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Economic development v. political democracy

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Until the financial crisis of 1997, the economic success of the countries of East and Southeast Asia was widely regarded as the economic "miracle" par excellence of the last decades of the twentieth century. This success had represented the first sustained experience of economic modernization by non-Western states. It had occurred at a pace unprecedented in Western experience. It was associated, in a number of states, with a distinctive pattern of economic governance. From the late 1980s, democratization was also progressively introduced, renewed, or consolidated in a number of states: Korea, Taiwan, the Philippines, and Thailand. The compatibility between democracy and economic development had already been a lively question because of the publicly expressed views of some regional leaders, notably Lee Kuan Yew and Dr. Mahathir. The events of the late 1990s give this relationship new significance. The financial crisis raises fresh questions about the distinctive patterns of economic governance that had been adopted in a number of states. It places in a new context political developments that were already in train in Korea and Thailand. It reframes the political outlook in other affected states, particularly Indonesia, but also perhaps Malaysia and Hong Kong.

The question of the compatibility between democracy and economic development first arose in the context of the extraordinary growth rates achieved by regional states. Their development up until 1997 surpassed by far by the rapidity of the "miracles" which Western Europe had known after World War II; it is perhaps even more surprising than the

Japanese miracle in that, in Japan, as in Western Europe, the existing economic infrastructure and industrial base surely accounted at least for part of the rapid growth of the second half of the twentieth century: there seemed no equivalent in the countries of East and Southeast Asia. Further, despite exclusions and rent seeking, these high rates of growth have generally been accompanied by diminishing income inequalities (World Bank 1993; Abbeglen 1994; Amsden 1989; Clifford 1997; Wade 1990). The countries included in this study fully belonged to the ''developing'' group in the 1950s: they were not more ''advanced'' than the bulk of the countries of South America, for instance.

One key difference between East and Southeast Asian countries and Western Europe and Japan was the character of their political life. Up to the mid-1980s at least, these polities either had been ruled continuously by authoritarian or semi-authoritarian governments or had had periods of liberal rule interspersed with periods of dictatorial, often military, government. Korea, Thailand, Burma, and the Philippines belonged to the second category; the first included two subsets, those which allowed a modest degree of dissent, albeit in some cases at the cost of considerable harassment of the dissenters, and those in which no dissent at all was allowed. The first subset included Malaysia, which was the ''least illiberal,'' Singapore, and Indonesia; the second included all the other polities of the area, that is to say Taiwan, the countries of the Indochinese peninsula (Vietnam, Cambodia, and Laos), and last but not least, China. Hong Kong had always occupied a somewhat peculiar position, since it was a crown colony in which a degree of personal freedom was recognized but representative institutions were almost wholly non-existent.

This picture began to be altered in part from the second half of the 1980s. On the one hand, there was no political change in China, Vietnam, and Laos; authoritarian rule remained strongly entrenched in Burma; moves towards representative government began to take place in Hong Kong but these were overshadowed by uncertainty concerning political life after the retrocession of the colony to China; finally, there was very little political change in Malaysia, Singapore, and Indonesia. On the other hand, in Korea, the Philippines, and Thailand, authoritarian rule appeared to be on the way out as a result of the replacement of dictatorial presidents or prime ministers by new leaders elected on a pluralistic basis; most remarkably, the strong single-party system under which Taiwan had been ruled since World War II came to be replaced, without a crisis of regime and without major conflict, by a functioning and apparently well-structured system, at first of two parties, and subsequently of three parties; finally, but on a seemingly very fragile basis and under much United Nations pressure, Cambodia moved from a most brutal dictatorship and from years of foreign occupation to a liberal democratic system based on party pluralism.

As a result, the political map of East and Southeast Asia came to be composed in the 1990s of three groups of countries: first, those which had remained strongly authoritarian and where there were no signs of change – China, Vietnam, Laos, and Burma; second, those which had formally adopted liberal democratic institutions, but remained in practice authoritarian although they typically tolerated a limited amount of dissent – Malaysia above all, but also Singapore and Indonesia; and third, those which had become democratic – Korea, Taiwan, Thailand, and the Philippines, to which Hong Kong and Cambodia might be added, for different reasons but possibly only for a time (Alagappa 1995; Cheng and Haggard 1992; Anek 1996; Morley 1993; Taylor 1996; Bell 1995; Rodan 1996).

These developments suggested that a process of democratization was under way, as a result of which the countries of the area were becoming comparable to Western Europe, North America, and Japan, not merely economically but politically as well. There were shadows in this picture, however. To begin with, as was just noted, only about a third of the countries of the area were undergoing a process of democratization, while another third were liberal democratic formally only, and those of the last group were not democratic at all. Second, it was not clear how far democracy was "consolidated" – to adopt an expression that is widely used in the study of new democracies – in those countries in which the democratization process had taken place. In other parts of the world during the same period, the results were somewhat mixed. Democratic consolidation seemed to have been achieved in many Latin American countries and in much of Central Europe; but the same conclusion could not be reached with respect to most of what was Yugoslavia, much of what was the Soviet Union, and large parts of Africa. There was therefore still a question mark with respect to those countries of East and Southeast Asia which were undergoing a democratization process.

The political future of the area is therefore far from clear. Even if we leave aside the group of countries which are fully authoritarian, there is considerable uncertainty as to what will be the direction in which Malaysia, Singapore, Indonesia, as well as indeed Hong Kong will move, if they move at all. Doubts about the future of democratization become even greater as one takes into account the fact that in the first three countries of this group, the view has been put forward by members of the political establishment that liberal democracy is merely a Western European concept and that "Asian values" are far better adapted to the societies of the area. In different ways, Mahathir, Lee Kuan Yew, and Suharto have at one time or another propounded the notion that they had adopted a political model which suited their countries well and that there was no need to move, indeed no virtue whatsoever in moving, towards the Western model.

Moreover, the question of "Asian values" became to an extent a screen or an ideological front for the markedly more down-to-earth view according to which the introduction of liberal democracy in East and Southeast Asia is incompatible with sustained economic development. Events of 1997 give this issue an especial edge.

This second, down-to-earth concern is, in reality, a markedly more serious attack against the introduction of liberal democracy than the argument about "Asian values." The validity of the "Asian values" argument hinges on citizens holding these values and, given that they did hold them in the past, on their continuing to hold them at present; there is no evidence which firmly demonstrates whether these values prevail or not, but there are indications that they are not, to say the least, universally shared in the area. For instance, a study undertaken among Taiwanese citizens shows that liberal democratic values have gained substantial ground and are becoming markedly more widespread than "Asian values" (Parish and Chi-hsiang Chang 1996, 27–41). Thus, there is some ground for doubting whether the "Asian values" argument can be sustained for long even in those countries in which it has been put forward by "authoritative" sources; this is all the more so given that, in other countries of the area, the argument has not been put forward or has been, as in Taiwan, firmly rejected by the relevant authorities.

The more down-to-earth claim that democratization impedes economic growth cannot be as easily combatted. Admittedly, the strength of this argument depends also ultimately on the citizens believing in it, but the extent to which the citizens are likely to do so does not rest solely nor even principally on the values held by these citizens: the judgement passed by citizens on these matters rests primarily on impressions about the situation in other countries – for instance in the West – as well as on the extent to which there are worries about the uncertainty which tends to characterize periods of political change. What citizens are therefore asked to do is to assume either that politics and economics are so distant from each other that a change in political arrangements will have no effect on economic life, or that the new politics will produce a group of leaders who will be as concerned with economic growth and as able to steer the economy in the direction of economic growth as their predecessors. This is manifestly asking much of citizens and it is understandable that some at least should not be willing to accept the validity of either of these two assumptions.

Given that the view that liberal democracy impedes economic development has manifestly important political consequences, it is rather strange that there should not have been systematic efforts to look at the problem in the East and Southeast Asian context; as a matter of fact, the problem has been studied primarily in the Latin American context. Rather than examining whether liberal democracy might impede economic growth, most of the work devoted to East and Southeast Asia has been concentrated on the converse problem, namely whether economic growth favours democratization or not. There has thus been a study on the political role of elections in East and Southeast Asia; there is also much theoretical and empirical literature on the links between economic governance and economic growth: but there is no recently published work on the possible influence of democratization on economic performance. What the present study attempts therefore to do is to start filling this gap in the literature by looking at the relationship between politics and economic performance in two of the three groups of countries which were identified earlier: those countries which did democratize their political life since the mid-1980s (Korea, Taiwan, Thailand, the Philippines, and Hong Kong); and those countries which remained relatively authoritarian in the context of a formally liberal democratic structure (Malaysia, Singapore, and Indonesia).

There seemed to be little point in examining the strongly authoritarian countries in which there was no change at all in political arrangements, although these may have undergone substantial alterations of the economic structure and management; on the other hand, it is essential to examine both the countries in which a move towards liberal democracy has taken place and those in which relatively liberal arrangements coupled with a rather authoritarian interpretation of these arrangements have resulted in little political change. There is manifest scope for an opening up of these latter political systems and they may well be gradually affected by the same process of democratization as the countries of the other group: the events of 1998 in Indonesia suggest that some move in this direction may indeed be taking place; conversely, not all those countries in which the process of democratization has taken place may see this process consolidated. Above all, the comparison between the two groups will provide at least some of the evidence required to assess whether the introduction of a liberal democratic system is likely to impede economic growth. Thus this study covers eight countries: five from the first group, Korea, Taiwan, Thailand, the Philippines, as well as Hong Kong, which has naturally peculiar characteristics; and three from the second, Malaysia, Singapore, and Indonesia. Given the serious difficulties encountered by the pluralistic Cambodian regime and given that this regime was installed to a substantial extent at the behest and under the pressure of the international community and was not primarily the result of an internal evolution towards liberal democracy, it was not felt appropriate to analyse Cambodia as it was not clear to what category it would have belonged, absent the external pressure.

Democracy, authoritarianism, and economic growth

The view that democracy can impede growth – indeed, that it does impede growth – has been based on a number of arguments, typically made in relation to Latin America and typically more in the form of hypotheses than of empirically based conclusions (Sirowy and Inkeles 1990, 126–57). These conclusions are also to an extent contradictory: "Some empirical studies have found no significant relationship between economic development and democracy. Others have observed a strong impact of democracy on growth. Yet others have ascertained only a weak positive effect of freedom on growth, or have discerned a negative influence of freedom on growth" (Feng 1997, 393–94). Feng notes that three hypotheses have been put forward, which relate to the dysfunctional consequences of premature democracy; to the inability of democracies to implement policies for rapid growth; and to the incapacity of pervasive state involvement (Sirowy and Inkeles 1990, 129; Feng 1997, 392). Feng's own empirical study, on the other hand, is a systematic attempt to look at the relationship between growth, democracy, and political stability in 96 countries; but it relates only to the 1960s and the 1970s and it does not specifically identify East and Southeast Asia: it is therefore impossible to know how far the area behaved at the time in the same manner as Latin America or Africa. Moreover, the conclusions which Feng draws are somewhat mixed: on the one hand, it appears that democracy "tends to have a negative but weak impact on growth" (Feng 1997, 403); but it also appears that "overall ... democracy promotes growth indirectly by inducing major regular government change and inhibiting irregular governmental change" (ibid., 414).

Three further points can be made in favor of the argument that democracy impedes growth. One is that, at least until 1997, economic growth has been lower in Western industrialized countries than in East and Southeast Asia, and that following 1997, the restoration of growth requires authoritarian leadership. Another is that at least some forms of democracy are unstable in terms of the personnel which is at the head of the executive and that there is no way of ensuring that there will not be instability, as many changes of government result from the vagaries of the electoral fortunes of the political parties. A third argument has to do with the inefficiency of decision-making in democracies which results from the multiplication of demands, many of them contradictory, and from the fact that decision makers are constrained to take advice and consult widely because of the prevailing ethos.

The first of these arguments does not constitute a foolproof case that democracy cannot be associated with rapid economic growth, while the other two are merely hypotheses which need to be tested. It is true that Western democracies have had low rates of economic growth in the last decades of the twentieth century: but it is also true that, apart from East and Southeast Asia and even if one leaves aside the special cases of the ex-Communist countries, economic growth tends to be rather low everywhere; it is indeed lower in parts of Africa and of Latin America than in the West. Authoritarianism is clearly no recipe for growth: as a matter of fact, as was just noted, empirical studies dealing with Latin America have come to contradictory conclusions in this respect (O'Donnell and Schmitter 1986; Feng 1997, 395).

Moreover, while the argument is about rates of economic growth, it must nonetheless be noted that economic development as a whole is highly correlated with liberal democracy (Lipset 1983; Lipset, Seong, and Torres 1993; Marks and Diamond 1992; Moore 1995; Vanhanen 1990; Vanhanen 1997). The richer countries are also by and large democracies. There are exceptions, but these are more due to the fact that poorer countries tend to be democratic (India and many states of the New Commonwealth) than to the fact that richer countries tend to be authoritarian, the only examples of the latter correlation being the states of the Arabian peninsula. The wealth of democracies may be accounted for in large part by their past development and by the fact that they exploited substantial segments of the rest of the world: admittedly, this finding often led to the conclusion that economic development was at the origin of the move towards liberal democracy and not vice versa; but we are confronted here with a correlation and the direction of influence is problematic. What is certainly the case is that stable institutionalized democracies are unquestionably not associated in the main with low living standards.

The question of the relative instability of the political leadership and of the ministerial personnel in democratic and authoritarian governments has several facets. As is noted by Feng, succession is more regular in democracies than in authoritarian states (Feng 1997, 398); on the other hand, there is noticeable instability in some democratic countries, typically as a result of the inchoate or undisciplined character of parties in parliament. Moreover, electoral upsets change both the governmental personnel and governmental policies: what was done by one team may be undone by the next, a point which was repeatedly made in connection with Britain in the 1970s, but which lost much of its validity subsequently (Kellner and Crowther-Hunt 1980, 211–12).

Yet cases of major reversals of policies are a small minority, as are cases of weak governments which last only a few months, in the majority of Western countries. This is not only because, by a fortunate accident, in many democracies, governments of the same party or parties are returned to office by the electors; it is also in part because most parties are sufficiently well organized and disciplined to prevent governments from disintegrating; and because many governments follow in broad terms the policies of their predecessors, even if they do not belong to the same parties. As a matter of fact, major policy changes are almost as likely to occur during the lifetime of a government as from one government to the next: circumstances, such as economic downturns, have forced Western European cabinets of both Right and Left to alter their course markedly, a clear-cut example being that of the Socialist government in France in 1983.

Meanwhile, the uncertainty which characterizes the tenure of authoritarian rulers is typically greater than that of democratic governments. Not just the accidents of death, but the incidence of coups have rendered rather bumpy the political history of authoritarian nations, except when these have remained traditional. But traditional states are becoming very rare and are in any case of no interest from the point of view of assessing what the future of East and Southeast Asian polities is likely to be.

The high turnover of ministers, as distinct from that of governments and of their leaders, has been a matter of major concern in a number of democracies, admittedly; but this high turnover is in no way a characteristic of democracies alone. The turnover has been very high in Korea or Indonesia – as high as in Belgium or Italy; it has not been lower in Taiwan than in Germany or Austria; nor has it been lower in Singapore than in Switzerland. Overall, the turnover of ministers and of heads of governments has been more rapid in the developing world than in the West: the turnover was least rapid of all in communist states, but, with that exception, the stability of the political personnel has been greater in Western liberal democracies as a class than elsewhere in the world (Blondel 1985).

The suggestion that decision-making is hampered in democracies by the open character of political debate and by the large amount of consultation which takes place in these regimes has been a matter of concern in the West: it was common in the 1970s to declare that Western polities suffered from "overload" (Rose 1980). Yet this point is relevant to the question of economic growth only if two further points are also valid. First, it has to be demonstrated that decision-making is necessarily more rapid when there are few actors operating behind closed doors. Blockages may also occur in such situations, and it has therefore to be found empirically whether, by and large, the delays and blockages which occur in authoritarian regimes are less marked and less troublesome for the economy than those which occur in democratic polities. One might hypothesize that there are likely to be variations in this respect, given the well known fact that there are variations among democratic regimes. Second, it is not clear that economic growth benefits necessarily from speedy decision making. Japan and Sweden are examples of countries in which decision processes are slow: yet neither the first case nor even the second constitute instances of low economic growth over the long term. It may well be more valuable from the point of view of economic growth that decisions be arrived at after a very careful consideration of alternatives and in a climate of consensus than that they should be taken speedily.

The problems posed by the analysis of economic growth in East and Southeast Asia

Economic growth, economic governance, and the role of values

As is well known and as was pointed out at the outset, until 1997 East and Southeast Asia were the region of the globe in which economic growth was highest. Over the 25 years between 1965 and 1990, the eight countries of the area grew by an average 6.5 per cent a year, as against 2 per cent or less in the rest of the developing world and 2 per cent in the West (Hughes 1995). This same trend continued into the 1990s. In 1995, for instance, the growth of GDP ranged from 9.1 per cent in Singapore to 4.9 per cent in Taiwan, with Malaysia and Thailand very close behind Singapore with respectively 8.8 and 8.5 per cent.

The financial sector collapse that began in Thailand in March 1997 and progressively spread to Indonesia, Malaysia, the Philippines, and Korea raises fresh questions about the impact of democratization on growth. The existence of different political regimes in these states constitutes one relevant fact: two countries were democratizing and two remained authoritarian (or quasi-authoritarian). A more detailed analysis of causality and of dynamics is required. Meanwhile it could be argued that East and Southeast Asian states continued on the same trajectory which had been theirs previously out of some kind of inertia, and that growth might subsequently be impaired as a result of the continuous pursuit of democratization.

To argue along these lines entails adopting one or both of two standpoints about the relationship between liberal democracy and economic growth, however. The first standpoint is in turn composed of two parts. On the one hand, it suggests that liberal democratic arrangements may have a negative impact on the characteristics and the role of the bureaucracy, on the grounds that the bureaucracy might be prevented from steering the economy with the same degree of autonomy in a democratic context as under authoritarian rule. On the other hand, to be convincing, this standpoint must also demonstrate that the bureaucracy does have a direct effect on economic performance, a matter which is also problematic. Economic development has been rapid in East and Southeast Asia, but it is not axiomatic that this rapid economic development has been due to the action of the bureaucracy.

The systematic examination of the validity of this standpoint entails, therefore, that the possible effect of the bureaucracy on growth be carefully ascertained. Although this does not constitute an alternative to such an examination, some prima facie evidence suggests that, in East Asia, in Singapore, and to a lesser degree in other states of Southeast Asia, the bureaucracy has been particularly proactive in contrast to what it has been in the rest of the world. Most economists and other analysts do indeed accept that as a result and to a varying extent, these countries have profited from what can be described as a favourable governmental climate (Hughes 1995, 98; Weiss 1997, 2). Hughes speaks of "governments" playing a major role: what is meant by "governments" in this case is manifestly not merely the 20 or 30 ministers but the whole administrative apparatus. Another way of referring to this element is to speak, as Weiss and others do, of "strong states." This means that government departments, on the one hand, are able to implement policies because they have "penetrative" and "extractive" power, and can "negotiate" with economic actors – to use Weiss's expressions – and, on the other hand, that they also pursue active policies (Weiss and Hobson 1995, p. 7). These implementation characteristics are by and large uncommon in the Third World, and they make East and Southeast Asia more akin to Western countries; however, as Western countries, by and large, have not tended to pursue a truly active economic policy, the role of the bureaucracy is appreciably larger in East and Southeast Asia than in the West (except, most noticeably, for France where the role of the state has been large over lengthy periods). Thus one cannot deny the tendency for the bureaucracy to be strong, obviously to a varying degree, in the region, by comparison with other regions of the world; and although it is not proven that the impact of this steering of the economy by the bureaucracy has been crucial to economic development, it is difficult to believe that this steering did not play some part. If this is the case, it becomes essential to discover whether the introduction of a liberal democratic framework would indeed have a negative impact on the action of the bureaucracy.

The second standpoint about the relationship between liberal democracy and economic development is concerned with "Asian values": it is suggested that a key reason why East and Southeast Asian countries should have grown so rapidly is that their populations held values likely to favour economic growth. It could then be argued that, as liberal democracy is likely to undermine these values, the effect of democratization would be a decline in economic growth. In such an interpretation, liberal democracy would not be detrimental to economic growth because of its structural arrangements, but because of the values which it instils.

This second standpoint is the more insidious because it is almost impossible to test its empirical validity. It seems always plausible to suggest that the values held by sets of individuals have an effect on their behaviour, but the connection between the two elements is at best hard to demonstrate. In fairness, this type of connection has not been made merely in East and Southeast Asia: it has often been made, for instance, with respect to those Westerners who had a "Protestant ethic" by comparison with those who did not. Yet the fact that a similar argument was made in the West to the one about "Asian values" does not make the latter more acceptable. In reality, it is by now well established, to begin with, that the determination of what constitute values and what constitutes a prevailing culture in a given country is a highly complex task (Hofstede 1980). To be able then to assess what impact such values and such a culture may have on the behaviour of whole populations is manifestly highly speculative. It is therefore more appropriate to concentrate here on the two elements that make up the first standpoint, according to which liberal democracy may impede economic growth: the possible negative effect of liberal democracy on the ability of the bureaucracy to be proactive; and the effect which a proactive bureaucracy may have on economic growth.

The question of economic globalization

In the last decades of the twentieth century, a further phenomenon may have come to disturb, and thus may have rendered more complex, the relationship between the political regime and economic growth: the possible impact of economic globalization on the economies of individual states. The period during which the countries of East and Southeast Asia were experiencing rapid economic growth was one in which a large number of physical and psychological barriers to the movement of goods, and even more of capital, from state to state and from region to region, were diminishing. Consequently, states have clearly lost some or perhaps even much of their power over economic governance and, if this power had an effect on economic development, globalization could have important consequences for that development.

Yet there is no clear indication as to what the effect of globalization on economic governance or economic growth might be; consequently, it is difficult to determine whether and, if so, how far the relationship between liberal democracy and economic performance is likely to be affected. An extensive empirical and theoretical literature now exists which reviews the scale and significance of economic globalization and the extent to which it might induce convergence between the economic strategies of individual states, and reduce the opportunities for economic governance. International capital flows impose new constraints on states, as the Mexican experience in 1982 and 1994 and the East and Southeast Asian experience in 1997 have demonstrated. Pressures for convergence between states in such areas as competition policy and intellectual property regimes arise, amongst other sources, from the IMF and the World Trade Organisation. The OECD has been promoting a standard code for DFI. Various studies of the Japanese economy suggest that the state cannot maintain its earlier activist or leadership role (Emmott 1989). The causes and consequences of the financial crisis for economic governance and for democratization will be explored in later chapters. Here more general considerations bearing on the impact of economic globalization on state sovereignty are briefly summarized.

The notion that nation states will be inexorably driven to a common economic pattern under the influence of international forces seems at best a half-truth, however. On the one hand, there is indeed convergence between countries in the goals and purposes of their policies: most want a minimally successful economic performance; there is also convergence in some of the economic constraints. Where FDI is a primary element in economic development, regulatory and prudential arrangements in the financial sector need to retain the confidence of international investors. In addition, relations between states and firms are shifting. More businesses, both large and medium-sized, are internationalized (Dunning 1993; Strange 1995). States are faced with more footloose firms and they need to redefine their own attractions and to discover new forms of negotiating leverage. For example, Peter Evans (1996, 465) suggests that this posed a major challenge for the Korean state.

On the other hand, "new institutional economics" is a powerful source of theoretical arguments against convergence at the institutional or attitudinal level. In this theory, institutions are the key determinants of longer-term economic performance. These are "the humanly devised constraints imposed on human interaction. They consist of formal rules, informal constraints (norms of behaviour, conventions, and self-imposed codes of conduct), and their enforcement characteristics. They consist of the structure that humans impose on their dealings with each other" (North 1991, 3). Convergence around economic purposes between states is likely to be associated with institutional diversity. This is because, if states try to imitate what they perceive to be the successful practices of others, they will mostly be able to do so only in functionally equivalent ways. Path dependence determines this outcome.

Further, in this perspective, states remain important arenas for the formation of ideas, choice sets, and motives. Because of the particularity of language and norms, the pervasive influence of path dependence, and genuine uncertainty, elite and public opinion in particular states is no less "bounded" than its reciprocal, the "bounded rationality" of individuals. This means that between states, the reality will likely be interdependence and the management of difference, miscomprehension or incomprehension – not economic interdependence, progressive political, cultural understanding, and institutional homogeneity.

Other authors, having explored the extent to which TNCs remain embedded in particular host cultures, argue that nation states continue as significant actors with significant opportunities to influence economic outcomes (Hirst and Thompson 1996; Drache and Boyer 1996; Berger and Dore 1996; Dunning 1993). All acknowledge that the role of the state is being transformed: the question is how much leverage does it retain and what forms might this leverage take?

In practice, in any particular society, culture, institutions, and markets coexist in a mutually conditioning, contingent pattern. There is no such thing as capitalism with a big C: there are many capitalisms, differing from country to country (Hollingworth, Schmitter, and Streeck 1994; Hollingworth, Rogers, and Boyer 1997; Crouch and Streeck 1997). Further, if states try to imitate what they perceive to be the successful practices of others, they will mostly only be able to do so in functionally equivalent ways. Any more than partial convergence is thus unlikely; perhaps more accurately, convergence on some dimensions will bring into sharper focus differences on others. The reality will be interdependence and the management of variety, not interdependence and progressive homogeneity.

The Japanese example

Assuming therefore that economic globalization constrains but does not negate the capacity of states to steer the economy, the question of the relationship between liberal democracy, economic governance, and economic performance does continue to need to be explored. In this respect, the Japanese example is obviously highly relevant, for four reasons. First, Japan has clearly been and continues to be a "strong state" in the double sense which was given to this term earlier. Second, Japan has been a strong state as well as a democracy: this shows that the two elements are not incompatible. Japanese democracy may be different in some respects from both Anglo-American and Continental democracies, but it is a democracy on the basis of all the criteria which are typically adopted. Third, the example of Japan has manifestly been followed, first in East Asia, and subsequently to a degree in Southeast Asia, as the metaphor of the "flying geese" pattern so aptly suggests. Finally, Japan's economy was characterized until the early 1990s by a rate of economic growth which was of the order of magnitude of the rate achieved by East and Southeast Asian countries. This shows that liberal democracy is fully compatible with a high rate of economic growth. Admittedly, the rate of growth has slowed down markedly in Japan since the early 1990s. But whatever its causes, such a slowdown cannot be regarded as being due to the institutionalization of democracy, since it occurred after over forty years of uninterrupted democratic life and indeed despite two very severe oil shocks which also markedly affected the economies of Western European countries.

Given the generally accepted view that a strong state has been a key element in enabling East and Southeast Asian countries to achieve high rates of growth, and given that the Japanese example shows that there exists a path which allows for the combination of democracy and high growth, a path which may well imply adopting the formula of the strong state, what has to be determined about East and Southeast Asia becomes clear: are the states of the area likely to retain their strong state characteristics and yet also maintain their democratic features?

Is there a future for the strong state in East and Southeast Asia?

The strong state is sometimes felt to be at risk in East and Southeast Asia on the grounds that civil servants will not be able to operate as effectively in a democratic context as in an authoritarian framework. This conclusion is far from axiomatic: it is likely to be true only if there is no desire to achieve consensus between state actors and economic actors. It may be that such a consensus will be difficult to achieve in some of the states of the area because a tradition of consensus has not existed so far. Bureaucracy in Korea is sometimes said to wish to impose authority rather than to build collaboration, unlike Japanese bureaucracy (Clifford 1997). On the other hand, such a pattern of behaviour is unlikely to characterize Malaysia, for instance, as consensus arrangements have typically been in place in that country. They have even been regarded as a necessity in the context of the complex ethnic relationships which have prevailed there.

What needs to be investigated, therefore, is whether the strong state can be expected to remain in place, given either that consensual decision-making processes already exist, or that the hierarchical mode is likely to be replaced by consensual types of relationships between the relevant actors. As our discussion will show, only if and where such a consensual mode is regarded as highly unlikely to prevail in view of the attitudes of the governmental and/or the economic agents can serious doubts be entertained as to the survival of the strong state in the context of democratic institutionalization. This question is even more pertinent in the wake of the financial crisis.

Liberal democracy and the role of parties

We have so far begun to explore the problems relating to the analysis of economic governance and looked at the ways in which different institutional structures may affect the extent to which the bureaucracy is able to steer the economy of a given country. A parallel exploration needs to be undertaken in relation to the democratization process. A liberal democratic system cannot be maintained unless it is buttressed by a network of institutions, some of which are typically established by a constitution while others are set up independently of the constitution. Executives, legislatures, and courts fall in the first category; the second category includes above all the political parties, but it is also composed of a large number of other groups and organizations.

The political parties are by far the most important of all these institutional structures of either category. On the one hand, executives and legislatures cannot function effectively without the political parties giving life to and structuring debates leading to policy initiatives and policy developments; on the other hand, the representation of the people cannot take place meaningfully unless parties organize that representation. Interest groups are of course critical in this process as well, but it is on the parties that these groups focus either directly or indirectly, since they have to put pressure on the parties in the legislature or on those party leaders who are in the executive if they want to see their policies adopted. Thus parties are the nerves of the political system: they provide the crucial link between citizens and government.

As parties are so critical in ensuring that the liberal democratic system is put in place and functions effectively, it is naturally by examining the characteristics of the parties that one can assess the extent to which the democratization process is taking shape in a given polity. A first question which arises is, naturally, how far parties are genuinely free to be established and to develop: this is a sine qua non, but it is not a sufficient condition. The parties which are established have to be both truly lively and truly viable if they are to fulfil their role. The liveliness of parties means that these are well implanted across the nation and that they can be regarded as being truly representative; the viable character of parties means that they must be sufficient large and consequently not too numerous: only if this is the case can parties be effective both at the level of the executive and at that of the legislature in order to support the government or to oppose it. Unless these roles are fulfilled, the parties cannot be regarded as ensuring that a liberal democratic system is truly implemented; if they are fulfilled, on the other hand, the democratic process will take place in a smooth and regular manner.

In order to be able to begin at least to assess whether a liberal democratic system is likely to impede economic growth, three questions have to be addressed generally: these will be the object of the first part of this study. First, given that the existence of an effective liberal democracy depends on the presence of lively parties and of a viable party system, chapter 2 will examine the characteristics which parties and party systems must possess to enable a liberal democratic system to function effectively. Chapter 3 will then turn to the analysis of the forms which state institutions must take if they are to steer the economy, as well as of the extent to which such a steering can be expected to have a direct effect on economic growth. Chapter 4 will bring these two points together by considering the relationships which must exist between parties and bureaucracy, if both are to be able to fulfil their tasks efficiently and thus to ensure that active governance takes place and liberal democracy flourishes.

The second part is devoted to case studies of the eight countries forming part of the two groups of East and Southeast Asian countries identified earlier, namely the five countries in which a move toward liberal democracy has taken place, Korea, Taiwan, Thailand, the Philippines, and Hong Kong (but not Cambodia); and the three countries in which some of the structures of democracy have been put in place but the practice of democracy leaves much to be desired, Malaysia, Singapore, and Indonesia. These case studies provide the empirical evidence on the basis of which conclusions, however tentative, can be drawn about the way in which, in practice, the parties have come to develop, the bureaucracy is performing, and a new relationship between parties and bureaucracy may be taking shape. Such a conclusion concerns both the polities whose political system has been markedly altered, and those in which no change had taken place by the late 1990s but where some change might take place in the opening decades of the twenty-first century.

The third part consists of a concluding chapter which synthesizes the evidence presented in the country studies and evaluates comparatively the degree of democratic consolidation and the outlook for economic governance. Regarding democratic development, the evidence suggests that parties and/or party systems remain underdeveloped in most cases, despite some pathbreaking structural changes in the early 1990s. Similarly, in relation to economic governance, only Korea, Taiwan, and Singapore displayed appropriate institutional capacities, and Korea's state capacity was significantly weakened in the mid-1990s, although the financial crisis may facilitate its reconstitution. The states of Southeast Asia that espoused economic leadership mostly lacked well-developed institutional capacities.

The general theme of this study – political development, economic governance, and their linkages – is not yet common in the scholarly literature on the region. Yet the states of East and Southeast Asia constitute a fertile comparative setting for exploring this nexus. Democratization occurred, or was consolidated, in a number of states in the early 1990s (e.g., Korea, Taiwan, and Thailand). But irrespective of the level of democratization, economic performance has been a primary source of political legitimacy in all states. Yet the levels of economic development vary markedly – with Korea, Taiwan, Hong Kong, and Singapore progressively turning to technological innovation as its primary engine. The other states (the Philippines, Thailand, Indonesia, Malaysia) have based development primarily on incorporation in regional/global production systems.

The political and policy-making institutions surveyed in this study must now frame and implement state responses to the financial crisis. Outcomes will be determined, on the one hand, by the capacity of political systems to sustain popular support, and on the other, by the capacity of institutions to rework dysfunctional economic arrangements. These two features are the central focus of the following analysis, which thus contributes essential information for estimating futures for regional states.

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