

Special ingredient in the East Asian recipe

A new study claims to have discovered the missing link in explanations of the most important economic transformation of our time — the successful development of East Asia.

The study, sponsored by the Asian Development Bank (ADB), dismisses the dominant terms of the debate so far. Democracy versus authoritarianism, free markets compared to state intervention — these categories are "too big" to be useful, according to the study.

More importantly, they don't explain what has happened in Asia. For example, South Korea's high-speed development began under a dictatorial regime, but has continued apace under a more democratic one.

And the Philippines' economy was a basket case under the dictatorship of Marcos and yet has now launched itself into the high-growth club of economic over-achievers under a democratic system.

Authoritarianism obviously is not a precondition for rapid economic take-off. But neither is

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democracy. The Indian economy languished for decades under a democratic regime; China has been booming under a repressive one.

Similarly, state intervention in the economy does not provide the crucial explanation. Some successful state interventions have succeeded against the rules of economics — economists objected to the Pohang Comprehensive Steel Mill projects in South Korea and the Seoul-Pusan Highway.

Government intervention was an East Asian theme song — with the single exception of Hong Kong — and the World Bank's groundbreaking 1993 report on the East Asian "miracle" conceded that some interventions did contribute to growth. Some of these interventions in East Asia have succeeded

ASIA-PACIFIC OBSERVED PETER HARTCHER

where parallel projects elsewhere have failed.

The author of the ADB report, Hilton Root of Stanford University's Hoover Institute, points out that the articles of incorporation of the South Korean National Development Bank are identical to those of Argentina's.

Yet many state-driven interventions in East Asian economies have been notable duds. Efforts at developing specific heavy industry projects failed and were abandoned in Malaysia, Singapore and South Korea.

If the industrial planners in Japan's Ministry of International Trade and Industry (MITI) had been obeyed, some of the world's most successful enterprises — such as Honda Motor Co — would never have been launched.

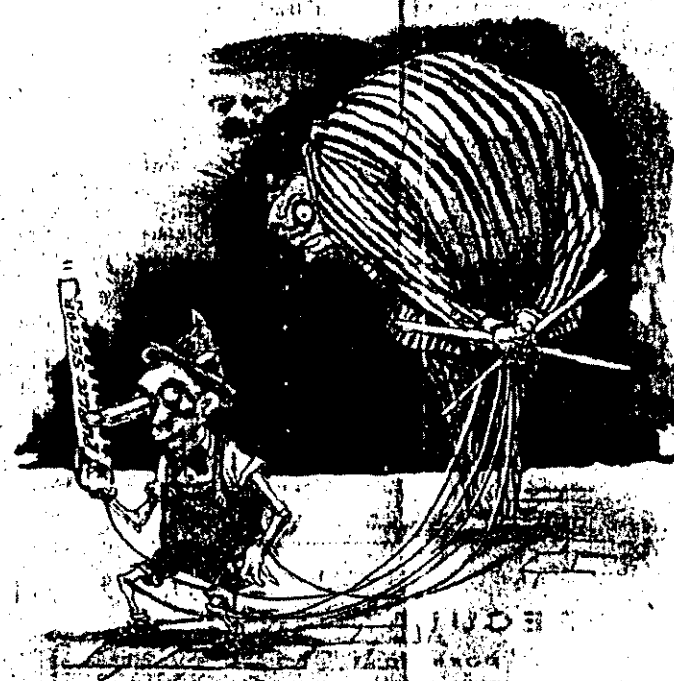
The ADB report — *Small Countries, Big Lessons* — also puts aside cultural explanations for East Asian economic success, such as the weary old claims about the pivotal role of Confucianism.

Root points out that some Confucian principles, such as filial piety, are honoured in many cultures, while other Confucian approaches, such as the low esteem assigned to merchants and commerce, might actually obstruct economic development.

So what is the mysterious missing ingredient? After eliminating the contending explanations, after surveying the literature, and after conducting extensive interviews and seminars in nine East Asian countries, Root comes to the conclusion that the crucial element is "good governance". And what is good governance?

"The ability to formulate appropriate policies is essential, but good governance implies a further step," Root writes in his book-length report.

"It refers to the ability of a government to deliver what it promises, to implement the policies it chooses. The existence of good policies does not ensure that



the government has the capability to carry out what has been proposed.

The essentials of good policy, as practised across all the successful East Asian economies, were identified by the World Bank's 1993 report, and nothing in the ADB study challenges any of these.

The World Bank summarised the policy essentials as stable macro-economic policy, an emphasis on exports, co-operation between the government and private sectors, a sharing of the benefits of growth across society, the accumulation of human capital, high levels of savings and hence high levels of investment, and the successful allocation of resources both through the market and also through intervention.

But *Small Countries, Big Lessons* goes further. It suggests that these policy footings are necessary — but not sufficient — conditions for high-speed economic growth. It takes good governance to put

them successfully into practice. Root boils down good governance into two key concepts: bureaucratic capability, and effective dialogue between the state and the society.

"Bureaucratic capability means that civil servants were subjected to performance evaluations while being expected to act as neutral referees in the development process."

"The existence of effective channels of communication with the government enhanced the private sector's ability to carry out policies successfully. In exchange for participation in the policy process, information provided by the private sector allowed governments to select policies that worked and eliminate those that failed.

"The quality of the dialogue between the private and public sectors did not reflect regime type. The region's democracies did not promote participation in the policy process more effectively than coun-

tries in which national leaders were not elected.

"In fact, many of the countries that enjoyed the most extensive functional participation in the policy process, Hong Kong, South Korea and Singapore, shared varying degrees of undemocratic means of creating a government.

"Yet they rank high among all developing nations in transparency, accountability, and predictability of the public sector. The attainment of high levels of accountability and transparency without the formal trappings of democracy is a dilemma that confounds simple assumptions about the relationship of regime type to economic performance."

Root suggests that while the two key elements he identifies are not democratic, they are liberal.

It is an important distinction, and the two concepts do not always sit together. As Francis Fukuyama points out in *The End of History and the Last Man*, England, for instance, long operated a democracy yet did not include liberal principles. The franchise embraced only propertied males. And India operated a democracy but failed to provide economic liberalism — the basic security of economic rights.

In a similar separation of democracy and liberalism, some East Asian countries operate with a form of economic liberalism in protecting economic rights, but without operating a democracy.

"Liberalism," Root concludes, "is the key to what distinguishes those countries that succeed economically from those that fail. Instead of pursuing democracy as an end in itself, by campaigning for good governance donors (such as the ADB) may be getting something they treasure even more — a firm foundation for democratic practice."

■ Hilton L. Root, *Small Countries, Big Lessons, Governance and the Rise of East Asia*, Oxford University Press, 1996.