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Governance and the Asian Miracle Economies

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World Bank, *The East Asian Miracle: Economic Growth and Public Policy*. New York, NY: Oxford University Press, 1993.
Jose Edgardo Campos and Hilton L. Root, *The Key to the Asian Miracle: Making Shared Growth Credible*. Washington, DC: The Brookings Institution, 1996.
Hilton L. Root, *Small Countries, Big Lessons: Governance and the Rise of East Asia*. New York, NY: Oxford University Press, 1996.

Much has been written about the phenomenal growth experienced by selected East Asian nations in the last three decades (see, for instance: Amsden, 1989; Balassa, 1988; Haggard, 1990; Johnson, 1987; Krueger, 1985; Vogel, 1991; Wade, 1990; Woronoff, 1992). These distinguished scholars all agree that the spectacular economic performance of countries such as Japan, Hong Kong, South Korea, Taiwan, and Singapore since the 1960s has been nothing short of a miracle (considering especially where some of these countries started from). Driven by their never-ending search for panaceas to prescribe to other developing economies, social scientists nowadays have made it fashionable to seek lessons from this remarkable East Asian experience. Lessons-extraction has focused on two areas: (a) the right public policies, and (b) the institutions that are able to craft these miracle-inducing public policies.

On the successful reform policies *per se*, the concentration of the early works was on extolling East Asia's industrial policy, agricultural policy, human resource policy, trade and investment policy, etc. Latter discussions, though, have moved to the institutions that are capable of formulating and implementing these effective public policies. In examining these institutions, the focus has been on highlighting broad factors such as leadership, quality of policymaking, cohesion, nationhood, and the role of the state (Leipziger & Thomas, 1993, p. 3). As the search for lessons continues and expands, a clearer picture of the institutional dimension needs to be portrayed. The three books under review here seek to respond to this concern by building upon the early findings. They reveal their own value added to the search for lessons. In many ways, they also have contributed to the growing debate on the sustainability and replicability of the East Asian miracle.

The World Bank's Policy Research Report

Just like its predecessors, the World Bank's research on the East Asian growth experiences also can be considered to be seminal since it has spawned a plethora of books, articles, reviews, and commentaries on the issues it has raised (see, for example: Krugman, 1994; Lau & Kim, 1994; Young, 1994). *The East Asian Miracle* (1993), the first in a series of Policy Research Reports, was a product of a task given by the then-World Bank President, Lewis Preston, to Bank staff to undertake a comparative study of economic growth and the role of public policy in East Asia. The principal authors of this study were from the Policy

Research Department (formerly the Country Economics Department) of the World Bank. Valuable inputs were provided by internal Bank staff and numerous external consultants. The government of Japan contributed to a generous trust fund that financed the research required for the task.

The Bank study clearly showed that while impressive gains were made among the countries of East Asia in the application of public policies, there really was nothing miraculous about this. It was just that the context within which these policies were implemented made them amenable for maximum impact. It is hard to generalize about a common approach (or model) of East Asian development for purposes of replicability since the policy implementation frameworks were so country-specific. Hence, there is no such thing as a single "East Asian model" of development.

If there is indeed one thing that is common to the eight High-Performing Asian Economies (HPAEs), it is their strong emphasis on the policy fundamentals of widely shared, market-friendly policies. One of these that can be used for policy consideration by other developing countries is the HPAEs' steadfast focus on enhancing their physical and human resources. Other macroeconomic factors common to these countries were significant private sector investments and high savings rates. The World Bank also talks about the need for institutional building as a prerequisite for sustainable economic growth to be effectuated. Weak institutions (both political and economic, although not so much social) have indeed been the bane of developing countries throughout Asia, Africa, and Latin America. One of these institutions that has been in the forefront of this phenomenal economic growth is the public bureaucracy. As long as this is weak, and vulnerable to external pressures, not much can be expected by way of a transparent system of business promotion and sustenance.

Good governance lessons were stressed in Chapter 4, which is entitled "An Institutional Basis for Shared Growth." The World Bank elaborates thus on East Asia: (a) wealth-sharing programs that were designed to include nonelites in economic growth (e.g., universal education, equitable landholding and land reform, low-cost housing); (b) reputable civil service and economic technocrats who were insulated from narrow political pressures; and (c) institutional mechanisms (i.e., deliberation councils) that facilitated the sharing of information with and winning the support of business elites.

Leadership and Shared Growth

The 1993 World Bank report was followed by a book written by Campos and Root, *The Key to the Asian Miracle: Making Shared Growth Credible* (1996), which took a subset of the themes presented in the seminal World Bank report and expanded on them. An economist at the World Bank, Campos was one of the principal authors of *The East Asian Miracle*, while Root is a Senior Fellow with the prestigious Hoover Institution at Stanford University. The authors' main argument is that leaders in these HPAEs gained legitimacy for their rule not only by virtue of the fact that they created and nurtured conditions for rapid economic growth, but more importantly because they convinced the people that such growth would be shared. This notion of shared growth is central to the success of these countries.

The book methodically documents how these countries have enhanced growth and also how they have utilized wealth-sharing mechanisms. One of the key strategies employed by many of these HPAEs is the creation of what are called Deliberation Councils (DCs), committees that comprise of representatives from the public and private sectors, and whose principal task is "to assist the government in formulating policies that would enhance the performance of a particular segment of the private sector (if not the private sector as a whole)" (p. 79). While these DCs have been instrumental in fostering the business environment, it needs to be noted that there are countries that have shunned such councils (including Indonesia and Taiwan), and that these countries (Taiwan more than Indonesia) indeed also have prospered. What this points to is that such DCs are not necessarily the sufficient condition to explain why growth has occurred so dynamically in the HPAEs.

Some of the other lessons the authors highlight from the East Asian experiences include: strong commitment of both state and societal groups to the principle of shared growth; visionary leadership; effective economic bureaucracy; convincing citizens to make short-term sacrifices for long-term growth; investments in developing economic and social infrastructure, particularly in the rural areas; and ensuring accountability and consensus-building in the system. All these are in short supply in many developing countries, but, as mentioned above, it is doubtful to what extent the lessons learned from the HPAEs indeed then can be transferred in the short run.

In relation to the issue of political system and economic growth in the HPAEs, these countries have been sensitive to the criticism leveled against them that in the process of attaining their spectacular growth they have become more autocratic than democratic. Yet, as the authors rightly point out, "... something is amiss in an analysis ... that fails to distinguish the political logic of East Asian success from the economic failures of autocracies throughout the world" (p. 6). They go on to show exactly why this dichotomy does not hold in these cases. For example, unlike autocratic regimes, East Asian leaders actually established institutions that effectively restricted the scope for disruptive policy interventions; they believed in (and practiced vigorously) the principle of shared growth; and they minimized the fear of government expropriation of private wealth. True enough, autocratic regimes hardly do what East Asian leaders have done.

Governance and Growth

Of the three books under review here, the third one, by Root, *Small Countries, Big Lessons: Governance and the Rise of East Asia* (1996), brings out more lucidly the need to look at good governance in specific East Asian cultural contexts. Economics aside, the growth in the region largely has been the result of formulation and implementation processes that are sociopolitically unique—something that neither the World Bank policy research report nor the Campos and Root book brings out to a great extent.

Root's initial work at Hoover was supplemented by a Governance and Development Workshop sponsored by the Asian Development Bank in April 1995 as well as a number of in-country investigations. Just like in his earlier joint project with Campos, Root seeks to expand on the ideas first espoused in Chapter 4 of *The East Asian Miracle* on shared growth and the institutional basis of East Asia's success. However, he tries to build upon the arguments of this policy research report and the book he co-authored with Campos.

As stated earlier, most research on East Asia's success explains the "right policies" that were formulated and implemented by benevolent leaders and economic technocrats. However, Root delves into an interesting dimension of the region's remarkable success by tackling the quality of seven specific politico-administrative systems that came up with the growth-inducing or growth-inhibiting (as in the Philippines case) interventions.

Root has taken up the theme of governance and carried it forward even after the book was published in 1996. Writing in various international newspapers, he has talked about the need for looking at governance in the context of analyzing the East Asian experiences, and the lessons that developing countries could get out of this. Writing of good governance in his book, Root speaks of this resulting from accountability. This is accountability not based on elections (the standard measurement in the Western context) but based on positive policy outcomes (and therefore independent of Western standards of measurements). This enables Root to escape from the intricacies of discussing the political systems vis-á-vis development since it frees up space for more debate. But it also shows clearly the need for rethinking the traditional concepts of democracy as applied in the East Asian setting. Having a multiparty system of government with impartial elections may be perceived as being democratic by the West, but does that really serve the functions of creating an enabling environment for business growth? The case of India more than proves the point. As Root himself writes later on: "Democracy alone doesn't guarantee economic success" (Root, 1996, p. 6). That in itself can be a lesson to be drawn by other developing countries.

Root also—like others before him—concludes that replicability of the East Asian model of governance is not assured given the specificity of the applications of institutional arrangements and processes. In a way, this actually provides a convenient escape clause to the author, and it is best to discuss the policy formulation and implementation processes of these countries by remaining strictly within the context of individual country settings. This makes the art of lesson-drawing quite a challenging one.

The Commonalities

The one common element that is evident in the three works is that of committed political leadership, competent bureaucrats, and social cohesiveness—values in short supply indeed among many developing countries around the world. In the HPAEs' experiences, evidently there was a strong, pragmatic leadership and continuity in this type of leadership. It was this that enabled a committed focus on development policies, and given that the leadership was intent on identifying with the needs of the masses (for example, housing in Singapore), there was greater room for policy successes. As Root points out, good leadership is everything; all else flows from it. Neither strong leadership (as in identifying with the needs of the masses) nor continuity of policy has been evident in general in developing countries, and this has tended to hinder rapid economic growth there.

On the subject of the bureaucracy and role of government, it is important to note that all three books imply that it is not the size of government that matters, but the nature of that involvement in the economy and how well it performs. The corollary is the fact that this is not a question of too big or too small a government, but a question of a weak government or a strong and purposeful government.

A close scrutiny of the three books also reveals that there has tended to be a trend toward ensuring specificity in the themes of the book. The first report by the World Bank merely talked about the existence of the miracle and presented figures to bolster that argument. The Bank report was taken up and reworked by Campos and Root. Their focus in the second book was to look at the mechanisms of how such growth came about. While the Bank's report only touched upon the issue of governance as an explanatory variable in the dramatic performance, the book by Campos and Root sought to fill that void somewhat. However, Root further narrowed the issue by expounding on some country-specific governance practices in the third book.

Using the concept of governance as an analytical tool, it is quite evident that some of the HPAEs themselves are not consistently practicing effective development management. To consider one characteristic of good governance—transparency—we can cite the Bakun Dam controversy in Malaysia, the favoritism practiced by the ruling elite in Indonesia, and the long, cozy relationship between big business and the military in South Korea as examples of institutional arrangements that inhibit transparency.

It is also interesting to see the contents of the book within the context of recent developments in the Asian region. In Indonesia, for example, while too much probably was made of the July 1996 riots in Jakarta, they do highlight the fact that strong economic performance has not had its consequent—and anticipated—effects; not yet, anyway. It may have been this that prompted Suharto to call attention to the widening social chasm between the haves and the have-nots and the need to do something about it on an urgent basis. In South Korea, the national psyche is beginning to undergo a subtle change, keeping in mind that several *chaebol* bosses now have been tried for briberies and given punishments, and that a new crop of younger politicians and business leaders are emerging who were not even born when the Korean War broke out in 1950. In Japan, the once-vaunted Ministry of Finance and Ministry of Trade and Industry are now facing public scrutiny, and even Prime Minister Hashimoto himself has unveiled plans to reduce the number of ministries and to give civil servants less control over the crucial tasks of deciding the national budget.

What is Still Missing?

Comprehensive as these three books—taken together—have tended to be, there are still many issue areas that need analysis. To begin with, questions are emerging already as to whether East Asian growth is on the decline. While, to paraphrase Mark Twain, news of the demise of the East Asian dynamos may be grossly exaggerated, there can be no denying that serious hiccups have appeared in the economies of these HPAEs. The new Asian economy is being characterized increasingly by infrastructure bottlenecks, breakdowns in traditional economic bases and benefits (such as lifelong employment in Japan and South Korea), shortage in skills and expertise, etc. This has begun to recast the entire *problematique* of the East Asian growth model, if ever there was one. This has been best brought out by eminent professors like Paul Krugman (MIT), Dani Rodrik (Columbia), Lawrence Lau (Stanford), and Alwyn Young (Boston), who talk about the myth of Asia's miracle and assert that since growth did not necessarily raise the total factor productivity in some of these miracle countries (e.g., Hong Kong, Singapore, South Korea, and Taiwan), the boom would eventually fizzle out as factors of production, e.g., labor and capital, dwindled.

Krugman (1994) argues that there is a striking parallel between the HPAEs' input-driven growth and the former Soviet Union's spectacular progress during its golden days. This has not been quite so evident in the HPAEs at the moment, but indeed could be a portent of things to come in the near future. *The Economist* (Is East Asia's economic miracle coming to an end? Not so!, 1997, p. 39), for instance, questioned whether East Asia's economic miracle was coming to an end. It answered its own question by saying that while there has been a slump, this is temporary and that the policy fundamentals are still in place to ensure that growth will continue to be sustainable. But the warning signs are there.

Various noneconomic factors such as environmental concerns and human rights certainly will dominate world headlines and will continue to be crucial issues in the 21st century as international actors (such as the World Trade Organization), with prodding from the West, begin to hone in on these themes and include them in their agenda of international negotiations. Obviously, they will need to be analyzed rigorously. Other things that still need to be analyzed include: the cultural dimension of development (specifically, the so-called Confucian tradition—and, by extension, Asian values—that all the authors allude to even though Root has sought to debunk this as the Confucian Cliché); China's spectacular and sustained growth rates for the past decade or so, and the impact that its own development philosophy has on others (including the possibility that it debunks some of the policy prescriptions being put forth by the authors); and pursuant to this China factor, the impact of a particular type of political system on the economic growth rate.

Incisive as the authors are in their analysis of the realm within which this miraculous development has occurred, there is very little written on the downstream aspects of governance; i.e., local governance as an issue is not given its due weight. There exists a sizable gap in the area of local governance in these three books and elsewhere. Gonzalez (1996) brings this issue out forcefully when he talks about the need to reach out to the real stakeholders of development (i.e., those at the grassroots). Moreover, the HPAEs do very well with socioeconomic indicators according to the World Competitiveness Report, but when it comes to the index showing the degree by which local authorities are able to make independent decisions free from central government control (or decentralization), the HPAEs rank well below most developed countries and even some developing countries. Ironically, many social scientists working for the World Bank and other international development agencies have been pushing for decentralization in East Asia and other parts of the world for the last two decades. Local governance, as a field of study, is not something new, but the application of the growth philosophies of East Asia in the context of local governance is sorely missing. One key issue that merits further scrutiny is the role being played by community-level nongovernmental organizations in national development in these countries (notably Japan, South Korea, Hong Kong, Malaysia, Indonesia, and Thailand).

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