

Rethinking Economic Development through New Economic Sociology's

Lens: network, cultural influence, and identity in the case of Taiwanese enterprises in China.

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Abstract:

Social scientists must rely on various conceptual tools to understand and analyze social realities. Concepts like city, market, state, civilization, or empire, are ideal constructs used by researchers for the purpose of clarification and generalization. Introduction of a new conceptual tool usually stimulates new directions and questions for inquiry. "Embedded network" is an example of such a "paradigm shift." In brief, network can be viewed as a cluster of relations constituted among a group of "actors" within a social space where action is not determined by any single motivation (rational, emotional, habitual, etc.) or structural constraint (political, cultural, or economic). This paper will try to trace the application of this new theoretical orientation as well as the debate it stirred in the reviving subfield of economic sociology (some have called it new economic sociology). It will demonstrate the theoretical significance of network analysis, with emphases on how it can reshape our understanding of economic development. Arguing against both the statist and the economic determinism of "developmental state" theory, new economic sociology provide an alternative for understanding the complex relationship between state, culture, institutional constraint, and economic development. These concepts will then be elaborated to challenge our understanding of the empirical evidence of Asian capitalism and the phenomenon of Taiwanese business network in China. The main purpose is to examine the limitation of developmental state model on the one hand and to articulate the trans-national dynamics of Taiwanese business network on the other hand.

The 1980s was a golden time for East Asia. Countries like South Korea, Japan, Taiwan, and the colonial entrepôt of Hong Kong has been enjoying high rates of economic growth for a while and there seems to be no stopping sign for this good run.

Not until the 1997 crisis did the East Asian tigers' pace slow down. The previous doubts on East Asian models were really reinforced by the events. And the talks about corruptions, cronies, less government intervention, more market autonomy, and the necessity of reforms has become common and popular responses toward East Asia models. Discussion and explanation of economic development has continued to draw a good deal of attention in this era of globalization. It used to be the so-called East Asian countries-Japan plus four little dragons-that caught the eyes of journalists and academics, and then there were Southeast Asian NICs gradually emerging on the stage, and finally China arrived in a grandeur fashion after a long period of sustained growth. In order to interpret and explain the region's transformation and expansion of its economic power, social scientists have come up with an array of approaches focusing on different possible factors that induced development. Ever since the end of Second World War, developmental issues like industrialization and political consolidation were crucial to, not only the advanced capitalist powers and the communist regimes, but also the third world countries themselves. The experience of this region has occupied a significant place within the discussion of developing countries' challenges and opportunities. A review of the development theories hopefully will bring valuable insights for the interest of both empirical knowledge and practical or policy concern. I will first try to give a brief summary of several important theories regarding development and social change in the developing countries, namely, modernization, dependency, developmental state, and Confucian capitalism. The review of these theories serves to make comparison to the so-called new economic sociology's approach toward development and social change.

East Asia Explained: Modernization, Dependency and Confucian Capitalism

During 18th and 19th century in Western Europe, social thinkers gradually took interest in the knowledge of social change under a new light. Following Giambattista Vico's *Scienza Nuova*, the scientific self-knowledge of social history became the intellectual terrain of social science in general and sociology in particular. This process was seen, at once, as natural sequence drawn by external social factors and active intervention by human actions as well. The following generations of social thinkers, while increased their

stock of knowledge and built up more sophisticated concepts and analysis, this issue of dualistic causation actually comes back repetitiously in many reincarnated forms.

Modernization as Universalistic Path of Progress

The European classics thus enshrined by sociology, e.g., Marx, Durkheim, Weber, Tönnies, share something common with regard to the perception of social change. (Abrams 1983) This is the idea that there was a point in the history of Western Europe that the old social constellation broke down before a new social order emerged. Usually the old society is characterized by terms like agricultural, traditional, medieval, religious, Gemeinschaft, and mechanical solidarity, as opposed to those describing the new order: industrialized, modern, capitalism, secular, Gesellschaft, and organic solidarity. This view of sociological classics undoubtedly is oversimplified; nonetheless, this should be a proper way to understand the conceptual lineage and the intellectual motivation of Modernization theory.

Modernization as theory of social development had a direct relationship to the effort of re-establishing social order in many war-torn countries and newly independent nations after a devastating war. As a result, it was far from neutral and certainly reflected the conflicts between different interests and ideologies, even though some would specifically claim its investigations and resultant conclusions are scientific. I would roughly summarize the assumption of Modernization here. First of all, it is defined as a teleological process in which a traditional society transforms its institutions. Secondly, replicating the historical outcomes of some Western European countries and North America is seen as progress and rationalization, hence the categories of developed, developing and undeveloped countries. Thirdly, the transition must happen interdependently in various spheres of society, for example, capitalism in economic sphere, industrialization in mode of production, democratization in polity, bureaucratization of organizations, modern science and technology, individualism in attitude and cognition. Fourthly, modernization must bring about functional specialization and structural differentiation, which is an evolutionary result of efficiency and adaptation. Finally, there is a tendency to delineate the transition in terms of continuous stages, or to use a comparatively more flexible notion of functional precondition. (Levy 1952, Lerner 1958, Rostow 1960, Eisenstadt 1973, Hoselitz 1963,

Parsons 1952) This paradigm has been rightfully criticized for Eurocentric biases in mistaking historical contingency as normative universality, and the tendency of over-simplification over the rather complicated historical process. As I said, it is proper to see Modernization theory's oversimplification of sociological classics as a result of their ambitious project and motivation. What they came to see as a scientific generalization of European (in other words, advanced or developed) historical lessons, for instance, industrial revolution, French revolution, secularization, urbanization, actually led to a biased worldview and more significantly, ideologically driven policy guidance for development in the rest of the world.¹

Dependency as Neo-colonialism and Capitalist Exploitation

Among numerous social changes explicated by modernization thesis, economic development occupied a rather central position. Theoretical orientation certainly reflects the unequal relation between the advanced West and the poor regions of the world. Therefore the question at hand for theorists on advisory committee and policy consultants to aid-receiving countries was this: how to stimulate the economic growth by learning from the experience of Western development? How to translate theory into public policy on the ground of third world countries?² However, once the theorists confronted realities of the fields, disagreement between realities and theoretical assertion was inevitably recognized, and difference between approaches and policy selections started to emerge. Neo-classical doctrine of economic growth was certainly the mainstream model in the early decades of postwar era. The dissenters, many of them as I said formulated their views from the ground, were mostly responding to the national and regional difference of trajectories and constellations they had observed. In 1960s, the disparities between rich and poor nations of Asia, Africa, and Latin America propelled the uprising of dependency theory. Raúl Prebisch criticized the "comparative advantage" proposition of classical economics and the theory of trade as the major source of growth. During his

¹ I must admit that my summary of modernization theory is also over-simplified in order to tell a bigger story about social scientists' evolving thinking on social change; therefore, it really doesn't do justice to the self-reflection stimulated by the discourses of modernization and modernity. The death and rebirth of modernization theory merits a much-detailed discussion, for example, see Bendix, Knöbl 2003.

² The early success of Marshall Plan in reconstructing postwar Europe certainly deceived development theorists and policy makers, making them optimistically believe in capital investment plus sound planning will lead to similar growth and transition.

tenure in Economic Commission for Latin America (ECLA), he tried to advocate the strategy of import substitution industrialization (ISI) to replace the heavily unequal terms of trade between primary product from third world countries and secondary manufacturing goods from advanced industrialized countries. (Prebisch 1950) Capital accumulation and investment as the most important variable to growth was also under attacked. Paul Baran argues that the political structure in backward countries have hindered the investment and productivity. Foreign aid and foreign private investment also created obstacles for real development by reproducing the unfavorable political and social institutions in Third World countries. (Baran 1957) This strand of development theory usually emphasizes the uneven development within the system of world economy, frequently categorized into advanced center and exploited periphery. (Wallerstein 1974). It also suggests that, in a system of states, those in the periphery ultimately are forced to remain specialized in the labor-intensive, low-tech and low value-added section of global market, a result of manipulation by the capitalist interest of developed core. (Frank 1967) Most of the time dependency theory sounds pessimistic and recommends isolation from international trade and protectionism for domestic industries as a possible solution to the underdevelopment problem.

Developmental State and “East Asian Miracle”

While dependency thesis tried to explain why the poor countries failed, developmental state has tried to explain success of certain states. The development of East Asian Economies seems to defy the notion of the Third World underdevelopment predicted by dependency thesis. Japan of course is not a colonial state in any sense, but as a traditional society in the beginning of 20th century, it did successfully morph into an imperial power and entered the prestigious group of advanced country after the War. Other economies like South Korea, Taiwan, and Hong Kong also emerged as vibrant modern society with astonishing economic growth when a century ago they were still colonies of Japanese and British Empire. These cases seem to be a sort of genuine deviation from dependency thesis that needs to be explained. (Barrett and Whyte 1982) Developmental state thesis highlights a set of attributes common to a group of states that has experienced a period of sustained growth. It argues that international economic system (in East Asian tigers’ cases, capitalist system) is not a definitive obstacle to development, as dependency thesis

assumed. Key ingredients are export orientation industrialization, targeting on certain markets like electronics and IT industry, diffusion of technology and investment on human capital. Analysts with this view pointed out that state in these countries has played a facilitating role while their economies and society underwent transition. Achievement of these economies has led to two lines of interpretation. Although each highlighting different aspects of development, they are not mutually exclusive. Theory of developmental state emphasizes the performance of states like Japan, Taiwan, and South Korea in making the incentives to an export-oriented industrialization, lifting the obstacles for change in traditional society, helping the economy by making the transition to competitive market gradually and under-controlled, alleviating the negative impact of foreign aids and loans, diffusing technology and improving human capital via education. (Gold 1986, Amsden 1989, Wade 1990, World Bank 1993) In this sense, it is not only a response toward the dependency thesis, but also an reaction toward neo-liberal economics' account of proper relation between market and state.

Of course it could not be emphasized more that these late developers had occupied the advantageous position in the global market of manufactured goods. But this competitiveness and dominance of export market has much to do with these developmental state's autonomy or governance in decision making and policy implementation. It coincided with the debate in sociological theory of "bring the state back in" By formulating the idea of embedded autonomy, Peter Evans has argued that dependency effect can be circumscribed by state's involvement in shaping initiatives and battling multinationals and interested groups within. A revision of dependency theory

(Evans 1979, Cardoso and Faletto 1979, Wallerstein 1974)

Culturalist Interpretation of Development: Confucian Capitalism

Not to be exclusive from the assumptions of the developmental state, this interpretation usually tries to argue that Confucianism as a cultural tradition is congenial or even contributive to the vibrant development of capitalist market economy in this region. Some have indicated traits of Confucianism in political practice, moral education, work ethic, discipline over individual as well as family, and social relations. Others have not claimed such a ubiquitous Confucian influence but nevertheless point out that there are culturally distinctive forms of institutions and organizations related to the specific

development of East Asian economies. This culturalist turn has been occasionally tainted by the ideological association of authoritarian rules such as the Asian values discourse, but it helps to bring into consideration culture, identity, moral codes, power, and existing social relation. But what is the specific relationship between all those aspects and economy? If this question can be reframed as how to conceptualize development culturally and socially, as it should be, then I believe that the New Economic Sociology is the discipline to look for a broadened view of economic life.

New Economic Sociology's View on Economic Institution

The so-called New Economic Sociology, or some ideas that would subsequently inspire the whole intellectual enterprise, arrived at a time when sociologists were arguing about the conception of economic action as individual rational choice. This sociological version of rational choice is in accordance with the neo-classical economics' idea of atomized self-interested economic actor trying to maximize profit. The historical background of this re-conceptualization is clearly demonstrated in Mark Granovetter's now most-cited essay in the new field, *Economic Action and Social Structure: The Problem of Embeddedness*. (Granovetter 1985) Sociologists were not the only ones who started to question the view of modern society as being comprised of differentiated social institutions, each having its own core values, beliefs, norms and motivations. In a sense, the New Institutionalism in economics also took up the inquiry of economic intuition's intertwinement with other institutions.³ They both see that the highly rationalized world on a basis of rational economic system is as fictional as a primitive society devoid of any trace of rationality. Granovetter argued that rational pursuit of self-interested actor should not be discounted. Instead, it is the social embeddedness of any action that must be taken into our account of social action. Several decades earlier, Karl Polanyi's concepts of formal and substantive definition of "economic" also questioned the very strictive definition of rational calculation about scarcity and means-ends relation. He argued that this leads us astray from the empirical realities of economies in the past as well as present. (Polanyi 1957, Barber 1995) Albert Hirschman's work, *The Passions and the Interests*, argues that, very much like Max Weber and Robert Elias before him, the cold-hearted, rational calculation of interest is really a recent mentality. During 17th and 18th century,

³ The interesting fate of the old institutionalist school in economics

material interest was seen as a civilized mode of passion that could replace the destructive lust for power and glory. (Hirschman 1977) Although Hirschman only shows the transformation of passion and interest in the case of capitalism in the West, his argument really sheds light on the relevance of some important conceptual and emotional change to economic development. I think what the concept of embeddedness really elucidates is our false notion that rationality is the distinctive and absolute characteristic of modern economy. We now know that it is better to think of all sorts of economic activities and institutions like production, distribution, management, market, firm and so on, as being socially and culturally constructed. Under many circumstances, rationalistic thinking and orientation are obvious influential, but never as dominant as it was supposed to be. In this sense, the concept really called for a disenchantment of modernity.

Besides the ubiquitous “embeddedness,” network too is a famous catchword in the burgeoning field of New Economic Sociology. (Powell and Smith-Doerr 1994, Scott 1988) Georg Simmel long ago indicated that social life is characterized by the interweaving of group affiliations. (Simmel 1955) Much of his statement about the difference between individual, group and web of group-affiliation anticipated the analytical concept of network: sociology should have shifted the focus on properties, attitudes and behaviors of individual actor to attributes arising from interconnecting relations in which multiple factors shape the process. In industrial sociology and the study of economic organizations, networks are usually portrayed as informal connections that constitute an enduring pattern yet with considerable flexibility. Emphasis on informality, flexibility, and de-centralization is a challenge to the supposedly formal, bureaucratic, large scale, hierarchical integrated organizational structure of modern capitalism. (Lash and Urry 1987, Piore and Sabel 1984) The fluidity of capital, information, commodity and production capacity via transnational networks also features prominently in the hotly debated idea of globalization.

Two usages of network concept are discernible in literature of social science.. The most popular interpretation of this definition of network appeared in industrial sociology and sociology of organization. Many cases in these two subfields argue that a flexible form of production or organization emerged as a challenge to capitalist mass production.

Global commodity chain Relation has informal quality as in relational contracting. However this “pattern of connections” is also seen as a “formal” characteristic of social life.

Even it is arguable that New Economic Sociology illuminated anything new to say about factors influencing economic development, the contributors did offer new ways of investigation on old problems. Factors like institutions, entrepreneurship, culture and attitudes, and technological innovation, had been discussed and debated by development minded scholars early on, for instance, Albert Hirschman, .

What’s the difference between political economy of development and new economic sociology in terms of their perception of institution? A whole scale transformation or revolution of social, political and economic institutions was seen as necessary to development.

What are the differences between previous conception of economic development and new economic sociology’s perspective on economic life?

(1) Constitutive process as a solution to dualism of structure/agency

A significant numbers of theories’ dealing with development has concentrated on interrelation of structural factors, namely the political structure and economic sphere. New Economic Sociology has tried to argue that an adequate analysis of economic activities must involve investigations of multiple layers of institutions and guard against simplistic determinism. Here the new paradigm tackles the old dualism of structure and agency by suggesting that economy should be perceived as an instituted process. (Polanyi 2001) Economic process as Polanyi explained is the on-going movement of goods and services in terms of location or appropriation, or both. This process could be highly unstable and without enduring coherence, which is essential for human social life, unless it is institutionalized. Institutionalization is related to historical

(2) Functional assumptions of development are supplemented by concepts of embeddedness and network. Mark Granovetter Market and hierarchy

There is a distinction needed to be addressed: one is to evoke network as a specific form of capitalist production and distribution, i.e., post-industrial decentralized form of

organizing capitalism. On the other hand, network can also be used as a category of sociality in epistemological terms.

(3) Middle range theoretical concern reflected in the research agenda of firm and inter-firm level of interaction.

In terms of research agenda, instead of individual behavior and national economic performance, New Economic Sociology pays more attention to various middle range institutions and organizations. The dualism of objective and subjective has also been introduced

On the other hand, New Economic Sociology also defies the core assumptions of neo-classical economic theory. As for the rational choice theory, at best, we find perhaps there are common grounds on cultural constraints on individual behaviors, but as Paul DiMaggio points out, theory of rational choice often neglect the constitutive aspect of cultural influence. (DiMaggio1994)

(4) New Economic Sociology and globalization and post-socialist transition

The Case of Taiwanese enterprises

(1) Extension of the production design and distribution network, the characteristic form of Taiwanese industrialization and business organization

(2) Taiwanese business culture and Chinese post-reform institutional environment

Conclusion

Rethinking the meaning of development

Identity and economic activity in the case of Taiwanese enterprises in China

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