



CHAPTER 1

GROWTH AND GOVERNANCE IN ASIA: Framework of Analysis

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The post-Cold War period has been a challenging time in Asia in terms of governance. The reduction in superpower rivalries has not always brought about peaceful and lasting settlements to various internal conflicts. Furthermore, the rapid advance of economic globalization has drastically altered the political economic landscapes of most Asian countries, often clashing friction with the status quo. The crisis has proven that despite various nation-building projects undertaken by Asian states, state legitimacy in Asia to a large extent depended on continuing economic growth. Transformation of traditional communal societies and their consolidation into a larger modern civil society, a painful process even during periods of economic growth, has been complicated by ethnic conflicts and religious rivalries in Southeast, South, and Central Asia. Redistribution of the fruits of rapid economic growth in the past moderated the destabilizing effects of these internal rivalries in some Southeast Asian countries. However, lack of transparency in economic governance was at least partially to blame for the 1997–1998 economic crisis, which severely hit these countries. Even worse, the shaky recovery of Asian countries from the economic crisis is once again threatened by the slowing of the global economy in the 2000–2003 period. Can Asia return to a positive spiral of economic growth, development of civil society toward a shared nation-state, and democratization? If so, how?

Meanwhile, democracy as a principle of governance has increasingly been accepted by Asian states and their leaders, either reluctantly in return for IMF loans, positively through internal transformation (changes in the elite consciousness, and/or growing demands from the middle class and “civil society” organizations), or as a result of external intervention due to catastrophic events. This general trend toward a larger number of democratic countries has not been limited to Asia. Both in Latin America and Eastern Europe, there has been a new wave of democratization and in some cases re-democratization since the 1990s. At the same time, democracy as a universal value has often been discussed without examining the great diversities that exist among world democracies, including the differing degrees of growth of civil society. A more detailed examination reveals that the number of “liberal democracies” (advanced or

consolidated democracies that address vigorous participation and egalitarian social and economic rights and liberties), as opposed to mere “electoral democracies,” has not changed much during the third wave of democratization.¹ Where are the Asian states situated on the progression of democratic transition? What unique challenges does each Asian country face? What are the realistic scenarios of democratic transformation for Asian countries, given the heterogeneous conditions (ethnically, religiously, and economically) that prevail in many Asian countries?

This volume will examine the issues of economic and social governance in Asia, the impact of internal and external political-economic forces upon the governing capacity of Asian governments, and possible paths for improved governance at a time of rapid economic globalization. Included will be discussions on economic growth and its management, nation-building strategies, the growth of civil society, democratization and their linkages. The goal of this volume is to advance theoretically informed discussions on growth and governance in the contemporary Asian contexts from societal, political, and economic points of views and to explore preventive aspects of the comprehensive security of the Asian countries.

Economic Governance in Asia

The spectacular growth of the East Asian economies during the first half of the 1990s resulted in a proliferation of literature on this subject. The successes of the Asian “tigers” or “dragons” (the newly industrializing economies of Taiwan, Hong Kong, Singapore, and Korea) were explained mainly from three perspectives: macroeconomics—focusing on such attributes as high saving rates, sound fiscal and monetary policy, stable and favorable foreign exchange rates, etc.; industrial policy—focusing on government-business cooperation in research and development, capital formation, trade protection and promotion, and labor suppression, etc.; and culture—focusing on Confucian work ethics, etc. As growth spread into Southeast Asian “mini-dragons” (like Thailand, Malaysia, and Indonesia, where Confucianism was not the dominant cultural trait), cultural explanations somewhat lost their eminence.

The Asian Economic Crisis of 1997–1998 stirred the debate between the macroeconomists and industrial policy scholars. Inquiries into the causes of the crisis reflected the debate. Macroeconomists emphasized cumulative misallocation of capital under misguided and corrupt government interventions and the resulting decline of overall economic efficiency by early 1997. Industrial policy scholars were placed on the defensive. Meanwhile, some of the macroeconomic attributes for the “success” were re-examined. The pegged exchange rates, which were thought to have provided a stable trade and investment environment, were instead blamed for failing to reverse declining export competitiveness and inviting massive currency speculation.

Nation-Building in Asia

Many Asian countries are ethnically heterogeneous (with some Northeast Asian exceptions like Japan and Korea). Heterogeneity has resulted from both colonial and

¹ Georg Sorensen, *Democracy and Democratization: process and prospects in a changing world*, 2nd edition (Boulder, CO: Westview Press, 1998), p. 129. He counts 76 liberal democracies in 1991, and 79 in 1996.

post-colonial government policies. For example, introduction of Indian and Chinese immigrants to Malaya to a large extent owed to British colonial policy, whereas inter-island migration of Javanese was encouraged by the post-colonial Indonesian government. In the process of complex and changing social stratification in these countries, various types of local and national social contracts emerged, and economic growth became the precondition to underwrite these social contracts. The sudden withdrawal of such social contracts as a result of the Asian economic crisis exposed the latent fragility of many Asian societies and polities, although to differing degrees. Large-scale violence erupted in Indonesia, and Korea experienced a sharp rise in labor disputes. Immediately following the crisis, Thailand went through a change of leadership, and though to a lesser extent, a Filipino leadership change was also attributable to the crisis. Disagreement over crisis remedies in Malaysia altered the course of the leadership succession there. Some of the changes may be positive ones in the long run, addressing deep-rooted social divisions that have been swept under the rug rather than confronted. Over the short term, however, such changes can be disruptive and destabilizing, with regional implications. The recent massive deportation of illegal Indonesian workers from Malaysia as a result of economic problems, for example, put additional pressure on Indonesia's recovery and soured bilateral relations.

Democratization in Asia

The Asian economic crisis also highlighted the issue of democratic governance in Asia. While in the past economic growth provided legitimacy to many non-democratic regimes in Asia, it also undermined the very foundation of such regimes by diversifying the economy, pluralizing society, and broadening and politically empowering the urban middle class. Diverse patterns of democratic transition have prevailed in Asia, from relatively smooth evolution prior to the economic crisis in the Philippines, Taiwan, Korea and Thailand, to rocky transition amidst economic turmoil in Indonesia, to controlled and limited change in Malaysia, Singapore, and China.

In fact, Asia's history is full of examples in which political change did not follow a linear progression from authoritarianism to democracy. After Japanese colonial rule, South Korea experimented with democracy under American tutelage, but reverted back to authoritarianism before being re-democratized in the 1990s. The Philippines inherited democratic culture and institutions from American colonial rule, yet they did not fully take root in the early years, allowing Marcos to rule under martial law. Both Malaysia and Indonesia experienced a gradual erosion of Western-modeled constitutional rule since their independence.

The recent controversy over Western criticism of Asian human rights practices and some prominent Asian leaders illustrated the gap in conceptions of human rights. Some Asian leaders emphasized paternalistic disciplining of the society by the state, citing their social diversity, economically "developing" status, local traditions, cultures, and in some cases secessionist threats. In the aftermath of the Asian economic crisis, international financial rescue packages have been tied to democratization and observation of human rights in the case of Indonesia, whereas Malaysia declined such loans.

Comparative studies of democratic transition have paid increasing attention to the development of “civil society,” which underwrites the success of democratic governance. Relatively equal income distribution, social mobility, tolerance of diversity, respect for the rule of law, and informed political participation are among the values that constitute a mature civil society. Without doubting the supremacy of democracy, many scholars have however pointed out the importance of simultaneous economic, social, and political development.²

Importance for Security Planning

The intellectual exercise this book is aiming at is an important one for security planners. The Cold War may have ended, but a new definition of security and a new strategy to achieve such security have not taken apparent shape. While the possibility of large-scale state-to-state military conflict has diminished, internal conflicts—ethnic, religious, or otherwise—have persisted and in some cases worsened into the 1990s. While multi-lateralism in Europe has evolved beyond the military cooperation of the North Atlantic Treaty Organization (NATO) into advanced economic integration and some political cooperation based on shared norms, the Asia-Pacific lags behind Europe in comprehensive multilateral cooperation in military, economic, and political spheres. For sovereign states, multilateral cooperation normally requires some sacrifices of parochial domestic interests for the sake of greater national interests that are consistent with the collective interests of multilateral cooperation. Lack of such cooperation in Asia indicates two things: divergence of national interests and lack of domestic consensus. Although geopolitics can partly account for divergence of national interests, it has little to say about domestic consensus. The problem is that most post-Cold War conflicts are domestic. This fact remains true even in the aftermath of the transnational terrorist attacks on the United States on 11 September 2001.

The current debate about globalization often reflects a lack of attention to diverse interests among countries and their domestic groups. Questions like “Is globalization good for third world development?” and dogmatic answers from left and right are moot as they completely ignore such diversities. Indeed, the very same moot question has been raised about colonization. Each colony had winners and losers among the indigenous population. It is more productive to discuss who are the winners and who are the losers of globalization within each Asian country, and the security implications.

Admiral Dennis C. Blair, during his tenure as the Commander in Chief of the U.S. Pacific Command, commented:

...genuine security within the region will come only when nations share dependable expectations of peaceful change, and act in concert to address common challenges.

² This new focus on civil society adds to the earlier Cold War version of modernization theories, which asserted the co-development of capitalist economy and democratic polity. See Walt W. Rostow, *Politics and the Stages of Growth*, Cambridge University Press, 1971.

The armed forces of many nations in the region deal with internal insurgencies. Here, I see a trend of growing awareness that force alone is insufficient to quell insurgency ... without political accommodation and local economic development. There is an increasing realization that heavy-handed military tactics against insurgencies not only create international censure, but are counterproductive—they build support for insurgents, and undermine trust in the efficiency and skill of armed forces.³

His statement clearly recognizes the increasingly complex interrelationships of the military, economic, political, and diplomatic policies relevant to regional security issues in the globalizing world. It is extremely important that such a view is shared not only within the military organizations of the United States and Asia-Pacific countries, but also by the diplomatic circle and economic policy planners, considering that there is a close linkage between economy and political stability and that most conflicts today are domestic.

Globalization has led to a view that economic policy is becoming (and should become) more uniform across national borders. While this may be correct as an observation of a general long-term trend and as an economic theory solely in terms of promoting economic efficiency, it says little about why some differences remain and how soon should economic policies of different countries converge: the kinds of questions political-economists address. Scholarly research has demonstrated that economic liberalization, growth, domestic distribution, and democratization do not necessarily go hand-in-hand, and that local contexts often greatly affect the result. However, due to smokestack visions and lack of broad expertise (typical of any bureaucracy), policy coordination between diplomatic, military, and economic departments has been lacking, especially between the last two. Increased dialogues between military, country (area) experts, and general economic planners are much in need today. Governments of the developed countries directly (through their foreign economic policies) and indirectly (through their sovereign control over multinational corporations) promote or hinder economic liberalization. How their policies impact on particular Asian countries must be carefully examined, from the perspective of maintaining political stability and promoting democratic governance there. In practice, internal divisions and lack of communication often result in incoherent policies and simultaneous pursuit of conflicting policy objectives. This volume aims at integrating political, economic, and socio-cultural perspectives into one coherent policy framework. In the following sections, authors will look into the linkage between economic, social, and political stability in Asia in the age of economic globalization. It is hoped that the discussions will help diplomatic and security practitioners to develop policy input aimed at minimizing the unwanted creation of new conflicts and the fueling of existing conflicts in the region.

³ Admiral Dennis C. Blair, Remarks at the Senior Policy Symposium, East-West Center, Honolulu, Hawaii, August 6, 2001.

Organization of the Book

The first section, titled “Political-Economic Governance”, will attempt to identify important security issues originating from or exacerbated by weakness in the governing capacity of each state. It will also explore the relative impact of globalization on the domestic political economies of Asian countries. Chapters in this section collectively will answer the following questions:

- What are the important security issues for Asian countries?
- To what extent has the governing capacity diminished in Asian countries?
- To what extent are external economic forces responsible for diminished governing capacity?
- To what extent has globalization impacted on the state’s ability to manage its economy?
- In what way has globalization impacted on the state’s ability to manage its economy?
- Is domestic politics more important than globalization as a cause of economic insecurity?

Richard Cronin (Chapter 2) will review economic growth and governance issues in Northeast and Southeast Asia. John Ravenhill (Chapter 3) will review foreign investment trends in East Asia. Thitinan Pongsudhirak (Chapter 4) will look at democratic governance of macroeconomic policy in Thailand. Yun-han Chu and Pei-shan Lee (Chapter 5) will offer a post-Crisis developmentalist perspective focusing on Taiwan. Paul Buchanan and Kate Nicholls (Chapter 6) will compare democratic consolidation in Korea and Taiwan by focusing on their labor politics. Larry Greenwood (Chapter 7) will address the role of government in promoting growth in a globalizing environment from a neo-classical liberalist perspective. Fred Deyo (Chapter 8) will discuss labor responses to market-oriented reforms in Thailand and outlines alternative scenarios. Zawawi Ibrahim (Chapter 9) will discuss changes in Malaysia’s ethnic political economy in the globalizing era.

In the second section titled “Social Stability and Democratization in a Global Era,” authors will examine possible links between globalization and the Asian states’ capacity to manage their diverse societies and identify the unique challenges of democratization by asking:

- Have Asian states succeeded in managing ethnic, religious, and socio-economic diversities in their societies and building a common national identity?
- Has globalization impacted on the states’ ability to manage heterogeneous societies?
- Why has successful democratization occurred and survived in some countries and not in others?

- What elements of democracy and civil society have helped (or can help) economic growth, social stability, and nation-building?

Suchit Bunbongkarn (Chapter 10) will provide an overview of democratic consolidation in Asia. Michael Haas (Chapter 11) will broadly review economic growth, internal security, and democratization in Southeast Asian countries to offer a view on their inter-linkage. Vladimir Petrovsky (Chapter 12) will discuss reconciliation of overall economic growth and human development in eight former Soviet republics in Central Asia. Robert Wirsing (Chapter 13) will look at the role of Islam in Pakistan's foreign relations. Donald Weatherbee (Chapter 14) will present a focused look on Indonesia's rocky transition. Alasdair Bowie (Chapter 15) will look at changes and continuities in Malaysia's party system. Rommel Banlaoi (Chapter 16) and David Wurfel (Chapter 17) will discuss the fragmented civil society in the Philippines and its entrapped weak governance. Yin-hong Shi (Chapter 18) will discuss underdevelopment of civil society in China.

