

manent and immutable features of the Western landscape, they are undergoing fundamental changes.

As explained earlier, allusions to the 'Asian Century' rely upon an acceptance of the notion that the ascendancy of one region must be accompanied by the decline of another. Perhaps a better understanding is that over the next 100 years we will witness the beginning of a 'Global Millennium' where wealth is more broadly dispersed and evenly distributed. We can expect a post-millennium synthesis of cultural institutions from the East and the West that will evolve out of the ever widening access to communication facilities and information. This competitive outcome will be motivated and facilitated by the globalization of economic activities and the relentless search by mankind for efficient institutions that best allow collective and individual outcomes to be achieved. The past four decades of economic boom will rightly encourage Asian leaders to become increasingly independent and confident. However, those leaders who would seek to bar the evolution of Asian institutions will impede the emergence of the sort of moral, political, and military leadership that would be required for the promise of an 'Asian Century' to be fulfilled.

3 Imaging the 'Asian Century'

It is unsurprising that the confluence of so many favorable circumstances has led to an expectation of the Asianization of world affairs. The ongoing renaissance of Asian cultural institutions and the impression of political stability in the region, combined with recently unleashed economic dynamism, have generated unprecedented attention to the region. Rapid increases of per capita income took on significance first in Japan during the 1960s and then spread to Hong Kong, the Republic of Korea, Singapore and Taiwan in the 1970s and 1980s. Meanwhile, these economic success stories have been repeated in Indonesia, Malaysia, Thailand, and more recently, China. Most of these countries have also recorded notable social gains (e.g., improvements in education, health, and housing) along with economic progress. These results stand in stark contrast to developing countries in Africa and the Middle East and in many parts of the former Soviet Empire.

Out of these convergent factors has come a greater sense of self-confidence among Asians within the context of global economies and international politics. Westerners slowly and sometimes begrudgingly have come to realize the rising importance of the Asian Pacific economies despite the erratic signals of conflict and cooperation. One pressing issue concerns the question of the universality of human values versus an alleged cultural distinctiveness of these beliefs. As will be established in considerable detail in Chapter Six, the ongoing debate over 'Asian values' touches on a wide variety of issues relevant to interpreting Asia's past and predicting the region's future.

More immediately, this chapter will identify and explore those facts, events, and circumstances that have contributed to the recognition of the potential dominance of Pacific Asia over world affairs.

Modernization in Asia: From Westernization to Easternization
In the eyes of most observers, becoming 'Westernized' or more crudely, 'Americanized', has been viewed as the touchstone of modernization. Given the spotty political and economic record of

much of the rest of the world, there is considerably more behind this assertion than mere vulgar cultural imperialism. Western democratic ideals, even more than capitalism, served as the mobilizing premise behind the rhetoric and myths underlying the movements for independence from imperialism or feudal monarchies in Asia and around the world. Similarly, the wealth achieved by Western industrialized economies served as a benchmark of development, even if some leaders were to condemn the subsequent injustices associated with it.

Asians have become increasingly resentful of what they perceive as a lack of respect for their distinctive cultural traditions. At the same time, these complaints have resonated with multi-culturalist Western thinkers who reject any idea of the universality of cultural values and human rights. Some in both camps are interested in simply dismissing the validity of Western values, *per se*. By the 1990s, a significant shift occurred wherein the cultural hegemony asserted by America and the West over much of Asia seems to have been displaced. Instead, there is an anticipation of 'Easternization' or 'Asianization' as the way of the future that might have application outside the region. Many scholars in Asia and in the West allude to the apparent collapse of Western economic and social arrangements while extolling the vitality of these institutions' counterparts in Asia. Consequently, a new range of Asian models has been offered that refer to the impact of regionally specific values upon political, economic, and social institutions. Models of 'Asian values', 'Asian democracy', an Asian sense of human rights, and an Asian approach to economic development have appeared as the catch phrases of this view of the world.

Asian cultural distinctiveness:

Neo-Confucianism and other 'Asian values'

Invocations for the rest of the world to imitate a superior set of values that are presumed to be peculiarly 'Asian' have come from diverse quarters. Proponents of these 'Asian values' combine in an unlikely alliance among British MPs and American members of Congress to the civil servants and leaders of selected Asian countries. Each of these champions of 'Asian values' is motivated by a personal agenda, whether it be a sense of conservatism,

nostalgia, pragmatism, or pure political opportunism. These values are said to include commitment to hard work, a sense of thriftiness, emphasis on education, and well-defined family structures. Surely, most of these are human values that are no stranger to Western experience. What may be more distinctive is the addition of concepts like filial piety and an abiding respect for political authority, 'society above self', and consensus building. This latter group of cultural institutions offers validations of the hierarchical social and political structures that are widely observed in East Asia. Although most of these values are still intact, they are undergoing transition due to modernizing influences. The forces of urbanization, changing demographics with an increased proportion of young in the population, increased wealth, income, and leisure, all combine to unravel attempts by opportunistic Asian leaders to inculcate these values.

Praise for these values from Western observers is most often directed toward finding a way to stop the decay of social institutions that is seen as the basis for the malaise that grips their mature economies. The offering of praise for 'Asian values' by certain Asian leaders, such as Lee Kuan Yew of Singapore and Mahathir Mohamad of Malaysia reflects their intent to use the issue to consolidate their influence over a one-party state. This is not to say that their pronouncements are purely cynical. However, most of these presumed values lend support to their authoritarian style of rule. For example, the so-called Singapore School and its progeny aggressively argue that Asia's distinctive cultural factors, especially filial piety and the subservience of individual to communal rights, have been the key to their continued economic growth and regional stability. Their point of view has struck a resonant chord among other authoritarian leaders in the region who have good reason to fear outside criticism. Armed with this argument, foreign commentary can be readily dismissed as cultural imperialism, an attempt to reimpose Western political dominance, or merely as an affront to national sovereignty.

After the victory of postwar liberation movements in casting off their colonial yokes, Asian nationalism had been mostly dormant except in communist regimes where nationalist rhetoric was used to thwart the encroachment of capitalism. More recently, brittle

rejection of criticisms by outsiders has been manipulated by some authoritarian regimes in an attempt to inflame nationalist passions in order to disguise the goals of the ruling party as the goals of the country. Besides Malaysia and Singapore, the most vigorous rejections of Western criticisms have come from regimes in Burma-Myanmar, China, and Indonesia.

This new wave of nationalism has also been promoted by a new confidence among Asians, owing to the growing prosperity of the region. In addition, some of the early contributors to the notion of 'Asian values' were Westerners seeking to explain the recent accomplishments of the high-growth East Asian economies. Initially, attention was paid to the culturally-determined institutional and structural elements behind East Asia's rapid economic growth.¹ The common adherence of these high-growth economies to Confucian ethics was credited for the discipline and commitments of both workers and rulers that served as the glue allowing rapid economic growth. The selective application of these neo-Confucian ethics supports the notion of 'Asian democracy' wherein virtuous rulers and loyal public servants claim to serve in the best interests of the people.

'Asian democracy' and political stability: Virtuous politics and economic prosperity

One of the presumed strengths of the political arrangements in most of the region is the stability and predictability of the political players. While East Asian economies have significantly different degrees of dependency upon foreign capital, an important motivation behind maintaining political stability is to provide reassurance to potential outside investors. Of equal importance is the ability of rulers to remain in power during the necessary shift away from the economically ruinous import substitution policies and other forms of protectionism. Thus, economic progress also depends upon the political strength of these leaders to impose policies that might not initially have wide support. A case in point was the capacity of some East Asian leaders to embrace policies that attracted investments and technology transfers from multi-

1 R. Hoffmeier and K. E. Calder, *The Eastasia Edge*, New York: Basic Books, 1982.

national corporations. These choices proved to be especially prescient and reflected an openness that had been rejected by most developing countries in the rest of the world.

Part of the perception of political stability is driven by the region's traditional respect for hierarchy and order. Thus, a defining element of Asia's political structure is the region's long experience with rule by strongmen, e.g., Kim Il Sung and son Kim Jong Il in North Korea; Chun and Park in South Korea; Lee Kuan Yew in Singapore, Mahathir in Malaysia, Marcos in the Philippines, and Sukarno followed by Suharto in Indonesia. These strongman rulers were often leaders who encouraged the dominance of single-party states in the region, e.g., the Liberal Democratic Party (LDP) in Japan; the Kuomintang (KMT) in Taiwan; the National Front (NF) in Malaysia; and the People's Action Party (PAP) in Singapore.

The really insidious threat to personal liberties is that so-called democracies based on the 'Asian Model' are masking the reality of creeping authoritarianism. By masquerading under the guise of self-styled Asian democracy, neo-authoritarian regimes are able to have their cake and eat it too. On the one hand, they gain a cloak of respectability to supporters of democracy in the region. On the other hand, their claims to a regionally-specific democratic arrangement allow criticisms by non-Asians to be dismissed as impositions of cultural imperialism.

Nepotism and dynastic succession: Asian family values?

Among the 'Asian values' credited for the recent economic success in East Asia are a dedication to hard work, respect for education, consensus seeking combined with a respect for authority, and strong family ties. However, in its modern political incarnation, the venerated Confucian tradition of strong family bonds leads to what amounts to dynastic succession and an entrenched policy of nepotism. By preventing the rise of a political meritocracy, nepotism may very well hinder a continuation of the recent enviable record of growth enjoyed by many of the countries in the region.

There is a long history of Asian political leaders providing family members with special privileges or installing them as their

successors. Even today, many Asian governments operate under a dominant single party that in turn may be presided over by a single domineering figure or family. Although one-party states are known in the West, the 'one-family state' seems to be a peculiarly Asian phenomenon in today's world.

Nepotism is consistent with the culturally imbedded commitment to family that is said to define social relations in much of Asia. In its modern form, nepotism represents a form of corruption that naturally thrives in a situation where the authority and decisions of leaders are seldom challenged. This might involve passing the political mantle from parent to child, or the use of political connections by family members to promote their own commercial interests. Whatever their familial maneuverings, most regimes rely upon their bureaucracies to oversee the economic transitions. It is no simple task to smooth the shift from economies based on agriculturally-based family enterprises governed under a feudalistic system, to one dominated by manufacturing juggernauts under some form of representative democracy. Aspects of bureaucratic corruption can be rather more subtle. Nevertheless, they can be expected to place a drag on future growth. Government institutions, including such 'agencies of restraint' as courts, independent electoral tribunals, anti-corruption bodies, central banks, auditing agencies, and ombudsmen are needed to check abuses by other public agencies and branches of government.

It is possible that nepotism and intra-familial succession contribute to political stability. However, where nepotism is prevalent there are also a variety of costs to the community that should be considered. Political costs can be measured in terms of the loss of political rights. In politicizing market activity, nepotism invites economic inefficiency from the diversion of resources toward a single family or their cronies in a dominant political party. By interfering with the transparency of market transactions, nepotism will impose costs upon the greater community by reducing returns on gross investment.

Before receiving the mantle of political power, the progeny of rulers use their privileged status to develop their own power base. For example, this may involve grants of national monopolies over certain economic sectors. According to a 1995 rating survey by

Transparency International, Indonesia was considered to have the world's most corrupt regime. It is probably no coincidence that family members of President Suharto are often at the heart of economic corruption. Similarly, the offspring of China's rulers use family influence to provide privileged access to markets for their supporters without regard to merit or to the rules of market efficiency. Children of the Chinese *nomenklatura* have gained so much economic clout that they are widely referred to as 'princelings'.

Besides bestowing economic advantage upon family members, there are also pervasive attempts to impose secular dynasties in many Asian countries. The unilateral transfer of political control to family members is often found where there were anti-colonial movements led by charismatic autocrats. This form of non-monarchical dynastic succession often reflects an attempt to maintain family fortunes and property. In other cases it may be deemed necessary to insure that the autocrat's family can survive the consequences of often brutal political competition. Few challenges can be made by a citizenry that is usually ill-educated and subject to severe reprisals if they voice dissent. As a result, Asian autocrats can decide in the best interest of their families, regardless of the impact on the country. In the end, it is not surprising that family politics spill over into national politics in much of Asia.

While similar arrangements have been gradually eroded in the West by experience and exposure to democracy, Asian political dynasties generally refuse to go quietly. In post-independence India, not only was there a near monopoly for the Congress Party, but Nehru or his descendants among the Gandhi family held a firm grip on leadership. Despite the entrenched corruption associated with Congress Party rule, Indira Gandhi extended her family's dominance by setting the stage for son Rajiv to be able to succeed her upon her assassination. After Rajiv's assassination, there were repeated attempts to encourage Rajiv's wife, Sonia, to stand for election despite her Italian heritage.

Politics in Sri Lanka followed along a similar path. The two strongest political parties are controlled by a single family and reflect sibling rivalry. The daughter of a former prime minister, Chandrika Kumaratunga, was elected president in November

1994. She appointed her mother, Sirimavo Bandaranaike, for a third term as prime minister.² Perhaps piqued by the voters' preference for his sister, Anura Bandaranaike awaits his turn at the dynastic political throne as a member of the opposition.

In death, Generalissimo Chiang Kai-shek and Kim Il Song of North Korea were able to bequeath leadership to their sons. In Singapore, there has been considerable controversy over whether the eldest son of Lee Kuan Yew is actually the heir apparent. In Cambodia, King Sihanouk's ambitions for his family are not limited to monarchical succession. Both his son, Prince Norodom Ranariddh, and the king's brother, Prince Norodom Sirivudh, have been groomed to succeed the King in his role as secular ruler.

It is obvious that Siti Hardijanti Rukmana, the eldest daughter of Indonesia's President Suharto, has her own presidential ambitions. Ms Rukmana is currently vice-chairwoman of Golkar, a government-sponsored political party that is dominated by the military. With such solid links to the military and her business connections, she is considered a likely candidate for vice president of Indonesia, and is in line to succeed her father. Ironically, Megawati Sukarnoputri, the daughter of Suharto's predecessor and arch rival who was deposed in a bloody struggle, has become an active candidate for presidency.

Politics in the Philippines is also rife with nepotism and is run by clans. President Marcos' wife became a cabinet minister and governor of Metro Manila, and his mother had an appointment to the nuclear power commission despite her lack of knowledge or experience in the field. Even Corazon Aquino's presidency was an incorporation of two of the biggest and most powerful clans in the Philippines, the Cojuangcos and Aquinos.

In addition, it is not altogether clear that Asia's strongman rulers will blithely step aside when their term in office expires. There is an expectation that some, like Prime Minister Mahathir of Malaysia and President Suharto of Indonesia, may hold on to their power by creating and assuming the office of 'senior minister', a

2 Sirimavo Bandaranaike became the world's first female head of state after her husband was assassinated. Her first term spanned from 1960 to 1965 and the second from 1970 to 1977.

in the case of Lee Kuan Yew of Singapore. Under this scheme, titular power is relinquished, but substantive influence is not.

The institutionalization of the 'Asian values' of nepotism and dynastic succession is in conflict with the modernizing forces of marketization and democratization. This being the case, many Asian rulers invite accusations of hypocrisy for their actions. In earlier incarnations as pro-independence democrats, they demanded a form of government that was based upon self-determination and that reflected an expression of the will of the people. Nepotism and dynastic succession are practices that are more compatible with imperial colonialism than with modern democracy.

Eventually, it is likely that popular access to expanded media coverage will limit the ability of Asian autocrats to unilaterally decide what is best for their citizens. Feudalistic inter- and intra-familial transfers of political power and economic privilege will be challenged by modernized institutions in a global economy. As the losses due to corruption and inefficiency mount, investors and voters will ultimately decide if the economic costs of ancestral power grabs outweigh the presumed benefits.

Prosperity first, rights later

An authoritarian adaptation of the new Asian development model prescribes trading civil rights and freedoms for immediate economic growth; in other words, 'prosperity first, rights later'. This approach is evident in the one-party regimes of Indonesia, Malaysia, and Singapore. By placing a priority upon economic progress instead of political development, the explicit presumption is that individual rights are meaningless in the absence of basic material well-being.

The development record of the authoritarian East Asian regimes is often interpreted to suggest that rapid economic growth and political freedom are incompatible. It is thought that authoritarian, even totalitarian, regimes have an advantage over democracies in mobilizing production during the early stages of economic development because they are able to disregard the demands of competing interest groups. Leaders are therefore free to make the tough choices that might contradict popular calls for the redistribution of income or wealth to serve short-term

preferences. In avoiding these pressures, authoritarian regimes seem better able to expedite the course of economic progress by extracting a relatively large amount of savings to be used for social investments. In contrast, democratic regimes must obtain public concurrence in order to attain a specific level of savings or to generate additional tax revenues. Instead of an informed consensus, authoritarian regimes can rely upon imposed acquiescence without the messiness of community dialogue.

However, authoritarianism does little to guarantee successful economic development. The regimes in Burma-Myanmar, Laos (pre-Deng) China, and Vietnam are cases where autocracy has borne little fruit in terms of shared economic development. In the end, those countries that follow the policy of 'development now, rights later' will see short-run gains neutralized by unanticipated long-run costs. Just as it is impossible to 'fool all of the people, all of the time', it is unlikely that a given regime will be capable of accommodating the dynamic pressures of changing preferences of a rapidly modernizing society. An autocratic regime long accustomed to having its way is almost certain to lose touch with the masses. The specific nature of the resulting impairment to the dynamic spirit of a modernizing community will be addressed in Chapter Seven.

Fast-paced economic development

An enormous amount of data is available which points to a remarkable process of growth and development among the menagerie of East Asian 'Tiger' and 'Dragon' economies. A first wave of books offered great technical detail in examining the underlying sources of this growth.³ Building from these impressive statistics,

3 A selection of this first wave of books is as follows: B. Balassa, *The Newly Industrializing Countries in the World Economy*, New York: Pergamon Press, 1981; E. Chen, *Hyper-Growth in Asian Economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore and Taiwan*, New York: Holmes & Meier Publishers, 1979; E. Lee (ed.), *Export-Led Industrialization and Development*, Geneva: International Labour Office, 1981; L. Turner and N. McMullen (eds.), *The Newly Industrializing Countries: Trade and Adjustment*, London: Allen and Unwin, 1982; and G. White (ed.), *Developmental States in East Asia*, New York: St. Martins Press, 1988.

yet avoiding the technical rigor, a second wave of books went into print in anticipation of the high degree of curiosity that would be aroused by the earlier literature.⁴ Most books in this second wave offer an initial blizzard of numbers that is followed by breathless prose and praise for the unstoppable momentum of the East Asian economies. For example, in *Megatrends Asia*, John Naisbitt opines that '... Asia will become the dominant region in the world: economically, politically and culturally.' Ironically, the numbers that are the basis of this thesis are quickly set aside and the force behind the pro-Asia arguments depends upon personal anecdotes and casual generalizations. In the rush to judgment, shaggy dog stories are granted as much validity as is hard evidence, perhaps more so since the anecdotal rendering makes the arguments easier to digest for wider audiences.

Obviously there is little question that the developing countries of Southeast and East Asia have achieved rapid economic growth.⁵ However, there is considerable controversy over how it was achieved and whether or not such a record is unique. One interpretation offered in a World Bank report on East Asian 'miracle' economies focuses heavily upon the success of market-oriented reform.⁶ In a much quoted summary, the annual average growth rates of 5.5 percent during 1965 to 1990 experienced by the high-growth East Asian economies were accomplished by 'getting the

4 Books in the second wave are: A. Chowdhury and I. Islam, *The Newly Industrializing Economies of East Asia*, London: Routledge, 1993; G. L. Clark and W. B. Kim (eds.), *Asian NIEs and the Global Economy: Industrial Restructuring and Corporate Strategies in the 1990s*, Baltimore: Johns Hopkins University Press, 1995; G. Gereffi and D. Wyman (eds.), *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*, Princeton: Princeton University Press, 1992; Y. C. Kim (ed.), *The Southeast Asian Economic Miracle*, New Brunswick, NJ: Transaction Publishers, 1995; and W. Overholt, *China: The Next Economic Superpower*, London: Weidenfeld & Nicolson, 1993.

5 Estimates for East Asia's share of world output project an increase from 17.4 percent in 1980 to 23.7 percent in 1990 and 28.2 percent in the year 2000. Similar gains are expected for East Asia's share of total world trade from 13.7 percent in 1980 to 19.3 percent in 1990 and 33.1 percent in the year 2000.

6 World Bank, *The East Asian Miracle*, op. cit.

basics right'. Most important of these basics was to establish macroeconomic stability by implementing prudent fiscal and monetary policies combined with competitively-determined exchange rates. This arrangement encourages thrift and rewards investment by establishing confidence in the financial system. Because a steady balance in the overall economic climate was maintained, savings were protected from the ravages of inflation, and there was some security in the ultimate values of investments. Another of these 'basics' included heavy public expenditures on social infrastructure, especially education. By encouraging the development of human capital, these countries were better able to enjoy 'shared growth' and to develop a stock of relatively high-quality civil servants.

One striking anomaly in the World Bank report is the implication, despite ample evidence to the contrary, that these countries relied upon a relatively honest and incorruptible civil service. Although the civil servants of Hong Kong and Singapore are generally considered immune to corruption, business dealings in most other countries often require numerous bribes and payoffs.

According to this same report, another key feature was the emphasis upon export-oriented manufacturing as the leading sector for domestic economic growth. Finally, selective government intervention as part of industrial policy was seen to promote job creation by raising the countries' economic growth potential. Furthermore, in the case of Japan, Korea, and Taiwan, development was facilitated by cooperative arrangements and information-sharing among firms and between the private sectors, including the coordination of investment plans within an otherwise competitive environment.⁷

Instead of identifying the approach of the East Asian Tigers as a model for other developing economies, emphasis was placed upon 'market friendly' development policies. For example, success with export-oriented development strategies depends upon the presence of certain external conditions. First, foreign markets must be large enough to absorb the exported products of the

7 C. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Tokyo: Charles E. Tuttle, 1986.

developing country. East Asian countries accounted for only 3.1 percent of the imports of manufactures by the European Community, Japan, and the US in 1988. Second, a successful export program depends upon a capacity to meet industrialized country standards in a global economy that must remain relatively open.

In describing the record of the high-growth East Asian economies, the World Bank suggested that their 'miracle' growth was based upon export-oriented growth strategies and prudent investment policies. The report's conclusions offered mixed signals as to the impact of government intervention as an element in the development process. Interventionist policies within these countries involved the promotion of specific industries, mild financial control combined with directed credit, and export-push policies. On the one hand, technocratic involvement in heavy industries with high-growth potential was credited with job creation in the early development stages of Japan, South Korea, and Taiwan. Similarly, the early and continued encouragement of export goods manufacturing was identified as a basis of the rise in domestic output.⁸ On the other hand, these beneficial effects were deemed to be unique to the countries studied, and there was no claim that similar interventions should constitute the development strategy for other countries.

The uniqueness of the experience of these East Asian economies was also attributed to a variety of internal conditions that preceded their economic takeoff. One of the most important of these conditions was the presence of universal primary schooling leading to a relatively high level of education and literacy among the general population in the 1960s. By implication, skill levels and thus productivity of the labor force were generally higher than in other developing countries. These higher education levels also facilitated the transfer and adoption of foreign-sourced technology, and made it easier to find competent staff for the civil service. Relatively high education levels may have contributed to the fact that fertility and mortality rates were lower in East Asia than in other developing countries with similar levels of income. Perhaps not unrelated to the wide access to educational opportunity,

8 Gereffi and Wyman, *op. cit.*

measures of economic inequality in East Asia were relatively low, as measured by income and land ownership. Economic equality either contributes to growth by lessening political tensions, or it may reflect the presence of a middle class large enough to support an expanding market for domestic manufactures.

Of equal importance to the record of the high-growth East Asian economies was the general absence of market interferences by their governments. Unencumbered market forces therefore played an important role in their remarkable economic growth. Perhaps most significant was the decision to control inflation through a sensible approach to fiscal and monetary policies, including competitively-determined foreign exchange rates. Another important element of government policy was the decision not to provide welfare as transfer payments or income subsidies. This policy was partly a function of practicality that was supported by cultural norms. The inability of governments to generate sufficient levels of state revenues for social welfare payments was offset by the citizenry's strong commitment to family. As national incomes and government revenues rose in the high-growth East Asian economies, their leaders directed more of their expenditures toward social investment and infrastructure.

By contrast, the Western welfare state dedicated increasing sums for consumption. In this sense, there was no grace in the Asian 'miracle'. However, as will become apparent in Chapter Four, governments can afford to mandate individual self sufficiency only during periods of high growth. It will be seen that the level of public involvement increases when reversals of economic fortune occur. Nonetheless, the mixed results generated by East Asian government policies with regard to economic growth leaves the question unanswered. However, by examining the nature of these interventions in the past we can discern some implications for the future. This analysis will be undertaken in greater detail in Chapter Four.

Another perspective on the ability of countries in East Asia to have generated such high growth rates is offered by Mancur Olson. As mentioned in Chapter Two, he suggests that the economic power of countries tends to decline in response to the redistributive pressures and interferences demanded by special

interest groups. Alternatively, the absence of these 'interest coalitions' should allow for higher rates of economic growth. Most of the high-growth East Asian countries underwent radical changes in their power structures that upended traditional hierarchical relationships. Those countries that escaped colonial rule saw their historical power centers evaporate and be replaced by nationalist rulers. As such, they benefited from the autocrat's ability to expedite development by weakening interest groups who would have promoted their own narrow concerns at the expense of national growth. Nonetheless, except for Singapore, it is unlikely that the pressures of regional interests can be resisted. Obviously, rice farmers in Korea and Japan have been able to exploit consumers by flexing their political muscle. The Japanese have provided huge subsidies to the islands of Hokkaido and Okinawa as appeasement with a stunning lack of success. As economic growth slows down, these pressures will become politically irresistible.

Japan as forerunner and engine of growth for East Asia

As the first East Asian economy to experience high-paced economic growth, Japan has provided the archetypal model to be followed by other industrializing countries in the region. In more recent years, the process of recycling Japan's large trade surpluses has also served as an economic locomotive for the rest of East Asia. The investment of industrial capital in neighboring countries continues to be spurred by the yen's perennial strength. Growing trade surpluses in the 1980s led to the initial phase of global investing by Japanese firms that was concentrated in North America and Europe. More recently, their attention has turned to East and Southeast Asia in search of lower labor and raw material costs, as well as expanding consumer markets. Direct investment in neighboring Asian countries has targeted assets with bargain prices. While investments in East Asia only constitute about 6 percent of total Japanese foreign direct investment, it is concentrated in manufacturing and involves a greater use of local partners as well as more reliance upon local financing. Two-thirds of Japanese investments in Asia are in manufacturing, while the comparative figure for the US is only about 20 percent, and the figure for Japan's worldwide investments is only 25 percent.⁹

Just as Japan was able to provide the lead for a period of rapid growth in the region, the deflationary cycle and excess production capacity in the Japanese economy are likely to herald a retreat in the fortunes of the other high-growth East Asian economies. This is unavoidable with over 5,000 Japanese firms operating in the region and employing more than 1 million people. In reaction to five straight years of falling corporate profits, private capital investment in Japan continues to decline and consumer spending is weak. Since these combined expenditures account for about 80 percent of the Japanese economy, there are probably more serious problems ahead.

Newly industrialized countries in East Asia: Dragons, Tigers, and 'miracles'

With Japan's successful industrialization, it became apparent that economic modernization was not limited to Western economies. Following Japan's business leadership, a 'virtuous cycle of growth' in the region began to take shape. As technology became outmoded due to domestic cost structures, it could be transferred to another country where it might be more suitable. East Asia benefited from Japanese direct investment was driven by both push and pull factors. The high value of the yen and rising domestic costs in Japan pushed capital spending to non-Japanese markets, while ground floor opportunities in nascent markets served as a pull factor.

At the same time, many of the leaders in the region began to discard the irrational import substitution policies that raised barriers against entry of foreign made goods with the aim of inducing domestic growth. A similar change in attitude led to the implementation of capital friendly policies designed to encourage investments by multinational corporations that were once derided as the scourge of the Third World.

Hong Kong was already well positioned for entry into the global marketplace. However, in its capacity as an important entry port for China, Hong Kong suffered from the fits and starts associated with Chinese internal affairs. Its neighboring colonial

9 Abegglen, *Sea Change*, op. cit.

cousin, Singapore, was endowed with some of the same benefits of engagement with the international market through the British Commonwealth. Both were well placed by virtue of their experience with the world trading language as well an understanding of the rule of law and contracts. Meanwhile, Taiwan and South Korea made their own way into uncharted territory, aided in part by military engagement with America. Each of these early East Asian success stories had one leg in the Orient and the other in the West. Their strategic ties guaranteed more favorable terms for access to markets in the US and, to a lesser extent, in Europe.

Passing the baton to China

No account of Asia's progress or any allusions to a 'Pacific Century' could pretend to be complete without incorporating China. As the brinkmanship associated with the Cold War subsided, the priority of being a military superpower has been subordinated to the goal of becoming an economic superpower. China is well suited to accommodate this shift in strategic concerns. The lifting of the Maoist-inspired economic straight jacket, coupled with the normalization of relations with South Korea and increasing interaction across the Taiwan Straits, has led to one of the greatest economic booms, and perhaps the largest economic bubble, in history.

China's prospective role in global affairs is based heavily upon the support of Overseas Chinese in 'Offshore China'.¹⁰ This diaspora of about 55 million Chinese throughout East Asia controls up to \$3 trillion in liquid assets and is responsible for production of goods and services worth about \$450 billion each year. Their annual output exceeds by nearly 25 percent that of the entire Chinese mainland of 1.2 billion people. Most of the inhabitants of Hong Kong are recent emigres of neighboring Guangdong province. The flows of capital and goods between Hong Kong and Guangdong are mirrored by similar connections between Taiwan and Fujian province, though the dealings are obviously a bit more circuitous through shell companies.

10 S. Seagrave, *Lords of the Rim: The Invisible Empire of the Overseas Chinese*, New York: Putnam's Sons, 1995.

Although the Overseas Chinese constitute a minority in most countries apart from Singapore and of course Taiwan, they or their descendants dominate private enterprise activities in Indonesia, Malaysia, and Thailand. They also have considerable influence in the Philippines. However, this group is not cohesive. Although there are interwoven patterns of contacts across these national boundaries, these are based upon ethnic or language groupings. Being Chinese is less important than are family and clan ties, or the networks established on the basis of one's origin in a specific village or province in the homeland. The businesses of Overseas Chinese have been mostly limited to patriarchal, closed corporations based upon family relations. However, this organizational structure has limited their abilities to expand or to mobilize capital. This is beginning to change in response to new opportunities on the mainland and the threats posed by the takeover of Hong Kong in 1997. In the same manner that economic reform on the mainland has boosted cross border investments of the Overseas Chinese, the uncertainty about the future of Hong Kong has prompted this group to shift their attention toward North America's western coast, to Australia, and beyond.

The Overseas Chinese are not the only ones who depend upon informal networks to guide their capital spending. Japanese companies have found a warmer reception in parts of their former colony of Manchuria, especially the area around Dalian in Liao-ning province. Pragmatic considerations have allowed these Japanese investors to find partners who are willing to overlook past transgressions. Likewise, the presence of several million ethnic Koreans in the northeast provinces of China boosted trade and investments from South Korea after the normalization of relations. By 1992, Korea had become China's fourth largest trading partner. Further economic ties will be developed despite China's ambivalence over the issue of the divided Korean peninsula.

Whatever the remarkable advance in China's production and trade figures or the promise of its enlarged consumer class, the fact is that China's economy remains at only about one-tenth the size of Japan's. Even Korea and Taiwan, with significantly smaller populations, record higher GDP figures. Also, most of the impressive development been concentrated in the special economic zones

(SEZs) and mostly along the coastal provinces with a few pockets of high growth in the interior. However, regional underdevelopment is but one of the challenges facing the leadership. Neglect of the infrastructure required for the development of internal markets will contribute to continued gaps in the development of the hinterland. The continued reluctance to rationalize and downsize the state-owned enterprises will be a haunting legacy of the forsaken economic policies of communism. Another grim specter is environmental degradation, which in China constitutes some of the worst in the world.

The upshot of all this is that China's continued cohesion depends upon two conditions. First, the interior and coastal provinces must remain loyal to the power center in Beijing and work to overcome the tensions generated by their wildly divergent development status. Second, the actions of the Overseas Chinese, whether intentionally or not, must provide some kind of glue to hold it all together. It remains to be seen if the carrot of prosperity will be successful, or whether the regime will resort to the stick of repression to keep China whole.

Who's next and at what pace?

A true frontier spirit is sweeping East Asia. The degree of confidence is so great that there is no question about whether there will be another round of high economic growth; the only question is which Asian country will be the next Tiger. The answer will be based upon a presumption that other countries in the region will follow the same trajectory path made possible by introducing market reforms mixed with judicious industrial policies. As in the case of the original Tigers, the export sector is expected to lead the rush to development.

Indonesia, Malaysia, and Thailand have already served notice of their intention to stake their claims to industrialized status. The other obvious candidates in the next round are the former socialist economies that are transforming into market-driven economies, including Burma-Myanmar, Cambodia, Laos, and Vietnam. Even the economy of the Philippines is beginning to shake its image as the 'sick man of Asia'.

However, all the excitement about the economies in the region is belied by a closer inspection of the numbers. Dramatic changes will not come quickly for most countries in the region. For example, Malaysia's own government economists do not expect the country to be fully industrialized until 2020. Liberalization of Indonesia's economy is only now being put into place to allow for an industrial takeoff. Until recently, most of its growth was based upon a rich resource base and a large, pliant workforce. With growth of six percent a year, it will require 16 years for Indonesia's economy to match Malaysia's per capita income in 1993. Under the same conditions, it would take China over 20 years to reach that level, while Vietnam would catch up only after 40 years.

Globalization and the rise of regional economies

The projections mentioned above are based upon a conventional notion of the nation-state while ignoring the importance of economic activities that transcend geographic or political borders.¹¹ In large part, the observed achievements of East Asia have relied upon and fostered the growing importance of regional economic zones that cross frontiers. One of the imperatives of the global economy is that contiguous territories exploit their comparative advantages regardless of political and bureaucratic intent or protest. The fluidity of the international capital markets means that borders and government policies are increasingly porous. In turn, the stage is set for opportunities to develop region-based prosperity.

Examples of these cross-frontier economic areas can be found in the spread of Hong Kong's influence over the Pearl River Delta, growth triangles connecting Singapore and parts of Malaysia and Indonesia, and the Tumen Delta project that overlaps the borders of North Korea, Russia, and China. In this setting, nationalism, and protected domestic markets, become obsolete tools used upon only by politicians in a feeble attempt to preserve their political position.

11 K. Ohmae, *The End of the Nation State: The Rise of Regional Economies*. New York: The Free Press, 1995.

In this context, income level thresholds become more important than geographic or political borders. For example, when GDP reaches \$5,000 per capita, individual incomes provide enough margin for citizens to become aware of their consumption opportunities and to compare their positions with others. Government appeals for sacrifice in the name of patriotism will therefore become an increasingly tough sell. Political leaders can expect a lukewarm reception to outmoded nationalist rhetoric in the face of diffuse public perceptions. Appeals to national interest can be expected to founder on the shoals of economic rationality. In all events, countries like China and Indonesia will become increasingly ungovernable in their present political configuration due to the dispersed nature of geographic units and massive populations.

Tracking the Asian development model

Several features define this new Asian development model. Specifically, some of the common elements include: keeping a steady hand on macroeconomic indicators, a high rate of saving and investment, a reliance upon competent technocrats to implement industrial policy, and directing resources toward extensive development in infrastructure and people. Roads, ports, and bridges cannot contribute to growth unless workers acquire the requisite skills and education to contribute to economic production. Another key feature of Asia's growth strategy involved focusing upon exporting manufactured goods and importing technology. In addition, most countries in East Asia experience significant amounts of government involvement or regulation of their economies, sometimes involving force fed growth by directing capital toward favored sectors. In all its variations, however, the Asian development model acknowledged the value of the market.

In terms of inhibiting long-term growth, one of the most damaging forms of government intervention is the attempt to control or manipulate information flows. Pre-modern rulers in Japan limited their citizens' access to foreigners and their ideas due to a deep sense of xenophobia. Although that fear gave way to pragmatism and modernizing influences in Japan, some of the more authoritarian regimes in East Asia continue to view foreign influences as a corruptive force. Thus, there are media restrictions in Burma-

Myanmar, China, Indonesia, Singapore, and Vietnam. These countries share an authoritarian style of governing that has evolved into one-party states. While many other countries in the region may have a dominant political party, they have matured enough to be able to forsake their autocratic ways.

One major oversight on the part of promoters of the 'Asian Century' is that the enviable economic progress observed in East Asia is not matched by social or political developments. On the one hand, it is perhaps unfair to expect these countries to be able to progress so rapidly on all fronts. Surely Western countries required several centuries to achieve the moral, scientific, and political advances that served as the basis for world leadership. On the other hand, it would be ill mannered to depict the valiant struggles by East Asians to improve their standard of living as a fixation upon materialism. However, if this impression does stick, it is probably due to the fact that some Asian leaders worship regularly at the altar of GDP to ensure their grip on political power. With one economic following hard upon another, there seems to have been little time for collective reflection on the implications of their newfound wealth. Nevertheless, while the emergence of economic power in East Asia is undeniable, it may be unreasonable and unfair to expect that these countries can adjust their other institutional arrangements in a commensurably short period of time.

Certainly the high rates of economic growth experienced in the region will be volatile due to lags in the modernization of other institutions. It remains open to question whether promoting growth while neglecting political and social reform can be consistent with maintaining the sort of supercharged economic growth realized in recent years. There is ample evidence that a fragile foundation is behind Asia's progress. It is to this issue that we turn in the next chapter.

4 Economic realities and Asian illusions

The prediction of an approaching 'Asian Century' is based upon a number of questionable premises. Foremost among these is the presumption that past economic growth is a reliable indicator of future economic performance. Contrary to popular opinion, it will be argued here that East Asia is seriously vulnerable to failures in the economic arena. In part, this conclusion concurs with Weber's conclusion about the retarding impact of the institutional arrangements in Asia, but perhaps for different reasons.

Alternative interpretations of the past naturally give way to different understandings of the future. This chapter explores some views that challenge the conventional wisdom of the previous growth record and prospects of the high-performing East Asian economies.

Technocratic involvements in industries with high-growth potential have been credited for job creation in the early developmental stages of heavy industries in Japan, South Korea, and Taiwan. Similarly, the early and continued encouragement of export goods manufacturing has been identified as a basis for the rise in domestic output. However, the relatively unique preconditions existing prior to economic takeoff for these countries imply that the results cannot be easily replicated. The 'Asian Model' therefore does not constitute a relevant development strategy for other countries.

Although there is no expectation of a dramatic reversal of fortunes for East Asia in the near future, there are reasons to question the predictions of an uninterrupted economic growth path. While the formidable gains in output of the high-growth East Asian economies are without a doubt noteworthy, there is evidence to suggest that these results are not truly miraculous, nor is the level of growth without precedent. Indeed, there are other cases where a solid consensus on bullish economic forecasts has proved to be wrong. These cautionary remarks should not be seen as promoting an apocalyptic vision for East Asia. Instead, it is