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Interview with Professor Gary Hamilton

***Gary G. Hamilton** is a Professor of International Studies and of Sociology at the University of Washington. He specializes in historical/comparative sociology; economic sociology, and organizational sociology with focus on Asian societies and with particular emphasis on Chinese society. He is author of numerous books and articles, including most recently* Cosmopolitan Capitalists: Hong Kong and the Chinese Diaspora at the end of the 20th Century*, editor and contributor (University of Washington Press, 1999),* The Economic Organization of East Asian Capitalism*, with Marco Orru and Nicole Biggart (Sage 1997), and* Asian Business Networks*, editor (de Gruyter, 1996). He is the co-author, with Robert Feenstra, of* Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan*, (Cambridge University Press, 2006) and co-editor, with Misha Petrovic and Benjamin Senauer, of* The Market Makers: How Retailers are Reshaping the Global Economy *(Oxford University Press, 2011).*

You are widely known as an expert in historical and comparative sociology. You also made valuable contributions to studying different models of Asian capitalism. How would you define your research interests today?

Thank you for your question. Like most sociologists, I don't view historical and comparative sociology as a research interest; for me, it is a methodological approach. Nearly everything I have done has been focused through the historical and comparative lens. As for my research interests, although it might seem otherwise, actually my research interests have remained remarkably consistent since my graduate school days. I have always been interested in how economic actors of one kind or another understand and organize their activities. I have also been interested in East and Southeast Asia, and so I have put these two interests together for most of my career.

For the past few years, I have been working on the relationship between global retailing and Asian manufacturing. I see this interest in a very broad way. First, it involves detailed empirical research that compares this relationship across Asia for the manufacturers, and also across the U.S., Europe, and Japan for the retailers. Second, the topic is also historical in the sense that retailers were not always global and only started to look for Asian manufacturers in the decades after World War II, and since that time, the relationships between retailers and manufacturers have been constantly evolving, constantly changing. I am interested in understanding why at that time, why in Asia, and what and why the specific changes. Third, and most importantly, this interest is also theoretical. Getting a handle on the comparative and historical dimensions of the topic allows me to ask the larger theoretical questions about how to understand these evolving relationships in the context of global capitalism.

Recently, you published a book on the revolution in retailing together with an international team of scholars (Hamilton, Petrovic, Senauer, 2011)**. Is this book an offshoot of your interest in the relationship between global retailing and Asian manufacturing?**

Yes, this book is the second one that I have written related to the topic. The idea for *The Market Makers* came out of the previous book on the topic that I wrote with Robert Feenstra (Feenstra, Hamilton, 2006). This book is about two very successful Asian economies that became increasingly organized in very different ways. Most previous writers had lumped the two economies together. They argued that the industrialization of both were products of the "developmental state," essentially the outcome of state planning in strong state societies. My long-term research in Taiwan convinced me that the developmental state thesis did not work well in Taiwan, although initially I thought that it might apply in South Korea. Rob, who is a very prominent international trade economist, and I developed a project to develop and test an alternative hypothesis that the organizational differences between the two economies could be explained without evoking the developmental state thesis, by simply positing differences in the economic power of local business groups vis-à-vis other business groups and firms in their respective economy. Rob developed a simulation model, from which we drew a set of detailed hypotheses. We successfully tested these hypotheses with a number of datasets that we developed. These tests show that our alternative hypothesis is a more complete and more convincing explanation for East Asian industrialization than the developmental state thesis.

In the course of testing one of the hypotheses, I was trying to figure out how to use a huge dataset of U.S. imports to analyze whether the differences in industrial structure between South Korea and Taiwan would show up in the products produced for export. The differences did show up, dramatically so. As I examined the disaggregated custom-level data, I found something that I did not expect to see. These very detailed data revealed the specific products Taiwan and South Korea were exporting to the U.S. on a year-by-year basis. Looking at these products, I knew in a flash (and it really happened that way) that the rapidly expanding sets of products being exported were all manufactured on contracts and that one of the real mysteries to be solved was unraveling the demand side of the Asia's export-led industrialization. That realization led me to examine what we called "the retail revolution" in the U.S. and Europe. The second half of *Emergent Economies, Divergent Paths* was the first systematic investigation of link between global retailers and Asian manufacturers.

That research convinced me of two things. First, the impact of global retailers on Asian manufacturing is the single most important cause of the so-called Asian Miracle, which is the rapid growth of capitalism in East Asia from the 1960s on. The Asian states' developmental policies are not unimportant, but, with the exception of Japan, widespread, rapid industrialization would not have occurred in East Asia without changes in the structure of retailing in the U.S. and Europe. Second, once I analyzed the Asian cases from this angle, this explanation of Asian industrialization seemed at once both obvious and yet relatively unrecognized by other writers. This realization led me to organize a workshop, funded by the Sloan Foundation, that pulled together a group of leading scholars who were working on various aspects retailing and contract manufacturing. That workshop led to the book *The Market Makers*.

Could you explain what you mean by the "retail revolution"? What are its most essential features?

I think it is fair to say that there has not been just one retail revolution. The development of department stores and mail order catalogs in the latter half of the nineteenth century certainly transformed retailing in the U.S., as did the rise of supermarkets and self-service shopping in the first half of the twentieth century. Most of these earlier changes were largely local and regional and, in some cases, national. The transformation that we focus on in The Market Makers is the global transformation that occurred in the decades after World War II. This transformation resulted from a confluence of events that occurred simultaneously or in fairly rapid succession, and the result was to utterly transform the nature and scope of retailing. The best way to describe the features of this revolution in retailing is to list the various developments that collectively led to the transformation. Then I will explain in more theoretical terms why this transformation is so important.

First, in the middle 1950s, because of changes in U.S. tax codes, there was a boom in shopping center construction. In a very short time the number of U.S. shopping centers nation-wide jumped from around 500 in 1954 to over 7,000 in 1965. There are now over 50.000 in the U.S. alone, and many times that number around the world, all of which were built in the past 40 years or so. Second, the rapid growth of shopping centers promoted the growth of chain stores, both anchor stores and specialty retailers. Third, at the same time that these two aspects of retailing were just beginning, the fair trade laws in the U.S. were declared unconstitutional. These laws, which required retailers to sell goods at the manufacturers' suggested retail price, had been enforced in many U.S. states since the Great Depression in the 1930s. Once these laws were overturned, discount retailing could begin. In the same year, 1962, Wal-Mart, K-Mart, Target, and Kohl's began discount retailing. Almost all of specialty retailers in the U.S. that dominate their respective niche markets today date from the late 1960s to the 1980s. Fourth, at almost the same time that the above three things were developing, supermarket chains and food manufacturers developed a way to track store inventories with "uniform product codes" (UPC) in 1969 and that could be electronically tracked from point-of-sells information. Thus, bar codes and scanning devices were born at the very moment when computers were invented that were powerful and compact enough to allow stores to computerize their inventories. The first item scanned was a pack of chewing gum in 1974. By the early 1980s, Wal-Mart realized that they could track all their inventories for all their stores. They then required all of their suppliers to use bar codes on the items they sent, and then so did K-Mart. Within the decade, the use of standardized bar codes, scanning devices, and computerized inventories became standard practice across retailers as well as their suppliers. As a consequence, the notion of supply chains was advanced, and supply chain management became standard practice for retailers and manufacturers alike. Fifth, at the same time all of the above was occurring, someone else, a person who wanted to ship goods by boat from Texas to New York, invented containerized shipping, which in the next decade also became standardized, leading to a global transformation in logistics.

When all these diverse parts came together in the 1980s, "lean retailing," as Fred Abernathy and his colleagues would call it (Abernathy, Dunlop, Hammond, Weil, 1999), became possible, and the retail revolution took off. The essential features of lean retailing are bar codes and scanning devices, computerized inventory systems, just in time transfer points, which replaced warehouses, and a standardized system of communications that goes across all firms.

Is that when the Asia manufacturers enter into this picture?

No, actually, they come into the picture much earlier. This was another development that occurred simultaneously with the other ones I just mentioned. When fair trade laws were in force, most brand name apparel products were produced by U.S. manufacturers. In an effort to circumvent the manufacturer's fixed price for such goods as underwear, men's shirts, knitted sweaters, and a lot of other items with predictable demand, large U.S. department stores developed their own in-store brands, the manufacturing of which they contracted to others. At first, these private label goods were made by U.S. apparel makers, but soon department store demand outstripped U.S. manufacturers' capacity to produce the goods. Some of these manufacturers asked Japanese trading companies, especially Mitsui, to supply the goods that U.S. manufacturers could not. Because wages and other costs were rising in Japan, Japanese trading companies initially looked to the former colonies, Taiwan and South Korea, as places to locate factories to make these products. To this end, they found local people in both locations willing to engage in contract manufacturing. These trading companies, and later foreign retailers as well, actually helped the Taiwanese and South Koreans become competent suppliers. They lent them money, trained their employees, sold them the inputs, and then marketed their final products. Sometimes these individuals had previous business experience, but just as often they had little or no previous experience. That appears to be the beginning of contract manufacturing in Taiwan and South Korea.

Where does it go from there?

The initial successes led other retailers to try the same Asian experiment. The big retailers soon did away with the middlemen. By the early 1970s, the largest retailers were establishing buying offices in Taiwan, South Korea, and Hong Kong. To interact with these buyers, the Taiwanese, South Koreans, and Hong Kong entrepreneurs started their own trading companies. By the mid-1970s, the relationship between retailers (now global) and Asian manufacturers was a going concern and had established its own momentum. At about this time, a new actor entered the picture: brand-name merchandisers. These are factory-less manufacturers. Nike was among the first, but soon many other joined in. All these firms designed and merchandised their own products and nurtured a group of Asian manufactures to make their branded products on order. By the late 1970s, a whole array of consumer goods made in Asia began to flood both European and U.S. retail stores. By this time, these retailers and brand-name merchandisers created new products (e.g., a vast variety of consumer electronics, different types of bicycles, sporting goods, running shoes) that were never produced in quantity in either the U.S. or Europe.

This relationship between Asian manufactures and a rapidly growing and increasingly diverse set of retailers and merchandisers was in place before lean retailing really began.

So what happened when lean retailing got going?

Lean retailing allowed retailers to obtain point-of-sales data that they could use to rationalize their supply lines. They were able to plan what products to stock where and at what price. Most importantly for Asian manufacturers, retailers could use this information to determine which suppliers could produce which products at the desired price, quality, and quantity. From the retailers' point of view, they now could reduce some of the risks inherent in retailing.

At the same time that retailers were beginning to convert to lean retailing, the regime of the U.S. president, Ronald Reagan, negotiated the Plaza Accord, an agreement that required Japan, Taiwan, and South Korea to reevaluate their currencies upward against the U.S. dollar. In less than a year, these countries' currencies rose between 30 and 40% against the U.S. dollar. This reevaluation squeezed

Asian manufacturers to such a degree that they were having difficulties meeting the price points that the retailers demanded in order to stay competitive with other retailers in their locale.

Japanese manufacturers, primarily automobile makers and parts suppliers and consumer electronics, moved their production to Southeast Asia and the U.S. The governments of Taiwan and South Korea had just lifted martial law and began allowing local capital to move out of the country. The Taiwanese businesses began to move some of their low-end production to Southeast Asia and especially Mainland China, and the South Korean business groups to Southeast Asia and Latin America. After the Asian financial crisis, China seemed like the least risky option for overseas investment, which led to a concentration of East Asian manufacturers in China. Many of these Asian manufacturers did not move their manufacturing facilities willingly. In fact, Western retailers warned many of these manufacturers that, if they did not move, they would lose their contracts.

Lean retailing is one of the chief factors for the rise of export manufacturing in China. As reported by Feenstra and Wei (2010), over 60% of China's export comes out of factories predominantly owned by non-Mainland Chinese.

There is one other very important development in this history that comes relatively late. Beginning in the 1990s, a little earlier in Europe than in the US, retailers began to aggressively expand their retail outlets beyond their national borders. Before retailers could expand internationally, they had to rationalize their supply lines, but once these building blocks were in place, this globalization has been very rapid and with huge effects.

So that is the brief historical overview of the retail revolution that has occurred since World War II.

Is all this covered in The Market Makers?

Yes, and not by me alone, of course. I've had a lot of help in piecing this story together. The three editors (Misha Petrovic, Benjamin Senauer, and I) gathered a group of scholars who had done the key research in earlier works. The previous work by Gary Gereffi on commodity chains is absolutely seminal, especially his work on big buyers (Gereffi, Korzeniewicz, 1994). Abernathy, Dunlop, Hammond, and Weil in their book *A Stitch in Time: Lean Retailing and the Transformation of Manufacturing* (1999), first identi fied the process of lean retailing; Bonacich and Wilson (2008) did the pioneering work on global logistics; Thomas Reardon is one, if not the world's leading specialist in understanding the impact of the global expansion of supermarkets on food production; Dedrick and Kraemer (1998) are the key experts on PC production; Timothy Sturgeon, John Humphrey, and Richard Appelbaum have done extensive and important research on contract manufacturing; Suresh Kotha is a leading specialist on internet commerce; and Michael Wortmann is an important researcher on comparative European retailing. All of these researchers have contributed single or co-authored chapters to *The Market Makers*.

What you have told me so far is very descriptive and mostly a historical narrative. I have heard nothing about the state so far. Is the state really that inconsequential? And as some of my colleagues would say, where is the economic sociology here?

You are right. I haven't mentioned the state yet. As I said earlier the state is not unimportant. Overall, I consider the state to be a lagging rather than leading cause of Asian industrialization. I do consider geopolitical factors to be very important. Japan became an important U.S. ally during the Korean War, and was awarded most favorite nation status by the U.S. government. South Korea and Taiwan both received the same status. This fact made it easy for retailers to come to East Asia in the first place. The other important factor was the Vietnam War, which helped create early demand for Japanese products because Japanese goods were widely sold to U.S. troops in the commissaries. No doubt it was the quality and cheaper prices that initially encouraged retailers to source their goods from East Asia.

However, as far as the developmental state goes, state officials had relatively little to do with the early development of contract manufacturing. To be sure, state official encouraged and often facilitated what was already underway, but they did not create or sustain contract manufacturing and did not set about to create competent suppliers. Most importantly they did not create the demand for goods. The interacting firms did all that. Moreover, in Taiwan, the state offered surprisingly little to the small and medium sized firm, which became the backbone of Taiwan's export economy. It is true that the state owned and managed some of the upstream industries, such as power generation, steel making, petroleum refining and distribution. But these only expanded as demand for these goods and services rose. These state-owned industries did not drive downstream production; overseas demand did. Also, East Asian states did not help business people set up their production lines, transfer technology, or market their products. Retailers, brand-name merchandisers, purchasing agents, and trading companies did those things.

What the state did provide was the physical and financial infrastructure for industrialization to occur. State sponsored companies built roads, seaports, airports, housing complexes for workers and so forth, and the state actively created financial institutions, such as banks and stock exchanges, that were designed to raise and regulate the acquisition of capital for local firms. Most of this infrastructure lagged the need for it, and not all of these infrastructure projects proved helpful. Nonetheless, these projects were hugely important, but we should not, at the same time, argue that they caused Asian industrialization.

It seems to me that the story of East Asian industrialization has been "over-stated." The developmental state thesis relies heavy on anecdotal narratives rather than on systematically tested hypotheses. Relative to other types of economic actors, the state officials and politicians have loud voices and readily take credit for a country's successes, regardless of the state's actual role. The transformation of retailing in the U.S. and Europe and the development of a relationship between retailers and manufacturers are the decisive driving factors in Asia's industrialization.

That's the state. Where's the sociology?

For me this is the exciting part. First, it is important to get the historical details correct because, in my opinion, factual details should drive theory and not the reverse. By this I do not mean that theory should be strictly inductive. There is a conceptual middle ground, which is the ideal typical methodology that Weber conceived as the appropriate approach to unravel the complexity of history. This methodology does not have to be just qualitative either. As Feenstra and I explained in Emergent Economies, Divergent Paths (2006), a computer simulation based, in this book, on the stylized transactions within business groups can serve as an ideal typical model that facilitates a very disciplined process of hypothesis testing.

For the retail revolution, it is important to theorize the organizational features of markets. For reasons that are not completely clear to me, economic sociologists have not been particularly interested in exchange relationships and trade, but that is exactly what the retail revolution is about: a historic change in the relationship between supply and the organization of supply, on the one hand, and demand and organization of demand, on the other hand. This is an area of sociological theory that is very underdeveloped.

I have found that most economists view the relationship between supply and demand, as well as between production and consumption, in terms of a natural and inevitable equilibrium. Petrovic and I have called this viewpoint an "equilibrium bias." For economists, this bias makes markets an unproblematic, central, but under-theorized concept in economics. Most economic sociologists do not take the equilibrium bias of economists seriously, but we (putting myself into this group) are just as guilty. Instead of an equilibrium bias, we have a "production bias." Economic sociologists privilege the supply side of the market. Consider Marx's theory of capitalism. This theory is, after all, about a mode of production with little or nothing about demand and consumption. When viewing exchange through the lens of production, one sees distribution, retail, and final consumption as a lineal process in time that is more or less automatic, and not so different than is expressed in Say's law, in effect that production creates its own demand.

I believe that this was never the case historically, even in the nineteenth century. Thorstein Veblen's analysis of a demand-driven economy centered around status-based consumption is closer to the reality of early capitalism than Marx's version. But Veblen's theory of conspicuous consumption did not link consumption backwards to production, and in his later work, he did not in any rigorous was connect business enterprise to retailing and consumption. To some extent, this absence is understandable because in the first half of the twentieth century huge industrial enterprises began to dominate the U.S. and European economies. It was not until the late 1970s and early 1980s that retailers became prominent enough to challenge domestic industrial manufacturers. But once global sourcing and contract manufacturing provided a doable alternative, the balance began to shift. The rise of lean retailing accelerated the shift and from the late 1980s onward manufacturing has become a price-sensitive organizational extension of global retailing.

Conceptually, then, global retailers and brand-name merchandisers become hubs that increasingly organize several kinds of actual markets. On one side, they create and maintain supplier markets; they set prices and establish the terms of exchange for the contracted goods they buy, which in turn they sell to their consumers. They are what Gereffi calls the "big buyers." On the other side, they create and maintain consumer markets; they locate their stores, select inventory, set prices, and otherwise establish the terms of exchange for the goods that they sell to their customers. Through point-of-sales information, they anticipate what their suppliers should make and in what quantity. Theoretically, we say that they "make" both consumer and supplier markets, but they also have a huge, though often indirect impact on service markets (global logistics), financial markets, and labor markets. Each of these "market arenas" has become more responsive to the intermediate demand created by these global retailers and merchandisers.

Will you investigate any of these market arenas in your next project?

Yes, I am working with my close colleague in Taiwan, Cheng-shu Kao, on a book right now. Kao and his team, of which I am a sometime member, have interviewed the owners and managers of around 700 different Taiwanese firms over a twenty-five year period. Some of these business people we have interviewed a number of times over the years. These interviews, along with a lot of other material, allow us to analyze the rise of supplier markets in Taiwan and their expansion into China, where Taiwanese manufacturers are an important component of the export sector of China's economy. In fact, ten of the top twenty exporters from China are businesses owned by Taiwanese. The working title of the book is "Making Money: How the Global Economy Works from an Asian Point of View."

What areas would you suggest as most promising for the future research in sociology of markets?

I would point to two areas in particular. First, economic sociologists should look at real markets (as opposed to the fictional equilibrium markets that economists write about) as locations, as marketplaces, where the organizational arrangements between exchange partners matter. For example, the relative economic power between suppliers and retailers is crucial in how supplier markets operate. The second area is the relationship between retailers and brand-name merchandisers, on the one hand, and final consumers, on the other hand. In the past most sociologists have viewed the relationship as being essentially a one way relationship from seller to buyer; consumers can only buy what retailers offer for sale. However, with lean retailing, point-of-sales inventory management implies that retailers and merchandisers can enter into a virtual conversation with their customers in order to learn their consumption proclivities. For economic sociologists, this relationship between retailers and consumers emphasizes the importance of research on the social factors relating to consumption and on the link between final consumption and the organization of intermediate demand, the demand generated by the big buyers. Both topics are very important in understanding how modern markets work.

Thank you very much.

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