

SMALL COUNTRIES, BIG LESSONS: GOVERNANCE AND THE RISE OF EAST ASIA

By Hilton L. Root, *Asian Development Bank, Manila, 1996,*
ISBN 019-590026-X, pp. xxi + 246

The remarkable economic success of the South-East Asian economies has received considerable attention in both academic research and policy analysis. While some have emphasized the unique elements of this phenomenon, explaining it in terms of cultural factors or changes in production technology and in the international division of labour, to others it is a validation of the neoclassical theory of economic growth, the latter being driven by unfettered market forces, with only a minimal role for the government in terms of enforcement of property rights and contractual obligations. This idea of a minimalist government has persisted, notwithstanding the knowledge that the growth strategy in most Asian countries was highly *dirigiste* in character, with a strong and proactive role for the State and, furthermore, that a key factor in steering these economies along the high-growth paths was effective, not minimal, government.

When a government is directly involved in resource allocation, decisions and production activities in an economy, the case for governmental efficiency is self-evident. Gunnar Myrdal drew attention to this issue when he spoke in the 1960s about the "soft States" in the context of economies such as India. Serious discussion of the role of governance in the context of market-oriented economies, on the other hand, is of relatively recent origin. The need for a stable, predictable and transparent policy-making process and effective policy implementation started garnering serious policy attention only in the 1980s when market-oriented reforms failed to deliver the desired goals in some countries while performing so much better in others.

The idea of governance is concerned with the exercise of publicly vested power in managing the social and economic resources of a country for development. In this context, good governance implies the ability to pursue the "right" kind of policy-making process to reach the "right" kind of decisions, and to administer such decisions in an unbiased and credible manner. All these elements of governance are in fact mutually supporting: for example, no matter how "right" a decision is, it is only moot if it is not effectively administered. Policy administration, in its turn, is not feasible without creating a sense of "policy ownership" through the involvement of all stakeholders in the process. What is it that distinguishes good from bad governance from a development perspective?

Hilton L. Root's book, *Small Countries, Big Lessons: Governance and the Rise of East Asia* represents an important contribution to the ongoing search for a better understanding of the complex relationship between governance and development in East Asia. Growing out of a technical assistance project of the Asian Development Bank

initiated in 1994, the book draws on the experiences in Hong Kong, China, Indonesia, Malaysia, the Republic of Korea, Singapore and Taiwan Province of China to provide some interesting insights into the internal logic and the dynamics of the governance-development nexus in these economies. In developing his analysis, the author supplements his own research with inputs from country consultants and experts, in-country interviews and the Governance and Development Workshop organized by ADB in 1995. The book comprises nine chapters. While chapter one provides an overview of institutional innovation in East Asia, chapters two through eight discuss country-specific experiences. Chapter nine attempts to identify the major threads running through these experiences and to draw some general conclusions on the governance-development nexus. The book also contains a long appendix on institution-building in development.

The relationship between cultural values and economic performance remains complex and contested. Many believe that the consensus principle and allegiance to authority which symbolizes this consensus have indeed played an important role in creating a favourable environment for development in countries and areas such as Japan, the Republic of Korea, Taiwan Province of China, China, Singapore and Malaysia. Dominant party systems in most South-East Asian countries, it has been argued, represent an adaptation of western democratic practices to serve Asian or Confucian values of consensus and stability rather than western values of competition and change. The author downplays the importance of such values in explaining the East Asian economic success for understandable reasons: after all, if the Asian economic success had to be explained by cultural factors, the transferability of its "big" lessons to other cultural settings could be easily called into question. He argues that, if anything, traditional Confucian values such as family loyalty, by promoting nepotism, could actually hinder the cause of good governance and, by implication, economic development.

Although the author minimizes the role of cultural values in explaining governance, protagonists in his own story seem to attach particular importance to values in creating an environment for development. Malaysia's Mahathir Mohammad has emphasized the need for a radical change in the code of ethics and value concepts of Malays in order to create a new will to grow. In the Republic of Korea, General Park Chung Hee's slogan of "Modernization of the Fatherland" was essentially an appeal to patriotic values. This resulted in any opposition to reform being perceived as unpatriotic, thus helping to prevent the polarization of society into winners and losers in the development process. As much as family loyalty can breed nepotism, as Mr. Root argues, the Confucian emphasis on the supremacy of the group over the individual, authority over liberty and responsibility over rights, could conceivably contribute favourably to the process of interest aggregation and conflict resolution, both critical issues in the development process.

To distinguish between good and bad governance from a development perspective, the author focuses on three broad factors, namely the type of regime, bureaucratic capability and State-society interface. However, the central message that the author draws from his analysis of South-East and East Asian experiences is that these factors

would operate and interact in a growth-enhancing manner only under conditions of social equality and shared growth. Only under such conditions can a political regime establish the broad-based coalitional support necessary for its survival and have the incentive to develop the core of neutral bureaucratic competence necessary to develop and implement a policy regime consistent with equitable growth. What matters therefore, according to the author, is not the type of regime, but whether its leadership has the motivation to develop such broad-based coalitions. Whether to counter the egalitarian appeal of communism or to promote greater economic equality among ethnic groups, the political leadership in the Republic of Korea, Taiwan Province of China, Singapore or Malaysia felt the necessity to forge such coalitions, while President Marcos of the Philippines, with his reliance on powerful elites, did not.

The association between the type of regime and economic performance has long provoked heated controversy, even though there is no consensus on how to measure economic performance and where to draw the line of demarcation between the two types of political regimes. A regime, for example, may be authoritarian in behaviour while at the same time meeting the formal democratic requirements of free elections, as may be the case in dominant-party systems. Such caveats notwithstanding, there are well-entrenched views on the relative ability of democratic and authoritarian regimes to initiate and sustain economic growth. One such view, held on both right and left, is that there is an inherent incompatibility between rapid economic growth and a competitive political system since the imperatives of growth in terms of investment and distribution can easily strain fragile democratic coalitions. On the other hand, there is the alternative view that an authoritarian government is in a better position to pursue sensible macroeconomic policies to promote growth by insulating civil servants and technocrats from direct popular pressure.

That an authoritarian regime does not necessarily guarantee good economic management is well-established: after all, it was, by and large, authoritarian, not democratic, regimes that built the enormous debt that precipitated the 1980s debt crisis. It is also true, as the author rightly points out, that the democratic polities often fail to achieve either growth or equity. However, lack of such growth and consequently slow progress in eliminating poverty in democratic polities does not necessarily reflect any inherent inefficiency of democratic institutions but rather the pursuit of incorrect but nevertheless well-intentioned interventionist policies reflecting genuine commitment to a particular economic paradigm. This was the case under Nehru's India. It would be wrong to characterize such policies simply as a means to produce policy-induced economic rents for favoured special interest groups or as indicating some intrinsic conflict between growth and democratic institutions. The recent economic liberalization in India, whose relative economic stagnation was long cited as an example of the growth-democracy conflict, has shown the resilience and ability of a democratic polity to effect a shift in the economic paradigm.

What is the significance of the author's conclusion that economic performance is regime-neutral? Does it mean that the type of regime of a country is of no relevance

in international economic relations, contrary to the more recent emphasis by international donors on fostering democratic institutions in the recipient countries? A recent study challenges the argument that there is a trade-off between civil liberties and development and finds the opposite evidence that suppression of civil liberties is likely to be inimical to government performance. If economic performance is not guaranteed by either democratic or authoritarian regimes, would it not be prudent to err on the side of democracy with greater civil liberties rather than towards bureaucratic-authoritarian rule with its high social and political costs? This is particularly true in view of the growing recognition that economic transformation through structural adjustment may not be viable or sustainable without domestic democratic political legitimacy.

Mr. Root gives particular attention to what makes for bureaucratic capability. In particular, he emphasizes the need for creating politically neutral bureaucratic capability through strictly merit-based recruitment of civil servants, who are required to perform their functions through rules rather than discretion. It is, however, not obvious what neutral bureaucracy has meant in practical terms in South-East and East Asian countries characterized by dominant political parties with little political turnover. In the presence of periodic political turnover through the electoral process, the bureaucracy may have an incentive to retain its neutrality in anticipation of political change. This restraint is, however, not present in most countries studied.

Merit or competence does not rule out greed. What is it that ensures that corruption does not erode bureaucratic efficiency? Bureaucratic corruption can be held in check either by reducing the incentives for corruption or by reducing the opportunities for corruption. Singapore adopted the former approach by offering its civil servants a highly attractive salary structure. The Republic of Korea, under President Park, seemed to have opted for the second approach by limiting the number of civil servants and centralizing the administration. It is not clear, however, from Mr. Root's discussion how such centralization could be achieved without adversely affecting bureaucratic efficiency. In this context, Mr. Root's distinction between bureaucratic corruption and political corruption is somewhat intriguing. He seems to argue that political corruption, representing a pay-off by business in exchange for policy continuity and predictability, may still be consistent with economic growth, whereas bureaucratic corruption, introducing distortions in the regulatory process, is not. This distinction seems to place civil servants in a sanitized world of their own, insulated from the rest of the society. As one World Bank report puts it, "the corruption of politicians has a demonstration effect throughout the public service: as the saying goes, 'the fish always rots from the head'".

Even when it is legitimized by the widespread political participation of the people, a government by itself does not provide a mechanism for widespread participation in economic policy dialogue, which affects the quality as well as the implementability of policy decisions. South-East and East Asian countries are particularly known for their effective use of participatory forums to promote exchange of information between the public and private sectors. In Malaysia, development was visualized, under the Malaysia Inc. Policy introduced in 1983, as a corporate undertaking jointly undertaken

by the private and public sectors, and consultative panels were introduced as a mechanism for consultation between the public and private sectors to promote their shared goals. The National Wages Council in Singapore, and State-sponsored trade and industrial associations in the Republic of Korea are some other examples of such consultative mechanisms.

The defining characteristic of most successful South-East and East Asian economies was their external orientation. A high degree of exposure to the rest of the world through trade and investment has clear implications for governance. It has, for example, been argued that an export-oriented development strategy places restrictions on policy options available to the policy-makers. An explicit consideration of the implications of development strategy for governance would have added an illuminating dimension to Mr. Root's book. The book's usefulness would also be enhanced if more examples of the policy processes in countries outside the South-East and East Asia region could be used as a means to illustrate the relevance of the East Asian experiences to other regions and countries. Overall, the book is well written, providing a rich source of information relating to the economies studied, though it seems to suffer on occasions from avoidable repetition. While the book is a valuable addition to our understanding, the search for good governance is clearly nowhere near its end. If anything, Mr. Root's book shows that anyone looking for a neat model of good governance is likely to be disappointed at the end of the day.

*Transport, Communication and Tourism Division
ESCAP, Bangkok*

*Saiful Huq**

* The views expressed in this review are those of the reviewer and do not necessarily reflect those of the United Nations.