming. Not adhering to the global market economy would be a serious threat to better living standards, would reduce external trade and decrease intellectual and technological improvement. But, most of all, it would draw away the fundamental framework for opportunity.

Economic stability and long-term growth are sound and reliable policies, irrespective of any globalization process. Stability—which is not an end in itself but rather a means to an end—is one of the instruments needed to improve the standard of living of the population.<sup>40</sup> Other factors, such as healthy competition, both domestically and internationally, the absorption of new technologies, and enterprise creation, are some of the keys to the success of liberalization and globalization. All this, however, can only happen through effective improvements of education in all possible fields of knowledge. Education will fill the gap between poorly and highly-qualified labor and bring awesome advantages to society as a whole. Education is THE solution for countries wishing to reap the benefits of globalization.

Emerging countries gain considerably from trade and investment. The faster the global economy integrates in the marketplace, the more capital will cross national borders. Therefore, countries must possess a healthy banking system with transparency of information and communication, and must be able to correct and adapt to domestic and external problems. In addition, international organizations must provide their assistance whenever possible to contribute to the successful globalization of emerging countries.

Globalization is an idea and ideas do not cause destruction; destruction takes place only when ideas are improperly implemented through inadequate strategies, poor management, and imperfect timing.

#### ENDNOTES

- <sup>1</sup> See also Treuherz, R. *The Crisis Manual for Emerging Countries*, Fabrizio Publications, 2000.
- <sup>2</sup> See the sites <http://www.american.edu/projects/mandala/TED/CHIAPAS.HTM> and [http://flag.blackened.net/revolt/rbr/rbr1\\_abezln.html](http://flag.blackened.net/revolt/rbr/rbr1_abezln.html), for more details.
- <sup>3</sup> Newspaper "O Estado de S.Paulo", April 4, 2001 at <http://www.estado.com.br/>. See also "Mexico: Fiscal Reforms" in Economist Intelligence Unit Country Briefing, March 26, 2001. <http://www.eiu.com/latest/519359.asp>.
- <sup>4</sup> Newspaper "O Estado de S.Paulo", April 10, 2001 <http://www.estado.com.br/>.
- <sup>5</sup> 6<sup>th</sup> Meeting of Ministers of Trade of the Hemisphere in Buenos Aires on April 7, 2001, [http://www.alca-ftaa.org/ministerials/BAMin\\_e.asp](http://www.alca-ftaa.org/ministerials/BAMin_e.asp).
- <sup>6</sup> Sharma, S. in "Bitter Medicine for Sick Tigers: The IMF and Asia's Financial Crisis", *Pacific Rim Report* #8, Center for the Pacific Rim, University of San Francisco, June 1998.
- <sup>7</sup> CNN - Asianow. <http://www.cnn.com/ASIANOW/southeast/>, February 1, 2001
- <sup>8</sup> IMF Concludes Article IV Consultation with Indonesia, Public Information Notice #00/82 – IMF, September 25, 2000.
- <sup>9</sup> Economist Intelligence Unit (EIU), in "Indonesia Politics: Still Defiant", March 29, 2001. <http://www.eiu.com/latest/521484.asp>
- <sup>10</sup> The National Economic Action Council of the Malaysian Government stated, in a letter to the Asian Wall Street Journal on Dec. 22, 2000, that outflows in the last 6 months reflect a higher level of economic activity, repayment of debt and overseas investment. Major reasons explaining the outflows include \$6.8 billion payments for service transactions and transfers reflecting the services deficit, \$1.7 billion repayment of external loans by the Federal Government, non-financial public enterprises and the private sector, and decline in short-term liabilities of commercial banks. Overseas investment by the Malaysian corporate sector totaled \$1.9 billion, net outflow of portfolio funds was \$2.6 billion, foreign exchange losses due to appreciation amounted to \$900 million while foreign currency balances maintained in banks increased \$500 million. In addition to this positive trend, the health of the banking system has been restored and the economy remains resilient. Malaysia's reserves, which are usable and unencumbered, are therefore expected to continue to remain strong.
- <sup>11</sup> IMF Public Information Notice # 00/63, August 10, 2000.
- <sup>12</sup> Economist Intelligence Unit Country Report, November 16, 2000.
- <sup>13</sup> Economist Intelligence Unit Country Briefing. "Malaysia economy: Going for growth", March 29, 2001. <http://www.eiu.com/latest/521482.asp>
- <sup>14</sup> Economist Intelligence Unit Latest, April 10, 2001. [http://www.viewswire.com/index.asp?layout=country\\_home\\_page&country\\_id=KR](http://www.viewswire.com/index.asp?layout=country_home_page&country_id=KR)
- <sup>15</sup> Kwak Young, in *Korea Herald*, April 13, 2001. [http://www.koreaherald.co.kr/SITE/data/html\\_dir/2001/04/13/200104130002.asp](http://www.koreaherald.co.kr/SITE/data/html_dir/2001/04/13/200104130002.asp)
- <sup>16</sup> Russia Country Report, Economist Intelligence Unit, November 15, 2000.
- <sup>17</sup> IMF Concludes Article IV Consultation with the Russian Federation, Public Information Notice #00/83 – IMF, September 09, 2000.
- <sup>18</sup> Russia Country Report, Economist Intelligence Unit, November 15, 2000.
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- <sup>24</sup> Newspaper O Estado de S.Paulo, January 18, 2001.
- <sup>25</sup> Goitia, V. in O Estado de S.Paulo, January 16, 2001.
- <sup>26</sup> International Monetary Fund. *IMF Approves Augmentation of Argentina's Stand-By Credit to US\$14 Billion and Completes Second Review*, in Press Release # 01/3, January 12, 2001.
- <sup>27</sup> Newspaper "O Estado de S.Paulo", March 21, 2001.
- <sup>28</sup> Some congressmen of the Justicialist Party are still negotiating with the Executive Power to limit his 'special powers'. The intention is to obtain a provision whereby he would not be allowed to dismiss public servants, to reduce payments to retirees, to introduce changes in welfare, or to privatize government entities.
- <sup>29</sup> "Newspaper "O Estado de S.Paulo", April 14, 2001.
- <sup>30</sup> Economist Intelligence Unit (EIU), in *Viewswire* at [http://www.viewswire.com/index.asp?layout=country\\_home\\_page&country\\_id=AR](http://www.viewswire.com/index.asp?layout=country_home_page&country_id=AR) and "Argentina: A New Plan", in EIU Country Briefing at <http://www.eiu.com/latest/520584.asp>.
- <sup>31</sup> Ouanda.com "Foreign Exchange History", April 17, 2001.
- <sup>32</sup> Economist Intelligence Unit EIU's Latest, in "Turkey: Holding on", September 13, 2000.

<sup>33</sup> Ministry of State in Charge of the Treasury of Turkey, in *“Capital Markets in Turkey”*, Capital Markets Board of Turkey.

<sup>34</sup> IMF Press Release # 00/80, December 21, 2000.

<sup>35</sup> Newspaper *“O Estado de S.Paulo”*, April 15, 2001, at <http://www.estado.com.br>.

<sup>36</sup> *Turkish Daily News*, April 15, 2001, at <http://www.turkishdailynews.com/FrTDN/latest/econ.htm>

<sup>37</sup> Newspaper *“O Estado de S.Paulo”*, March 20, 2001.

<sup>38</sup> Friedman, T. *“Interview with Revista Veja”*, S.Paulo, Brazil, December 27, 2000.

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