

FAMILY, SOCIAL RELATIONS, AND ASIAN CAPITALISM

WON BAE KIM*

The paper deals with the role of family and social relations in Asian development. In contrast to the negative view on familism and Asian values, which seems dominant after the eruption of Asian financial crisis in 1997, the paper argues for the positive role of family-centered model of development. After discussing the central concepts of trust and cooperation, the paper develops links between the mode of social relations and economic development. While recognizing the tendency of nepotism and corruption embedded in the family-centered capitalism, the paper emphasizes the merits of family-centered capitalism and its potential for the construction of a communitarian, rather than individualistic, model of development.

1. INTRODUCTION

Falling Asia, the end of Japan, the collapse of Asian economies, and so forth are decorating the headlines of American and European journals and newspapers these days. There are varying diagnoses on the failure of Asian economies ranging from opaque business practices to incompetent bureaucrats. Some focus on the macro-economic dimensions, while others look into microeconomic behavior. The state, once praised as a leading force behind fast growth of East Asian economies, is now considered to be an obstacle to economic development. Asian ways of doing business, whatever they may be, are said to be no longer viable in this globalized environment. The current economic crisis in Asia clearly sends a message that Asian models of economic development, whether they are Japanese, Korean, or Chinese model, are not compatible with Western models of economic development. And it renders support for the convergence hypothesis, wherein a single set of global standards and norms of economic behavior applies to all the economies regardless of cultural and social differences among them. Of course, whose standards and norms matter greatly. Interpreting Zuckerman's prediction that the twenty-first century will be America's, it is obvious whose rules we should follow (Zuckerman, 1998).

Are Asian models of capitalism indeed obsolete? The death of Asian capitalism, if they are really so, means the death of state-centered capitalism and not family-centered or group-centered capitalism. If there is room to salvage those models and worthwhile to do so, then we have to find clues from the long tradition of Asian families. My position is that Asian models are not ended yet and they certainly deserve reconstruction. Without doubt, these models need to be examined with critical self-reflection. Macro-economic norms may have to follow global standards. Business practices should be transparent. Individual creativity must be nurtured. Market principles should be observed. Corruption and nepotism have to be eradicated. But we should not lose the sight of the endpoints of all these efforts. Why do we want economic development? What kind of society do we want to build? Certainly, many Asian societies do not or cannot desire to become another America, where about 40 percent of children go to sleep in homes in

*Senior Fellow, Korea Research Institute for Human Settlements, Korea.

which fathers do not live (Blankenhorn, 1995) and school kids kill their fellow kids with guns without compelling reasons.

Starting with this perspective, I would like to focus my arguments on the differences in social relations, in particular, inter-firm relations between Asian and Western societies and among Asian societies taking the family as a central element. Adopting the hypothesis that Asian societies have been evolved along the shifting balance of statism and familism, I will focus on the role of familism and its broader economic implications using the concepts of trust and social embeddedness. The principal task in this paper is to compare familism and inter-firm relations in different Asian societies and discuss the role of familism in social and economic development. Even though familism tends to breed nepotism and corruption when it turns inward, it may play a positive role in economic development if it transforms the virtue of *renqing* (人情, human sentiments) into a general social norm. Finally, the paper concludes with a possible future of Asian capitalism.

2. FAMILY, STATE, AND SOCIAL RELATIONS

Familism and statism have been the two pillars of the development ideology in East Asian societies. In the history of social changes in East Asia, the relative weights of these two components have been shifting in tune with the centralization and decentralization trends of state power. The family has been the model of the political economies in Asia and it has influenced the evolution of other social and economic institutions through its socialization process (Pye, 1985). At the same time, the state has been a force to be reckoned with in East Asia. An autocratic state, which has been prevalent in East Asia, tends to impose a strict formal hierarchy on society. A more decentralized state, as observed in Japan, is less pervasive in its exercise of state power and therefore results in intermediate powers such as local governments and enterprises. Despite these variations, state-society relations in East Asia have been characterized in general as those of dependency and hierarchy (Pye, 1985). The emphasis on trust and loyalty is a natural response to such dependent and hierarchical relations. Ideally, a benevolent state should lead the society and benefit the population by maintaining orderly and harmonious social relations.

Familism and statism, which has a very long historical root, has generated two types of capitalism in East Asia. One is family-centered capitalism and the other is state-centered capitalism. Although there is no pure form of either capitalism, we can discern each country by the dominance of these ideologies. For example, Taiwan and Hong Kong, and partly post-reform China are closer to the family-centered capitalism, whereas Singapore and pre-reform China are closer to state-centered capitalism. Korea has both characteristics of family-centered and state-centered capitalism, whereas Japan does not fit into either categories. Japanese society, with its very strong group-orientation, may be called as group-centered capitalism or what Thurow calls, communitarian capitalism, even though it has some features of familism and statism in comparison with Western models of capitalism.

These labeling, however, cannot be permanent. As Chinese history shows, China has been shifting its balance between statism and familism. No nation is fixed with one

type of economic culture. For example, when formal institutions of the state become rigid and removed from reality, the effective domain of trust and loyalty shrinks and informal social relations substitute for or supplement institutionalized relations. The development of “secondary” or “informal” social practices has been evident in many Asian societies, particularly under a mono-organizational state system like that in socialist China. These informal practices are often based on a traditional kinship-like and locality-oriented social system. In contemporary China, the use of the *guanxi* (personal relations) network is regarded as the creative deployment of a counter-ethics which makes room for the personal and the private in a public sphere monopolized by the state (Whyte, 1996; Yang, 1994). This is clearly one type of flexibility at the societal level. Another example is seen in Hong Kong, where familial groups dominate the economy unfettered by the state. Familism and familial ideology dominate social relations in the absence of a strong state.

These dyadic relationships between formal and informal power in East Asia are essential for an understanding of the evolution of social relations and the shifting balance between familism and statism in East Asian societies. Pye explains how informal paternalistic understandings in Japanese industrial relations have become implicit rules of job security, in which a tacit trade-off is made between lifetime employment and total loyalty to the company. Similarly, the initially informal linkages between the large manufacturing firms and the numerous small establishments have become solid bonds. Trust and reciprocity relationships in Japan, however, are far more intense and binding than the *guanxi* (關係) ties of China or the patron-client bonds of other Asian cultures. Although these qualities of Japanese social relations are sources of flexibility at the collective level such as company, community, and nation, the universal imperatives of conformity, when combined with the sensitivity of authority to the feelings of others, produce a rigidity in the forms institutions take (Pye, 1985: 289-290).

The nature of informal social relations is not the same in all countries in East Asia. The rationale and the dynamics of Chinese *guanxi* are different from those of Japanese *on-giri* (恩-義理, moral indebtedness and obligational duty) and the reciprocity relationship. *Guanxi* does not call for the sensitivity or empathetic feeling that is central to *on-giri* relations. *Guanxi* relationships can, however, be greatly strengthened by *ganqing* (感情, emotional feelings) or *renqing* (人情, human sentiments). *Renqing* (personal ties of affection and obligation) is closer to *on-giri* relations. *Renqing* was thought in the Confucian teaching to be the source from which the proper conduct of social relationships could be preserved (Pye, 1985: 293; Yang, 1994: 67).

The moral discourse of *renqing*, prevalent in contemporary Chinese societies in Taiwan and Hong Kong as well as on the mainland, derives from the Confucian stress on the ethics of human relationships and the notion of *li*, or ritual. The core of Confucian social theory lies in interpersonal relations, rather than with the society or the individual. This point of departure leads logically to the emphasis on exchange behavior to concretize and nurture social relationships, and thus the notions of reciprocity and empathy also become important (Yang, 1994: 70). In turn, social exchange operates as a kind of insurance policy. Cultivating social exchange relationships provides networks of goodwill on a reciprocal basis and thus works to reduce risk as well as to increase unspecified opportunities (Murakami and Rohlen, 1992: 73).

Although there may be dangers involved in simplifying *renqing* or Confucian culture,

it is possible to assume the variable contours and roles of *renqing* discourse in different social and historical contexts. In Hong Kong, Taiwan, Japan, and Korea, it operates amid market relations, whereas in China it is situated in a political economy in which the state is the dominant actor. Although *guanxi* discourse retains many of the principles of *renqing* ethics, it also has developed new political and economic dimensions, sometimes distorting *renqing* principles. Thus the art of personal relationships (*guanxixue*) is a complex cultural phenomenon that combines instrumental motivations with a highly developed set of ethics rooted in aspects of a populist form of the Confucian tradition. This built-in contradiction within *guanxixue* between instrumentality and ethics helps to explain the moral ambivalence of *guanxixue* (Yang, 1994: 71).

3. FAMILY AND SOCIAL RELATIONS

The concept of *jia* (家, family or household in Chinese), *ga* (in Korean), or *ie* (in Japanese) has been widely adopted in explanations of the Asian economies (Fukuyama, 1995; Murakami, 1984). It is not just in China that the family has become the fundamental basis for society; in all East Asia, the social functions of family life have been so essential that families have become indispensable units of social integration. They bridge the vast distance separating the individual from the overarching sociopolitical system. The family with its extension into clans and lineages has long been the cornerstone of Chinese society and polity (Whyte, 1996; Chan and Lee, 1995). The family exists for the development and protection of individual family members in the United States, whereas family exists and endures above individuals in Asian societies. Individuals' sense of identity tends to be realized through membership in groups such as family, whereas the view of family as a purposeful creation of its members is connected to the American's strong individual sense of identity (Steinhoff, 1994).

The traditional patriarchal family system in East Asia has been a training ground for obligation and compliance as well as a source of affective warmth and emotional support. In Japan's and Korea's hierarchical industrial structure, the relationship between the manufacturer and its suppliers resembles that between parent and children. Even the state assumes the role of father in state-society relations. As such, the family provides a fundamental model on which large social systems operate. The most important element in the family is an unbreakable membership, which is common to Asia. Trust within and loyalty to the family sustain the membership.

Differences among Asian societies stem from how the family system is operated. For Japan and Korea, primogeniture has been the rule, while Chinese families have followed a patrilineal pattern by sharing parents' inheritance more or less equally. Non-blood members can be admitted into Japanese families, but they are not acceptable in Chinese and Korean families. Also, in Japan younger sons can break away and establish a new family, whereas in China and Korea younger sons remain subordinate to the eldest. The incorporation of non-blood members and the scope for establishing a new family by younger sons have provided a source of flexibility in the Japanese family system. In an analogous manner, the limits of trust and responsibilities have often been set by the size of the family in Chinese and Korean families (and the scope families can expand by marriage), whereas non-family members have been included in

the central decision-making process in Japanese families.

In addition to this internal process of the family, profound differences can be observed among Asian cultures in their socialization process, which has enormous implications for social relations and, in particular, business relations. Traditionally, Chinese training at home emphasizes loyalty to the family, whereas competition with outsiders is more emphasized in Japanese training. Socialization in the Korean family requires more than loyalty to the family, including preparation for outside competition (Pye, 1985: 74-75).

Another difference worth mentioning is the authority of father in the family. Although the father has been considered to be the supreme authority in China, Japan, and Korea, Japanese fathers, in contrast to authoritarian Chinese and Korean fathers, have not been expected to be omnipotent, and they could ask for sympathy. This soft authoritarian practice tends to promote dialogue and honest exchange of opinions between a father and sons, which may help Japanese families to achieve more horizontal coordination than Korean families; analogous patterns are seen in corporate structures of the two countries. Also, the submissive Japanese mother has been able to advocate different values out of her separate domain of competence, creating a strongly maternalistic image of authority. Unlike the Japanese or Chinese mother, the Korean mother has played a more autonomous decision-making role in family finance and children's education (Pye, 1985: 74-75).

The ideology of familism, although common to Asian cultures, varies in its emphasis on the family and the larger society. The presence of intrusive state power tends to promote inward-looking familism, placing loyalty primarily within the family. In contrast, familism and its attributes are likely to spread outward to larger social institutions such as enterprises under a soft paternalistic state (or a more maternalistic authority). In Hong Kong, where a migrant mentality is still pervasive, familial dynamics are governed by essentially utilitarianistic familism, which is characterized by the overriding concern of familial interests above the interests of society and other groups, by the priority on material interests over nonmaterial interests, by economic interdependence among the familial group, and by the family group as an elastic and flexible entity to cope with adverse conditions (Lau, 1982; quoted in Chan and Lee, 1995).

Within this dialectic relationship between familism and statism, social relations in East Asia have been characterized as hierarchical and graduated, with a fundamental basis in the family (Pye, 1985). Each individual is ranked hierarchically at home, school, and workplace by his or her position in the system. In turn, each individual organizes his or her relations with others in a graduated manner, forming stronger moral and instrumental obligational relations with those placed closer (Lee, 1992). The nature of the trust relationship varies along these graduated boundaries. In China and Korea, complete trust is often limited to family connections and qualified trust extends outward on the basis of some form of shared association of an essentially ascriptive nature (the same place, the same school, the same class), while in Japan it is possible for personal ties to extend outward to a wider range of people within the organization one belongs to.

Families and familial norms in Asian societies have been changing, however. Now, the nuclear family is the most prevalent form, although traditional familial values such as care for aging parents and economic assistance among siblings are still in practice.

Whereas propinquity is not emphasized, frequent social contacts are maintained with other members of the familial group (Chan and Lee, 1995; Lee and Sun, 1995; Park and Cho, 1995). Indeed, there is a patrilocal pattern of family life, in which old parents live together with a grown son and his family (Whyte, 1996). However, the transition to the nuclear family system implies that some familial functions performed by the extended family system have been delegated to other social agents and institutions.

In Japan, enterprises have become the most important component and have taken up part of the formal authority that used to be carried out by the state. At the same time, enterprises have also assumed the role of a large family as the traditional family system has rapidly shifted into the nuclear family (Sakakibara, 1993: 36-37). As quasi-family organizations, firms carry out the tradition of trust and loyalty within the domain of production. Although Korean companies emulate a familial system, the practice of trust and loyalty seems less intense than that of Japanese firms. In the Chinese societies of Hong Kong, Taiwan, and the mainland, loyalty to the enterprise or other social institutions appears thin, resulting in a lack of intermediate social institutions that propagate familial norms (Fukuyama, 1995).

The defunctionalization of the family does not, however, entail a decline in the significance of the family institution. Rather, given the complexity of social life, the family system is undergoing a process of specialization; instead of retaining a multi-functional, all-purpose outlook, the family has become more specialized in cultivating ties of intimacy and affection among its members and in preparing its members for other social responsibilities and roles (Chan and Lee, 1995: 91).

For all Asian societies, social norms and values governing social relations, including those within the family, are changing. The nuclearization of the family has made its internal processes more open, consensual, and egalitarian (Chan and Lee, 1995: 92). In particular, the softening of the power of the older generation means that founders of family-run firms need to provide more incentives and autonomy for their grown children (Whyte, 1996). Father's authority is now far from being as autocratic or encompassing as it once was. The decline of paternal authority in some ways parallels the demise of the authoritarian state in East Asia. For example, prewar *zaibatsu* were more hierarchical than the large corporations in postwar Japan. In the family, the enterprise, and the state, the trend has been decreasing authority and weakening hierarchy. In this context, Murakami and Rohlen (1992) predict that the egalitarian *mura* (村, village) pattern is likely to supersede the more hierarchical family pattern in the future.

4. TRUST AND COOPERATION

Trust and cooperation are widely regarded as preconditions for industrial competitiveness in the new world economic order. Fukuyama's recent book (1995) is centered on this notion of trust and national prosperity. It is, however, necessary to distinguish cooperation from trust (Sabel, 1992: 216-217). Cooperation is likely in two quite different circumstances: (1) when exchanges are many and the gains from future dealings are highly valued in relation to current ones; and (2) when parties come to see themselves as members of a community sharing the same belief or value. In the first

case, cooperation results from continuous calculation of self-interest, as in a game-theoretic approach. Here cooperation is based on instrumentality rather than trust. In the second case, trust is a by-product of events that did not have the creation of trust as their goal. Trust is thus found but cannot be created. Moreover, one can come to trust friends but cannot intentionally cultivate friendship for the purpose of creating trust. This is because instrumentality behind manifestations of friendship is likely to undermine personal bonds. This view leads to the proposition that only those business relations based on strong personal networks can rely on trust (Sako, 1992: 46).

In the instrumentalist position represented by the first case, cooperation is likely to promote trust in the sense of expectations in the absence of opportunistic behavior. However, since the absence does not stem from a moral commitment but from fear of external sanctions, calculated cooperation is different from cooperation framed by a moral order (Sabel, 1992: 217). This pessimistic view is countered by reality, where the line between trust and mistrust is more blurred than theories suggest and, furthermore, mitigated by optimism in the business field. Evidence suggests that the practice of partnership in subcontracting systems has bred trust (Sako, 1992). Sabel's (1992) notion of "studied trust" refers to the possibility of creating trusting relations in previously mistrusting environments.

Studied trust, however, assumes a relationistic view of human nature. In the neoclassical world, where the prevailing idea is individual maximization of utility, cooperation is the result of an accidental complementarity of maximizing strategies of individuals, and its culmination can only be a *modus vivendi* and never trust. In contrast, by adopting a view that persons are constituted or can constitute themselves only in society (which is essentially the Confucian view of personhood), Sabel argues the possibility of creating trust in a community. Trust in the sense of shared expectations is the constitutive fact of social life. The reflexive self (making sense of one's self in relation to one's own community of shared but ambiguous norms) can act on the idea of creating or extending common values regarding loyalty and forbearance in the face of vulnerability precisely because it knows that other selves can entertain and act on the same idea (Sabel, 1992: 219-223).

This positive view is indeed supported by specialists on the Japanese economy, albeit with qualifications (Murakami and Rohlen, 1992; Sako, 1992; Aoki, 1994). "Trust" in Japanese inter-firm relations was intentionally cultivated through technology transfer, requiring frequent and intense communication between customer and suppliers but supported by the traditional ideas of give-and-take and common destiny. Moreover, a favorable economic climate of rapid growth in postwar Japan contributed to the enhancement of trust in business relations. Another factor, I might add, is that the workplace in Japan has played the role of an effective medium for the propagation of values emphasizing trust, loyalty, and cooperation (the possibility of creating or enhancing cooperation in the workplace is discussed by Oshima, 1995).

Granovetter echoes this eclectic view of trust creation with more emphasis on cultural disposition. According to him, social relations rather than institutional arrangements or generalized morality are said to be mainly responsible for the production of trust in economic life (1985: 491). He goes on to say that the social embeddedness position is less sweeping than either institutional arrangements or the morality argument, because networks of social relations penetrate irregularly and to differing degrees in different

sectors of economic life, thus allowing for distrust, opportunism, and disorder. This view is indeed supported by the changing contours of trust and social order in contemporary Asian societies and, in particular, in the tumultuous history of China.

Such a flexible interpretation of trust in social relations avoids a unidirectional relationship between trust and economic development, which has so often misled the readers in both Asian and Western countries. Trust is an important asset but it cannot be discussed out of context in which trust is reproduced and interpreted. An absolute trust in the family or crime organizations could be detrimental to the construction of a good society. Depending on prevailing conditions such as political structure, economic stage, and moral dispositions, trust can become a positive or negative force. Also important is the scale by which trust operates. If trust remains at the family level and does not extend outward, it won't be contributing much to general social well-being. On the other hand, if family-level trust is propagated to larger social organizations such as community, trust can become a dynamic force for development in general. Trust and social relations can be imposed by the state if it has enough authoritarian power. But such society is likely to suffer from a low degree of spontaneous participation. As Fukuyama (1995) summarizes aptly, different paths to social associations — family and kinship, voluntary organizations, and the state — will result in different types of social relations and therefore different economic cultures.

5. SOCIAL EMBEDDEDNESS, INDUSTRIAL ORGANIZATION, AND CORPORATE CULTURE

How then such social relations are reflected in industrial organization? Granovetter (1985) claims that corporate culture including trust relations have more to do with structures of networks of relations between and within firms than they do with organizational form. Counter to what Williamson (1975) expects, vertical integration is more likely in a market where transacting firms lack a network of personal relations, while it is less likely where a stable network of social relations mediates complex transactions and generates standards of behavior between firms (Granovetter, 1985: 502-503). In addition to norms regarding social relations, norms concerning power and authority within the family and society also condition the pattern of business relations. Therefore, the prevailing mode of social relations helps shape the dominant form of industrial organization in a country.

Taking a similar approach, Hamilton and Biggart (1988) provide three patterns of industrial organization, in Japan, Korea, and Taiwan. Two related networks of firms — horizontal linkages between large enterprises and vertical linkages between a large firm and small and medium-sized firms — characterize the Japanese industrial organization. In Korea, the dominant form is large, hierarchically organized firms, known as *chaebol*, whereas family firms and business groups (networks of firms controlled by a single family) dominate the Taiwan economy. Hamilton and Biggart claim that a market or a cultural explanation cannot satisfactorily account for these different organizational arrangements in Japan, Korea, and Taiwan; they argue that a political economy approach based on the concept of authority (elaborated as the historically developed authority relations among individuals and institutions in a society) provides the best explanation.

However, since they emphasize the dependence of the structure of industrial organization on specific political and economic conditions, the political economy approach is incomplete without incorporating both proximate factors of the market and distal cultural factors. Furthermore, authority relations are dependent on historical and cultural factors. An integrated approach has yet to be put forward to incorporate these three sets of factors—culture, market, and authority—in a systematic fashion (Cheng and Gereffi, 1994).

The numerous small and medium-sized enterprises in Hong Kong and Taiwan constitute and participate in networks that link them backward to suppliers and forward to customers. These business arrangements are embedded in a complex web of extended family relationships. Personalistic ties based on mutual trust and reciprocity help to reduce the otherwise high levels of uncertainty and facilitate flexibility in entrepreneurial decision making (Ellison and Gereffi, 1990: 392). The enduring competitiveness of small-scale industries in Hong Kong and Taiwan testifies to the strength of family-centered production networks that link these firms by social ties of kinship, friendship, and common regional or village roots (Cheng and Gereffi, 1994; Lui and Chiu, 1994).

Inter-firm networks in Hong Kong and Taiwan are based on noncontractual agreements sometimes made between family members who own related firms (in terms of production lines or industry) but more often between unrelated firms. Quality and quantity concerns are informally negotiated rather than contracted formally (Hamilton and Biggart, 1988). Furthermore, in Taiwan, when a family firm expands it tends to invest in different product markets instead of attempting vertical integration in the same market. In these loosely integrated networks of firms, organizational control is less centralized and more circumscribed than it is for business groups in Korea or Japan (Hamilton et al., 1987).

Why not vertical integration in Taiwan? Among many possible explanations, the social embeddedness approach seems most plausible. Loyalty operates in different forms among Asian cultures. Loyalty to the firm is very important in Japan, whereas Chinese loyalty is not firm-specific but rather extends to a network of family enterprises (Fukuyama, 1995). Trust extends primarily within the family network, where obligation to act with honor is kept (Hamilton and Biggart, 1988: S73). At the more aggregate level, Taiwanese firms operate through a more decentralized form of management based on patrilineal ties, whereas inter-firm relations in Korean conglomerates are organized on the principle of corporate patriarchy (Ellison and Gereffi, 1990: 397).

The cases of Hong Kong and Taiwan support Granovetter's assertion that the persistence of networks of small firms in a market setting is possible because a dense network of social relations is overlaid on the business relations and reduces pressures for integration. Thus the embeddedness account seems to have more general applicability than the market and hierarchy framework suggested by Williamson (1975).

Applying this social embeddedness argument to inter-firm relations in Asia, we may discern slight difference in corporate system arising from social relations rather than organizational form. In the Japanese or Korean large-firm-centered networks (*keiretsu* in Japan, *chaebol* in Korean), subcontracting firms are in a vulnerable position compared to the core manufacturer. The core firm has the power to dictate the terms and conditions on which trading takes place. But whether the stronger partner (the core firm) exploits the vulnerable position of the weaker partner (the supplier) depends on

cultural and institutional environments. In Japanese *keiretsu*, the core firm does restrain the exercise of naked power in certain directions considered unfair. The reason for such restraint is benevolence related to a particular norm of fairness (Sako, 1992: 45). Furthermore, through sharing burdens of risks and benefits of new technology and process, both partners become sensitive to each other's needs and try to offer unspecified benefits beyond contract (Murakami and Rohlen, 1992). In comparison, Korean subcontracting relations appear to be more exploitative than are in Japan (Lee, 1993). Using the analogy derived from the family structure and ideology, one can say that the Japanese corporate culture is maternalistic whereas the Korean corporate culture is paternalistic. Although a more systematic study is required, anecdotal evidence suggests that Korean subcontracting relations are closer to relations of dependence than of interdependence. Even within vertically integrated networks, there seems little evidence of reciprocity between the core firm and supplier firms, which is in contrast to Japanese subcontracting (Hamilton et al., 1987).

In the densely connected networks of small and medium-sized firms in Hong Kong and Taiwan, the dependence or interdependence dimension is less relevant since the degree of vertical integration is low. The operation of personalistic trust permeates the network, and each participant firm is sensitive to others' needs because of their shared destiny. This trust is, however, less binding than in Japanese and Korean business groups. For example, subcontracting relations are neither exclusive nor necessarily long-lasting. Short-lived production networks are not unusual in the inter-firm relations of Hong Kong and Taiwan (Hamilton et al., 1987).

These network forms of production give greater room for the entry into business relations of reciprocity, reputation, and collaboration as principles of governance in contrast to market or hierarchy. But the levels of trust required and the degree of flexibility achieved by these networks vary. For example, large-firm-centered production networks such as seen in Japan and Korea are likely to suffer from rigidity developing within the stable network, although competition is possible in the form of ranking among a fairly stable group of agents (Aoki, 1994: 27). The Korean industrial conglomerates may have more problems of longer-term flexibility than the Japanese groupings because they often limit the opportunities for smaller firms to grow out of dependence (Lee, 1994).

The family-centered network of production in Hong Kong and Taiwan is highly flexible because of its more decentralized decision making. The high level of trust within this network may also provide an environment where resources and information are pooled and shared among members (Cheng and Gereffi, 1994). The limited boundary of trust, however, may not be conducive to a community-wide industrial development in which loyalties beyond the family are necessary.

6. FAMILISM, GROUPISM, AND ECONOMIC EFFICIENCY

The relative advantage of one corporate system over another is likely to depend on market, technological, legal, and social conditions under which the firm is placed. For example, a certain attribute which is presumably favored in certain industries may be most effective or viable only if it is complemented with certain other attributes and is

placed in appropriate institutional frameworks of social norms and enforcement mechanisms (Aoki, 1994; Sako, 1992). However, inter-firm relations based on trust are in general more efficient than those based on self-interest (market) or central administration (hierarchy). Trust certainly reduces transaction costs by promoting information flows, increasing effort exertion, and reducing the need to monitor quality and delivery (Sako, 1992: 48-49). As Sako qualifies, however, trust is a necessary but not a sufficient factor in achieving organizational efficiency. Particularistic open commitment created by trust is a powerful springboard from which to unleash effort but is also prone to closing off access by outsiders to personal networks. Moreover, these personal networks with high internal trust can breed corruption and fraud (Granovetter, 1985). Therefore, the beneficial effect of trust in creating constant and reliable expectations, which are necessary bases for flexible responses, may turn into excessive rigidity (Sako, 1992; Aoki, 1994; Murakami and Rohlen, 1992).

What inspires from this trust-based inter-firm relations and social relations in general? Fukuyama (1995) and many others view that family-centered trust has limitations in terms of scale and incompatibility with the requirements of modern economic organizations. A central problem concerns nepotism. Family-run enterprises cannot appoint, reward, discipline, and fire enterprise members according to their qualifications and performance since individual treatment is always skewed by the obligations attached to family roles. The overriding strength of family loyalties, furthermore, makes it difficult to form close and cooperative relationships with non-relatives. Reliance on *guanxi* networks in order to conduct business is also seen as a central problem because cultivating such ties takes abundant time and energy and generates extensive grafts and corruption as seen in societies like China and Korea.

Thus, the future of familism and family-centered capitalism is seen to be limited. In contrast, Fukuyama (1996) characterizes Japan and America as high-trust society and foresees their bright future, although he gives warning against social disintegration of the American society. Japan's case can be treated either as a unique case or as a diversion of family-centered capitalism. Certainly, Japanese groupism provides an advantage in cultivating trust beyond the family. It has origins in less centralized political structure in the Japanese society. However, nepotism exists in Japan albeit with less prevalence than in Korea or China. *Ie*-like groups are omnipresent in Japanese society. Authority in *ie*-like groups is as hierarchical and paternalistic as Chinese families. Trust relations in these organizations are prone to be distorted and produce negative consequences. Japanese political parties, which are divided into quasi-permanent factions led by a senior member of the party, have been the seedbeds of corruption for a long time.

Despite many virtues of the Japanese society, the Japanese group-centered capitalism has limited applications because of a highly particularistic nature of Japanese social relations. In my opinion, Japanese economic culture is in essence closer to family-centered capitalism prevalent in East Asia rather than individualistic capitalism in Anglo-Saxon societies. In other words, Japanese capitalism is one version of *guanxi* capitalism. Therefore, the limitations of family-centered capitalism apply almost equally to group-centered capitalism. The difference is only the matter of degree.

In contrast to the negative view on familism and family-centered capitalism, there is a positive view of family-centered capitalism or *guanxi* capitalism. Proponents argue

that loyalty to the family is a strong source of motivation and performance. The use of family roles to organize management provides a cultural basis for enterprise authority, reducing conflict between managers and workers. The existence of a pool of common family resources can be used to provide security against failure and thus encourage the emergence of highly motivated, risk-taking entrepreneurs. Small size of family-run enterprises tends to minimize start-up costs and make possible rapid and flexible responses to changing market conditions. *Guanxi* networks can help overcome the limited size of the family group and enable the firm to expand and operate in an increasingly far-flung way. Such networks prove trustworthy in unstable political and economic environment and make production flexible through subcontracting and other arrangements.

Japanese group-centered capitalism, though sharing many of these claimed to be good traits of family-centered capitalism, has a distinct disadvantage in terms of making relationships with non-Japanese enterprises. In other words, the higher level of trust within the group becomes an obstacle to non-group members. Chinese families, with their low expectations of non-family members in terms of trust, are much freer to make relations with other families and groups. The emergence of a greater China encompassing mainland China, Hong Kong, Taiwan, Singapore, and Chinese communities in Southeast Asia renders a support for the less restricted nature of *guanxi* capitalism than group-centered capitalism.

7. GLOBALIZATION AND THE FUTURE OF ASIAN CAPITALISM

Recognizing the increasing interpenetration of organizations of diverse national origins into foreign institutional and market milieu, Aoki (1994: 34) correctly points out that globalizing organizations sometimes act as carriers of a set of behavioral rules originating at home and sometimes learn and adapt to market environments and institutional frameworks abroad. The issue for the future is how to reconcile differences in organizational structures and accompanied behavioral rules between different countries. The question boils down to which corporate system and business relations have a better capacity to accommodate such heterogeneous elements. Broadly, which economic culture is more flexible and adaptive.

On this point, one can argue that the non-member exclusive tendency embedded in the Japanese system may become a bottleneck for globalization, whereas a narrow family-centered trust and loyalty could become (part of has been clearly revealed in the 1997 Asian financial crisis) a blocking point in the Chinese or Korean system. Haitani finds it detrimental that Japanese manufacturers operating in overseas locations often take their rules of behavior with them to the foreign environment and, being unable to get the same accommodation from local suppliers, encourage their suppliers back home to follow them to the overseas location and recreate the same vertical relationships to which they are accustomed (1990: 244). The very source of Japan's economic success-flexibility achieved through coordinated modes of production-entails potential weakness by suppressing competition and individual autonomy and creativity. Also, Japanese methods may be successful when international cooperation is mainly done at arm's length, but they may not be so successful in circumstances where close cooperation

with outside partners is necessary (Haitani, 1990: 248-249).

In comparison, the Chinese family-centered system and its utilization of guanxi networks, the latter of which requires much less commitment and moral obligations than does Japanese group-networks, is more likely to succeed in international competition. In other words, the family-centered system is much more flexible in dealing with strangers and different economic cultures than the group-centered system. However, if double standards apply to family and non-family members, the family-centered system can be easily deteriorated into a crony capitalism.

Japanese scholars (among others Aoki, 1988), however, are suggesting a rather optimistic future assuming that the Japanese organization can gradually accommodate an increasingly individualistic value orientation of a younger generation **without losing its essential characteristics**. In a more significant way, Murakami and Rohlen (1992) predict that business relations based on personalistic ties are eclipsing in importance in Japan and will be replaced by impersonal relationships as industrial development advances. These observations reflect in part a convergence in the global political economy, i.e., an adoption of the Anglo-Saxon model of capitalism. Their predictive power falls sharply, however, when it comes to the reality. For example, Japanese economy is in an 8-year long recession. Its financial sector needs an immediate reform but is bogged down due to the hesitance of the Japanese society in making a sharp departure from the past. This indicates difficulties involved in a transition from a collective to an individualistic society.

Rather than pursuing an individualistic model of capitalism, Asian countries may have a better chance in developing a community pattern of development, in which horizontal cooperation than hierarchical obligation is emphasized and loyalties flow to the community rather than factions. The Japanese society has a more fertile ground to cultivate trust and cooperation at the community level than does China and Korea. If Japan succeeds in constructing such a community model of capitalism, it will be a significant contribution to Asian societies, which is clearly in need of alternative models of development other than the Anglo-Saxon model with a tendency of social fragmentation.

REFERENCES

- Aoki, Masahiko, 1988, *Information, incentives, and bargaining in the Japanese economy*, Cambridge: Cambridge University Press.
- _____, 1994, "The Japanese firm as a system of attributes: a survey and research agenda," In M. Aoki and Ronald Dore, eds., *The Japanese Firm: The Sources of Competitive Strength*, pp. 11-40, Oxford: Oxford University Press.
- Blankenhorn, David, 1995, *Fatherless America*, New York: Harper Perennial.
- Chan, Hoiman, and R. P. L. Lee, 1995, "Hong Kong families: at the crossroads of modernism and traditionalism," *Journal of Comparative Family Studies* 26: 83-99.
- Cheng, Lu-Lin, and Gary Gereffi, 1994, "The informal economy in East Asian

- development," *International Journal of Urban and Regional Research* 18: 194-219.
- Clark, Gordon, and Won Bae Kim, 1995, "Introduction," In G. Clark and W. B. Kim, eds., *Asian NIEs and the Global Economy*, pp. 3-21, Baltimore: Johns Hopkins University Press.
- Ellison, Christopher, and Gary Gereffi, 1990, "Explaining strategies and patterns of industrial development," In G. Gereffi and Donald L. Wyman, eds., *Manufacturing Miracle*, pp. 358-403, Princeton: Princeton University Press.
- Fukuyama, Francis, 1995, *Trust: The Social Virtues and The Creation of Prosperity*, New York: the Free Press.
- Gereffi, Gary, 1993, "International subcontracting and global capitalism: reshaping the Pacific rim," In R. A. Palat, ed., *Pacific-Asia and The Future of the World System*, pp. 67-81, Westport, Conn.: Greenwood Press.
- Granovetter, Mark, 1985, "Economic action and social structure: the problem of embeddedness," *American Journal of Sociology* 91 (3): 481-510.
- Haitani, Kanji, 1990, "The paradox of Japan's groupism," *Asian Survey* 30 (3): 237-250.
- Hamilton, Gary G., and Nicole W. Biggart, 1988, "Market, culture, and authority: a comparative analysis of management and organization in the Far East," *American Journal of Sociology* 94, Supplement, S52-S94.
- _____, Marco Orru, and Nicole W. Biggart, 1987, "Enterprise groups in East Asia: an organizational analysis," *Financial Economic Review (Tokyo)* 161: 78-106.
- Lau, S. K., 1982, *Society and Politics in Hong Kong*, Hong Kong, Chinese University Press.
- Lee, Kyu Uck, 1994, "Ownership-management relations in Korean business," In Lee-Jay Cho and Y. H. Kim, eds., *Korea's Political Economy: An Institutional Perspective*, pp. 469-498, Boulder, Colo.: Westview Press.
- Lee, Mei-Lin, and Te-Hsiung Sun, 1995, "The family and demography in contemporary Taiwan," *Journal of Comparative Family Studies* 26: 101-115.
- Lee, Rance P. L., 1992, "Formulation of relevant concepts and propositions for sociological research in Chinese society," In Chie Nakane and Chien Chiao, eds., *Home Bound: Studies in East Asian Societies*, pp. 81-98, Tokyo: Center for East Asian Cultural Studies.
- Lee, Yong Sook, 1993, "Industrial subcontracting and labor movement: the Korean automotive industry," *Journal of Contemporary Asia* 23 (1): 24-40.
- Lui, Tai-lok, and Stephen Chiu, 1994, "Restructuring of two Hong Kong industries," *Environment and Planning A* 26: 53-70.
- Murakami, Yasusuke, 1984, "Te society as a pattern of civilization," *Journal of Japanese Studies* 10.
- _____, and Thomas P. Rohlen, 1992, "Social exchange aspects of the Japanese political economy: culture, efficiency, and change," In S. Kumon and H. Rosovsky, eds., *The Political Economy of Japan*, Vol. 3: *Cultural and Social Dynamics*, pp. 63-105, Stanford: Stanford University Press.
- Oshima, Harry, 1995, *Cultural Factors in East Asian Economic Development*, Paper read at the Conference, March, Honolulu
- Park, I. H., and Lee-Jay Cho, 1995, "Confucianism and the Korean family," *Journal of*

- Comparative Family Studies* 26: 117-134.
- Pye, Lucian, 1985, *Asian Power and Politics: The Cultural Dimensions of Authority*, Cambridge, Mass: Belknap Press.
- Sabel, Charles F., 1992, "Studied trust: building new forms of co-operation in a volatile economy," In F. Pyke and W. Sengenberger, eds., *Industrial Districts and Local Economic Regeneration*, pp. 215-250, Geneva: International Institute for Labour Studies.
- Sakakibara, Eisuke, 1993, *Bunmei toshiten no Nihon-gata Shihonshugi*, Tokyo: Tokyo Keizai Shimposha.
- Sako, Mari, 1992, *Prices, quality and trust: inter-firm relations in Britain and Japan*, Cambridge: Cambridge University Press.
- Steinhoff, Patricia G., 1994, "A cultural approach to the family in Japan and the United States," In L. J. Cho and M. Yada, eds., *Tradition and Change in the Asian Family*, pp. 29-44, Honolulu: East-West Center.
- Whyte, Martin K., 1996, "The Chinese family and economic development: obstacle or engine?" *Economic Development and Cultural Change*
- Williamson, O. E., 1975, *Markets and Hierarchies*, New York: Free Press.
- Yang, Mayfair M. H., 1994, *Gifts, Favors, and Banquets: The Art of Social Relationships in China*, Ithaca: Cornell University Press.
- Zuckerman, Mortimer B., 1998, "A Second American Century," *Foreign Affairs*, May/June:18-31.