Since mid 1997, Americans have been told that the Asian economic model is obsolete and that the meltdown in East Asia will not affect them, their jobs, or the American stockmarket. Even the continuing US trade deficits with Asia of well over $100 billion are considered good news because cheap imports will keep down inflation. But what was and still is at risk in East Asia is the real possibility of a global collapse of demand and another Great Depression. Even if that does not happen, America’s system of rich satellites serving as hosts to an expeditionary force of some 100,000 US troops is virtually certain to come to an end.

Something very serious has happened in East Asia. But the causes are so complex and so few agree on them that any prudent observer should be very careful about making overly quick judgements. There are at least three caveats that must precede any discussion of the details of the so-called meltdown.

First, the Asian model does not apply evenly across East Asia. For the sake of discussion and simplification, I think of the East Asian model as consisting of Asian values on subjects such as the nature of government, priority given to the community over the individual, and government guidance of a nonetheless privately owned and managed market economy, with economic growth tied above all to exports. This contrasts with the Anglo-American emphasis on what Westerners claim are (or should be) universal values: individualism and *laissez-faire*, with economic growth tied above all to domestic demand. In terms of the countries affected by the meltdown, the Asian model really only applies to Japan and South Korea. It never existed in Thailand or Indonesia – that is one reason why they were the first to crash under the speculative pressures against their currencies. It is only incipiently relevant to mainland China or Vietnam. And although the
Malaysians talk a great deal about Asian values, they violated the tenets of the Asian economic model by allowing Japanese, European, and American banks to export their own versions of the bubble economy to Malaysia. The Asian economic model is alive and flourishing in Taiwan, the Hong Kong Special Administrative Region of the People’s Republic of China, and Singapore, and it may eventually take hold, now that the Americans have finally left, in the Philippines. In the minds of most Asians, particularly the Chinese, the meltdown has, if anything, reinforced the need for the Asian model of development rather than repudiating it. Linda Weiss, in her recent book *The Myth of the Powerless State* (1998) offers the best analysis of the differences between the North-east Asian transformative states and the South-east Asian pilotless states.

The second caveat is that an explanation of the meltdown in terms of ‘crony capitalism’ is wildly overdrawn. I take crony capitalism to mean corruption, nepotism, excessive bureaucratic rigidity, and other forms of trust violation that can occur whenever a state tries to manipulate incentives or, in other ways, alter market outcomes. The system of tax deductions for household mortgages in the US is a standard example of this form of state guidance of the market.

Crony capitalism is said to promote many sins, including the overbuilding of real estate throughout the region and the excessive importing of consumer goods, such as luxury cars – that is, the kinds of things the Mexicans did a few years ago when foreign financial institutions poured money into their country. But foreign loans to South Korea did not go into real-estate investment, and what has been wrong in Thailand and Indonesia was precisely the lack of a pilot agency, such as Japan’s Ministry of International Trade and Industry, to keep such practices under control. The most glaring instance of nepotism affecting an economy in East Asia has been under General Suharto in Indonesia, who is, we hope, the last of the Marcos-style Asian dictators that the Americans have always preferred and supported. The ultimate in crony capitalism is actually the US-dominated International Monetary Fund (the IMF) and its bailing out of Thailand, Indonesia, and South Korea; the IMF’s money does not go to the people of those countries. It goes to the foreign banks that made too many shaky and imprudent loans to Thai, Indonesian, and South Korean banks and businesses in the first place.

In 1994 South Korea, in an attempt to follow the nagging of its patron, the United States, abolished the Economic Planning Board, Korea’s main body for making economic policy since the early 1960s,