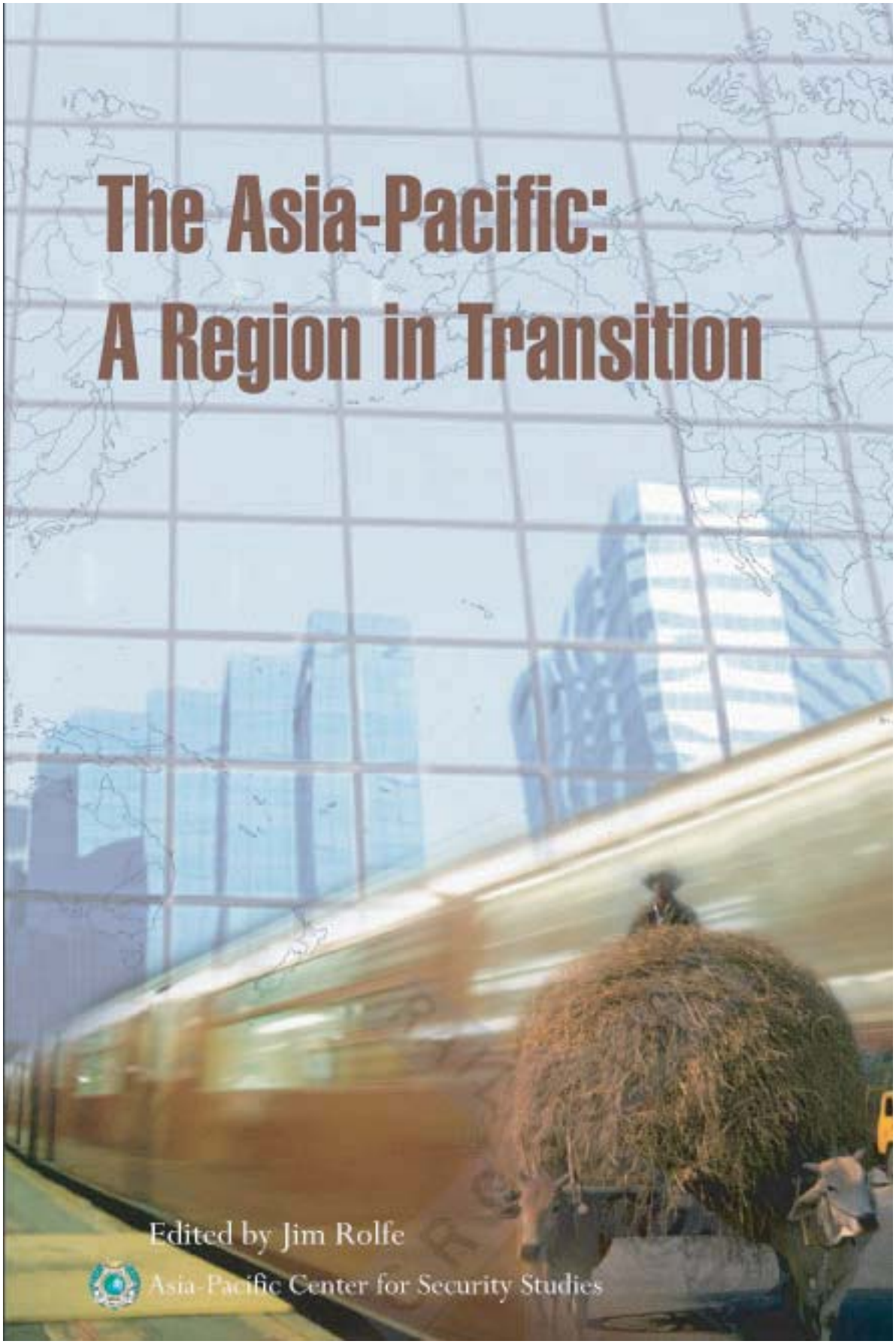
The Asia-Pacific: A Region in Transition



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ABOUT THE AUTHORS

CARL BAKER is a member of the faculty of the Asia-Pacific Center for Security Studies. He is a serving officer in the United States Air Force and has worked in South Korea and focused his research interests on Korean Peninsula issues for some years.

IKRAR BHAKTI is a research professor and head of the Research Centre for Political Studies in the Indonesian Institute for Sciences.

IAN CAMPBELL is a Reader in History at the University of Canterbury, New Zealand. His most recent book is *Worlds Apart. A History of the Pacific Islands* (Christchurch: Canterbury University Press, 2003).

DAVID CAPIE is a Postdoctoral Research Fellow and Co-Director of the Armed Groups Project at the Centre for International Relations, University of British Columbia, Vancouver, Canada. His most recent book is *Under the Gun: The Small Arms Challenge in the Pacific* (Wellington: Victoria University Press, 2003).

ADAM FFORDE is a Principal Fellow at the Melbourne Institute of Asian Languages and Societies, University of Melbourne, Australia, and a researcher and consultant focusing primarily on Vietnam and its economy. His most recent book (as editor) is *Doi Moi: Ten Years After The 1986 Party Congress* (Canberra: Dept. of Political & Social Change, Research School of Pacific and Asian Studies, Australian National University, 1997).

NARAYANAN GANESAN is a Senior Lecturer in Political Science at the National University of Singapore. He is a member of the Council for Security Cooperation in the Asia-Pacific (Singapore) and on the editorial board of *Insight: Asia*.

PAUL GODWIN has recently retired as Professor of International Relations at the National War College, Washington DC, USA. He has published widely on issues of China's military capabilities.

GARY HAWKE is Professor of Economic History and Head of the School of Government at Victoria University of Wellington, New Zealand. He has previously chaired the New Zealand Planning Council. His publications include *The Making of New Zealand: An Economic History* (Cambridge: Cambridge University Press, 1985).

JACEK KUGLER is the Elizabeth Helms Rosecrans Professor of International Relations at Claremont Graduate University, California, USA and current President of the International Studies Association 2003-2004. He is the co-author (with Ronald L. Tammen and others) of *Power Transitions: Strategies for the 21st Century* (New York: Seven Bridges Press, 2000).

CHRISTOPHER LAYNE is Visiting Fellow in Foreign Policy Studies at the Cato Institute. His book on American grand strategy is to be published by Cornell University Press

MICHAEL LEIGH is the director of the Institute of East Asian Studies at the *Universiti Malaysia Sarawak*. He has published widely on issues of economic, political and social change in Southeast Asia.

ATIUR RAHMAN is a Senior Research Fellow of the Bangladesh Institute of Research Studies. He is also chairman, board of directors of Unnayan Shamannay (a non-profit private research organization) and the Credit and Development Forum. His publications include some twenty-three books and many book chapters and journal articles.

JIM ROLFE is an Associate Professor of international relations at the Asia-Pacific Center for Security Studies, Hawaii, USA. His most recent book (co-edited with Eric Shibuya) is *Security in Oceania in the 21st Century* (Honolulu: Asia-Pacific Center for Security Studies, 2003).

RONALD L. TAMMEN is the Dean of the Mark O. Hatfield School of Government at Portland State University. Previously he served as Associate Dean of Faculty and Professor of National Strategy at the National War College in Washington, D.C. He is the co-author (with Jacek Kugler and others) of *Power Transitions: Strategies for the 21st Century* (New York: Seven Bridges Press, 2000).

MASHBAT SARLAGTAY is a researcher at the Institute for Strategic Studies in the Mongolian Ministry of Defence.

YOICHIRO SATO is an Associate Professor at the Asia-Pacific Center for Security Studies, Honolulu, Hawaii, USA. His most recent book (co-edited with Akitoshi Miyashita) is *Japanese Foreign Policy in Asia and the Pacific* (New York: Palgrave, 2001).

AQIL SHAH is based at the Forum for Democratic Studies, the research division of the National Endowment for Democracy, in Washington DC, USA. Previously he was an analyst for the International Crisis Group's South Asia project in Islamabad, Pakistan. He regularly contributes to media and scholarly publications on political issues in South Asia.

ERIC SHIBUYA is an Assistant Professor at the Asia-Pacific Center for Security Studies, Honolulu, Hawaii, USA. His most recent book (co-edited with Jim Rolfe) is *Security in Oceania in the 21st Century* (Honolulu: Asia-Pacific Center for Security Studies, 2003).

ERIC TEO CHU CHEOW is Council Secretary of the Singapore Institute of International Affairs, Director-General of the Pacific Basin Economic Council-Singapore and Resource Panel Member of the Singapore Parliamentary Committee for Defence and Foreign Affairs. He writes regularly for the media and academic publications with a focus on East Asian politics, diplomacy and economics.

CHARAN WADHVA is the President and Chief Executive and Research professor at the Center for Policy Research, New Delhi, India. His scholarly writings focus on issues related to the Indian economy and on regional economic cooperation.

STANLEY WEEKS is a former U.S. Navy destroyer commander and is now a Senior Scientist at the Science Applications International Corporation in McLean, Virginia, USA. He is the co-author (with Charles A. Meconis) of *The Armed Forces of the USA in the Asia-Pacific* (Sydney: Allen and Unwin, 1999).

A REGION OF CHANGE: A REGION IN TRANSITION

JIM ROLFE

To describe the Asia-Pacific region as a region in change is, to a large extent, both commonplace and a truism.[1] In 1996 Professor Michel Oksenberg placed the changes occurring in Asia on the scale of the Industrial Revolution in terms of their global impact.[2] Some quarter of a century earlier, the theme of a 1970 conference in Canberra dealing with the region was also of change. That conference noted that if it had been held in the 1960s based on the experience of the 1950s, the participants in 1970 'would have sustained some shocks' brought about by the differences in outcome that could have been expected from a 'well-informed contemporary [that is, 1960s] assessment'.[3] The moral from this is that although change itself might be a given, its pace and direction are not and any lessons to be learnt from change are elusive and require an examination of assumptions as much as of trends.

Consider the region we now call the Asia-Pacific as it was in, say, 1949:

- It was a region of territories and colonies as much as a region of states (although that was changing);

[1] I define the Asia-Pacific region broadly. For the purposes of this book it includes South Asia, East Asia and Oceania. The United States is also such a significant presence in the region, strategically, economically and culturally, that it might well be described as 'of the region' and it is discussed in terms of regional major-power relationships. Of course, the idea of region is just that: an idea. The 'region' in this book is defined the way it is because of some underlying assumptions about relationships between states and about the cause and effect of issues and their inter-relationships, as well as for bureaucratic definitional imperatives. Other ideas of 'Asia-Pacific' could well lead to a different idea of the region.

[2] Cited in Gary J. Smith, 'Multilateralism and Regional Security in Asia: The ASEAN Regional Forum (ARF) and APEC's Geopolitical Value', Paper 97-2, the Weatherhead Center, Harvard University, February 1997. Other works from the same period and more recently dealing with different aspects of regional change include, for example, Chan Heng Chee, ed., *The New Asia-Pacific Order* (Singapore: Institute of Southeast Asian Studies, 1997), Kurt W. Radtke and Raymond Feddema, eds., *Comprehensive Security in Asia: Views from Asia and the West on a Changing Security Environment* (Leiden; Boston; Köln: Brill, 2000), and James C. Hsiung, ed., *Twenty-First Century World Order and the Asia Pacific: Value Change, Exigencies and Power Realignment* (New York Palgrave, 2001).

[3] Bruce Brown, 'Introduction', Bruce Brown, ed., *Asia and the Pacific in the 1970s* (Wellington: A.H. and A.W. Reed, 1971), p.x.

- Britain, rather than the US, was still the significant power in the region (although that was changing);
- It was a region in which Japan was still formally the enemy (although that was changing);
- War was an always present fear—Korea would be the first major example (that fear has diminished considerably);
- Communist imperialism was the danger in the region;[4] (that danger has gone).
- The United States was not closely involved with the region and to the extent that it was, it was trying to disengage (that would change);
- There was no alliance system (although that would change and change again); and
- South Asia and Southeast Asia were the sub-regions of dangerous instability— social, economic and political (that would change to some extent).

The region, then, has changed considerably since 1949, but more than half a century later it is still changing. Today's changes are in many cases quite different from those of the last 50 years. In other areas there are distinct similarities. The changes today occur at all levels of the regional system. There is the potential rise of a great power to challenge the United States' military pre-eminence; there is a move to sub-regional (and pan-regional) focuses for dialogue and decision-making as the organizing principle for many state activities; political systems are moving almost inexorably towards liberal democracy, albeit with local flavors; economic systems are becoming ever more market-oriented and there is a consequent breakdown of national barriers to trade; and societies are increasingly rejecting traditional beliefs and reliance on community and faith and adopting the modernist credos of individualism, rationalism and secularism, not without some angst in many of the societies experiencing these changes.

Change, of course, is not necessarily the same as transition. With transition there must be some concept of moving from one defined state or existential model to a completely different one. Change, on the other hand, is a more routine or day-to-day set of occurrences. Change may occur without transition; transition involves change.[5] In this region there are system-level transitions,

[4] A point made by President Truman in the United States' Declaration of National Emergency' in 1950 and by Canadian Prime Minister Lester Pearson amongst other regional statesmen.

[5] J.S. Nye, 'The Changing Nature of World Power', *Political Science Quarterly,* vol.105, no.2, Summer 1990, p.177 notes, when discussing power transitions, that they involve 'big changes

potential or actual, occurring with power relationships, and with the role of the state in relation to regional institutions. At the national level there are transitions to democracy, to market economies and to open societies all at different stages in different countries.

We may also differentiate between the idea of the Asia-Pacific as being a region 'in transition' and a region 'of transitions'. The first concept deals primarily with systemic transition and would clearly be applicable if, for example, the region were developing as Europe has and we wanted to examine those processes. Systemic transitions are happening to some extent in this region, and we examine them in this book, but there is much more happening simultaneously at the sub-system level and more than two thirds of this book is devoted to those changes. The sum of the transitions, nevertheless, is such that the region itself may well be described as being 'in transition'. The transition, when it is complete, will see a region completely different from that of even fifteen years ago, let alone fifty. Of course, once that state is achieved, change will continue and that change may well involve a transition to another model of regional and state organization.

Despite being able to see the broad outline of the forms of the regional transitions, we must still document the details and we must attempt to draw some lessons and ideas about the near and medium future, if only to avoid repeating our history as either tragedy or farce. This book is the outcome of a conference held in Hawaii in late 2002 at which selected scholars and practitioners were invited to think about specific areas of regional transformation either completed, in progress, or still in the starting blocks.[6] The aim was to attempt to discern broad regional trends and to see, at the sub-regional level, similar processes at different stages of evolution to determine what, if any, lessons could be taken. The scholars involved in the project are a mixture of those based within the countries they are discussing and others who examine their area from a distance. There are advantages and disadvantages to each approach. Those based in their selected country have an intimate view of it, but may be too close to events for objectivity. Those examining the issues from a distance may suffer from equal but opposite advantages and disadvantages. Overall, the mixture gives a diversity of approach which reflects the diversity within the region itself. Diversity is also apparent in the ages and backgrounds of the scholars. Some have many years of scholarship to their

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in the international political weather' and involve 'the fortunes of individual nations'. Clearly, transitions are more than just change.

[6] The paper writers were given the opportunity to revise their papers in light of the conference discussion and several chapters have been commissioned to fill gaps in the framework.

names, others are making their reputations in the field. Some have extensive experience in their field as practitioners as well as scholars, others have focused on one or other of those activities. Again, a useful diversity of approach is apparent.

This is a work primarily of qualitative analysis rather than quantitative. That has been a deliberate choice. We aim to show a snapshot of the region and to draw out the complexity of the issues and an understanding of the 'color' of the processes rather than seek the 'certainty' that much quantitative analysis promises.

Theory, also, is generally implicit rather than explicit, although Jacek Kugler introduces transition theory in his analysis of the process and time period over which China will become a (perhaps the) major regional power. Again, this is a deliberate choice: the book is not a work of theory. The theoretical model underlying most of the chapters is that there is an inexorable move towards increasing interdependencies between states, especially in the economic realm (but also in the political and social), and equally inexorable moves within states to the three systems that Novak describes as constituting 'a free society': 'a free polity, a culture of liberty and a free economy'.[7] More simply, these might be described as transitions within states towards democracy, open societies, and market economies. Any uncertainty about these processes is over the pace and details of the transitions rather than their outcomes.

The first three sections of the book are set at the system or regional level. The first discusses the context within which transitions are occurring within the region. Stanley Weeks discusses the ways that national security strategies affect and are affected by change and he notes that our response to providing security will be colored by our concepts dealing with change and that our responses will lag behind the changes. The solution lies in a process that allows us to challenge our assumptions and forces us to identify the full range of possibilities. Eric Teo focuses on East Asia specifically and discusses the issues within the framework of globalization and the so-called Asian monetary crisis, the effects of which are still being felt. He identifies clusters of change in the financial, economic, social and political arenas throughout the region and he argues that there is a fundamental transition in the form of the Asian nation-state in the way it understands sovereignty, how it perceives national security, the way it has to take into account 'soft power', and in how inter-state relations

[7] Michael Novak, 'The Beginning of Economic Wisdom', *The National Interest*, 71, Spring 2003, p.95.

are changing. Teo argues that ' the fundamental transition for Asia will only come when the Asian concept of the nation-state gives way to a "larger nation-state" (as in the expanding and increasingly integrated Europe) beyond present borders. That should be the ultimate transition and goal for East Asia in the next twenty years or so'.

The second section is also set at the regional level. Three chapters, by Chris Layne, Jacek Kugler and Ronald Tamen, and Paul Godwin, consider the question of whether the United States will remain predominant in the region or whether it will be challenged by China and, if so, in what sphere and over what time period. All three scholars argue that China's rise is (almost) inevitable. Godwin and Layne argue that the US role in relation to China should not be to challenge it, but to act as an offshore balance to China's continental power. Kugler argues that ways must be found to ensure that China is integrated into the world community in a way that allows its needs to be met, but at the same time ensures that its values are compatible with those accepted by the developed democracies. The future role of India within the region is not addressed in these chapters, but is one that scholars and others will undoubtedly have to consider soon.

In section three the region is considered as, potentially, a system of sub-systems based on the present geographically based (sub) regional organizations in South Asia, Southeast Asia and Oceania, the South Pacific.[8] Change is occurring, but slowly; there is not yet any transition to the sub-region as the standard unit of analysis in regional affairs (and indeed, there is no form of overarching or multi-issue sub-regional organization in Northeast Asia at all). Eric Shibuya discusses the South Pacific—organized as the Pacific Islands Forum; Narayanan Ganesan looks at Southeast Asia—perhaps moving towards a form of integration as the Association of South East Asian Nations; and Atiur Rahman examines South Asia—particularly the South Asian Association for Regional Cooperation's lack of success as a regional organization at any more than the rhetorical level. These three similar yet competing views of how sub-regions could develop tell us that there is a long way to go before we can argue that the region is integrating or developing any sense of 'community', even at the sub-regional level.[9] Each of these regional

[8] Of course, other sub-regions could be identified based on different criteria. The sub-regions defined in this chapter have been chosen for discussion because they are the only ones that attempt to bring together more or less the full range of strategic, economic and social issues of interest to their member states.

9 The declaration by ASEAN leaders at their October 2003 summit of the goal of moving towards an ASEAN community by 2020 on the basis of the pillars of ASEAN security,

organizations has trouble agreeing on its goals, moving beyond rhetoric to action, and accepting that successful regional organization inevitably implies a derogation of sovereignty.[10] Finally in this section, David Capie considers the way beyond the current sub-regional organizations. He notes especially integration both at the broad pan-regional level and also within East Asia as the 'Asean + 3' process gathers momentum. Capie sees no likelihood in the short term that East Asia will rival the Asia-Pacific as the focus of activity; rather, he argues, there will be a series of overlapping organizations that will build members' confidence in the motives of other members, but that will not dramatically transform the existing regional order.

The final three sections move away from the region and sub-regions as the units of analysis and focus, at the state level, on the three broad functional areas within which international relations are conducted: the politico-strategic; the politico-economic; and the politico-social arenas.[11] Rather than examine every country in the region, the analyses look at a broadly representative selection of countries (three in each section) to provide an overview of the region and the transitions occurring within it.

Broadly, the model for each of these sections is for a case to be included of successful transition, one where transitions seems to be stalled and one where transition is either not yet successful or is yet to occur at all. A number of the scholars in these chapters have challenged some of the assumptions underlying the case selections.[12] Gary Hawke, for example, argues that New Zealand should not be viewed as a country that recently and successfully adopted the market in place of a pre-1980s state-directed economy. It has, rather, always embraced international trade and its apparently dramatic economic liberalization is more a case of evolution than revolution. In any case, the lessons are drawn. Similarly, Ian Campbell notes that the inclusion of Tonga as a case in the book fuels perceptions that it is an archaic and closed society that

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economic and socio-cultural communities could in the longer-term move the level of analysis towards the sub-region.

[10] Amitav Acharya, 'Democratisation and the prospects for participatory regionalism in Southeast Asia', *third World Quarterly*, v.24, no.2, 2003, pp.375-390 discusses how the growth of democratisation in Southeast Asia (and consequent redefinitions of attitudes towards sovereignty) has the potential to revitalize the development of Southeast Asian regionalism. There are lessons here for the other regions also.

[11] See the discussion in Ralph Pettman, *World Politics: Rationalism and Beyond* (Basingstoke: Palgrave, 2001).

[12] The case studies were chosen by the editor. Some contributors exercised authorial discretion to change the focus of their chapters while others accepted the title as given and commented on the accuracy or otherwise of the assumptions underlying it.

needs to modernize, whereas Tonga has been 'modernizing' for some 200 years and its liberal constitution dates from the 1870s, making it one of the oldest in the world. The chapter on Tonga does, however, give a view of a society that has not adopted all the trappings of a pluralist society and shows how this may be a source of strength. Adam Fforde makes a similar point in his chapter on Vietnam. Much needs to be done there, but the basics of a market economy have been apparent for some time.

The world of high politics is symbolized by the transitions to democracy with case studies from South Korea, Indonesia and Pakistan. Carl Baker outlines Korea's political changes and the challenges the country faces to integrate liberal democracy within a Confucian social system. He concludes with some prescriptions as to how Korea should move to 'consolidate' its democracy within a framework bounded by Korean national identity and culture. Ikrar Bhakti discusses the tentative moves towards democracy in Indonesia. The country's democracy is still shaky and there are mixed opinions about the success of the Megawati Sukarnoputri government in developing democratic institutions. Megawati faces many challenges, not the least from political rivals trying to delegitimize her government, and her reforms may founder on opposition from her rivals and on a lack of any democratic culture within the country. In his chapter, Aqil Shah shows how continued interventions by the armed forces have all but destroyed democratic impulses in Pakistan. Democracy in Pakistan, in Shah's view, is a failure; at best, it is a front for the military to retain control behind a façade of civilian government. Shah's prescription is for a 'fundamental reordering of civil-military relations' within Pakistan, a process not likely to occur so long as Pakistan remains an important ally of the United States in the war against terrorism. As Acharya has shown, progress towards democracy within states is a fore-runner for the development of 'participatory regionalism'.[13]

In the politico-economic realm, Yoichiro Sato discusses the region's hesitant moves toward an open trading system through the World Trade Organization, the Asia-Pacific Economic Cooperation forum and through sub-regional and bilateral arrangements. Sato concludes that the openness of regional markets can be obtained so long as the global superstructure remains open. The case studies show varying degrees of success in transitioning to market economies: they include New Zealand (successful and complete), India (still trying) and Vietnam (moving more quickly than many appreciate). Gary Hawke outlines the broad range of New Zealand's economic reforms since the

[13] Note 9 above.

mid-1980s and sets them within a broader historical context. He notes that the New Zealand experience has wider implications for our understanding of transitions, with the clearest lesson being the desirability ('necessity' might not be too strong a word) of managing expectations. India's move towards a market economy since the early 1990s was spurred by economic crisis. Since then it has been slowed by the imperatives of the country's turbulent democracy and a bureaucracy that is thorough to the point of obstruction. Charan Wadhva notes these points and concludes that the Indian economy has had notable successes but continues to exhibit weaknesses. Wadhva presents a comprehensive set of suggestions for India's future economic path. In discussing Vietnam, Adam Fforde notes that although the country's political system might be communist, the economy has taken on the attributes of the market and is now very well integrated into the world economy. Fforde argues that Vietnam needs more robust politics and a clearer definition of the relationship between state and society if Vietnam is to maintain its market orientation and gain full benefits from it.

The final section discusses a range of societal transformations as states come to terms with modernity. Malaysia is a country undergoing many transitions: in identity; in education and language; and in the role of Islam, to name a few. Michael Leigh examines these and others and notes how the government of the day has always attempted to control the way society has operated and organized itself. He concludes that the most significant process has involved the restriction of space for dissent. The consequence has been that dissent has moved from being based on cross-ethnic or cross-religious organizations to being based on racial or religious exclusivity with a consequent division of society. Mongolia is a society moving rapidly from its pastoral nomadic past to an industrialized and urban future. Mashbat Sarlagtay examines the problems that arise when the romantic traditional culture clashes with the modern, citing the privatization of land in his case study. The traditional view was that for the nomads, boundaries and land ownership did not exist. Mongolia's task has been to reconcile this view with one that argues that without laws on land ownership, Mongolia can-not develop. The latter view has prevailed, but not without a cost to the culture. Finally, Ian Campbell examines Tonga and argues that, although by modernist standards Tonga may not be 'modern', the country has insulated itself successfully from many of the problems of modernity that have affected other Pacific countries. Campbell usefully reminds us that the modernity/traditional dyad may be overly simplistic when considering security and insecurity, especially if the

explanation leads to an assumption that the remedy for security problems is simply more modernization.

The picture that these chapters give us is of a region (and its constituent countries) moving more or less quickly to modernity, but using a variety of methods, and with more change (perhaps more transition) possible in the future. There is the medium-term possibility of a leadership transition from one great power to another, and the longer-term possibility that sub-regional groupings could play a larger role than they do at the moment, although the state will remain as the primary actor in regional affairs for some time.

The region is one that has mostly embraced democracy (and even where states have not, they have attempted to take on democracy's trappings) while strongly embracing the market, but the move toward open, plural, modern societies is lagging. That should not surprise us. Democracy and the market are far more susceptible to external influence and example than are the cultural underpinnings that set the way societies organize themselves. If stability is the overall goal, on the evidence presented in these chapters this will be best achieved through political inclusion, economic prosperity and social participation.

There are still *lacunae* in this discussion of change and transition. The book primarily considers endogenous factors. If exogenous factors were included explicitly then the large topic of the effects of globalizing processes might lead to different conclusions about the future shape of the region, although globalization and its effects are implicit in the discussion on the transitions to open market economies. Even in its treatment of endogenous issues the book, obviously, does not consider the detail of all the countries in the region. It is a snapshot with the failings of a snapshot. It could be that changes in some other countries, not documented here, could lead to outcomes different from those discussed implicitly and explicitly in these chapters. Perhaps more importantly there are events, changes, occurring in the region that could completely transform the ways that security relationships are conducted and that could thus lead us into a 'new region'.[14] For example, changes in the ways we think about security are not considered. In the future, issues related to health, the environment and demography could all be explicitly security issues. If that is to be so we will probably see consequent changes in the ways regional security relationships are managed. Also, there are direct changes in security relationships becoming apparent, as between India and China for example. It

[14] See the discussion in note 1 above about the region being an idea rather than an objective space.

could be that these kinds of changes will have more long-term impact on the region than the possible hegemonic transition from one regional power to another. It is too early to tell if these will occur and whether they will be significant.

The region is relatively stable today, either as a consequence of the transitions discussed in these chapters or, perhaps, despite them. There is, however, nothing to indicate that change has finished or that stability will last. The challenge for the region is to acknowledge that change is a constant and to manage it so that it does not threaten the region's continued stability. There are two levels at which change has to be managed today. The first is at the systemic level; the potential change from the United States to China as the dominant power. It is not completely clear whether, when or how this will happen and if it does happen whether the US will attempt to resist the process. This is a major uncertainty and it is one that all states have a stake in managing. The second level is that of the changes within states. Here the situation is much clearer. Change is happening, quickly in some areas and more slowly in others, but it is not a cause for significant concern for the region. Change is generally in the direction of more democracy, more open markets and more plural societies. Management issues are primarily for the individual states to deal with rather than for the region as a whole. For the longer future, the ways that East Asia could develop as a 'super state' through the ASEAN+3 process will be the issue to watch and manage.

THE FORMS OF TRANSITION : GLOBALIZATION, THE ASIAN CRISIS & CHANGE

ERIC TEO CHU CHEOW

The Asia-Pacific region, and East Asia in particular, is in transition. Like the rest of the world, East Asia has been profoundly affected by globalization and liberalization. But East Asia also has been affected by the Asian crisis of 1997-98, which seems to have changed the foundations of societies in the region as much as globalization. The East Asian transition has therefore been profound and dramatic, although many of these transitions and changes are also valid in the other countries of the Asia-Pacific region as well.

GLOBALIZATION AND LIBERALIZATION

The twin trends of neo-liberalism and liberalization, which began sweeping the world in the Reagan and Thatcher years, triumphed with the collapse of the Soviet Empire in the late 1980s and early 1990s. The Reaganite and Thatcherite revolutions brought sweeping changes to the mentality of the post-World War order, and with the liberation of the Eastern European satellite states and the collapse of the Berlin Wall, neo-liberalism was well on its way to ideological victory. But when the Soviet Empire ultimately collapsed under the weight of communism's inefficiency and China became progressively engaged in a new 'socialism a la chinoise' experiment, liberalism's triumph was complete.

A recent award-winning television series, 'Commanding Heights', based on a book of the same name by Daniel Yergin, emphasized that the most important phenomenon and transition of the post-War modern era was undoubtedly the free-market revolution that gripped the world in the 1990s. This touched off a frantic race towards globalization characterized by the massive and rapid global exchange of four key elements: goods and services, capital, ideas, and human resources. The IT revolution has been instrumental (by partnering with liberalization) in enhancing this process. The United States, Europe (including Russia, Eastern and Central Europe), Japan, parts of East Asia (including China), Australia and New Zealand, and the urban agglomerations of the developing world have been plugged into this

globalization process and network. On the other hand, half the world remains effectively marginalized by this same process; the rural worlds of Asia, Latin America and Africa remain in the dark shadows of globalization.

Never has there been such rapid exchange of these elements, and on such a scale, in the history of humanity. The massive exchange of goods and services has been realized thanks to the development of worldwide transport, logistics, and IT systems, as well as the deregulation of commerce through the previous GATT arrangements and now the WTO. Further liberalization is expected, although key developing nations are now clamoring for a fairer playing field. The rapid transfer of capital (both in terms of investments and speculative short-term capital) clearly has its roots in the development of financial liberalism on a worldwide scale. Furthermore, thanks to IT, there is now no need for the physical movement of capital across the world. The interdependence of stock markets and capital markets also makes capital flows more rapid, fluid and uncontrollable, often to the detriment of developing nations.

The circulation of ideas and information has become so great that we are all now plugged into a world information web or pool; no information can now be deliberately hidden or denied for long, as media giants feed information instantaneously across the globe. The information flows now ensure better accountability and transparency, and have the effect of aiding the flow of goods, services and capital around the world. The flow of human resources has been the slowest element to truly globalize, as formidable barriers to the free flow of human capital across the globe still exist. Experts and professionals may now criss-cross the globe without much problem, especially in the developed world, in search of better value creation. However, the movement of the lower levels of the labor pool and societal masses is still strictly monitored, especially when moving from developing to developed nations. The free flow of human capital will not come about as long as the globe remains 'divided' between the 'globalized' and the 'marginalized', especially with the more powerful developed world having the ultimate say on opening its borders to such flows.

THE ASIAN CRISIS (1997-1998): A TOTAL CRISIS

The Asian crisis of 1997-98 has had many important political, economic, financial and social consequences on ASEAN countries and South Korea. Its effects are still being felt today. The six original members of ASEAN and South Korea suddenly faced a 'total' crisis of financial, economic, and then

social and political proportions. The economic and social fabrics of their societies were torn as bad loans, shaky financial systems, corporate bankruptcies, rising unemployment and plunging currencies suddenly engulfed them. Indonesia and Thailand were 'forced' into new political upheavals and reforms. Similarly, crucial political and social reforms are affecting the Philippines, South Korea and Malaysia. Even traditionally stable Singapore and Brunei face social reforms and a rethink of their futures. The crisis also aggravated ethnic and religious tensions and the uneven distribution of wealth within countries and within ethnic-cum-religious communities like Indonesia and the Philippines, and to a lesser extent, Malaysia and Thailand.

The transition economies of the newer members of ASEAN (Vietnam, Laos, Cambodia, and Myanmar) were less exposed to the Asian crisis as the original members or South Korea. Still transitioning to free markets and open societies, they were not yet open to capital flows and international finance. Nevertheless, they also suffered in that the expected benefits of ASEAN memberships were undercut by the existing members' preoccupation with economic hardship and political chaos. Furthermore, these less-developed members were in the grips of their own painful economic and social transformation; a process that is far from complete today. Reforms are still ongoing and it remains to be seen whether these countries will eventually succeed in adjusting to the new globalized world.

The Asian crisis was indeed a total crisis for the affected countries. Beginning as a financial crisis, it soon became an economic one, It then evolved into a social crisis, which spilled over into the political realm as well.

The crisis began when currency exchange regimes came under speculative attack, beginning with the Thai baht in June 1997. On 2 July 1997, Thailand was forced to float the baht, which had been pegged to the US dollar, after its defense of the baht began to deplete the country's foreign reserves As a result, massive speculative attacks were launched against other currencies that were pegged to the dollar, such as the Malaysian ringgit, the Philippine peso and the South Korean won. Though not pegged to the US dollar, the Singapore dollar was also affected. It was pegged to a trade-weighted basket of currencies and the Singapore dollar adjusted automatically downwards with its neighbors. By mid-August 1997, Indonesia was also forced to float its rupiah to save its dwindling foreign reserves. As a result, all of the attacked Asian currencies plunged; from Dec 1996 to Dec 1997, the baht fell (in comparison to the US dollar) from 25.6 to 48.2, the ringgit from 2.53 to 3.89, the peso from 26.3 to 39.9, the Singapore dollar from 1.40 to 1.69, the Indonesian rupiah from 2,363 to 5,495 and the Korean won from 840 to 1,695. Departing from orthodoxy,

Malaysia in 1998 imposed capital controls and pegged the ringgit to the dollar at RM 3.8 to prevent the further erosion of Malaysia's financial assets.

The Asian Crisis then became a full-blown economic crisis in all the affected countries. With the withdrawal or flight of capital from the affected countries, industries (not only the big conglomerates, but also small and medium sized enterprises (SMEs)) and the wider economy began to ground to a halt, as interest rates doubled or tripled over a few weeks and corporate and consumer confidence plunged. The Asian governments most affected appealed for monetary aid from the International Monetary Fund (IMF), related agencies and other governments. Thailand was pledged US$17.5 billion, South Korea US$55 billion and Indonesia US$43 billion in bail-outs. In return the IMF forced the affected governments to impose austerity measures, reduce government deficits and seek to increase efficiency in the economy(in both the real and financial sectors) while loosening liquidity. with the arrival of bail-out packages. These measures were accompanied by efforts to restore health to the financial sector, via adjustments in fiscal, monetary and exchange rates policies, as well as structural reforms in the real sector, such as tariff reductions, domestic deregulation, the elimination of subsidies and some fiscal policies. The forced closure of ailing banks created a panicked withdrawal of savings from even healthy banks. Economies went into tail-spin, as industries and factories ground to a halt and hard-hit consumers tightened their belts. On the other hand, Malaysia decided against IMF aid and the Philippines was already under IMF assistance at the time the crisis began.

The Asian monetary crisis became a social one also as it unleashed a reform process that caused unemployment to increase dramatically. Indeed, 'democracy' and 'reforms' became buzzwords in the affected countries by 1998. In fact, the nexus of the Asian political economy shifted from the previous duopoly of big government-big business to a new triangular nexus of government-private sector-civil society (note that the new tripolar nexus has 'government' minus the 'big', and the 'private sector' replaces 'big business'). Conservative Asian societies were changing fast, as civil society strengthened in Thailand, the Philippines, Indonesia and South Korea. In this way, the Asian crisis gave civil society a push in the right direction, as democracy and reform took root in Asia. As unemployment and the lack of social safety nets threatened social harmony, civil society groups became increasingly assertive after years of centralized decisions by powerful governments. Civil society, comprising lobby groups (including labor unions, student groups and rights groups), Non Governmental Organizations (NGOs), and environmental lobbies, began taking governments to task openly on an array of issues. There

appeared a real need to redefine the 'contrat social a la Jean-Jacques Rousseau' between the governed and the governing in these societies . The social order had to change.

Finally, there was a crisis of governance. Democratic aspirations grew as strong as the calls for drastic economic and social reform. Decentralization gained favor as grass-roots democracy took root. Governmental accountability came under the spotlight and governments are now checked not only by a mushrooming of political parties and the development of a bolder opposition, but also by the rising demands of civil society and people's groups. Asian democracies became more complex political entities with multiple power centers. The crisis therefore contributed to reform of the political foundations of the affected countries. The successive Indonesian governments of Presidents Suharto, B.J. Habibie and Abdurrahman Wahid fell. Today, under Megawati Sukarnoputri, Indonesia has yet to find political stability. In Seoul, Kim Young-sam fell into disgrace due to the crisis, and was replaced by an opposition and dissident leader, Kim Dae-jung. In Thailand, Prime Minister Chavalit Yongchaiyudh fell from power after the collapse of the baht and was replaced by the more somber Chuan Leekpai. He was in turn replaced by Thaksin Shinawatra, who swept into power in January 2001 after campaigning against Chuan's slow economic reforms. In these countries, incumbents were swept from power as a more genuine democracy was installed but political and economic stability remain elusive. For many countries, political and social institutions need to be built or re-built. Even relatively stable Malaysia went through a political whirlwind during the controversial Anwar Ibrahim saga in 1998, which resulted in a resurgence of the Islamic opposition party PAS at the 1999 general elections.

It is undeniable that the trends of liberalization and globalization as well as the Asian Crisis have contributed greatly to the impetus for change and transition in Asia. These changes and transition could generally, and in most cases should, be considered irreversible as Asia develops further.

EAST ASIA TODAY : FOUR CHANGES AND ONE FUNDAMENTAL TRANSITION

The countries affected by the Asian crisis have seen dramatic change in four major clusters: finance, economics, social/civil society and politics. In effecting these changes, Asia has also embarked on a fundamental transition of the nation-state itself.Changes in the financial field in four areas are under way, although reforms are still far from complete because of vested interests.

First, moves have been made to consolidate the banking industry, from a myriad of small inefficient banks to a handful of stronger banking conglomerates. In general, the affected countries have timidly opened their financial sectors to both local and foreign competition, as in Singapore, the Philippines, and Thailand, though the Thai consolidation has been stalled somewhat by vested interests. Malaysia, meanwhile, has decided on a local consolidation before opening up the sector to international parties. The Indonesian financial scene is still a mess, reeling from bad and non-performing loans, which deters buyers. Only South Korea seems to have made significant progress toward consolidating its financial sector. The key to opening and cleaning up of the financial sector is how effectively financial authorities are in disposing of bad loans and confiscated assets, a process that has seen relatively limited success in Thailand, Indonesia and even Malaysia. But what is important is that East Asian countries have probably learned one fundamental lesson from the Asian crisis: that the management and implementation of financial liberalizationmust be sound and careful lest it invite the same problems that swarmed their economies in 1997.

A second fundamental change has occurred in the way governments perceive financial regulatory frameworks. Before the crisis, Asian governments 'liberalized' the financial sector without adequate safeguards, allowing 'easy money' to pour in from international banks. In the case of Thailand, this 'easy money' was re-lent by local bankers at a premium for 'white elephant' projects in big cities. It was estimated that Thailand, Indonesia and Malaysia accounted for 25 percent of the world's private financial flows in the early 1990s—for example, US$200 billion poured into Thailand during these wild days of easy capital and its half-successful financial liberalization. The corresponding regulatory functions and frameworks were poor or non-existent. After the crisis, the conventional wisdom placed a premium on a strong regulatory framework, not just liberalization at any cost. The crisis was thus a wake-up call to strengthen the financial framework and its regulatory functions.

Third, speculative capital such as hedge funds have, since the crisis, come under fire by governments, especially in Kuala Lumpur. Asian governments appear to clearly distinguish now the fundamental difference between foreign direct investment (FDI) and short-term capital, whose flow in and out can destabilize a country's financial system and economy.This shift in thinking is probably most acute in Malaysia, but can also be found in Thailand, Indonesia, and the Philippines. Malaysia imposed capital and currency controls in September 1998.

Fourth, the Asian crisis hammered the risk of cozy relations between bankers and authorities, and between big banks and conglomerates. South Koreans witnessed the lingering bond between the *chaebol* conglomerates, banks and the government clearly, as scandals erupted in the first family during the last days of the Kim Young-sam presidency. In Thailand and Indonesia, banks were also 'protected' or even 'managed from a distance' by politicians (or the military) and those close to power, for the benefit of political parties or the personal gain of the elite. The move throughout Asia is now for more transparency and accountability.

In the economic field, strategies have undergone fundamental change, at least in four areas. First, Asian countries now realize that their overdependence on exports for economic growth during the heyday of the Asian boom must give way to more balance between exports and domestic consumption. This does not mean abandoning exports as a source of national income and wealth, but to shake off the export-led mentality, in which wages are suppressed and incentives given only for exports at the expense of and detriment to domestic consumption. With the shift towards more democracy and participatory politics, consumers are now a more prized commodity than in the past. Domestic consumption can only increase with rising purchasing and consumer power; hence wages should also be increased in tandem, and not suppressed for the sake of attracting FDI destined for exporting industries alone. But a warning must also be sounded against building up a potential domestic demand 'bubble' for political or social reasons through increased public and corporate debt. In some ways, the Asian consumer faces better prospects now than before the crisis.

Second, Asians have had to rethink the place and role of the public (versus private) sector in the economy. Liberalization had called for a scaling back the public sector in a wave of privatizations, but the Asian crisis has also proven that when a crisis strikes, and with the quasi-absence of social safety nets, the private sector cannot deliver all the goods to ensure social and racial cohesion. A debate has begun, forcing governments and authorities to weigh the profitability of social services against the necessity of providing the minimum in social goods to the people. This reassessment of public versus private participation in the economy became a rallying theme in post-crisis Asia. Coupled with this debate is the issue of creating a larger regional economic entity based on an integrated production chains or networks and economies of scale within the region. Governments can play an important role in creating this new framework of regional cooperation and markets across Asia, which could then greatly benefit the private sector and its entrepreneurial drive. The

2003 announcement of an 'ASEAN Economic Community' is a step in this direction.

Third, there is debate over how much the government should be directly involved in the market in terms of production and industrial strategies. The debate centers on direct government involvement in controlling its national industries or conglomerates, as in the case of Singapore's Government-led Companies (or GLCs) under the Temasek Holdings umbrella, as opposed to the more nimble stable of Taiwan's SMEs. The slogan was 'more market and less government' in a 'small is beautiful' context. But it was also acknowledged that governments should not abdicate their roles in setting the appropriate regulatory framework for the private sector to operate in. SME development has been highlighted and the involvement of the private sector in formulating industrial strategies and policies has been strongly recommended.

As the nexus of the Asian political economies has shifted from a duopoly to a tripolar structure, governments in Asia have been forced to give the rising 'true' private sector (via SMEs) a greater role in setting the direction of the economy. This would also ensure the decoupling of big business from authorities, and its accompanying cronyism, collusion and nepotism, as highlighted by the experience under President Suharto of Indonesia. Furthermore, with the rise of democracy and people's participation in the economic strategies and direction of the country, labor has increased its bargaining power in the corporate world, becoming one of its most important stakeholders. A recent Business Week article highlighted the fact that one of the major shifts in capitalism in the next ten to twenty years could be a shift from 'market and managerial capitalism' to a more 'managed capitalism', where stakeholders other than the management play a greater role. Asia will be no exception in this business trend.

Finally, it became clear that governments, in abdicating their strategic roles over business and the economy, should encourage more basic entrepreneurship and creativity, based on a higher level of education, research and human resource development (HRD). Asians in general tend to value education, and there has since been a revival in the promotion of education in all East Asian societies in order to raise the general level of knowledge of the entire population. This is also in line with creating a population of better-informed and more discerning consumers and actors in the economic and social life of the country. It is clear that the services sector would also grow as the purchasing power of the population increases. Education, health, leisure and lifestyle trends would be the new pillars of a new Asian economy, in order to supplement manufacturing, industry, infrastructure and 'hard' logistics.

In the social and civic arena, Asian governments have seen important shifts and changes, in at least four areas. First, as stated earlier, the rise of civil society in Asia appears irreversible. From Indonesia to the Philippines, Thailand to South Korea, and Japan to China, peoples' movements have emerged to claim a voice and role in society. In some cases, as in Indonesia and South Korea, the Asian crisis helped unleash the power of civil society groups, whereas in others, increasing wealth and economic development have contributed to its rise as a powerful social force, as in China or even Japan. It has amounted to a willingness by the people to express themselves more after years of control and government-led economic expansion and growth. In many cases, Asian civil societies are still considered tame in comparison to their Western counterparts. But those in the Philippines, Indonesia and Thailand can get boisterous and rowdy at times. Unlike many of their Western counterparts, most Asian civil society groups and NGOs are still very issue- or interest-based (such as opposing specific projects for environmental reasons or lobbying against human rights abuses or trade union claims) and have not necessarily transformed themselves into formidable politico-social forces. However, the labor movement has become a formidable force in South Korea, just as NGOs are now more listened to in Indonesia and Thailand.

Second, the rising civil society has also come to realize that it has a greater role to play in the new tripolar nexus, together with public authorities and the corporate sector. This civil society will in time wield a greater and more far-reaching role as not only voters and consumers of social goods for the authorities and the political establishment, but also as consumers and individual shareholders in the corporate world and private sector. It is this dual role that the emerging civil society and citizenry is learning to play in Asia. This is forcing the government and private sector to 'reconnect' themselves to the people. When well organized, civil society groups could thus wield enormous power and influence, especially when domestic consumption is now clearly emphasized in Asia by both governments and the corporate world.

Third, as education rises further and is emphasized more forcefully in the development of societies, the role of intellectuals will inexorably increase as compared to the role of businessmen, in the future direction of the country. Asia has in the past placed granted great authority to business conglomerates and top businessmen, but it can now be envisaged that intellectuals, the intelligentsia and academia in general will rise in importance as Asia looks for ideas and creative thoughts to develop further. This trend may also gain impetus from the moral questions concerning 'unbridled capitalism' that have been raised in the wake of the Enron and Arthur Andersen corporate debacles

in America. This could in turn help steer the governments of Asia towards a shift in mindset that gives more priority and accord more value to intellectual exchanges and debates. The intellectual space in Asia should open up in the coming years, as Asian societies open up further.

Fourth, the Asian crisis brought about a period of introspection in the region. There is a feeling of Asian vulnerability, and hence a whole debate of returning to 'Asian roots' has begun. This has sparked a regional debate on Asia's future identity and culture, as a region and as a civilization. As Asians search for 'inner strengths' from their past and their old civilizations and long histories, many are looking for answers in 'things Asian' and the Asian '*art de vivre*', as opposed to the Western fads that had continuously influenced Asia for more than a century. Asian societies have, in a way, turned inwards to look closely at themselves in this, context, probably also as a negative reaction to globalization and cultural uniformity. However, this return to Asian roots is also accompanied by a certain 'loosening up' of Asian societies, as they grow 'in less conformity' and embrace some individualism and creativity as well. The trend of 'Asian-ness' (but less conformity) should be healthy, if it is not tainted by undue Asian arrogance or pride, as epitomized by the previously raging debate on 'Asian values', which was eclipsed by the Asian crisis.

Finally, in the political field, four new trends have emerged in Asia. The first of these is the cry for democracy and reform that has resonated across Asia since the crisis. Prime Minister Mahathir Mohamad of Malaysia faced serious challenges during and after the Anwar Ibrahim episode from the latter's supporters and other disenchanted Malays. Even in China, calls for more democracy could be seen on Chinese websites, although they were officially discouraged. It is clear that Asia has embarked on a new phase of democratic aspirations after years of intellectual and social 'containment' of the people; today the people of Asia are beginning to challenge years of thinking and policies characterized by a 'government knows best' mindset.

Second, increased popular and local-level assertiveness has resulted in moves towards decentralization and devolvement of power to local levels. Indonesia enacted decentralization laws in January 2001 although preparations for the move were lackluster and left much to be desired. Unfortunately, this has resulted in a rather messy transfer of power downwards and in conflicts of interests between the different levels of authority and competence. A similar experience is taking place in Thailand (with 'chief executive officer governors' in the provinces) but on a more modest scale. Malaysia, meanwhile, is experiencing a power struggle between federal and state authorities, especially when the latter are controlled by the opposition, as in the case of Kelantan and

Trengganu, which are in the hands of the opposition PAS. In some cases, there are also genuine concerns that decentralization and devolvement of power could lead to increased corruption (as in Indonesia), as multiple power centers now exist on the same level.

Third, it is nonetheless clear that public accountability has become more important in Asia, especially with the increasing power of the media, or the 'fourth estate'. Political and corporate scandals have erupted across the region, as the media exposes them, with disastrous consequences for politicians, high-level bureaucrats and corporate chiefs. The media has acted hand in hand with civil-society groups and NGOs to expose errant individuals and organizations, although not all media and journalists are impartial, neutral or non-politicized. The new-found powers of journalists in the Philippines and Indonesia have at times also destabilized societies, especially when they touch on religious or ethnic issues, However, there is no doubt that public accountability has increased from South Korea to Taiwan, and from Indonesia to Thailand, thanks to the free (but at times, 'not too responsible') media spawned in these countries.

Lastly, Asian countries and societies are re-defining the concept of power and politics. The days of the Chinese ancestral cult and Javanese kings are fast fading away, as new democratic aspirations from the 'common people' increase and test the old traditional concepts of power in Asia. This would require a new mindset in both the people and those elected to lead. The desire for short-term gains could drop in importance as Asian leaders look towards political visions and public service to hold public office, though this shift would be slow and hazardous. A new concept of power and politics is inevitable however, as politicians sever their close links to corrupt business and vested interests. They would also understand progressively that they cannot cling to power indefinitely, especially as the concept of hereditary power in Asia recedes. Power shifts and political successions would then become 'normalized' and political transitions smoothened in Asia.

THE ULTIMATE TRANSITION OF THE ASIAN NATION-STATE

Finally, the last transition is that of the Asian nation state. There are also four aspects in this transition.

First, Asian countries will have to come to a new understanding on national sovereignty in the new globalized context. Because of globalization, the nation-state needs to be re-defined in terms of its prerogatives and power. Many Asian leaders have understood that their effective control over a myriad

of policies and decisions has been reduced significantly, from monetary control to trade policies, the environment and security issues. Many are battling the surge of clandestine migration and workers across borders (as in Malaysia's attempts to crack down on Indonesian and Filipino migrants), just as they counter the trade of drugs, small arms and women (between Thailand and its Indochinese neighbors and Myanmar, for example). Terrorism and the spread of HIV have also caused serious concern among Asian leaders as they try to contain such scourges. Without doubt, borders appear more porous today with the advent of IT and the work of triads, mafias and gangs, who have also become more powerful and sophisticated in handling cross-border traffic.

Second, there is the concept of national security defined in terms of subversion, terrorism and separatism. Asian states are now faced with increasing security risks, which have either grown out of their colonial heritage or their failure to build national entities and identities. Many Asian nation states are fragile in terms of institution-building and disparate in terms of population, religion and ethnicity. This fragility is a cause for concern as the potential for intra-state conflict is high across Asia. Unfortunately, national institutions have not been built and consolidated since independence and direct challenges are posed by multiple subversive or separatist groups. The transition of nation-states in Asia would therefore mean a re-definition of the nation and the need for a new 'contrat social' between people and authorities, without which the nation is doomed to further instability. The three principal institutions of the executive, the legislative and the judiciary (as in French philosopher Montesquieu's 'balance of powers'), as well as auxiliary institutions such as the legal, police, and security apparatus must be put in place to serve the people and the nation as a whole. Nation and institution-building would thus constitute the key to national security and to the critically needed transition to 'modern' nation-states in Asia.

Third, Asian nation-states will have to contend with soft power as much as hard power in the new global context. Habitually, states have relied on hard power (military and political power) to project might and influence, but in the present context of globalization, soft power (culture, economic and intellectual power and influence) has increased in importance. Asian nation-states will have to learn that they can increase their role and place in the world by focusing not only on hard power issues alone, but by also emphasizing the build-up of soft power to gain a better foothold in the world of tomorrow. China is building up its soft power well, as it realizes that it cannot match

American hard power at this point in time, just as Thailand has always been fully engaged in cultural diplomacy and soft power.

Last, Asian nations will probably need to redefine inter-state relations within the region. Asian regionalism has been absent as Asian countries have tended to look West for trade, investments, ideas and expertise (managerial as well as in science and technology) from colonial times to the present day of American 'hyper-power'. Asian regionalism could be a new form of transition for Asian countries as they seek to overcome national sovereign issues and cross-border problems, as outlined above. Asian nations would thus need to 'think regional' probably more in the coming years as the mindsets of Asian leaders and people shift towards the region as their 'larger nation' of the future. It is not a case of chauvinism or Asian arrogance, but an East Asian entity within the present 'ASEAN + 3' framework would definitely be one of greater prosperity and stability for the whole Asia-Pacific region.[1] Asians would therefore have to think beyond their individual nation-states, which would also be in full transition towards the future.

CONCLUSION

The forms of transition under way in Asia are indeed varied and diverse, encompassing financial, economic, social and political spheres. The international trends of liberalization and globalization have provoked these transitions in Asia, but it was the Asian crisis that gave these transitions further impetus and force. Although these changes seem irreversible, the fundamental transition for Asia will only come when the Asian concept of the nation-state gives way to a 'larger-nation state' (as in expanding and increasingly integrated Europe) beyond present borders. That should be the ultimate transition and goal for East Asia in the next twenty years or so, and it would clearly be one with enormous implications for the region and the world.

[1] 'ASEAN+ 3' is the grouping of the 10 ASEAN states with China, Japan and South Korea.

CHANGE AND ITS REFLECTION IN NATIONAL SECURITY STRATEGY AND FORCE STRUCTURE

STANLEY B. WEEKS

INTRODUCTION

To understand changes and transitions globally and in the Asia-Pacific Region, the broader context in which change occurs must be appreciated. This chapter begins with a discussion of the challenges faced, particularly by strategic planners, as they look at change through the lenses of both their own overarching perspectives of the world and their own concepts of security. It then examines one systematic approach to structure the analysis of plausible future scenarios and their implications. But to be actionable in the realm of national security, thinking about change must ultimately be reflected in national security strategies and, even more concretely, in military force structures. This paper will examine two such examples from the US experience of how change is reflected in national security strategies and force structure. This overview of the context of change then concludes with a summary of the implications for our thinking about change and transitions in the Asia-Pacific region.

THE CHALLENGES OF CHANGE: THE IMPORTANCE OF THE VIEWER'S PERSPECTIVES

Strategic and security planners face the challenge of providing policy leaders a coherent way to understand the world (and its major regions such as the Asia-Pacific) and how it may change over time. This understanding should then logically be reflected in a nation's national security strategy and, eventually, military force structure. We must first, however, face two broader challenges: understanding how we and our leaders conceptualize our own particular view of the world, and how we define security itself.

These broader conceptual perspectives are lenses through which the world and its changes are perceived, and through which policy options are developed. At the highest conceptual level, views of the world may be seen through analytic frameworks such as realism (focused on states as the key actors in a largely zero-sum system dominated by security issues), liberalism or

pluralism (focused on a more complex structure of actors within and between states, international actors and even non-governmental actors, in a non-zero-sum system where social, economic, and security issues all play key roles), and Marxism/structuralism (where the focus is on domination and subordination, the global centers opposed to the peripheries, and a zero-sum system where class/structural economic issues determine politics).[1] Although there are numerous linkages, overlaps and variants of these three classical analytical frameworks, the basic differences are real, and so are the perspectives on the world and on change depending on which of these lenses the strategic planner or the policy leader tends to use to view the world.

Likewise, at the next lower conceptual level are a variety of geo-strategic perspectives (for example, 'clash of civilizations,' environmental/resources conflicts, 'the coming anarchy,' 'pivotal states,' 'the end of history' concept of a dominant ideological model of liberal democratic free-market systems, and the like).[2] Again, whether strategic planner, political leader, or informed citizen, the way one perceives the world and its changes may vary dramatically if seen through different geo-strategic lenses.

Finally, there is the challenge of understanding how one conceptualizes the issue of security itself—which is likely influenced by these overarching world and geopolitical perspectives. Is our perspective on security to be focused in narrowly military terms, or in the broader political/economic/military 'comprehensive security' context more common among Asia-Pacific nations, or should security be conceptualized in terms of threats, vulnerabilities, and/or fears? As in all cases, the differing perspectives have much to do with how one will view the world and its changes. The way we conceptualize our views of the world and of security is usually determined over long periods of historical and personal experience—but at a minimum, there is a need for considerably greater awareness of these lenses with which we view the world. If changes in the world (especially as they impact security) are to be better understood we must minimize the extent to which our conceptual world views are biased or based on false assumptions or gross inconsistencies. This may indeed be the hardest challenge in understanding change.

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[1] See Andrew L. Ross, The Theory and Practice of International Relations: Contending Analytical Perspectives, in Strategy and Force Planning, (Newport, RI: Naval War College Press, 2000), pp.52-72.

[2] See Samuel P.Huntington, 'The Clash of Civilizations?' *Foreign Affairs*, Vol. 72, No. 3, Summer 1993, pp.22-49; Robert D. Kaplan, 'The Coming Anarchy,' *The Atlantic Monthly*, February 1994, pp.4, 44-76; Robert S. Chase, Emily B. Hill, and Paul Kennedy, 'Pivotal States and US Strategy,' *Foreign Affairs*, January/February 1996, pp.33-51.

THINKING ABOUT CHANGE

While there are many different approaches to thinking about change, most share a common failure to identify major surprises and discontinuities in the world—the attack at Pearl Harbor, and the sudden collapse of the former Soviet Union being classic examples. Peter Schwartz offers a more promising approach to structure our thinking about future change (based on the experience of the Royal Dutch/Shell planning group that identified the potential for the 1973 changes in the global oil market).[3]

The Schwartz approach focuses on the need for planners to 're-perceive' what the future world with its changes may look like. The approach uses the development of alternative future scenarios to challenge assumptions and thereby force the reordering of our perceptions. These scenarios are seen as aids to both anticipating future risks and to discovering future strategic options and opportunities. The scenarios that are developed are not designed as predictions of the future, nor are these scenarios limited to the narrow threat-based planning scenarios common in military planning, since they emphasize consideration of the full range of future possibilities, in order to be prepared for whatever changes may occur.

Schwartz's scenario-based approach to understanding the future environment centers on the identification of three elements: driving forces, predetermined elements, and critical uncertainties. 'Driving forces' are those key forces in a given scenario that we must care about because they drive change and directly influence the outcome. Schwartz suggests several categories to examine for driving forces: society, technology, economics, politics, environment, and the military and defense infrastructure.[4] 'Predetermined elements' are the constants (e.g., geography) which 'we know we know' and the events or trends already 'in the pipeline' (such as demographic trends, or energy dependency), that are 'independent variables' in the particular scenario being developed. 'Critical uncertainties' are often best identified by questioning our assumptions on elements that we initially perceived as 'predetermined' or known to us. In addition to areas of true ('who knows?') uncertainties about the future, these 'critical uncertainties' should include major events outside of our traditional assumptions that can

[3] Peter Schwartz, *The Art of the Long View* (New York: Currency Doubleday, 1991).
[4] *Ibid.*

significantly impact or alter the future scenario.[5] The important thing is that several alternative 'futures' can be identified using different driving forces, predetermined elements, and critical uncertainties, and, having 're-perceived' a fuller range of futures and changes, planners and policy makers can better craft policies and actions to minimize risks and maximize opportunities.[6]

The practical application of the scenario-based approach to 're-perceiving' alternative futures and change in the Asia-Pacific region can illustrate how such scenarios might enhance our understanding of a range of strategic possibilities as well as future uncertainties around the region. 'Driving forces' could variously include economic developments, religious/ethnic differences, coalitions, terrorism, mass migrations, and so forth. 'Predetermined elements' could include variously geography ('the tyranny of distance'), continued US engagement, increasing energy dependence, and demographic trends. 'Critical uncertainties' could include stability or eruption of regional flashpoints (Korea, Taiwan, South China Sea islands), Chinese or Japanese expansionism, disintegration of states (e.g., Indonesia, China, Russian Far East), terrorism, mass migrations, enhanced regional organization, an increased or decreased US military presence, economic collapses, and so forth. This short and admittedly incomplete listing should nonetheless indicate that a scenario-based approach to future changes in the Asia-Pacific region will help to 're-perceive' wide combinations of alternative futures, each with its own implications for our understanding and action.

HOW CHANGE IS REFLECTED IN NATIONAL SECURITY STRATEGY AND FORCE STRUCTURE

A better understanding of change and how to structure our thinking about future possibilities systematically is only actionable in the realm of national

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[5] See P.H. Liotta, and Timothy E. Soames, 'The Art of Reperceiving: Scenarios and the Future,' in *Selected Readings in Strategy and Force Planning*, Vol. 1 (Newport, RI: Naval War College, CDE, 2002).

[6] While Schwartz's categorization of the three elements (driving forces, predetermined elements, and critical uncertainties) is useful as a systematic way of ordering our thinking about future scenarios, the Schwartz approach has often led those who attempt to use it to fall into the error of concentrating too much on identifying whether a future change factor is one or the other element. While questioning initial assumptions of what is a 'predetermined element' is a good way to identify 'critical uncertainties,' the fact is that the same factor of future change can often fit in either category depending on our assumptions and the scenario we wish to examine. For this reason, many assessments of future change, such as the CIA's unclassified *Global Trends 2015: A Dialogue About the Future with Nongovernmental Experts*, tend to mix the Schwartz elements together, under such labels as 'the drivers and trends'.

security when reflected in national security strategy and, even more concretely, in military force structure. Shifting focus now to these specific applications of understanding change, we will examine below two examples from the US experience of how change is actually reflected in national security strategies and force structures. Although this analysis is based on the US strategy and force structure experience, such an examination could also usefully be extrapolated to other Asia-Pacific nations (with due regard for their different strategic contexts and recent history). Properly speaking, national security strategies have diplomatic and economic, as well as military, components—but our assessment here will focus on the military component of national security strategy.

In assessing the recent history of US national security strategy, two landmarks stand out—the Cold War, and the post-Cold War decade culminating in the September 11, 2001 terrorist attacks—and the new National Security Strategy issued in September 2002 by President George W. Bush. Although it was only in the late 1980s that the US Congress established the requirement for the president to publish annually a National Security Strategy, we can identify the essential elements of a strategy against the Soviet Union and its allies and supporters—including containment, deterrence, and US alliances and forward basing of forces—as it evolved after World War II. A critical juncture was reached in 1947, with the Marshall Plan and US aid to Greece formalizing the split with the former Soviet wartime ally. Most importantly, at the behest of the Truman Administration, Congress passed the National Security Act of 1947, creating a unified defense establishment, a separate service in the Air Force, the Central Intelligence Agency, and the National Security Council (NSC). This was indeed a significant reorganization of the US national security structure to address the changes in the world, but was not the simple success later mythologized by those 'present at the creation'. In fact, the achievement of the goals of real change in national security strategy and even organization was a slow process, punctuated by false starts, errors, and bitter bureaucratic battles.[7] The 1947 Act was amended just two years later in 1949 to formally establish the Department of Defense and to increase the role of its Secretary (the frustrated first Secretary committed suicide in 1949 by jumping from an upper window of the Bethesda Naval Hospital). It would not be until the 1960s that the NSC, and the significant role of the President's National Security Advisor, would fully develop. The stronger role of the defense secretary came only after further revisions to the

[7] Fred Hiatt, 'Truman's Rose-Colored Reforms,' *Washington Post*, July 15, 2002, p.17.

1947 Act in the late 1950s, and with Secretary of Defense McNamara and his Planning, Programming, and Budgeting System and systems analysis changes in the early 1960s. The stronger role of the chairman of the Joint Chiefs of Staff took almost forty years after 1947 to evolve, with the real boost to the authority of the chairman and to the Joint Staff and 'jointness' in general, coming from the Goldwater-Nichols Department of Defense Reorganization Act of 1986.[8] The defense acquisition process has evolved over the years without similar landmark reforms and remains a subject of criticism for its lengthy processes, bureaucracy, and costs. The Cold War national security strategy itself, which this reorganized national security structure was to execute, took almost a half decade from the end of World War II to be articulated (initially only within the government) by George Kennan's 'containment' writing and Paul Nitze's NSC-68 document in early 1950. Only the start of the Korean War in the summer of 1950 finally pushed President Truman to fund the new strategy and the force structure it would require.

If US national security strategy lagged behind the changes in the post-World War II security environment, US military force structure changes were even slower. The US Army emerged from World War II with a primarily light/heavy 'barbell' division structure.[9] During the 1950s era of 'massive retaliation,' the Army's abortive 'Pentomic Army' reorganization was strongly resisted within the service and never completed. In the 1960s era of 'flexible response,' the Army added Green Berets and counterinsurgency emphasis without altering the essential 'barbell' force structure, which continued (with new equipment) through the 1980s Air-Land Battle era and the 1991 Gulf War essentially to this day. However, recent years and army experience in Kosovo and Afghanistan have again emphasized the need for lighter and more mobile medium-strength Army force structures as now envisioned in the Interim Combat Brigades and Future Combat System the Army is developing. Similar examples could be given for the other services—but the Navy and Air Force force structures tend to focus more on platforms (aircraft, naval vessels) that can be upgraded over time with new weapons systems, so the ways in which force structure lags changes in strategy are perhaps less visible.

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[8] For a critical analysis of the Goldwater-Nichols Act of 1986, see the review by Professor MacKubin Thomas Owens of *Victory on the Potomac: The Goldwater-Nichols Act Unifies the Pentagon*, by James Locher III, in the *Washington Times*, September 15, 2002.

[9] John Gordon, and Peter A. Wilson, *The Case for Army XXI 'Medium Weight' Aero-Motorized Divisions: A Pathway to the Army of 2020*, Strategic Studies Institute, US Army War College, May 1998.

The second example from US experience of how change is reflected in national security strategy is the post-Cold War reorientation to focus more on homeland security and asymmetric threats, particularly terrorism. The US awareness of and concern with asymmetric threats did not begin on September 11, 2001. For much of the past decade there were studies and warnings suggesting the need for a reorientation of post-Cold War national security strategy and force structure to focus more on such threats. The Defense Department's longtime director of Net Assessment, Andrew Marshall, had since the early 1990s pushed the need to think more broadly about how changes in the security environment increased new asymmetric threats and highlighted the need to change US force structure. Marshall's work tended to focus more on the longer-term rise of a peer-competitor state, but clear warnings of the potential of mass-casualty terrorism by non-state actors were provided by the 1993 World Trade Center bombing and the spring 1995 Aum Shinrikyo attacks in Tokyo (as well as the Oklahoma City attacks in the United States).

Both the National Defense Panel report and the Commission on US National Security Strategy in the late 1990s warned of the need to focus more on these types of asymmetric terrorist threats. Yet for over a decade after the Cold War, successive US national security strategies still emphasized more conventional adaptations to focus military forces (essentially the same forces of the Cold War, scaled back by one-third) on regional conflicts and interventions. In fairness, the 1997 *Quadrennial Defense Review* and resulting National Security Strategy did include some greater emphasis on asymmetric warfare in its third element 'Prepare now for an uncertain future,' but largely absent was real funding for force transformation and the willingness to see the possible military roles in countering terrorism (still being viewed largely as a 'law enforcement' problem).

After the September 11 2001 terrorist attacks, US national security strategy and force structure began to anticipate and reflect a new emphasis on dealing with the changes in the security environment—an emphasis which had actually begun earlier in 2001 as Secretary of Defense Rumsfeld conducted the *Quadrennial Defense Review* (QDR). While the military quickly acted to eliminate the terrorist-harboring Taliban government in Afghanistan, the President appointed a coordinator for homeland security and, some months later, proposed the creation of the cabinet-level Department of Homeland Security. The lengthy debate in Congress over authorizing this new department reflected the complex bureaucratic realignments and new power centers likely to result from this reorganization. If the history of the 1947 National Security

Act is any guide, the Department of Homeland Security is likely to experience much change in coming years. As Deputy Defense Secretary Paul Wolfowitz testified to Congress: 'I don't think we've got the final answer here, and it's going to take a long time…. But I think this is a very important step…'.[10] Military force structure implications continue to be debated and once again, as in the post-World War II period, national security strategy and, even more, military force structure lags years behind the first indications of change in the broader international environment.

IMPLICATIONS FOR OUR THINKING ABOUT CHANGE IN THE ASIA-PACIFIC

These observations have several implications for our thinking about change and transitions in the Asia-Pacific region. First, conceptual worldviews and geostrategic perspectives are lenses that color how we see the world and its changes. There is a need for greater awareness of this fact, so that we can minimize the biases, false assumptions and gross inconsistencies that can hamper our understanding of change.

Second, there is also the need for better awareness of how we conceptualize the issue of security itself. The impact of change on 'security' may be very different depending on whether our meaning of security is military, comprehensive, or simply vulnerabilities and fear.

Third, whatever the broader issue of change, the US historical experience suggests that national security strategies and force structures tend to lag in reflecting this change. Major changes to national security strategy tend to emerge as delayed responses to historic landmarks such as the end of World War II or the end of the Cold War. The creation of new national security institutions and structures to implement the new strategies is particularly difficult. As Machiavelli wrote in *The Prince*:

> It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones.[11]

Military force structure lags even further behind in reflecting change. With the lifetimes of ships and even aircraft platforms now measured in decades,

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[10] Hiatt, *op.cit.*

[11] *Ibid.*

fundamental force structure changes are today more likely to occur through transformations in how these forces are linked together and integrated as joint forces (through networks and command, control, communications, and computers).

Finally, as we seek better ways to understand change, we would be well advised to approach change through a systematic process which challenges our assumptions and forces us to identify the full range of possible scenarios and challenges, including the less likely changes that can truly surprise us. Thomas Schelling's foreword to the classic Roberta Wohlstetter analysis *Pearl Harbor: Warning and Decision* contains a wealth of insight on how change can surprise:

> Surprise, when it happens to a government, is likely to be a complicated, diffuse, bureaucratic thing. It includes neglect of responsibility but also responsibility so poorly defined or so ambiguously delegated that action gets lost. It includes gaps in intelligence, but also intelligence that, like a string of pearls too precious to wear, is too sensitive to give to those who need it. It includes the alarm that fails to work, but also the alarm that has gone off so often it has been disconnected… It includes the contingencies that occur to no one, but also those that everyone assumes somebody else is taking care of. It includes straightforward procrastination, but also decisions protracted by internal disagreement. It includes, in addition, the inability of individual human beings to rise to the occasion until they are sure it is the occasion—which is usually too late.[12]

[12] Thomas Schelling, 'Forward', Roberta Wohlstetter, *Pearl Harbor: Warning and Decision* (Stanford: Stanford University Press, 1962). I am indebted to Dr. James Giblin for this insight.

REGIONAL CHALLENGE: CHINA'S RISE TO POWER

JACEK KUGLER AND RONALD TAMEN

'The twenty-first century is the Chinese century'
Dr. Sun Yat-Sen

The United States will retain world leadership for at least the remainder of the Twentieth century, perhaps even for a longer time, but the position will eventually pass to China.
A.F.K. Organski

INTRODUCTION

The tragic events of September 11, 2001 have all but obscured major trends in world politics. The US government is now, justifiably, concentrating on the 'war on terrorism' and considering how to handle this new threat. However, the structure of world politics has not changed. While terrorist activities can and have disturbed the relative tranquility that characterized world affairs that followed the collapse of the USSR in the late 1980s, it is not prudent to overlook the fundamental challenges that face the United States today. We postulate that these challenges have not fundamentally changed because of the new challenge by Osama Bin Laden and his terrorist group al-Qaida, or by the renewed attention now paid to Iraq. The structural, persistent challenges facing the United States come from Asia and to a lesser degree from the European Union. Decisions that determine the interactions among these major powers will determine the stability and instability of World Politics in this century.

FORECASTING EVENTS

Straight-line projections are notoriously inaccurate. Speculation about outlying alternatives often yields disappointments. One legitimate reason for assuming the risks involved in predicting the future is to avoid war. We take these risks here to outline our view of the dynamics of world politics because the consequence of working without a rough compass is ignorance, and ignorance can lead to conflict.

Significant constraints limit our ability to forecast the future of world politics over the next three to five decades. National units and their borders are not constant. They change over time. Major alterations can occur through integration, as in the case of the European Union (EU) and the North American Free Trade Agreement (NAFTA). Changes also occur through the disintegration of large units like the USSR. Finally, the waging of World Wars, particularly in the nuclear era, obviously would play havoc with any forecast. Such upheavals would redraw the global map. We sidestep such problems by assuming in the forecasts that existing national entities like the US, China and India will remain intact, while emerging supra-national political units like the EU or NAFTA will expand cautiously.

In addition to reliability problems, forecasting also is difficult because of disputes over variables. While there is general agreement that power distributions, alliances, technological developments and political structures play a role in the rise and decline of nations, there is serious disagreement about the impact of these factors on national trajectories over time. Variations in national performance can dramatically affect any future estimates and alter the anticipated links between these variables and war and peace.

Given these risks, why is it useful to enter into the anticipation game? We believe it is prudent for decision makers to have access to rough forecasts because we live in an unusually critical period where current policy choices will frame long-term outcomes—some of them involving war and peace. In other words, the potential consequences urge us to take intellectual risks.

The past provides a guide to the future and approximations are useful signposts. For example, economics like politics is not a precise science, but when its basic macro tenants are disregarded societies pay dearly. In the fifty years prior to the collapse of the USSR, for example, debate raged over whether developing economies should adopt a centralized or free-market structure to increase economic growth. Each camp controlled roughly half of the world's population. The results are in. Today, most nations that chose democratic, open, competitive economies have successfully developed. With rare exceptions those that chose the closed government-guided economies are unsuccessful, and many languish in the poverty trap. The consequence of well-meaning but incorrect policy choices is that a significant portion of the world's population lives in poverty, without basic rights, and dependent even today on external capital to jump start their moribund economies.

This chapter provides a systematic sketch of the future relations among great powers informed by recent developments in Power Transition theory. We choose this theory because it has an established empirical record when

applied to past periods of war and peace at the global as well as regional levels.[1]

The chapter proceeds as follows. Sections II, III, and IV provide an outline of the structure, elements, and dynamics of war and peace. Section II describes the hierarchical structure of world politics. Section III outlines the major elements of national power: population, economic productivity and political capacity. Section IV discusses the dynamics of war and peace. Section V focuses on European integration and the Asian hierarchy. Section VI outlines the global implications of the changes we anticipate in world politics. Section VII examines regional issues in Asia—the next center of world politics. Given the uncertainties we face, we expect that these forecasts will only provide a rough map of the future rather than a detailed set of prescriptions.

STRUCTURE OF POWER TRANSITION: THE HIERARCHY IN WORLD POLITICS

Power Transition theory conceptualizes world politics as a hierarchical system. All nations recognize this hierarchy and the relative distribution of power therein.

As we can see in Figure 1 below, a dominant nation resides at the top of the global hierarchy. The term dominant has a special meaning in Power Transition theory. The dominant nation is not a hegemon but rather the recognized pre-eminent, most powerful international leader. The dominant nation maintains its position by assembling and managing a coalition of nations with similar preferences for the rules that structure international interactions. For the most part, the dominant nation creates and defends the status quo. Following the collapse of the USSR, the United States became the dominant power and from that position it controls the largest proportion of resources within the international system.

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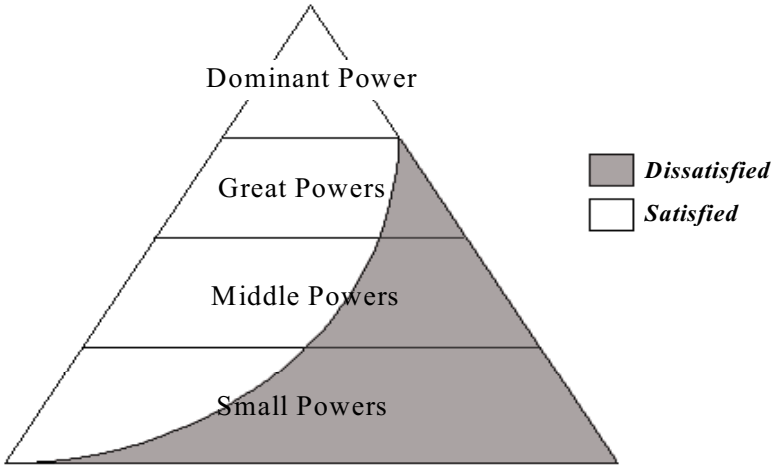
[1] A. F. K. Organski, *World Politics* (New York: Alfred A. Knopf, 1958); A. F. K. Organski, *World Politics* (New York: Alfred A. Knopf, 2ed., 1968); Jacek Kugler and Douglas Lemke, eds., *Parity and War: Evaluations and Extensions of the War Ledger* (Ann Arbor: University of Michigan Press, 1996); Ronald L. Tammen et al., *Power Transitions: Strategies for the 21st Century*, (Chatham House: New York, 2000); , Douglas Lemke, *Regions of War and Peace* **(**Cambridge: Cambridge University Press, 2002), and Brian Efird, Jacek Kugler and Gaspare Genna, "From War to Integration: Generalizing Power Transition Theory", International Interactions, 2003 29,4, pp 293-314. Portions of the following analysis also are extended from Jacek Kugler, Ronald L. Tammen and Siddharth Swaminathan, 'Power Transitions and Alliances in the 21st Century', *Asian Perspective* 25, 2001, pp.5-29.

FIGURE 1: GLOBAL HIERARCHY

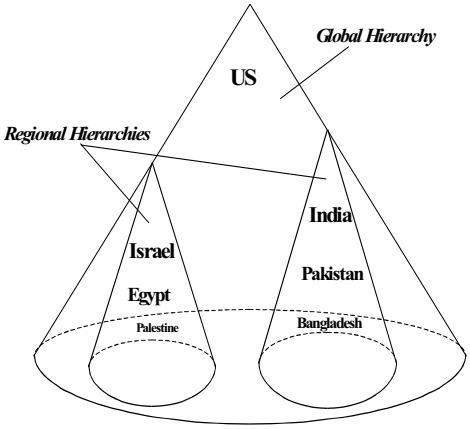


Great powers populate the second tier of international power. Each of these nations has a significant, but not overwhelming, proportion of the power in the international system. Current great powers include China, Japan, the EU in toto, Russia, and potentially India. Most, but not all, great powers are satisfied with the creation and management of rules by the dominant nation. For example, the EU and Japan are committed to sustaining the established status quo under US leadership. Yet among the great powers there exist nations that are not fully integrated into the dominant power's regime, such as perhaps China, India or Russia today. When these dissatisfied nations anticipate a power overtaking, they may challenge for leadership of world politics.

Beneath the great powers are the middle powers. These include states of the size of France, Italy, Poland, South Africa, Indonesia, or Brazil, each with substantial resources. Middle powers can make serious demands that cannot be dismissed, but do not have the capabilities to challenge the dominant power for control of the global hierarchy. Further down the power hierarchy reside the small powers. Though large in number, they have few resources and very limited power. These nations, such as Malaysia and Iraq, pose no direct threat to the dominant nation's leadership of the global hierarchy.

Figure 2 shows that regional hierarchies exist within the global hierarchy, each with its own set of dominant, great and lesser powers.[2] Regional hierarchies are influenced by the global hierarchy but cannot, in turn, fundamentally affect outcomes in the global system.

FIGURE 2: REGIONAL HIERARCHIES



When regional hierarchies are largely isolated, they function in the same manner and operate under similar power rules as those found in the global hierarchy. In all cases, the dominant power in the regional hierarchy is subordinate to the influences of the dominant power in the global hierarchy.

Power Transition theory anticipates that wars will diffuse downward from the international to the regional hierarchies. The reason is that the global dominant power and its main great power challengers have the ability to directly exert power anywhere in the globe, while most regional powers can only do so within their own region. Note that World Wars I and II involved all the great powers and diffused to include almost every regional hierarchy. The contending powers delivered troops to distant areas of conflict from Africa to Asia. In contrast, the far more numerous conflicts in regional hierarchies did not spill outside the region. When powers from the global hierarchy were

[2] Douglas Lemke, and Suzanne Werner, 'Power Parity, Commitment to Change, and War' *International Studies Quarterly* 40, 1996, pp.235-60, Lemke *op cit*, and Tammen et al. *op cit*, provide a detailed discussion of multiple hierarchies.

involved, such as in Korea, Vietnam, Afghanistan or Iraq among many others, foreign troops fought in the regional hierarchy wars but the conflict did not escalate to the territory of those providing troops. We believe that despite the terrorist activities in the United States that distinguish the events prompted by the September 11, 2001 attacks on the United States, the current war on terrorism and the invasion of Iraq are limited conflicts over control of the Middle East regional hierarchy. These conflicts have little chance of escalating to a major confrontation that would rival World War I or II. Thus, major wars among powers in the global hierarchy reorder the international system while wars fought among nations in regional hierarchies alter the local distribution of resources but not the fundamental structures of world politics.

The September 11 attacks confounded the usual boundaries. Our leaders perceived the terrorist attack on the United States as the equivalent of a major war among great powers not a limited conflict centered on the Middle East hierarchy. They compare the terrorist axis to the challenge posed by the Axis powers during World War II. Nothing could be farther from reality. Despite the civilian casualties and suffering inflicted on US citizens, the terrorist activities involve a very small number of determined individuals who do not and cannot challenge the structure of world politics. No matter the outcome in Iraq, this conflict will not resolve structural differences that will emerge as a consequence of the transition of power between the United States, Western Europe and the two potential Asian challengers, China and India. This chapter focuses on this lasting long-term challenge.

ELEMENTS OF POWER TRANSITION

The Dynamics of Power

A nation's power produces the capability to influence the behavior of other nations. The components of national power are population, productivity and political capacity.[3]

[3] A number of competing conceptualizations of power or national capabilities are available—most notably the Composite Capabilities Index of the Correlates of War (COW) Project as detailed in, for example, J. David Singer, and Melvin Small, 'The Composition and Status Ordering of the International System: 1815-1940', *World Politics*, 18, 1966, pp.236-82. Capabilities are an aggregation of world population, urban population, military expenditures, military personnel, iron and steel production, and coal and oil consumption. Power Transition theory uses total economic output of a nation weighted by its political capacity. The COW and GDP measures are highly correlated. A comparison of the two measures can be found in Jacek Kugler, and Marina Arbetman, 'Choosing among Measures of Power: A Review of the Empirical Record', Michael Ward and Richard Stoll eds., *Power in World Politics* (Boulder:

These three elements change over time at different rates. Population size is difficult to modify in the short term while economic productivity can be altered more rapidly. Political capacity is volatile and changes cannot be predicted accurately. For this reason we will concentrate on population and economic productivity to provide a glimpse into the future of world politics. Variations in political capacity can disturb these estimates within a range but will not determine them.

Population

Population is the sine qua non for great-power status. Population provides the potential resource pool from which a nation can mobilize and extract resources. Without a relatively large population, a nation cannot hope to become either a great power or a dominant nation. The size of populations is the condition that ultimately determines the power potential of a nation and is the element that determines which nations will remain major powers. Recall that France, England, and Germany once were great powers that competed for global dominance when the rest of the world had not yet joined the Industrial Revolution. Today, individual Western European nations cannot compete with national populations the size of the United States, Russia, China, or India. From this perspective, a fully functioning and politically capable EU is the prerequisite for Europe to be a great power in the future.

Population structures are also critical in understanding how power fluctuates in the international system. Mature developed nations have undergone a demographic transition and have acquired stable populations that are unlikely to expand rapidly. In fact, many developed nations such as Germany, France, or Italy in the EU and Japan in Asia face the prospect of declining populations in the next century. Unless augmented by immigration, as is the case in the United States, the populations in these societies are expected to decline in relation to those in other regions of the world.

On the other hand, large developing nations such as China and India that are still undergoing demographic transitions have populations that will continue to grow for a generation or more. Even after fertility patterns are reduced to reproduction rates, total population growth figures will continue to dwarf those of other regions.

Westview Press, 1989) and Richard Merritt and Dina Zinnes, 'Alternative Indices of National Power', Michael Ward and Richard Stoll, eds., *op cit.* While national capability measures are effective in ranking the relations between nations they fail to capture the dynamics of power change. For a current review see Emilio Casetti, "Power Shifts and Economic Development: When Will China Overtake the USA?", Journal *of Peace Research, 2003 40,6 pp 661-675.*

FIGURE 3: RELATIVE SHARE OF POPULATION TOTAL AND RELATIVE BIRTH RATES FOR MAJOR CONTENDORS 1950-2070*

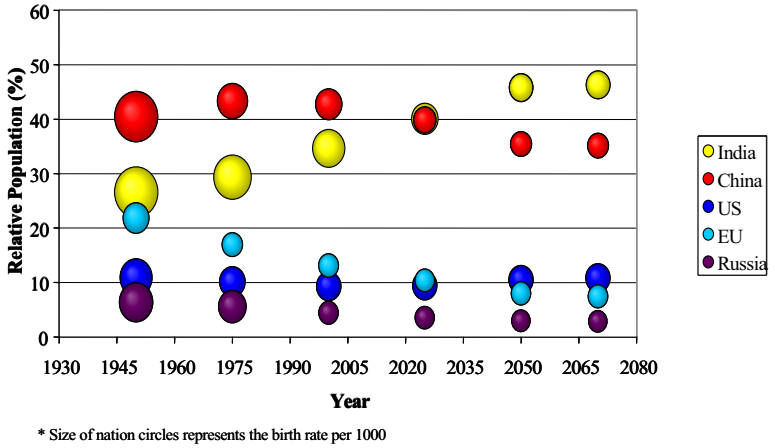


Figure 3 outlines these demographic phenomena over the next fifty years. The position of each circle represents the relative shares of population while the size of each circle represents the birth rate.[4] Figure 3 makes it clear that the United States, as in the case of Great Britain, cannot remain the dominant nation in the long run. Both China and India have populations four times larger and this gap cannot be bridged because birth rates in Asia exceed those in the US and the EU. Based on population potential alone, China and India are poised to become the dominant nations of the future. Figure 3 also shows that due to their overwhelming initial population size advantages and birth patterns, no further demographic overtakings are likely to take place once the center of politics shifts to Asia.

[4] Demographic data for all the countries in this study are taken from the International Database of the US Census Bureau (online at www.census.gov/ipc/www/idbnew.html).

Economic Growth

National output generally is measured by gross domestic product. Recent developments in endogenous growth theory displayed in Figure 4 refine the characteristics of the S curve of development and lend reinforcement to the tenets of Power Transition.[5] Politically capable governments have the capability of extracting resources from their populations; managing the economic productivity of individuals in their societies; and reducing birth rates in the early stages of development. In contrast, nations with limited productivity per capita and low political capacity face expanding populations. Frequently some of these underdeveloped societies struggle with economic growth and fall into a 'poverty trap'. With a change in political capacity these underdeveloped societies can rapidly transform into developing nations and initiate a period of rapid, sustained economic growth that exceeds population expansion. This means that developing nations can close the productivity gap between rich and poor nations because the dynamics of endogenous growth suggest output convergence over time.

Figure 4 illustrates the likely growth paths for societies with varying levels of political capacity.[6] Nations with high political capacity grow rapidly and achieve sustained growth earlier. On the other hand, low political capacity governments preserve low rates of economic growth and continue to flirt with the possibility of falling into the poverty trap. International economic intervention does not change the dynamics of national growth. Internal political factors prompt changes in population, which then alter the physical and human capital resources that drive technology and lead to sustained growth.

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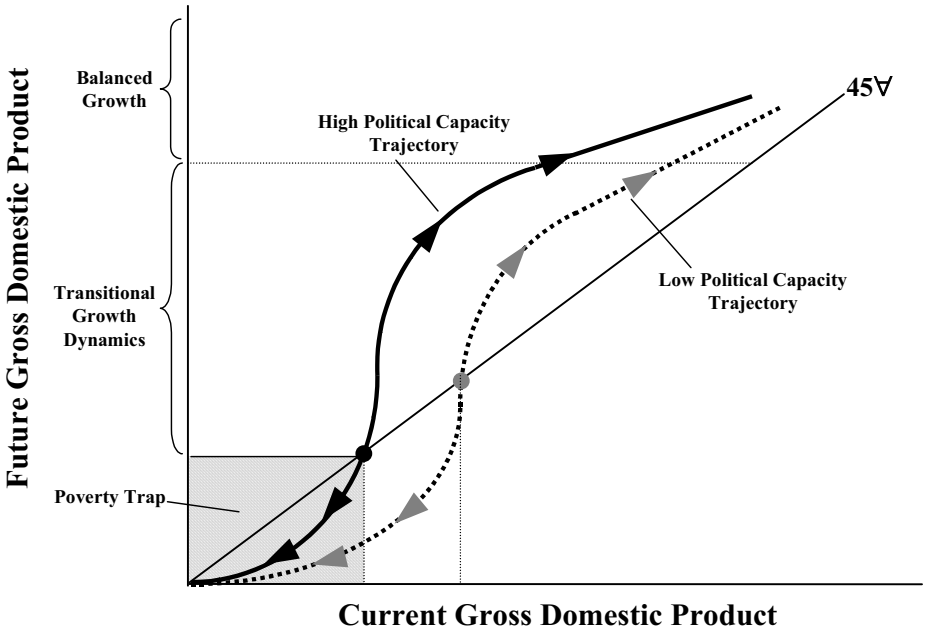
[5] Yi Feng, Jacek Kugler, and Paul Zak, 'The Politics of Fertility and Economic Growth', *International Studies Quarterly,* 44, 2000, pp.667-693.

[6] This figure is derived in Feng, Kugler, and Zak *op cit*. Their study develops a formal dynamic model of politics and economic growth based on fertility decisions, physical and human capital accumulation. Politics critically affect fertility choices that, in turn, determine the transmission of human capital from parents to children. Human capital provides the foundation for sustained increases in living standards as individuals with new ideas enter into the production processes. Politics is also identified as a primary cause of countries falling into a low-income poverty trap. An expectation of political instability increases the likelihood of a poverty trap because it adversely affects income and raises fertility, thus allowing human capital to decrease over generations and causing reductions in future output.

FIGURE 4: THE ENDOGENOUS GROWTH TRAJECTORY OF PER CAPITA OUTPUT

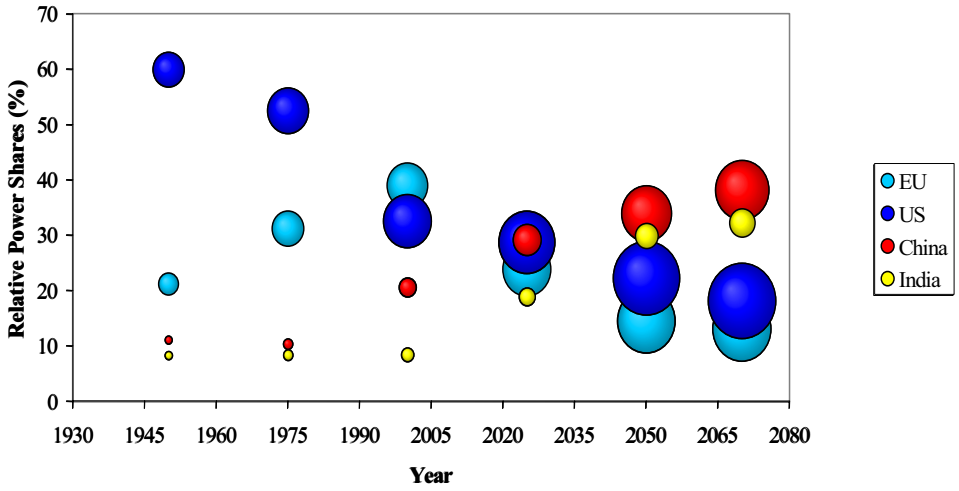


When two societies with similar populations are at different stages in their growth paths, one dominates the other. When they are at the same stage, they are at parity. We will show that the dynamics of growth alter these relationships and have implications for war and peace. Consider the evidence:

Figure 5 shows the probable evolution of total output into the next century. The size of the circles indicates the per capita productivity of the population. Note that the high differential in GDP levels between the US, EU, and China is a temporary condition.

The EU will gain on the US, and with the possible inclusion of Eastern Europeans—not included in the figure—should become the largest economy in this century. Unless a stronger central authority emerges, the political weakness of the EU will remain and inhibit its emergence as a competing dominant power.

FIGURE 5: RELATIVE SHARE OF TOTAL OUPUT AND PRODUCTIVITY PER CAPITA OF MAJOR CONTENDERS 1950-2070*



*Size of nation circle represents per capita productivity

Turning to Asia. Note that future US annual economic growth rates compare poorly with those of China.[7] Short of partition or internal turmoil, China will become the world's largest economy within the next 50 years. India will follow in the second half of this century. This process is no different from the overtaking of the United Kingdom by Germany in the mid-twentieth century and later the overtaking of both by the United States and the USSR. These dynamics have important policy ramifications for relations among the US, EU, China and eventually India.

[7] Estimates of annual growth rates are taken from Angus Maddison, *Monitoring the World Economy 1820-1992* (Paris, 1995); Angus Maddison, *Chinese Economic Performance in the Long Run* (Paris, 1999); and Ajai Chopra et al., *India: Economic Reforms and Growth* (Washington D.C., 1995). Maddison estimates China's total output to grow at 5.5 percent up until 2015. For developed societies growth rates are 3.5 percent, which are currently seen as achievable objectives. Estimates for India, ranging from 7.5 to 9 percent are taken from Chopra et al.

THE BOUNDARIES OF POWER

Status Quo

The status quo represents the joint satisfaction of the challenger and defender within the dyadic relationship between these two nations. We refer to the relationship between the global dominant nation within the global hierarchy and the set of similar policies and preferences for each dyad in the regional hierarchy. Power Transition postulates that satisfaction with this dyadic status quo is a major determinant of conflict but gains and losses will be attained directly from dyadic interactions among participants.

While the status quo can be conceptually identified, empirically there is little consensus about what determines variation in satisfaction or dissatisfaction.[8] In this work we estimate the full degree of variations in the status quo to show alternate paths nations could follow in the presence and absence of cooperation. Future work will address means of forecasting the status quo.

Conflict and Cooperation

The final boundary relates to the conflict- cooperation continuum. As the values on either end of this continuum become more extreme the intensity of either conflictual or cooperative relations increases. Therefore, the likelihood of discrete events, such as war on the conflictual side and integration on the cooperative side, also increases.

Power transition theory argues that the propensity to engage in either war or integration is driven in part by the relative power of the challenger and defender and in part by the degree of conflict or cooperation among nations. To approximate this theoretical insight we measure militarized interstate conflict and degree of cooperation expressed by levels of integration achieved across countries. Basic data for conflict are derived from standard measures of militarized interstate conflict (MIDS) developed by the Correlates of War

[8] The notion of a *status quo* is compelling but we know little about what causes changes in satisfaction. There is speculation that it might be attributed to similarity in political systems (Douglas Lemke and William Reed, 'Regime Types and Status Quo Evaluations', *International Interactions*, 22, 2: 1996, pp.143-164, and Tammen, et al., *op cit*.). Once preferences are given they can be analyzed with sophisticated decision making tools like game theory but we have little knowledge of their origin or evolution.

Project.[9] Measures of cooperation are derived from the integration scores developed by Genna.[10]

Hierarchy

The global hierarchy creates a sense of order as a consequence of the concentration of power at the top, and potential lack of order when parity among contenders is achieved. The global hierarchy should not be viewed as a fixed structure; rather it is constantly in flux, reflecting variations in relative power distributions driven by differential growth rates across countries. Recently Lemke developed hierarchy measures that apply to the global and regional structures that incorporate distance and power reach.[11] Since here we are concerned only with global hierarchy we use a simplified structure based on continental reach alone as described by Efird, Kugler and Genna.[12]

MODELING THE DYNAMICS OF POWER TRANSITION

We are concerned with the underlying power dynamics that change the equilibrium conditions of world politics because these dynamics have been empirically related to war, peace and integration. In a straightforward formalization of the Power Transition concept, Efird proposes a simplified dynamic model that traces the interactions between power, hierarchy, satisfaction and political outcomes with a simple non-linear structure.[13]

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[9] Note 3 above.

[10] Gaspare Genna, 'Changing Power, Sovereignty, and Loyalty in the European Union', unpublished Ph.D. Dissertation, Claremont Graduate University, 2002 see also Efird, Kugler and Genna, 2003 *op.cit.*

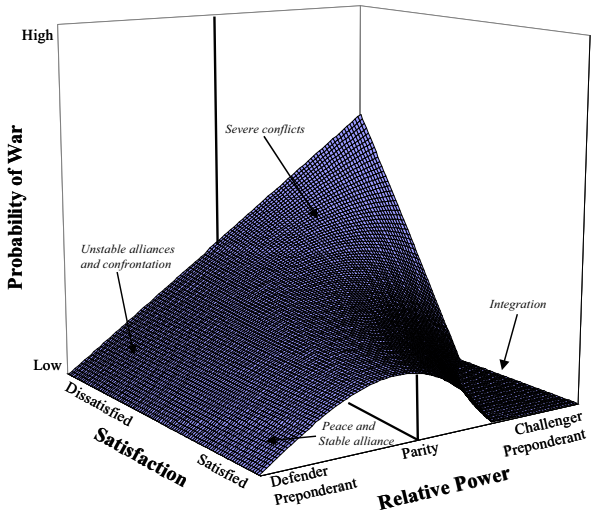
[11] Douglas Lemke, *Regions of War and Peace* (Cambridge: Cambridge University Press, 2002)

[12] Efird, Kugler and Genna, *op cit.*

[13] *Ibid.* Efird's theoretical relationship is defined as follows*:* $CI \mid P\ 4\ S\ /P^{3}(2\ H$

CI = degree of war or integration
P = relative power
H = hierarchical structure
S = Degree of satisfaction with the *status quo*
P is expressed by Gross Domestic Product that combines population and productivity (Kugler and Arbetman *op cit*). The *S* term represents the joint satisfaction of the challenger and defender with the *status quo*. While this element can be assessed through the correlation of alliances, trade and military buildups it cannot be forecasted at this time. The *H* term represents the constraint imposed by the concentration of power in the hands of the global or regional dominant nation. Low values indicate that the dominant power is preponderant and the hierarchy is well ordered, while high values indicate that several great powers are at a balance and compete for dominance in an unordered hierarchy. This structure is estimated

FIGURE 6: DYNAMICS OF POWER TRANSITION



Relative Power, and Satisfaction, and the Probability of War

As Figure 6 indicates, Power Transition theory contends that the propensity to engage in either war or integration is driven by changes in the relative power of the challenger and defender prompted by differential growth in populations and output. While these contenders cannot directly control such changes, they are able to alter the status quo to generate political satisfaction or dissatisfaction.[14] In a well-ordered hierarchy, conflict is anticipated under conditions of overtaking in about half of the cases. Such conflict is relatively rare but intense, while integration is likely for a broad set of cases. In such a dominated hierarchy, integration is possible when the defender is preponderant because the potential challenger may be forced to cooperate even when it is dissatisfied with the dyadic relationship.

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endogenously in the model. *CI* represents the degree of conflict or cooperation among nations.

[14] This particular functional form for the conflict-integration equation is chosen to reflect the verbal arguments power transition theorists have been making and testing for the last 40 years. Indeed, using the cube term shifts the highest level of conflict to just past the parity point and reflects the curvature for the conflict-integration term with respect to relative power, as derived by Bruce Bueno de Mesquita, and David Lalman, *War and Reason*, (New Haven: Yale University Press, 1992) and empirically derived by Kugler and Lemke *op cit*. The interaction with satisfaction is consistent with findings by Lemke and Werner *op cit*.

Expected outcomes in an unordered hierarchy indicate little variation in conflict-or-integration because of changes in satisfaction. If the defender and challenger are dissatisfied and as their relative power approaches parity, the degree of conflict increases. The stronger the challenger vis-à-vis the defender, the more likely is the use of war to resolve disputes. In the case where the challenger is preponderant and both defender and challenger are dissatisfied, the likelihood of war is maximized. As the contenders move toward satisfaction, the probability of conflict decreases. The likelihood of conflict is much lower and concentrates around parity. Grievances are less pronounced and more easily reduced, transforming the challenger from a dissatisfied to a satisfied actor before it challenges for dominance. Integration is likely after a power transition between satisfied countries since the two countries have a history of cooperative relations and they have passed through the overtaking without conflict. Integration takes place as the previous challenger becomes increasingly preponderant.

This framework may be used to anticipate developments in the global hierarchy over the next half-century.

A GRAND STRATEGY

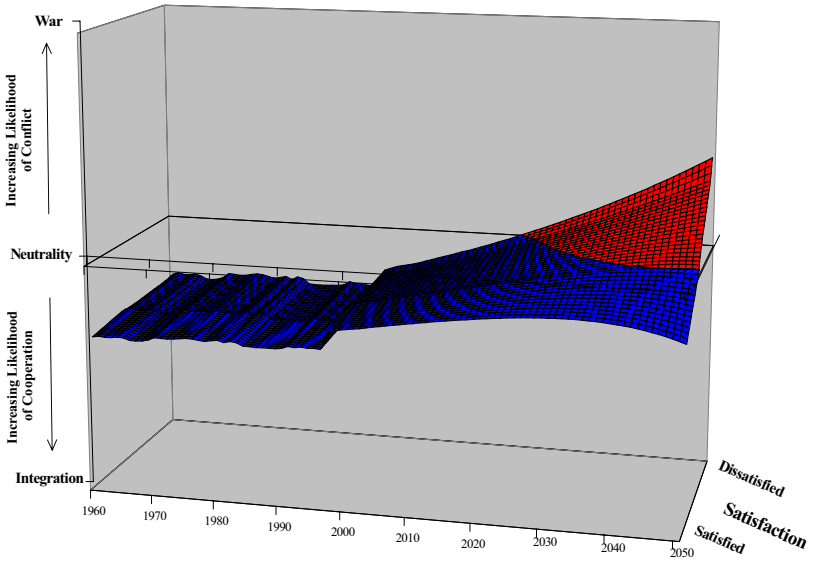
Stable alliances are coalitions of states that share similar evaluations of the status quo. Stable alliances are not agreements of convenience that can be altered easily or without consequences. They are arrangements of persuasion where nations associate because of commonly held commitments to existing rules. The economic and security gains thus derived keep such alliances vital. Members of stable alliances tend to be satisfied. They establish long-term relations and seldom defect from obligations generated by alliances.

The potential contribution of alliance members, and the resulting stability of such alliances in the face of war is a critical issue facing the elites in status quo powers set on preserving international peace. During peacetime, alliances are created and sustained by the commonality of preferences among actors. NATO, for example, was created after World War II to combat fascism and communism, and also to maintain peace among Western European nations. Unstable alliances, on the other hand, are arrangements created in the shadow of war, such as the agreement between the USSR and Germany at the onset of World War II, or the alliance between the Allied forces and the USSR after the German invasion. Nations seek unstable alliances only in order to avoid defeat, they seek stable alliances to preserve lasting peace.

Assessing the Present

Alliances are created by the dominant power to strengthen the stability of the system by ensuring the preponderance of satisfied countries. A successful dominant power attracts those great, middle powers and some small powers that support the dominant nation's leadership. Consider in Figure 7 the relations between the EU and the United States after 1945.

FIGURE 7: US-EU RELATIONS 1960-2050



Western European nations joined the dominant power to become part of a status quo alliance system. US foreign policy in the post-war era provides a clear example of preponderance through satisfaction of allies. The objective of NATO was to defend the associated nations from an attack for this reason. As Figure 7 shows, the US and the current members of the EU cooperated both to ensure security and economic coordination. An equally important and perhaps even superior objective of the US was to maintain stability within Europe. NATO's preponderance insured that power-overtaking among France, England, and Germany did not lead to a repetition of World Wars I and II. This paved the way for the formation of the EU.

Looking toward the future, can this process continue with the integration of new members into the security and economic grouping thus converting dissatisfied nations into satisfied nations? The incorporation of Poland, Hungary, and the Czech Republic into NATO is encouraging. These nations share common values: democracy, free markets, and acceptance of the status quo. Likewise, the potential expansion of the EU into Eastern Europe argues well for the integration of economic interests in Europe.

The addition of Eastern European nations to the security and economic grouping does not, however, substantially alter the distribution of power and it does not change fundamental relationships in the international system. Fundamental changes in the structure of world politics would follow only if Russia joins NATO and the EU (See Figures 3 and 5). This addition could make a large impact on preserving peace by strengthening the international hierarchy. Russia's entry into NATO would increase cooperation as fears diminish that the expansion of NATO to Eastern Europe is anti-Russian. It would help shift this nation into the satisfied group. Moreover, Russia's pool of resources would significantly help the dominant US and EU coalition to postpone the overtaking by China. *The United States can only ensure stability in the next quarter century if the EU members are satisfied and Russia is a full member of this dominant coalition.*

Despite the promise of stability through cooperation, there are some disturbing indicators to the contrary. The Bush administration has backed away from a number of treaties that could have solidified the relationship among the EU, the United States and the emerging cooperation with Russia. Opposition to the ban on the testing of nuclear weapons, antiballistic missiles restrictions, the imposition of global environmental standards and the establishment of an international court of justice are prominent examples of US actions that untie mutually binding agreements and diminish cooperation. These unilateral actions do not enhance stability. Perhaps the continuing need to wage the war on terrorism will deflect the US from this early pattern of withdrawal and disassociation and once more move the US to the forefront of international cooperation.

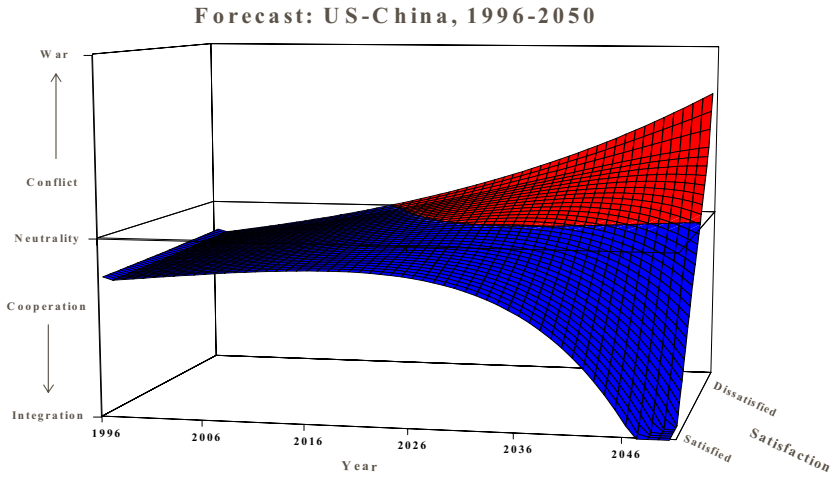
Alliance consolidation and expansion, however, is only a short-term solution. Even under the most favorable conditions of a US-EU-Russia super bloc, peace can only be insured for the next quarter or at most the next half-century. Beyond that the challenge of Asia looms large.

Forecasting the Future

The primary goal of US foreign policy must be the creation of a satisfied China. In no way does this mean appeasement or concessionary policies. Creating a satisfied China relates to the conditions that lead to the emergence of internal policies and preferences in China for accepting the international status quo. Some of this can be managed from abroad. Some cannot.

China's entry into the WTO was a good first step. Economic interactions create the opportunities to socialize China into the prevailing rules and norms of commerce. Security arrangements could follow. Here the status of Taiwan is critical. Potentially, the most explosive issue in Asia is the debate over the reunification of China and Taiwan. The management of this confrontation will shape the long-term relationship between the United States and China. How both nations handle this controversy will influence, if not determine, their permanent long-term relationship. The dynamics of the US-China relationship are defined by their changing relative power. This dynamic is illustrated in Figure 8.

FIGURE 8: CHINA AND THE USA

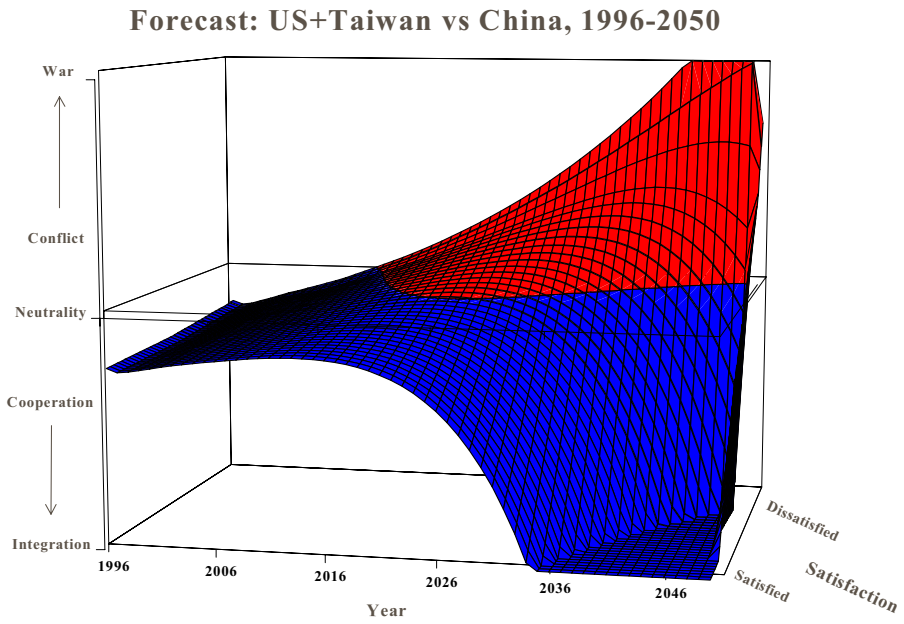


Note that China's power is growing relative to that of the US. China will overtake the United States in the next thirty to fifty years, long before it is an advanced developed nation. The potential confrontation will be—as in the case of Germany and the USSR in World War II—one between a very

advanced nation and a developing giant. Whether one assumes slow or rapid growth is less important than the essential trend.

These overall trends can lead to a peaceful or contested transition depending on the actions by the two giants. A major point of contention between them remains the political dispute over Taiwan. China surely recognizes that time is on its side, and may even see the benefits of an autonomous Taiwan. Patience on the part of the Chinese leadership could bring the reward of reunification without the use of force. The longer that China postpones the use of force, the greater is the relative power shift from the US to China and the higher the likelihood that an accommodation that maximizes autonomy for Taiwan can be reached. Indeed as Figure 8 indicates, there is greater room for accommodation under a cooperative US leadership.

FIGURE 9: CHINA, USA AND TAIWAN RELATIONS.



The fundamental question is how long can this expectation be sustained without generating the preconditions for a global war? Figure 9 shows the three-way interaction between the US, China and Taiwan.

Had Taiwan declared its independence very early in the overtaking process, perhaps immediately following the recognition of China by the United States, Taiwan may well have succeeded without generating a regional or a global conflict. This is no longer the case. Today, using its economic and military preponderance, the United States can force China to back down in any crisis. The overwhelming majority of studies indicate that the US today certainly would win any military encounter in the Pacific because the US navy can protect Taiwan against an invasion. Our estimates suggest that in the Asian hierarchy US preponderance should last for 25 years and then the tables will start to turn. This is not a long time to alter international structures and perceptions.

It is in the interest of both China and the US to find ways to postpone the day of reckoning over Taiwan. An early regional conflict prior to the anticipated transition would result in a likely defeat for China, but the resentment would then set up a later confrontation that carries with it the extraordinarily high costs of a global conflict. In the nuclear era a global conflict of this magnitude would be devastating. From the Power Transition perspective the goal of a stable US policy is the addition of China into economic and security arrangements. The first step in the direction of cooperative relations was achieved when US support assured China's membership in the WTO. However, a NATO-like security membership is lacking.

GRAND STRATEGY POLICY IMPLICATIONS

Power Transition implies that lasting stability can be attained if China, the EU, Russia, and eventually India join forces in an economic and security arrangement. Strange as this concept may sound, in the long term, the goal of the US and EU should be the expansion of NATO not only to Russia but China and India as well. Perhaps this would occur under a different name or structure. That is less important than the fact that a security system is developed based on shared preferences. This arrangement would create the global hierarchy needed to insure peace and avoid the preconditions for a global war.

The United States is the dominant power in world politics and can set the conditions for cooperation and conflict. Continued support for the status quo

by the EU and eventually Russia is essential to maintain peace in the next quarter century. The treatment of China is even more important. Unless ways are found to minimize China's dissatisfaction, the world will face the prospect of global war. For this reason it is imperative to find a way to settle the dispute over Taiwan while subtly socializing China into the existing international system. If China were satisfied, the anticipated transition to Asian dominance would have little effect on world structures and standards. Existing norms in the international system would remain even though they are likely to be guided and influenced by the new dominant nation.

On the other hand, if dissatisfaction grips China or less likely the EU and Russia dyad, the preconditions for a global war emerge in the middle of this century. Given technological advances, the winner of that war will rewrite the international rules and norms of a new international hierarchy. That has been the pattern of the past. It is what we expect of the future.

China's participation in NATO or a similar organization is essential because peacetime alliances aggregate nations with similar preferences. This, in turn, ensures security. While China may cooperate over trade and human rights, this would not assure peace. What can be done through the WTO—a weak agreement compared to the EU—is to reduce economic dissatisfaction. However, as long as China does not enter into international security agreements their level of satisfaction will be low. There is evidence that nations that reach agreements on security and trade minimize conflict while those that reach security agreements alone likewise seldom fight. But those that reach agreements on trade alone engage in conflict as frequently as those that have no agreements or counter agreements. A combination of trade and alliance produces the strongest links to peace, but without security agreements peace is tenuous even among trading partners.

CHINA'S ROLE IN AMERICAN GRAND STRATEGY: PARTNER, REGIONAL POWER, OR GREAT POWER RIVAL?

CHRISTOPHER LAYNE

In the American foreign and defense policy communities the conventional wisdom now holds that China will emerge as a true great power in the twenty-first century's early decades. As one commentator has argued, 'When historians one hundred years hence write about our time, they may well conclude that the most significant development was the emergence of a vigorous market economy—and army—in the most populous country in the world'.[1] It is unsurprising, therefore, that since the early 1990s, American policymakers and analysts have focused increasingly on the strategic implications of China's rise to great-power status.

The conventional wisdom holds that American thinking about China falls into two competing viewpoints. One school of thought—widespread in the Bush II administration, especially the Pentagon—views China as an increasingly salient threat to US interests in East Asia, and America's most likely future great power (or 'peer competitor') rival. Viewing China as already a strategic competitor, adherents of this viewpoint hold that Washington therefore must 'contain' China. Containment is primarily a geostrategic policy that would use American military power to rein in China's ambitions and compel Beijing to adhere to Washington's rules of the game on such issues as arms control, weapons proliferation, trade, and human rights. For some, containment means using US influence to compel Beijing to accede to the liberalization of China's domestic political system.

The other school of thought—with which the Clinton administration was identified—holds that by 'engaging' Beijing (and by enmeshing it in the global economy and various multilateral institutional frameworks) China's rise to great-power status can be managed, and Beijing can be induced to behave

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[1] Nicholas Kristof, 'The Rise of China,' *Foreign Affairs* 72 (November/December 1993), p.59. Not all analysts agree that China will emerge as a peer competitor. For a summary of the debate, see Thomas J. Christensen, 'Posing Problems without Catching Up: China's Rise and Challenges for US Security Policy,' *International Security*, Vol. 25, No. 4 (Spring 2001), pp.5-9.

'responsibly' in international politics. Engagement is predicated on the belief that, as China's contacts with the outside world multiply, its exposure to 'Western' (that is, American) political and cultural values will result in evolutionary political change within China. Thus, containment is a strategy that gives more emphasis to the traditional 'hard power' tools of statecraft (especially military power), while engagement places somewhat more weight on the 'soft power' of ideas and trade.[2] Containment holds that China must transform its domestic system 'or else.' Engagement holds that, over time, China will change. Containment stresses the exercise of American power. Engagement stresses the benefits to China of cooperating with the international community.

This chapter discusses the role of China in American grand strategy. When all is said and done, it is apparent that there is a mainstream consensus view about the future of the Sino-American relationship, and that within this consensus the differences between containers and engagers are of degree, not of kind. US policymakers and foreign policy analysts broadly agree that China's emergence as a great power would threaten America's post-Cold War hegemony. The debate in policy circles is not about whether China's great-power emergence is inimical to American interests, but rather, what Washington should do about it. This chapter will first discuss American grand strategy and its theoretical underpinnings. Second, it will address the issue of whether China, indeed, is likely to emerge as a great power. Third, building on insights from international relations (IR) theory, it will show why strategic rivalry between the US and China is highly likely to occur. The chapter concludes with a prescription for an optimal US grand strategic posture toward a rising China.

THE INFLUENCE OF THEORY ON GRAND STRATEGY

The debate about America's China policy focuses primarily on several salient issues. Is China becoming a great power and, if so, will it threaten American interests? If China is becoming a great power, can its great power emergence be managed? Will China's growing ties to the global economy make Beijing more pliable? Will China become more democratic (and how much should the United States do to promote democracy in China)? From the standpoint of American security, does it make a difference whether China is democratic? The present debate about China's role in American grand strategy

[2] The distinction between hard and soft power is set forth in Joseph S. Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1991).

addresses these questions. This debate, however, cannot be understood properly without venturing into the seemingly treacherous waters of international relations theory.

I say this hesitantly. Anyone who has taught the subject knows that the mere mention of the words 'international relations theory' is likely to cause the audience's eyes to glaze over.' But this is not an exercise in discussing theory for theory's sake. On the contrary, policy debates inescapably have a theoretical dimension.[3] The nexus between theory and policy is especially important with respect to grand strategy. After all, the very concept of grand strategy posits a relationship between theory and policy. As Posen puts it, grand strategy is a state's theory about how it best can cause security for itself.[4] In making grand strategy, policymakers build on their assumptions about how the world works; that is, their models (even if only implicit) of international politics. Grand strategy is a set of cause-and-effect hypotheses postulating which policies are most likely to produce the strategic outcomes that policymakers desire. The success of a state's grand strategy depends, therefore, 'on whether the hypotheses [that policymakers] embrace are correct.'[5] Hence, to evaluate a grand strategy, it is necessary understand the theoretical model(s) that underlies it. The China policy debate illustrates concretely how theory influences policy.

Realist Foundations Of American Grand Strategy

What scholars call realism is what most people think of when they hear the term 'power politics.' Realism's fundamental insight is that international politics is different from domestic politics. This is because, unlike domestic politics, in international relations there is no central authority (that is, a government) that can make and enforce rules of conduct on the system's participants. When realists talk about international politics being anarchic, they are referring to this lack of a governing authority. When they talk about international politics as a 'self-help' system, they simply mean that in a

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[3] As Stephen Van Evera observes, important policy questions usually do: 'It is often said that policy-prescriptive work is not theoretical. The opposite is true. All policy proposals rest on forecasts about the effects of policies. These forecasts rest in turn on implicit or explicit theoretical assumptions about the laws of social and political motion. Hence all evaluation of public policy requires the framing, and evaluation of theory, hence it is fundamentally theoretical.' Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997), p.91.

[4] Barry Posen, The Sources of Military Doctrine: France, Britain, and Germany Between the World Wars (Ithaca: Cornell University Press, 1984), p.13.

[5] Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987), p.2.

condition of anarchy, each state is responsible for ensuring its own survival and well-being.

Of course, when a state acts to protect itself, its actions may have the paradoxical consequence of causing other states to feel that their security is impaired by the first state's behavior. The result is often the kind of spiral that we associate with arms races. This vicious circle, where the quest for security leads to increased insecurity, is what international relations theorists call the 'security dilemma'.[6] The security dilemma explains a lot about both Beijing's, and Washington's, perceptions of the Sino-American relationship.

Offensive realism lies at the core of American grand strategy.[7] It incorporates the following key assumptions about the nature of international politics. First, security in the international political system is scarce.[8] Second, although all realists believe international politics is competitive, offensive realists (unlike defensive realists) believe that international politics is ineluctably conflictive—a harsh, unrelenting competition—because there are no offsetting factors tempering the great powers' struggle for power and security. Third, pervasive insecurity means that international politics approximates a zero-sum game—that is, a gain in relative power for one state is a loss of relative power for all the others, which means there isn't a whole lot of room for great-power cooperation.[9] Fourth, in this hothouse environment, states are impelled to pursue offensive strategies by maximizing their power and influence at their rivals' expense.

Given the fact that, for great powers, international politics is a harsh, unrelenting struggle for survival, what grand strategy is prescribed by offensive realism? Simply put, offensive realists say great powers should maximize their power in order to attain security. As University of Chicago political scientist John J. Mearsheimer says, 'states quickly understand that the best way to ensure their survival is to be the most powerful state in the system.'[10]

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[6] On the security dilemma, see John Herz, *Political Realism and Political Idealism* (Chicago: University of Chicago Press, 1951), p.24. Also, see Robert Jervis, 'Cooperation Under the Security Dilemma,' *World Politics*, Vol. 30, No. 2 (January 1978), pp.167-214.

[7] Key works on offensive realism include, John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton: Princeton University Press, 1998); Eric J. Labs, 'Offensive Realism and Why States Expand Their Security Aims,' *Security Studies*, Vol. 6, No. 4 (Summer 1997); Christopher Layne, 'The 'Poster Child for Offensive Realism:' America as Global Hegemon,' *Security Studies*. Vol12. No. 2 (Fall 2003).

[8] Mearsheimer, pp.7-13; Zakaria, *op.cit.*, p.13; Labs, *op.cit.,* pp.1, 7-8.

[9] Mearsheimer, pp.12-13; Zakaria, *op.cit.*, pp.29-30; Labs, *op.cit.,* p.11.

[10] Mearsheimer, p.33. Also, see Tellis, *Drive to Domination*, pp.376-379, 381-382.

Offensive realists believe that because of the international system's structure, states can never settle for having 'just enough' power, because it is impossible for a state to know how much power really is sufficient to ensure its security. For great powers, the way to break out of the 'security dilemma' is to eliminate the competition, and become a hegemon. As offensive realists view things, 'the pursuit of power stops only when hegemony is achieved,' because for great powers 'the best way to ensure their security is to achieve hegemony now, thus eliminating any possibility of a challenge by another great power'.[11]

Liberal Influences On American Grand Strategy

Although US grand strategy is shaped fundamentally by offensive realism, it also has an important component that is drawn from the liberal approach to IR theory (also known as Wilsonianism, or liberal internationalism). This is because American grand strategy is, as former Secretary of State James A. Baker III has put it, 'a complex mixture of political idealism and realism'.[12] Or, as the Bush II administration's 2002 *National Security Strategy of the United States* puts it, US grand strategy is 'based on a distinctly American internationalism that reflects the union of our values and our national interests'.[13] America's hegemonic grand strategy, in fact, is a '*realpolitik* plus' grand strategy—a grand strategy that defines US national interests in terms both of power and the promotion of US ideals—which is why it has been labeled as 'liberal realism', or 'national interest liberalism'.[14] In American grand strategy, liberalism is muscular, not 'idealistic', nd it postulates cause-and-effect linkages about how the United States can enhance its security. In making the case to incorporate liberal objectives into US grand strategy, liberals talk the language of realism.

The liberal and realist impulses in American grand strategy cannot be disentangled neatly from each other because there is a circular logic that ties them together. A liberal world order is thought to be conducive to US interests, and to bolster America's power and security; therefore, because the United States is very powerful in international politics, it should use its power to create a liberal world order so that it can obtain more security for itself. In

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[11] Mearsheimer, pp.34, 35.

[12] James A. Baker, III, *The Politics of Diplomacy: Revolution, War and Peace, 1989-1982* (New York: G.P. Putnam's Sons, 1995), p.654.

[13] Unites States Government, *The National Security Strategy of the United States of America* (Washington D.C., September 2002), p.1.

[14] The term '*realpolitik* plus' is Robert Art's. See Robert J. Art, 'Geopolitics Updated: The Strategy of Selective Engagement,' *International Security,* Vol. 23, No. 3, p.80. The terms 'liberal realism,' and 'national interest liberalism,' are used, respectively by David Stiegerwald, *Wilsonian Idealism in America* (Ithaca: Cornell University Press, 1994) and Tony Smith, 'Making the World Safe for Democracy,' *Diplomatic History*, Vol. 23, No. 2 (Spring 1999), p.183.

fact, offensive realism leads precisely to the expectation that a hegemonic great power will use its preponderance to increase both its hard and soft power, and will view the two as mutually reinforcing.

What is the liberal approach to IR theory, and what are its key contentions? There are three main strands to liberal thought about international politics: political liberalism (also known as democratic peace theory), commercial liberalism, and liberal institutionalism. Political liberalism's central claim—and liberals are all over the ballpark here—is that liberal (or democratic) states do not (or seldom) fight each other, and do not (or seldom) use military threats in their relations with one another. Political liberalism also tracks with balance of threat theory by suggesting that other liberal states will not balance against a powerful (even hegemonic) liberal state, because they know it will not use its capabilities to harm them.[15] Commercial liberalism (which today essentially is synonymous with the concepts of international economic interdependence, and 'globalization') holds that international commerce and interdependence lead to peace, or at least make war much less likely.[16] Commercial liberalism's key claims have been neatly summarized by Arthur Stein:

> War is costly, and exchange is beneficial. The prospects of commerce increase the costs associated with war, and the development of commerce creates a constituency to press the case for peace. As governments become more representative, the greater the degree to which those costs come to be included in political calculations and decisions and to be reflected in the political system.[17]

Liberal institutionalism holds that international institutions or regimes facilitate mutually advantageous cooperation that only can be attained when states voluntarily forego unilateral action in favor of multilateral collaboration. Thus, it is said, institutions temper the effects of anarchy in both economic

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[15] As Michael Doyle says, 'balancing denigrates the pacific union [among liberal democracies] and thus should be eschewed by liberals in their relations with each other.' Doyle, 'Politics and Grand Strategy,' p.35.

[16] For an overview, see Stein, 'Economic Interdependence and International Cooperation,' pp.244-254. Stein concludes (p.290) that although economic exchange and interdependence do not ensure peace, they do make war less likely. The seminal work on interdependence is Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence* (Boston: Little, Brown, 2ed., 1989).

[17] Stein, 'Economic Interdependence and International Cooperation,' p.255. For a recent argument that democracy, free trade, and international economic interdependence are interrelated see Tony Smith, *America's Mission: The United States and the Worldwide Struggle for Democracy in the Twentieth Century* (New Jersey: Princeton University Press, 1995), pp.327-329.

and security relations among states. As Robert Axelrod and Robert O. Keohane argue, 'Even in a world of independent states that are jealously guarding their sovereignty, room exists for new and better arrangements to achieve mutually satisfactory outcomes, in both terms of economic welfare and military security'.[18] Liberalism's bottom line is that it posits the existence of a virtuous circle among democracy, an open international economy, and international institutions.

America's Hegemonic Grand Strategy

By eliminating America's only great power rival, the Soviet Union's collapse vaulted the United States into a position of uncontested global hegemony. Since the Cold War's end, the declared objective of US grand strategy has been to consolidate and extend American hegemony in the international system. This first became clear in March 1992, when the initial draft of the Pentagon's *Defense Planning Guidance* (*DPG*) for Fiscal Years 1994-1999 was leaked to the *New York Times*.[19] The *DPG* made clear that the objective of US grand strategy henceforth would be to maintain America's preponderance by preventing the emergence of new great-power rivals. As the DPG stated, 'we must maintain the mechanisms for *deterring potential competitors from even aspiring to a larger regional or global role'*.[20] This strategy aimed not only at thwarting the emergence of the 'usual suspects' (a rising China, or a resurgent Russia), but also the rise to great-power status of America's principal Cold War allies, Germany and Japan. As the *DPG* said, 'We must account sufficiently for the interests of the large industrial nations to discourage them from challenging our leadership or seeking to overturn the established political or economic order'.[21]

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[18] Robert Axelrod and Robert O. Keohane, 'Achieving Cooperation Under Anarchy', David A. Baldwin ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993), p.113. This claim also is made in Robert O. Keohane and Lisa Martin, 'The Promise of Institutional Theory,', Michael Brown et al eds., *Theories of War and Peace* (Cambridge: MIT Press, 1998), pp.390-391. According to Keohane, states do not worry, per se, about the asymmetric distribution of gains from cooperation. Concern about relative gains arises only where there is a probability (not merely a possibility) that another will use its relative gains in a way that adversely affect's the state's interests. Where cooperation is institutionalized, the probability of asymmetric gains being so used is low. See also Robert O. Keohane, 'Institutionalist Theory and the Realist Challenge,' in David Baldwin *op.cit.* pp.275-277, 281-283.

[19] Patrick E. Tyler, 'US Strategy Plan Calls for Insuring No Rivals Develop,' *New York Times*, 8 March 1992, p.A1.

[20] 'Excerpts From Pentagon's Plan: 'Prevent the Re-emergence of a New Rival',' *New York Times*, 8 March 1992, p.A14 (emphasis added).

[21] *Ibid.*

The Clinton administration reiterated that the perpetuation of US hegemony was America's key grand strategic objective. The May 1997 *Report of the Quadrennial Defense Review* (*QDR*), prepared by the Clinton administration, clearly embraced the geopolitical objective of maintaining American hegemony. The 1997 *QDR's* underlying premise was that 'The United States is the world's only superpower today, and is expected to remain so throughout the 1997-2015 period'.[22] Although not as blunt as the *DPG*, in strikingly similar language the 1997 *QDR* makes clear that the post-2015 objective of US grand strategy, and the military posture underpinning it, would be to keep things just as they were geopolitically: 'it is imperative that the United States maintain its military superiority in the face of evolving, as well as discontinuous, threats and challenges. Without such superiority, our ability to exert global leadership and to create international conditions conducive to the achievement of our national goals would be in doubt.[23] In the near-term, the 1997 *QDR* specified that the goal of US grand strategy was to prevent 'the emergence of a hostile *regional* coalition or hegemon'.[24]

In its fall 2002 *National Security Strategy of the United States*, the Bush II administration followed the Bush I and Clinton administrations in making the maintenance of American global hegemony the key objective of US grand strategy. Hegemons are like monopolistic firms in the marketplace. Neither like competition, and both act strategically to prevent the emergence of rivals. The Bush II administration's 2001 *Quadrennial Defense Review*, and its 2002 *National Security Strategy,* evidence a clear determination to ensure that America's global hegemony cannot be challenged. The 2001 *QDR* states that the United States seeks to maintain 'favorable power balances' in key regions like East Asia, the Persian Gulf and Europe.[25] The US will accomplish this

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[22] William S. Cohen, *Report of the Quadrennial Defense Review* (Washington D.C., May 1997), s.2.

[23] *Ibid*., s.3. Like many bureaucratic documents, the *QDR* casts its policy recommendation as the sensible middle ground between two unacceptably extreme options. In the *QDR*, the first option rejected would focus US strategy and force structure on near term threats, 'while largely deferring preparations for the possibility of more demanding security challenges in the future.' The second unacceptable option is the reverse: sacrificing current capabilities to prepare for future threats from regional great powers or 'global peer competitors.' The path embraced by the *QDR* 'focuses on meeting *both* near and longer term challenges, reflecting the view the our position in the world does not afford us the opportunity to choose between the two.' The *QDR* thus clearly embraces the long-term objective of preventing the emergence of great power competitors. That is, it reaffirms the grand strategic objective of maintaining the US as the only great power over both the near-term, *and* the post-2015 long term.

[24] *Ibid.* (emphasis added).

[25] Department of Defense, *Quadrennial Defense Review Report* (Washington D.C.: September 2001), pp.2, 4, 11, 15.

aim by maintaining overwhelming military superiority so that it 'can dissuade other countries from initiating future military competitions' against the US, and, if necessary, 'impose the will of the United States... on *any* adversaries.'[26] The 2002 *National Security Strategy* states even more clearly that the objective of American strategy is to prevent any other state from building up military capabilities in the hope of 'surpassing, *or even equaling*, the power of the United States'. In a break with the Bush I and Clinton administrations, however, the Bush II administration has incorporated the logic of 'anticipatory violence' into US grand strategy.[27] The 2002 *National Security Strategy*, and policy statements by senior administration officials (including President George W. Bush himself) have reserved to Washington the right to act preemptively, or preventively to cut down potential rivals before they become actual ones.[28]

China's emergence as a great power would challenge directly America's global hegemony. American grand strategy clearly aims to hold down China. While acknowledging that China is a *regional* power, Washington conspicuously does not concede that China either is, or legitimately can aspire to be, a great power.[29] Discreetly warning China against challenging the United States militarily, the 2002 *National Security Strategy* warns Beijing that, 'In pursuing advanced military capabilities that can threaten its neighbors in the Asia-Pacific region, China is following an outdated path that, in the end, will hamper its own pursuit of national greatness. In time, China will find that social and

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[26] *Ibid*., pp.12-13, 15.

[27] It is perhaps more accurate to say that the Bush II administration, unlike its predecessors, *openly* incorporated preemption and preventive war into US grand strategy. The Clinton administration did prepare to launch a preemptive strike again North Korea during the 1994 crisis caused by discovery Pyongyang's nuclear weapons program. See Ashton B. Carter and William J. Perry, 'Back to the Brink,' *Washington Post*, October, 20, 2002, p.B1. To the extent the Bush I administration's policy, in fact, was driven by concerns about Iraqi President Saddam Hussein's push to acquire nuclear weapons, and other WMD capabilities, the 1991 Persian Gulf War could be regarded as a preventive war.

[28] George W. Bush, 'Remarks by the President at 2002 Graduation Exercise of the United States Military Academy', West Point, N.Y., June 1, 2002, www.whitehouse.gov/news/releases/2002/06print/20020601-3.html. The Bush II administration's *National Security Strategy* (*op.cit.* p.15) declares that: 'The United States has long maintained the option of preemptive actions to counter a sufficient threat to our national security. The greater the threat, the greater the is the risk of inaction - and the more compelling the case for taking anticipatory action to defend ourselves, even if uncertainty remains as to the time and place of the enemy's attack. To forestall or prevent such hostile acts by our adversaries, the United States will, if necessary, act preemptively.'

[29] For example, Defense Secretary William Cohen described China as an *Asian* power. William Cohen, 'Annual Bernard Brodie Lecture,' University of California, Los Angeles, October 28, 1998 (DoD web site).

political freedom is the only source of that greatness'.[30] Notwithstanding Beijing's views to the contrary, the US grand strategy rejects the notion that China has any justifiable basis for regarding the American military presence in East Asia as threatening to its interests.[31] Washington aims to encourage China to become a 'responsible member of the international community'.[32] 'Responsibility', however, is defined as Beijing's willingness to accept Washington's vision of a stable international order.[33] It also means China's domestic political liberalization, and its development as a free-market economy firmly anchored to the international economy. As the Bush II administration's 2002 *National Security Strategy* declares, 'America will encourage the advancement of democracy and economic openness' in China, 'because these are the best foundations for domestic stability and international order'.[34]

In essence, then, American grand strategy requires China to accept US hegemony. The strategy is silent, however, on what the US will do if Beijing refuses to accept America's pre-eminence. On this point—notwithstanding that its emphasis on the pre-emptive and preventive use of military power has been debated mostly within the context of the US response to terrorist groups like al-Qaida and rogue states like Saddam Hussein's Iraq—the Bush II administration's strategy has obvious implications for potential peer competitors such as China.

WILL CHINA RISE?

The Fates of Hegemons

American grand strategists believe, to paraphrase the Duchess of Windsor, that the US can never be too rich, too powerful, or too well armed. And, at first blush, the natural reaction is to ask, 'what's wrong with that?' After all, if international politics is about power—and it is—then should not the United States seek to amass as much power as possible? Yet, although it may seem counter-intuitive, there is plenty of evidence that suggests that it is self-

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[30] *National Security Strategy*, op.cit., p.27

[31] Department of Defense, *The United States Security Strategy for the East-Asia Pacific Region 1998* (Washington D.C., 1998) p.30 .

[32] *Ibid.*

[33] Clinton, 'Remarks on US-China Relations;' Cohen, 'Annual Bernard Brodie Lecture;' *The United States Security Strategy for the East-Asia Pacific Region 1998*. As National Security Adviser Berger puts it: 'Our interest lies in protecting our security while encouraging China to make the right choices'—especially choosing to allocate its resources to internal development rather than building up its military power. Berger, 'American Power.'

[34] *National Security Strategy*, *op.cit.*

defeating for a great power to become *too* powerful. Since the beginnings of the modern international system, there have been successive bids for hegemony: by the Habsburg Empire under Charles V, Spain under Philip II, France under Louis XIV and Napoleon, and Germany under Hitler (and, some historians would argue—though the point is contested—under Wilhelm II). Each of these hegemonic aspirants in turn was defeated by a counter-balancing coalition of states that feared the consequences for their security if a hegemonic aspirant succeeded in establishing its predominance over the international system. 'Hegemonic empires,' Henry Kissinger has observed, 'almost automatically elicit universal resistance, which is why all such claimants sooner or later exhausted themselves'.[35]

It is a pretty safe bet that the United States will not be able to escape the fates of previous contenders for hegemony. Consistent with the historical record, we should expect to see American power balanced either by the emergence of new great powers, and/or the formation of counter-hegemonic alliances directed against the United States.[36] For balancing to occur, of course, there must be other actors in the international system able to match US military, economic, and technological capabilities. To date, however, no rival to the US has emerged. And some US grand strategists believe no challenger will emerge in the future, because America's economic and technological lead over potential great-power rivals is insurmountable.[37] Indeed, given the immense imbalance of power in America's favor, 'catching up is difficult.'[38] Clearly, in the short-term (the next decade) no state will emerge as America's geopolitical peer. But over the next several decades one or more peer competitors is bound to emerge. This is where China comes into the equation.

Why New Great Powers Rise: The Imperatives of China's Emergence

Great-power emergence results from the interlocking effects of differential growth rates, anarchy, and balancing. The process of great-power emergence is much more straightforward than this terminology might seem to imply. The term 'differential growth rates' is the specialist's way of stating an important fact: the economic (and technological and military) power of states grows at

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[35] Henry A. Kissinger, 'The Long Shadow of Vietnam,' *Newsweek*, May 1, 2000, p.50.

[36] For a detailed explanation of the theoretical and empirical foundations of this argument, see Christopher Layne, 'The Unipolar Illusion. Why New Great Powers Will Rise,' *International Security*, Vol. 17, No. 4 (Spring 1993), pp.5-51.

[37] William C. Wohlforth, 'The Stability of a Unipolar World,' *International Security*, Vol. 24, No. 1 (Summer 1999), pp.4-41.

[38] Kenneth N. Waltz, 'Globalization and American Power,' *The National Interest*, No. 59 (Spring 2000), p.54.

differential, not parallel, rates. A comparison of the United States and China provides a concrete example. From the mid-1980s through the late 1990s, China's economy grew at a rate in excess of 10 percent a year, while for most of that period America's economy grew at a 3-4 percent annual rate. In *relative* terms, therefore, China has been getting stronger while the United States has been declining.

Chinese policymakers are indeed sensitive to relative power issues and to the relationship between a state's economic strength and its political strength.[39] China's relative economic power is increasing rapidly: its phenomenal economic growth rate since the early 1980s has, by some measures, catapulted it into a position as the world's second-largest economy. If it can continue to sustain its near-double digit growth rates into the early decades of this century, it is projected to surpass the United States as the world's leading economy.[40] It is China's explosive growth that is fueling its rise as a great power. The difference between China's growth rates and America's means that the distribution of relative power is shifting, and that China will emerge as a challenger to US global hegemony. As the historian Paul Kennedy has shown, time and again relative 'economic shifts heralded the rise of new Great Powers which one day would have a decisive impact on the military territorial order'.[41]

Growth rate differentials, however, are only part of the story. The nature of the international system (its 'systemic structure') plays a major role in the process of great-power emergence. In a realist world, states that have the potential to become great powers have strong, security-driven, 'structural' incentives for doing so. To be able to protect themselves from others, states need to acquire the same kinds of capabilities that their rivals possess. The competitive nature of international politics spurs states to emulate the successful characteristics of their rivals, especially in the realms of military doctrine and technology. If others do well in developing effective instruments of competition, a state must respond in kind or face the consequences of falling behind. From this standpoint, it is to be expected that in crucial respects, great powers will look and act very much alike. It is also to be expected that this 'sameness effect' will impel states that are potential great

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[39] See David Shambaugh, 'Growing Strong: China's Challenge to Asian Security,' *Survival* 36 (Summer 1994), p.44. Shambaugh notes that Chinese strategists have been strongly influenced by Paul Kennedy's *The Rise and Fall of Great Powers*.

[40] See for example Harry Harding, 'A Chinese Colossus?' *Journal of Strategic Studies* 18, September 1995, p.106. Harding estimates that China will surpass the United States and Japan as the world's largest economy by the twenty-first century's second decade

[41] Paul Kennedy, *The Rise and Fall of Great Powers: Economic Change and Military Conflict From 1500 to 2000* (New York: Random House, 1987), p.xxii.

powers actually to become great powers, and to acquire all the capabilities attendant to that status. States that fail to conform to this imperative will pay the price. As the noted realist Kenneth Waltz observes, 'In a self-help system, the possession of most but not all of the capabilities of a great power leaves a state vulnerable to others who have the instruments that the lesser state lacks'.[42]

Another factor driving the process of great-power emergence is the tendency of states to 'balance' against others that are too strong or too threatening. Balancing is the term theorists use to describe a commonsensical aspect of states' behavior. When a state feels threatened because another is too powerful, it will try to offset the other's strength (either by building up its own military capabilities and/or by acquiring allies). The reason states balance is to correct a skewed distribution of relative power in the international system. The pressure to balance is especially strong in a unipolar system such as that which came into existence with the Soviet Union's collapse. Historical experience leads to the expectation that America's present hegemony should generate the rise of countervailing power in the form of new great powers. By definition, the distribution of relative power in a unipolar system is extremely unbalanced. Consequently, in a unipolar system, the structural pressures on potential great powers (like China) to increase their relative capabilities and become great powers should be overwhelming. If they do not acquire great-power capabilities, they may be exploited by the hegemon.

Of course, a potential great power's quest for security may trigger a classic security dilemma. China's great-power emergence is illustrative. China's rise to great-power status in the long term is a virtual certainty, given its actual and latent power capabilities. But China's rise is likely to occur sooner rather than later, because in a unipolar world China has very strong incentives to balance against US power. In this sense, the immediate impetus for China's rise is a defensive reaction to America's hegemonic position. At the same time, however, China's rise has made others, including the United States, apprehensive about their own security.

Can China Compete Militarily?

China today lacks the two strategic prerequisites of great-power status: power-projection capabilities and a high-tech military. At present, China is unable to project air and naval power adequate to back up its claims to the South China Sea and, notwithstanding its robust policy toward Taipei, it could

[42] Kenneth Waltz, 'The Emerging Structure of International Politics,' *International Security* 19 (Fall 1994), p.21.

not today invade Taiwan successfully. Moreover, China lags far behind the United States (and Japan, as well) in its capacity to field high-tech military forces. One need not accept the extravagant claims of some military analysts that a 'revolution' in military affairs is occurring to realize that modern technology has an important role in warfare. The Persian Gulf War, Kosovo, and the campaign against Afghanistan offered glimpses into the battlefield of the future, where sensors, computers, real-time communications, stealthy weapons platforms, and precision-guided munitions will dominate. Before it can compete militarily against the United States (or a rearmed Japan), China first must build up a modern aerospace and avionics industry (which it presently lacks), and develop the other infrastructural components needed to support a 21st century military (electronics, microchips, fiber-optics, ceramics, and robotics - to name but a few).

Over the long term, China is bound to aim for military parity with the United States. For sure, there are many American strategists who believe China is too far behind the US to entertain hope of ever catching up, and who also claim, as Andrew Nathan and Robert Ross maintain, that even trying to close the gap is futile because such a policy 'risks stimulating its neighbors to accelerate their own pace of advance, potentially widening rather than narrowing the gap between China's security needs and its military capabilities'. Arguments of this sort reflect a peculiar logic and are myopic historically. If this argument is correct, no late-emerging great power would ever attempt to catch up to the dominant great power in the system. Yet, for all the reasons already discussed, latecomers do try (and sometimes succeed) in challenging the system's dominant power.[43] One can hardly imagine, for example, German or American policymakers in the late nineteenth century saying, 'Oh well, we can never hope to match Britain strategically, and we will be less secure if we try, so we will just have to accept that England's supremacy is a permanent fact of geopolitical life.' Neither should we imagine that China as a great power would be content to accept US political dominance and military superiority—and if it did, in what meaningful sense could we even speak of China as being a great power?

The question of whether China can equal, or surpass, the United States in military effectiveness and capability is related to, but analytically distinct from,

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[43] Andrew Nathan and Robert Ross, *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W.W. Norton and Company, 1997). There is an important literature demonstrating that latecomers enjoy 'the advantages of backwardness.' The seminal work is Alexander Gerschenkron, *The Advantages of Economic Backwardness in Historical Perspective* (Cambridge, Ma.: Belknap Press, 1962).

the issue of whether China will attain great-power standing. Great-power status is a threshold that, when crossed, would mean that China will possess (at least to a considerable degree) the tangible resource inputs (in terms of finances, a defense industrial base, technology, and skilled personnel) needed to field a military force capable of competing against the United States. However, whether China actually would be able to use those resources effectively is another issue. As military historians Allan R. Millett, Williamson Murray, and Kenneth Watman have observed, 'military effectiveness is the process by which armed forces convert resources into fighting power.'[44] Hence the key question is whether China can convert its resources into effective and capable military power.

Although much has been written about the linked issues of military innovation, effectiveness, and competence, we still understand imperfectly their underlying causal factors. Why are some militaries innovative and others not? Why are some militaries effective and competent and others not? Moreover, beyond understanding causation, there is the issue of identifying signposts. What factors should we look for to determine whether a particular military is likely to be innovative, effective, or competent?

Analysts have employed three analytical approaches to answer these questions: societal, organizational, and realist. The societal perspective (which focuses on how the cohesiveness, or divisiveness, of society affects military effectiveness) and the organizational theory perspective (which identifies a number of pathologies that make it difficult for organizations to innovate effectively) have ambiguous implications with respect to the question of whether China will be able to innovate successfully in the military sphere. The realist perspective, however, suggests strongly that China, over time, will be able to close the military gap currently separating it from the United States. States emulate their rivals, especially militarily. As political scientist Colin Elman has observed, 'Perhaps more than in any other area, military technologies, strategies, and institutions are adopted because of perceptions of what other states are doing'.[45] Security expert Barry Posen has identified the external factors that correlate with a state's success in innovating militarily: the perception of a highly threatening international environment, and revisionist

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[44] Allan R. Millett, Williamson Murray, and Kenneth Watman, 'The Effectiveness of Military Organizations,' in *Military Effectiveness, Volume I: The First World War*, ed. Allan R. Millett and Williamson Murray (Boston: Unwin and Hyman, 1987), p.2.

[45] Colin Elman, 'Do Unto Others as They Would Unto You? The Internal and External Determinants of Military Practices' (Olin Institute for Strategic Studies, Harvard University, unpublished paper, May 1996), p.3.

ambitions.[46] China fits Posen's profile. It is a state that believes it lives in a high-threat environment, and it has irredentist goals in Taiwan and the South China Sea. The safest assumption for American policymakers is that during this century's early decades China will emerge as a military competitor of the United States.

Between Now and Then

Although the odds are strongly in favor of China reaching peer competitor status, this is not something that will occur overnight. It will take China some time to close the gap between itself and the United States with respect to material capabilities. An interesting question, therefore, is how, during its transition from potential to actual peer competitor, will a rising great power like China counter American hegemony? Given America's apparent inclination to use preventive/pre-emptive strategies to counter *future* threats, rising great powers will have good reason to view the transitional interval as one during which they will be vulnerable strategically. Rising great powers like China likely will be attracted to asymmetric strategies as a means of offsetting superior US military capabilities.

The terms 'asymmetric warfare,' 'asymmetric threats', and 'asymmetric strategies', have become buzzwords much favored by policymakers and analysts. A little bit of perspective is in order. When discussing asymmetric state responses to hegemony (in today's world, to US hegemony) it is first necessary to specify the level of analysis being discussed. At the grand strategic level, research on the initiation of asymmetric conflicts tells us that weaker powers often rationally pick fights with stronger powers for a number of reasons.[47] For example, such states may calculate that although the overall material distribution of power is adverse to them, they can still hope to prevail by using clever strategies (for example, pursuing a 'limited aims' strategy), and because the 'balance of resolve' favors them. The balance of resolve reflects asymmetries in motivation: if the stakes are greater for the weaker power, it may be prepared to take greater risks, and pay higher costs than a defender who regards the stakes as less than vital to its own security interests.[48] Similarly,

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[46] Barry R. Posen, *The Sources of Military Doctrine: Britain, France, and Germany Between the World Wars* (Ithaca: Cornell University Press, 1984).

[47] The key work is T.V. Paul, *Asymmetric Conflicts: War Initiation by Great Powers* (Cambridge: Cambridge University Press, 1994).

[48] In his classic study, Andrew Mack demonstrates that weaker powers often count on favorable asymmetries in motivation to offset an unfavorable asymmetry in material capabilities. Specifically, weaker powers often calculate that if the stakes in the conflict are vital to itself but peripheral to a more powerful defender, domestic political factors ultimately

weaker powers will try to develop methods of war-fighting that neutralize the advantages (material and/or qualitative) enjoyed by a stronger adversary. At the operational and tactical levels, asymmetric responses by others to a hegemon may be manifested in the weaker power's choice of weapons systems, operational doctrine, and tactics. Of course, there is nothing novel about asymmetric responses, which are as old as war itself. If its strategists are smart, a weaker power in an asymmetric contest will not attempt to slug it out with a stronger foe. As Edward Luttwak has noted, the essence of strategy always has been the ability to identify, and exploit, the opponent's political, operational, and tactical vulnerabilities.[49]

Short of using nuclear, biological, or chemical weapons, a state like China which possibly is striving for, but has not yet attained, great-power status can employ other asymmetric means to offset superior US capabilities.[50] For example, because American forces depend significantly on basing facilities provided by allies in key regions, a weaker adversary like China might use ballistic missiles, and/or special operations forces to deny the US access to these facilities in the event of conflict, or to at least disrupt US force deployments.[51] Similarly, although unable to match the United States in key leading-edge military technologies (command, control, communications, real-time reconnaissance and surveillance), an emerging China that still is a non-peer competitor might acquire low-cost technologies and information-warfare capabilities that could disable the satellites and computers upon which the American military depends for its battlefield superiority. In sum, even if, in the short term, others lack the capability to 'balance' against American hegemony in the traditional sense, the very fact of US preponderance gives them strong incentives to develop strategies, weapons, and doctrines that will enable them to offset American capabilities. Indeed, this is exactly what Beijing seems to be doing. Unable as yet to go toe-to-toe with the US in a

will constrain the stronger power from incurring high costs to defeat the weaker power. See Andrew Mack, 'Why Big Nations Lose Small Wars: The Politics of Asymmetric Conflict,' *World Politics*, Vol. 27 (January 1975), pp.175-200.

[49] Edward Luttwak, *Strategy: The Logic of War and Peace* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1987), p.16.

[50] For an analysis of how a China that failed to achieve peer competitor status might nonetheless prevail (or perceive that it could prevail) in an asymmetric conflict with the United States fought over the fate of Taiwan, see Thomas Christensen, 'Posing Problems without Catching Up: China's Rise and Challenges for US Security Policy', *International Security* (Spring 2001).

[51] For a discussion of the possible asymmetric use of ballistic and cruise missiles to hinder US ability to project power into East Asia, see Paul J. Bracken, *Fire in the East: The Rise of Asian Military Power and the Second Nuclear Age* (New York: Harper Collins, 1999).

great-power war, China is concentrating its military buildup on the kinds of capabilities—air power, cruise and ballistic missiles, diesel submarines—it would need to prevail in a showdown with the United States over Taiwan.[52] In the longer term, the very fact of US global preponderance is certain to spur China's emergence as a true peer competitor.

CONTENDING WITH AN EMERGING CHINA: AMERICAN STRATEGY

As realist theory suggests, security concerns are driving China's economic modernization. Chinese leaders understand the security dilemma (that is, so long as China is weak, it is vulnerable to the US) and hold an essentially realist conception of international politics. Beijing views an American-dominated unipolar world as inherently threatening. China is therefore committed to 'balancing' against preponderant American power (by building up its own capabilities) and favors a multipolar system (that is, a system where there is more than a single great power) in which US influence would be diminished.

Historical experience suggests that the emergence of new great powers usually has a destabilizing effect on international politics. Or, in plain English, conflict is more likely during eras when new great powers are emerging, because it is very difficult to reconcile the competing interests of the rising new great power and the established, status quo, great powers (or, in today's world, the one and only great power). Whether China's rise to great-power status will prove disruptive is, of course, one of the crucial questions analysts must answer as they attempt to peer into the future. American grand strategy harbors the hope that economic interdependence and domestic political liberalization will tame China so that its great-power emergence can be successfully and peacefully accommodated. But these hopes are bound to prove illusory.

Economic Interdependence

In US policy circles, a frequently heard argument is that as China becomes increasingly tied to the international economy, its 'interdependence' with others will constrain it from taking political actions that could disrupt its vital connection to foreign markets and capital, and to high-technology imports from the United States, Japan, and Western Europe. This claim was made time and again by the Clinton administration and its supporters in the debate about whether the US should extend permanent normal trade relations to

[52] Craig S. Smith, 'China Reshaping Military to Toughen Its Muscle in the Region,' *New York Times*, October 16, 2002.

China, and support Beijing's accession to the World Trade Organization. 'Interdependence' is another way of saying that trade is a tie that binds states to follow peaceful, cooperative foreign policies. Why should this be the case (or, as political scientists say, what is the 'causal logic' underlying this proposition)? That is, what is it specifically about interdependence that purportedly causes peace?

Several causal logics underpin the 'interdependence leads to peace' argument. One is that as their prosperity comes to be ever more tightly bound to the global economy, states simply cannot afford the disruption of trade that would result from war. Another is the claim that in today's technology and information-oriented global economy, trade, not conquest, is the most efficient road to achieving national wealth. Many American policymakers subscribe strongly to the belief that China will be a cooperative actor in the international system because its economic modernization requires its integration into the global economy and, as it becomes more interdependent with the outside world, it will find that interdependence has created a web of common interests with states that otherwise might be geopolitical rivals.

The 'interdependence leads to peace' argument, however, is inherently suspect. After all, Europe never was more interdependent (economically, and intellectually and culturally, as well) than it was on the eve of the First World War. Obviously, the prospect of forgoing the economic gains of trade did not stop Europe's great powers from fighting a prolonged and devastating war. Implicit in the 'interdependence leads to peace' argument is the notion that statesmen think like accountants; but they do not. Calculations of possible economic gain or loss are seldom the determining factor when policymakers decide on war or peace. And even if they were, there is little reason to believe that economic interdependence would be a deterrent to war. This is because even for the losers, the negative economic consequences of modern great-power wars have been of short duration.

China's recent conduct suggests further reason to be skeptical of the 'interdependence leads to peace' argument: Beijing is not acting as the theory predicts. As political scientist Gerald Segal pointed out, China's behavior in the Taiwan Strait and the South China Sea in the 1990s indicates that it is not constrained by fears that its muscular foreign policy will adversely affect its overseas trade.[53] As China becomes more powerful, it increasingly appears willing to risk short-term costs to its interests in economic interdependence in

[53] Gerald Segal, 'The 'Constrainment' of China,' *International Security,* Vol. 20 (Spring 1996), pp.107-35.

order to pursue its geostrategic interests. Indeed, as China becomes wealthier and stronger militarily, it is (as realist theory would predict) becoming more assertive in its external behavior.

Democratic Peace

The so-called democratic peace theory is also invoked to support the proposition that an impending Sino-American rivalry can be ameliorated. Among those US strategists who have taken a hard line on China, the view has taken hold that conflict with China is inevitable—unless China becomes a democracy. In part, this is because China's external ambitions are seen as being in conflict with America's interests. However, China's 'aggressiveness' is ascribed by US hard-liners, in large measure, to the nature of its domestic political system. Simply put, the containers view China as a 'bad' state.

This Wilsonian viewpoint is quintessentially American. The time-tested American remedy for a 'bad' state is to transform it into a 'good' state—that is, into a democracy. The Wilsonian outlook incorporates the so-called 'democratic peace theory,' which asserts that democracies never go to war with fellow democracies. Hence, expanding the 'democratic zone of peace' is deemed a vital American security interest. Yet the democratic peace theory is singularly devoid of intellectual merit.[54]

There are two (not mutually exclusive) causal explanations of the democratic peace: first, in democracies, statesmen are restrained from going to war by the public, upon which the human and economic costs of war fall; and second, in their external relations with one another, democratic states are governed by the same norms of peaceful dispute resolution that apply to their domestic politics. Neither causal logic holds up under scrutiny. Democracies have often gone to war enthusiastically (Britain and France in 1914, the United States in 1898). And there is an ample historical record demonstrating that, where vital national interests have been at stake, democratic states routinely have practiced big-stick, realpolitik diplomacy against other democracies (including threats to use force). Moreover, contrary to the democratic peace theory's central tenet, democratic states *have* gone to war with each other.[55]

It matters little, however, whether the democratic peace theory is true. What matters is that most of the American foreign policy community *believes* it is true. And this belief has consequences. After all, if a nondemocratic state (in

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[54] For a critique of the democratic peace theory, see Christopher Layne, 'Kant or Cant: They Myth of the Democratic Peace,' *International Security* (Fall 1994).

[55] See Christopher Layne, 'Shell Games, Shallow Gains and the Democratic Peace,' *International History Review* (December 2001).

this case, China) is likely to be a trouble-maker and challenge the United States, the obvious solution to the problem is for the United States to cause that state to metamorphose into a democracy: 'The ultimate American objective on China is to induce China to behave more responsibly and to become more democratic.' The impulse to be a 'crusader state,' however, invariably has pushed the United States down the road of foreign policy misadventure, and will do so if Washington pushes its Wilsonian agenda on Beijing.

Averting Sino-American Conflict I: Avoid the Wilsonian Trap

From a realist perspective, one must conclude that a US-China great-power competition is highly likely in the future. Great-power rivalry is the norm in international politics for several reasons: anarchy among states generates legitimate security fears that require and justify self-help; reasons of state predominate over conventional interpersonal standards of behavior; and power relationships predominate over internal political characteristics in determining state behavior.

But if rivalry is certain, war is not. Indeed, peace may be the most causally over-determined phenomenon in international politics. In this respect, realism is a theory about both war and peace. Because of the anarchic, self-help nature of international politics, realists believe that wars can occur and sometimes do. At the same time, many realists would argue (as would I) that war, especially great-power war, is rare. This is because for the great powers, war itself is a deterrent, albeit an imperfect one. Because of the uncertainties it entails, the decision to go to war is always (as Chancellor Bethmann-Hollweg put it in 1914) 'a leap into the dark.' For this reason, realists would expect most great-power crises to be resolved short of war. Indeed, because war is such a risky and uncertain business, realists would expect states to be extremely cautious in going to war. Whether the United States and China find themselves on the brink of war in the future will be determined as much by Washington's policies as by Beijing's.

There are two elements of its grand strategy toward China that Washington needs to reconsider, and they are linked: trade, and domestic liberalization. Trade is an issue where almost all parties in the current debate about America's China policy have gotten it wrong. Engagement (based on economic interdependence and free trade) will neither constrain China to behave 'responsibly' nor lead to an evolutionary transformation of China's domestic system (certainly not in any policy-relevant time span). Unfettered free trade, however, will simply accelerate the pace of China's great-power emergence: the more China becomes linked to the global economy, the more rapidly it is able to grow in both absolute and relative economic power. To be

sure, short of preventive war, there is nothing the United States can do to prevent China from eventually emerging as a great power. Thus, there would be no point to simply ceasing economic relations with China. But the United States must be careful about how—and why—it trades with Beijing.

American trade with China should be driven by strategic, not market, considerations. If Washington cannot prevent China's rise to great-power status, it nonetheless does have some control over the pace of China's great-power emergence. A US trade policy that helps accelerate this process is shortsighted and contrary to America's strategic interests. The United States should aim to reduce China's export surplus to deprive it of hard-currency reserves that Beijing will use to import high technology (which it will use to modernize its military). Washington should also tightly regulate the direct outflow of critical advanced technology from the United States to China in the form of licensing, offset, or joint-venture agreements. Individual corporations may have an interest in penetrating the Chinese market, but there is no American interest, for example, in permitting US firms to facilitate China's development of an advanced aerospace industry.

On the other hand, those US hard-liners who want to use Sino-American trade as a bludgeon to compel Beijing to accept America's dictates with respect to human rights and democratization also have got it wrong: while American leverage is too limited to have any significant positive effects, Washington's attempts to transform China domestically will inflame Sino-American relations. American attempts to 'export' democracy to China are especially shortsighted and dangerous. America's values are not universally accepted as a model to be emulated, least of all by China. Moreover, America's attempts to universalize its liberal values and institutions are more likely to be regarded by others as an exercise of hegemonic power rather than as an act of unselfish altruism. Indeed, it is commonplace to observe that the United States invokes its values as a means of legitimizing its predominant role in international politics. As the political scientist Samuel P. Huntington has observed, an American policy based on the universal applicability of liberal democratic ideology is the 'ideology of the West for confrontation with non-Western cultures'.[56]

American efforts to force China to adhere to American norms and values, in fact, have sharpened Sino-American tensions. Chinese president Jiang

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[56] Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster, 1996), p.66.

Zemin's October 1995 remarks to the UN Security Council are illustrative. In his speech, he observed that 'certain big powers, often under the cover of freedom, democracy and human rights, set out to encroach upon the sovereignty of other countries, interfere in their internal affairs and undermine their national unity and ethnic harmony.'[57] The attempt to export democracy will cause a geopolitical backlash by strengthening China's resolve to resist US hegemony. Kenneth Waltz perceptively observes why this is so:

> The powerful state may, and the United States does, think of itself as acting for the sake of peace, justice, and well-being in the world. But these terms will be defined to the liking of the powerful, which may conflict with the preferences and the interests of others. In international politics, overwhelming power repels and leads others to try to balance against it. With benign intent, the United States has behaved, and until its power is brought into a semblance of balance, will continue to behave in ways that annoy and threaten others.[58]

The truth is that China is not going to become a democracy—certainly not any time soon—and the United States lacks the power to compel China to transform its domestic political system.

American efforts to do so can only serve to heighten tensions between Washington and Beijing. Chinese leaders fear, and oppose, American hegemony, and they regard America's attempts to foist its political and cultural values on China as a specific manifestation of American 'hegemonism'.

Averting Sino-American Conflict II: Taiwan

Taiwan is a powder-keg issue. China remains committed to national reunification, yet Taiwan is moving perceptibly toward independence. Almost certainly, Beijing would regard a Taiwanese declaration of independence as a *casus belli*. It is unclear how the United States would respond to a China-Taiwan conflict, although President George W. Bush created a stir in 2001 when he declared the United States would intervene militarily in the event of a Chinese attack on Taiwan. For sure, however, it is safe to predict that there would be strong domestic political pressure in favor of American intervention. Beyond the arguments that Chinese military action against Taiwan would undermine US interests in a stable world order and constitute unacceptable 'aggression,' ideological antipathy toward China and support for a democratizing Taiwan would be powerful incentives for American intervention.

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[57] Quoted in Alison Mitchell, 'Meager Progress as China Leader and Clinton Meet,' *New York Times*, October 25, 1995.

[58] Kenneth Waltz, 'America as a Model for the World? A Foreign Policy Perspective,' *PS* (December 1991), p.669.

American strategists advance three reasons why the United States should defend Taiwan: strategic; reputational; and ideological. Strategically, Taiwan must be defended to protect the trade routes in the South China Sea. What this argument overlooks, however, is that these shipping routes are of vital Japanese interest but are relatively unimportant for the United States. The reputational argument is that unless the United States defends Taiwan from China, other states will lose confidence in America's security guarantees and acquiesce in China's regional hegemony. This argument overlooks two points: first, once China becomes a great power, the credibility of US commitments in East Asia inevitably will diminish; and, second, regardless of what the United States does with respect to Taiwan, other East Asian states will balance against a threatening China in self-defense, rather than jump on its bandwagon. The ideological argument, already mentioned, is that the United States cannot afford to stand on the sidelines while a fellow democracy is conquered by an authoritarian great power.

During the 1996 tensions between Taiwan and China, leading members of the foreign-policy community argued that US interests required support for Taiwan because the real issue at stake was the need to defend a democratic state menaced by a totalitarian one. A leading Asian affairs expert argued, for example, that the issue between China and Taiwan had nothing to do with the latter's political status as a province of mainland China. Rather, it was claimed, the United States had a compelling interest in defending Taiwanese democracy and preserving it as a political model for Beijing to adopt (presumably because a democratic China, from an American perspective, would be a more tractable state):

> The United States must recognize that it has a fundamental interest in promoting Chinese democracy, and in protecting its sole example in Taiwan. Thus, we must warn China in no uncertain terms that we will not sit idly by if Taiwanese democracy is threatened, encourage our allies to make similar declarations, and continue to back up our words with a show of American naval power.[59]

Arguments that the United States must be prepared to defend Taiwan from Chinese invasion overlook three points. First, for nearly a quarter century, the United States has recognized that Taiwan is a Chinese province, not an independent state. Second, America's European and Asian allies have no interest in picking a quarrel with China over Taiwan's fate. If Washington goes to the mat with Beijing over Taiwan, it almost certainly will do so alone. (Given its unilateralist bent, however, the prospect of fighting China without

[59] Christopher J. Sigur, 'Why Taiwan Scares China,' *New York Times*, March 19, 1996.

allies might not be of much concern to the Bush II administration.) Third, by defending Taiwan, the United States runs the risk of armed confrontation with China.

In the short term, a Chinese invasion of Taiwan is unlikely, and the United States would have little to fear from a military clash with China. Both of these conditions, however, are likely to change in coming years. Looking down the road a decade or two, it would be a geopolitical act of folly for the United States to risk war with China for the purpose of defending democracy in Taiwan. The issue at stake simply would not justify the risks and costs of doing so. Indeed, regardless of the rationale invoked, the contention that the United States should risk conflict to prevent Beijing from using force to achieve reunification with Taiwan amounts to nothing more than a veiled argument for a declining America to fight a 'preventive' war against a rising China. Here, the embrace of pre-emptive and preventive military strategies by the Bush II administration raises obvious questions. If US hard-liners believe that preventive war is a viable option for coping with a rising China, instead of using the Taiwan issue as a fig-leaf, they should say so openly so that the merits of this strategy can be debated.

CONCLUSION: TOWARD AN OFFSHORE BALANCING STRATEGY IN EAST ASIA?

Any realist worth his salt would agree that the rise of a new great power is reason for concern. However, while concern is prudent, panic is not. China is in the process of emerging as a great power. But it has a considerable distance to travel before it gets there—and it is conceivable (even if not likely) that it will not get there. China's ability to attain great-power status hinges primarily on two considerations: economic growth, and the domestic political situation. On the first point, China only needs to grow at a seven to eight percent annual rate over the next ten to twenty years to surpass the United States as the world's largest economy. All things being equal, these growth rates appear feasible, even probable. However, all things are not equal, which leads to a second set of considerations that pertain to China's domestic cohesion. There has been much speculation that China's drive to great-power status may fail because of domestic internal developments. Civil unrest stemming from failed political liberalization, or the centrifugal effect of regional autonomy undermining central government control of the nation is the most frequently mentioned internal threats to China's great-power emergence. Although these possibilities cannot be discounted, it nevertheless would appear that China is unlikely to succumb either to domestic political upheaval or to the kind of

disintegration that could lead to a collapse of central governmental authority. Thus China's rise to great-power status probably will not be sidetracked by internal political developments.

So what should the United States do about China? If the US persists with its current hegemonic grand strategy, sooner or later, the odds of a Sino-American conflict are pretty high. Current American strategy thus commits the United States to maintaining the geopolitical status quo in East Asia, a status quo that reflects America's hegemonic power and interests. America's interest in preserving the status quo, however, is bound to clash with the ambitions of a rising China. As a great power, China no doubt would have its own ideas about how East Asia's political and security order should be organized. Unless US and Chinese interests can be accommodated, the potential for future tension—or worse—exists. Moreover, the very fact of American hegemony, as I have argued, is bound to produce a geopolitical backlash—with China in the vanguard—in the form of counter-hegemonic balancing. At the same time, the United States cannot be completely indifferent to China's rise, either.

The United States could accomplish the important goals of containing China, while yet avoiding direct conflict with Beijing, by abandoning its hegemonic grand strategy in favor of an offshore balancing grand strategy combined with a "spheres of influence" diplomacy. Throughout history great powers have been able to accommodate each other's conflicting interests despite ideological differences and the fact that they seldom regard each other as friends. Among modern international history's great powers, only the United States seems unable to accept the fact that great powers must live in a world with others who neither like them nor share their values. The belief that America must universalize its institutions and values in order to be secure has had dreadful consequences in the past. The issue of Taiwan illustrates that this mindset may lead to disaster again in the future.

The key component of a new geopolitical approach by the United States would be offshore balancing.[60] Instead of trying to stop the emergence of new great powers, an offshore balancing grand strategy would recognize the inevitability of their emergence, and turn this to America's advantage. Rather than fearing multipolarity, as does the present US strategy of hegemony, offshore balancing would embrace it. An offshore balancing strategy would

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[60] On offshore balancing, see Christopher Layne, 'From Preponderance to Offshore Balancing: America's Future Grand Strategy,' *International Security,* Vol. 19 (Summer 1997). For a discussion of how offshore balancing could work in East Asia, see Christopher Layne, 'Less Is More,' *The National Interest*, No. 43 (Spring 1996).

allow for the other great powers to build up their military capabilities, and to provide for their own and regional security. The United States would rely on the dynamics of a multipolar balance of power to check any other power from becoming overly ambitious and threatening. In East Asia, China would be contained not by the US, but by Russia, Japan, India, and Korea. In this respect, offshore balancing is a grand strategy based on burden-*shifting*, not burden-sharing (or what realists call 'buck-passing'). In contrast to the effect of its hegemonic strategy, which attracts the strategic attention of other states to the United States, an offshore balancing strategy would deflect those concerns away to the US, and redirect them to the rivals others confront in their own neighborhoods.

To be sure, the United States would need to experience a conceptual revolution in grand strategy to adopt an offshore balancing posture with respect to East Asia. It would need to abandon the illusion that American hegemony can be maintained (and that multipolarity can be prevented). It would need to abandon many of the ideological pretensions that underlie America's view of its world role. And American policymakers would need to rethink their stance on important specific issues, notably including Japan's emergence as a great power, the role that economic interdependence plays in driving American security commitments, and the US commitment to Taiwan. If the United States is to shift its grand strategy away from hegemony—which it must do to minimize the odds of an eventual collision with China—it must take to heart the injunction of Walter Lippmann that it must forsake the temptations of hegemony in favor of more respectful and natural relations with other great powers:

A mature great power will make measured and limited use of its power. It will eschew the theory of a global and universal duty, which not only commits it to unending wars of interventions, but intoxicates its thinking with the illusion that it is a crusader for righteousness… I am in favor of learning to behave like a great power, of getting rid of globalism, which would not only entangle us everywhere, but is based on the totally vain notion that if we do not set the world in order, no matter what the price, we cannot live in the world safely... In the real world, we shall have to learn to live as a great power which defends itself and makes its way among the other great powers.

CHINA AS REGIONAL HEGEMON?

PAUL H.B. GODWIN

INTRODUCTION

In the late 1970s, Deng Xiaoping initiated the reform programs that were to end the internal chaos generated by Mao Zedong's obsessions and China's self-imposed isolation from the world. The success of Deng's reforms and his strategy of 'opening China to the world" have transformed the People's Republic of China (PRC) into a major player in world politics. Deng's market-oriented reforms resulted in a booming economy and made China a significant global trading country. His comprehensive defense modernization programs are reconstructing the once lumbering, obsolescent People's Liberation Army (the PLA—as the services and branches are collectively named) into a modern defense force. The benefits accruing to China from Deng's reform programs were complemented by the Cold War's end, the dissolution of the USSR, and Beijing's diplomatic efforts to establish working, if not cordial, relations with its Asian neighbors. The combined effect of internal reforms, major changes in the international environment and Beijing's diplomatic activism has made China more integrated with Asia and the world, and militarily more secure than at any time in the past 150 years. This transformation has added real gravitas to China's pre-existing status as a veto-wielding permanent member of the UN Security Council.

Few doubt that China is a now great power. China's population and land area are huge, and its geopolitical location means that no part of Asia—northeast, southeast, south, central and northern—is without a Chinese presence or interest. The robust Chinese economy—not Japan's, which remains mired in the economic doldrums—is the engine of Asia's economic growth. China's defense establishment, although far from the most modern in the region, is large and undergoing a systemic modernization of its air, naval, and ground forces. Although India and Pakistan weaponized their nuclear programs in 1998, China holds Asia's only operational combination of strategic, regional and possibly tactical nuclear weapons, and these systems are also in the midst of modernization programs.

Consequently, no regional power can challenge China's pre-eminence in continental Asia. With the exception of Japan, it is very unlikely that in a decade or two any Asian state will be capable of contesting China's pre-eminence in maritime East Asia. Only India will be able to challenge a Chinese naval presence in the Indian Ocean and the Bay of Bengal, should Beijing choose to patrol that distance from its home waters. Simply stated, China is now militarily more secure than at any time in the past 150 years. Indeed, one could argue that the 'one hundred years of humiliation' that so traumatically scars Chinese memories of its unfortunate modern history has ended. With the return of Hong Kong and Macao to Chinese sovereignty, the only major territories claimed by China outside Beijing's control are Taiwan and the many rocks and islets in the South and East China Seas.

With the restoration of China's status in the world, an expanding economy and no major military threat to its security, one would expect Beijing to be a 'satisfied' power. Satisfied in the sense that its influence in international politics continues to increase and that no state or combination of states presents an immediate military threat to China. Yet, even a casual perusal of Chinese commentaries on the trends in global and regional international affairs demonstrates that this is not the case. From Beijing's perspective, the world in which China now exists is far from the world it desires.

This chapter will attempt to assess whether Beijing seeks and can achieve regional hegemony. It will begin by identifying Beijing's core objectives and the logic behind them. This will be followed by an overview of Beijing's perceptions of the United States and the role these perceptions play in China's security strategy. Finally, the issue of Chinese hegemony will be addressed. The chapter's conclusions will focus on the implications of these findings for US policy.

HEGEMONY AND ASIA

Before entering any assessment of China's security objectives and strategy, it is necessary to provide an operational definition of 'hegemony'.[1] For the purpose of this assessment, a state will be granted the status of hegemon when it is the single great power in its region. When a region contains more than one great power, there cannot be a hegemon. An assessment of Beijing's security

[1] The following discussion is drawn from John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); and Glenn H. Snyder, 'Mearsheimer's World—Offensive Realism and the Struggle for Security,' *International Security* (Vol. 22, No. 1 (Summer 2002), pp.149-173.

objectives also raises the question of China as a *potential* hegemon. A potential hegemon is a state that has the capability to dominate a region by overpowering its great-power neighbors. Nonetheless, as John Mearsheimer notes, hegemony is rare because 'the costs of expansion usually outrun the benefits before domination is achieved'.[2] Consequently, potential hegemons only seek to achieve domination when the anticipated costs are low.[3] Therefore, whereas China's economic development and military modernization programs may in the future grant it the status of a potential hegemon, the decision to become the region's hegemon does not directly derive from the capacity to dominate. The costs and risks of achieving domination must be perceived as lower than the benefits derived from hegemony.

These definitions require an appraisal of Asia as a *region*. The most important strategic characteristic of Asia is that it has two parts: continental and maritime. To be the regional hegemon, a state must be dominant over the both the continental and maritime components of Asia. The disintegration of the former USSR and the ensuing Russian economic crises and degradation of its military capabilities essentially removed from contention the only power that could challenge China's continental pre-eminence.

In maritime Asia, the United States functions as the countervailing power to China. With alliances and access to military facilities along Asia's littoral from South Korea and Japan in the north, down to Australia in the south and Diego Garcia in the Indian Ocean, the United States performs the role of offshore balancer to China's continental dominance. Certainly from the US perspective, the United States with its alliances and access maintains 'the current continental-maritime military balance in East Asia'.[4]

As long as there is a second regional great power in Asia, by definition China cannot become the region's hegemon. With its strong alliances and access to naval and air facilities along Asia's periphery together with its diplomatic and economic influence within the region, the United States is in an extremely robust offshore position. In this sense, as Robert Ross has suggested, East Asia has become bipolar; China and the United States share the regional balance of power.[5] The question therefore becomes whether

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[2] John J. Mearsheimer, 'Back to the Future: Instability in Europe After the Cold War,' *International Security*, Vol. 15, No. 1 (Summer 1990), p.13.
[3] *Ibid*. p.37.
[4] Personal communication with RADM Michael McDevitt, USN (ret.) September 2002.
[5] Robert S. Ross, 'The Geography of Peace: East Asia in the Twenty-First Century,' *International Security*, Vol. 23, No. 4 (Spring 1999), pp.81-118.

China's regional security objectives have as their ultimate purpose the removal of the United States as Asia's other great power. This question becomes important when it is recognized that China's principal objection to the current distribution of global and regional power is focused on the role of the United States. China resents the manner in which the United States employs the dominant military, economic and diplomatic power it achieved with the Cold War's end in global as well as regional affairs. Before evaluating Beijing's perceptions of the United States, however, it is necessary to assess China's security priorities.

BEIJING'S QUEST FOR SECURITY: PRIORITIES[6]

China's national security requirements are conceptualized in very broad terms. Beijing is extremely aware that China lags far behind the world's major powers in economic, scientific and technological strength. Accordingly, the Chinese Communist Party (CCP) defines its fundamental task as transforming China from a developing to a fully developed modernized country matching the strength of other world powers. Moreover, Beijing recognizes that the rapid pace of China's modernization over the past two decades and more has created major problems of instability and tension within society. Not the least of the political problems Beijing confronts is massive underemployment and unemployment. As the huge and once dominant inefficient state-owned enterprises (SOEs) are shut down, thousands of employees are thrown out of work. Worker protests have increased in recent years as their jobs have evaporated with little compensation from their former employers.[7] These tensions have been accompanied by rampant corruption throughout the CCP and government.[8] In rural areas, improper taxation and corruption among local officials create frequent farmer demonstrations.[9] Millions of underemployed rural workers migrate to the cities seeking a living as poorly paid construction workers on the edge of the dynamic urban economy. Corruption, dislocation

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[6] This discussion draws extensively from Thomas J. Christensen, 'China' in Ellings and Friedberg, *Strategic Asia*, pp.27-69.

[7] See, for example, Jiang Zemin's speech to the 16th Party Congress November 17, 2002. Beijing, Xinhua, November 17, 2002, in Foreign Broadcast Information Service, China, (hereafter FBIS-China) November 17, 2002 and John Pomfret, 'China Cracks Down on Worker Protests: Leaders Detained As 2 Cities Face Continued Unrest,' The *Washington Post*, March 21, 2002, p.A21.

[8] See, for example, John Pomfret, 'Corruption Charges Rock China's Leadership,' *The Washington Post*, Jan 2, 2002, p.A15.

[9] See, for example, *Agence France Press* (AFP), Hong Kong, 'More Details on Clashes Between Farmers, Riot Police,' August 29, 2000.

and instability among the workers and farmers have created severe stress in China's society that simmers beneath the broad trend of growing wealth so evident in the major coastal cities and Beijing. Accordingly, official documents and speeches by CCP leaders stress the importance of balancing economic development with political stability. As Jiang Zemin put it in his Work Report to the 16th National Party Congress held in November 2002: 'Stability is a prerequisite for reform and development'.[10]

China's continued economic growth and modernization is critically dependent on trade and foreign direct investment (FDI). From 1990 to 1999, China's total external trade increased from US$116.6 billion per year to US$360.6 billion. In Asia, this placed China second only to Japan's US$729.9 billion in total trade.[11] Foreign direct investment in 1999 amounted to some US$38 billion—the highest level in Asia.[12] Sustaining and expanding China's trade and FDI is dependent upon an international environment conducive to commerce and investment. This linkage between trade, FDI and the modernization and expansion of China's economy means that any major disruption of the peace and stability of Asia would have dire consequences for what Beijing defines as its fundamental national objective.

Beijing's primary security objectives are therefore maintaining internal stability and the CCP's political monopoly while increasing China's national strength and enhancing its international prestige and influence. The 2002 defense white paper's foreword acknowledges the importance of the international environment when describing China's security environment. The white paper declares: 'A developing China needs a peaceful international environment and a favorable climate on its periphery'.[13]

China's defense policy is integrated into this fundamental concept of security with a very specific and expected set of objectives. The white paper presents these objectives in what appears a priority listing:[14]

> ⁄# To consolidate national defense, prevent and resist aggression. China's territorial land, inland waters, territorial seas and territorial airspace are inviolable.

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[10] The requirement to balance economic development and stability was stressed by Jiang Zemin in his report to the 16th Party Congress.
[11] 'Strategic Asia by the Numbers.' Ellings and Friedberg, *Strategic Asia*, Table 9.6, p.364.
[12] *Ibid,* Table 9.8, p.365.
[13] *China's National Defense 2002* (Beijing: The Information Office of the State Council, December 9, 2002), in FBIS-China, December 9, 2002, p.1
[14] *Ibid*, pp.3-4.

- To stop separation and realize complete reunification of the mainland.
- To stop armed subversion and safeguard social stability.
- To accelerate national defense development and achieve national defense development.

The priority granted Taiwan's reunification with the mainland is made very clear by the statement that 'Taiwan is an inalienable part of the motherland.' After asserting Beijing's commitment to peaceful reunification, the white paper declares that 'China's armed forces will unswervingly defend the country's sovereignty and unity, and have the resolve as well as the capability to check any separatist act'.[15]

CHINA'S PERCEPTIONS OF THE UNITED STATES

Beijing's 2000 defense white paper portrayed a threatening security environment. The United States was the primary source of concern in China, which did not attempt to mask its apprehension over the menace seen in US power and purpose.[16] Negative developments in the Asia-Pacific region were attributed to the United States.[17] The strengthening of US military alliances, revision of US-Japan defense guidelines, planned deployment of ballistic missile defenses, and the supply of advanced American arms to Taiwan were identified as detrimental to China's interests. In the South China Sea territorial disputes, the United States is clearly the most important of the 'extra-regional countries' seen as interfering in this issue.

Beyond Asia, although only by the use of code words, the United States was condemned for threatening world peace and security in a variety ways. Using the 'pretext of humanitarianism', the United States was criticized for resorting to the threat or use of force in violation of the UN Charter. The US-led NATO attack on Yugoslavia was particularly condemned for bypassing the UN Security Council. Overall, the United States was charged with maintaining a 'Cold War mentality' and using 'hegemonism and power politics' to undermine UN authority, enlarge its military blocs through NATO expansion and seek even greater military superiority.[18] Given this security environment, especially the US transfer of advanced weaponry to Taiwan, Beijing's defense

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[15] *Ibid,* p.4.

[16] *China's National Defense 2000* (Beijing, Information Office of the State Council, October 16, 2000), pp.1-6; and Michael McDevitt and David Finkelstein, *Assessing China's Year 2000 White Paper: A Workshop Report* (Alexandria, VA: The CNA Corporation, 16 November 2000).

[17] *China's National Defense 2000*, p.3.

[18] *Ibid.* pp.3-4.

white paper concluded that 'China will have to enhance its capability to defend its sovereignty and security by military means'.[19]

China's 2002 defense white paper reflected the warming of Sino-American relations following the tragic terrorist attacks of September 11, 2001. The United States was not named as the primary source of China's concerns, but the issues remained. China's apprehension over the expanding military relationship between the United States and Taiwan was seen in the white paper's statement that 'by continuing to sell weapons and military equipment to Taiwan and elevating relations with Taiwan authorities, a handful of countries have interfered in China's internal affairs, inflated the arrogance of the separatist forces and undermined China's reunification'.[20] Similarly, the white paper noted that 'Certain countries are stepping up their military deployments and strengthening their military alliances in the Asia-Pacific region'. The US-Japanese security arrangement was the obvious subject of the white paper's observation that 'other countries have time and again enlarged the terms of reference and scope of operations of their armed forces'.[21] Thus, while the vitriol was removed, China's apprehension over US strategic intentions remained.

Mistrust of US strategic intentions goes back more than a decade to the deterioration of Sino-American relations in the aftermath of the 1989 Tiananmen Square protests and their violent suppression. At its core, Beijing's wariness is rooted in the belief that despite Washington's public commitment to a 'strong, peaceful and prosperous China',[22] the United States' security objective is to restrain China's emergence as a strategic competitor and uphold at least the *de facto* independence of Taiwan. In Beijing's eyes, China need look no further than the US Department of Defense 2001 *Quadrennial Defense Report* (QDR) to confirm this suspicion. Although not mentioned by name, the report's reference to a possible 'military competitor with a formidable resource base emerging in Asia' can refer only to China.[23]

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[19] *Ibid.* p.5.
[20] *China's National Defense 2002*, p.3.
[21] *Ibid.*
[22] *The National Security Strategy of the United States of America* (Washington, D.C.: The White House, September 17, 2002) [hereafter *National Security Strategy 2002*], p.18 (Internet version from www.whitehouse.gov) is just the most recent statement of this longstanding US commitment.
[23] *Quadrennial Defense Review Report* (Department of Defense, September 30, 2001) [Internet version, p.4]

PERCEPTION SINCE SEPTEMBER 2001[24]

The US response to the September 11 attacks served to heighten Beijing's apprehensions. China's concern over American diplomatic influence and military capability was reinforced by the speed with which the Bush administration built a coalition against terrorism and initiated military operations inside Afghanistan. Although China was among the first to pledge support for the United States' actions, the ease with which the US gained access to bases for military operations in Pakistan and several Central Asian states created misgivings in Beijing. This was perceived as another demonstration of the United States' ability to surround and possibly 'contain' China.[25] Furthermore, US forces and political influence had moved into China's inner Asian backyard, where Beijing had exerted considerable diplomatic effort to create a security system that excluded the United States

Since 1996, China had worked with Russia, Kazakhstan, Kyrgyzstan and Tajikistan to establish a Central Asian security framework. In June 2001, this 'Shanghai Five' became the Shanghai Cooperation Organization (SCO), adding Uzbekistan to its membership. While not a formal alliance, presidential summits have been held annually and their joint statements have indicated steady cooperative progress in military and security matters together with trade and cultural affairs. Summit statements, including those of the annual meetings held by defense and foreign ministers, have also introduced common views on international security matters that are outside the members' borders. Past summits had expressed opposition to US withdrawal from the Anti-Ballistic Missile (ABM) Treaty with Russia, to American ballistic missile defense programs and support for Beijing's stance on Taiwan.[26] It is difficult not to conclude that the SCO was viewed by China as offsetting the US presence in Central Asia, slight though this was before Operation *Enduring Freedom*.

The cooperation and warmth emerging in Russo-American relations undoubtedly undermined China's confidence in the SCO's potential to counter US influence. Not only did Putin and Bush seem to get along, but also Russia

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[24] For a valuable assessment of post-9/11 consequences for China's security policy, see J. Mohan Malik, 'Dragon on Terrorism: Assessing China's Tactical Gains and Strategic Losses After 11 September,' *Contemporary Southeast Asia,* Vol. 24, No. 2 (August 2002), pp.252-293.

[25] I am grateful to Professor Bernard D. Cole for bringing this point to my attention.

[26] See, for example, Beijing, *Xinhua* Domestic Service, 'Defense Ministers of the 'Shanghai Cooperation Organization' Members Sign a Joint Communiqué, June 15, 2001, in FBIS-China, June 19, 2001.

did not strongly object when the United States withdrew from the ABM Treaty. Moreover, in agreeing to an American military presence in Central Asia, Putin had demonstrated a lack of concern over US inroads into Russia's 'near abroad'. US progress in its relations with Russia was accompanied by a reversal of its opposition to General Musharraf's military rule when he agreed to allow US military operations to be based in Pakistan and to suppress his own Islamic militants. In South Asia, Beijing saw the US war against terrorism contribute to an accelerating improvement in American relations with India, including arms sales and military exercises with Indian forces.[27]

Beijing's apprehension over the growing US military presence and diplomatic influence in Central Asia and South Asia was expressed in such journals as *Liaowang,* a weekly published by China's official news agency, and *Qingnian Cankao*, a weekly publication of the CCP's China Youth League.[28] The arguments presented suggested that the United States is using the war on terrorism to gain strategic advantage in Central Asia, adding to its ability to contain both Russia and China. Furthermore, there is the expectation that the US presence is not temporary but will endure for many years. This concern was undoubtedly enhanced by the congressional testimony of the Assistant Secretary of State for European and Eurasian Affairs, Elizabeth Jones, in December 2001. She stated that the United States did not intend to depart Central Asia when the anti-terrorism operations are completed. Rather, that American interests in preventing terrorism, assisting in political and economic reform, establishing the rule of law, and developing the Caspian Sea energy resources required a sustained American regional presence.[29] Thus, from Beijing's point of view, the US presence in Central Asia may not be permanent but it will not quickly fade.

To what extent arguments seen in official Chinese media present the view of China's political leadership is uncertain. It is clear, however, that an enduring US presence in Central Asia is not what China's leadership would prefer. As long as the United States military presence is a function of anti-terrorism operations, then it is acceptable. Continuing a military presence

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[27] Ding Zengyi, 'Indian-US Military Cooperation Raises Concern,' *Jiefangjun Bao*, February 24, 2002, in FBIS-China, March 1, 2002.

[28] See, for example, Chen Qimin, 'The United States pries Open the Geopolitical Pattern in Central Asia,' *Liaowang*, January 21, 2002, in FBIS-China, January 30, 2002, in FBIS-China, January 30, 2002; Yun Zhen, 'US Troops Quietly Enter Into Kyrgyzstan,' *Qingnian Cankao*, January 10, 2002, in FBIS-China, January 11, 2002.

[29] 'US pledges not to abandon central Asia after Afghan War,' Almaty Interfax-Kazakhstan , December 19, 2001, FBIS-China*,* December 19, 2001

beyond this operational requirement and becoming a strategic presence makes the United States a competitor for regional influence with Beijing.

Secretary of Defense Donald Rumsfeld's August 2002 annual report to Congress will not ease Beijing's perception that the United States views China as the principal potential regional threat to US interests. The report reasserted the *QDR*'s assessment made a year earlier by stating that Asia was 'emerging as a region susceptible to large-scale military competition' and that this required the United States to improve both its access to regional facilities and its capability to conduct long-range operations with only minimal theater support.[30] Such an assessment will confirm Beijing's perception that despite the Bush administration's focus on terrorism the US views China as a potential threat.

Nonetheless, the Bush administration's determined concentration on terrorism had some positive consequences for Beijing. President Bush's meetings with President Jiang Zemin at the Asia-Pacific Economic Cooperation's (APEC) Shanghai meetings in October 2001 and in Beijing four months later indicated that both Washington and Beijing were using the war on terrorism to ease the tensions in Sino-American relations and find common ground for cooperation. In their October meeting, Presidents Bush and Jiang agreed that their common goal was to develop a 'cooperative, constructive relationship,' with President Bush adding that he sought a relationship that was 'candid, constructive and cooperative'.[31] Both leaders recognized the disagreements between their two countries. Both raised the Taiwan issue, with President Bush adding disagreements over the proliferation of missile technologies and weapons of mass destruction. The tone suggested that both sides believed their differences should be and could be discussed with mutual understanding and respect.

Notwithstanding the positive tone of these meetings, the Chinese press and journals continued to portray the United States as Beijing's most difficult foreign security problem. In the post-Cold War era, the United States is seen as overwhelmingly superior to any other state in its military, economic, political and scientific power, and with unmatched influence in international politics. With this superior position, the United States is expected to increase its power and thereby its ability to intervene in world affairs and sustain its role

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[30] Donald H. Rumsfeld, *Annual Report to the President and Congress* (Washington, D.C.: Department of Defense, August 2002), p.12.

[31] 'Remarks by President Bush and President Jiang Zemin in Press Availability Western Suburb Guest House' (The White House, Office of the Press Secretary, October 19, 2001).

as the world's leader.[32] This perception can only be confirmed by the 2002 release of *The National Security Strategy of the United States*, which commits the Bush administration to maintaining military forces so strong that no state can surpass or match them.[33] The question for Beijing became how to respond to the United States' now dominant military, economic and political power, especially when China is identified as the single potential challenger to American military pre-eminence in maritime Asia.

COUNTERING US INFLUENCE

In seeking to counter US influence in Asia, Beijing fully recognizes that the United States is the pre-eminent global power. The multipolarization of world power and politics that Chinese analysts had been assessing and hoping for over the past 20 years is seen now as possible only in the distant future. Not only is the world unipolar, but those states that could form 'poles' are most often aligned with the United States. In Asia, Japan is allied with the United States and India is putting great value on its emerging ties with America. Despite their disagreements on a number of economic and security issues, the European Union's members are aligned with the United States. Russia's economy is too feeble and its military too demoralized and growing weaker by the year to be considered a pole. More importantly, Russia under President Putin has no intention of challenging American pre-eminence, but would rather foster a new strategic relationship with the United States.[34] Beijing has accepted the reality that US ascendance in world politics will continue, most likely for decades. This recognition has led to what appears to be a strategic debate in China over how to respond effectively to this functionally unipolar world.[35] Nonetheless, directly challenging US pre-eminence does not appear to be at the heart of China's strategy and policy. As Bonnie Glaser has written, the consensus in Beijing is 'that a confrontational policy toward the US while it

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[32] See, for example, Li Zhongjie, 'Understanding and Promoting the Process of World Multi-polarization – Part 3 of 'How to Understand and Deal with the Current International Strategic Situation,' *Liaowang*, June 3, 2002.

[33] *National Security Strategy 2002*, p.19.

[34] *Ibid.* It should be noted that as Director of the Department of Scientific Research of the Central Party School involved preparing for the upcoming 16th Party Congress, Li Zhongjie's views probably come close to the current assessments held by the CCP leadership.

[35] Jonathan D. Pollack, 'Chinese Security in the Post-September 11 World: Implications for the Asia and the Pacific,' *Asia-Pacific Review* 9:20 (November 2002), pp.12-30.

occupies a position of unparalleled strength would be counterproductive and should be avoided if possible'.[36]

Accepting the reality of America's strength, China's current strategy is to restrain the United States' *exploitation* of its political, military and economic strength. To achieve this goal, Beijing is pursuing two parallel courses of action, both of which antedate the second Bush administration. First, Beijing is sustaining a two-decade policy of active diplomacy designed to expand China's regional political and economic influence.[37] Enlarging China's influence is seen as the most effective way to counter the United States while avoiding direct confrontation. Second, the modernization of China's armed forces is being maintained and perhaps accelerated by the double-digit percentage augmentation of defense allocations that have permitted increasing acquisitions of advanced weaponry from Russia.

Countering American power and influence over the next decade or two could well be a near-term objective. Beijing's long-term purpose could be to engage the United States in a strategic competition with the objective of supplanting US influence in maritime Asia. If displacing US influence is China's long-term objective, Beijing faces an extremely difficult task. Most of the states on Asia's maritime periphery view China's growing power, especially its growing military capabilities, as their major potential external challenge.[38] Their approach to China is therefore one of hedging against the worst possible outcome. Only South Korea, with its security focuses on North Korea and Japan, does not view China as a probable security problem.

The hedging strategy pursued by Tokyo consists of engaging Beijing economically and politically while relying on its own extremely competent forces and Japan's security alliance with United States to offset China's increasing military strength. Nonetheless, Japan's apprehension is mitigated by the fact that China's military power, especially its force-projection capabilities, is far less threatening than that of the former USSR in the 1980s.[39] Tokyo's

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[36] Bonnie S. Glaser, 'Playing up the Positive On the Eve of the Crawford Summit,' *Comparative Connections*, Vol. 4, No. 3 (October 2002), p.7.

[37] Robert Sutter, 'China's Recent Approach to Asia: Seeking Long Term Gains,' NBR Analysis, Vol. 13, No. 1 (March 2002).

[38] For Southeast Asia, see Sheldon W. Simon, 'Southeast Asia,' in Ellings and Friedberg, *Strategic Asia*, pp.269-297. For Japan, see Eric Heginbotham and Richard J. Samuels, 'Japan's Dual hedge,' *Foreign Affairs*, Vol. 81, No. 5 (September-October 2002), pp.110-121. For India, see Ashley J. Tellis, 'South Asia,' in Ellings and Friedberg, *Strategic Asia*, pp.223-267.

[39] Kenneth B. Pyle and Eric Heginbotham, 'Japan,' in Ellings and Friedberg, *Strategic Asia*, pp.95-97.

public policy does not define China as a potential military threat, and China continues to be the leading recipient of Japanese aid.[40] Moreover, Prime Minister Junichiro Koizumi has set as policy the principle that Tokyo would work with Beijing to ensure regional stability. In part, this reflects China's status as one of Japan's most important economic partners. Japanese businesses and bureaucrats view China's economy as complementary to Japan's. Beyond providing raw materials and parts, China is Japan's second largest trading partner and the preferred offshore production base for Japanese firms. Political dialogue has intensified as economic ties have deepened. In 1997, Japan and China agreed to cooperate in the then-new ASEAN + 3 (the 'three' being China, Japan and South Korea) meetings, and in 1998 they agreed to annual heads of state meetings and to expand their consultations to include security matters. In large part, Japan's hedging strategy is rooted in the belief that China will not be openly confrontational, but for the foreseeable future will continue to emphasize economic development and its attendant cooperative approach to the world.

The hedging strategy pursued by the major states of Southeast Asia is also based on the political and economic engagement of China. Relations with Beijing are generally cordial, with trade and commerce expanding. Beijing is politically engaged through its participation as a full dialogue partner of the ten-member ASEAN (Association of South East Asian Nations), as a member of the security-oriented ASEAN Regional Forum (ARF) and the ASEAN + 3 ministerial sessions. Despite the progress the ASEAN states believe they have achieved in persuading Beijing to be a cooperative and responsible partner in the region, there remains apprehension over China's growing military, political and economic power. Beijing's claims to the Spratly Islands and the South China Sea are of primary concern.[41] Currently, however, with the exception of the Philippines, the ten states of ASEAN are not overly worried about China's gradual military buildup. Beijing's defense modernization programs are seen as focused on Taiwan. The South China Sea territorial disputes are not expected to become critical until the question of Taiwan is settled. There is, however, concern that Chinese military capabilities—driven by Taiwan's US-supported defense modernization and in anticipation of American ballistic missile defenses—will one day be employed by China in the South China Sea. Consequently, in a manner similar to that of Japan, a sustained US military presence in the region is viewed as offsetting China's burgeoning military strength.

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[40] This discussion is drawn from Heginbotham and Samuels, 'Japan's Dual Hedge.'
[41] The following discussion draws primarily from Simon, 'Southeast Asia.'

India has long viewed China as its greatest potential military threat; this was the driving force behind its ties with the former USSR in the era of Sino-Soviet enmity. Border disputes and China's relationship with Pakistan, especially its military assistance and covert support of Islamabad's missile and nuclear weapons program, have been a constant security concern. These longstanding tensions have been joined more recently by China's inroads into Burma (Myanmar), which have aroused India's sensitivity to a Chinese presence in the Bay of Bengal. New Delhi's recently developed 'Look East' policy is driven by this unease over China's growing influence in Southeast Asia.[42] India is the only South Asian state to be a full dialogue partner of ASEAN and a member of ARF, and seeks to counter China's influence by expanding its political, military and economic ties in Southeast Asia.

New Delhi's hedging strategy, however is distinctly different from that pursued by Japan and ASEAN.[43] Whereas the Japanese and Southeast Asian strategies ultimately rely on the United States to offset China's growing military capabilities, India's goal is to remain as South Asia's hegemon and an independent power on China's periphery. The political and economic aspects of India's engagement strategy place foremost emphasis on the political component. New Delhi wants to avoid being locked into an antagonistic relationship with Beijing and has therefore sought to diplomatically manage its longstanding border disputes with China. Economically, India's focus is inward. New Delhi wants to revitalize its economy to provide a strong base for its political ambitions and to ensure internal stability. Despite the political and military initiatives now embraced by Washington and New Delhi, the place of the US in India's strategy is not as an ally. New Delhi wants a close working relationship with Washington, especially access to US military technology, doctrine and training, but primarily seeks recognition that India's hegemonic role in South Asia is in the US interest. At the heart of New Delhi's strategy is a commitment to establish India as an autonomous regional and global power—not a junior partner in any alliance or security arrangement.

Despite China's constant criticism of US alliances and utilization of Asian bases and port facilities as demonstrating American 'Cold War mentality,' Beijing recognizes that the United States' military presence is welcome in the region. Similarly, although Beijing blames the United States for sponsoring the image of China as a military threat, its active program of military-to-military

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[42] Simon, 'Southeast Asia,' p.294.

[43] This discussion is drawn from Ashley J. Tellis, 'South Asia,' in Ellings and Friedberg, *Strategic Asia*, pp.223-267.

diplomacy demonstrates recognition that its own increasing military capabilities are the primary cause of regional apprehensions.[44] Countering the exercise of US political and military strength has therefore involved seeking to allay maritime Asia's fear that China's growing power will ultimately result in an attempt to dominate the region. China's efforts have been made easier by the region's own strategy of engagement. Beijing's participation in regional multilateral organizations and its push to increase mutually beneficial trade and investment with the region have been welcomed—especially following East Asia's 1997 financial crisis.

China desire to present itself as a good neighbor and responsible member of Asia's multilateral organizations led to Beijing's introduction of the 'New Security Concept' (NSC).[45] Formulated in the spring of 1997, and occupying a prominent place in Beijing's 1998, 2000 and 2002 defense white papers, the NSC is China's proposal for a post-Cold War security system. Beijing made clear that the principles China espouses are in distinct contrast to the United States' 'Cold War mentality' seen in its use of military power and alliances as the bedrock of Washington's approach to regional security. In the place of military arrangements, Beijing recommends mutual trust, dialogue between sovereign states as equals, mutually beneficial economic cooperation, and no resort to military threats. Beijing's 2002 defense white paper summarized China's approach as based on 'mutual trust, mutual benefit, equality and cooperation'.[46] Given the apprehensions driving maritime Asia's hedging strategy, it is very unlikely China's NSC will supplant the confidence derived from US forward deployed forces and the alliances and facilities that enable their presence.

A CHINESE 'MONROE DOCTRINE'?[47]

Beijing's diplomacy, economic cooperation and military diplomacy over the past decade and more have markedly improved China's influence throughout Asia. China's relations with Russia, the new states of Central Asia, India, Southeast Asia, South Korea and Japan are now the best they have been

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[44] A summary of the past two decades of China's military diplomacy can be found in, 'China's Military Diplomacy Forging New Ties, 'Beijing, Xinhua, October 28, 2002, in FBIS-China, October 28, 2002.

[45] This discussion draws heavily on David M. Finkelstein, *China's New Security Concept: Reading between the Lines* (Alexandria, VA: The CNA Corporation, October 29, 1998)

[46] *China's National Defense in 2002*, p.3.

[47] The notion of a Chinese Monroe Doctrine is taken from John J. Mearsheimer, 'The Future of the American Pacifier,' *Foreign Affairs*, Vol. 80, No. 5 (September/October 2001), pp.46-61.

than at any time since the PRC's founding in 1949. This increase in Beijing's influence and Asia's response to China's initiatives is essentially inevitable. China is continental Asia's dominant power, with a flourishing economy that in some ways competes with other Asian economies but also contributes to the whole region's economic growth. Asia's hedging strategy toward an increasingly powerful China stems from the reality that little can be gained and much could be lost by pursuing confrontational policies.

It is unclear whether Beijing views its present success as laying the groundwork for an Asian 'Monroe Doctrine', in which US involvement in regional affairs would be acceptable only with China's approval. Such a doctrine would be plausible only if China had the military capability to enforce it. Assuming China remains politically stable and its economy continues to expand and technologically advance over the coming two decades, Beijing will have the resources required to support the research and development (R&D) programs and manufacturing capabilities required for a post-industrial economy. This same economy will be capable of supporting a sophisticated military-industrial complex. Furthermore, if China continues its present approach to defense modernization, over the next two or three decades Beijing's armed forces will be increasingly equipped with arms and supporting systems allowing them to contest US military pre-eminence in maritime Asia.

The American military presence in the Western Pacific is that of an extra-regional power using its force-projection capabilities and access to regional facilities to sustain a forward deployment. China's defense modernization programs seem deliberately designed to threaten US forward deployed forces and the regional foreign-hosted infrastructure required to sustain and augment them in times of military crises. The programs of greatest concern to the United States, many of which originated in the 1950s and 1960s, are: [48]

- R&D in space systems to develop wide-area space-based intelligence, surveillance and reconnaissance (ISR) systems.
- R&D in anti-satellite weapons.
- Cruise missile programs dedicated to improving the range and accuracy of land, air and ship-launched weapons.
- Ballistic missile programs that seek to improve the reliability, survivability (mobile systems), accuracy and response times of tactical, regional and intercontinental-range weapons to augment or replace current systems.

[48] This discussion is drawn primarily from Report to Congress, *Annual Report on the Military Power of the People's Republic of China* (Department of Defense, Washington, D.C. July 2002).

- Continuing R&D on nuclear-powered ballistic missile and attack submarines to augment or replace older ships now in service.
- Acquisition and development of advanced diesel-electric submarines armed with submarine-launched cruise missiles and guided torpedoes to augment or replace older ships in service.
- Development and acquisition of more capable naval surface vessels armed with advanced anti-ship cruise missiles for offensive missions. Because destroyers and frigates currently in service are deficient in air defenses and anti-submarine warfare capabilities, we should anticipate significant improvements in these realms over the coming decade.
- Air-power programs that develop and acquire technologically sophisticated multiple-role combat aircraft together with airborne warning and control system (AWACS) aircraft and aerial refueling to increase their effectiveness and combat radius.
- Ground-force programs that update armor and artillery weapons; development and deployment of helicopter aviation units; improved airlift capabilities for paratroop units; introduction of special operations forces; and increased amphibious warfare capabilities.
- R&D on offensive and defensive information operations.
- R&D and employment of improved command, control, and communications systems.
- Exercises designed to prepare the PLA for the joint operations essential for force projection and offshore defense.

It is correct to assume from Beijing's declared security priories and PLA exercises over the past several years that the current defense modernization is focused on a potential conflict in the Taiwan Strait, most likely involving US forces. Over the long-term, however, these same programs have a wider significance for the region and the United States. Beijing does not now plan to match the military capabilities of the United States with its commitment to global force projection. Nonetheless, the trajectory of China's military R&D and acquisitions does suggest that Beijing is seeking at a minimum the capability to implement an 'area denial' strategy along China's maritime periphery.

The purpose of the strategy would be to make it extremely hazardous for US naval forces to operate inside an approximately 600-mile buffer zone off China's coast.[49] Space-based ISR will permit the PLA to locate and track

[49] See Bernard D. Cole, *The Great Wall at Sea: China's Navy Enters the Twenty-First Century* (Annapolis, MD: Naval Institute Press, 2001), pp.165-176, for a more detailed discussion of this strategy.

surface forces that approach China, exposing them to attack by ship- and air-launched long-range cruise missiles. Modern, quiet submarines will be armed with guided torpedoes and cruise missiles. The foreign-hosted military facilities granting US forces much of their sustainability and land-based air power will be susceptible to targeting by extremely accurate conventionally armed cruise and ballistic missiles. Fourth-generation combat aircraft together with AWACS and aerial refueling will give China greater effectiveness in the air in both offensive and defensive missions. This area denial strategy will be backed by a nuclear deterrent credible in the face of US ballistic missile defenses. In short, US dependence on maritime force projection and foreign-hosted bases could be exploited by the capabilities China is now developing. These same capabilities will allow China to operate far more effectively in defense of its maritime claims and sea lines of communications.

The defense of China's continental periphery will be equally improved by current defense modernization programs. Upgraded ground-force weapons and mobility, combined with multiple-role combat aircraft and space-based ISR, provide the basis for a quick-reacting lethal response to any border confrontation. Force projection beyond the immediate border area is not a Chinese concern—Beijing's intent is to make an adversary's initiation of a military conflict along any part of China's borders a dangerous endeavor.

Although China's potential to challenge US military pre-eminence in maritime Asia is clearly present, it is uncertain whether Beijing will attempt to employ its future military capabilities to eliminate the United States as Asia's offshore balancer and establish China's regional hegemony. As John Mearsheimer has suggested, Beijing would first have to assess whether the costs and risks involved in the process of eliminating the United States are greater or less than the benefits accruing from hegemony.[50] Past assessments suggesting that a powerful China will seek hegemony have based a major part of their argument on the probable post-Cold War reduction of US forces in East Asia.[51] Because of the American perception that China is the single Asian state most likely to become the United States' strategic competitor, such a force reduction has not occurred and is unlikely to take place in the foreseeable future. The US Defense Department's current *QDR* and *Annual Report to the President and Congress* make this US apprehension clear despite the

[50] Mearsheimer, 'Back to the Future,' p.13.

[51] See, for example, Denny Roy, 'Hegemon on the Horizon? China's Threat to East Asian Security', *International Security*, Vol. 19, No. 1 (Summer 1994), pp.149-168.

thaw in Sino-American relations that emerged as the Bush administration sought China's assistance in its war on terrorism.

Moreover, when speculating on potential Chinese military capabilities as far distant as two or three decades hence, it must be recognized that Asia and the United States will not have stood still in those years. US forces are undergoing continuous modernization, and current planning is aware that reliance on foreign-hosted facilities to sustain forward deployments in the Western Pacific is a liability. Assuming no regional economic collapse, many Asian states will be building their own military strength. In particular, Japan and nuclear-capable India will be bolstering their capabilities, as will the major states of Southeast Asia. If the current mistrust of China's future course is not alleviated, Beijing will continue to face a regional hedging strategy in which the defense establishments on Asia's maritime periphery are militarily more capable and many governments look to the United States to counter China's military power. These decades also provide Moscow the opportunity to recover from its current economic dilemmas and begin reasserting its power and influence in the Asia-Pacific.

Looking ahead two decades, it is far more probable that Asia will become multipolar than remain bipolar or subjected to Chinese hegemony. Russia and India are potential great powers with important security interests in Asia and would oppose Chinese hegemony. There is the remote possibility of a Sino-Russian alliance to oppose the United States, but this would be costly for Russia's European interests. Moreover, the history of Sino-Russian relations over the past 150 years suggests that both Moscow and Beijing would view their partner with doubt and suspicion, making such an alliance inherently fragile. Japan would not want Chinese hegemony and would therefore sustain some form of its current security relationship with the United States. Nor would the states of Southeast Asia desire Chinese hegemony. Too weak individually or collectively to confront China, Southeast Asian states would rely on external powers to constrain Beijing.

IMPLICATIONS FOR US POLICY

Despite the present spirit of *rapprochement*, mutual apprehension remains the fundamental characteristic of Sino-American relations. The United States has good reason to be apprehensive over the course China may follow when it achieves the level of economic, technological, scientific and military capability it seeks. Although currently obscured by Beijing's pragmatic response to Washington's overwhelming political, economic and military power and its

need for US trade and investment, China's opposition to American pre-eminence is clear. Not only is China's opposition to the United States evident, but Beijing's military modernization programs also appear to be specifically focused on countering the US maritime strategy and the foreign-hosted bases enabling that strategy in the Western Pacific.

China's apprehension over US strategic intentions may well be misplaced, but Beijing has good reason to be suspicious. Much of US policy and strategy goes against Beijing's interests. American arms transfers to Taiwan have been accelerated and the Bush administration is pursuing much closer military ties with Taipei than any administration since the mutual security pact between Taiwan and the United States was terminated in 1979. The high priority the Bush administration has placed on developing national and theater ballistic missile defenses does threaten the credibility of China's small nuclear deterrent and its much larger inventory of theater weapons. Until the recent thaw in Sino-American relations, the Bush administration's hostility toward China was evident.

Nonetheless, the pragmatic approach adopted by Washington and Beijing as they now approach each other can be sustained as they develop strategies and policies for Asia. Longstanding US policy and strategy in Asia has been to prevent hostile domination of the East Asian littoral.[52] The United States has never had the strategic objective of becoming the hegemon of Asia. Asia is simply too vast and complex to set such a goal. US policy has been to prevent the rise of a regional hegemonic power or coalition of powers. Thus, whereas the United States would oppose a Chinese thrust for hegemony, a multipolar Asia would be, or should be, as acceptable to the United States as the current bipolar Asia. Whether Beijing would find a future multipolar Asia acceptable for its security interests cannot be determined at this time. To the extent that a multipolar Asia has diminished US influence, there is good reason to believe that China would find that arrangement acceptable.

What does seem to be evident is that the United States must sustain its strategy and capability to function as the offshore balancer to China's growing power. Beijing's progress toward an effective area-denial strategy does more than complicate US plans to provide Taiwan assistance in the event of an unprovoked attack. It also can raise doubt in Asia about the willingness and ability of the United States to sustain its offshore balancing role. A robust US military presence is therefore essential if Asia is to maintain its confidence in the United States. This, however, will entangle the United States and China

[52] This objective is stated in the current *QDR*, p.4.

even further in the present security dilemma, in which actions taken by one as defensive are seen by the other as offensive.

Purely military responses to each other's military deployments will not resolve this dilemma. As the United States adjusts its force deployments in response to China's increasing military capabilities and the need to reassure Asian allies and friends, it must also engage Beijing in high-level discussions of Asian security. Without such discussions, the mutual apprehension underlying Sino-American relations will only increase bilateral tensions and arms proliferation and enhance the potential for military conflict. The recent decision by Washington and Beijing to revive their suspended Defense Consultative Talks is an encouraging step toward restoring the high-level strategic dialogue required to ease the risks of mutual apprehension.[53]

[53] Nathan Hodge, 'US, China To Resume High-Level Military Talks,' *Defense Weekly Daily Update*, October 28, 2002.

THE PROBLEMS AND POTENTIAL OF THE PACIFIC ISLANDS FORUM

ERIC SHIBUYA

INTRODUCTION

The Pacific Islands Forum (PIF) can be justifiably proud of much of its accomplishments as a regional organization. Since its founding in 1971, the PIF (formerly the South Pacific Forum, and usually referred to simply as 'the Forum') has been the major avenue for the small island states of Oceania to assert a collective voice on major international issues, thereby amplifying their voice and impact. It has been through the Forum that positions on nuclear testing, climate change, fisheries, and other security and/or environmental issues have been articulated and pushed in the international arena. The pattern of cooperation developed among the countries in Oceania is well established and should provide many lessons for other regions. On the other hand, many critics view the Forum as an example of unrealized potential, of an organization of endless (and useless) discussion, where talk has replaced action as the measure of effectiveness. The Forum, it is argued, has refused to take the next step in its evolution, from regional organization to regional community.

This chapter will weigh the prospects for the development of a regional community. It will trace the historical development of cooperation in Oceania and the evolution of the Forum as an actor in regional and international politics. The structural and institutional obstacles to the Forum's development beyond a regional organization towards a regional community will then be articulated, with some concluding remarks on the future of the Forum and its potential development.

THE COLONIAL CONTRIBUTION IN DEVELOPING REGIONAL COOPERATION IN OCEANIA

Greg Fry has accurately noted, 'the full story of South Pacific regional cooperation cannot… be told solely as the history of the Forum in the way one might equate South-East Asian cooperation with ASEAN…. Much of the narrative should in fact be concerned with the politics of relations between

regional institutions and the political interests they represent'.[1] The accomplishments of the Forum have often been credited to its overarching philosophy of the 'Pacific Way'. Michael Haas has called the Pacific Way a system of 'unanimous compromise,' where everyone sacrifices something for the overall benefit of the whole and all decisions are made by consensus.[2] Although many government officials have ascribed to the Pacific Way a legacy extending to precolonial, precontact times, its actual development is more accurately traced to the aftermath of World War II. The colonial powers of the region (the United States, France, the Netherlands,[3] United Kingdom,[4] Australia and New Zealand) organized a 'South Seas' conference in 1947 and developed an organization for the welfare of their holdings. The organization was called the South Pacific Commission (SPC, or simply the Commission) and it was designed to provide technical advice on economic and social issues.[5] Discussion of 'political' issues remains strictly prohibited under the SPC's charter, and meetings originally only included the administering powers of the region. Representatives from the islands met with the administering powers triennially at the 'South Pacific Conference' where the islands were able to make their views known about policies initiated by the SPC, but this was almost inevitably after the fact. (Meetings of the Commission and Conference did not even take place at the same time in the years the Conference met). When Western Samoa became independent in 1964, a question arose as to where it should be placed—should it remain in the Conference (and essentially have no voice) or become a full member of the Commission? The eventual decision was to give Western Samoa membership in both organizations, but this led to questions for the future. Concern rose that the remaining islands would seek independence 'too soon' in order to gain full membership into the SPC.[6]

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[1] Greg Fry, 'International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy,' in W. Andrew Axline ed., *The Political Economy of Regional Cooperation* (London: Pinter, 1994), p.137.

[2] Michael Haas, *The Pacific Way: Regional Cooperation in the South Pacific* (New York: Praeger, 1989). Cook Islands Prime Minister Albert Henry coined the term in 1975.

[3] The Netherlands would leave the SPC when it relinquished control of Netherlands New Guinea (West Papua/Irian Jaya, subsequently integrated into Indonesia) in 1962.

[4] The United Kingdom withdrew from the SPC in 1996 but rejoined in 1998.

[5] The organization is now known as the Secretariat for the Pacific Community, and the acronym obviously is unchanged.

[6] Herbert Corkran, *Mini-Nations and Macro-Cooperation: The Caribbean and the South Pacific* (Washington D.C.: North American International, 1976), p.147.

The 'no politics' restriction on discussion in the SPC was the source of great dissatisfaction for the nascent leadership from the islands. The most pressing issues for the islands were clearly political ones involving larger questions of decolonization, but the greatest concern was nuclear testing by France.[7] Matters came to a head at the 1965 meeting in Lae, Papua New Guinea, when Ratu Sir Kamisese Mara of Fiji led a major push from the island representatives to give the Conference more relevance in the actions of the SPC beyond its existing 'advisory' capacity. The 'Lae Rebellion' was 'the first concerted effort by Pacific Islanders to protest against the structures in the SPC which ensured dominance by the colonial powers'.[8] Mara was also the driving force behind the creation in 1965 of the first indigenously motivated 'islands-only' regional organization, the Pacific Islands Producers Association (PIPA). Formed by Fiji, Tonga, and Western Samoa outside of the domain of the SPC, PIPA provided a unified front for negotiating the prices of common agricultural products for export.

Faced with increasing irrelevance, the SPC did evolve in an attempt to meet these new challenges and demands from the island states. From 1967 onward, meetings of the Conference and Commission were held together, and the difference between the two bodies essentially disappeared by 1974.[9] Despite these reforms, it was clear the SPC's charter made the organization too limited to deal with all of the issues confronting the region, and the South Pacific Forum was founded in 1971 as an attempt to address these rising challenges.

THE SOUTH PACIFIC FORUM

The first meeting of the South Pacific Forum was held in Wellington in August 1971. Attending the gathering were representatives of the Cook Islands, Fiji, Nauru, Tonga, and Western Samoa, as well as Australia and New Zealand.[10] Despite it being held in Wellington, New Zealand (and Australia) technically attended the first Forum meeting as observers, though both countries were recognized as full members a year later at the second meeting in

[7] Although the US had tested nuclear weapons in the Pacific, those tests ended in 1962.
[8] Greg Fry, 'The Politics of South Pacific Regional Cooperation,' in Ramesh Thakur, ed., *The South Pacific: Problems, Issues, and Prospects*, (New York: St. Martin's Press, 1991), p.173.
[9] Corkran, *Mini-Nations and Macro-Cooperation*, p.149. The administering powers still maintained the upper hand in the SPC due to its budgetary control.
[10] The respective Head of Governments attended for all of the island nations, as well as the Prime Minister of New Zealand. Australia's representative for this first meeting was its Minister for External Territories.

Canberra.[11] The initial arrangement was due to questions as to whether Australia and/or New Zealand would or should be full members of this new organization. It was recognized, however, that inclusion of Australia and New Zealand as full members of the Forum would maximize the influence the island states would have on their larger neighbors.[12] Additionally, Australia and New Zealand would be the major sources of funding for the new organization (each provides one-third of the Forum's annual operating budget, with the island states collectively providing the remaining third) and both were expected to give voice to regional concerns in other international gatherings.

The Forum has no formal constitution and technically therefore has no legal personality in international relations.[13] Far from a shortcoming, this fact is often listed as one of the strengths of the Forum because it gives the organization flexibility; all topics are up for discussion. Also, having no formal voting structure encourages decision making by consensus. The perceived benefits notwithstanding, the lack of legal personality may have been one of the major reasons for the establishment of the South Pacific Bureau for Economic Cooperation (SPEC), which would eventually adopt the role of secretariat for the Forum.[14]

Although the original motivation behind the Forum's creation was an open discussion of political issues (nuclear testing and decolonization, in particular), the initial practical impact of the Forum came in the area of economics. SPEC's original function was to enhance the export capacity of the island states, absorbing the duties of PIPA until the latter organization was eventually terminated in 1974. The South Pacific Regional Trade and Cooperation Agreement (SPARTECA) was opened in 1980, an early attempt by the countries of the region to adapt to the shifting forces of economic globalization.

The early emphasis of the Forum itself had thus primarily been regional; developing connections as a region (especially economically) was the major focus of discussion. For example, the need to coordinate regional aviation and shipping, as well as to alleviate costs in these industries, led to cooperative

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[11] Brij Lal and Kate Fortune, eds., *The Pacific Islands: An Encyclopedia* (Honolulu: University of Hawaii Press, 2000), p.332.
[12] Fry, *op.cit.,* p.140.
[13] Richard Herr, 'Regionalism and Nationalism,' in K.R. Howe, Robert C. Kiste, and Brij Lal, eds., *Tides of History: The Pacific Islands in the Twentieth Century* (Honolulu: University of Hawaii Press, 1994), p.286.
[14] *Ibid*., p.286-287.. The Forum designated SPEC as its secretariat in 1975, and in 1988 the body was officially renamed the Forum Secretariat.

efforts in the establishment of Air Pacific and the Pacific Forum Line (PFL). Issues with the coordination of telecommunications within the region led to the organization of an annual Regional Ministers Meeting on Telecommunications. In the larger sense of building connections and a sense of the region as a unified whole, the University of the South Pacific (USP) has evolved into an institution of indigenous learning.

It was really only as the Forum entered its second decade that it began to stretch its efforts as an organization into the international realm. The Forum Fisheries Agency (FFA) was founded in 1979 to provide a central point for information sharing and to serve as the chief negotiating body between Forum members and Distant Water Fishing Nations on licensing agreements to fish in the large and tuna-rich Exclusive Economic Zones (EEZs) of the Forum nations.[15] The region was finally able to coalesce its opposition to French nuclear testing into legal expression with the South Pacific Nuclear Free Zone (SPNFZ) Treaty in 1985. The Forum also provided strong statements calling for action to deal with climate change, especially during the run-up to the 1992 'Earth Summit' in Rio de Janeiro. The issue was first raised as a concern for study in the Forum's 1988 communiqué.[16] Three years later, the Forum would call global warming and sea level rise 'the most serious environmental threats to the Pacific region'.[17]

Certainly, the Forum has done much in its thirty years of existence. However, despite these accomplishments, the Forum has been hampered by lack of capacity, national interests overriding regional benefits, and the ability of single nations to exercise a de facto veto, thereby watering down Forum statements for the sake of 'Pacific Way' consensus. While the Forum has proven an effective avenue for small island states to amplify their voices (with

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[15] A brief outline of the development of the FFA can be found in Christopher Jasparro and Eric Shibuya, 'Environmental Security and Ingenuity in the Pacific: Case Studies of Local Biodiversity Protection and Regional Fisheries Management,' *Regional Development Dialogue* 23, no.1 (2002): 1-17.

[16] Climate change was becoming a prominent issue in 1988, with a conference on 'The Changing Atmosphere: Implications for Global Security' convening in Toronto in June. Also that month, James Hansen, head of NASA's Goddard Institute of Space Studies sparked a major debate when he testified before the US Senate Energy Committee and stated he was '99 percent certain' the warm temperatures of the 1980's were the byproduct of global warming (Ian H. Rowlands, *The Politics of Global Atmospheric Change* (Manchester and New York: Manchester University Press, 1995), p.73).

[17] Forum Communiqué, 1991. Twenty-Second South Pacific Forum, Palikir, Pohnpei, Federated States of Micronesia, 29-30 July. Texts of Forum Communiqués can be found on the Forum Secretariat website: http://www.sidsnet.org/pacific/forumsec/docs/docs.htm.

the aid of middle powers Australia and New Zealand) in the international arena, the record of the Forum as a regional *organization* should give one pause in considering the viability of Oceania as a growing regional *community*.

FAILING TO MAKE CONNECTIONS: THE REGIONAL INFRASTRUCTURE QUESTION

Although the leaders of the island states continually assert that the Forum allows them to unify and harmonize their voices and work together, many of the shortcomings of the Forum have been due to the propensity of one or more of its membership to take unfair advantage (or be perceived as taking unfair advantage) of the benefits derived from Forum projects. Air Pacific, for example, was originally conceived as the regional airline to service the island states. However, as Ron Crocombe has noted, Air Pacific's 'collapse as a regional airline and takeover by Fiji as a national airline, can be attributed to several factors, the biggest being the inequitable distribution of benefits'.[18] In Air Pacific's case, Fiji controlled the employment of airline staff and required all routes to be flown through Fiji, thus curbing its usefulness to other island nations, as well as shattering any façade that Air Pacific was in fact a *regional* body.

The bitter experience of Air Pacific left the island states wary of other regional transportation projects. As a result, shipping proposals were continually put off or rejected outright. Finally the Forum agreed in 1977 to establish the Pacific Forum Line, with each nation owning individual ships but those ships being leased to the PFL. While the leasing plan kept the PFL from falling victim to the inequities that befell Air Pacific, the PFL as a fully regional shipping line was not economically viable and would have collapsed without heavy subsidies and loans. In 1982, the PFL undertook substantial capitalization with a US$6 million loan from the European Investment Bank and an additional US$12.6 million from Australia, New Zealand, and seven island investors. The PFL currently operates on a commercial basis and has had marginal success, running its first surplus in 1985. The PFL returned dividends to its shareholders in 1988 and 1996.[19]

The University of the South Pacific, meanwhile, has not lived up to its potential as a regional institution of higher learning. Again, inequitable distribution of benefits stirred increasing dissatisfaction with the USP,

[18] Ron Crocombe, *The South Pacific* (Suva: University of the South Pacific, 2001), p.607.
[19] Lal and Fortune, *op.cit.*, p.389.

especially evident on its main campus in Fiji.[20] Fiji's immigration policies meant that employment again went mostly to Fiji nationals, as well as the bulk of the scholarships. USP has also not been immune to domestic tensions within Fiji, as shown in incidents of violence in the aftermath of the coups in 1987 and the attempted coup in 2000. Then-President of the USP Students Association Veresi Bainivualiku was the center of the 2000 controversy with alleged connections to the Speight rebellion as well as accusations of assault on an Ethnic-Indian Fijian student, among other questions.[21] In light of these events, the USP Council put forward in 2000 recommendations on ways to create a 'Pan-Pacific' identity at the university. These are currently under review.[22] Whether or not such an identity can be instituted deliberately in a top-down fashion is questionable. However, the point is that it is recognized that the USP has fallen far short in an area that is a cornerstone of its educational philosophy and purpose.

NATIONAL INTERESTS OVER REGIONAL CONCERNS

The unequal distribution of benefits found in the Air Pacific and USP experiences are an example of a nation placing national advantage over regional benefits, but Fiji is not the only country guilty of using this tactic within Oceania (or anywhere else, for that matter). While the Pacific Way is supposed to bring about flexibility and compromise, the strong desire for consensus (at times for its own sake, it seems) gives each Forum member a *de facto* veto during the Forum meetings, thus weakening the collective unity and power of the Forum. For example, in the mid-1980s, although the countries of the region were united in their opposition to French nuclear testing, the stance of each country regarding the larger question of nuclear deterrence varied rather significantly. Governments in Australia, Fiji, and Tonga were strong supporters of the United States and the nuclear umbrella that it provided. Vanuatu was very much against any aspect of 'nuclearism' in the region, a term coined by then-PM Father Walter Lini to describe the extension of colonial power through the US military presence. Although New Zealand received most of the international headlines due to its anti-nuclear stance resulting in the end of the trilateral Australia-New Zealand-United States (ANZUS)

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[20] Crocombe, *op.cit*, p.247-251.
[21] USP News, 'Daily Post Calls for 'Truth' at USP,' 23 August 2000, http://www.sidsnet.org/pacific/usp/journ/docs/news/usp3.html. Accessed 3 January 2003.
[22] Tamani Nair, USP News, 'USP Has 'Full-On' Programme in Spite of Political Crisis,' 1 September 2000, http://www.sidsnet.org/pacific/usp/journ/docs/news/usp11depvc.html. Accessed 3 January 2003.

alliance, the Lange Government actually attempted to craft its stance as non-nuclear, but not anti-ANZUS.[23] The SPNFZ Treaty is an attempt to produce a document that exhibited unified resistance to French testing but left the US issue slightly more ambiguous. Some analysts criticized the treaty as being too much a by-product of the Australian position, arguing that the Hawke government had forced the creation of the SPNFZ Treaty in such a manner as to protect its military alliance with the US and its uranium exports.[24] The resulting treaty came under fire from both the conservative and radical camps, with Tonga (arguing that it went too far) and Vanuatu (arguing that it did not go far enough) both refusing to sign the treaty when it was first opened.[25]

Both Australia and New Zealand, being former colonial powers in the region, have occasionally had image problems in the South Pacific, and both have at times been perceived as overbearing, condescending, or even hegemonic.[26] New Zealand has generally been more sensitive to this issue, and as a consequence has been seen as more a part of Oceania than Australia. That said, New Zealand has had recent splits with the island states, notably on questions of democracy and (from the view of the islanders) issues of indigenous rights. Most notably, New Zealand Prime Minister Helen Clark declared prior to the 2000 Forum Meeting that she would not ride to the leaders' retreat on the same boat with Fiji PM Laisenia Qarase, who had been installed in the aftermath of the coup. As a result, two boats were used, but Clark and John Howard rode on one boat, while the other island states' heads of government rode with Qarase. As Firth says, 'the incident underlined the extent to which Clark, and in smaller measure John Howard, were under domestic pressure to parade their democratic credentials when in the Pacific,

[23] For an expanded articulation of this position, see David Lange, *Nuclear Free--the New Zealand Way* (Auckland: Penguin, 1990).
[24] The most articulate version of this argument is found in Michael Hamel-Green, *The South Pacific Nuclear Free Zone Treaty: A Critical Assessment* (Canberra: Peace Research Centre, Research School of Pacific Studies, Australian National University, 1990). For an analysis that views the treaty's construction more pragmatically, see Greg Fry, 'Regional Arms Control in the South Pacific,' in Desmond Ball and Andrew Mack, eds., *The Future of Arms Control* (New York: Pergamon Press, 1987).
[25] This could be taken as a sign that 'unanimous compromise' was achieved in the negotiations.
[26] See Rosaleen Smyth, Nii-K Plange, and Neil Burdess, 'Big Brother? Australia's Image in the South Pacific,' *Australian Journal of International Affairs* 51, no. 1 (1997): 37-52 and Jim Rolfe, 'New Zealand and the South Pacific,' *Revue Juridique Polynesienne* 1 (2001): 157-169.

and the tendency of Island leaders to stick by their own in the face of *foreign* criticism'.[27]

Australia has hurt its image by holding fast on the issue of climate change. During early discussions, both Australia and New Zealand were supporters of reduced greenhouse-gas emissions and both countries had even endorsed what was then known as the 'Toronto Target,' a pledge to cut emissions by twenty percent from 1990 levels by the year 2000.[28] The Forum had issued unequivocal statements of concern on the threat of climate change and sea-level rise, but things would change as the issue moved from agenda setting to policy formulation. The 1991 Communiqué called for 'significant and immediate reductions' of greenhouse gases, especially carbon dioxide, as well as pointing to the responsibility of the industrialized countries to take the initial steps to mitigating climate change.[29] A year later, after the negotiations in Rio, the Forum urged the early negotiations of protocols that address, 'in particular, the issue of *targets* and *timetables* for the reduction of carbon dioxide and other greenhouse gas emissions'.[30] The call for binding protocols establishing set targets and timetables for achieving reductions in greenhouse gases would be repeated the next year, though the language would be toned down in following communiqués. On the eve of the climate meeting in Kyoto, the Forum had a chance at their meeting in Rarotonga to issue a strong statement on climate change and perhaps build some international sentiment for a strong protocol. However, Prime Minister John Howard of Australia had already publicly stated that he would not agree to any statement on binding targets for greenhouse-gas reductions for fear that the Australian economy would be damaged.[31] The Forum leaders' statement on climate change is a completely uncontroversial document, recognizing 'deep concerns' about the impacts of climate change and 'urged all participants at the forthcoming Kyoto Conference to pursue vigorously an outcome which would produce the highest level of net reduction in global greenhouse emissions'.[32] Tuvalu's Prime Minister Bikenibeu Paeniu said after the statement was issued, 'Australia

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[27] Stewart Firth, 'A Reflection on South Pacific Regional Security, Mid-2000 to Mid-2001,' *Journal of Pacific History* 36, no. 3 (2001), p.278, emphasis added.

[28] The target would later be called the 'AOSIS Protocol,' named after its proposal by the Alliance of Small Island States (AOSIS).

[29] *Forum Communiqué*, 1991.

[30] *Forum Communiqué*, 1992. Twenty-Third South Pacific Forum, Honiara, Solomon Islands, 8-9 July, emphasis added.

[31] Bernadette Hussein. 'The Big Retreat,' *Pacific Islands Monthly*, November 1997, p.11.

[32] Forum Leaders' Retreat Statement on Climate Change, 1997. Annex I of 28th South Pacific Forum Communiqué, Rarotonga, Cook Islands, 19 September.

dominates us so much in this region. For once, we would have liked to have got some respect'. Howard, on the other hand, remarked that 'there were a range of views, but in the end there was consensus'.[33] Howard's actions at the 1997 Forum are perhaps more infamous within the region for *how* he acted rather than what he said. At the leaders' welcome dinner, dancers came to each leader and brought them up to the floor. Howard refused to move from his seat.[34] The awkward situation only further highlighted the gap between Australia and its island neighbors.

THE SOVEREIGNTY OBSTACLE

Quite similar in many respects to ASEAN, there is a strong reluctance in the Forum to deal with matters internal to another country. While there are no official limitations or pledges of 'noninterference,' the Forum has generally respected the internal sovereignty of its members. Indeed, the one successful example of Forum intervention was the 1980 secession in Vanuatu, which was quelled by members of the Papua New Guinea defense force, with Australia providing logistical and transportation support.

This situation has not gone without criticism from within the Forum itself, however. Former New Zealand Prime Minister David Lange is reported as commenting that, 'in no circumstances will anything be discussed, no matter how important, which involves the internal affairs of a member. We met in Apia in 1987, shortly after the Fiji coup and pretended it hadn't happened'.[35] Indeed, the Forum Communiqué of that year stated the 'deep concern and anguish… felt over recent events involving the overthrow of the elected Government in Fiji'. In a comment regarding any role the Forum might play in resolving the crisis, the only thing mentioned explicitly was a Forum-sponsored mission sent to Fiji to hold 'discussions with all parties in Fiji with a view to attempting to facilitate processes leading to a resolution of current problems'.[36] Furthermore, the mission would only be sent at the request of Fiji's Governor-General.

The 1987 coups in Fiji were not the only instance of the Forum avoiding an internal matter of one of its members. Papua New Guinea (PNG) had been dealing with a secessionist movement in the province of Bougainville that had escalated into a full-scale civil war in 1989. Despite the loss of life and

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[33] Hussein, *op.cit.,* p.11.
[34] 'Editorial: 28th South Pacific Forum: Australia Calls the Tune,' *Pacific Islands Monthly*, November 1997, p.5.
[35] 'Pacific Forum goes on Trial,' *Dominion* (NZ). 27 October 2000, p.10.
[36] Forum Communiqué, 1987, Eighteenth South Pacific Forum, Apia, Samoa, 29-30 May.

evidence of human rights abuses on the part of both the Bougainville Revolutionary Army and the PNG Defense Force, the Forum made no comment on Bougainville until 1997, and the reference then was to peace talks being put in place.[37]

SOME SOUND AND FURY: REGIONAL STATEMENTS

Most major internal security issues have been ignored or avoided by the Forum. The focus has been on issues like French nuclear testing and decolonization issues such as New Caledonia. The Forum has issued three major statements on security and security cooperation. The 1992 Honiara Declaration on Law Enforcement Cooperation was the first. As its title suggests, however, its focus was on developing methods of cooperation to deal with transnational crime issues. Major concerns included drug trafficking and money laundering, and discussions about mutual assistance were welcomed, but the Declaration was never implemented.[38] Five years later, the 1997 Forum issued the Aitutaki Declaration on Regional Security Cooperation. Again, it only specifically mentioned environmental disasters and transnational crime issues. Finally, the Biketawa Declaration was issued at the 2000 Forum. Coming in the aftermath of the overthrow of Fiji's elected Chaudhry government in May, both Australia and New Zealand pushed for a strong statement and an attempt at developing guidelines to assist on internal security matters. Although the main communiqué itself provided little comment on Fiji or other security issues (the communiqué mentioned the Townsville Peace Agreement on the Solomon Islands and 'welcomed the effort and commitment to date by the Fiji Interim Government to return the country to constitutional democracy and looked forward to further progress in these efforts[39]'), Biketawa may be read as giving the Forum a larger role to play in the kinds of regional security issues it has previously avoided.

Biketawa commits Forum member countries to guiding principles including good governance, equality of all individuals under the law, and

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[37] 'The Forum warmly endorsed the recent efforts made by the Government of Papua New Guinea in restoring peace to the island and expressed its readiness to assist Papua New Guinea wherever possible in its efforts to bring about a lasting a durable peace to Bougainville Province'. Forum Communiqué, 1997, Twenty-Eighth South Pacific Forum, Rarotonga, Cook Islands, 17-19 September.

[38] As an interesting side note, the Declaration does mention as part of its 'Other Issues' section the threat of terrorism to the political and economic stability of the region noting special concern for civil aviation agencies.

[39] Forum Communiqué, 2000. Thirty-First Pacific Islands Forum, Tarawa, Kiribati, 27-30 October.

peaceful transitions of power, but it also respects indigenous rights and traditional values.[40] So the underlying tensions continue even under this latest statement. Biketawa does go further than its predecessors in that it does lay out processes of investigation that the Forum could initiate during a crisis in one of its members. While all of the explicit actions are innocuous (assess the situation, appoint a fact-finding mission, provide mediation, among others), the ability to convene a special meeting to 'consider other options' does leave open the possibility of some type of intervention. It remains to be seen whether Biketawa will stand up to the test posed by the next crisis.

THE FUTURE OF THE PACIFIC WAY

'The Pacific Way must emphasize effective regional co-operation, if we are to achieve our goals. To me the primary goals are social adequacy through quality education in its broadest sense, and economic self-reliance'.[41] Although much has been accomplished during its existence, those primary goals remain as prominent as when the preceding quote was written a quarter-century ago. Despite a growing willingness to deal with security issues, the island states especially have returned to chronic issues of economic viability. These issues have become even more important now due to economic globalization, and the Forum and its membership are re-examining issues of economic cooperation. Efforts are under way to stimulate trade both within the region and with other parts of the world. Agreements such as the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA), both signed in 2001, are efforts by the region (and especially the small islands) to ride the waves of economic globalization without being swept away. The current Cotonou Convention gives some former island colonies in Africa, the Caribbean, and the Pacific preferential access into European markets. The Convention states that this arrangement will gradually be replaced by free trade agreements to take effect by January 2008. The PACER agreement is an umbrella agreement that allows the small island states to slowly phase in free trade, first amongst the island countries (via PICTA), then within the region (Australia and New Zealand), and then beyond.

It is arguable whether the purpose of the Forum, despite the occasional lofty statement, really is to develop a regional community. Perhaps a more clear distinction should be made between the Forum as regional organization

[40] Biketawa Declaration, Thirty-First Pacific Islands Forum, Tarawa, Kiribati, 27-30 October.
[41] Dr. T.R.A. Davis, 'Pacific Survival: Effective Regional Co-Operation,' *Pacific Perspective* 7, no. 1-2 (1978), p.4.

and the Pacific Way as a philosophy and practice that may evolve into a regional, communal identity. As Firth points out, 'The Commonwealth, not the Forum, negotiated the first precarious peace agreements in the Solomons enshrined in the Honiara Accord and the Panatina Agreement of 1999. When those agreements collapsed in the armed conflict of mid-2000, it was Australia and New Zealand, not the Forum, that intervened'. He then posits, 'Under these circumstances, the future role of the Biketawa mechanism might well be to confer the imprimatur of regional legitimacy on what are essentially bilateral interventions undertaken by Australia and New Zealand, which will claim to be acting on the basis of a mandate given by the Pacific Islands Forum'.[42] However, if actions are indeed taken, and (perhaps more importantly) seen as legitimate, could this be detrimental to the security of the region? Recent events may suggest a shift in thinking, as Australia has now led what has been judged a successful intervention operation in the Solomon Islands dispute. There continue to be fears that this intervention will require a commitment greater than Australia will be willing or able to provide. The concern has been expressed that, 'if [Australia] intervene[s] on their request, we will be running the show for the next 50 to 100 years'.[43] Nevertheless, the fact that Australia was willing to lead the operation, and other states were willing to participate may signal a new trend in the activism of Australia and New Zealand in the region under the approval of the Forum. Australia has continually pointed to the Biketawa mechanism and the unanimous approval/invitation by the Solomons Parliament as its justification for the legitimacy of the operation.

One of the major criticisms of the Pacific Way has been its slow pace. Noel Levi, then Secretary General of the Forum Secretariat, noted that while those from the outside want to come to a decision, 'here in the Pacific, we take our time'.[44] Frustrating though that gradual process may be, no result will ever have credibility without a sense of procedural legitimacy. As Jim Rolfe writes, 'The Pacific Way involves sitting and thinking about the process and getting that right as much as it does in trying to develop solutions. Once the participants are happy with the process, solutions are likely to follow…. No way forward is possible until both sides can see that there is more to gain from peace than from fighting'.[45] Sitiveni Halapua, director of the East-West Center's Pacific Islands Development Program, developed the *Talanoa* process

[42] Firth, *op.cit.,* p.280.
[43] Megan Saunders, 'In the Midst of Pacific Grim,' *Australian*, 3 October 2002, p.5.
[44] Pacific Islands Forum, 2001. 'Focus on the Future,' video.
[45] Jim Rolfe, 'Peacekeeping the Pacific Way in Bougainville,' *International Peacekeeping* 8, no.4 (2001), p.52.

to mediate between the main actors in the aftermath of the May 2000 overthrow in Fiji. The process brought deposed Prime Minister Mahendra Chaudhry and caretaker PM Laisenia Qarase together for talks.[46] Certainly, one can debate whether more needs to be done, but no major incidents of violence have occurred since *Talanoa* was instituted, and that may be a sign of progress in and of itself. As Halapua himself said, 'Better people take a long time and talk than a long time and fight'.[47]

[46] The term 'talanoa' itself is Fijian for talking. Halapua in his presentations on the process stresses that it does not mean 'talking about nothing,' but rather 'talking without control or with a specific agenda.'

[47] Personal Communication with the Author, 6 November 2002

ASEAN: A COMMUNITY STALLED?

NARAYANAN GANESAN

The Association of Southeast Asian Nations (ASEAN) was born from the Bangkok Declaration of August 1967. Much of the political turbulence that was a hallmark of politics in maritime Southeast Asia prior to ASEAN's formation eventually dissipated as the regional organization cohered in the 1970s and 1980s. Structurally, ASEAN functioned well within the framework of the Cold War since it amalgamated the interests of the non-communist countries of Southeast Asia, despite being predominantly anchored in the maritime region and in particular the Malay Archipelago comprising Indonesia, Malaysia, and Singapore. Quite apart from its anti-communist character, ASEAN evolved to provide familiarity and accommodation between the indigenous political elite and also significantly enhanced regime legitimacy for nation-building and developmental purposes.

ASEAN has been widely acknowledged as a significant actor in Southeast Asian international relations, especially for its involvement in resolving the Cambodian political situation in the 1980s, albeit with broader structural changes and the involvement of major external powers that facilitated the process significantly. With the eventual admission of Cambodia into ASEAN in April 1999, the organization fulfilled its corporate desire of representing the entire region. Accordingly, at least in terms of its geographical footprint, ASEAN, perhaps with the exception of East Timor, collectively represents Southeast Asia. The organization's lengthy tenure, against the backdrop of previously failed regional predecessors in the Association of Southeast Asia (ASA) and MAPHILINDO (Malaysia, Philippines, and Indonesia), and its involvement in regional affairs have led analysts to regard ASEAN as a community of sorts, in its various manifestations.

Significantly, ASEAN is often regarded as constituting a diplomatic, security, economic, and cultural community. This chapter appraises the utility of ascribing such labels to ASEAN on the basis of empirical evidence. The central argument of the chapter is that whereas ASEAN fulfils the procedural and transactional demands of a diplomatic and cultural community, it is

neither a security nor an economic community.[1] The major reasons for ASEAN's failure as a security community are the prevalence of intramural threat perceptions and the large number of outstanding bilateral issues that have the propensity to deteriorate into violence. Its failure as an economic community is a function of the competitive rather than complementary nature of economic activities and the economic introversion rather than integration arising from the Asian financial crisis of 1997. Both the economic and political failures are also a function of extra-regional developments and pressures.

This chapter is divided into three major sections. The first section briefly surveys ASEAN's formation and its significant achievements thus far. The second section looks at the centrifugal and centripetal forces within ASEAN as well as pulls and pushes from the larger regional and international communities. On the basis of an examination of the empirical evidence, the third section correlates ASEAN-related developments to the four different conceptions of community that will be addressed.

ASEAN IN HISTORICAL AND CONTEXTUAL PERSPECTIVE

ASEAN's inauguration in August 1967 was significant in that it brought an effective end to Sukarno's policy of military confrontation against Malaysia.[2] It was also significant in enhancing Malaysia-Philippine relations, endangered by the latter's claim to the East Malaysian state of Sabah in the island of Borneo, and Malaysia-Singapore relations owing to the latter's fissure from the Malaysian federation in 1965 following a short two-year merger. President Suharto of Indonesia inaugurated his New Order government, which abandoned Sukarno's aggressive and revolutionary foreign policy, to reorder regional relations. Nonetheless, Indonesia adhered to its proprietary claim to lead the region—a role that was exercised until the collapse of the Suharto government in May 1998.[3]

Lingering suspicions and anxieties between member states made things difficult for ASEAN at the outset. Its first significant activity was in declaring the region a Zone of Peace, Freedom and Neutrality (ZOPFAN) in 1971 in view of broader international structural changes, particularly the winding down of the Cold War in Europe and the inclusion of China in international

[1] At the 2003 ASEAN Summit, leaders resolved to work to develop an ASEAN security, economic and social community.

[2] For a description of the pre-ASEAN political situation, see Bernard K. Gordon, *The Dimensions of Conflict in Southeast Asia* (New York: Prentice Hall, 1966).

[3] See Michael Leifer, *Indonesia's Foreign Policy* (London: George Allen and Unwin, 1983), p.xiv.

diplomatic relations. An ambitious attempt at import substitution, the ASEAN Industrial Projects (AIPs) of the early 1970s generated little enthusiasm.

Approximately a decade after its formation, in 1976 ASEAN established a central secretariat in Jakarta and signed two explicitly political treaties, the Treaty of Amity and Cooperation and the Treaty of ASEAN Concord. The first emphasized the disavowal of conflict and aggression to resolve inter-state disputes, while the second was a gesture of solidarity and willingness to coordinate political activities. All these developments led to the significant institutionalization of ASEAN and paved the way for its political involvement in the Indochina theater. Suffice it to say, as observed by Michael Leifer, these developments were a response to the Indochinese situation in general, and Vietnam in particular. Only a year before these developments, in 1975, the Vietnam conflict ended in a North Vietnamese triumph, and ASEAN was anxious to contain the success of revolutionary communism in mainland Southeast Asia, and perhaps beyond.

From 1976 to 1989, ASEAN's coherence and *raison d'etre* quickly shifted to developments in the Indochinese peninsula. Vietnam's invasion and occupation of Cambodia in 1979 for a period of ten years was catalytic in transforming ASEAN.[4] The organization sought to contain perceived Vietnamese ambitions by frustrating its invasion and occupation of Cambodia.[5] From 1979 to 1982, ASEAN led diplomatic efforts at the United Nations to deny Vietnam political legitimacy in Cambodia by supporting the ousted government of Democratic Kampuchea (DK) led by the Khmer Rouge. When international opinion turned against the DK regime for genocide, ASEAN engineered an expanded Khmer coalition by including the nationalist forces of Son Sann and the royalist forces of Norodom Sihanouk to form the Coalition Government of Democratic Kampuchea (CGDK). The rationalizations ASEAN offered for this policy were to deny Vietnam the precedent to reorder regional inter-state relations through force and to prevent Thailand from becoming a 'front-line' state to communism through the occupation of Cambodia. Separately, Thailand, together with China, set up border encampments for the CGDK on the Thai-Cambodian border to engage Vietnamese occupation troops. For Thailand, this policy was part of a broader informal alignment with China to replace the United States as an

[4] The importance of the Indochinese political situation for ASEAN cohesion is detailed in Michael Leifer, *ASEAN and the Security of Southeast Asia* (London: Routledge, 1989).
[5] See Muthiah Alagappa, 'Regionalism and the Quest for Security: ASEAN and the Cambodian Conflict,' *Journal of International Affairs* 46:2 (Winter 1993), pp.439-467.

external guarantor to its security.[6] China's 'punitive expedition' against Vietnam in February 1979 was both to assuage Thai security concerns as well as to support the Khmer Rouge. Suffice it to say then that ASEAN's involvement in the Cambodian situation brought the organization far greater coherence and international visibility. In the meantime, Brunei joined ASEAN in 1984 after the United Kingdom lifted its protectorate status over the country.

While the Cambodian situation was being resolved by the larger international community that was in turn led by the United Nations, ASEAN reformulated a new agenda for itself in the 1990s.[7] Concurrently, it sought the expansion of its membership to include all the countries of Southeast Asia. In terms of political initiatives, ASEAN initially elevated the status of its Post-Ministerial Conference (PMC) in 1992 and then went on to inaugurate the ASEAN Regional Forum (ARF) as the premier regional multilateral security forum in July 1994. It also enhanced internal security cooperation to deal with a number of transnational security issues like piracy, drug trafficking and illegal migration. Additionally, ASEAN formed a nucleus within the Asia Pacific Economic Cooperation forum (APEC) that was formed in 1989. For economic initiatives, it endorsed regional 'growth triangles' as constitutive of intra-ASEAN cooperation and in 1993, signed a pact that was to eventually lead to an ASEAN Free Trade Area (AFTA) by 2008. This timetable was subsequently reduced so that it would take effect in 2002.

To fulfill its goal of an expanded membership encompassing the region, ASEAN accepted Vietnam into the organization in July 1995 and Laos and Burma/Myanmar in July 1997. The outbreak of domestic conflict in Cambodia in 1997 between the forces of Hun Sen and Norodom Ranariddh led to a postponement of Cambodian membership. Cambodia was subsequently absorbed in April 1999. ASEAN's membership expansion changed the organization's calibration and outlook in that it now has within its fold three communist member countries in Vietnam, Laos, and Cambodia, and a country with a military junta in power in Burma. The inclusion of military authoritarian states is not without precedent, since Indonesia, the Philippines and Thailand all had such governments during the association's history. Nonetheless Burma's accession brought with it intramural differences between the Philippines and Thailand on the one hand, and the remaining members on the

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[6] Sukhumbhand Paribatra, *From Enmity to Alignment: Thailand's evolving relations with China* (Bangkok: Institute of Security and International Studies, Chulalongkorn University, 1987).

[7] See N. Ganesan, 'Taking Stock of Post-Cold War Developments in ASEAN,' *Security Dialogue* 25:4 (December 1994), pp.457-468.

other, over how to best deal with the new entrant. Such considerations were at least in part fuelled by diplomatic difficulties that ASEAN encountered with the United States and the European Union over the new entrant.[8]

More recently, ASEAN initiatives have included an attempt to collaboratively engage the Northeast Asian countries through an institutionalized mechanism in the ASEAN + 3 grouping that includes China, Japan, and South Korea. Attempts at the further and formal institutionalization of this grouping by Malaysia through the location of a permanent secretariat in Kuala Lumpur have been frustrated. Other than external pressures from the United States and countries allied with it to contain what is perceived as exclusive regionalism, there are also anxieties within ASEAN. Indonesia, which houses the ASEAN secretariat, and Singapore, which houses the APEC secretariat, are anxious to avoid being overwhelmed. There are also widespread suspicions that the new corporate entity is but a reformulation of Malaysia's East Asian Economic Grouping (EAEG) that was subsequently downgraded to an East Asian Economic Caucus (EAEC) in ASEAN deliberations.

CENTRIFUGAL AND CENTRIPETAL FORCES

There is little doubt that there exist both pulls and pushes within ASEAN. Among the positive factors in its favor is the maturity of the organization itself. After thirty-five years of uninterrupted existence and having overcome the initial anxieties of the original member states, ASEAN has evolved a policy of regular consultation and dialogue on a wide variety of matters and at different levels of officialdom, from bureaucrats to heads of states. The approximately 300 meetings a year and joint cooperation have indeed had a percolating effect on the inhabitants of the region. This conception of ASEAN consciousness does indeed exist. Similarly, at the elite level, the policy of unobtrusive engagement and consultation has even spawned the phrase the 'ASEAN Way'.[9] This 'soft capital' acquired over years of interaction and the passing down of such familiarization through regular tours for new incumbents in office has remained intact and gelled.

Both geography and history have aided the process of bonding. Geographically, the founder members of ASEAN had always envisaged the

[8] N. Ganesan, 'ASEAN and its Relations with Major External Powers,' *Contemporary Southeast Asia* 22:2 (August 2000), pp.258-278.

[9] See Amitav Acharya, 'Ideas, identity and institution-building: from the 'ASEAN Way' to the 'Asia-Pacific Way'?' *The Pacific Review* 10:3 (1998), pp.319-346.

eventual membership of all Southeast Asian countries in ASEAN and live with the realization that the individual destiny of member states is at least partly derived from the immediate regional environment. Historically, regional elites are also familiar with the turbulence that characterized inter-state relations in the 1960s, and are anxious to avoid a return to the negative past. Additionally, it is hoped that the history of positive cooperation will deflect threats to return to a disruptive past. Yet, both internal and external forces and related agendas are not always within the control of ASEAN member states.

There are a number of internal forces that exert pressure on ASEAN and its evolution and agenda. One of the more serious forces is the dissipation of collective regional and institutional leadership of ASEAN following the collapse of the Suharto government in May 1998. Suharto's ascendancy in Indonesia clearly stabilized the regional environment and the willingness of member states to grant Indonesia *primus inter pares* status within ASEAN also restrained Indonesian hegemonic ambitions in the region.[10] The political turbulence and rapid regime changes in post-Suharto Indonesia have not fostered the conditions required for domestic political consolidation, leave alone regional leadership. During better times, Indonesia was able to attempt to broker the Cambodian impasse, albeit unsuccessfully with the Jakarta Informal Meetings (JIM) in 1988, played honest broker in trying to resolve the disputed Spratlys territorial claims between China and ASEAN member states in the 1990s through informal annual dialogues, and brokered the truce between the Ramos government in the Philippines and the Moro National Liberation Front (MNLF) in 1996.[11] Such regional leadership no longer exists, and arguably ASEAN is the weaker for it.

Domestic political challenges and regime transitions in many of the core ASEAN member countries have left regional political elites weakened and more focused on an internal agenda of regime consolidation than on collective regional development. Quite apart from the situation in Indonesia, there have been significant problems in Malaysia, the Philippines, and Thailand, the larger of the original five member states. Weakened internal political legitimacy and correspondingly reduced state capacity to coherently articulate policy output clearly inhibits regional cooperation.

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[10] See Anthony Smith, *Strategic Centrality: Indonesia's Changing Role in ASEAN* (Singapore: Institute of Southeast Asian Studies, 2000).

[11] On Indonesian regional leadership efforts see Leo Suryadinata, *Indonesian Foreign Policy Under Suharto: aspiring to international leadership* (Singapore: Times Academic Press, 1996).

The Asian financial crisis of 1997 has also weakened the economic capacity of member states. Correlated to regime contestation in Indonesia, Malaysia, and Thailand, the crisis has led to high unemployment rates, significant weakening of the financial and property markets, depreciated currencies and bankrupted reserves. Coping with these problems while adhering to the demands of international donor and lender agencies as well as investors has been an immense challenge.[12] It may be remembered, for instance, that it was the internationally mandated removal of subsidies for food and other essential daily consumables in Indonesia that led to the food riots that eventually metamorphosed into political violence and regime change in Indonesia. In light of these problems and associated domestic economic restructuring, Southeast Asian states have become considerably more introverted, forced to deal with domestic agendas rather than regional ones.

ASEAN's internal dynamics following the admittance of four new members in the 1990s has also complicated the decision-making process. In recognition of the lower levels of development and preparedness of the newer members to immediately accede to ASEAN's pre-existing agenda, these states have been offered longer grace periods for compliance with collective decisions like trade liberalization and tariff reduction. There are also unspoken fears of Vietnam bearing overwhelming influence on the decisions of Cambodia and Laos for a strengthened position. Finally, it must be noted that ASEAN's policy of consensual decision-making will obtain significantly lower levels of convergence on policy matters for ten countries instead of six. Such procedural difficulties weaken ASEAN's previously coherent organizational culture.

There are also a number of specific issues that have seen relations deteriorate between ASEAN member states. Some of the more serious ones that are partly related to state and enforcement capacity include piracy, drug trafficking, atmospheric and marine pollution, insurgency, and illegal migration and fishing. Many of these 'non-traditional' security issues have frayed

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[12] There are a large number of books and articles that deal with the issues and impact of the Asian financial crisis. For a sampling of the literature see H.W. Arndt and Hal Hill eds., *Southeast Asia's Economic Crisis: Origins, Lessons, and the Way Forward* (Singapore: Institute of Southeast Asian Studies, 1999); Karl D. Jackson ed., *Asian Contagion: The Causes and Consequences of a Financial Crisis* (Boulder, CO.: Westview Press, 1999); Richard Robison et al., eds., *Politics and Markets in the Wake of the Asian Crisis* (London: Routledge, 2000); Gerald Segal and David S.G. Goodman eds., *Towards Recovery in Pacific Asia* (London: Routledge, 2000); and Purnendra Jain et al. eds., *Crisis and Conflict in Asia: Local, Regional and International Responses* (New York: Nova Scientific, 2002).

relations between geographically proximate states.[13] They are often the cause of serious bilateral disputes that have sometimes deteriorated into conflicts. For example, drug trafficking, insurgency and illegal fishing have led to the outbreak of a number of conflicts between Thailand and Burma in the 1990s. Illegal migration of Indonesians to Malaysia has led to serious tensions between those two countries. Piracy and pollution from Indonesian forest and agricultural fires—euphemistically referred to as the 'haze'—has led to considerable disquiet in neighboring Malaysia and Singapore. More recently, terrorism and the discovery of transnational terrorist cells in Southeast Asia such as the *Jemaah Islamiah*, has also led to considerable regional frustration at the slow response of the Indonesian government in apprehending those of its nationals who are widely accused of leadership and complicity in such activities.[14] The terrorist attack in Bali in October 2002 provided the Indonesian government with an opportunity to deal with Islamic extremism and terrorism. It remains to be seen whether the Indonesian government will act decisively in the matter, although the indications are that it is determined to. Many of the issues mentioned are causal factors in deteriorated regional inter-state relations. Over time, they became interactive with deteriorated ties, in terms of the emergence of new issues or the prominence given to existing ones.

EXTERNAL FORCES

External forces that impact on ASEAN, like internal forces, have both positive and negative effects. Of the positive effects, the 'soft capital' that ASEAN has acquired over the years is generally acknowledged and often successfully utilized. Major Asian regional powers such as China, India, Japan, and South Korea deal with ASEAN as a collective body. The well-entrenched set of regular dialogue partnerships that include the United States, the European Union, Australia, Canada and New Zealand continue to provide the benefits of regular consultation and policy coordination. ASEAN-initiated multilateral fora such as the ARF and the ASEAN + 3 grouping are generally well regarded and attended. Similarly, the existence of an ASEAN core within APEC is also recognized. Hence, ASEAN's general standing as an organization that is representative of the Southeast Asian region is generally not challenged. Additionally, it is acknowledged that the dynamic leadership

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[13] See Andrew T.H. Tan and Kenneth Boutin eds., *Non-Traditional Security Issues in Southeast Asia* (Singapore: Select Publishing, 2001).

[14] See Barry Desker and Kumar Ramkrishna, 'Forging an Indirect Strategy in Southeast Asia', *The Washington Quarterly* 25:2 (Spring 2002), pp.161-176.

provided by ASEAN member states has led to the formation of many other consultative organizations including the Asia-Europe Summit Meeting (ASEM) and the East Asian Latin American Forum (EALAF). ASEAN and its member states, collectively and individually, are regularly establishing structured relationships with countries geographically farther afield while continuing to deepen existing ones. In a similar vein, there are a number of issue areas such as trade and tourism where ASEAN projects a united front abroad. Such unity also facilitates representation on more contentious issues like human rights and democracy. ASEAN member states like Malaysia and Singapore were also passionate advocates of 'Asian values' over Western ones in policy choices and development in general.[15]

There are, however, a number of structural and issue-specific challenges that confront ASEAN as well. Structurally, at the international level, the dissipation of bipolarity and the collapse of the Soviet Union as previously constituted removed the anti-communist ideological glue that informed and led to convergent foreign and defense policies. The resulting decompression effect has been a reordered agenda in terms of external threat perceptions, defense strategies and arms acquisitions.For example, the Soviet Union and its perceived proxy Vietnam are no longer the threats to regional security. Similarly, the disbandment of communist insurgency movements in Malaysia and Thailand has significantly altered threat perceptions and defense doctrines. Some of the issues involved in heightened bilateral tensions alluded to above, have actually informed ASEAN member states of security and threat perceptions, in a seeming displacement effect. The altered broader structural arrangements have clearly raised the regional temperature and threat perceptions are increasingly being identified with geographically proximate neighboring states that typically obtain voluminous transactions in many areas, some of which are viewed as threatening state security.[16]

In terms of specific issues, since the September 11 terrorist attack on the World Trade Center and Pentagon in the United States, and the more recent bombings in Bali and the Philippines, there has been tremendous international pressure on ASEAN countries to deal more effectively with terrorism. These incidents and their regional sponsors and sympathizers are sometimes part of

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[15] For a sampling of the literature of this school see Kishore Mahbubani, 'The Pacific Way,' *Foreign Affairs* 74:1 (January/February 1994), pp.100-111 and 'The West and the Rest,' *The National Interest* 28 (Summer 1992), pp.3-14; and Fareed Zakaria, 'Culture is Destiny: A Conversation with Lee Kuan Yew,' *Foreign Affairs* 74:2 (March/April 1994), pp.109-126.

[16] N. Ganesan, *Bilateral Tensions in Post-Cold War ASEAN* (Singapore: Institute of Southeast Asian Studies, 1999).

domestic political problems, as is the case in Indonesia and the Philippines. Accordingly, such international pressures are occasionally deflected or acted upon on slowly due to domestic political considerations. For example, Indonesia's Islamic political constituency has become significantly more empowered in the post-Suharto era while the Philippine situation is delicate due to an increasingly uneasy truce between Islamic former rebels and the Philippine government. In many instances, the situation is complicated by anti-American nationalism, and correlated impacts on tourism and foreign investment.

Other political issues for which ASEAN member states have been faulted in the past include democracy, human and labor rights and corruption. With the collapse of communism, Western countries, and in particular the United States, have introduced such issues to condition the negotiating process. Persistent diplomatic pressures on labor rights in Indonesia and Burma and greater pressure on the latter to open a process of dialogue and reconciliation with the political opposition are common. In many of these instances, there appears to be a general failure to appreciate the conflation of state security with regime security. Hence, rather than capitulating to such pressures, incumbent regimes often further entrench themselves and invoke anti-Western nationalist sentiments.

Economic issues over which ASEAN countries have been pressured include tariffs, the imposition of quotas on selected products or sectors, financial transparency and the liberalization of trade and investment rules. The truth of the matter is that while many ASEAN countries hope to emulate their Northeast Asian counterparts in development through export-led growth, tariffs account for a high proportion of governmental revenue in countries like Indonesia. Such external pressures may also stoke anti-Western sentiment, as has occurred in Indonesia and Thailand. Indonesia has a long history of economic protectionism and much of its resource exploitation has clearly been to benefit incumbent regimes and related elites and is viewed with a degree of suspicion. In provinces like Aceh and West Irian, such grievances sometimes reinforce existing pressures like separatism, making Western investments potential targets over regime-related grievances.

In other forms of financial and economic transaction there is also scrutiny. Malaysia, for example, opted against international financial assistance after the 1997 crisis and imposed economic controls in 1998. Whereas large and swift flows of capital and investments were previously viewed as being clearly positive, there is now greater scrutiny of the potential fallout arising from equally rapid withdrawals. In view of such reappraisals, ASEAN states are now

much more vigilant regarding the type of investments and financial transactions that occur. Currency speculation in particular, is actively discouraged. In light of both the positive and negative influences that obtain from within ASEAN and the larger external environment, an informed assessment can now be made regarding the type of community that ASEAN has evolved into. As stated at the outset, there is sufficient evidence in favor of a diplomatic and cultural community while there is equally sufficient evidence to conclude that ASEAN is neither a security nor an economic community.

ASEAN AS A DIPLOMATIC COMMUNITY

One of the greatest benefits of collective membership in ASEAN is the articulation of a united front on policy matters, especially those that require attention and resolution within a broader structural environment. From as early as the 1970s, ASEAN has served the function of a larger diplomatic lobby for individual member states. ASEAN is regularly utilized as a collectively representative regional forum to further the policy agenda of individual states, from negotiations on the price of export commodities to tariff reduction. Within the larger state-centric international environment that is in turn mediated by multilateral regimes, cohesive regional groupings obtain significantly more leverage than individual states. Even the largest ASEAN country, Indonesia, despite being a medium power in terms of traditional determinants like land area and population size, gains significantly from such enhanced leverage. Smaller member states like Brunei, Cambodia, Laos, and Singapore naturally benefit much more from such a collective representation.

At the larger level, it is arguable that ASEAN has also functioned as a cohesive corporate entity. In terms of diplomatic representation, as noted earlier, ASEAN maintains a large number of regular dialogue partnerships with individual countries as well as other multilateral organizations like the European Union. Additionally, ASEAN has initiated its own multilateral fora like AFTA and the ARF. Significantly, the ARF and APEC also have a discernible ASEAN nuclei core. The greatest evidence of ASEAN's diplomatic cohesiveness is its repeated interventions in the United Nations in the late 1970s and throughout the 1980s to deny Vietnam political and diplomatic recognition over its occupation of Cambodia.

There have, however, been a number of instances in which ASEAN's collective image has been dented by the competitive demands or policy

outputs of individual states.[17] For example, Indonesia and Malaysia recognized Vietnam's security considerations when they jointly issued the Kuantan Declaration in 1980, seemingly breaking ranks with ASEAN's anti-Vietnamese position, and Thailand unilaterally launched its conciliatory and development-oriented Indochina Initiative towards Vietnam in 1988 when ASEAN was still antagonistic towards Vietnam. Similarly, the Philippines and Thailand lobbied hard for a policy of 'constructive engagement' with Burma in the 1990s, much to the chagrin of the less democratic ASEAN members, which objected to the concept of violating the cherished principle of non-intervention in the domestic affairs of member states.

Notwithstanding such intramural differences, it is arguable that ASEAN coheres sufficiently on important matters, especially those pertaining to political and economic security. The fairly high level of recognition that the association is accorded internationally also buttresses this conception of diplomatic community. This conception of a diplomatic community is likely to cohere and persist into the future, if for no other reason than to allow for the structured process of mutual consultation and accommodation internally, and to obtain greater leverage for individual member states and the entire region.

ASEAN AS A CULTURAL COMMUNITY

ASEAN can also be said to fulfill the requirements of a cultural community. The term is however not meant to be interpreted in the ethno-religious and linguistic sense of community. The Southeast Asian region is far too diverse in these terms to be purposefully integrated as a community nor is it a necessarily positive or requisite development. In fact, many of the member states themselves are sufficiently heterogeneous to preclude such a conception of unified culture. Rather, the reference here is to procedural norms that have been sufficiently institutionalized to obtain an organizational culture in transactional terms between states. The existence of a permanent secretariat, the alphabetical rotation of Secretary-General appointments, and the vast array of meetings at different levels of officialdom and political elite have fostered a sense of community. It is a sense of community that member states are anxious to retain since it has led to much familiarity and accommodation between competing national priorities and leadership styles. The culture of regular exchanges on a number of issue areas and the periodic visits

[17] See, for example, Jürgen Haacke, 'The concept of flexible engagement and the practice of enhanced interaction: intramural challenges to the 'ASEAN Way',' *The Pacific Review* 12:4 (1999), pp.581-611 and Kay Möller, 'Cambodia and Burma: The ASEAN Way Ends Here,' *Asian Survey* XXXVIII:10 (1997), pp.961-978.

undertaken by newly appointed senior bureaucrats and elite as well as retiring ones have had a percolating effect on this organizational culture well beyond ASEAN's founding and early elite.

Collective attempts at dealing with regional challenges and problems have also broadened the organizational culture. From coordinated attempts to deal with problems like drug trafficking, pollution and piracy, the culture of regular consultation is utilized to deal with common problems as well. This culture is facilitated as well as hindered by the policy of consensual decision-making.[18] The facilitation derives from the invocation of lowest-common-denominator principles that are agreeable to all members while the hindrance derives from the difficulties associated with obtaining policy convergence among many members with differing priorities and goals. The generally accepted principle of non-interference in the domestic affairs of member states has also allowed for decisions obtained to be sufficiently acceptable to members to ensure compliance. This cultural community is interactive with ASEAN as a diplomatic community and is in turn informed and mediated by national interests and the larger external environment and related structures and pressures. In conceptual terms, it is likely to be the third tier in the policy output of member states, after the national level and important bilateral channels.

ASEAN AS A SECURITY COMMUNITY

There has been some literature proclaiming ASEAN as a security community.[19] Such claims are typically premised on the evolution of an 'ASEAN Way' that is non-intrusive in the domestic political affairs of member states and the joint agreement to renounce aggression in the resolution of inter-state disputes. This agreement, identified in the Treaty of Amity and Cooperation (TAC), has been lodged at the United Nations as comprising part of the regional diplomatic protocol. In fact, states that obtained membership in ASEAN in the 1990s were required to become signatories to TAC prior to being granted membership. The evolution of the ARF as a regional forum in 1994 with a mission to enhance confidence-building measures through

[18]Johan Saravamuttu and Pushpa Thambipillai, *ASEAN Negotiations: Two Insights* (Singapore: Institute of Southeast Asian Studies, 1985).

[19] One of the earlier and more influential pieces drawing on the absence of conflict for this argument is Amitav Acharya, 'The Association of Southeast Asian Nations: 'Security Community' or 'Defence Community'?,' Pacific Affairs 64:2 (Summer 1991), pp.159-178. For a different view, see N. Ganesan, 'Rethinking ASEAN as a Security Community in Southeast Asia,' *Asian Affairs: An American Review* 21:4 (Winter 1995), pp.210-226.

common codes of conduct and transparency in weapon acquisitions and defense doctrines may also be cited in support of the argument.[20] Finally, analysts sometimes point to the absence of inter-state conflict following the resolution of the Cambodian situation as evidence of the existence of a security community.

Despite these observations, it may be argued that ASEAN does not yet constitute a security community, although it is perhaps moving in a that direction. The simple reason is that when Karl Deutsch identified the prerequisites of a security community, the absence of inter-state threat perceptions was one of the most important criteria. The absence of conflict is meant to derive from such a fundamental condition, as is the case with the United States and Canada. It is clear that ASEAN is far from meeting this important prerequisite. In fact, the structural changes associated with the end of the Cold War have raised rather than lowered intramural threat perceptions.

Threat perceptions and defense doctrines of ASEAN member states typically do not preclude geographically proximate states as basic sources of threat on a wide range of conventional and non-conventional issues. Rather, a careful examination of the situation will prove that defense doctrines and weapon acquisitions of many ASEAN states are premised exactly on such conceptions of threat. The absence of the previously ideologically defined threat perceptions and the introversion in policy output of member states since the Asian financial crisis of 1997 have led to competitive rather than complementary perceptions of threat.[21] Domestic political contestation and regime change in many of the ASEAN countries have also led to a process of readjustment between states. In this regard, it is interesting to note that much of ASEAN's ideological convergence derived from external forces and structures.

The constructivist school has been the most articulate proponent of describing ASEAN as a security community, drawing on the evolution of norms and elite pronouncements regarding cooperative tendencies.[22] Whereas

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[20] See Michael Leifer, *The ASEAN Regional Forum*, Adelphi Paper 302 (Oxford: Oxford University Press, 1996).

[21] N. Ganesan, 'Domestic and Regional Responses to the Asian Financial Crisis in Southeast Asia,' in Purnendra Jain et al., eds., *Crisis and Conflict in Asia: Local, Regional and International Responses* (New York: Nova Scientific, 2002), pp. 91-106.

[22] Amitav Acharya, *The Quest for Identity: International Relations of Southeast Asia* (Singapore: Oxford University Press, 2000). Also see Sorpong Peou, 'Realism and constructivism in Southeast Asian security studies today: a review essay,' *The Pacific Review* 15:1 (2002), pp.119-138.

such pronouncements and desires may be genuine, the national interests of member states continue to take precedence over regional designs. Additionally, the absence of inter-state conflict since the 1990s is a necessary but insufficient condition to characterize ASEAN as a security community. A causal relationship between the two variables cannot be clearly established and the high level of tension in the bilateral relationships of many ASEAN countries is hardly symptomatic of an absence of intramural threat perceptions.

ASEAN AS AN ECONOMIC COMMUNITY

Among the four types of communities discussed thus far, ASEAN is perhaps weakest as an economic community. There are numerous reasons for this assertion.[23] First, development levels between many of the countries are uneven, leading to different requirements to cope with economic development. Second, many ASEAN countries produce similar primary commodities such as rubber, palm oil, cocoa, and timber for export. This convergence extends into the manufacturing sector as well. Third, the products of most ASEAN member states are destined for similar markets in Europe, North America, and Japan. Fourth, some member states have either expressed an interest in protecting domestic infant industries (Indonesia and Malaysia, for example), or have protectionist tendencies (the Philippines). Fifth, tariffs are an important source of revenue for many of the ASEAN member states and reducing them significantly will reduce state revenues, with all the attendant repercussions.

Western-style trade liberalization is being viewed suspiciously since the onset of the Asian financial crisis. Economic nationalism in Indonesia, Malaysia, and Thailand has been instrumental in obtaining regime legitimacy recently and there is widespread suspicion that trade and investment liberalization is meant to fulfill a Western-inspired agenda that depletes the savings and resources of regional states.[24] Accordingly, there is now far greater

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[23] See Harold Crouch, *Domestic Political Structures and Regional Economic Cooperation* (Singapore: Institute of Southeast Asian Studies, 1984) and Hans Indorf, *Impediments to Regionalism in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 1984).

[24] Structural reforms associated with loan disbursements from the international financial community, especially the removal of food subsidies was one of the major factors leading to the collapse of the Suharto government in Indonesia. In Malaysia, elite differences between Prime Minister Mahathir and his Deputy, Anwar Ibrahim, centered among other things, on appropriate policy responses to the Crisis. Similarly, the incumbent *Thai Rak Thai* government of Prime Minister Thaksin Shinawatra campaigned on a platform of economic nationalism against Chuan Leekpai's Democratic Party in 2001.

reluctance on the part of ASEAN states to enthusiastically endorse trade and investment liberalization. Attendance to national economic reconstruction has also meant less effort expended for regional economic integration. The clearest evidence of this trend is the way AFTA has stalled, despite the optimistic pronouncements at annual meetings. In fact, it is as a result of the frustrations associated with the slow implementation of APEC initiatives and AFTA that Singapore has negotiated its own bilateral Free Trade Arrangements (FTAs) since 2000.

ASEAN does, however, provide an important lobbying platform for the economic interests of individual member states. Similarly, it is an important platform to coordinate trade and tourism-related 'road-shows' to the West. Nonetheless, even such activities exist alongside the independent initiatives of member states. Unlike the case of the EU, AFTA does not provide for sanctions against non-compliance to norms within specified time frames. Even if sanctions are agreed upon, they will not be enforceable, leading merely to a greater deterioration of the situation. It is in light of such realities that the present momentum towards an economic recalibration of the region is simple accepted as *fait accompli*.

CONCLUSION

ASEAN has clearly evolved from the time of its formation in 1967 to become a coherent regional organization that encompasses the entire region of Southeast Asia. The frequent meetings between the member states and common position on a number of issues have led to significant levels of familiarity and accommodation. This organizational culture or cultural community has had its norms entrenched. Incumbent governments of member states have also evolved a policy of allowing this culture to percolate downwards to new elite. This organizational culture has in turn allowed ASEAN to act in concert in the international arena and the association maintains its coherence in larger fora like APEC. This diplomatic community that is in turn interactive with the cultural community is generally recognized as a bloc and treated as such, both by individual dialogue partners and international institutions.

However, ASEAN is neither a security nor an economic community. It is not a security community because it does not fulfill the fundamental Deutschian criterion of the absence of intramural threat perceptions that undergirds the absence of interstate conflict. Bilateral tensions between member states on a wide variety of traditional and non-traditional sources of threat preclude ASEAN from obtaining this fundamental precondition. The

absence of intra-state conflict since the 1990s is a necessary but insufficient condition to conclude that ASEAN is a security community. Similarly, ASEAN is also not an economic community. The economic agenda of member states is essentially nationally rather than regionally driven. ASEAN states exhibit a certain level of economic nationalism and in the aftermath of the Asian financial crisis of 1997, have also become suspicious of Western pressures for trade and investment liberalization. In fact, a number of recent governments in ASEAN have capitalized on economic nationalism to bolster regime legitimacy.

The four conceptions of community or domains addressed in this chapter are interactive in a variety of ways. It was earlier noted that the existence of an internal cultural community facilitated the evolution of a diplomatic community, in terms of interest aggregation and representation at the internal level. This diplomatic community, despite being weakened by the absence of Indonesian leadership, continues to make possible the benefits that accrue to member states on the basis of bargaining as part of a larger and more established platform. Both these conceptions of community have the potential to generate sufficient spill-over effects for ASEAN to become a security community. Such conditions are, however, absent at the present time. The evidence thus far also indicates that national economic priorities of member states are sufficiently discrete and entrenched to preclude the formation of an economic community in the near future.

The conditions that determine ASEAN's evolution as a community, in all its various manifestations, are a function of both internal and external pulls and pushes. Internally, political will and perceptions are major determinants of progress and externally, ironically, powerful perceptions of threat have made ASEAN cohere better. External pressures come in the form of specific issues like terrorism or attractive extra-regional groupings like APEC. For an external pressure to be effective in weakening ASEAN cohesion, it must be sufficiently appealing to meaningfully accommodate the national interest of a member state. ASEAN's progress is therefore a dialectical condition contingent on centrifugal and centripetal forces from within and without.

SAARC: NOT YET A COMMUNITY

ATIUR RAHMAN[1]

> If many minds can come together in any occasion surely there will be great yields. In a community where this tendency of coming together is in-built as an intrinsic value, definitely its members do create and nourish civilization. The attribute of a civilization is the power of uniting the diverse.
>
> — Rabindranath Tagore

INTRODUCTION: SAARC YET TO 'GROW UP'

In December 2003 the South Asian Association for Regional Cooperation (SAARC) celebrated its 18th anniversary. There was, however, no jubilation in the streets of South Asian capitals. The high hopes that were raised in the mid-1980s by the concept of South Asian regional cooperation have not even partially materialized. Today the region houses about 600 million people who earn less than one dollar a day.[2] It is home to perhaps the largest concentration of poor in the word, accounting for nearly half the world's total. This vast poverty persists in South Asia despite some notable gains in economic growth and a number of interesting experiments in the areas of poverty reduction through micro-credit and women's empowerment. Apparently, there has been a massive failure in governance in almost all South Asian countries leading to a huge gap between economic growth and poverty reduction.

Beyond this, the region suffers from deep-rooted mutual suspicions, nuclear proliferation, violent ethnic cleavages and a decline in regional social capital as shown in interstate and trans-state relationships. The Indo-Pakistani rivalry has been at the center of the depletion of most traits of an age-old South Asian identity. In an age of massive globalization, instead of closing their ranks for greater economic and social integration, South Asians have opted for further isolation from each other. This has been happening despite SAARC. While most other regional blocs are emerging as close-knit communities, SAARC has not been growing at all. It is still in its infancy. The

[1] I am grateful to Mahfuz Kabir, Research Officer, BIDS for assisting with necessary materials in preparing this chapter.

[2] World Bank, *World Development Report 2002* (Washington DC: World Bank 2002), pp.234-5.

promises made by its main architects remain far from fulfilled.[3] It has become more of an occasional talking shop for officials and ruling elites than a venue for substantive action.[4] SAARC stood by individual member states experienced major gains or failures, without playing any effective role. This when it could have played a coordinating role in bridging the gaps in economic policies vis-à-vis globalization and learning replicable lessons from the innovative developmental activities related to poverty eradication pursued by some member states. Except for establishing two commissions on poverty alleviation, SAARC has not done enough in either of these areas. Only very recently has it started compiling a South Asian poverty profile to address abysmal poverty.

A number of interesting things, both positive and negative, have happened in the region despite SAARC. Bangladesh has found its own way forward in terms of establishing institutional democracy, reducing poverty by more than one percent annually, empowering women, developing a broad-based environmental consciousness, and fostering creative developments in the arena of micro-credit. Sri Lanka has shown promising signs of ending its 18-year ethnic rebellion. On the other hand, Pakistan has witnessed a return of military government notwithstanding its latest bid for 'democratization', the rise of religious ethnic groups in politics, and a spate of terrorist attacks. Both India and Pakistan have gained nuclear status, mobilized and demobilized armed forces along their border, and experimented with missile development. India, of course, has shown better results in economic reforms and technological development. Nepal, unfortunately, has seen tragic bloodshed in its royal palace, the rise of a Maoist insurgency and the crumbling of democratic edifices in the face of massive failures in governance.

SAARC has played no part in any of these vital issues affecting South Asians. The citizens of each member state of SAARC have, as a result, felt betrayed by this passive regional body which has played little, if any, role in revitalizing the South Asian community. This is quite frustrating at a moment when immense opportunities and challenges have been created by globalization. The millennium development goals set by the UN cannot be realized unless the elite of South Asia decide to come together and learn from each other's success stories, mainly created by the ordinary, hard-working citizens of the region.

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[3] Iftekharuzzaman, 'Reforming SAARC: In Spite of Governments', S. Afroze ed., *Regional Cooperation is South Asia: New Dimensions and Perspectives* (Dhaka: BIISS, 2002), pp.18-19.
[4] *Ibid*, p.19.

There are indeed strong imperatives for the leaders of South Asia to work together despite differences in their security perceptions, governance style and ethnic values. Their citizens earnestly aspire to a higher level of human development, parity in intra-regional trade, an end to the bitter communal conflicts of the past, and mutual trust so that South Asians can move forward into an era of love, well-being, harmony and intimacy—the intrinsic values of a community. Indeed, South Asians badly need this vision.

SOUTH ASIA STILL TRAPPED IN HISTORY

Historically, South Asia was one political entity with many decentralized structures. Each sub-region had its own shade of culture. This unity in diversity continued even after colonization by Britain. However, some kind of standardization, particularly in legal and administrative frameworks, tied together the diverse units during the British era. When colonial rule ended, those diverse units got truncated, leaving behind not only unprecedented ethnic flows of population across the borders but also a permanent source of ethno-religious discord.

Colonial rulers had largely created the South Asian states by executive orders. The burden of resolving the unresolved and bitter territorial or border disputes fell on subsequent national elites. The concept of nationhood was often negotiated by colonial powers and materialized in truncated forms. In many cases the creation of a state went against territorial, ethnic, religious or cultural traditions. Very often, national governments were imposed on a society, which was itself divided by the gap between traditional beliefs and modern attitudes, and by sectoral differences, religious beliefs or differential access to power. The state, in order to assert its domination, most often became bureaucratic and coercive and became entrenched well before a coherent idea of nationhood could develop.[5] There are also at least two nations (Pakistan and Bangladesh) in the region that experienced 'neo-colonialism' and 'internal colonialism' and therefore have a bitter past. The internal difficulties faced by most South Asian governments have contributed to a deterioration in law and order, increasing ethnic and sectarian conflict, the theocratization of societies, degradation of the environment, rampant corruption, massive violation of human rights and the marginalization of the

[5] A. Rahman, *Imperatives for Regional Cooperation in South Asia: Creating an Environment for Sharing Expenditures of Knowledge-based Development* (New Delhi: Sage Publications, 2000), p.219.

poor and the weak.[6] Given the regional politico-economic divide, substantial cooperation in the region cannot be achieved overnight.

Notwithstanding this difficulty, SAARC has developed itself into a fairly elaborate institutional infrastructure. Some core areas of economic cooperation such as poverty alleviation and intra-regional trade in the form of the South Asian Free Trade Area (SAFTA) have been gradually included in the agenda. Though differentiated in pace and content, all the South Asian countries have embraced economic liberalization. On the more optimistic side, SAARC has also shown potential for emerging as a forum for dialogue, negotiations, preventive diplomacy, and confidence and peace building. This potential is, however, clearly far from been effectively tapped, perhaps due to institutional bottlenecks and lack of strong political will among ruling elites.[7]

The South Asian community 'personality' broadly depends on three inter-linked economic and political factors: First, the character of economic transactions such as formal and informal trade relationships and whether there has been an honest attempt at reducing trade imbalances; second, how leaders feel about the outstanding regional problems, especially bilateral ones, such as the Indo-Pakistan conflict, India-Bangladesh border disputes, and those leaders' efforts to minimize these tensions; and third, the level of consciousness among citizens of the region toward the status of human rights in the region, and specifically, how they feel about states which at times, instead of promoting freedoms, curb them.

THE SOUTH ASIAN ECONOMY

The South Asian economies are summarized in Table 1. Clearly, there is a considerable diversity in economic performance. There is a great fear in smaller countries about India's domination in trade. India is the largest country in the region, with the largest production capacity in industrial and traded goods, and therefore has a natural advantage over others. Unfavorable trade balances with India create enormous psychological burdens in the smaller states, much more so than from the negative trade balances many of them have with the world's industrially developed countries. Even after seventeen years of existence, SAARC has very little to show by way of cooperation on the trade and economic front.[8] The regional body has impacted only

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[6] *Ibid*.
[7] Iftekharuzzaman, *op cit*, p.19.
[8] Q.A.M.A Rahim, *Economic Cooperation in SAARC: Getting on Act Together*, Speech, BIISS, Dhaka, 2002, p.3.

marginally on the flow of intra-regional trade, which is generally taken as an effective indicator of regional economic cooperation. While the average share of intra-regional flows in the Association of South East Asian Nations (ASEAN), established in 1967, was 22 percent for exports and 15 percent for imports in the 1990s, the corresponding shares in SAARC were 4 percent and 3.5 percent, respectively.[9]

Table 1: Key Economic Indicators of the South Asia Region

Country	Population millions 2001	Per capita GNI (US $) 2001	Life expectancy at Birth 2000	Population below National Poverty Line	FDI US $ m 2000	ODA per capita US$ 2000	External Debt US $ m 2000
Bangladesh	131.2[1]	370	61	44.3 (2000)	280	9	15,609
Bhutan	0.8	640	61	-	-	-	-
India	1,033.4	460	63	35.0 (1994)	2315	1	99,062
Maldives	0.3	2,040	-	-	-	-	-
Nepal	23.6	250	59	42.0 (1995-96)	4	17	2,823
Pakistan	141.5	420	63	34.0 (1995)	308	5	32,091
Sri Lanka	19.6	830	73	25.0 (1995-96)	173	14	9,065

Sources: Bangladesh Economic Survey 2002, MoF, GoB, and Preliminary Report of Household Income and Expenditure Survey 2000, BBS, GoB.

In Southeast Asia, the Association of Southeast Asian Nations' (ASEAN) free trade arrangement, AFTA, was implemented in 2002 with the objective of having almost all goods traded within a 0-5 percent tariff range and averaging 3.2 percent. South Asia compares poorly, with a tariff burden of 30 percent and a plethora of non-tariff barriers. South Asia is not yet ready for an equivalent free-trade arrangement, SAFTA (the South Asian Free Trade Area).[10] Even if the current preferential trade agreement, SAPTA, is successful, it may be restricted only to trade in goods. If such trade is agreed through

[9] K. Raipuria, 'ASEAN and SAARC: Select Futuristic Scenarios', *Economic and Political Weekly*, Mumbai, 2002.

[10] A. Rahman, 'Track II Diplomacy as a measure of confidence building in South Asia for Regional cooperation', *BIISS Journal*, 2002.

negotiations, there is a fear that it can be still restricted through non-tariff measures and other barriers.[11]

A group of South Asian leaders tried to create a sub-regional South Asian Growth Quadrangle (SAGQ) between Bangladesh, Nepal, Bhutan and India—the eastern end of the sub-continent—but this remained trapped inside political folders. Sub-regional initiatives in South Asia have raised large questions, concerns and political passion rather than providing any answers or creating growth mechanisms and cooperative understanding. By contrast, Southeast Asia already has witnessed some decades of sub-regional growth driven by factor inputs, economic complementarities, and the twining of market forces and the private sector, all serving as engines of growth. By adopting a notion of interdependent development, ASEAN mobilized its collective strength and developed itself as a truly merchandise trade-oriented society creating a momentum towards a modified structure for sub-regional growth.

It seems that a credible modified structure for sub-regional growth remains beyond the imagination of South Asian leaders, who are quite simply trapped in their inability to develop policies, prisoners of their own political trappings.[12] The SAGQ region lacks the political will to convert the huge geography and population into a thriving market, serious policy coordination to maximize the complementary gains, infrastructural facilities to exploit the latent potentials and the will to make use of socio-cultural similarities for collective enhancement in the quality of life of their citizens.[13]

THE SUPREMACY OF 'MINDLESS' POLITICS

The failure of the region to run regular air flights between the South Asian capitals and the closure of a modest train connection, the *Samjhanta Express,* which once existed between India and Pakistan, speaks volume about the supremacy of 'mindless' politics over people's concerns. Societal desires for substantive cooperation in the fields of developing natural resources, human resource and infrastructure remain unsated. Specific areas of cooperation in the fields of natural gas, water resources, ports and waterways, transportation, communications and hydropower remain to be explored. Vast areas of the

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[11] Rahim, *op cit*, p.3.

[12] A. Kalam, 'Sub-regional Growth Mechanisms: SAGQ and IMS-GT in Comparative Perspective', Afroze, *op cit.* p.197

[13] M.P. Lama, (2000:6); *South Asia Growth Quadrangle: Opportunities, Policy Interventions and Growth Prospects*, Conference Paper (Dhaka: BIISS, 2002), p.6.

service sectors and human development opportunities utilizing regional human development infrastructures have remained out of focus. The present low-level of intra-regional trade is a result of bad policy. Kashmir and other border conflicts have been used as instruments for the deprivation of the people of India and Pakistan from economic and social opportunities by some influential policy makers. The leaders have not been trying earnestly to reduce intimidation and state-sponsored violence against people of the related regions. What South Asians face today is a deep absence of pro-people governments and policies for reducing poverty, ending violence, arresting environmental degradation and improving human development status, balancing inter- and intra-regional trade, and fostering peace and harmony.[14]

There has been a lack of enthusiasm and interest among the people and their leaders in the region in Track I initiatives, or official-level diplomacy, which is heavily formal, procedural, and complex. On the other hand, Track II initiatives, or 'beyond the state' diplomacy has been widely recognized as more likely to lead to better steps in confidence building towards the reconstruction of South Asia as a community.[15] In understanding people-to-people cooperation and interactions towards making a community, as a proxy for necessary state-to-state cooperation, we need to focus on at least three types of issues: integrative factors, constraining factors and possible areas of non-governmental interventions.

INTEGRATIVE FACTORS

Regional communities such as the European Union and ASEAN have flourished due to a number of integrative factors. SAARC, on the other hand, has not experienced these integrative factors in any substantive way and will need to if the region is to develop any sense of community.

Political Will

The political will of the leaders of Europe and Southeast Asia to come together despite differences in size, level of development and security perception has been substantial. The moves in those regions towards the

[14] A. Rahman, 'Imperatives for Regional Cooperation in South Asia: Creating an Environment for Sharing Experiences of Knowledge-based Development', *South Asian Survey* 7:2, 2000.
[15] The initiatives include academia, research institutions and various professional groups including the media, aid workers, election observant, accountants and management experts, engineers, educators, business representatives, students and youth, even political parties, trade unionists, parliamentarians and speakers. See, Iftekharuzzaman, *op cit*, p.25.

common goal of enlarging regional markets for intra-regional as well as inter-regional trade reflected a conscious choice by the leadership.

This will has not only been missing in South Asia, but also at times regional leaders have helped to dissipate any residual good will and energy for mutual cooperation. The biggest harm has been caused by persistent conflict between India and Pakistan. SAARC can never take off until this is issue is resolved. The people of South Asia feel betrayed by this tension. There is a strong perception in the region that India fears a 'gang-up' by smaller states led by Pakistan and hence does not encourage SAARC to grow. Yet there is another view that Pakistan wants to stall the progress of the association because it fears that India will dominate it. The smaller states, of course, find themselves caught in between these two perceptions and are hesitant to move either too close to India or too far from it. In that sense Indo-centric perceptions still haunt most South Asian states, including Pakistan. This is acting as a brake against natural growth of the South Asian community.

South Asian leaders have lacked the political will to address these perceptions for the greater cause of improving the lot of South Asia's timid millions through effective cooperation. The only exception has been the relatively short interlude of Indian Prime Minister I.K. Gujral (1997-1998), including his tenure as foreign minister, when South Asians began to break most barriers and come together. Even the tensions between India and Pakistan began to ease. The Indo-Bangladesh relationship reached a new height and two of the most pressing problems, the Chittagong Hill Tract ethnic crisis and the Ganges water-sharing problem were tackled up front, mainly because of Goral's proactive foreign policy initiatives. All this created an atmosphere of mutual trust between both the leaders and the people of the region as a whole. However, this was a short-lived period of peace and harmony in South Asia. With the fall of the Gujral government, the 'Gujral Doctrine' was quickly eclipsed. Indeed, the subsequent regimes both in India and its neighbors opted to reverse completely the good will created in the Gujral period. Divisiveness has been further accentuated recently, leading to SAARC becoming almost a non-entity.

Social Acceptability

Regional economic integration has to be preceded by social acceptability of the regional personality both among elites and the people. South Asia had a common past, a common heritage and culture.[16] The contemporary leaders of

[16] N. Acharya, 'South Asia: our common home', South Asian Regional Dialogue, *South Asia: Vision & Perspective*, (Lahore, 1994), p.43.

South Asia need to revive that commonality among its people as has been done in both Europe and Southeast Asia. They too need their version of civilizations. This is a very slow process and at times quite difficult. But farsighted leaders must arouse consciousness about the virtue of regional cooperation among both ordinary people and opinion makers.

Mutual Benefits

Strong regional cooperation will never be effective unless both people and their leaders can comprehend the mutual benefits of coming together. Unless the comparative advantages of intra-regional trade are realized by trade and economic leaders, and until the cost of non-cooperation is calculated by the elites of each member country, the development of SAARC as a community will remain a far cry.[17]

Globalization

Globalization has unleashed both opportunities and challenges. It has been proceeding at such a pace that unless South Asian states act together there is every possibility that they will be left behind in repeating these opportunities by the fast-moving train refueled by the World Trade Organization. As yet South Asia has been unable to act together, even in terms of articulating common ills like poverty while dealing with global leaders who are setting the tunes of future trade, environmental protection, and poverty reduction strategies throughout the World.[18]

CONSTRAINING FACTORS

There are obviously serious constraints against South Asian cooperation. Some of these constraining factors are:

- Indo-centric strategic perceptions both among India's neighbors as well as among the big players in global diplomacy.[19] This has created problems and natural impediments for equal participation in SAARC. The fear of Indian domination has largely guided diplomatic and politico-security decision making in Pakistan, Sri Lanka and Bangladesh.
- Lack of trust among South Asian elites. Moreover, the ruling elites in South Asia, from the very inception of their nation-states—partly due to nationalist

[17] Research and Information System for the Non-Aligned and other Developing Countries (RIS), *SAARC Survey of Development and Cooperation* (New Delhi: RIS, 1998/99), p.62.
[18] SAARC has recently begun compiling a regional poverty profile. South Asian heads of governments have also initiated a Second Commission for poverty alleviation in South Asia.
[19] A. Rahman, *Relations Between South Asia and ASEAN* Bangladesh Country Paper (Sri Lanka: UNITAR, 1985), p.7.

passion and inter-state conflicts inherited from the past but mostly to preserve their vested interests—embarked upon a development strategy that featured a preponderance of security considerations over socio-economic and politico-cultural development.[20]

- Weak financial positions, reflected through the trade imbalances of smaller states vis-à-vis the larger states, especially India, encourages the former to go for extra-regional trade and aid arrangements.
- Poor infrastructure negates greater levels of intra-regional trade. Also, South Asian countries share some basic economic similarities such as low incomes, abundant labor, and comparative advantages in similar commodities such as tea, ready-made garments and similar non- or low-value-added commodities. These common characteristics often reduce the potential for intra-regional trade driven by comparative advantages. The low level of per capita income also constrains the potential for intra-industry trade.[21]
- Leaders have obviously not made serious cost-benefit analyses of the cost of non-cooperation versus the benefits of cooperation.[22]
- SAARC was born with disabilities and constraints, which were essentially self-imposed. It adopted a functional approach of cooperation in non-controversial areas like social and cultural fields, hoping that if successfully carried forward, opportunities for cooperation in more vital areas could open up. Moreover, SAARC follows the principles that all decisions have to be made unanimously and that no bilateral and contentious issue can be on the SAARC agenda.[23] This clearly exhibits a weaker inter-state relationship toward equitable participation in policy making for South Asian people.
- The smaller countries in the region feel uncomfortable about their trade relationship with India because under the present tariff structure India runs a large trade surplus with its neighbors.[24] Also, India's volume of informal trade with most of its neighbors is substantial.[25]
- Inter-state relations in South Asia are marred by mistrust, mutual threat perceptions, confrontation and hostility. Sources of conflicts are mostly structural in nature. Divergences in security perception between states are

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[20] A.K.M.A. Sabur, 'Regional Cooperation in South Asia: Problems of Conflict Management', Afroze, *op cit*, p.111.
[21] D. Weerakoon and S. Sayawriya, 'Economic Integration in SAARC with Special Reference to the Role of FDI in Regional Integration' (Conference Paper Dhaka: BISS, 2002), p.10.
[22] RIS, *op cit*, p.62.
[23] Iftekharuzzaman, *op cit*, p.18.
[24] *Ibid*, p.20.
[25] For example, Bangladesh's volume of informal border trade with India is substantial. See, A. Rahman, A. Razzaque, 'Informal Border trade between Bangladesh and India: An Empirical Study in Selected Areas', F.E. Cookson and A.K.M.S. Alam eds., *Towards Greater Sub-regional Economic Cooperation: Limitation, Obstacles, and Benefits* Dhaka: UPL, 2002), pp.129-213.

compounded as threats to territorial integrity; political stability and economic development are considered to originate from neighbors. Citizens also are caught up in the cobweb of history. They are still victims of the traumatic transition to new national entities from a larger entity and the tragedies of communal violence, loss of wealth and identities that followed the end of colonial rule. As a result, they have not yet been able to generate sufficient demand for regional cooperation within their own countries. However, a number of exchanges have taken place between various groups of enlightened citizens from different SAARC countries, showing some hope for developing a peaceful South Asian community. But high hopes raised by these groups remain to be fulfilled. Indeed, these hopes can be shattered by terrorist and communal attacks from time to time.

As well, there are problems with the SAARC processes:

- Hard and fast rules followed by the SAARC secretariat;
- Bureaucratic hassles and paperwork at the secretariat, which is run by national bureaucrats drawn from different member states;
- Many unnecessary formalities;
- The requirement of consensus decision-making even for small things which could be solved bilaterally;
- A lack of political will and mutual trust among official leaders;
- The inability of leaders and officials to visualize the potential benefits of regional cooperation;
- The near-war situation prevailing in some border areas; often accentuated by accusations of terrorist infiltration;
- Deep-rooted skepticism about the viability of the South Asian regional project arising from the ideological schism between religious and secular nationalisms, internal problems of ethnic conflicts, lawlessness and poverty; and
- Lack of any collective new vision for a rejuvenated South Asia even in the face of the overwhelming pressure of globalization.

Given these limitations in the official approaches to cooperation, the citizens of South Asia cannot be oblivious of lost opportunities for their own prosperity and well-being. Indeed, they are well aware of the imperatives for closer cooperation between the nations of South Asia. The need to build a South Asian identity based on their common values rooted in the historical, cultural, social, and ethnic and civilization traditions can hardly be overemphasized. Historically, as hinted earlier, South Asians are closer to each other in their way of life, philosophy, ethics, literature, music, dance, paintings, and architecture than to countries of other regions. But the legacy of confrontation has overtaken these positive commonalties. It is, therefore, time to reinvent the wheel of South Asian identity through increased citizen

activism, which will lead to a better environment for confidence-building among the formal elites of South Asia and in turn lead to a better South Asia.

Despite these constraints, many believe that there is ample scope for meaningful non-official initiatives to enhance further confidence-building in the region so that leaders cannot continue to shy away from formal regional engagements.

POSSIBLE AREAS OF NON-GOVERNMENTAL INTERVENTION

A fear of aggression, domination or embarrassment haunts most leaders of South Asia and prevents serious governmental initiatives. As a result, SAARC remains moribund and South Asian leaders tend to shy away from each other. As discussed above, a number of non-official initiatives have already been taken in South Asia. In order to create a better ground for mutual cooperation among the mainstream leaders, Track II diplomacy (i.e. non-official engagements) can prove fruitful.

CITIZENS' ACTIONS

Regional cooperation should be organized around non-governmental organizations in their respective civil societies. This is, of course, happening to some extent. SAARC, though at a lower scale, has been instrumental in bringing NGOs together and letting people talk to each other, and share ideas and information. They are indeed drawing inspiration from each other and learning many lessons from best practices in individual countries. For example, the success of micro-credit initiatives for poverty reduction in Bangladesh (the Grameen Bank initiative) has been widely shared by other non-governmental actors in South Asia. This non-state cooperation could be further accelerated by activities such as:

- More pro-active interaction between business leaders (such as SAARC chambers of commerce and industries) for furthering cooperation in trade and investment;
- Organizing many more citizens' press conferences, deliberations in public fora, seminars and workshops by academics and researchers highlighting the benefits of mutual cooperation and activation of Track 1 cooperation;
- Encouraging exchanges through video conferences and use of Internet facilities to strengthen the trust-building initiatives that are already in operation;
- Actions by the media (particularly the electronic media) to bring the people of South Asia closer. This is happening to some extent, though in a mostly Indo-centric way; and

- An increase in joint-venture initiatives in the service and educational sectors. Today, Bangladeshi and Nepali students and patients flock to Indian educational and medical institutions. This no doubt helps to bridge the cultural gap. However, it is simultaneously contributing to trade imbalances in the service sector. Further joint-venture initiatives in these sectors can be yet another form of people-to-people cooperation.

Civil-society organizations have been working together to bring eminent citizens together in many commissions, policy advocacy initiatives, dialogues, peace initiatives, etc. All these initiatives can be better coordinated if a South Asian network (or parliament) comprising representatives selected by non-governmental organizations (including think tanks) could be organized. They could even work with the tacit approval of national governments and be promoted by SAARC. In other words, there is a need for creating a greater space for the citizens of South Asia so that they can come together to shape a better future. The nation-states should come out of their restrictive shells and allow their citizens to intermix and intermingle for a better understanding of their regional, national and local identities. This kind of opening up at the people-to-people level will create moral pressure on leaders to strengthen the Track 1 approach of cooperation between the state actors.

CONCLUSION AND RECOMMENDATIONS

A move towards a South Asian community can be cemented and accelerated only if a number of policy initiatives and actions, both at the governmental and non-governmental levels, are taken by South Asian leaders. Some of these economic, political, social and cultural initiatives are mentioned below.

Economic initiatives:

- Experimentation with cooperation at smaller sub-regional levels (such as perhaps, Bangladesh-West Bengal, Bangladesh-Nepal-India) to develop sub-regional growth quadrangles.
- India has to play a more accommodating role to build up confidence/trust among smaller neighbors (for example, road transit between Nepal and Bangladesh should be allowed to flourish).
- In the face of speedy trade liberalization, there is a need for the monitoring of policy changes (such as the introduction of tariffs, or price controls) at the regional level for greater coordination and a more effective response to the challenges of globalization. The fallout of globalization needs to be monitored and appropriate coping mechanisms must be devised both at the national and regional levels.

- Smaller states should be allowed to benefit from the higher levels of development in the information technology sector in India.[26]
- There is a need to expand trade and investment in the emerging global context to strengthen the regional economic bloc.[27]
- Facilitate greater contacts among citizens of South Asia by further improving road, rail and air travel facilities. There are, for example, no easy air connections between the major cities of South Asia. One has to go to Bangkok to reach Colombo from Dhaka. Similarly, Pakistanis need to go to Dubai or Bangkok to reach Kathmandu. All of these practical hurdles diminish the potential for people-to-people contact in South Asia.
- There is a crucial need for economic policy coordination to curb rivalry in regional and international markets, stemming from South Asian nations' similar production and trade profiles. The development of integrated production networks and joint-export activities is necessary for this. [28]
- Learning from each other's successes in responding to poverty, such as the micro-credit program in Bangladesh or decentralization in some states in India.

Specifically, in order to create greater economic cooperation, SAARC's institutional needs are:

- Establishing a free trade area by eliminating all trade tariff and non-tariff barriers—that is, realizing the South Asian Free Trade Area.;
- Facilitating the freer flow of financial and physical capital and also streamlining the movement of personnel in the region;
- Targeted uplifting of the production and export base of the weaker economies in the region; and
- Establishing a South Asian identify in terms of brand names, quality, standards, investment regimes, and other areas where a common approach would be to the benefit of all.[29]

[26] A. Rahman, 'Imperatives for Regional Cooperation', *op cit.*
[27] B.S. Gupta, 'A profile of the initiative' South Asian Regional Dialogue, *op cit*, p.9.
[28] RIS, *op cit*, p.139.
[29] *ibid*, p.137.

Political Initiatives:

- As most disputes and apprehensions are Indo-centric, India has to be more tactful and should present a low profile to gain the confidence of its smaller neighbors.[30]
- SAARC should emphasize the need for resolution of outstanding bilateral issues and thus pave the way for mutual cooperation. While resolving those issues, it should be ensured that all negotiations are based on respect for the principles of sovereign equality, territorial integrity, political independence and non-interference in the internal affairs of other states.[31]
- Exploited and weak segments of communities in the region should be liberated, not through violent means, but by a democratic process. [32]
- States should act as the people's agents to improve levels of development, welfare and economic freedom.

Social Initiatives:

- All types of people-oriented organizations—political, civic, professional and NGOs—should participate actively to promote constructive dialogues and exchanges, and contribute towards building consensus within the region for a new order in South Asia based on recognition of the peoples' priorities.[33] As there is popular demand for greater South Asian cooperation, efforts should be made to increase people-to-people exchanges, sharing the common heritage and culture.[34]
- There is a need to build a coalition of people across boundaries. Ultimately it is only by empowering the people and granting them control over their destinies that the shared goal of making South Asia a community can be realized.
- There is a need to build a South Asian identity based on common values rooted in the historical, cultural, social, and ethnic and civilization traditions.[35] Success depends on state patronization of civil society or in 'beyond the state' initiatives.
- There is a need for advocacy by civil society for further democratization.

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[30] *ibid*.
[31] *ibid*.
[32] B.S. Gupta, *op* cit, p.11.
[33] K. Hassain, 'A New Order for South Asia'; South Asian Regional Dialogue, *op cit*, p.38.
[34] A. Rhaman, Recent global developments and new imperatives for South Asian Regional Cooperation, paper presented at the international seminar on New Imperatives for Regional Cooperation in South Asia, organized by Peace Council, Dhaka, 1992.
[35] *ibid*.

Other Initiatives:

- More studies into the potential benefits of sub-regional/regional cooperation and proper dissemination of those findings is needed.[36]
- There should be greater exchanges of academics, poets, and cultural troupes among the South Asia Growth Quadrangle (SAGQ) countries, in particular, and South Asia in general.
- There should be easy access to each other's TV and other electronic news and programs.

Despite all the bottlenecks discussed above, South Asians should continue to work hard to come together in making a community for the people of the region. People-to-people interactions should continue to flourish even when leaders do not see each eye-to-eye. We may conclude by quoting Tagore:

> We know that during our childhood when we were alone we used to be afraid of ghosts. Indeed, this fear of ghosts was the fear of one's own weakness while one was lonely. Three-quarters of our fear relate to this fear of ghosts. This simply shows that we could not unite; we remained isolated from each other. The fear of poverty is likewise the fear of ghosts. We can cope with it provided we stand together.[37]

Together we will surely survive. Divided we will perish.

[36] Centre for Policy Development, *Growth Zones in South Asia: What Can We Learn From South East Asia?* (Dhaka: CPD, 2000), pp.10-11.
[37] Rabindranath Tagore, 'On Cooperation', *Collected Works of Tagore* (in Bangla), Vol. 14, p.313.

RIVAL REGIONS? EAST ASIAN REGIONALISM AND ITS CHALLENGE TO THE ASIA-PACIFIC

DAVID CAPIE

This chapter addresses new patterns of multilateral cooperation in Asia, focusing on new sets of connections emerging between what have traditionally been distinct sub-regions. In particular, it addresses the burgeoning linkages between Southeast and Northeast Asia that have crystallized in the ASEAN + 3 (APT) process. The chapter is in three parts. The first section reviews recent developments in East Asian regionalism and examines the motivations behind this new track of institutional cooperation. The second section critically examines the prospects for success, particularly whether APT will be able to overcome the political and strategic obstacles that stand in the way of some of its more ambitious goals. The third section considers the extent to which new East Asian institutions will prove to be complementary to, or competitive with, the existing Asia-Pacific framework.

THE RISE AND FALL OF THE ASIA-PACIFIC

The old saw about the Asia-Pacific was that it was a region without regionalism. With the exception of the ill-fated SEATO and the largely inward-focused ASEAN, for the duration of the Cold War the region had no important or effective governmental multilateral institutions. The most important security arrangements were the bilateral 'hub and spokes' alliance ties across the Pacific between the United States and its Asian partners. Despite countless proposals for a regional economic organization, as the Cold War drew to a close the Asia-Pacific region still lacked any effective region-wide governmental institutions.[1]

The 1990s changed all that. This was a decade of remarkable institutional creativity and growth. At the track one or inter-governmental level the process

[1] Aaron Friedberg, 'Ripe for Rivalry: Prospects for Peace in a Multipolar Asia', *International Security*, vol.18, no.3 (Winter 1993-94) pp.5-33; Barry Buzan and Gerald Segal, 'Rethinking East Asian Security', *Survival*, vol. 37, no.1 (Summer 1994); Richard Betts, 'Wealth, Power and Instability: Prospects for Peace in a Multipolar Asia', *International Security*, vol.18, no.3 (Winter 1992/93) pp.32-75.

of Asia-Pacific Economic Cooperation (APEC) began in Canberra in 1989 and was strengthened after 1993 with the creation of an annual Leaders Meeting.[2] ASEAN grew from its five founding members to include all ten states of Southeast Asia by the end of the 1990s. In 1994 it extended its model of regional security by leading the creation of the ASEAN Regional Forum (ARF), which brought together states from Southeast and Northeast Asia to discuss security issues with representatives from North America, Australasia, and Europe.[3] The ARF itself was soon augmented by inter-regional institutional ties with the creation of the Asia-Europe Meeting (ASEM) and the Forum for East Asia-Latin America Cooperation (FEALAC).[4]

Alongside these governmental linkages, track two or unofficial-level dialogues proliferated at a remarkable pace. While many non-governmental meetings were informal and essentially ad hoc arrangements, there were also attempts to add some institutional structure to these interactions. The first effort was the North Pacific Cooperative Security Dialogue (NPCSD), which ran from 1990 to 1992, with representatives from all eight North Pacific states, including North Korea. It was succeeded by the smaller and rather less successful 'track one and a half' Northeast Asia Cooperation Dialogue (NEACD), which has had only intermittent participation from North Korea.[5] In 1993, the track-two community formed the Council for Security Cooperation in the Asia Pacific (CSCAP) as a way of contributing to efforts towards regional confidence building and enhancing regional security through dialogues, consultation and cooperation.[6] These initiatives, governmental and non-governmental, shared a common, ambitious, goal of creating an Asia-Pacific community. They sought to create habits of dialogue to overcome security dilemmas and misperceptions and to forge closer political, economic and social ties between states on both sides of the Pacific.

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2 Yoichi Funabashi, *Asia Pacific Fusion: Japan's Role in APEC* (Washington: Institute for International Economics, 1995).

3 Michael Leifer, *The ASEAN Regional Forum: Extending ASEAN's Model of Regional Security*, Adelphi Paper 302, (London: International Institute for Strategic Studies, 1996).

4 Christopher Dent, 'The ASEM: managing the new frame work of the EU's economic relations with East Asia' *Pacific Affairs*, vol.70, no.4, Winter 1997-1998.The 27 country FEALAC, formerly known as the East Asia-Latin America Forum (EALAF) held its first meeting in Singapore in September 1999.It was renamed in 2001.

5 For a discussion of the meanings and etymology of terms like 'track one', 'track two' and 'track one a half', see David Capie and Paul M. Evans, *The Asia-Pacific Security Lexicon*, (Singapore: Institute for Southeast Asian Studies, 2002).

6 Paul Evans, 'Building Security: The Council for Security Cooperation in the Asia Pacific', *The Pacific Review*, vol.7, no.2 (1994) pp.125-139.

For all the creativity and euphoria of the mid-1990s, however, by the end of the decade there was a common perception that these Asia-Pacific regional institutions had either stalled or were in decline.[7] ASEAN, long criticized by some for its consensus-based norms, its insistence on informality, and its lack of European-style legalistic institutions, was increasingly regarded as stagnant, even by some of its admirers.[8] The addition of four new members since 1995 had led to creation of a two or even a three-tier organization. ASEAN proved incapable of taking collaborative action to address problems such as the 'haze', East Timor, the economic crisis, or the 1997 coup in Cambodia.[9]

These problems spilled over into the Asia-Pacific institutions that had been built on the normative foundations of 'the ASEAN way'.[10] Constrained by a lack of consensus and the refusal of ASEAN and China to modify the norm of non-interference in internal affairs, the ARF found itself unable to move beyond a confidence-building phase to tackle preventive diplomacy in any substantive fashion, let alone address the goal of conflict resolution. Despite the admission of India (in 1996) and North Korea (in 2000), the ARF developed a reputation as a talk-shop rather than a forum capable of offering practical solutions to the region's most pressing security problems.

The same proved true for APEC. In the wake of the regional economic crisis there was disappointment from some quarters that the organization had not been able to do more to prevent the collapse of the Southeast Asian economies. Its liberalization agenda lost steam following the crisis and notions of 'concerted unilateralism' and 'Early Voluntary Sectoral Liberalization' rapidly lost credibility.[11] Even those defending APEC's ongoing utility had to fall back on the relevance of the annual Leaders' Meetings to deal with

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[7] Douglas Webber, 'Two funerals and a wedding? The ups and downs of regionalism in East Asia and Asia-Pacific after the Asian crisis', *The Pacific Review*, vol.14, no.3 (2001) pp.339-372.

[8] Amitav Acharya, *Constructing a Security Community in Southeast: ASEAN and the Problem of Regional Order*, (London: Routledge, 2001) pp.194-208.

[9] C. Fred Bergsten, 'The New Asian Challenge', Institute for International Economics Working Paper No.4 (March 2000) 7, available online at http://www.iie.com/catalog/wp/2000/00-4.pdf.

[10] Amitav Acharya, 'Ideas, Identity and Institution-Building: From the ASEAN Way to the Asia-Pacific Way?' *The Pacific Review* (1997).

[11] John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: Cambridge University Press, 2001) pp.186-222.

'surprise' issues like East Timor, international terrorism, the North Korean nuclear program and the threat from SARS.[12]

It might have been expected that in the wake of these trials and tribulations, particularly those since 1997, the region's institution builders would settle for a period of reflection and consolidation. However, the contrary has happened. There has actually been an expansion of regional multilateral activities, at a pace that is remarkably rapid by recent Asian standards. In particular, there has been an impressive rise in the last few years in multilateral contacts on an *East Asian* basis.

RECENT DEVELOPMENTS IN MULTILATERAL COOPERATION

The most important recent developments in multilateral cooperation in Asia have been between states and non-governmental actors across the region coming to be known as East Asia. In particular, the last five years have seen the rapid rise of the APT process, bringing together leaders, ministers, and senior officials from the sub-regions of Southeast and Northeast Asia.

The APT began in very modest circumstances in 1996 when the foreign ministers of China, Japan and South Korea were invited to join their ASEAN counterparts for an informal lunch prior to a human rights meeting in Bangkok.[13] Heads of State soon became involved and met in Kuala Lumpur in 1997 as part of the celebrations marking ASEAN's thirtieth anniversary. They came together again in Hanoi in December 1998. At that meeting, South Korean president Kim Dae-jung proposed the establishment of an East Asian Vision Group (EAVG) to develop a road map for regional cooperation on an East Asian basis. A third APT leaders meeting was held in Manila in November 1999 under the banner of 'East Asian Cooperation' and addressed for the first time eight fields of functional and economic cooperation. It issued a 'Joint statement on East Asian Cooperation' that set in motion a series of meetings between foreign, finance and economic ministers. By the time of a fourth meeting in Singapore in 2000 two broad trends were becoming evident. The first was the possible development of formal institutional links between Southeast and Northeast Asia. The second was the potential development of an East Asian free-trade area. Reflecting a cautious optimism about the future of East Asian regionalism, Singaporean Prime Minister Goh Chok Tong said,

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12 Brad Glosserman, 'SARS – An Opportunity for APEC', *PacNet Newsletter*, no.17, 23 April 2003.

13 Hadi Soesatro, 'Asia at the Nexus: APEC and ASEM', *Panorama*, 2001, no.4 , p.22.

'I see no problem in ASEAN + 3 evolving, if that's the desire of leaders, into some kind of East Asia Summit'.[14]

While its institutional evolution to date has been cautious and pragmatic, the APT has succeeded in establishing a number of concrete forms of cooperation between the members of ASEAN and the three Northeast Asian states. The most significant of these have come in the area of financial cooperation, most notably the Chiang Mai Initiative (CMI), established in May 2000 to establish a regional currency-swap mechanism to enable states to protect themselves better against any future financial crises. The initiative creates a network out of existing swap arrangements. According to one analyst, it is a 'modest but important step for regional currency stability, since committed support under the bilateral swap agreements [already in place] would not be enough to deal with another crisis like that which hit the region in 1997'.[15] The CMI may be a harbinger of greater financial or monetary cooperation among East Asian states. One financial writer has called it a 'watershed in a new regional financial architecture in East Asia'.[16] Dieter and Higgott see it as no less than 'the beginning of a new era of regionalism'.[17]

Monetary cooperation has also been accompanied by a host of proposals for bilateral and regional free-trade areas across East Asia. In November 2001, Chinese Premier Zhu Rongji proposed the creation of a free-trade zone with ASEAN within ten years, and created a negotiating committee to work on its implementation. Stung by China's initiative, Japanese Prime Minister Koizumi responded with a call for a 'Japan-ASEAN Comprehensive Economic Partnership' and announced the creation of a study group to look at creating a free-trade regime. The 2001 report of the East Asian Vision Group, *Towards an East Asian Community*, called for a region-wide East Asian Free Trade Area (EAFTA) made up of all thirteen states and Taiwan.[18] There have also been a plethora of proposals for bilateral free-trade arrangements, most notably three

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14 Quoted in *Ibid*.

15 Tsutomu Kikuchi, 'East Asian Regionalism: A Look at the 'ASEAN plus Three' Framework', *Japan Review of International Studies*, (Spring 2002) 1-23, p.8.

16 Pradumna B. Rana, 'Monetary and Financial Cooperation in East Asia: A Survey', *Panorama*, 2002, no.1, pp.17-34.

17 Cited in Webber, *op.cit.,* p.341.

18 East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress,* (October 2001) para 28.

between Singapore and Japan, Singapore and the United States and Singapore and New Zealand.[19]

These financial and trade projects have been augmented with more adventurous proposals such as former Filipino President Estrada's call in November 1999 for a common East Asian currency. While such ideas currently remain implausible, they are taken increasingly seriously, not just by academics and regional cheerleaders, but also by leaders and senior officials around the region.

MOTIVATIONS FOR EAST ASIAN REGIONALISM

What has driven East Asian multilateral cooperation at a time when other regional institutions have been foundering? According to most analysts, the evolution of the APT process has been propelled by two distinct sets of motivations, some 'positive and even visionary,' others 'defensive and reactive'.[20]

First, from the perspective of neofunctionalist theory, the creation of East Asian political institutions is a natural accompaniment to growing levels of economic integration between Asian states.[21] A number of economists have stressed the value of deepening economic and political cooperation as a way to reduce transaction costs, sustain economic growth and manage the increasingly complex regional economy.[22]

Others, however, make the argument that APT cannot be seen as a simple response to greater interdependence. Intra-regional trade among East Asian states actually declined from the end of 1995 onwards, unlike NAFTA where the share of intraregional trade for members rose consistently and accelerated after the signing of the free-trade agreement. This leads John Ravenhill to suggest that closer political collaboration in East Asia has not been driven by

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19 Mari Pangestu, 'China and Southeast Asian Regional Trade Cooperation', *Panorama*, 2002, no.2, pp.54-68, 63.

20 Bergsten, *op.cit.*

21 Jessie P H Poon, 'Regionalism in the Asia Pacific: is geography destiny?' *Area*, vol.33, no.3, (2001) pp.252-260. For a classic statement of the neo-functionalist perspective see Ernest B. Haas, *The Uniting of Europe: Political, Social and Economical Forces 1950-1957* (Stanford: Stanford University Press, 1958).

22 Wendy Dobson, 'Deeper Integration in East Asia: Regional Institutions and the International Economic System', *The World Economy*, vol.24, no.8 (August 2001).

growing interdependence, bur rather is a calculated response to the regional economic crisis that interrupted a trend of greater integration.[23]

In this view, East Asian regionalism is, at least in part, a defensive response or 'hedge' strategy to parallel developments in Europe and North America. With the expansion of the European Union to include former Eastern Bloc states in 2004, and the likely completion of a Free Trade Area of the Americas (FTAA), Asian leaders have been given a strong incentive to pursue closer relations to give the region balance against the possible development of an exclusive bloc elsewhere. In one view, the APT and its associated economic projects, represent 'counter-regionalism' and contain the potential for the creation of what Ravenhill has called 'a three bloc world'.[24]

Some of this 'counter-regionalism' is undoubtedly driven by resentment towards the West, in particular Washington's slow response to the East Asian economic crisis.[25] Fred Bergsten has said that 'most East Asians feel that they were both let down and put upon by the West' during the economic crisis.[26] Tsutomu Kikuchi has described a post-crisis sense of shared 'humiliation' on the part of Asians as an important motive for East Asian cooperation.[27] Asian regionalism is also being driven by a desire to reduce dependence on 'the [International Financial Institutions] IFIs based in Washington, the authorities of the United States, and the private (predominantly Anglo-Saxon) markets that took their cues from both'.[28] But while this approach has influential proponents (for example, Malaysian Prime Minister Mahathir) the 'balancing' argument need not have entirely negative connotations. As Paul Evans has argued, 'put in its more positive form, there is the argument that East Asia

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23 Ravenhill, *APEC*, *op.cit.*, p.212.

24 John Ravenhill, 'A Three Bloc World? The New East Asian Regionalism', *International Relations of the Asia-Pacific*, vol.2, no.2 (2002) pp.167-195. On 'counter-regionalism', see Naoko Munakata, 'Whither East Asian Economic Integration?' Center for Northeast Asian Policy Studies, Working Paper (Washington D.C.: Brookings Institution, 2002), p.2.

25 Richard Higgott, 'The Asian Economic Crisis: A Study in the Politics of Resentment', *New Political Economy*, vol.4, no.1 (March 1998).

26 Bergsten, 'The New Asian Challenge', *op.cit.*

27 Tsutomu Kikuchi, 'East Asian Regionalism: A Look at the 'ASEAN plus Three' Framework', *Japan Review of International Studies*, (Spring 2002) pp.1-23, 2.

28 Bergsten, *op.cit.*., p. 3.

needs to have a stronger voice in global institutions including the WTO and IFIs'.[29]

Richard Stubbs has argued that APT reflects a desire to advance a uniquely 'Asian' form of capitalism. This 'East Asian form of capitalism', he says 'emphasizes production rather than consumption, and results rather than ideology, and tends to place a premium on market share as opposed to short term profits. East Asian capitalism is also based much more on social obligation and social trust than the rule of law'.[30] A greater sense of solidarity among East Asian states has also emerged as a by-product of the loss of interest in APEC on the part of 'Western' regional players such as Australia and the United States.

A third impetus for East Asian regionalism is an embryonic sense of shared identity. In this view, it is only natural that Asians should come together to discuss matters of concern in the way that European or American leaders do. Pekka Korhonen has pointed to the much greater interest in Tokyo to developing relations with its Asian neighbors, a trend reflected in recent initiatives like the creation of the Miyazawa Fund, its push for an Asian Monetary Fund (AMF) as well as support for the APT.[31] Some writers argue there are common cultural foundations or shared norms that underpin the emerging East Asian region. The 2001 report of the East Asian Vision Group (EAVG) for example, refers to the 'many common historical experiences and cultural norms and values' among East Asian states, and asserted that East Asia is a 'distinctive and crucial region of the world'.[32]

CHALLENGES FOR TEN-PLUS-THREE

In a very short period of time APT has moved from being an informal set of *ad hoc* meetings attended warily by some participants, to one of the leading forums in Asia. Richard Stubbs has described it as having 'the potential to become the dominant regional institution in East Asia'.[33] The Australian economist Peter Drysdale has gone so far as to call it 'the most important

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29 Paul M. Evans, 'Between Regionalization and Regionalism: Policy Networks and the Nascent East Asian Institutional Identity', manuscript for a volume, edited by T. J. Pempel, *Remapping Asia* (forthcoming 2004) p.4.

30 Richard Stubbs, 'ASEAN Plus 3: Emerging East Asian Regionalism?', *Asian Survey*, vol. XLII, no.3 (May/June 2002), p.445.

31 Pekka Korhonen, *Japan and the Pacific Free Trade Area* (London: Routledge, 1994).

32 East Asia Vision Group, *Towards an East Asian Community*, p.9.

33 *Ibid*, p.441.

political development in Asia in the last thirty years'.[34] But while the new East Asian regionalism has taken large strides in a comparatively short period of time, a number of significant obstacles stand in the way of deeper, more formalized cooperation.

First, there are ongoing political and strategic differences between some of the APT's members. For all the warm talk about a shared identity and common vision, there also remain deep suspicions and latent conflicts. Of these, what Nicholas Kristof has called the 'problem of memory' is especially important. [35] Many Asian leaders still clearly recall Japanese militarism and expansionism in Asia during World War II. They remain to be convinced that Japan has come to terms with its actions during the war and are suspicious about Japanese leadership ambitions in East Asia. Incidents like Prime Minister Koizumi's visit to the Yasukuni Shrine in Tokyo, where convicted war criminals are buried along with ordinary soldiers, only reinforce these perceptions and serve to undermine closer regional relations. Related issues like compensation for Korean 'comfort women' and revisionist school textbooks remain an impediment to Japanese-Korean and Sino-Japanese rapprochement.[36]

There are also suspicions across East Asia about the future role of China. These fears reached a peak in the middle of the 1990s when Chinese forces seized the disputed Mischief Reef in the South China Sea and the PLA lobbed missiles around Taiwan prior to the 1996 presidential elections. Since that time, accomplished Chinese diplomacy has seen its relations with Southeast Asian states improve significantly. Beijing has been a skillful participant in regional forums and, with its offer to conclude a free-trade agreement with ASEAN, has gone some way to assuage fears of a hegemonic China dominant over Southeast Asia.[37] But China's sheer size, its proximity and its authoritarian character make it hard for it to dispel all these fears.

A second problem standing in the way of more formalized multilateral cooperation is the extraordinary diversity of the region. Political systems range the entire spectrum from oppressive military regimes to robust liberal democracies, with the majority of states maintaining some kind of illiberal

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34 Peter Drysdale, personal communication, Institute of Asian Research, University of British Columbia, Vancouver, 11 October 2002.

35 Nicholas D. Kristof, 'The Problem of Memory', *Foreign Affairs*, November/December 1998.

36 Gilbert Rozman, 'Flawed regionalism: reconceptualizing Northeast Asia', *The Pacific Review*, vol.11 , no.1 (1998) pp.1-27.

37 See generally, Evan S. Medeiros and M. Taylor Fravel, 'China's New Diplomacy' *Foreign Affairs*, November/December 2003

government. In terms of economic models, a similarly wide range is evident, with everything from centrally planned economies to free-market city-states. The presence of many weak states in the region, both in terms of lacking strong domestic economic and political institutions and accepted territorial boundaries, makes the process of region building extremely difficult.[38] All of these create obstacles when it comes to the pooling of sovereignty usually associated with even modest forms of regional cooperation. This is evident in the senior officials' East Asia Study Group report, which pushed almost all of the more ambitious proposals to come out of the track two East Asia Vision Group into the basket of 'medium and long term measures and those that require further studies'.[39]

This extreme diversity is further exacerbated by the failure of regional leaders to import new regional understandings into their domestic societies. So far there has been no attempt in any of the forms of Asian regionalism to take publics and populations along with government policies. Community building has been statist and socialization has been almost exclusively at the elite level. Even within a well-established regional institution like ASEAN, few Thais or Indonesians consider themselves 'Southeast Asians' in the way that Italians and Swedes consider themselves Europeans. There is as yet no reason to suppose that they will be more likely to consider themselves as East Asians, at least not any time soon. This permits parochial attitudes and prejudices about neighbors to persist, impeding closer regional ties.

A third obstacle concerns the topsy-turvy distribution of economic power and political influence within East Asian institutions. According to one estimate, the combined GDP of the three Northeast Asian economies totals more than thirteen times the GDP of the ten ASEAN states.[40] China is a nuclear power and a permanent member of the United Nations Security Council. Despite that, the APT currently assigns the much weaker ASEAN states a dominant, agenda-setting role in the process. This replicates the situation in the ARF, where ASEAN formally has the 'driver's seat', something that has left many regional states dissatisfied and one that is increasingly resisted by larger regional actors. Mari Pangestu notes that even within ASEAN economic cooperation has been difficult. Given these challenges, she says, 'it is difficult to see that ASEAN can be the focal point in expansion of

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38 Kikuchi, *op.cit.*, p.15.

39 East Asia Study Group, *Final Report of the East Asia Study Group*, 4 November 2002, p.4.

40 Soesastro, *op.*cit., p.24.

regional cooperation'.[41] For the time being, ASEAN's leadership probably helps matters in that neither China nor Japan have to take on an explicit leadership role. But ASEAN will have to give up influence in APT in the future to let Northeast Asian states play a role commensurate to their economic and political power. So far it has not shown any willingness to do so. Indeed, some ASEAN leaders have expressed concerns about the future of ASEAN within an East Asian framework. Singaporean Prime Minister Goh Chok Tong, for example, has said of the East Asian Summit idea, 'I myself would not recommend a hasty evolution. I would recommend a gradual move to that because it has impact on ASEAN'.[42] The November 2002 report of the East Asian Study Group (EASG) prepared by APT senior officials concluded that 'discussions have also revealed concerns that ASEAN may be marginalized if the transition towards an [East Asian Summit] moves too fast'.[43]

A final potential complication concerns the attitude of the most important non-member of the APT, the United States. While many Asian governments are putting greater emphasis on developing links with their neighbors, bilateral relationships with the United States remain the most important for most countries in the region. This is particularly the case in Northeast Asia where the US is the single most important relationship for China, South Korea and Japan. In Southeast Asia, the 'war on terrorism' has prompted closer diplomatic and military relations between Washington and several regional partners.[44] While new dialogue mechanisms are welcomed by regional leaders, all recognize that the bilateral alliance system remains the most important security structure in the region. East Asian states, including China, continue to defer to Washington for leadership in responding to regional security crises such as North Korea's nuclear program.

Washington's attitude to proposals for any East Asian regional institution will be critical in determining their prospects. The last time a plan for the creation of an East Asian institution was put forward was in 1990 when Prime Minister Mahathir advanced his vision of an East Asian Economic Group—a self-consciously 'Asian' group that excluded the United States by design. This was watered down and renamed after the United States objected to what

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41 Pangestu, *op.cit.,* p.63.

42 Transcript of remarks to the media by Prime Minister Goh Chok Tong, on the discussion of the ASEAN+3 Summit, 24 November 2000.

43 East Asia Study Group, *Final Report of the East Asia Study Group*, 4 November 2002, p.5.

44 David Capie, 'Between a Hegemon and a Hard Place: The "War on Terror" and Southeast Asian-US Relations', *The Pacific Review*, vol. 17, no.2 (forthcoming 2004)

Secretary of State James Baker called 'drawing a line down the Pacific.' Extensive US pressure on Japan and South Korea effectively killed the EAEG plan.[45]

To date, there has been little reaction from Washington to developments with the APT, despite the fact that the current Bush administration contains many of the same officials who opposed the EAEG in 1990. What comment there has been has been quietly supportive. In the words of one analyst the US has taken a position of 'benign neglect'.[46] Assistant Secretary of State James Kelly has called APT 'an interesting development' and 'a very healthy kind of dialogue within East Asia'.[47] US Trade Representative Robert Zoellick has said the US welcomes closer regional integration in Asia and 'is not worried about exclusion' from any East Asian economic institution.[48] Whether this cautiously supportive attitude continues remains to be seen. One regional survey concludes that 'US policymakers seem wary of the potential for ASEAN +3 to become an anti-US bloc, on both political and economic fronts'.[49] Based on the stated views of some American officials it seems likely Washington would oppose any institution that provided China with a vehicle to dominate East Asian politics. If the US were to take a more disapproving attitude to East Asian regionalism it could certainly make it extremely difficult for allies like South Korea and Japan to move ahead with closer ties on an East Asian basis.

Whither East Asian regionalism? Is APT a harbinger for a new kind of economic and political order in Asia, or simply the creation of another regional talk shop? For the time being the prospects seem mixed. Some see 'monetary regionalism' as a sign that a more ambitious and formal political and trade agenda will follow. Others see the sheer number of competing Chinese and Japanese proposals for regional free-trade arrangements as a gloomy sign, noting 'It is difficult to avoid the rather depressing conclusion that the name of the game is national rivalry and vying for regional influence rather than sinking

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[45] According to Ravenhill, Secretary of State James Baker told South Korean Foreign Minister Lee Sang Ock 'Malaysia didn't spill any blood for this country, but we did.' Ravenhill, *APEC*, *op.*cit., p.94.

[46] Drysdale, personal communication.

[47] 'Dialogue' Transcript of Assistant Secretary of State James Kelly's statement on the Upcoming ASEAN Regional Forum, US Embassy, Tokyo, 18 July 2001.

[48] 'Dialogue' Transcript of USTR Robert Zoellick's press conference, US Embassy, Tokyo, 11 April 2002.

[49] Brookings Institution, *Northeast Asia Survey 2001-2002*, (Brookings Institution, Washington DC, 2002) p.90.

national differences.'[50] Even sympathetic regional scholars conclude that 'the development of ASEAN + 3 will be modest in speed and scope, and warn that regional integration will be undermined by 'the practice of talking regionally and acting unilaterally'.[51] Generally speaking, however, if opinions differ about the likely scope of the APT agenda and the pace at which it will proceed, there is widespread agreement that intra-Asian cooperation is here to stay and will only become more important in the future.

EAST ASIA AND THE ASIA-PACIFIC: RIVAL REGIONS?

Assuming East Asian regionalism does continue to move forward, even at a modest pace, it raises the question of what these new dialogues will mean for the region's existing 'alphabet soup' of trans-Pacific institutions. This means not only APEC and the ARF but also ASEAN itself.

Any analysis along these lines must remain largely in the realm of speculation. It is simply too soon to discern the form that regional cooperation will take in Asia in the future. There is certainly little agreement among the economists and political-economists over the likely direction of regional economic cooperation. Some see East Asia as propagating and defending a unique form of capitalism or moving towards exclusive regionalism without the United States, while others see the growth of cooperation as part of a natural adjustment to globalization.[52] Paul Evans has likened this literature to a 'Rorschach test that tells us as much about the observer as the phenomenon'.[53]

Critical examination of the rhetoric of East Asian regionalism indicates that supporters have been careful to couch their goals in terms that sound open and engaged with the rest of the world and complementary to existing arrangements. In terms of economic cooperation, officials always stress that the agenda is consistent with earlier ideas about 'open regionalism.' Gone is the exclusive language of Prime Minister Mahathir's EAEG proposal. There are no hints of a new Fortress Asia or of drawing a line down the Pacific. The EAVG report describes an East Asia pursuing the objective of 'economic

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50 Anthony Rowley, 'Will it take a war to unite East Asia?' *Business Times*, 25 July 2002.

51 Kikuchi, *op.*cit., pp.21, 22.

52 Stubbs, 'ASEAN Plus 3: Emerging East Asian Regionalism?'; Paul Bowles, 'Asia's Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out', *Review of International Political Economy*, vol.9, no.2 (May 2002) pp.230-256; Dobson, 'Deeper Integration in East Asia', *op.cit.*

53 Evans, 'Between Regionalization and Regionalism', *op cit.*, p.7.

integration through the liberalization of trade and investment'.[54] It urges the adoption of a liberalization agenda that is more ambitious than that laid out in APEC's Bogor Declaration including the creation of a region-wide EAFTA. While the report recognizes that 'growing regionalism elsewhere has created the need for East Asia to pay more attention to securing regional common interests in the multilateral trading arena,' it also recommends that any 'regional integration arrangement should be consistent with World Trade Organization (WTO) agreements'.[55]

The substance of the APT agenda to date also reflects this engagement. The Chiang Mai currency-swap initiative was structured in such a way as to be a regional supplement to the International Monetary Fund, and not a separate fund as some states—for example, Malaysia—had hoped.[56] Ninety per cent of any funds disbursed by the CMI are to be conditional on the acceptance of conditionalities imposed by the IMF.[57]

Similarly, whatever discontent exists towards the United States because of its perceived slow response to the Asian economic crisis, there have not been calls for an exclusive economic arrangement. As John Ravenhill has argued, if a 'greater sense of East Asian identity [exists] post-crisis, for many governments of the region such a development need not come at the expense of linkages with extra-regional partners. The potential for the development of a closed East Asian economic bloc is no greater five years after the crisis than it was before'.[58]

Proponents of East Asian regionalism are also conscious of the need to avoid duplication at the governmental level. In terms of competing with established institutions, the EAVG report calls for the creation of an East Asian Summit and 'the institutionalization of regional dialogues including regular meetings of foreign ministers'.[59] It says 'sub-regional security dialogues shall be encouraged where appropriate,' a subtle reference to the only Asian sub-region bereft of a dialogue forum—Northeast Asia.[60] But despite this, the report also notes that '[w]e must … avoid duplication of the work of other

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54 *Towards an East Asian Community: Region of Peace, Prosperity and Progress* [hereafter *EAVG Report*], p.13.
55 *EAVG Report*, pp.13-14.
56 Kikuchi, p.8.
57 *Ibid.*
58 Ravenhill, 'A Three Bloc World?', p.193.
59 *EAVG Report*, p.20.
60 *Ibid*, p.21.

related organizations and regional frameworks and instead complement their contributions.'[61]

Traditional national security issues, however, seem to be one area where existing arrangements will retain their importance. There is no doubt that security dialogue will be a part of any future East Asian regional institution, even if it does not formally appear on the agenda. Indeed, according to some regional officials, the quality and intensity of discussions on the margins of APT is already equivalent to discussions that take place at the annual APEC Leaders Meeting.[62] Despite this, the architects of East Asian regionalism have focused predominantly on a non-traditional security agenda, urging cooperation and consultations on mechanisms for addressing 'piracy, drug-trafficking, illegal migration, smuggling of small arms, money laundering, cyber crime, international terrorism and other issues affecting human security'.[63] There has been a great deal of caution about expanding beyond a non-traditional security agenda. Regional sensitivities among members of the APT are one reason, but others have expressed the concern that including security discussions might provoke Washington or undermine the US presence in the region.[64]

This attitude may change slowly over time, as regional states develop a level of comfort in their interactions. It was noteworthy that China and ASEAN agreed to conclude their November 2002 agreement on a Code of Conduct for the South China Sea at the APT meeting in Phnom Penh.[65] This despite the fact that such agreements had been explicitly ruled out as a topic for discussion under the rubric of the APT only a short time earlier. However, it seems likely that for the time being at least, the ARF, for all its limitations, will remain the focus of hard security dialogue in the region. Proponents of East Asian regionalism recognize this and the EAVG report actually urges governments to 'strengthen the ASEAN Regional Forum so that it can serve as a more effective mechanism for cooperative security'.[66] However uneasy some East Asian states may be about a more assertive and unilateral United States in the wake of the war in Iraq, there is nothing in the APT process that suggests the development of any mechanisms that could rival the importance of the bilateral alliances.

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[61] *Ibid*, pp.11-12.

[62] I am grateful to Paul Evans for sharing this insight with me.

[63] *EAVG Report*, p.21.

[64] Kikuchi, *op*.cit., p.13, fn11.

[65] John Ruwitch, 'China expects sea code of conduct with ASEAN', Reuters, 28 October 2002.

[66] *EAVG Report*, pp.20-21.

CONCLUSION

This chapter makes three broad arguments. The first is that intra-Asian regional cooperation is a new and significant component of the region's security and economic architecture. A common theme in almost every analysis of the emerging East Asian regionalism is that it is too soon to know for sure what form East Asian regional arrangements will take and how they will be institutionalized. What is not disputed, however, is that intra-Asian regionalism is here to stay. Whether organized as APT or an East Asian Summit, with or without Australasian membership, regional interactions among the states of East Asia are certain to continue and seem likely to develop further.

Second, while interactions among East Asian states will increase, progress will be evolutionary rather than revolutionary and political and strategic obstacles will prevent the fulfillment of the more ambitious goals that have been set for the process, at least in the foreseeable future. If a shared East Asian identity is emerging through interaction and socialization, then it remains extremely fragile. Even leaving aside the extraordinary number of practical challenges in the way of forging deeper economic integration between East Asian states, the problem of memory and deeply established regional norms against formal institutionalization will make pooled sovereignty or a more structured political community impossible in the short and medium term. As it tries to progress beyond dialogue towards greater regional functional cooperation, APT is encountering the same challenge that ASEAN has confronted in Southeast Asia since 1997: how to reconcile norms of 'soft institutionalization' and non-interference with effective and wide-ranging regional cooperation. ASEAN's inability to successfully create a formula to do just that does not auger well for the larger and more diverse APT.

Finally, while there is some potential for duplication in the tasks performed by new East Asian institutions and their Asia-Pacific counterparts, the former is unlikely to eclipse the latter for some time to come. Partly, this is because East Asian institutions will only develop slowly. Also, despite their problems, Asia-Pacific institutions such as APEC and the ARF remain attractive and useful for many East Asian states. In particular, trans-Pacific multilateral institutions will retain their comparative advantage in the area of security. While dialogue on the margins of the APT will continue and intensify, it is unlikely that its formal agenda will reflect hard security issues for some years. Rather, the APT process seems content for the time being to address the significant number of non-traditional security threats that trouble the region. As a result, what we are likely to see in the next few years is not the creation of

rival regions in East Asia and the Asia-Pacific, but the development of a set of multiple and overlapping regional arrangements which will help build confidence, but which will not dramatically transform the existing regional order.

KOREA: CHALLENGES FOR DEMOCRATIC CONSOLIDATION

CARL BAKER

INTRODUCTION

In December 2002, South Koreans elected their fourth president since the country's transition to procedural democracy in 1987. The significance of these elections is that to all outside appearances, they demonstrate that South Korea has made a successful transition to a fully democratic system of government. Today, unlike in the years immediately following the 1987 elections and even as recently as the 1997 Asian financial crisis, there is general consensus that a return to the pre-1987 days of military involvement in the political process or usurpation of power by an incumbent president has become virtually impossible. The military has become sufficiently professional to dismiss any speculation about a possible military coup. The election process appears to be firmly entrenched in South Korean society with a growing expectation that campaigns will be run fairly, or at least with increasingly less visible corruption. Political parties, while still vulnerable to personality dominance and a lack of ideological distinction, are generally recognized as the legitimate means for articulating political demands within the society.

Even more to the point of a maturing democracy within South Korea, there has been a growing demand by civic groups and individual citizens for fair and responsive leaders. Civic activism for identifying and isolating corrupt and incompetent politicians within the system has grown over the years. Recent presidents Kim Dae-jung and Kim Young-sam have seen their sons prosecuted for political corruption. Prominent businessmen have been prosecuted for financial misconduct, several politicians have been removed from power for political corruption and the generals have been removed from the political process. In the words of Adam Przeworski, South Korea is approaching the minimum structural conditions for democratic consolidation where democracy 'becomes the only game in town…[and] all the losers want

to do is to try again within the same institutions under which they have just lost'.[1]

This apparent success in establishing democracy in a country without a democratic tradition, along with the juxtaposition of the last Stalinist holdout in North Korea, has made South Korea one of the more interesting cases of democratic transition among the countries that have undergone the transition to democracy as part of the third wave of global democratization.[2] With June 29, 1987(the date that Roh Tae-woo promised to institute direct presidential elections, among other initiatives) isolated as the defining moment in the transition, South Korean democratization has been the subject of investigation by a variety of scholars with a wide range of perspectives. Indeed, with its spectacular economic growth under the authoritarian regimes of Park Chung-hee and Chun Doo-hwan in the 1970s and 1980s followed by the increase in civil protest supported by the new middle class, South Korea served as a textbook example of the economic preconditions theory of democratic transition. South Korea also represented a classic case for those interested in the cultural aspects of democratic transitions.[3] Given the political intrigue associated with the presidential elections in 1987, some have also presented Korea as a classic case of elite contingency calculations driving the transition process.[4] Regardless of the theoretical orientation of the analysis, the common conclusion is that by all accounts South Korea has made a successful transition to democracy. In fact, there is general consensus in the comparative politics literature that the transition to direct presidential elections with suffrage extended to a relatively high percentage of the adult population and a reasonable opportunity to vote for the opposition is firmly in place—the fundamental characteristics of the political order Dahl refers to as polyarchy.[5]

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[1] Adam Przeworski, Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America (Cambridge: Cambridge University Press, 1991), p.26.

[2] For a discussion on the waves of democratic transition see Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

[3] See for example Geir Helgesen, *Democracy and Authority in Korea: The Cultural Dimension in Korean Politics* (Richmond: Curzon Press, 1998) and Daniel Bell et. al., *Towards Illiberal Democracy in Pacific Asia* (New York: St Martin's Press, 1995).

[4] Manwoo Lee, *The Odyssey of Korean Democracy* (New York: Preager, 1990) and Hyug Baeg, 'The Politics of Democratic Transition From Authoritarian Rule in South Korea', Sang-Yong Choi, ed., *Democracy in Korea: Its Ideals and Realities* (Seoul: the Korean Political Science Association, 1997), pp.71-92.

[5] Dahl specifically refers to polyarchy as being distinguished by two broad characteristics: Citizenship extended to a relatively high proportion of adults and the rights of citizenship

Beyond the transition itself, scholars have examined how South Korean political institutions and political values have been modified and adapted through the consolidation phase of the democratization process. Here we find much less optimism regarding the institutionalization of democracy in the country. Although again argued from various perspectives, there appears to be a general consensus among analysts that South Korea has yet to achieve a fully consolidated democracy however the analyst chooses to define the term. For example, Diamond and Kim introduce their edited volume analyzing the institutionalization of democracy in South Korea by stating that, 'its political institutions remain shallow and immature, unable to structure meaningful policy courses and to provide the responsiveness, accountability, and transparency expected by the South Korean public'.[6] Throughout the volume, individual contributors point consistently to a pattern of interplay between political institutions, political culture and political behavior that has contributed to the general 'weakness' of democracy in the country. Elsewhere, in a more structural analysis of the democratization process, Croissant argues that since the transition in 1987 the usurpation of power by the executive branch, the corresponding weakening of the legislative branch and the ongoing ineffectiveness of the judiciary have precluded democratic consolidation for now or in the near future.[7] Others have attempted to show the general incompatibility between Korean civic or political culture and the democratic institutions established with the founding of the republic in 1948.[8] The conclusion drawn is that the consolidation of democracy is fundamentally

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including the opportunity to oppose and vote out the highest officials of the government. More specifically, he specifies seven institutions that distinguish a polyarchy. They are: elected officials, free and fair elections, inclusive suffrage, right to run for office, freedom of expression, alternative information and associational autonomy. Robert A. Dahl, *Democracy and its Critics* (New Haven: Yale University Press, 1989), pp.220-221.

[6] Larry Diamond and Byung-kook Kim, 'Introduction: Consolidating Democracy in Korea,' in Larry Diamond and Byung-kook Kim eds., *Consolidating Democracy in Korea* (Boulder: Lynne Reinner Publishers, 1991), p.2.

[7] Aurel Croissant, 'Strong Presidents, Weak Democracy? Presidents, Parliaments and Political Parties in South Korea', *Korea Observer,* Vol. 33, No. 1 (Spring 2002), pp.1-45.

[8] Sunhyuk Kim in 'Civic Mobilization for Democratic Reform,' in, Larry Diamond and Doh Chull Shin eds., *Institutional Reform and Democratic Consolidation in Korea* (Stanford: Hoover Institution Press, 1999), pp.279-303 argues that while citizen mobilization was instrumental in achieving the transition, the inability to channel their energies into political parties has been a detriment in the consolidation process. In a more expansive argument, Helgesen *op. cit.*, argues that the general incompatibility of Korean culture with western democratic structures precludes full consolidation of liberal democracy in Korea. Also see Doh Chull Shin, *Mass Politics and Culture in Democratizing Korea* (Cambridge: Cambridge University Press, 1999).

different, and indeed more difficult, than the transition to democratic institutions as a means of government.

The critics take up several themes seen as the primary challenges to further consolidation of democracy in South Korea. First, there are the predominant arguments that some sort of institutional reorganization is needed either (or both) on the input side to allow for better articulation of political demands within Korean society or on the output side to provide better delivery of political decisions by the government. Second, there is the notion that both the political elite and the Korean people must somehow become more committed to democracy as a superior form of government. In other words, the argument here is that there is some sort of flaw in Korea's political culture that has to be modified. Third, the emergence of a stronger civil society complete with voluntary organizations that helps sustain popular involvement in the political process is viewed as necessary to provide momentum for institutional reform and fostering trust in the political process.[9]

The emergent pattern is that while there is general satisfaction with the transition to democracy, the consolidation of democracy is somehow more difficult and perhaps there is something inherently defective about the consolidation of democracy in South Korea. The task is to evaluate that proposition in the context of how the concept of democracy was introduced in Korea and the role the concept has played in the transition process. This chapter begins with a brief review of the structural evolution of democracy on the peninsula. With that basic framework in place, I highlight some of the most common criticisms of the consolidation process and examine their root causes. The chapter concludes with some thoughts regarding the way forward for the development of a truly Korean style of democracy.

The essential distinction between the terms 'democratic transition' and 'democratic consolidation' is that the transition phase is the initial movement away from an authoritarian system during which there is a replacement of the non-democratic institutions and procedures. Necessary aspects of this transition are the implementation of new rules governing the political process and an initial willingness on the part of political actors to follow these newly established rules. The transition ends with the first democratic elections and the assumption of power by the democratically elected government.[10] The

[9] Diamond and Kim, *op. cit.*, pp.1-20.

[10] Aurel Croissant, *op. cit.,* pp.6-7, attributes the notion of conceptually separating of the transformation phase from the consolidation phase to Guillermo O'Donnel and Philippe Schmitter, 'Transition from Authoritarian Rule: Tentative Conclusions about Uncertain

consolidation phase is more complex and generally involves the process of making the new democratic institutions and procedures a routine part of the political process within the country. During this phase, the adaptation of the new rules and procedures leads to a persistence of process and a stable democratic system. Not surprisingly, the more open-ended nature of this phase has also led to a much wider diversity in the way it is characterized in the literature.[11]

In his paper on the consolidation of democratic institutions in Korea, Croissant presents a model to argue that the consolidation process occurs in three dimensions.[12] First, the constitutional dimension involves the ability of constitutional organs and political institutions (e.g., electoral system, head of state, parliament) to function both as independent institutions as well as in conjunction with the other components. This dimension involves vertical consolidation within each institution as well as horizontal consolidation between the various institutions. Second, the representational dimension refers to the ability of political parties to serve as 'gatekeepers' of the political system. Essentially, the consolidation in this dimension reflects the ability of the party system to transform societal demands into effective policy options that serve as a channel for realizing political aspirations for the majority of citizens. The third dimension is attitudinal and associational consolidation, which refers to the attitudes towards the political system and the perceived legitimacy of the democratic process within the country. With full consolidation, a democratic ethos would permeate the society with an expectation that democratic principles would be applied to all aspects of political, economic, social and cultural life.

Democracies,' in O'Donnell, Schmitter and Lawrence Whitehead eds., *Transition from Authoritarian Rule: Prospects for Democracy* (Baltimore: Johns Hopkins University Press, 1990).

[11] Hyug Baeg Im, 'South Korean Democratic Consolidation in Comparative Perspective,' in Diamond and Kim eds., *op cit,* pp.21-23 presents the range of views on the issue of consolidation. He suggests that minimalist conceptions that limit consolidation to institutionalization of competition through elections are too narrow. However, it should be noted that there is a general lack of consensus regarding the concept of political consolidation in the comparative politics literature. In her article, Andreas Schedler suggests there are at least five conceptions of the process (avoiding breakdown, avoiding erosion, completing, organizing and deepening) used in the political science literature. The first two conceptions focus on preventing breakdown of democracy while the other three focus on the process of institutionalizing democracy's basic ground rules for some implicit or explicit idealized model of democratic government.

[12] See Aurel Croissant, *op. cit.* Within the presentation, Croissant attributes much of his conception of the three dimensions to Wolfgang Merkel and Leonardo Merlindo.

The attractiveness of this model as a starting point lies in the fact that it encompasses the general themes mentioned above that run through much of the current literature on the consolidation process in South Korea, namely the strengthening of democratic institutions and the role of political or civic culture. One of the possible shortcomings of the model is that it tends to be based on a normative model of democracy in that it assumes there is a desired model of democracy that can be observed through the behavior of political actors in the context of the democratic institutions established in the transition phase of democratization. The potential problem is that eventually one must go beyond the institutions of democracy and examine the basis for Korean attitudes about them, namely Korean culture and its particularistic history.

DEMOCRATIC TRANSITION IN SOUTH KOREA

There is a body of historical evidence that suggests there was what John Kie-Chang Oh refers to as a 'proto-democratic' movement in Korea associated with the *Minjung* (peoples') movement of the later Yi Dynasty, which culminated in the *Tonghak* (Eastern learning) rebellion of the late1800s. In referring to the teachings of the *Tonghak* movement, Oh states that they 'held the first identifiable embryos of what may be called 'populist' concepts.[13] Elsewhere, the *Tonghak* rebellion is also identified as the inspirational source for Korean resistance movements over the years.[14] The significance of this connection is that these resistance movements are now becoming the inspirational source for much of the enthusiasm for Korean nationalism among the younger generation of Koreans. Perhaps because these resistance movements have never been particularly successful in gaining any meaningful political power, analysts examining the development of democracy in Korea have generally ignored them.

A large part of the reason that South Korea has attracted the attention of scholars interested in democratic transition is the dramatic way in which the political institutions of the Republic of Korea were established. Prior to the first constitution in 1948, South Korean society had no real experience with democratic institutions. Following thirty-five years of Japanese occupation, which ended along with World War II, most Koreans had no understanding of

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[13] John Kie-Chang Oh, 'Kim Dae-jung and a Populist (Tonghak) Origin of Korean Democracy,' in *The Korea Society Quarterly* (Spring 2001), p.54.

[14] See Soon-kwon Hong, 'Korean Minjung's Resistance and the Growth of Modern Consciousness from 1876 to 1910 in Korea,' *International Journal of Korean History,* Vol. 2, (December 2001), pp.137-157. Also see Kenneth Wells ed., *South Korea's Minjung Movement: The Culture and Politics of Dissidence* (Honolulu: University of Hawaii Press, 1995).

democratic institutions or representative politics. The election of members to the first National Assembly and drafting of the first constitution were based on a decision by the US Military Government in Korea to establish a separate Korean state south of the thirty-eighth parallel; this after three years of military occupation in the face of a communist regime in the Russian-occupied zone north of the thirty-eighth parallel that refused to agree to UN supervised elections. Not surprisingly, the structure of the First Republic was strongly influenced by the American presidential system. The first president, Syngman Rhee, who was educated and spent nearly forty years in exile in the United States, was nominally elected by the National Assembly, but clearly chosen by the United States to be the first leader of the country.[15] The unicameral National Assembly was made up of two hundred legislators, of which eighty-five were officially listed as independent. The remaining 115 members represented fourteen different political parties.

This rather abrupt establishment of a democratic government without significant participation by the South Koreans themselves also created a serious void on the representational side of the process. With no national-level parties and more than 340 officially registered parties formed by individual politicians as vehicles for personal or, at best, local interests, there was no effective means for aggregating political demands in the legislative system.[16] To complicate matters even further, with the imminent threat of communist subversion from both within and from the north, there was little opportunity for the development of an ideologically coherent opposition to the president, while there was an urgent need for decisive action to deal with the triple crises of economic development, rebellion and eventually war. Given the circumstances, it is perhaps not surprising that Rhee became increasingly powerful by the end of the Korean War in 1953. After the war, Rhee was elected by popular vote by increasingly large margins in 1956 and 1960. However, in the face of abysmal economic conditions, growing protests in South Korea and weakening support from the United States, Rhee eventually went into exile in Hawaii.[17]

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[15] Bruce Cummings, *Korea's Place in the Sun: A Modern History* (New York: W.W. Norton, 1997), p.195.

[16] Aurel Croissant, 'Electoral Politics in South Korea,' in Aurel Croissant ed., *Electoral Politics in Southeast and East Asia* (Bonn: Freidrich-Eibert-Stifung, 2002), pp.234-235 refers to these more than 340 parties as proto-parties.

[17] Based on electoral statistics provided by the National Election Commission, Aurel Croissant, 'Electoral Politics in South Korea', *op. cit.*, p.264, shows that Rhee garnered 70 percent of the vote in 1956 and 100 percent of the vote in 1960. Also see John Kie-Chiang

The disillusionment with the Rhee presidency led, in 1960, to a new constitution which provided for a parliamentary form of government with a bicameral National Assembly. With the explicit goal of developing a democratic system that would prevent the abuses of power experienced during the Rhee administration, the new constitution greatly reduced the role of the president while expanding individual freedoms of assembly and association. Although the Democratic Party, which had been the main opposition party during the later days of the Rhee presidency, won a vast majority of seats in both houses of the parliament, a split in the party within months of the elections led to legislative gridlock. With continuing economic problems, accusations of corruption within the government, and widespread student demonstrations demanding punishment for the Rhee government, the Second Republic was replaced by a military junta led by Major General Park Chung-hee in 1961, ushering in an extended period of strong military influence in South Korean politics.

After a nearly two-year period of transition under the control of a military junta led by Park, the Third Republic was established in 1963. A new constitution with a strong presidential system and a weakened National Assembly was adopted through national referendum. During the transition, Park ensured his own role in the future civilian government by eliminating potential rivals from the ranks of the military, banning more than four thousand politicians from previous regimes and eventually retiring from the military.[18] The presidential elections held in 1963 were conducted in a relatively fair manner with Park winning by a slim margin with 46.6 percent of the vote. Park was elected to a second term in 1967 with 51.4 percent of the vote. In both 1963 and 1967 the Democratic Republican Party, also held a slight majority in the National Assembly.[19]

The Park government's immediate focus was on economic development and control of the population to ensure full implementation of the centrally formulated economic development plans. Throughout the 1960s the

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Oh, *Korean Politics* (Ithaca: Cornell University Press, 1999), pp.40-43 for a summary of the street protests and the withdrawal of support from the United States following the 1960 elections.

[18] Han Sung Joo, 'South Korea: Politics of Transition,' in Sang-Yong Choi ed., *Democracy in Korea: Its Ideals and Realities,* (Seoul: The Korean Political Science Association, 1997), pp.30-31.

[19] Election results show that in 1963 Park Chung Hee won 46.6 percent of the vote in a field of five candidates with Yun Po-sun, who had been President during the Second Republic, coming in second with 45.1 percent. In 1967 Park won by a wider margin over a field of six with Yun Po-sun again coming in second with 40.9 percent of the vote. Aurel Croissant, 'Electoral Politics in South Korea', *op.* cit., pp.235, 265-268.

Economic Planning Board, managed by professional economists, and the Korean Central Intelligence Agency (KCIA), managed by former military colleagues, served as personal instruments for the implementation of Park's vision for a strong anti-communist South Korea. The strength of this centralized bureaucracy served to further marginalize an already constitutionally weak National Assembly. Under the KCIA's control of internal affairs, opposition politicians were under constant threat of being declared a communist or North Korean sympathizer under the National Security Law. Political parties served as personal extensions of their leaders, which reinforced the perception that the best avenue for articulating political demands was through personal networks. As had been the case under the increasingly centralized system of Rhee in the 1950s, one of the primary venues for expressing political demands throughout the 1960s remained large-scale street demonstrations, typically led by student organizations.

By the end of the 1960s, with Park taking full credit for a rapidly growing economy, a national referendum was held to approve an amendment to the constitution to allow for a third presidential term. In 1971 Park won the presidential election over Kim Dae-jung, who was portrayed by the Park campaign as being 'pro-Communist'. However, the relatively close margin of victory (53.2 to 45.3 percent) was at least partial motivation for Park to insulate himself, in the name of national security, from ever facing elections again. In October 1972, Park declared martial law, dissolved the National Assembly, banned political parties and closed all national universities and colleges in the name of 'developing democratic institutions best suited for Korea'.[20] Following the declaration of martial law, the constitution was again amended and ratified through a national referendum. Significant changes included a provision to prolong Park's presidency indefinitely through indirect elections by a tightly controlled National Conference for Unification, the right of the president to nominate one third of the National Assembly member for election by the NCFU, and to dissolve the Assembly whenever he deemed necessary.[21] The new constitution, which was referred to as *Yushin* (revitalization), ushered in the Fourth Republic and a new era of repression in which Park became increasingly isolated and paranoid about criticism of the government. By 1979, when Park was assassinated by his KCIA director, the country was once again being torn apart by violent street demonstrations led by students, but increasingly supported by a rapidly growing middle class.

[20] Oh, *op. cit.*, , p.60.
[21] *Ibid.,* p.59.

Clearly Park, in his nearly 20 years as leader, had a tremendous impact on the development of South Korea's political system. By the end of his tenure, the system was uniquely designed to support the continuation of the Park regime. When he died, there was no viable mechanism to replace him. Therefore, it is not surprising that despite an attempt by the interim government to revise the constitution and eliminate the more draconian measures of the *Yushin* system, another military junta, this time led by Chun Doo-hwan, took control of the central government in the name of ensuring national security.[22] Once again, martial law was declared, the National Assembly was dissolved and political parties were banned for nearly a year while a new constitution was developed to serve as the basis for the Fifth Republic. With the new constitution completed, a newly formed electoral committee elected Chun as president for a seven-year term and National Assembly elections were held in 1981.

In many respects, Chun's tenure was a shortened replay of the Park era in that the government maintained tight control over both economic development through the conglomerate patronage system and became increasingly brutal in its attempts to control an increasingly large segment of the population that was resorting to street demonstrations. In the absence of a meaningful system for aggregating political demands, the newly expanded middle class grew more and more willing to support increasingly violent demonstrations by students and labor unions. One important difference was that from the beginning Chun promised to work towards a peaceful transfer of power at the end of his tenure. Despite attempts by Chun to create a party system that would ensure the ruling party would retain power after the transition, by 1985 the opposition party, led by Kim Dae-jung and Kim Young-sam and emboldened by growing pressure from the increasingly violent street protesters, had grown strong enough to engage in a serious push to revise the constitution prior to the 1987 elections.

Certainly Chun and his handpicked successor and military academy classmate Roh Tae-woo recognized the need for change. Accordingly, Roh, with the explicit support of Chun, drafted a democratization package, which was presented by Roh on June 29, 1987 as the 'Declaration of Democratization and Reforms' in a somewhat obvious attempt to avoid defeat

[22] The transitional government led by Ch'oe Kyu Ha revoked several of the 'emergency decrees' of the Park regime, restored civil rights of Park's main political rivals and other academic, labor and religious leaders who had been accused of communist sympathizers by Park. Oh, *op. cit.,* pp.74-75.

in the upcoming elections. [23] In October 1987 the National Assembly drafted, and a national referendum subsequently approved, a new constitution that contained much of the contents of the declaration, including the direct election of presidents to single five-year terms, a strengthened role for the National Assembly that included the right to impeach the president and inspect state affairs, political neutrality for the armed forces and a reaffirmation of civil rights and due process.

Despite the transparent manipulation, Roh surprised many by winning the election in 1987, although the reason was probably tied as much to the unwillingness of both Kim Dae-jung and Kim Young-Sam to join forces to defeat him. Roh won the election with 35.9 percent of the vote, while Kim Young-sam and Kim Dae-jung received 27.5 and 26.5 respectively.[24] Nevertheless, the election served as a watershed in Korean politics. Roh, a former Major General, served as a good compromise between the previous attempt at democracy in 1960, when the system was gripped in gridlock, and the authoritarian regimes of Park and Chun. With a strengthened National Assembly in which the three opposition parties and the independents held a majority of the seats, Roh adapted remarkably well to party politics. After two years of being pushed around by a somewhat raucous National Assembly and accused of incompetence in dealing with pressing economic issues, he, along with Kim Young-sam (the former political activist) and Kim Jong-pil (Park's erstwhile assistant), formed a three-party alliance that gave them a sizeable majority in the National Assembly. Although it was another transparent case of political manipulation, the significance of this turn of events should not be understated. It was the first time that the president chose to engage the opposition within the confines of the constitution rather than attempt to solidify control through vertical integration of the executive branch using coercive means. In other words, the Roh administration's actions reaffirmed a commitment by the political elite to the idea of party politics as a means for maintaining political support.

The elections in 1992 brought the next important test for democracy in Korea. After a realignment of power among the parties during the National Assembly elections that reduced the strength of the 'super-party' created by

[23] The eight specific items included in the declaration include a call for direct presidential elections, a revision of the presidential election law, amnesty and restoration or civil rights for dissidents, strengthening of all basic rights in the new constitution, promoting freedom of the press, increased local autonomy, improved climate for the growth of political parties and social reforms to built a clean and honest society, Oh, *op. cit.,* pp.93-101.

[24] Aurel Croissant, 'Electoral Politics in South Korea', *op. cit.*, p.266.

the coalition in 1990, the presidential elections fielded three primary candidates with no military background or significant military support. In fact, the armed forces took a deliberately neutral stance despite the fact that one of the candidates (Kim Dae-jung) was viewed by many as being too radical. The winner, Kim Young-sam, in many respects represented the compromise solution much as Roh had in 1987. Although he had aligned himself with the mainstream in the 1990 coalition, he still represented a moderate voice of protest from the past. During his administration, Kim actively worked to further institutionalize democracy by taking a series of measures explicitly designed to discourage military involvement in politics, to reduce corruption within the executive branch, and strengthen the legislative system through local autonomy and election reforms.

Perhaps the most memorable undertaking of the Kim Young-sam administration was the public trial of former presidents Chun and Roh for political corruption for amassing illegal wealth through bribes as well as mutiny and treason for their roles in the 1979 coup and the ensuing 1980 Kwangju massacre. The unmistakable message was that Kim Young-sam intended to show that the judicial system was capable of handling the toughest of cases. It certainly did not wipe away all the abuses of the military-dominated rule, however it did serve to advance the primacy of the rule of law under a civilian government and enhance the constitutional authority of the Supreme Court. Together with other reforms, there was a sense that constitutional consolidation had been completed by the end of the Kim Young-sam administration.

With the 1997 election of the opposition party candidate Kim Dae-jung serving as convincing evidence that democracy had passed its first 'turnover test,' the South Korean democratization process demonstrated a remarkable ability to incorporate what had been radicalized elements into the mainstream of the South Korean political process.[25] Clearly, the institutional structure was now well within Dahl's definition of polyarchy and its focus shifting to representative consolidation.[26]

Beyond the election, Kim Dae-jung did for relations with North Korea what Kim Young-sam had done for domestic politics. As a person who had been characterized and imprisoned as a communist sympathizer, Kim Dae-

[25] Kim Dae-jung's role in the democratization is legendary, having been the target of both the Park and Chun regime's vengeance. Almost miraculously he survived everything from political exile to imprisonment, to a death sentence to at least two assassination attempts. John Kie-Chiang Oh, *Korean Politics,* p.60, 232.

[26] Note 3 above.

jung was under considerable scrutiny early in his tenure by conservative elements in South Korean society. Through his characteristic persistence and careful implementation of the policy of engagement with North Korea, commonly referred to as the 'Sunshine Policy', one of his major contributions was the opening up of the ideological debate regarding South-North dialogue. Prior to his administration, South Korean debate on the subject was basically limited to ways in which the North would be eliminated from the international scene. By the end of the administration it was possible for Roh Moo-hyun to win the next presidential elections by taking an ideological position that openly advocated a continuation of a peaceful dialogue with the North versus Lee Hoi-chang's position that North Korea should be contained.

The financial crisis of 1997 served as an important milestone in the democratization of the domestic agenda in South Korea. As I have suggested, both military coups and much of the justification for the authoritarian regimes of the past were predicated on the failure of civilian governments to deal effectively with economic issues. The fact that the country could deal with the crisis without resorting to the centralizing tendencies of the past reinforces the notion that South Korea had come to place increasing trust in the civilian leadership for resolving issues. For the first time since Park embarked on the economic development quest, there was a willingness to engage in a national dialogue about pro-development versus pro-democracy. Beyond the crisis, there has been a further reduction in the role of the large conglomerates in politics and an increased willingness by the military to remain under civilian control.

In many ways the election of Roh Moo-hyun in 2002 represents the culmination of the textbook case of democratic consolidation. As a civil rights lawyer who advocated the removal of US forces in the 1980s Roh represents the antithesis of the restrictive ideological perspective and tight central control present at the start of the consolidation in 1987. The process of systematically incorporating increasingly radical elements of the population into the political system with each subsequent administration has been truly remarkable. Certainly much of the success of the consolidation should be attributed to men like Kim Dae-jung whose faith in the system kept him coming back for thirty years despite so many disappointments and challenges. It is also a testament to the growing acceptance of the democratic process following the rather vague ideal put forward by the original constitution.

ASSESSING PROGRESS TOWARD DEMOCRATIC CONSOLIDATION

However, as the extensive research on the subject testifies, there are some significant structural problems remaining for Korea's process towards democratic consolidation, especially in the areas of representational consolidation and the horizontal integration between the various branches of government.[27] These structural deficiencies continue to make South Korean politics vulnerable to manipulation by individuals with personal or restricted agendas and may lead to the institutional gridlock that in the past led to a reversion to centralized control.

In terms of representational consolidation there continues to be a lack of ideological distinction between the parties. For example, during the 2002 presidential elections there was still a great deal of shifting within the party structure. The near collapse of Roh's Millennium Democratic Party following mass defections by National Assembly members, the truncated campaign by Chung Mong-joon under a newly created party and the alignment of Park Kyun-hye with Lee Hoi-chang just weeks before the election all suggest that there is still a lack of ideological distinction between the parties. This continual shifting of loyalty between parties and the emergence of parties based on the personal perspective of individual politicians reflects a certain structural weakness of parties to broaden their ideological bases to deal with national-level interests.

The lack of horizontal consolidation within the government continues to plague relations between the president and the National Assembly. As Croissant correctly asserts, the relationship between these two 'generally oscillates between the two extremes of hyper-presidential dominance on the one hand and institutional gridlock on the other'.[28] The danger of this oscillation was clearly demonstrated during the Kim Young-sam administration, which began its tenure with a long series of executive decrees under a strong popular mandate to implement a wide range of reforms only to

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[27] Two edited volumes, Larry Diamond and Byung-Kook Kim eds., *Consolidating Democracy in South Korea* (Boulder: Lynne Rienner, 2000), and Larry Diamond and Doh Chull Shin eds., *Institutional Reform and Democratic Consolidation in Korea* (Stanford: Hoover Institution Press, 2000), have been published to specifically address the consolidation of democracy in Korea. Within, these volumes, individual authors address a wide variety of topics dealing with the difficulties associated with institutional reforms needed to complete the consolidation of democracy initially envisioned in the Roh Tae Woo's 1987 declaration to the National Assembly.

[28] Croissant, 'Strong Presidents, Weak Democracy?', *op. cit.*, p.14.

end up in failure, as it was unable to build a strong supporting coalition in the National Assembly to complete the reforms. As a result, the administration achieved initial success in the areas of anti-corruption among the elite, but was unable to complete wider economic and social reforms later in the administration as it was unable to coordinate its efforts with the opposition parties in control of the National Assembly.[29] Similar dilemmas have faced the Roh Tae-woo and Kim Dae-jung administrations when they were faced with a majority opposition in the National Assembly and in each case, the tendency has been for the president to resort to his decree authority—reminiscent of the solution sought by the strongman regimes of Rhee, Park and Chun. Proposed solutions have ranged from minor modifications to the election process such as linking the National Assembly and presidential elections or switching to a parliamentary form of government.[30] The point is that unless these structural weaknesses are addressed in a systematic way they will continue to make the political process in South Korea vulnerable to a wide range of problems including corruption, cronyism, and regionalism, all of which eventually lead to the potential for institutional paralysis.

Another area that has received critical attention throughout the consolidation phase of Korean democratization is that of individual rights and freedom of expression. Much of the criticism leveled against the central government is associated with the persistence of the notorious National Security Law. Promulgated in 1948 to protect the 'State' from 'enemies' defined in one Article as 'any person who defames constitutional organs,' the law has been used over the years to prosecute political opponents.[31] It was paradoxical that the law was still in place after five years of the administration of Kim Dae-jung, who had been sentenced to death under its provisions. However, there remains a general reluctance to significantly modify the law, partly in deference to the large portion of the population that continues to believe the law prevents North Korean subversion, especially among the student population.

As have previous administrations, the Kim Dae-jung administration also came under criticism by the annual Press Freedom Survey conducted by Freedom House for its continued political and economic pressure especially

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[29] Young Jo Lee, 'The Rise and Fall of Kim Young-Sam's Embedded Reformism,' in Diamond and Shin, *op. cit.*, pp.97-126.

[30] Larry Diamond and Doh Chull Shin, ' Introduction: Institutional Reform and Democratic Consolidation in Korea,' in Diamond and Shin, *op. cit.*, p.39. Also see Hoon Juang, 'Electoral Politics and Political Parties,' in *Ibid.,* pp.43-71.

[31] Oh, *op. cit.,* p.37.

on the print media.[32] Elsewhere, Human Rights Watch has actively protested the continued detention of human rights advocate Suh Joon-sik, while the International Press Institute placed South Korea on its watch list in 2001 for harassment of independent media.

One area of representational consolidation that has seen a dramatic improvement, as the political process has expanded to incorporate larger segments of the population, is that of civic organizations. There is an assumption that legitimate civic organizations replace radicalized protest movements as the mechanism for aggregating political demands as the country matures as a democracy, Croissant argues that these organizations, which grew in number from 1,322 in 1984 to 2,181 in 1996, with 75 percent being founded between 1987 and 1996, have, in fact, replaced the older student groups, labor union activists and farmer dissident groups.[33] However, it is also the case that following the 1997 financial crisis, the government was actively engaged in suppressing labor-union organizations involved in protesting measures to eliminate restrictions on firing workers. Similarly, several student organizations such as the *Hanchongryon* continue to be the subject of government sanctions in the name of the National Security Law.

South Korean attitudes towards the progress made in terms of institutional reforms have been somewhat skeptical. In an extensive analysis of the political attitudes, Doh Chull Shin refers to a large segment of the population as 'critical democrats,' meaning those who broadly accept democracy as a preferred alternative to the authoritarian regimes of the past, while remaining skeptical of the daily performance of the government and suspicious of political institutions.[34] One conventional indication of this scepticism is the declining participation in elections. For example, participation in the presidential elections has declined each year since 1987 when 89.2 percent of the registered voters participated to the 2002 race when 70.2 percent participated.[35]

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[32] Annual Press Freedom Survey. Freedom House, 2002. The report was specifically critical of the Kim Dae-jung administration's decision to bring a massive tax evasion suit against the five largest daily newspapers in what appeared to be retaliation for printing negative stories about its North Korean engagement policy and showed a downtrend in the degree of press freedom in South Korea. http://www.freedomhouse.org/research/pressurvey.htm.

[33] Croissant, 'Strong Presidents, Weak Democracy?', *op. cit.*, p.34

[34] Doh C. Shin, *Mass Politics and Culture in Democratizing Korea* (Cambridge: Cambridge University Press, 1999), p 124.

[35] Aurel Croissant, 'Electoral Politics in South Korea', *op. cit.*, p 266 and 'North Asia,: Assessing the Implications of Roh's Victory, in *Asiaint.com,* January 2003. .

What becomes apparent in trying to isolate aspects of attitudinal consolidation is that while institutions are important in terms of providing a framework within which democratic transition occurs, they are marginally useful in understanding actual attitudes towards democracy itself. They are both cause and consequence. In other words, it is true that a strong civil society does help build a strong basis for aggregating political demands. However, it is equally true those civic organizations are likely to prosper in a context where people know that they are the primary mechanism for aggregating political demands. Similarly, while it is true that strongly institutionalized political parties help consolidate attitudes towards democracy, it is equally true that the consolidation of democracy helps strengthen and institutionalize political parties. This fact, then, is an interesting observation, but not terribly informative in terms of explaining democratic consolidation.

This leads to a confrontation with a more problematic aspect of attitudinal consolidation in South Korea, that of cultural acceptance of democracy as a universal value rather than an ideology. Here we enter the generation-long debate about political culture introduced primarily by Almond and Verba in the 1960s.[36] The problem arises in that there is the assumption within the approach that anything other than acceptance of Western or 'modern' attitudes towards democracy are 'traditional' and somehow inadequate to the challenges of a truly participatory democracy. Accordingly much of the literature on the cultural aspects of the democratic transition in South Korea either starts with the premise that Korean, or Asian or Confucian values are somehow detrimental to or constitute insurmountable barriers to democratic consolidation. The argument is succinctly summarized by Francis Fukuyama when he states:

> If we take Confucianism as the dominant value system in Asia, we see that it describes an ethical world in which people are born not with rights but with duties to a series of hierarchically arranged authorities, beginning with the family and extending all the way up to the state and emperor. In this world there is no concept of the individual and individual rights; duties are not derived from rights as they are in Western liberal thought, and although there is a concept of reciprocal obligation between ruler and ruled, there is no absolute grounding of government responsibility either in popular will or in the need to respect an individual's sphere of autonomy.[37]

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[36] Gabriel Almond and Sydney Verba are generally credited with introducing a systematic analysis of political culture in their book titled *The Civic Culture* (Princeton: Princeton University Press, 1963).

[37] Francis Fukuyama, 'Asian Values, Korean Values, and Democratic Consolidation,' in Diamond and Shin, *op. cit.*, p.307-308.

For South Korea, these 'barriers' to democracy usually include some reference to Confucian reliance on authoritarianism, filial piety (veneration of elders), and patriarchy as being obstacles to a fully consolidated democracy based on Almond and Verba's conceptualization of political culture as those 'political orientations necessary to achieve a truly democratic civic culture'.[38] The assertion then is that these attributes of traditional Korea serve as barriers to the full development of democracy in Korean society. Another aspect of Korean culture cited as inhibiting democratic consolidation is Korean familism, which is frequently attributed to Korean shamanism and blamed for a patronage system that encourages politicians to reward votes with favors and, more generally, political corruption. Here the charges are that this 'traditional' feature of Korean culture prevents effective party consolidation at the national level, promotes bias in regional economic development and sustains crony capitalism.

This mindset that there are some universal Confucian principles that drive Asian societies away from democracy is found on both sides of the 'Asian values' debate. On the one hand are scholars such as Fukuyama and Huntington who view the notion of a Confucian democracy as a sort of contradiction in terms.[39] Essentially, the argument is that the Confucian emphasis on authority over liberty and social responsibility over individual rights precludes the adoption of democracy in cultures influenced by Confucian thought. On the other hand are scholars such as Bell and Jurasuriya who argue that although there is the potential for compatibility between the two, it is more a matter of justifying democracy in terms of its value in promoting equality and familial ways of life rather than individual freedoms and rights.[40] In both cases, however, there is an assumption that Confucianism is a somewhat monolithic force that ignores other contending values that influence evolving political systems in the region.

In a somewhat different vein, the 'natural' regional cleavage between the Honam and Youngnam regions of the country is blamed for limiting the effectiveness of national-level parties and creating an impediment to democratic consolidation. The difference from the universalizing tendency of the Confucian compatibility debate being that although not directly attributed to Korean culture, there is a tendency to transfer the historical differences

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[38] Almond and Verba, *op. cit.*, p.13.
[39] Huntington, *op. cit.*, p.37.
[40] Daniel A. Bell and Kanishka Jayasuriya, 'Understanding Illiberal Democracy: A Framework,' in Daniel A. Bell, David Brown, Kanishka Jayasuriya and David Martin Jones eds., *Towards Illiberal Democracy in Pacific Asia* (New York: St. Martin's Press, 1995), pp.1-16.

between the two regions onto the modern political system as if direct presidential elections re-ignited some primordial hostility between the regions.[41] Again, this sort of analysis falls short in that it focuses the attention on historical antecedents as the root cause rather than on how the modern elites such as Japanese colonialists and the Park and Chun regimes used those antecedents to maintain control of the political processes in the country. The difference is not insignificant.

The persistence of these universalizing analytical approaches is reflected by Diamond and Shin when they conclude that South Korean 'support for democracy...tends to remain superficial, fragmented and mixed with authoritarian habits'.[42] In fact, what remains superficial is the South Korean embrace of the democratic institutions that do not seem to fit very well in South Korean society. As a result, there are essentially two languages present in South Korean politics. On the one hand there are the formal acknowledgements of liberal democracy and capitalism that are enshrined in the constitution and the institutions adopted in 1948 as an ideological vaccine against communism. On the other hand, there are the informal relationships that serve as a pragmatic and functional underpinning of Korean acceptance of liberal democratic principles in terms of Korean culture. For example, although political parties have been present since 1948, the fact is that they continue to serve as platforms for individual candidates from the Presidential candidates to the lowest local assembly official to consolidate support in a highly personalized network that is readily recognizable as an adaptation of Korean familism to the institutional framework of liberal democracy.[43]

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[41] It should be noted that Wonmo Dong in 'Regional Cleavage in South Korean Politics,' *Korea Observer,* Vol. 26, No. 2 (Summer 1995), pp.1-26, correctly identifies the discriminatory policies of the Park Chung Hee regime in the 1960s and 1970s as exacerbating the regional cleavage between the two regions. However, he goes on to suggest that the problem originated in the center-periphery antagonism that developed during the Chosun (Yi) Dynasty (1392-1910), or perhaps even earlier during the Silla Kingdom (668-935), which was centered on the nobility from the Youngnam region. Also see Gregory Henderson, *The Politics of Vortex* (Cambridge: Harvard University Press, 1968) for a discussion regarding the impact of the centralized bureaucracy of the Chosun Dynasty on the development of modern political relationships in South Korea.

[42] Diamond and Shin, 'Institutional Reform and Democratic Consolidation', *op. cit.,* p.35.

[43] Byung-Kook Kim, 'Party Politics in South Korea's Democracy: The Crisis of Success,' in Diamond and Kim, *op. cit.,* pp.63-66, attributes the origins of familism in Korea to Confucianism. Helgesen, *op. cit.,* suggests that Shamanism, which he suggests has a longer history in Korea than Confucianism and persists in Korea despite official prohibition, has an equally important role in reinforcing the importance of familism and patriarchy in Korean society.

Elsewhere, others argue that the two Confucian concepts of *minben* (power and authority are derived from and based on the masses) and *winmin* (elites pursue public interest and serve the masses) form the moral basis for Korean understanding of electoral democracy and political legitimacy.[44] This basis, coupled with a pragmatic imperative for social order and economic prosperity, made the acceptance of democracy quite tolerable despite the obvious contradiction that the military strongmen of the pre-1987 era represented to the Western world. Without any deeper basis in Korean culture, Kim Byong-Kook argues that these adaptations represent a serious danger to the persistence of democracy in that they have delayed the recognition of any viable political cleavages on which to base party politics. Instead, political parties have been formed around regional cleavages, which he correctly notes are superficial and cannot serve as a long-term basis for meaningful political cleavages because they are derived from the extended familism practiced by the politicians of the pre-1987 democratic era and not actual ideological differences between people from the regions.[45]

We are left to conclude that with the disappearance of the ideological basis (that is, a means for resisting communism) and the achievement of its procedural goal of conducting free and fair presidential elections, democracy has lost its way in South Korea. For Kim, the failure is attributed to the inability of Korean culture to adapt to the structural imperatives of liberal democracy.[46] In effect, he is arguing that South Korea represents democratic endurance rather than any consolidation of democratic institutions in support of universal liberal democratic principles. The challenge then becomes finding some political cleavage to help foster a sense of democratic competition among political parties.

The 2002 presidential election was interesting in this respect in the ideological cleavage that emerged over how to deal with North Korea, characterized in the words of the Roh Moo-hyun campaign slogan 'peace or war'. However, this would appear to be a rather temporary cleavage in that it seems extremely unlikely that with the generational shift occurring in the country that there could ever be a shift back to a hostile policy towards the

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[44] Byung-Kook Kim, *op. cit.*, pp.71-72. Also see Viren Murthy, 'The Democratic Potential of Confucian *Minben* Thought,' *Asian Philosophy,* Vol. 10, No. 1, 2000, for a more complete explanation of the concepts in the context of Confucian philosophy.

[45] Byung-Kook Kim, *op. cit.*, pp.79-80 describes Korean regionalism as 'an amorphous sentiment of belonging without a specific program of policy action'. He further argues that the voters themselves rejected the notion of regionalism as a legitimate organizing principle.

[46] *Ibid.*

North without some sort of catastrophic event similar to a replay of the war. Rather, the fact that it appeared late in the campaign and only after more traditional approaches such as coalitions of political convenience and grand promises to virtually all constituencies appeared to be failing, suggests that the highlighting of the difference was indeed temporary.

Perhaps a more interesting part of the Roh Moo-hyun campaign has to do with the fact that in the later days of the campaign he spoke the unspeakable when he suggested that South Korea would not automatically support the United States if it chose to take military action against North Korea. The fact that this could be said at all is testament to the notion that the old ideological basis for democratization has deteriorated to the point that people no longer see the threat of communism from the North as a basis for making political choices. Further, this sentiment reflects the rapidly rising sense of Korean nationalism, a nationalism that traces its origins to the *Tonghak* (Eastern Thought) movements of the late 1800s and more recently the *Minjung* (people's) movement of the 1980s. In this context, it is important to recognize that the ideological foundation of the revitalized *Minjung* movement in the 1980s is based on two essential tenets. First, the ideology asserts that the fundamental problem in Korea is the separation of the country following the end of World War II, which has led to a dependence on the United States. In that sense the US has been viewed as a successor to the Japanese colonialists and the *Yangban* (ruling elite) of the Chosun Dynasty. A second assertion from the ideology is that, based on that dependency, all the US-backed regimes served to repress the people (*minjung*) the nation (*minjok*) and democracy (*minju*).[47] Given these ideological roots, it should not be surprising that, once elected, the rather pragmatic Roh Moo-hyun has quickly distanced himself from the more radical elements of the current anti-American protests. Nevertheless, it is important to remember that there is a strong undercurrent of mistrust and resentment against not only a continued American military presence in the country, but also the generally dominant role the US has played in South Korean politics since the inception of the Republic in 1948.

What is important about the emergence of nationalism is that it appears at a time when there is a search for a new ideological basis for democracy within Korea. Given the fact that South Koreans have come to embrace democracy as 'the only game in town,' the challenge for its further consolidation is to recognize the need to root future changes in the institutional structure of democracy in the cultural foundations of Korean nationalism. As if the

[47] Oh, *op. cit.,* p.88.

challenge of attempting to consolidate political institutions was not difficult enough, the Koreans face a second challenge of reconciling those institutions with a populist movement that has grown over the decades as a challenge to the ideological basis of the institutions themselves. Certainly, the suppression of the populist movements by previous regimes makes the task more difficult, though the passing of the Kim presidencies will ease the burden if only because there is no longer pressure to accommodate the factions of the original democracy movement.

PROXIMATE TASKS OF DEMOCRATIC CONSOLIDATION

Given the context of the incomplete institutional consolidation and the shifting ideological basis for democracy, there are four proximate tasks associated with democratic consolidation in Korea. These tasks will not complete the consolidation task. However, they will provide a useful framework for further consolidation in terms of the current disjunction between popular attitudes towards political action and the political institutions of democracy.

The first proximate consolidation task (a challenge for each president since the inception of the Republic) is the need to reduce the level of corruption in both the daily operation of the government as well as in the election process. Or, perhaps more accurately, the challenge is to better institutionalize the corruption in more acceptable ways than has been done in the past. This task takes on increased importance today because with the new generation that is coming into power there is the opportunity to demonstrate in a visible way that the practices institutionalized during the 'strongman' era and continued by the first generation of democracy advocates are no longer necessary to achieve political success. First, in terms of the election process, the fact that Rho Moo-hyun was selected as the Millennium Democratic Party nominee through a primary election process suggests that there is an opportunity to institutionalize the selection process while minimizing the influence of 'backroom' negotiations. From an institutional perspective, the campaigns of both Roh and Lee relied much more on the support of civic organizations than past elections, which should at least help institutionalize campaign financing even if it does not eliminate all of the corruption. Second, it will be equally important for the Roh administration to continue and strengthen anti-corruption measures initiated by both Kim Young-sam and Kim Dae-jung with the specific purpose of avoiding a perception of bias in political appointments and involvement of his family in political deal-making. This becomes critical in Korea as further movement toward democratic

consolidation will increasingly require the political elite to identify themselves with the democratic 'rules of the game,' which includes an agreement to treat everyone equally before the law—something that appears to have been lost on families of the previous generation of democratic leaders in Korea.

A second task to be undertaken sooner rather than later is to reduce the importance of regionalism on national-level politics. Although it is generally recognized that much of the problem with regionalism stemmed from the Park regime's deliberate favoritism towards the Youngnam region, the fact remains that regionalism continues to be an issue in South Korean politics as evidenced during the 2002 elections, when Roh Moo-hyun won well over 90 percent of the vote in the Honam provinces of North and South Cholla and Lee Hoi-chang won 77.7 percent in Taegu City and 73.4 percent in North Kyongsang province in the Youngnam region.[48] Despite the anticipation that the problem of regionalism will disappear with the passing of the Kim era, the election results suggest that there will have to be explicit policies implemented to further reduce the importance of regional politics in future presidential elections. Given that Roh Moo-hyun is from the Youngnam region and will be under less pressure to compensate for previous abuses than was Kim Dae-jung, it should be comparatively easy to avoid the pattern of appointing his staff and Cabinet based on regional considerations as Kim Dae-jung has been accused of doing. However, the huge disparity in the voting patterns between the two regions in the 2002 elections suggests that it will require more than symbolism on the part of the Roh Moo-hyun administration to demonstrate a movement away from regional favoritism in both economic development initiatives and political appointments.

To make effective progress in these tasks a third task that must be undertaken is for the political elite to acknowledge and accept the non-Korean origins and aspects of the Republic. Specifically, this will mean an acknowledgement that the Syngman Rhee government was to a large extent 'installed' by the US and that the Republic itself was established in response to the threat of communism in the North rather than as an expression of Korean nationalism or cultural demand for democracy. That fact does not de-legitimize the current government as much as it allows for a more factual accounting of the decisions made during the period of the democratic transition prior to 1987. As I have shown, the political system during that period was almost exclusively controlled by the elite, and political demands of

[48] So, Su-min, 'Regionalism Manifested Again in Election—West for Roh, East for Lee', *Korea Times*, December 21, 2002, http://www.korealink.co.kr/times/times.htm.

the larger population were left to the same mechanisms that had served as the outlet for popular demands since at least the 1860s when the *Tonghak* movement began.

Another aspect in recognizing the non-Korean origins will be the acknowledgement of the Japanese origin of much of Park Chung-hee's effort to develop the economy.[49] The effects of this acknowledgement are already well underway in that the large Korean conglomerates have been gradually dismantled following the 1997 financial crisis. What has been missing is the explicit recognition that much of the economic and political infrastructure that helped sustain those conglomerates was based on a Japanese model despite the consistent government policy of making it illegal to import Japanese culture. Further manifestations of the shift have been the gradual shift away from American influence and the easing of restrictions on Japanese culture during Kim Dae-jung's presidency. This aspect is difficult for the South Korean government in that it partly affirms the criticism leveled by the North that the successive governments in the South were 'puppets' of the United States and Japan. Nevertheless, as the ideological basis for the government shifts more explicitly to nationalism, the acknowledgement of Japanese influence becomes both easier and more necessary. It becomes easier because it signals a willingness to incorporate an element of South Korean society into the mainstream of the political system. It becomes more necessary because an unwillingness to acknowledge the nationalist heritage would eventually alienate the political elite from the popular sentiment.

Along similar lines, the fourth proximate task is to acknowledge the authoritarian past, both in terms of the tendency in historical Confucianism toward centralized control in the name of the social control and the emphasis on the 'output' institutions that have characterized previous South Korean governments.[50] Here it is important to distinguish between an acknowledgement and fatalistic acceptance. In other words, the fact of the authoritarian past should not be used as an excuse for the continuation of a 'so-called' illiberal democracy or a reversion back to the control mechanisms for the purpose of intimidating those who disagree with government policies that have characterized the Kim Young-sam and, to a lesser extent, the Kim

[49] Cummings, *op. cit.,* pp.358-359 and Oh, *op. cit.,* pp.48-50.

[50] Han Sung Joo, 'South Korea: Politics of Transition,' in *Democracy in Korea: Its Ideals and Realities* (Seoul: The Korean Political Science Association, 1997), p.67 refers to the 'over-development of output institutions' especially the military and civil control institutions such as the KCIA and the Economic Planning Board during the Park regime as the natural extension of Confucian tendency to centralized control as exacerbated by the Japanese colonialists.

Dae-jung administrations. One of the most urgent mandates that must be undertaken is the elimination or at least serious revision of the National Security Law. As written, the law is violated every day there is contact between the South and the North and no longer serves any real purpose other than to potentially intimidate private citizens who make contact without explicit South Korean governmental approval.

In terms of Confucian tendency to centralization, the argument is not about tradition versus modernity or, in other terms, to replace Confucian 'social harmony' values with Western 'civic culture' values. Instead, the need is to recognize that in Korea, the tendency has been to treat popular protests as an aberration rather than as a voice of legitimate public concern with aspects of the political system. As long as the political elite resists incorporating these demands into the political process, there will be the need to take dramatic action after the protests have become such an obvious scar on social harmony that they can no longer be ignored. Therefore, the recognition should that this sort of denial is actually rather detrimental to social harmony and that incorporating these voices into the mainstream political process would actually be a fulfillment of Confucian values.

DEVELOPING KOREAN-STYLE DEMOCRACY

A major theme that emerges from the examination of the democratization process in South Korea is that the consolidation of democracy is a fundamentally different problem from that of the initial transition. Essentially, what we have seen is that prior to 1987 during the transition phase democracy was a goal focused on the normative belief that democracy and its supporting market mechanisms were superior to the communism adopted in the North. Despite this, the fact is that the leadership during this period exhibited behavior that suggested they were less than fully committed to Dahl's polyarchic principles of individual freedoms and free and fair elections.[51] However, during the consolidation phase, the 'practice' of democratic politics should extend to ever-larger circles of citizens beginning with the political elite of the opposition and hopefully expanding to the most radicalized elements of society. In Korea, we have seen that clearly the opposition elite represented by Kim Young-sam and Kim Dae-jung were included in, and demonstrated extraordinary faith in, the democratic process even before 1987. During the consolidation phase there has been a growing sense of democratic expansion as evidenced by the expansion of civic organizations involved in aggregating

[51] Note 3 above.

political demands in a systematic fashion rather than in the form of street protests.

However, we have also seen that especially in the 'opposition phase' of the consolidation process, there is a growing sense of dissatisfaction with the political institutions and government adoption of democratic practices.[52] Some of the dissatisfaction stems from the shift in the ideological basis for democracy from the Cold War debate over democracy versus communism to one grounded in Korean nationalism. Evidence that the shift has not yet been completed manifests itself in several areas. Much of the nationalist movement remains outside the mainstream of Korean politics, largely based on the expectation that student groups espousing nationalism represent subversive elements supported by the North. Similarly, the protest movement against American troop presence on the peninsula, which has come to represent adherence to the former ideological basis, remains largely a street movement, although the fact that both candidates in the 2002 election ended up calling for a re-examination of the rules governing the presence of US military on the peninsula suggests that there is a general recognition by the political elite that it will be necessary to include the issue in future political discourse. Within Korean policy circles the emphasis on the need for a dismantlement of the Cold War structure on the peninsula also suggests that the shift to an ideological basis for democracy grounded in Korean nationalism is rapidly becoming a behavioral norm that will allow the inclusion of at least a major portion of the indigenous populist movement dating back to the Tonghak rebellion into the mainstream of Korean politics.

The assessment of the institutional aspects of democracy and the proximate tasks associated with the representational consolidation suggest a more fundamental dilemma facing any assessment of Korean attitudes towards democracy, namely a reconciliation of Korean culture and democratic norms. The immediate problem faced in this context is the matter of measuring norms based on observed behavior. Using this approach, we can examine the record of Kim Young-sam and Kim Dae-jung and conclude that, as outlined earlier, because their administrations acted in non-democratic fashion in dealing with political adversaries or in financing their respective election campaigns, they

[52] Here I am referring to the Kim Dae-jung administration as the opposition phase of the consolidation process based on the definition of polyarchy provided by Dahl in that the Kim administration represented the first successful election of the opposition party. Despite his identity as the opposition prior to 1987, the election of Kim Young-sam in 1992 should not be viewed as the first election of the opposition based on his alliance with Roh Tae Woo and the majority party in 1990.

were not fully committed to democratic norms. Some scholars take it a step further and suggest that it represents the incompatibility between traditional Korean culture and democratic norms.[53] There are two important considerations to remember here. First, individual actors within the system are acting on any number of norms beyond those ascribed to some ideal form of democracy. Therefore, it would be wrong to conclude an administration is 'non-democratic' based solely on observed behavior. Until norms of democracy that are different from the observed behavior they are supposed to explain are articulated, it will be difficult to attribute causality of behavior. Second, the notion that traditional Korean culture competes with democracy suggests that both democracy and culture are static systems that simply compete in a world of cultural norms.

Democratic consolidation in Korea or any place else is not about modernity versus tradition. Instead it is about the gradual adaptation of a variety of norms in the context in which they are acted upon. The longer democracy remains the dominant political ideology, the more it becomes accepted as a dominant norm and the more it becomes a dominant norm the more it becomes the dominant ideology. So, democracy has changed Korea and Korea has changed democracy. Along the way a host of influences have impacted on Korean attitudes towards democracy well beyond a static notion of Confucianism. In fact there are a number of influences that have had a major influence on so-called traditional norms of behavior since the adoption of democracy in 1948. For example, South Korea has become a largely urban society with a very internationalized citizenry. There has been a shift in religious orientation so that today nearly fifty percent of those claiming religious affiliation describe themselves as Christians. The country has experienced a civil war and a generation of military strongman leadership along with an extended presence of US forces. Similarly, there have been the moderating influences on the 'American style' democratic institutions including Confucianism, Buddhism, vestiges of Japanese colonialism and Korean nationalism.

The real underlying challenge in the consolidation process then is the adaptation of Korean identities into the democratic process. That is why reconciliation between Korean nationalism and the institutional arrangements that were put in place during the transition phase of democratization is so

[53] This follows the argument made by Kwang Yeong Shin and Chulhee Chung in a conference paper titled, 'Cultural Tradition and Democracy in South Korea,' (ND) available at http://www.arts.monash.edu.au/korean/ksaa/conference/papers//04chulheechingkwangyeongshin.pdf, downloaded 30 November 2002.

critically important. This relationship represents the nexus between the two separate democratic identities that have evolved in Korea. They are the merger between the populist identity from the later days of the Chosun Dynasty and the liberal democratic identity that was formed among the political elite since 1948. The reconciliation will enable creative Korean solutions to the unique Korean issues related to the adoption of democracy grounded in Korean identity.

How this reconciliation plays itself out should be observable in the four proximate tasks discussed above. As there is a growing acknowledgement of the non-Korean origin of the institutional organization of the present government, one would expect to see a greater willingness to examine alternatives to the existing constitutional arrangement and representational mechanisms. Certainly, there must be some recognition that dealing with the issue of regionalism and political corruption will involve re-examining these issues as problems that are unique to Korea since the practical arrangements that have allowed these practices evolved outside the controls of modern democracy and were blamed on traditional culture. However, the practices also evolved outside the constraints of any traditional moral norms and were blamed by others on the introduction of democratic institutions. The challenge then is to find a set of 'game rules' that provide for the aggregation of political demands that is recognized by participants as being fair and consistent with norms associated with fair representation and family or regional identities. Clearly these solutions cannot be based on any normative universal from an idealized form of liberal democracy. Rather they must be grounded in the emerging Korean identity that takes into account its entire past in the search for a truly representational democracy.

In conclusion, Korea is at the threshold of democratic consolidation. It is clear that Korea has moved well beyond the threat of returning to the military strongman politics of the 1960s and 1970s. The demand for civilian government elected through free and fair elections is firmly entrenched and there is general acceptance of the notion of opposition parties and ideologies. However, there remains a disjuncture between populist and political elites that occurred at least partially as a result of the circumstances surrounding the development of democracy in Korea. With the ideological basis of democracy moving in the direction of nationalism, there is an excellent opportunity to reconcile this disjuncture. In addition, the consolidation of Korean attitudes towards democracy requires the reconciliation of existing political institutions with Korean identity. Reconciliation must be a mutually reinforcing process, whereby the institutions are modified to adjust to Korean identities just as the

existence of these institutions over the past 50 years have modified Korean identity with traditional political values. What is clear is that there is no particular aspect of Korean identity that precludes the development of liberal democracy. Although the particular form Korean democracy ultimately takes almost certainly will be different from that found in the United States or, for that matter, Western Europe. Nevertheless, if the Korean people are allowed to find an appropriate balance between the need for the community values that are valorized in traditional identity structures and the individual freedoms that are valorized in liberal democracy in the context of its own historical circumstances, it will be a happy place.

THE TRANSITION TO DEMOCRACY IN INDONESIA: SOME OUTSTANDING PROBLEMS

IKRAR NUSA BHAKTI

INTRODUCTION

In the five years since the fall of President Suharto, Indonesia has had three presidents—B.J. Habibie, Abdurrahman Wahid, and Megawati Sukarnoputri—all of whom took power by democratic means. Most people have enjoyed freedom of expression and opinion, freedom of information, checks and balances between the executive and legislative branches of government, and a depoliticized military.

However, if we ask Indonesians for their opinions on the current political situation in Indonesia, we receive mixed answers. A number of political analysts, such as Dr. Mochtar Pabottingi, a senior researcher at the Research Center for Political Studies in the Indonesian Institute of Sciences, says that the present Megawati administration is actually the second coming of Suharto's New Order government (*Orde Baru Jilid Dua*).[1] Another analyst, Jeffrey Winters, goes further, saying Megawati's surname should not be Sukarnoputri ('daughter of Sukarno') but 'Suhartoputri', because her political behavior is similar to Suharto's. Other analysts or observers characterize Indonesian politics as being marked by one step forward and two steps back.

Moderate political analysts are of the opinion that there has been some progress toward consolidated democracy but that Indonesians still face many challenges, both from within and outside the country. These include a lack of capacity among political elites, terrorism, problems at the political level, and a culture and society that is mostly still paternalistic, patrimonial and emotional. Last but not least, Indonesia still has problems with law enforcement, and there can be no democracy without the supremacy of the law.

What are the opinions of people on the streets? Their answers may surprise us. Many will say that they miss Suharto. During Suharto era, according to them, security was the top priority, their daily income was higher

[1] Suharto's government was described as the 'New Order' government to contrast it from the period of disorder under Sukarno's 'Guided Democracy'.

than today and the price of daily necessities was quite low and certainly affordable for ordinary people. In the end, they wish Suharto was still in power or that a situation similar to the Suharto era, in which the military played the dominant role in Indonesian politics, was still in place. Most of the ordinary people in Indonesia were not aware that Suharto's regime created a lot of problems for Indonesians, including human suffering, corruption, collusion, nepotism, economic dependency on foreign debt, and economic collapse. Apart from that, during the Suharto period, there was no political freedom at all.

Many NGO activists who have been active in empowering the economic capacity of village people beleive that poor village communities have been apathetic towards politics or have even been very antithetical towards political parties because politicians have never delivered on their promises. One NGO activist , states that:

> Democracy is a project of capitalism to secure free-market competition. Democracy does not solve the unjust economic exploitation of the poor by the economically rich. We do not need democracy, we need socialism. In essence, democracy is only needed by a small number of elites and political scientists in Jakarta, but not by the majority of the poor people.[2]

We may come to the conclusion that during this transition period from the authoritarian regime of Suharto to consolidated democracy, many people have been disappointed with the current political, economic and security situation in the country. Many people felt that freeing Indonesia from the authoritarian regime would raise standards of living. This is a challenge not only for the government, but also for pro-democracy supporters seeking to convince the electorate that a democratic system of government is better than an authoritarian regime. Indonesia still has a long way to go to become a mature democracy. Therefore, the country needs political endurance to answer the many challenges.

INDONESIA'S EXPERIENCE WITH THREE TYPES OF DEMOCRACY

Indonesia has been struggling with democracy for decades. It has experience with three types of democracy, all of which failed. First was the failed attempt at parliamentary democracy (1949-1957) which led to the

[2] Conference, 'Transition Towards Democracy in Indonesia', Hotel Santika, Jakarta, 18 October 2002.

transition from parliamentary democracy to guided democracy (1957-1959), in which President Sukarno established the so called *Zaken* or Functional Cabinet, a business cabinet which consisted of members of political parties, economists and the military. Second, there was another attempt at 'Guided Democracy' under President Sukarno (1959-1965). The third and longest period was that of 'Pancasila Democracy' under President Suharto from March 1966 to May 1998.[3]

Constitutional Democracy

The period of Parliamentary democracy has various names. Herbert Feith calls it 'constitutional democracy'.[4] Most in the Indonesian political community, writers and commentators call it 'liberal democracy', the term popularized by President Sukarno. However, 'liberal democracy' was used by Sukarno, more to mock Western democratic practices such as voting, which he criticized as 'fifty percent plus one democracy'.

Feith defines six distinct features characteristic of constitutional democracy. First, civilians played a dominant role; second, parties were of great importance; third, the contenders for power showed respect for 'rules of the game' which were closely related to the existing constitution; fourth, most members of the political elites had some sort of commitment to symbols connected with constitutional democracy; fifth, civil liberties were rarely infringed; six, government used coercion sparingly.[5]

It is still a subject of unending debate in Indonesia as to whether 'liberal democracy', 'parliamentary democracy' or 'constitutional democracy' really did fail in 1957. Many political scientists are of the opinion that liberal democracy did not fail; it was killed by Sukarno and the military. If there is a failure, then it is a logical consequence of a power game between the army and the president's office vis-a-vis the social and political forces within the civil society. The dissolution of the *Konstituante* (Constituent Assembly) and the reinstitution of the 1945 Constitution have been taken as watershed events in the end of

[3] See, for example, Daniel Dhakidae, 'The Long and Winding Road: Constraints to Democracy in Indonesia', in R. William Liddle, ed., *Crafting Indonesian Democracy* (Bandung: Mizan in Cooperation with PPW-LIPI and The Ford Foundation, 2001), pp.67-74. See also, M. Syafi'I Anwar, ed., *Menggapai Kedaulatan Untuk Rakyat. 75 tahun Pro. Miriam Budiardjo* (Bandung: Mizan in cooperation with Ummat, 1998), pp.132-158.
[4] Herbert Feith, *The Decline of Constitutional Democracy in Indonesia* (Ithaca and London: Cornell University Press, 1973 [1962]).
[5] *Ibid.,* p.xi.

constitutional democracy and the beginning of the next period in Indonesian political history, that of Guided Democracy.

From the idealist's perspective, the failure of constitutional democracy was the result of a lack of sufficient institutional backup for democracy, namely a lack of education, a lack of democratic culture, and an insufficient economic base.

Guided Democracy

Demokrasi Terpimpin (guided democracy) concentrated power within the executive, particularly the president. Guided democracy was a great contrast to liberal democracy. While liberal democracy put the emphasis on the process, guided democracy emphasized the attainment of one major objective; 'a just and prosperous society', only to be achieved by a 'systematic and planned democracy'. President Sukarno loved to call it 'democracy with leadership'.

Guided democracy was implemented in Indonesia from July 1959 to October 1965. After six years, however, the 'systematic and planned democracy' failed to achieve a healthy economic system. Indonesia's economic situation was dire in 1965. Production had slowed dramatically. Exports and imports came to a halt and hyperinflation of more than 600 percent crippled the country. This economic collapse was followed by a struggle for power between the army and the Indonesian Communist Party. The murder of six army generals and one lieutenant by a left-wing elements in the Army[6] capped the political and economic chaos and led to the Army *coup d'etat* on 11 March 1966 to bring down President Sukarno and his guided democracy.[7]

Pancasila Democracy (1966-1998)

Pancasila democracy is a form of democracy guided by five principles of national ideology (Pancasila). When General Suharto came to power he used the term *Orde Baru* or the 'New Order' and called Sukarno's guided democracy *Orde Lama*, or the 'Old Order', the latter implying a rotten, bankrupt system. At first, the New Order seemed set to inaugurate a fresh new era when it freed

[6] Sukarno referred to the movement on the early morning of 1 October 1965 as *Gestok*, an abbreviation of *Gerakan Satu Oktober*, while the Suharto regime called it *Gestapu*, similar to the Gestapo in Nazi Germany or G-30-S/PKI, an abbreviation for *Gerakan 30 September* (September 30 Movement), which the Indonesian Communist Party (PKI) was accused of masterminding.

[7] On 11 March 1966 President Sukarno was forced by the Army generals to sign a letter transferring power to General Suharto. In Indonesia, Sukarno's letter was known as 'Super Semar', an abbreviation of 'Surat Perintah Sebelas Maret' (Letter of Order of the 11 March). However, from a Javanese Shadow puppet (*wayang*) story, *Semar* is a royal servants known for a powerful spirit and strength.

political detainees, and freed the press by lifting restrictions on newspapers, closed down by Sukarno. In other words, a process of liberalization was introduced by Suharto.

As the years passed, however, the New Order moved slowly and surely in the direction of dictatorship. The Indonesian Communist Party and the Indonesian Nationalist Party could still make their voices heard and thus compete with the Army. The New Order, in reaction, drifted toward a full military regime to stifle such dissenting voices. The Army created the so-called Functional Group (*Golongan Karya,* or *Golkar*) as a political tool to gain legitimacy from the people through general elections.[8] Suharto's ties to the Army started to weaken when he asked B.J. Habibie to establish and chair the Association of Indonesian Moslem Intellectuals (*Ikatan Cendekiawan Muslim Indonesia*, or ICMI) in 1991. During the early period of the 1990s, the rise of ICMI to power highlighted the division of the military into so-called 'nationalists' officers, nicknamed 'red and white officers' (after the colors of the national flag), as opposed to 'green officers', a color associated with Islam.[9] After that, the political interests of the 'red and white' Army became clearly different from those of Suharto.

During the New Order period, Suharto's regime was outwardly a success. There was a long period of security and the maintenance of political and economic interests between Suharto and the Army. After the Indonesian economy collapsed in July 1997, national security and stability were upset by mass killings and riots in Jakarta in May 1998. At that point, military interests inexorably diverged from those of the Suharto family, leading to his down fall.

THE FOUR PHASES OF THE DEMOCRATIZATION PROCESS

This chapter argues that the demands for *reformasi* (reform) and democracy were not only demands for a change of regime, but also for a change of political system. Such demands require an overhaul of all political, social and economic institutions and relations, and the establishment of a stable framework within which democratic practices can take root.

Juan J. Linz and Alfred Stepan define the core criteria of democracy as:

> Legal freedom to formulate and advocate political alternatives with the concomitant rights to free association, free speech, and other

[8] During the New Order period, *Golkar* was not seen formally as a political party but as a functional group, a strategy aimed at discrediting political parties.

[9] Since Endriartono Sutarto, from the group of officers commissioned in 1971, became the Army Chief of Staff, he has successfully united the Army.

> basic freedoms of person; free and nonviolent competition among leaders with periodic validation of their claim to rule; inclusion of all effective political offices in the democratic process; and provision for the participation of all members of the political community, whatever their political preferences. Practically, this means the freedom to create political parties and to conduct free and honest elections at regular intervals without excluding any effective political office from direct or indirect electoral accountability.[10]

To establish how far any given country has gone towards a transition to democracy, Linz and Stepan argue that:

> A democratic transition is complete when sufficient agreement has been reached about political procedures to produce an elected government, when a government comes to power that is the direct result of a free and popular vote, when this government de facto has the authority to generate new policies, and when the executive, legislative and judicial power generated by the new democracy does not have to share power with other bodies *de jure*.[11]

Theoretically, transition from an authoritarian regime to democracy is understood to take place within various phases. There are at least four phases that Indonesian politics have supposedly undergone, namely: pre-transition, liberalization, democratic transition, and democratic consolidation. The final stage of democracy (maturation) is predicted to take place within a longer period.[12]

The first phase (pre-transition) began during the period of Indonesia's economic crises in 1997. Various anti-*Orde Baru* groups emerged to establish a reform movement as a political rival to the New Order regime. This period was marked by sporadic detentions and disappearances by the state apparatus against anti-New Order political activists. Meanwhile, the ongoing economic crises had worsened the image of the state. The credibility of the New Order as a strong and powerful regime crumbled everywhere, and this finally paved the way to mass movements and social unrest in several provinces. The shooting of four Trisakti University students on 12 May 1998 initiated strong

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[10] Juan J. Linz and Alfred Stepan, 'Defining and Crafting Democratic Transition, Constitutions, and Consolidation', in R. William Liddle, *Crafting Indonesian Democracy* (Bandung: Mizan in cooperation with PPW-LIPI and the Ford Foundation, 2001), p.18.

[11] *Ibid*., p.19.

[12] Gerry van Klinken divided those transitions into four other steps, namely: decay of the authoritarian system, transition, consolidation, and finally maturation. See Gerry van Klinken, 'How a democratic deal might be struck,' in Arief Budiman , et al, *Reformasi: Crisis and Change in Indonesia* (Clayton: Monash Asia Institute Monash University, 1999), p.59.

criticism against the New Order, domestically and internationally. The political turmoil led to three days of social unrest in the days immediately following the shootings, in Jakarta and several other major cities in Indonesia. This was followed by student demonstrations in Jakarta and the occupation of parliament by students from 18 May 1998 until the fall of Suharto on 21 May 1998. Suharto transferred his presidency to B.J. Habibie.[13]

What the people and especially the students wanted was a new democratic constitution; one that was accountable and transparent. They also wanted reform of the justice system, freedom from 'KKN' (Corruption, Collusion and Nepotism) and for the Indonesian Armed Forces (*Tentara Nasional Indonesia,* or TNI) to be kept out of politics. This 'early stage of political transition' from Suharto to Habibie was also an opening to the next stage of political liberalization from authoritarianism, and was marked by the withdrawal of five old political laws and the implementation of three new political laws.[14] Habibie also embraced many democratic procedures, such as provisions for press freedom, free and fair elections, the decentralization of regional government and the release of political prisoners.

This period also was marked by its first genuinely democratic election since 1955. The 1999 election campaign had some similarities and differences with those of elections held during the New Order. The campaign itself took a similar form, such as public gatherings and festivals. The main differences, however, were in the wholesale re-politicization of society, the freedom of the media to report on the election, and the issues discussed. In the 1999 election, the media were free to report on the activities of all parties regularly, including live debates among party candidates. The issues debated were also different from those during the New Order period. The media, politicians, and the public were free to level any kind of criticism at the government. Among the popular issues was the need to stamp out 'corruption, collusion and nepotism' and the promise to bring Suharto and his cronies to justice. However, apart from this, the candidates repeated themes similar to New Order campaigns, such as the improvement of wages for the laboring classes, the elimination of poverty, the struggle for justice, and a more equal distribution of wealth.

Although Habibie successfully portrayed political liberalization as the first step in the transition toward democracy, he failed to maintain his power

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[13] For a good historical background on this period, see, Geoff Forrester and R.J. May, eds., *The Fall of Suharto* (Bathurst, Australia: Crawford House Publishing, 1998).

[14] Law No.2/1999 on Political Parties, Law No.3/1999 on General Elections and Law No.4/1999 on the Structure and Position of the MPR/DPR (Parliament).

because most Indonesian elites saw him as too close to the authoritarian Suharto regime. Apart from that, the political liberalization under his administration was not seen as a sincere personal political conviction, but rather as an expedient measure. It was believed that Habibie would never have allowed freedom of the press or the establishment of political parties without political pressure from the opposition, particularly university students.[15] On the positive side during the Habibie period, there were no serious efforts to resume past human rights atrocities as practiced by the New Order regime.

Larry Diamond labels this era of transition in Indonesia as falling into 'a gray area' of democracy 'that is neither clearly democratic nor clearly undemocratic'.[16] Although the 1999 general election was largely free and fair, Diamond noted some incidents of fraud and dubious conduct.

The 1999 election was won by the Indonesian Democratic Party of Struggle (PDIP) under Megawati Sukarnoputri, with Golkar (the perennial party in power under Suharto) as the runner-up. B.J. Habibie lost his chance to be re-elected President by the People's Consultative Assembly (the MPR) because the assembly rejected his accountability speech, mostly related to East Timor Issues. And although PDIP was the electoral winner, the MPR elected Abdurrahman Wahid as the fourth Indonesian president.

During the transition toward democracy in Indonesia, it is important to bear in mind that a compromise between authoritarian and democratic powers took place. The Abdurrahman Wahid government had to face one of the 'paradoxes of democratic transition', when New Order groups, both through parties such as the former ruling party, Golkar, and through powerful individuals, had to be accommodated because of their important political and economic roles.

The next important stage should be the consolidation of democracy. In theory, in the consolidation phase, democratic values spread and take hold in society. In Indonesia, however, these values have not yet become embedded. Many of the political elites state that they are committed to supporting democracy and reform, but in reality they practise the kinds of politics that

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[15] See for example, Syamsuddin Haris, '*Konflik Elite Sipil dan Dilema Konsolidasi Demokrasi Pasca Orde Baru'* (Conflict among civilian elites and the dilemma of democratic consolidation in the Post Suharto Era), in Maruto MD and Anwari WMK, eds., *Reformasi Politik dan Kekuatan Masyarakat. Kendala dan Peluang Menuju Demokrasi* (Political Reform and the Strength of the Society. Problems and Prospects toward Democracy) (Jakarta: LP3ES, 2002), pp.3-21.

[16] Larry Diamond, 'The Global State of Democracy', *Current History 99*, no. 641 December 2000, p.414.

demonstrate their lack of political ethics—ethics that are essential for the development of democracy.

During the Abdurrahman Wahid (also known as Gus Dur) government, political elites busied themselves with partisan struggles for power with little, if any, effort to advance the process of democratization. In a democratic system, the winning party in the election logically has the right to form the government. However, Indonesia's system is, in some ways, disorderly, and may not reflect the will of the people. Megawati, who came ahead in the general election, was chosen only as Vice-President, and not President, causing much anger among her supporters. Meanwhile, the *Poros Tengah* (Axis Forces), acting as the coalition group of various Islamic political parties, succeeded in getting Gus Dur inaugurated as the fourth President. Furthermore, the system based on the 1945 Constitution does not make clear the relationship between Parliament and the President. Both have equal constitutional power and this has caused conflict between the two branches of government.

The government that emerged from the 1999 election comprised a loose coalition of parties. The government was formed in October 1999 and initially consisted of figures from the leading parties, including PDI-P leaders, because of Megawati's role as Vice-President. There were two concerns with such a coalition. The first was whether the government would be fragile because it was formed by an unsteady and *ad hoc* coalition, with Gus Dur himself coming from a minority grouping within this loose coalition.

Juan Linz describes what constitutes a consolidated democratic regime:

> … when no significant national, social, economic, political, or institutional actors spend significant resources attempting to achieve their objectives by creating a nondemocratic regime or by seceding from the state. *Additionally,* a democratic regime is consolidated when a strong majority of public opinion, even in the midst of major economic problems and deep dissatisfaction with incumbents, holds the belief that democratic procedures and institutions are the most appropriate way to govern collective life, and when support for anti-system alternatives is quite small or is more or less isolated from pro-democratic forces. *Constitutionally*, a democratic regime is consolidated when governmental and a-governmental forces alike become subject to, as well as habituated to, the resolution of conflict within the bounds of the specific laws, procedures, and institutions that are sanctioned by the new democratic process…[17]

[17] R. William Liddle, *Crafting Indonesian Democracy* (Bandung: Mizan, 2001), p.28.

Unfortunately, the Gus Dur administration failed to provide those preconditions. Political crises remained and were marked by clashes of interests between parties in the cabinet. His presidency found no mass support in the midst of ongoing violent conflicts in several regions; specifically, communal conflicts in Ambon, Maluku, and Poso and separatist movements in Aceh and Papua.

This crisis of leadership was brought to a point of no return by the Bulog scandal, leading to opposition in the Parliament.[18] Ultimately, Gus Dur was brought down by a coalition of forces including parties within his government and the TNI. A Special Assembly was held in July 2001 in the Parliament Building to impeach Gus Dur and this paved the way for Megawati to become the fifth President.

The new administration is now facing serious challenges to its own legitimacy, ranging from the lack of a domestic economic recovery, security problems, and international criticism of its efforts to stamp out terrorism. The political situation is still fraught with problems since there has been no clear decision on constitutional amendments, not to mention inconsistencies in the political system. Constitutional crises could also become endemic since, on the one hand, Indonesia has a presidential system, but on the other, it also allows for impeachment. However, the fourth amendment to the 1945 Constitution, amended by the People's Consultative Assembly in August 2002, now makes it difficult for the parliament to impeach the president.

As has previously been described, Indonesia's political system is in a 'political gray zone' under Megawati's administration. Indonesia's political transition has not moved forward but rather backward. There is no guarantee that the transition will move forward into a democracy *per se*. Indonesia's democratic transition is marked by a situation in which democratic procedures take place, but substantial democracy is ignored.[19]

The October 2002 night-club bombing in Bali has also worsened the 'democratic consolidation', as the TNI has attempted to regain their previous domination of policy through a new Law on Terrorism, regarded by many as a new threat to democracy.[20] The implementation of this will not only endanger the democratization process in Indonesia, but will strain relations between the

[18] A scandal relating to the operations of the centralized state purchasing and distribution agency, the Bureau of Logistics (Bulog).
[19] *Kompas*, 20 July 2002.
[20] Government Regulation (regarded as National Law) No.1/2002 and No.2/2002 on Terrorism (*Peraturan Pemerintah Pengganti Undang-Undang or Perpu*).

Megawati government and Islam as well. The government was accused of being a puppet of the United States in the global war on terrorism.

The United States, as part of its response to international terrorism, will also hamper the democratization process in Indonesia, because of US intentions to reintroduce a military-to-military relationship with Indonesia at the expense of democracy. Most observers in Jakarta believe that the present Bush administration is more focused on the war on terrorism than on democracy; a quite different policy from that of the previous administration. The US government's intention to increase military and police cooperation with Indonesia must be balanced with a policy to support democratization in Indonesia. Indonesia is not America, where there is trust between the people and the security apparatus. In most cases, people are still traumatized by what was done by the security apparatus (ABRI, which included the armed forces and the police) during the New Order period. Fear of politicization of the military is still very real. On one hand there is a need to make the security apparatus become professional, on the other hand there is still public distrust towards the military (and even to the police). It is a dilemma for Indonesia, where democracy is still fragile. If the fight for democracy is lost, it means that terrorists, whoever they are, win.

In today's situation, pro-democracy movements are facing two kinds of danger. On one hand, there is a strong tendency for the old status quo elements to try to regain power through Golkar and the military forces. The latter is clearly the strongest among the support pillars of the Megawati regime. On the other hand, pro-democracy groups do not share any agreement on how to run the *reformasi* process. Many hoped that non-governmental organizations (NGOs), intellectuals, and student movements would be able to influence political reform, but they also face internal weaknesses such as a lack of professional management skills to run their organizations, and a lack of networking and formulation of ideas. This situation leads to weak organizational accountability, and is taken advantage of by status quo groups.[21] The political elites, on the other hand, have already begun early political maneuvers for the elections scheduled for 2004. This has turned their attention from the real problems facing the nation. In other words, we are facing a leadership crisis, in which the leaders, both executive and legislative, are more concern with their future political positions than the people's interests.

[21] Mashudi Noorsalim, 'Egoism a hindrance to progress in reform' The *Jakarta Post*, 4 April 2002.

CONCLUSION

One conclusion often mentioned by Indonesian intellectuals on Indonesia's political transition concerns its uncertainty. Divergent interests (none necessarily related to the needs of the country) of various the political adversaries have become more common. *Reformasi* as a driving force toward a democratic transition has remained empty jargon.

Apart from that, political developments in 2003 show that a number of political parties have tried to delegitimize Megawati's administration since the government increased prices in three areas: fuel, electricity and telephone usage. They are not only making many political statements on those issues, but they also criticize the government's policy of privatizing some public companies, particularly in the case of Indosat (Indonesian Telecommunication and Satellite). The government, based on intelligence analysis, has accused a number of political figures, namely retired Army general Wiranto, Fuad Bawazir (former minister during the Suharto era), Eros Djarot (a journalist-turned—politician who used to be close to Megawati), Adi Sasono (former minister during the Habibie government) and Rizal Ramly (former economic minister during the Abdurrahman Wahid government), as being behind student, worker, and other demonstrations in early 2003. Most of the demonstrators not only demanded the cancellation of the price increases, but also that Megawati and Vice-President Hamzah Haz step down.

It seems that most of political parties are more concerned with narrow party interests than the people's or the nation's interests. They have been busy with political maneuvering, either inside Parliament or outside, as part of their preparations for the 2004 general election. Both supporters and opponents of the Megawati administration are not fully aware that if civilian politicians fail to consolidate democracy in Indonesia, the gate will open for the military (particularly the Army) to take over the government. Present student and mass demonstrations show that the 'parliament of the street' is still alive as a consequence of the failure of political parties to aggregate and articulate people's aspirations.

In conclusion, a lack of any democratic culture among students and political elites, and the tendency of the Army to see itself as 'the guardian of the state', threaten the transition to consolidated democracy in Indonesia. Whether or not democracy in Indonesia is stalled depends on whether political elites bear in mind what happened to the liberal democracy of the 1950s.

THE TRANSITION TO 'GUIDED' DEMOCRACY IN PAKISTAN

AQIL SHAH

INTRODUCTION

On 12 October 1999, the Pakistani army under General Pervez Musharraf deposed the democratically elected government of Prime Minister Nawaz Sharif after Sharif tried to oust the General. Musharraf's justifications for the coup echoed refrains similar to those offered by his military predecessors:

> Not only have all the institutions been played around with, and systematically destroyed, even the economy is in a state of collapse… Self-serving policies have rocked the foundations of the Federation of Pakistan. My singular concern has been the well being of our country alone…the armed forces have moved in as a last resort to prevent any further destabilization.[1]

Since its inception more than fifty years ago, Pakistan has experienced four military coups. The first was staged by General Ayub Khan (1958), followed by General Yahya Khan (1969), General Zia ul-Haq (1977) and, finally, General Pervez Musharraf (1999). While the failure of democratic institutions in Pakistan is typically attributed to constitutional and judicial weaknesses, the poor quality of political leadership and the lack of socio-economic development, the structural constraints imposed on democratic institutionalization by the 'political militarism' of the Pakistani army remain generally underanalyzed.[2]

Democratic transitions have failed primarily because of repeated military interventions. Not one civilian government has been allowed to complete its tenure since independence in 1947. Elected authorities in Pakistan have been continually subject to policy embargoes in key domains of state policy, namely Pakistan's India and Afghanistan policies, the nuclear weapons program, defense expenditures, external intelligence and similar national security areas.

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[1] General Musharraf, televised address to the nation, 13 October 1999.

[2] The concept of political militarism is discussed at length in Kees Kroonings and Drik Kruijt eds., *Political Armies: Military Politics and the Mission of Nation Building* (London: Zed Books, 2002).

The roots of authoritarianism in Pakistan can be traced back to the early years of independence when a host of internal, regional and external factors tilted the civil-military equation in the army's favor.[3] 'Only the military-bureaucratic-intelligence elite that has guided Pakistan's destiny since 1947', argues noted Pakistani political analyst Ahmed Rashid, 'has had the right to determine the nature of threat to Pakistan's national security and its solutions—not elected governments, parliament, civic organizations or even common sense'.[4]

This chapter explores three closely related questions: Why did Pakistan's transition to democracy fail when civilian rule was restored in 1988? How central do structural and institutional factors remain in explaining the transitional outcome? Against the backdrop of a failed transition, and the military's ongoing attempts to embed its role in the constitution, what is the most likely outcome of the current transition to civil democracy?

The chapter is divided into three sections. The first will briefly explore the origins, development and nature of authoritarianism in a historical perspective. The second section will critically examine the eleven-year civilian interregnum (1988-1999) to assess the impact of a lingering legacy of authoritarianism and the continued political dominance of the military on the outcome of the democratic transition. The last section will offer a brief overview of the Musharraf period (1999-2003) to understand the nature and dynamics of the purported transition to civil democracy.

AUTHORITARIANISM: ORIGINS, EVOLUTION AND CONSOLIDATION

When the British ceded power in 1947, the Muslim League was entrusted with the task of nation building in a multi-ethnic state. With few or no support-bases in the areas that constituted the post-colonial state, the migrant League leadership sought refuge in centralized rule, swiftly adopting the Government of India Act 1935 as an interim constitution which provided for a

[3] See Ayesha Jalal, *Democracy and Authoritarianism in South Asia* (Lahore: Sange Meel Publications, 1995).
[4] Ahmed Rashid, *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia* (New Haven: Yale University Press, 2001), p.210.

federal parliamentary structure but one with highly centralized features and minimal autonomy for the federating units.[5]

Pakistan's cold war alliance with the United States driven in most part by its perceived insecurity *vis-à-vis* India, as well the inchoate nature of its political institutions and civil society, provided the military bureaucratic elites the opportunity to gradually expand their role within the power structures of the state.[6] This institutional imbalance more than any other development would impede the development of democratic institutions. After the country's first constituent assembly tried curtailing his powers, for instance, Governor-General Ghulam Muhammad disbanded the assembly on 24 October 1954.[7] By the time the Second Constituent Assembly was convened, 'it could do little more than follow the framework established by the governor-general. Instead of a decentralized legislature-dominated system, a form of presidential government emerged'.[8]

The country's first constitution, promulgated in 1956, envisaged general elections within two years. Wary that holding elections would entail handing over power to elected officials, President Iskander Mirza declared martial law on 7 October 1958. On 27 October 1958, the military under General Ayub, which had backed the President's earlier action, deposed him to assume direct political power. Ayub quickly moved to ban political parties, disqualify politicians from seeking public office and gag the press.

While generous aid from the United States helped the junta achieve impressive economic growth rates, per capita gains were to remain restricted to a small urban industrial elite. Within a decade, the negative political fallout from military's misguided adventure in Indian-administered Kashmir, pervasive economic inequalities and growing political polarization along regional and class lines had begun to erode Ayub's legitimacy, prompting populist forces like Zulfiqar Ali Bhutto's Pakistan People's Party to mobilize

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[5] Samina Ahmed, 'The Fragile Base of Democracy in Pakistan', in Amita Shastri and A. Wilson (eds.) *The Post Colonial States of South Asia: Democracy, Identity, Development and Security* (Surrey: Curzon Press, 2001), p.42.

[6] Jalal, *op.cit.*

[7] While the Sindh High Court declared the Governor-General's actions as unconstitutional, the central government's appeal against the ruling was upheld by the Federal Court. For a discussion, see Hamid Khan, *Constitutional and Political History of Pakistan* (Karachi: Oxford University Press, 2001), pp.136-143.

[8] Charles Kennedy, "Constitutional and Political Change in Pakistan: The Military Governance Paradigm,' paper prepared for 'Prospects for Peace in South Asia' Conference, Stanford University, February 21, 2003, p.3.

public opposition (students, trade unions and professional associations) to the authoritarian state.

In East Pakistan (present-day Bangladesh), widespread grievances over the unequal distribution of economic and political resources had galvanized a popular movement for provincial autonomy under Sheikh Mujeeb's Awami League. Isolated and unable to control the rising tide of resistance to his authority, Ayub handed over power to General Yahya Khan who called for Pakistan's first general elections in 1970. While the Pakistan People's Party (PPP) scored a convincing victory in West Pakistan, the Awami League swept the polls in East Pakistan. Unwilling to transfer state power to civilian politicians, much less to the majority Bengalis, Yahya dispatched the army to crush the popular opposition in East Pakistan. A bloody civil war ensued and India intervened, ultimately paving the way for East Pakistan's secession from Pakistan in December 1971.[9]

Transition to civilian rule proved short lived. In July 1977, the army under General Zia deposed Bhutto amidst allegations of electoral rigging and manipulation by the Pakistan National Alliance (PNA), an umbrella grouping of nine opposition parties. Zia imposed martial law, dissolved parliament and put the 1973 constitution in abeyance. Why did Bhutto fail to neutralize the military when its public credibility in the wake of the military defeat in East Pakistan was at an all-time low? Bhutto had tried to dilute the military's political influence, if only to secure his grip on power. The 1973 Constitution put the armed forces firmly under the 'command and control' of the federal government (Article 243). Moreover, military officers had to swear not to engage in any political activities.[10] Article 6 made the abrogation of the constitution punishable by death. A Cabinet Defense Committee headed by the Prime Minister was to serve as the highest decision-making body in matters of policy making, the military high command was restructured, several senior officers were sacked or reassigned, and a Federal Security Force was created to reduce the civil government's dependence on the army for the maintenance of law and order. But these constitutional sanctions, though necessary, were hardly sufficient to keep the military at bay. The PPP government's intrusions into what the military perceived as its internal affairs only increased the contempt of the senior ranks for the Prime Minister. The

[9] For details, see Hasan Zaheer, *The Separation of East Pakistan - The Rise and Realization of Bengali Muslim Nationalism* (Karachi: Oxford University Press, 1994).

[10] Article 244 enjoins military personnel to take the following oath, 'I do solemnly swear that I will…uphold the Constitution of the Islamic Republic of Pakistan…I will not engage myself in any political activities whatsoever'.

ruling party's weak organizational base and intra-party divisions meant that Bhutto would come to rely excessively on the coercive arms of the state to preserve and enhance his power.[11] Before long, an opportunistic military high command would use the political deadlock between the PM and his opposition to displace yet another elected government.

Upon assuming power, General Zia had pledged to restore democracy and hold elections within the constitutional timeframe of 90 days. Lacking both domestic legitimacy and a broad support base, he postponed this for almost eight years. In the meanwhile, he enlisted the support of the religious right by embarking on a sweeping Islamization program, introducing parallel Islamic institutions in the judiciary and the economy and enacting discriminatory legislation against minorities and women. After rigging a presidential referendum in 1984 to extend his tenure for another five years, Zia used a rubber-stamp parliament to indemnify all the laws, acts and orders issued by his government. The eighth Amendment to the 1973 Constitution empowered the president to dissolve the National Assembly, appoint military service chiefs, judges of the superior courts, and provincial governors. With his flanks secured, General Zia formally lifted martial law and handed over power to a civilian government in October 1985.[12]

RETURN TO CIVIL RULE (1988-1999): CONTINUITY OR CHANGE?

Zia's death in a mysterious plane crash in August 1988 paved the way for the restoration of civilian rule. Convinced that its corporate interests would be served best by restoring democracy, the military agreed to transfer power to the PPP and its leader Benazir Bhutto only after ensuring that it would retain its institutional autonomy as well as an exclusive monopoly over significant external and internal policy areas including foreign and defense affairs. Hamstrung by these awesome structural constraints and preoccupied with maintaining its narrow parliamentary majority, the first PPP government failed to live up to the expectations of its electorate.[13] After barely two years in

[11] Jalal, *op.cit.*

[12] In August 1988, General Zia used his constitutional powers to dismiss Prime Minister Mohammad Khan Junejo's government on trumped up charges of corruption and mismanagement. Zia's action was, however, prompted by growing rifts between him and the PM. Divergent views on Pakistan's Afghan policy and the Prime Minister's attempts to investigate the Ohjri Camp disaster (in which a military ammunition depot blew up, killing scores of innocent civilians) seem to have sealed his fate.

[13] In 1990, 5.8 percent of GDP was allocated for defense and 1.1 percent for health. See UNDP Human Development Report 2003 (New York: Oxford University Press, 2003).

power, the Prime Minister's attempts to assert control over the military resulted in the dismissal of her government in 1990 by President Ghulam Ishaq Khan on charges of corruption and inefficiency.[14] Two successive civilian governments—the 1990-93 Pakistan Muslim League-Nawaz (PML-N) government of Prime Minister Nawaz Sharif, and the 1993-96 PPP government—were dismissed on similar charges of corruption and mismanagement. In October 1999, Musharraf's coup abruptly ended the country's already faltering transition to democratic rule. Analysts have described Pakistan's return to military rule as 'the single most serious reversal during the third wave of democratization'.[15] The country's latest democratic breakdown puts into sharp focus the possibility that democratization is not a predictable, sequential process of incremental steps that follows the end of authoritarian rule as idealized in the transition literature.[16]

Why did Pakistan's democratic transition breakdown? Did the institutional and structural legacy of authoritarianism play any role in the failure of democracy to take root? If so, how important were these factors in determining the outcome of the transition?

Experience with post-authoritarian democracy, whether in sub-Saharan Africa or the former communist countries, shows that the 'specific institutional legacies of predecessor regimes deeply affect (and shape) the outcome of attempted transitions'.[17] Zia's authoritarian legacy included a militarised society, a stifled political process, weakened civil institutions and a culture of pervasive political and administrative corruption. Besides, constraints on democratic transitions are even more severe when a 'unified, hierarchically-led military' oversees the transfer of power.[18] In such cases, the military imposes an interlocking set of limits on the policymaking capabilities of democratic governments through 'reserve domains' and 'military

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[14] See Saeed Shafqat, *Civil Military Relations in Pakistan: From Zulfiqar Ali Bhutto to Benazir Bhutto* (Boulder, CO: Westview Press, 1997).

[15] Larry Diamond, 'Is Pakistan the (Reverse) Wave of the Future?' *Journal of Democracy* 11:3 (July 2000), p.92.

[16] Guillermo O'Donnell challenges the teleology of the transition paradigm in 'Illusions About Consolidation,' *Journal of Democracy* 7 (April 1996): 34-51. For a response to O'Donnell's argument, see Richard Gunther, et al. 'O'Donnell's Illusions: A Rejoinder,' *Journal of Democracy* 7 (October 1996), pp.151-159.

[17] See Thomas Carothers, 'The End of the Transition Paradigm,' *Journal of Democracy* 13: 1 (2002), pp.5-21.

[18] Juan J Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America and Post-Communist Europe* (Baltimore: The Johns Hopkins University Press, 1996).

prerogatives'.[19] Thus facing confining limits on their authority and the constant threat of coups and removal from power, elected leaders of both the PPP and PML-N were expected to perform the formidable task of simultaneously consolidating democracy and reforming the economy. Inexperienced politicians, forcefully excluded from state power for decades, proved too weak to resist the temptation to maximize their hold over power through patronage politics. Personalization and centralization of power invariably translated into the emasculation of alternative centres of state power (judiciary, civil bureaucracy, legislature), eroding democratic accountability and undermining public confidence in state institutions.

Throughout Pakistan's history, the military has claimed that its intervention was necessary to counter the threats to national security posed by the corruption and mismanagement of civilian politicians. There is no doubt that civilian rule in the 1990s was marked by pervasive political and administrative corruption. But it is interesting to note that the alleged corruption of elected governments hardly ever triggered their dismissal. On the contrary, civilian governments (in 1988, 1990, 1993, 1997, and 1999) were ousted only after they crossed the lines drawn in their powersharing scripts written by the military. The October 1999 dismissal of the Sharif government is a case in point. Upon assuming power once again in 1997 with a resounding majority, the PML-N under Nawaz Sharif repealed article 58 (2) B, eliminating the president's power to dismiss elected governments.[20] Acutely aware of Pakistan's precarious economic situation, Sharif was keen to divert the country's limited economic resources from defense to development.[21] By entering into a substantive dialogue with New Delhi, the prime minister had also hoped to ease bilateral tensions and sideline the military internally. Not unsurprisingly, the army sabotaged his peace overtures to India by sending troops into Kargil. Wary of the army's discontent, Sharif made a futile attempt to remove General Musharraf when the former was on a trip to Sri Lanka. The army then seized power, dismissed the Prime Minister, and suspended the parliament and the constitution.

Politicians must also share the blame for giving short shrift to democratic and parliamentary norms, engaging in confrontational politics and abusing

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[19] *Ibid.*

[20] Also repealed was article 112(2)(b) that empowered governors to dismiss provincial governments.

[21] The United States, Japan and most western governments had imposed economic sanctions on Pakistan after Islamabad responded to India's nuclear tests by detonating its own nuclear devices in May 1998.

public office for personal gain. While in opposition, political leaders often clamoured for military intervention as a temporary step to pave the way for re-elections. In doing so, however, they ignored the fact that once in power, the military has a notorious tendency to develop its own political ambitions and perpetuate its stay in power to the detriment of civilian models of governance.

Legal sanction accorded to military interventions by the country's judiciary has also played no small part in undermining the prospects of democratic institutionalization. The Supreme Court validated Ayub Khan's coup on the grounds that coups d'etat were an internationally recognized legal method of changing a constitution.[22] Similarly, Zia's assumption of power was legalized on the grounds of state necessity.[23] In May 2000, the Supreme Court once again invoked the doctrine of necessity to rule that Musharraf's coup was justified. However, blaming the judiciary for legalizing military rule reveals only one side of the coin. Military rulers have deftly pre-empted any opposition from the judiciary by 'encouraging the superior judiciary to be compliant and to mandate their extra-constitutional practices'.[24] For instance, Zia promulgated his own Provisional Constitution Order (PCO) requiring judges to take a fresh oath of office. Refusal (by four supreme court judges) resulted in their retirement. Similarly, an executive order issued by General Musharraf on 31 December 1999 decreed that superior court judges take a fresh oath under his PCO. Six justices of the Supreme Court and nine judges of the High Courts who refused to take the new oath were promptly retired.

RECONSTRUCTING 'REAL' DEMOCRACY (1999-2002): RHETORIC AND REALITY

Musharraf's Coup: Acting in the 'National Interest'?

When General Musharraf assumed power, he justified his coup on the grounds that destroying the 'sham' democracy of past civilian governments was necessary for restoring a 'real' one. Justifying interventions on the promise of democratic reforms is a time-tested tradition in Pakistan. The armed forces, said General Ayub as early as 1958, were forced to impose military rule 'with the fullest conviction that there was no alternative expect the disintegration and complete ruination of the country' by corrupt and self-serving politicians.

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[22] State vs. Dosso PLD 1958 SC 533. See the discussion in Khan, *op.cit.*

[23] Begum Nusrat Bhutto vs. Chief of Army Staff PLD 1977 SC 657.

[24] Kennedy, *op.cit.*, p.12.. Also see Paula Newberg, *Judging the State* (Cambridge: Cambridge University Press, 1995).

The military's only objective, he stressed, was to give the country 'a sound democratic system and lay the foundations for a stable future'.[25]

Like military rulers before him, Musharraf too vowed to eliminate corruption, revive the economy, depoliticise state institutions, and establish the foundations of genuine democracy at the grassroots level. Collective frustration with the brand of democracy practiced in the 1990s led many in civil society to lend their support to the military's reform agenda, ostensibly in the hope that Musharraf was serious about putting Pakistan back on track. In their view, democratic governments had only undermined state institutions, mismanaged the economy and plundered the national exchequer. After three years in power, the military regime's much-touted governance reforms remain stalled as it focuses more on tailoring democracy to its needs than on delivering good governance.

Given the state's preoccupation with the threat from India, the military's political role is generally tolerated, if not considered wholly legitimate, by the public. But military interventions clearly distort the political process. While pro-military groups benefit from authoritarian rule, mainstream political parties are often coerced or sidelined to neutralize opposition.[26] General Musharraf's military regime is no exception. Politicians from the two mainstream parties, the PPP and PML-N, have been the primary targets of a selective and arbitrary anti-corruption campaign, which explicitly leaves out military officers and judges.

Like his predecessors, General Musharraf has rarely disguised his desire to exercise absolute control over state power. 'I am a soldier, I don't believe in sharing power,' he proclaimed cynically in a televised address last year, 'I believe in the unity of command'.[27] In August 2001, he had named himself President in the 'national interest'. In the wake of the 11 September 2001 terrorist attacks on the United States, Musharraf, sensing an opportunity to secure international acceptance for his coup, quickly rallied Pakistan behind the US-led anti-terror coalition. The US Congress waived democracy sanctions (imposed under Section 508 of the US Foreign Operations Appropriations Act after the military coup) as well as those triggered by Pakistan's nuclear tests. Japan and European donors followed suit,

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[25] General Ayub Khan's first broadcast to the nation, 8 October 1958 in Hasan Askari Rizvi, *The Military and Politics in Pakistan 1947-1997* (Lahore: Sunge Meel Publications, 2000), p.293.
[26] Leo E. Rose and D. Hugh Evans, 'Pakistan's Enduring Experiment', *Journal of Democracy* 8 (January 1997): 83-96.
[27] At www.pak.gov.pk/President_Addresses/ presidential_addresses.htm, downloaded November 2002.

rescheduling loans and extending grants in aid. International support boosted Musharraf's domestic standing, providing him the chance to further entrench his powers. On 6 October 2001, the very eve of the US military strikes on Afghanistan, Musharraf extended his tenure as the chief of the army staff indefinitely.

Since military interventions are usually undertaken in response to real or perceived national crises, or as a 'last resort' in General Musharraf's own words, they confer only temporary legitimacy on the coup makers. Hence military rulers 'tend to look for institutional mechanisms that can prolong their rule and give it a stable and permanent legitimate foundation'.[28] Institutionalization often entails the creation of new legal and constitutional mechanisms for 'neutralization of the existing political arena and subordination of the state to the military hierarchy'.[29] In April 2002, the general got himself elected for another five years through a fraudulent referendum. In August of that year, he promulgated the Legal Framework Order (LFO) that empowers him to dismiss the elected government, dissolve the national assembly, appoint military services chiefs and approve appointments to the superior judiciary. A supra-parliamentary National Security Council, headed by Musharraf, was created to oversee the performance of the civilian government.

Engineering Elections

The Supreme Court decision upholding Musharraf's coup had also enjoined him to hold elections within three years, i.e. by October 2002. In the run-up to the elections, the military regime deployed the army-led National Accountability Bureau (NAB) as well as intelligence agencies to coerce opposition parliamentary candidates and force them to join the pro-Musharraf, Pakistan Muslim League-Quaid-e-Azam (PML-Q), a breakaway faction of the PML-N. General Musharraf also introduced several legal measures to stack the process against his political opposition. The 'Qualification to Hold Public Offices Order, 2002', barring anyone from holding the office of prime minister twice, clearly targeted the two former prime ministers, Sharif and Bhutto. Another, the 'Political Parties Order, 2002', prevented those disqualified from seeking election to parliament on corruption and other criminal convictions under Article 63 of the 1973 constitution from holding party posts. The LFO amended Article 63 to include non-payment of utility bills and loans as well as convictions for absconding from court as grounds for disqualification. The

[28] Koonings and Kruijt, *op.cit.*, p.26.
[29] *Ibid.*

'absconder' clause was Bhutto-specific as she had earlier been convicted for failing to appear in court in a corruption case.[30] In addition, the holding of a bachelor's degree was made compulsory for contesting elections. While this condition disqualified almost half the members of the National and Provincial Assemblies dissolved after the October coup, candidates of the Islamic parties emerged unscathed as most of them hold *madrassa* degrees that were granted equivalence. The military regime also resorted to other forms of what opposition politicians call 'pre-poll rigging', namely gerrymandering and delimiting constituencies to assist the PML-Q, and other parties in the pro-military Grand National Alliance.

In the 10 October polls, no single political party was able to score a clear majority at the national level, indicating a hung parliament. The regime-backed PML-Q secured the highest number of seats, though it was far short of the simple majority needed to form a government. More notably, the Muttahida Majlis Amal (MMA), a coalition of six religious parties, secured the third-largest tally of seats in the national assembly besides sweeping the ballot in the Northwestern and Baluchistan provinces. Systematic suppression of the moderate political parties (and the public resentment against the US-led war on terror) has played into the hands of the Islamists in a structural shift that could become entrenched as the new reality of Pakistani politics.[31] Meanwhile, the military is pressuring and persuading opposition politicians to back the PML-Q in parliament. Musharraf has issued legal ordinances to encourage independent candidates to join the PML-Q and facilitate floor-crossing.[32] Facilitated by the military's pressure tactics and the suspension of a constitutional ban on floor crossing, the party eventually secured enough votes to form a coalition government at the center.

Why did the military restore the processes of democracy if it was not willing to transfer real state powers to civilians? Given the unmistakable international preference for democracy, even during the war on terror, the Pakistani military clearly sees its corporate interests served best by transferring power to a 'guided' civilian government, while retaining tutelary powers over it. Thus the military will leave the thankless job of running the day-to-day affairs

[30] To avert disqualification, the PPP created the PPP Parliamentarians (PPPP) to contest the polls.
[31] Shah, *op.cit.*, 2002.
[32] Through an ordinance promulgated on the eve of the elections, independent candidates were given three days to join a party after winning the elections.

of the government to the elected government, while cloaking itself in 'formal respectability and democratic compliance'.[33]

CONCLUSION

The military's consistent refusal to subject itself to legitimate civilian authority lies at the heart of Pakistan's democratic failure. Barring a fundamental restructuring of civil-military relations, the prospects for meaningful democratization remain grim. Given the country's critical reliance on external economic and military aid, pressure from the international community, especially the United States, could play an instrumental role in influencing political liberalization in the direction of civil democracy. However, the Pakistani military's strategic importance to the US anti-terror campaign against al-Qaida and Taliban remnants means international pressure, if any, will remain limited to mild diplomatic rebukes. By holding elections and promising to transfer authority to an elected government, moreover, the military may already have neutralized international concerns.

While opposition to Musharraf's LFO by the PPP, PML-N and the MMA resulted in a parliamentary deadlock that lasted for a year, the Musharraf government, in late December 2003, was able to reach a separate negotiated settlement with the Islamist alliance. In return for agreeing to retire as army chief by December 2004, Musharraf secured the MMA's consent to the 17 Constitutional Amenment Bill that allows him to remain in office till 2007 after receiving a formal vote of confidence from parliament, vests in him presidential powers to dismiss an elected government and allows him to appoint military service chiefs albeit in 'consultation' with the prime minister.[34] The National Security Council is to be created through an act of parliament. Far from civilianizing the political system, the new amendments institutionalize a hybridized authoritarian one in which the army high command retains its grip over the state apparatus behind an electoral facade.

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[33] Koonings and Kruijt, *op.cit.*, p.32.

[34] For the text of the bill see http://www.dawn.com/2003/12/30/top2.htm, downloaded 12 March 2004. Qazi Hussain Ahmad, MMA's parliamentary leader, stated on 2 January 2004 that while the agreement included concessions that his side had made reluctantly, it was the best deal that could have been secured under the circumstances.
See http://www.dawn.com/2004/01/03/, downloaded 12 March 2004.

FREE-TRADE AGREEMENTS IN THE ASIA-PACIFIC: COMPETITIVE ASPECTS OF SUB-REGIONAL TRADE INSTITUTION BUILDING

YOICHIRO SATO

INTRODUCTION

Many scholars are now questioning APEC's efficacy in achieving free trade. The Asia-Pacific Economic Cooperation forum's 'open regionalism' and the extension of trade concessions to non-members were praised in the years following APEC's 1989 founding as a model of good regionalism that was consistent with global free trade. However, slow progress and a lack of significant trade concessions have frustrated free-trade hopefuls in academia and the business world alike. The lack of progress is a result of diverse interests and differing approaches in the region toward free trade. Rather than focusing on and pursuing an 'APEC model', the region is characterized by several competing approaches to free trade, reflecting diverse domestic interests and complex strategic and tactical alliances. This chapter identifies key differences in the domestic interests of the major actors and analyzes how these differences have shaped the patterns of free-trade areas and proposals in terms of partners and contents.

FREE TRADE AND TRADE BLOCS

Economists are increasingly in agreement that free trade will bring long-term overall benefits to the world economy. These benefits will not be shared equally, and some countries in the short term will suffer more in the process of structural adjustments. However, the assumption is that all countries in the long term will find some industries in which they have a comparative advantage. The ideological triumph of neo-classical capitalism and its belief in free trade has been underlined by the bankruptcy of the Soviet Union, Eastern Europe, and state-interventionist Latin America, and later by the conversion of state-guided capitalism in East Asia—following the Asian economic crisis—to a more market-oriented model. The neo-liberal conversion has largely been promoted by developed Western countries, but the increasing acquiescence of

developing countries is evident as they attempt to lure foreign investors into their countries.

Global free trade, envisioned in the immediate post-war period as a promoter of peace, never materialized. Only Western capitalist countries joined the framework of the General Agreement on Tariffs and Trade (GATT). Even among GATT members, differing interests and politically significant protections delayed tariff reductions and blocked removal of non-tariff barriers (NTBs). The transformation of economies in the most developed countries from manufacturing to the service and technology sectors has also expanded the focus of trade negotiations to include these industries. The newly launched World Trade Organization deals not only with the merchandise trade envisioned by GATT, but also service trade (dealt with under the General Agreement on Trade in Services—GATS) and intellectual property rights under its Trade-Related Intellectual Properties (TRIPs) rules.

On the lower-end of the industrial progression, agriculture remains a politically sensitive area for many countries in both the developed and developing worlds. Generally, developed countries in the temperate zone with large territory and low population density (such as North America and Australasia) have industrialized agriculture that is internationally competitive. In contrast, many Western European countries, Japan, and the newly industrialized Asian economies (with the exceptions of Hong Kong and Singapore, which have little arable land anyway) have protected their agriculture sectors. Among the developing countries, there is a division between those with inefficient semi-subsistence agriculture (like India) and those with highly competitive export agriculture (such as Argentina). The Cairns Group within the WTO (the group of agricultural exporting countries promoting free trade and a reduction of subsidies in agriculture) is made up of both developed and developing countries.

TRADE CREATION AND TRADE DIVERSION

The GATT Uruguay Round was launched in 1986 (seven years after the conclusion of the previous Tokyo Round in 1979) to tackle *inter alia* the difficult issues of agriculture and service trade liberalization. The fact that the Uruguay Round took a further eight years to conclude indicated that global free trade was clearly facing very difficult obstacles. In this circumstance, two important developments took place. The first was the creation of an integrated European market in 1992, and the second (partly in response to the first) was the creation of the North American Free Trade Area (NAFTA) in 1993.

The creation of regional trade blocs at a time when global trade liberalization faced difficulties signaled a possible return to the closed trade blocs and mercantile rivalries of the pre-war era. Based on the lesson that this approach was partially to blame for the start of the World War Two, GATT encompassed provisions to contain 'bad' regionalism, while leaving room for 'less bad' regionalism. Regional trade blocs are by definition discriminating and inconsistent with the non-discriminatory principle of GATT. Even a lowering of tariffs limited to the bloc members has a 'trade-diverting' effect, favoring in-bloc exporters over outside exporters. Nevertheless, for practical reasons, trade blocs are accepted under GATT so long as they do not raise the existing tariff levels, thereby encouraging overall growth of trade.[1]

GATT RULES AND EFFECTIVENESS

In accepting regional trade blocs, GATT required that such agreements be consistent with its rules. However, enforcement of GATT compliance was rather weak until the WTO came into existence, and its enhancement is yet to be seen under the WTO.

GATT, being an inter-state agreement without its own large bureaucracy, simply responded to voluntary requests to evaluate the consistency of regional agreements with GATT rules. Without such requests, many regional agreements have not been evaluated at all. Under GATT, complaints against regional agreements that were deemed to be in violation of GATT had to be handled with the consent of the accused party—an unlikely proposition. It was only after the WTO dispute settlement body (DSB) was given additional power to impose mandatory dispute-resolution mechanisms that a more thorough evaluation of regional trade blocs became technically possible. (Whether this newly given power will be sufficient is yet to be seen.)

EMERGING ISSUE AREAS AND TRADE BLOCS

There is no concise and universally accepted definition of what constitutes a 'free' trade agreement. To avoid mushrooming of 'partially-free' or 'not-so-

[1] This 'building blocks' versus 'stumbling blocks' debate is found in almost any discussion of regional FTAs. Cohn gives a brief overview of this debate and GATT's (legal) treatment of the FTAs in Theodore H. Cohn, *Global Political Economy: Theory and Practice* (New York: Longman, 2000), pp.238-240. Frankel, in Jeffrey A. Frankel, *Regional Trade Blocs in the World Economic System* (Washington, D.C.: Institute of International Economics, 1997), pp.207-227, provides a detailed economic examination of the FTAs from both positive and negative perspectives, with a focus on inclusion/exclusion of countries.

free' trade agreements, GATT Article XXIV requires that such agreements must eliminate tariffs and trade barriers on 'substantially all trade'. As developed economies have transformed, new industries and services have emerged and the concepts of properties expanded. Now there is growing disagreement as to what must be covered by a 'free trade' agreement.[2]

Regional trade agreements may deliberately exclude certain sectors because of domestic opposition in the member countries. Exclusion of the agricultural sector in some regional and bilateral free-trade agreements is most problematic in the view of GATT consistency, and such moves are opposed by most progressive trade liberalizers. On the other hand, including enhanced service sector access and/or intellectual property provisions in bilateral free-trade agreements has become a common tactic for more developed countries, whose similar attempts in the multilateral WTO negotiations have been blocked by the more numerous developing countries. Developed countries also tend to demand higher local-content ratios, stricter environmental and labor standards, and limited labor mobility provisions in their dealings with less-developed partners.

APEC AND GLOBAL FREE TRADE

It is now well known that APEC was a joint creation of Japan and Australia, despite the former's 'leadership from behind' that gave full credit to Australia. Having considerable trade relations, not only in Asia, but also with the European Union (EU) and North America, the two countries' interests lay in bridging the Asian and North American markets, thereby creating the largest market which, the two countries hoped, would dissuade the EU from retreating into its own closed market. Despite its initial scepticism about APEC, the United States has judged that its interests in access to the fast-growing Asian market and creating a counterweight to the EU also coincided with the aim of APEC. In addition to competing against the EU in promoting free trade with Latin America, the United States seeks free trade on its own terms with the Asia-Pacific, prioritizing its relations with key free traders, such as Australia, New Zealand, and Singapore. Thus, on a fundamental level, key APEC members share common interests in creating the world's largest market and preventing the EU from isolating itself.[3]

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[2] Cohn, *op. cit.*, pp.247-251.

[3] Regionalism is viewed as a launching base into global competition. See Christopher Brook, 'Regionalism and Globalism', in Anthony McGrew and Christopher Brook, *Asia-Pacific in the New World Order* (London and New York: Routledge, 1998), pp.231-232.

VOLUNTARISM/NON-BINDING APPROACH

Within the broad and general agreement, however, there is a growing division among APEC members in regard to how to approach free trade. At the core of APEC are the members of the Association of Southeast Asia Nations (ASEAN), whose preference for the preservation of state sovereignty has posed a large obstacle to adopting a supranational institutional approach. Even the GATT/WTO-like multilateral bargaining process was viewed with scepticism by these younger states. The fact that Japan took the initiative from early on, whereas the United States committed itself to APEC at a much later stage, also made APEC more sensitive to the voices of the ASEAN countries, with which Japan has carefully nurtured relations throughout the post-war period.

Major differences remain between the NAFTA countries, Singapore, and the Australasian states on the one hand, and Japan and most of the East Asian states on the other. Within the latter camp, a growing political and economic rivalry between Japan and China also has impacts on the course of East Asian integration.

What has emerged as the APEC approach is a combination of highly publicized annual summit meetings, less publicized but more tangible trade ministers' meetings, and numerous and sectionalized technical meetings. At each stage of meetings, voluntarism and consensus building are emphasized as the appropriate method of decision-making.

OPEN REGIONALISM

In order to ensure that other trade blocs will not close their markets in anticipation of APEC becoming closed and adopting protectionist measures, APEC extends its agreed liberalization measures to non-members. Therefore, APEC does not even amount to a customs union like the European Community was before full EU market integration.[4] Since most APEC members are also WTO members (with the notable exception of Russia), the Most Favored Nation principle governs tariff and quota concessions made during the APEC negotiations. At the same time, various Non-Tariff Barrier (NTB) reductions and standardization of import procedures also aim at not only smoothening intra-APEC trade, but also at setting the standard for global trade.

[4] *Ibid*, p.233.

BOGOR TARGETS

The voluntary and consensus-oriented approach by APEC has been criticized by the more progressive trade liberalizers as ineffective and time-consuming. These states, notably with the United States in the forefront but with some others on its coattails, prefer a more contractual approach to trade liberalization. The 1995 meeting in Bogor, Indonesia, resulted in a declaration of target years for complete free trade, 2010 for the developed countries and 2020 for developing countries. The target years were differentiated to allow more time for developing countries to adjust their industrial structures, but no penalty was stipulated for non-implementation.

ASSESSMENT

Critics of the APEC approach point to a lack of progress in achieving increases in regional trade. The EU's success was measured by some by its increasing intra-EU trade, where national markets were fully integrated. In APEC, complete market integration has not been achieved, and APEC's aim is not a closed economic bloc. (The EU does not espouse such a closed system either, at least officially, but it has various protective measures, such as its Common Agriculture Policy, that form a *de facto* closed system).

Some assessments, focusing on average tariff rates, have also disappointed trade liberalizers. Japan's average tariff rates indeed went up recently. However, tariff rates alone are not a good indicator of trade liberalization, as import quotas are often replaced by high initial tariff rates as a result of the tariff scheme under the GATT Uruguay Round.

APEC's various working groups address import procedures and NTBs. However, quantitatively measuring these achievements is extremely difficult as causes of trade increases or decreases cannot be easily isolated. It seems that to measure the overall success of APEC, it suffices to look at the trade volume per GDP of each APEC member. In this measurement, most APEC members have shown a significant increase in trade dependency. Indeed, it seems that the declining trade dependency of the entrepot economies of Singapore and Hong Kong is attributable to trade diversion by other economies to new open markets within APEC.

SUB-REGIONAL FREE-TRADE PROSPECTS WITHIN APEC

As pan-regional free trade becomes ever more difficult, there are increasing moves for sub-regional agreements. These are being promoted within and between sub-regions and seem to have two motivations. The first is to compensate for the lack of progress at APEC and the second to attempt to protect groups of economies in case other groups develop closed trade blocs rather than the 'open regionalism' that APEC is supposed to promote. The final size and shape of the regional economic groupings is not yet clear, but it seems likely that by about 2015 East Asia and North America could have developed into 'super blocs' and that there will be a periphery of smaller groupings around and connected to these. The dominant question is the degree to which these groupings will be open or closed.

The NAFTA Bandwagon and the PACFIVE

The North American Free Trade Area (NAFTA) entered into force in 1994 with the United States, the world's second-largest economy (after the European Union), at its core. NAFTA was a product of both globalization and domestic compromise. For major US manufacturers, Mexican and (to a lesser extent) Canadian firms had become major suppliers of technologically less-sophisticated parts, as well as an assembly base from which to export the final products back to the US market and to Europe and Asia. Free trade binding the three North American countries was to further enhance the regional production, integration and division of labor. In the United States, however, the agreement faced fierce opposition from labor unions and congressional Democrats. A particular fear was that Mexico would become a cheap assembly base for non-US firms as well, using imported non-US components. As a result, NAFTA included tough local-content requirements, making sure that to qualify for free trade, products must meet high locally produced values.

Because of its size and proximity, NAFTA attracts a large amount of interest from South American countries and has the potential to develop into a Western Hemisphere free-trade zone, a concept known as the Free Trade Area of the Americas (FTAA). This alarms countries outside the Americas because of the possibility of their exclusion. This fear is further exacerbated by NAFTA's relatively high local-content requirements, which tend to divert US imports from non-NAFTA countries to NAFTA members. The United States is still cautious about further expansion of NAFTA, especially into the developing countries of South America. For the United States, as the largest

market in the Americas, having prospective members come to its own terms is a logical strategy. For the same reason, most of South America (except Chile) is cautious in approaching the United States on this matter. The United States aims to realize the FTAA by 2005, but this prospect is increasingly in doubt due to the financial crisis that spread from Argentina to other South American countries and increasing criticism of US farm subsidies and steel safeguard tariffs.[5]

The US strategy in FTA talks in the Asia Pacific is to start with the most liberal traders: Singapore and Australia. The addition of Canada (already a NAFTA member), Chile (which recently signed FTAs with the United States), and New Zealand (which is not yet formally negotiating an FTA with the United States, but is a progressive free trader), would make up the so-called Pac Five grouping.

Related Agreements

In the face of NAFTA's delayed expansion, NAFTA's smaller partners, Canada and Mexico, are considered stepping stones for those countries that wish to join free trade with the United States, but seek better terms than the United States would accept. Since the early stage of NAFTA's inception, Chile has demonstrated its willingness to join NAFTA. Chile has already signed bilateral free-trade agreements with Canada and Mexico, and these agreements include service sector liberalization—a prerequisite for membership in NAFTA as it stands. Chile also signed a bilateral FTA with the United States in June 2003[6], and an FTA with Korea, though ratification in Korea is still pending due to the political sensitivity of anticipated fishery imports.

Mercosur

MERCOSUR (*Mercado Común del Sur*, or the Southern Common Market Treaty), which comprises Argentina, Brazil, Paraguay, and Uruguay, currently stands as a customs union, but not a free-trade area. Development efforts of the 1970s were backed by socialist ideologies and did not lead to the creation of competitive export-manufacturing industries in most of South America, but instead left massive debt burdens for these countries. As the countries re-engaged US capital and markets in the 1980s, MERCOSUR served two objectives. First, consistent external tariffs across the region assured some continued protection against imports without hindering the adjustments of each national economy and the relocation of industries within the region. Second, by providing a united front, MERCOSUR members try to avoid being

[5] *Yomiuri Shimbun*, 28 July 2002.
[6] *Yomiuri Shimbun*, 7 June 2003.

swallowed one by one into a Western Hemisphere free trade on NAFTA's terms rather than their own. Chile has joined MERCOSUR as an associate member (because its voluntary tariff reduction had already achieved lower tariff levels than the MERCOSUR's common tariffs), and is positive about a greater Latin American integration. However, Chile's 'overzealous approach' in FTAA negotiations is a source of disunity among the South American states. As the FTAA negotiation stalls over US farm subsidies, and the United States pursues bilateral FTA talks with smaller central American countries, MERCOSUR has countered such move by signing an FTA with three members of the Andean Community in December 2003.[7]

EAST ASIAN CAUTION AND COMPETITION

East Asia as an economic group demonstrates great diversity. The degree of industrialization and economic development varies from rich Japan to the poor Indochinese trio. In addition, the most industrialized countries in the region (Japan, Korea, Taiwan) have politically significant agriculture sectors, constituting an 'Achilles heel' in their pursuit of free trade. This problem is shared by several less-developed countries such as Malaysia, Indonesia, and China. This, however, contrasts with the most competitive agricultural exporters of the region, such as Thailand, and the city economies (Singapore and Hong Kong), which have no farm sector to protect.

Regional trade growth has largely reflected increasing Foreign Direct Investment (FDI), regional integration of the production processes, and their interdependence. Following the Japanese model, earlier import substitution industrialization gradually gave way to export promotion, resulting in steady reduction of tariffs on industrial material and goods. Each country has politically favored sectors that have resisted liberalization, and this has occasionally collided with the regional approach.

A consensus-oriented approach, long practiced in ASEAN and incorporated into APEC, has allowed trade liberalization to proceed at a pace tolerable to the least efficient countries. However, pressure from the more competitive farm producers, domestic industrial sectors that promote free trade, and competitive demands of globalization on national economies have all forced the ASEAN countries to revise this approach and seek more proactive liberalization. An informal meeting of ASEAN economic ministers in August 2002 abandoned the traditional convoy system of trade and investment liberalization, and adopted a new approach to allow early

[7] *Yomiuri Online*, 17 December 2003.

liberalization by some members.[8] Thus, the consensus approach of the APEC, first challenged by the Pac Five nations, is now threatened from its ASEAN core.

ASEAN Free Trade Area

The ASEAN Free Trade Area (AFTA) was set up to promote economies of scale and division of labor in industrial production among the ASEAN countries. Beginning in 1993, tariff reductions were to be implemented on all tariff rates on manufactured products to between zero and five percent by the end of 2007 (the target year was later moved forward first to 2003 and later, for many items, to 2002).[9] AFTA deliberately excluded unprocessed agricultural products and services from its liberalization scheme. While the approach was consistent with the needs of the region's main investor, Japan, preparation for further integration and accommodation of new members (Vietnam, Laos, Cambodia, and Myanmar) required that free trade be extended to cover non-processed agricultural products. Therefore, a new protocol was signed in 1999 to phase in sensitive and highly sensitive products into the previously agreed FTA scheme by 2010 (2013 for Vietnam, 2015 for Laos and Myanmar, and 2017 for Cambodia).

East Asian Economic Caucus

Frequent confrontation between the East Asian states and non-Asian members of APEC (notably the United States, Canada, Australia, and New Zealand), combined with Malaysian Prime Minister Mahathir Mohammad's frequent calls for 'Asianism' led to proposals for an East Asian Economic Caucus (EAEC) within APEC. The United States, fearing the creation of an illiberal trade bloc that would undermine aggressive American efforts to promote free trade, opposed such a sub-regional trade bloc. Japan also was not eager to offend the United States, despite their disagreement over treatment of the farm sector. The compromise outcome was a sub-regional caucus, which only loosely bundled ASEAN states with Japan, Korea, China, Hong Kong, and Taiwan. While the idea of free trade in this format has been proposed and is said to produce the most attractive market for both the EU and the NAFTA members to engage with, both political divisions and economic gaps within the

[8] *Yomiuri Shimbun*, 8 July 2002.

[9] However, the final tariff rate on highly sensitive products for Malaysia and Indonesia was set at 20 percent, considerably higher than the 0-5 percent target on other goods, with the rate for the Philippines to be determined.

grouping are likely to necessitate that an integration of this scale start with smaller units. This will probably be through the so-called ASEAN + 3 grouping which links the ASEAN states with Japan, Korea and China, initially through a series of bilateral free-trade agreements.

ASEAN-China

Within the East Asia grouping of states, China has demonstrated an increasing desire for leadership. Sub-regional unity has been tested since the 1997 Asian monetary crisis, and China has constantly asserted itself as a leader to challenge Japan's predominant status. While China cooperated with Japan and other Southeast Asian countries in starting the Chiang Mai Initiative establishing a regional joint currency reserve (after opposing Japan's proposal for an Asian Monetary Fund in which Japan would play a more dominant role), it claimed credit for not devaluing the yuan during the Asian financial crisis, overshadowing Japan's assistance to stricken nations. China's proposal in 2002 for free trade with ASEAN to be achieved within ten years was announced in this context. The first concrete Chinese proposal offered tariff removal on selective agricultural products that ASEAN members produced (meat, fish and seafood, fruits, dairy products, flowers, and animals and animal products, including material for Chinese medicines) by 2007, and China continues to negotiate on other farm products of concern to ASEAN members, such as rice, palm oil, and lumber, with a possibility of early liberalization on a bilateral basis.[10] Gradual expansion of trade liberalization on most other products is proposed to take place beginning in 2005 and conclude between 2010 and 2016, according to the framework agreement signed in November 2002. The alternative deadlines are set due to possible conflicts with the previously agreed AFTA among ASEAN members, especially in regard to the delayed liberalization schedules for Vietnam, Cambodia, Laos, and Myanmar. Considering China's own problems with state-owned enterprises in the manufacturing sector, inefficient agriculture, and the protected financial sector, its free-trade agreements may diverge from the 'significantly all trade' provision of GATT.

[10] *Asahi Shimbun*, 13 September 2002.

JAPAN'S GLOBAL, REGIONAL, AND BILATERAL TRADE STRATEGIES

During the Uruguay Round of the GATT negotiations, in which agricultural trade liberalization became an agenda item, Japan's complete ban on rice imports continued to be an obstacle to Japan's proactive trade policy stance and one of the major obstacles to conclusion of the whole round. Agricultural negotiations continued under the newly established WTO, although launching of a new comprehensive round was not yet in sight. Japan adopted a policy of minimum access for foreign rice, allowing progressively increasing imports from four percent of domestic consumption to eight percent between 1995-2000. In 1999, Japan decided to forego the minimum-access arrangement and shifted to a tariff-based import with a 1,000-percent markup. The agriculture minister announced prior to a WTO agriculture negotiation in December 2000 that Japan would negotiate on the basis of maintaining controlled imports of rice through a tariff-rate quota, minimum access, and state trade systems.[11] Japan continued to withhold its farm card and demanded an early start of a new comprehensive round.

At the Doha meeting of the WTO in 2001, Japan's efforts focused on linking the concessions Japan has floated on farm products with other issues, including further reduction of tariffs on industrial products, enhancing WTO discipline against national anti-dumping and safeguard rules, and enhancing multilateral investment rules.[12] In the aftermath of the Doha ministerial meeting, Japan's Ministry of Foreign Affairs was satisfied with the comprehensive coverage of the coming round, while agricultural sector bureaucrats implicitly suggested that the achievements in negotiations on agriculture since the Uruguay Round did not necessarily set a bottom line for negotiations in the coming round.[13]

In submitting a proposal to the WTO on negotiations on non-agricultural market accesses, Japan reiterated that a comprehensive range of products be considered and no exception should be set in advance. In regard to tariff

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[11] '*WTO nogyo kosho nihon teian no kettei ni atatte*', speech by Minister of Agriculture, Forestry, and Fishery, 8 December 2000. [www.maff.go.jp/wto/wto_daijin_danwa.htm]

[12] *International Herald Tribune*, 27 January 2001; '*WTO Doha kakuryo kaigi ni muketa nihon seifu no tachiba*', November 2001. [www.mofa.go.jp/mofaj/gaiko/wto/tachiba.html].

[13] MAFF, '*Dai yonkai WTO kakuryo kaigi no kekka ni tsuite*', speech by Minister of Agriculture, Forestry, and Fishery, 14 November 2001.
[www.maff.go.jp/wto/wto_mc4th_daijindanwa.htm]; MOFA, 'WTO shin raundo (Doha kakuryo kaigi ikou no kongo no mitooshi)' [www.mofa.go.jp/mofaj/gaiko/wto/d_iko.html]

cutting, Japan proposed a 'formula cut' by which member states would cut their tariff rates depending more on each country's stage of development than on the existing level of tariffs.[14] This proposal aimed at easing developing countries' fears of cutting tariffs on industrial goods, while urging developed countries (mainly the United States and EU) to bring their tariff levels on industrial goods lower and closer to those of Japan.

Japan in APEC

While Japan has been criticized for not making sufficient concessions on market access in APEC's Early Voluntary Sectoral Liberalization (EVSL) talks, particularly in regard to its agricultural sector, Japan also views APEC as losing efficacy in achieving its earlier objectives. APEC's successes have shifted from liberalization of trade and investment to other areas, such as standards and conformance, customs procedures, and competition policy that smoothen trade transactions by reducing associated costs.[15] Japan sees the positive outcome of the 2002 APEC trade ministers meeting as being its agreement to set a deadline to decide the processes for non-agricultural product negotiations for future WTO rounds and its acceptance of the 'path-finder' approach, in which plural economies would accelerate implementation of the Bogor target of complete liberalization.[16] The sugar-coated language masks the crude reality. The former is a *de facto* admission that APEC has not only failed to promote agricultural trade liberalization, but also deferred the non-farm products to the WTO. The 'path-finder' approach, moreover, is a *post hoc* admission that some countries (possibly including Japan itself) will not be able to meet the Bogor target.

Japan-ASEAN

Japanese Prime Minister Junichiro Koizumi's visit to ASEAN members in 2002 followed China's surprise announcement of the free-trade proposal to ASEAN. Japan quickly announced its own version of free trade with ASEAN, yet lack of domestic consensus prevented Japan from proposing more specific measures beyond rhetoric during his visit. However, competition between

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[14] MOFA, '*Hi-nousanbutsu shijo akusesu kousho ni kansuru nihon no teian (kouken bunsho)*', 2 August 2002. [www.mofa.go.jp/mofaj/gaiko/wto/sgstn020802.html]
[15] Speech by MOFA Economics Bureau Chief (Sasae), 5 September 2002. [www.mofa.go.jp/mofaj/press/enzetsu/14/sei_0905.html]
[16] MOFA, '*APEC boueki tantou daijin kaigo*', 30 May 2002. [www.mofa.go.jp/mofaj/gaiko/apec/2002/boeki_gh.html]

China and Japan may accelerate free trade with ASEAN by both, and eventually throughout East Asia.

Japan is playing catch-up with the AFTA free-trade process in that AFTA has accelerated its pace of liberalization due to the Pac Five's aggressive free-trade promotion and the need to compete for foreign direct investments vis-à-vis China. On the other hand, there still is resistance against complete liberalization of the farm trade within ASEAN. Therefore, it is likely that Japan will not rush free trade with ASEAN, despite China's recent initiative, until the prospect of tougher discipline on agriculture trade and related policy at WTO negotiations appears imminent, at which stage Japan is expected to propose moderate measures to open its farm markets, closer to the AFTA standard.

The course of Japan's action will also be influenced by who in Japan holds initiatives. The economic and trade ministry (METI), with little regard for the farm sector, is more willing to pursue 'significantly all' free trade with ASEAN collectively, whereas MOFA, having to listen to the Agriculture Ministry, prefers to minimize farm trade liberalization and pursue bilateral FTAs with ASEAN member countries to enhance Japan's bargaining power for this end. Based on a recommendation of the joint expert group, the ASEAN-Japan Economic Ministers meeting in September 2002 agreed to recommend that their leaders develop and consider a framework of future talks, including the guiding principles, establish a committee of senior economic officials within 2003 and complete an FTA 'as soon as possible within 10 years'.[17] In November 2002, following the China-ASEAN framework agreement for an FTA, Prime Minister Koizumi and ten ASEAN leaders signed a joint declaration to seek an FTA within ten years, based on the agreement at the economic ministers meeting.[18] Following the first official governmental discussions in March 2003, the parties agreed to finalize the negotiation framework in August to be signed at the summit meeting in October 2003.[19]

OTHER BILATERAL RELATIONSHIPS

The bilateral agreement between Singapore and Japan gives the latter a bridgehead into the ASEAN market. At the same time, the selection of

[17] ASEAN, 'The Ninth Consultation Between the ASEAN Economic Ministers and the Minister of Economy, Trade and Industry of Japan', 13 September 2002, Bandar Seri Begawan, Brunei Darussalam, Joint Statement. [www.asean.or.id/print.asp?file=newdata/aem34_doc5.htm]

[18] 'Japan, ASEAN sign deal to pursue 'economic partnership',' *Japan Times*, 6 November 2002.

[19] *Yomiuri Online*, 10 March 2003.

Singapore and the agreement's complete exclusion of agricultural products indicate Japan's reluctance to open up its agriculture market.

Thailand and Japan have entered preparatory discussions toward an FTA, but access to Japan's rice market has been the major obstacle. Thailand proposed a three-staged negotiation framework in which liberalization of politically sensitive products to be dealt with in the third stage can be delayed by ten years or even indefinitely.[20] Japan's senior economic organizations announced their preference for an early start of the official FTA negotiation.[21] However, the Koizumi-Thaksin meeting in June 2003 failed to launch an official negotiation.[22] Likewise, the meeting between Prime Minister Koizumi and President Arroyo of the Philippines in the same month to discuss progress toward a Japan-Philippines FTA only established an enlarged working group including industry, government, and academic representatives. The Philippines' request that Japan open its health-care services sector has met opposition in Japan.[23] Malaysia has been a reluctant player in the recent FTA bonanza, but it chose Japan as the first negotiation partner. The two countries started preparatory discussions in 2003. In December 2003, a special Japan-AEAN summit meeting produced an agreement to start bilateral FTA negotiations with these three ASEAN countries in early 2004 and between Japan and ASEAN as a community from 2005 with completion by 2012, two years later than the earliest likely date for a China-ASEAN free trade agreement..[24]

Japan and Korea have informally discussed free-trade area concepts since the mid-1990s. However, progress has been limited, partly due to the already deep interaction between their economies, which inevitably involves complex calculations of sectoral loss and gains.[25] After a summit meeting between Korean President Kim Dae-jung and Japanese Prime Minister Yoshiro Mori in 2000, business leaders from Korea and Japan launched the Korea-Japan Business Forum, discussing among other things a possible FTA.[26] Japanese Prime Minister Koizumi's meeting with Kim in Seoul in March 2002 further produced an agreement to launch a joint study group made of industrialists, academics, and policymakers. The group will work for the next two years to

[20] *Yomiuri Online*, 11 March 2003; 12 May 2003.
[21] *Yomiuri Online*, 21 May 2003.
[22] *Yomiuri Online*, 7 June 2003.
[23] *Asahi.com*, 4 December 2002; 17 January 2003; *Yomiuri Online*, 7 June 2003.
[24] *Yomiuri Online*, 11 December 2003.
[25] *Korea Times*, 22 March 2002.
[26] *Asia Times Online*, 8 September 2001.

produce its recommendation.[27] In June 2003, Korean President Roh Moo-hyun visited Japan and met Koizumi, but they only agreed to 'an effort to start the official negotiation as early as possible'.[28] The first official negotiation with Korea was held on 22 December 2003, and the two countries aim at concluding agreements in six areas (rules and dispute resolutions, merchandise trade tariffs, non-tariff measures—such as quarantine and labor issues, services and investments, other issues—such as intellectual properties, government procurements, and competition policies, and economic cooperation) by 2005.[29]

In June 2001, Japan and Mexico established a panel of Japanese and Mexican experts to conduct a feasibility study for a Japan-Mexico FTA. The group released a report in July 2002, recommending the governments of Mexico and Japan start FTA negotiations. The Japanese motivation is that it has already invested in the US-Mexico border area special export-processing zone (known as *Maquiladora*), but the Japanese factories there have suffered a comparative disadvantage *vis-à-vis* the Americans and Europeans, who signed FTAs with Mexico in 1994 and 2000, respectively. Expiration of the tariff-free imports of raw material and components (to be assembled and exported into the US market) in 2001 is pushing Japan's manufacturers to seek free trade with Mexico.[30]

Japan, however, does not appear to be ready to fully embrace free trade with NAFTA. Unlike Chile, Japan is not ready to quickly conform to the various NAFTA standards, including liberalization of agricultural and some service-sector trade. Even in the proposal on an FTA with Mexico alone, ambiguous wording was used on agriculture.[31] Such a proposal is defensive of the *status quo* interests and reactive in nature, rather than proactive. At the APEC summit meeting in Mexico in October 2002, the two countries agreed to start the bilateral FTA negotiation in the following month to be concluded in approximately one year.[32] In December 2003 negotiations were continuing after disagreements over market access for several specific products.

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[27] *Korea Times*, 22 March 2002; *Dawn*, 24 March 2002 (internet edition); *Mainichi Shimbun*, 30 June 2002.
[28] *Yomiuri Online*, 7 June 2003.
[29] *Yomiuri Online*, 22 December 2003.
[30] *Japan Times*, 23 July 2002.
[31] *Ibid.*
[32] Japan-Mexico Joint Statement, 27 October 2002 [www.mofa.go.jp/mofaj/kaidan/s_koi/apec_02/jm_kyodo.html].

AUSTRALASIAN AMBITIONS

The geographical isolation of Australia and New Zealand and their small domestic markets have hindered the growth of strong domestic manufacturing. Their economic integration with Asia has been slow, partly due to the preferential trade relations they enjoyed with Britain prior to that country's entry into the European Economic Community, which worked as disincentive against developing deeper economic relations with Asia. Although Japan became the most important trade partner for Australia, this was largely because of Japan's imports of raw material (such as coal and iron ore) from Australia. By the mid-1980s, the prolonged economic slump and protectionism was replaced by reform-minded policies, which emphasized enhanced integration with Asia and removal of economic protections.

The Closer Economic Relations (CER) pact between Australia and New Zealand is already '95 per cent of the way there'.[33] In addition to the free-trade agreement that covers both agriculture and services, free investment relations and free labor movement are already in place, and there is an ongoing study of currency integration.

Unlike many developing countries that have political difficulties with free trade with the United States both in the manufacturing and agricultural sectors, Australia and New Zealand stand to gain in agricultural-sector trade liberalization. Both countries are vehement and sincere opponents of the recent US farm subsidy law, unlike the Europeans who also protect their agriculture. New Zealand and (to a lesser extent) Australia have become resigned to not having mass manufacturing industries, such as consumer electronics and automobiles, due to the small sizes of their domestic markets and geographical disadvantages. The United States, on the other hand, holds some reservation about anticipated increases in agricultural exports from Australasia, as demonstrated during the lamb trade dispute of 1998-2001.[34] While fruit markets, such as the apple market, are often compatible due to the opposite harvest season in the Southern Hemisphere, meat and processed food like wine (a growing industry in both Australia and New Zealand) pose competition to American producers. The United States and Australia are

[33] Kevin Taylor, 'Expert queries CER priorities', *New Zealand Herald*, 14 May 2002.
[34] Yoichiro Sato, 'The United States- New Zealand Lamb Dispute', *New Zealand International Review* XXV (6), November/December 2000, 9-12; Yoichiro Sato and Stephen Hoadley, 'US Import Restraints and the Asia-Pacific: Politics and the Lamb Tariff', *Asian Perspective* 25(3), 2001, pp.113-134; Yoichiro Sato, 'The Lamb Import Dispute Revisited', *New Zealand International Review* XXVII (3), May/June 2002, pp.25-27.

negotiating an FTA. New Zealand hopes to piggyback on an Australian deal via CER, but due to their differing trade-item priorities, Australia has an incentive to sign free-trade agreements with the United States bilaterally. New Zealand's advantage is its more liberal manufacturing import policy compared to Australia, but its non-nuclear stance is a significant obstacle to any new deal with the United States.[35] Both Australia and New Zealand face tough US demands to strengthen intellectual property protection, especially parallel import laws.

For Australia and New Zealand, the closest markets of significant size are in Southeast Asia. Indeed, both countries consider free trade with ASEAN countries important. It appears that lack of progress on CER-AFTA free trade is due to the division within ASEAN, especially some members' weak domestic agriculture. These states prefer to prolong protection of domestic farmers and exclude farm products from free-trade arrangements—a direct assault on Australasian states' interests. Awkward security relations between Indonesia and Australia, and Malaysian Prime Minister Mahathir's political problems with Australia, do not help either. As Australia and New Zealand proceed with liberal FTAs with the United States, ASEAN members may feel left out.

Australia and New Zealand have pursued the possibility of an FTA between CER and MERCOSUR, but realized that their priorities and more realistic prospects lie with Asia. Australia and Singapore signed an FTA in February 2003, and Australia and Thailand concluded their joint FTA study and agreed in May 2002 to launch official negotiations.[36] Australia has also started framework negotiations with Japan and China.

New Zealand's small economy is uniquely placed in the game of trade alliances. Its attraction as a progressive liberalizer is not matched by domestic market large enough to attract trade partners. New Zealand targets bilateral agreements with small yet strategically placed markets that set precedents for larger regional trade agreements that might follow. Singapore is small and has little farm production to protect. At the same time, Singapore provided a foothold into ASEAN. New Zealand hopes its liberal FTA with Singapore will set a precedent to follow for later deals with all ASEAN. Negotiations with

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[35] Greg Ansley, 'Howard cautious on pact with US', *New Zealand Herald*, 22 June 2002; Brian Fallow, 'Sutton planning US juggling act', *New Zealand Herald*, 14 May 2002; Frank O'Sullivan, 'Free Trade and naval-gazing', *New Zealand Herald*, 2 April 2002.

[36] Purnendra Jain, 'Australia-US trade pact easier said than done', *Asia Times Online*, 11 June 2002.

Chile, a prospective new member into NAFTA, also aim at eventual access into the US market. New Zealand's negotiations with Hong Kong have made little progress, as New Zealand's concern over lax rules of origin enforcement (against Chinese exports via Hong Kong) has not been adequately met.

SOUTH ASIA

In South Asia, the India-Pakistan dispute has precluded regional cooperation in most policy areas, including promotion of free trade. However, India's economic reforms and growing inward foreign investments have spurred its interest in free-trade agreements with countries and entities outside South Asia. India has proposed an FTA with ASEAN, Thailand, and Singapore. A declaration of intent to start negotiations has been signed with Singapore, which India considers to be a gateway into ASEAN and greater East Asia. The proposal encompasses a broad range of areas, including services, investments, and trade-facilitation measures.[37]

CONCLUSIONS

Diverse interests in the Asia-pacific region have contributed to a proliferation of sub-regional free-trade agreements and proposals. This has made trade negotiations a complex three-layered bargaining process with the WTO, APEC, and sub-regional arrangements both complementing and competing with each other. Although a lack of progress in the global and regional arenas has accelerated the sub-regional formations, the existing global and regional rules have also provided a stopgap against proliferation of sub-regional FTAs that are totally inconsistent. Such a stopgap is far from ideal from a global free trader's perspective. Nevertheless, it is yet to be seen whether the evolution of global and regional rules in line with neoclassical liberal capitalism will keep both regional and sub-regional FTAs straight.[38] Alternately, a new global trade paradigm sensitive to non-trade factors, such as food security, development needs, and environment, will emerge to accommodate diverse regional and sub-regional FTAs.

On the question of agricultural trade liberalization, both the developed and the developing countries are divided among themselves, even within the Asia-Pacific region. Added to this complexity are the South Asian countries that are

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[37] 'Singapore deal new territory for India', *Economic Intelligence Report*, May 2003.

[38] Islam and Chowdhury emphasize the APEC principle of 'open regionalism' as a condition for the regional FTAs to be 'building blocks' for globalism. Iyanatul Islam and Anis Chowdhury, *Asia-Pacific Economies: A Survey* (London and New York: Routledge, 1997), p.14.

active members of WTO and are interested in joining APEC. India, for example, is reluctant to remove its agricultural subsidies and engage in a new round of multilateral talks unless developed countries show more willingness to negotiate the protected textile sector.

In the Asia-Pacific, three layers of competition are currently taking place. At the global level the forces of regionalism are based on the three pillars of Europe, the Americas, and East Asia and the globalization effects that connect them are operating simultaneously for all. With the APEC region, East Asia and the alliance of Americas and Australasia compete to promote differing paradigms of regional cooperation, especially in regard to agriculture (there is a somewhat more diffused division in regards to the service sector; in addition to Singapore and Hong Kong, Japan has an interest in promoting its service industry's interests in Asia). Within East Asia, ASEAN and China compete for foreign investments, and China and Japan compete for leadership. However, competition inside East Asia is more orderly, for many of the countries have pursued similar development paths of simultaneously promoting manufacturing industries and protecting some segments of the domestic agriculture. Those countries which did not fit the model (such as Singapore), could unilaterally pursue free trade in farm products without insisting that others to do the same. The competitive agricultural producers (Thailand) and would-be followers (such as Vietnam and Cambodia) within ASEAN have been persuaded by the simultaneous growth model of other East Asian countries and accepted delayed and limited liberalization of agricultural trade and exemption of this sector from complete liberalization, in return for delayed application on them of the tariff-reduction scheme for manufactured goods.

Overall, despite the differing pace of preference for free-trade progression, competition in East Asia and the Asia-Pacific can be a promoting factor for free trade, as long as the global tripolar competition remains an 'open' process.

NEW ZEALAND: DEVELOPING AND SUSTAINING ECONOMIC LIBERALIZATION

GARY HAWKE

NEW ZEALAND UNTIL THE 1980s[1]

In the early 1980s, New Zealand was sometimes seen through a romantic haze, and indeed it still is when nostalgia revives earlier romantic myths. New Zealand could be conceived from overseas as an idyllic rural pleasure park. It was overwhelmingly green, the climate varying from subtropical to temperate but never unpleasant for long. The snow was sufficiently well behaved to remain on top of mountains where it did not interfere with normal traffic and everyday life but was ideal for winter sports. Various attractions like geysers and volcanic wonderlands provided variety for tourists, largely Japanese, as they traveled from golf course to golf course, largely unimpeded by any local population.[2] The few local inhabitants were not all that enthusiastic about providing services, but there were too few of them to impede holiday-makers from abroad. They were surprisingly complacent despite a standard of living that remained static and therefore fell behind what was being experienced elsewhere.

New Zealand may still be seen like this, but there is another story also. It is a story of a country that developed as an agricultural supplier for Britain, suffered the problems of relying on agriculture and a single market as the driver of the economy, went through a period of strong governmental control of the economy and which has now developed as a diversified market economy.

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[1] For relevant sources, see G.R. Hawke, 'New Zealand', Joel Mokyr, ed., *Oxford Encyclopaedia of Economic History* (Oxford: OUP, 2003); G.W. Rice (ed.), *Oxford History of New Zealand* (Auckland: Oxford University Press, 2nd ed., 1992).

[2] The image of New Zealand as a 'beautiful, empty golf course' was advanced by Japanese Prime Minister Kishi on a visit to New Zealand in 1957 when memories of World War II were still sufficiently fresh for it not to be entirely appreciated. Bruce Brown, 'Traders and Investors, 1960s to 1990s', in R. Peren ed., *Japan and New Zealand: 150 Years* (Palmerston North: NZ Centre for Japanese Studies, 1999), p.154

New Zealand is a society and economy built on international trade from its entry into the international economy in the nineteenth century. From the middle of the nineteenth century exports of wool, meat and dairy produce provided levels of real income per capita which were high by contemporary international standards. New Zealand skills and resources served international demand, choosing the market that provided the greatest economic return, which, for nearly a hundred years after about 1870, was mostly Britain. In line with conventional ideas of specialization, New Zealand used international trade to turn a small range of exports into a consumption pattern that was much like that of other relatively rich societies in the world. From the 1870s onwards, society demanded a range of goods and services, and many local activities were directed towards providing that range, often by transforming imported components and materials into products that satisfied the desires of local consumers. From early in its history, despite the composition of its exports, New Zealand was overwhelmingly an urban society, although dominated by towns that were small relative to the cities that existed overseas. New Zealand was a settler society in its dominant economic activities and social attitudes. It was informed by a belief in 'development', building a bigger society and economy while maintaining living standards that were higher than those being experienced in the United Kingdom, from where most of the settlers traced their ancestry. A bigger and better society meant that opportunities were created for a range of skills and aptitudes, and so tariffs and other devices were used to promote local industries and services.

Similarly, the social attitudes of New Zealanders were governed by rejection of some aspects of European societies. New Zealanders felt that prestige and position should go with achievement rather than with birth; that achievement should be measured in terms of utility to a developing society rather than by ancient ideas that some occupations carried more status that others. There was a kind of learning by experience that culminated in something very like the ideas of 'Equality' that were eventually articulated by English radicals such as Tawney:

> It is possible to conceive a community in which the necessary diversity of economic functions existed side by side with a large measure of economic and social equality, and in which, therefore, while the occupations and incomes of individuals varied, they lived, nevertheless, in much the same environment, enjoyed similar standards of health and education, found different positions, according to their varying abilities, equally accessible to them, intermarried freely with each other, were equally immune from the

> more degrading forms of poverty, and equally secure against economic oppression.[3]

These key characteristics of 'development' and 'egalitarianism' underwent change in the fifty years from the 1930s to the 1980s. The indigenous idea of equality was assimilated to the modern international concept of equality as measured by income distribution in terms of shares of total income according to placement in deciles of the population. It came to be widely believed, mostly erroneously, that New Zealand was characterized by an unusual degree of equality in that sense. And indigenous promotion of a range of activities so as to provide for the skills and aptitudes of New Zealanders was assimilated to the international endorsement of 'import substitution industrialization'.[4] There was uncertainty from the 1930s to the 1980s over whether industrial growth was sought as an instrument of economic growth and modernization or whether it was essentially an 'employment sponge'.

By the 1980s, far from being an idyllic pleasure park, New Zealand faced major challenges. Its society and economy had been built on an expectation of incomes that were high in international terms, and indeed towards the top of the Organisation for Economic Co-operation and Development (OECD) league table. While different means of measurement give different results, and while the precise period under consideration can significantly affect the exact relative ranking of New Zealand, there could be no doubt by the 1980s that New Zealand's position was deteriorating.[5]

Fundamentally, in the international economy, agricultural trade was not growing as fast as industrial trade. New Zealand was not well placed in relation to what had become the major engine of growth in the international economy: the exchange of manufactured goods among pairs of industrialized economies. This owed something to the way in which international trade policy evolved through the GATT, but it owed a great deal to the relative change of productivity in industry relative to agriculture.

Furthermore, among industrialized economies, Britain grew relatively slowly. For whatever reason, New Zealand's major market did not facilitate economic growth at the level needed to maintain New Zealand's OECD ranking. What is more, Britain was sharing a European predisposition to

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[3] R.H. Tawney *Equality* (1931), p.87.

[4] Henry J. Bruton, 'A Reconsideration of Import Substitution'. *Journal of Economic Literature* XXXVI (June 1998).

[5] Peter Mawson, 'Measuring Economic Growth in New Zealand'. *New Zealand Treasury Working Paper* 02/14 (September 2002). www.treasury.govt.nz

preserve its national markets for agricultural products to its own domestic producers.

The elements of these challenges came together in Britain's entry into Europe in 1973. But while that event posed an enormous challenge to the assumptions and thinking of political life it merely brought into sharp relief the underlying economic challenge.[6]

Throughout the 1960s, and even earlier, while there were fluctuations in political and policy debates, the basic thrust of New Zealand's policy towards economic growth was for 'diversification'. The old idea of 'development,' while not dead, had given way to a search for higher average per capita incomes and the basic strategy was to seek higher growth through higher export growth, which was to be achieved by providing a greater variety of products to a bigger number of markets. The limitations imposed by Britain's relatively slow growth would thereby be evaded. Different products would at least moderate the constraining effect of agricultural protectionism. (Diversification of products did not necessarily mean a move away from agricultural products or at least from primary production. Diversification included forest products, dairy products other than butter and cheese, and meat products that served new markets). Promotion of industries and services in New Zealand, the argument went, should be directed towards support of this diversification rather than to the essentially social objective of the level and composition of employment.

The diversification strategy had considerable success despite the current tendency to look back on the 1960s as wasted time. However, the strategy encountered the oil crises of the 1970s. In the transfers of international income that resulted, there was a contraction of all of New Zealand's major markets, including those that had been newly developed, often with different products. Diversification is a good policy against concentrated risks; it is of little value when all markets contract together.

Diversification was persisted with—and adapted to a search for New Zealand markets in those areas where the economics of oil generated higher incomes. The Middle East became a significant market for sheepmeat and even for dairy technology. Furthermore, New Zealand had some hydrocarbon resources and in the changed international environment, they had enhanced value. Policies were developed to take advantage of them. However, these

[6] And is only now starting to generate serious historical scholarship as distinct from informed participant commentary. See Stuart Ward, *Australia and the British Embrace: The Demise of the Imperial Ideal* (Carlton Sth: Melbourne University Press, 2002).

policies were not well managed. They were driven by ideas of self-sufficiency and technical efficiency rather than adaptation to international market trends. The 'growth projects' were not integrated into economic adjustment in general but were treated as though they were independent ventures. By 1984, it was fairly clear that the existing broad economic strategy had reached a dead end.

There were, however, some positives already in place. Realization that the economics of resource use could not be ignored in the interests of promoting employment had led to some practical effects. Transport delicensing had begun—and transport costs were significant in the topography and geographic position of New Zealand. Most important of all, the Australia New Zealand Closer Economic Relations agreement (CER) had been implemented in 1983. It resulted from the work of a few far-sighted officials and ministers who realized that generalized diversification was not going to be enough and that New Zealand activities would necessarily be more tightly integrated with the international economy. The importance of CER was not the 'gains from trade' of the classical economics textbooks but the political economy effect of building a constituency of support for economic adjustment whereby the use of New Zealand resources—human and natural—was guided by their value in international markets.

By the early 1980s New Zealand was ready for a significant transformation of its economy. The components for this were in place. New Zealand was a long-established trading economy; even, one could say, a globalized one. In pursuit of transformation there was no need to -abandon the national concept of egalitarianism and the role of the individual in society and in the economy. There was no sudden change from a political entity intent on security to a new individualism, let alone selfishness; the nature of egalitarianism had been under debate for a long time, and the idea that industries should be turned from employment sponges to elements of diversified exports was at least as old. What was sought after 1984 included intensification of existing trends as well as dramatic change.

THE 'REFORMS'

The content of the reforms is reasonably well known.[7] A new government was elected in 1984, and at least partly because of the unexpected timing of a

[7] L. Evans, A. Grimes, and B. Wilkinson, with D. Teece, 'Economic Reform in New Zealand 1984-95: The Pursuit of Efficiency' *Journal of Economic Literature* 34 (4) (1996), pp.1856-1902; B. Silverstone, et al, *A Study of Economic Reform: The Case of New Zealand* (Amsterdam, etc: Elsevier, 1996); Graham Scott. *Public Management in New Zealand: Lessons and Challenges* (Wellington: NZ Business Roundtable, 2001).

'snap' election, it had fewer commitments to pressure groups and vested interests than most governments. Furthermore, it marked a change of political generation and was led by people whose eye was on the future and on New Zealand's standing in the OECD league table, and who were not much concerned about preserving what had seemed to be the purely local achievements of reconciling social and economic aspirations. However, leading politicians had an unusual degree of interest in history. On several occasions they genuinely decided that they were less interested in the next election result than they were in their place in history along with the other great reforming governments of the past—those of the 1890s and the 1930s. The apparent tension between irreverence for the past and an eye on history was reconciled by an insistence on looking for what was really important—not the specific institution which could so easily become a vested interest but the gain in social well-being which was the ultimate objective. 'Equity and efficiency' could become a mere slogan, but it also drove a willingness to reassess policy from first principles, and to base decisions on policy analysis rather than political compromise.

Political influences were far from absent. There is near-consensus that the economic reforms of the 1980s were wrongly ordered, and there is a strong theoretical case that reforms should proceed such that responses to them are orderly. Participants in labor markets are slow to respond and therefore labor market reform should be early in a sequence. Financial market participants quickly exploit all opportunities, and consistency of social and private objectives will be facilitated if financial liberalization is late in the sequence of reform. The New Zealand reforms were in the inverse (and wrong) order.

This owed something to the political pressures against labor market reform—the Labour government retained ties to the trade-union movement—but it was in any case dictated by what was feasible. The traditional governmental controls on the financial sector were undermined by technical developments—credit cards and electronic funds transfers—and by the lack of credibility of governmental instructions to continue to subject payments to bureaucratic scrutiny. The theoretically ideal sequencing was simply not possible.

Political pressures were more significant in the choice of a balance of fiscal and monetary policy. It was apparent to informed officials that there would be pressures on the tradeables sector if the government relied on monetary policy to restrain inflation while adhering to an expansionary fiscal policy. However, the government felt that it could not restrain expenditure as much as

recommended because of the implications for beneficiaries of expenditure on education, health and social welfare.

Politics was also significant in the general pace of reform. Although Minister of Finance Roger Douglas, a leading architect of the reforms, may well have believed that the optimal strategy was 'crash through or crash', as he later argued, and although the government did maintain the momentum of change so as to build a consensus for change and to avoid frustrating delaying tactics, in practice more pragmatic decisions were made. The better characterization of the process was often the 'marshmallow theory' of David Caygill, that policy-making was like the chocolate selection of one who prefers soft centers—press and if it gives way, press further, and if it still gives, eat; if it resists, turn to another choice.

These accommodations of political pressures were probably much more important than any implicit compromise between different extremes of the political spectrum over domestic and external policy. It is sometimes suggested that the 'left wing' conceded an individualistic economic policy in turn for a 'radical' foreign policy and specifically for abandonment of the ANZUS Treaty. There is no doubt that in the political sphere, some people thought along those lines. But domestic policy was not a simple adoption of something different from traditional Labour Party values—the simplest statement is that it sought traditional objectives in modified ways that suited changed international circumstances, although there was always room for debate over whether unintended consequences were being properly evaluated. Foreign policy choices were not entirely dictated by specific political positions either; the ANZUS decisions, while controversial, had much cross-party support, especially by organizations such as International Physicians Against Nuclear War. The decision of the National Party to concede on ANZUS and nuclear issues generally before the 1990 election reflected its reading of the balance of opinion in the electorate and among its own supporters.

The important link between economic policy and the spheres of international relations and security strategy lay elsewhere. The dimensions of security most affected were 'human security'—satisfying the material aspirations of New Zealanders, and giving a sense of confidence and assurance in looking outwards to the Asia-Pacific region and the world. The strongest implications in international relations were in creating links to the fastest-growing components of the world economy, most of which were in Asia, while taking care to provide buffers against adverse events in the international economy, buffers which were appropriate and sufficient for the circumstances of New Zealand.

The reforms were built on a wish to use market signals to facilitate the derivation of higher incomes in New Zealand through the use of New Zealand labor, skills, and materials to service international demands. The continuity with 'diversification' is obvious. But the change was also great. The basic idea was to abandon a strategy that could be characterized as identifying New Zealand resources, using them to generate products, and transporting those products to a grateful world(and then feeling betrayed because the world was not only far from grateful but seemed determined to erect additional barriers against those products). That strategy should be replaced by one that began by identifying markets, made sure that there were good communications of all kinds between the ultimate consumers and producers in New Zealand, ensured that New Zealand had the skills needed to service the market demand, and only then worried about the material and other resources which would be used in doing so. That drew on international thinking, especially on economic thinking, and it was a challenge to inherited and familiar ideas in New Zealand, especially ideas that were familiar to those whose specific knowledge was not in economics.

The change in strategy was effected in practical steps whose connections and rationale were not always apparent. Protection was removed in order that the allocation of resources within New Zealand should be guided by international market signals. It was more comfortable for New Zealand trade negotiators who would no longer have to justify New Zealand protection; but that was a minor motivation. Domestic interests found it hard to comprehend that the end objective of activity was not the promotion of exports but the efficient use of New Zealand resources; they thought they were being asked for something new and at the same time required to be more self-reliant and genuinely private-sector in nature; but that was not the motivation either.

The strategy generated public-sector reforms, initially in the corporatization and privatization of state trading activities, and then in the management of core public-service departments as well. Again, discussion often revolved around 'reliance on the market', the relative performance of public and private sectors, and even the sale of public assets to reduce fiscal imbalances, but the key strategy was that enhanced efficiency of resource use could not be achieved if large proportions of total land and capital were tied up in an inefficient state trading area, or if regulatory policy did not create incentives in line with international market signals.

And the signals would not be read properly if relative price changes were buried in general inflation. While the Reserve Bank Act (1989) had political intentions in ensuring that information could not be concealed from the

electorate, its fundamental rationale was clarification of market signals—that is, of what international consumers valued most highly among the potential outputs of New Zealand activities.

One of the issues about the reforms was always their duration. Throughout the 1980s, there were many who accepted that change was necessary but who wanted it to be finite. The reforms should be expedited, and then terminated so that life could return to normal. The world did not stand still, however. Nevertheless, nostalgia soon substituted for reality in looking back to the 1960s.

The 1990s were in part a continuation of the 1980s but also saw moves into new directions, sometimes influenced by the swing of the political pendulum, and sometimes responding to changes in the international economy. The Fiscal Responsibility Act (1994) clearly continued the public sector reforms of the 1980s, joining the Reserve Bank Act in ensuring that key economic and fiscal activities had to be communicated to the electorate.

As in any democracy, government determines the goals, but the legislation now provides for regular public statements (by officials rather than politicians) commenting on them. The Secretary of the Treasury and the Governor of the Reserve Bank are both required to tell the electorate whether current policy stances can indeed be expected to further the government's goals.

The National Government, elected in 1990, tried to move forward with strategic policy development built around 'economic opportunity' and 'social cohesion'.[8] The choice of these objectives is interesting in that each of the key objectives has both economic and social elements. This proved to be too difficult for popular understanding and could not be preserved against the attractions of the familiar 'economic' and 'social' simplified dichotomy. Integration of 'economic' and 'social' had long loomed large in policy debate and practice—within the idea of 'development', in the discussion of 'equality', in the objectives of industrialization, in the Task Force on Economic and Social Planning in 1976 which led to the foundation of the New Zealand Planning Council (1977-91), in the 'equity and efficiency' focus of the 1980s, and in the strategic planning of the 1990s. It still looms large in the 'transformation' strategy of the current government. No stable equilibrium has

[8] 'National' is the name of a political party and 'National Government' is not a coalition government such as is often found in periods of national crisis in many countries. From 1936 to 1996, the National and Labour parties were the two dominant contestants for political office. Since 1996, a changed electoral system has seen them joined by other contestants.

been reached—that is, in no case has there been a widespread consensus that social and economic integration has been achieved.

'ECONOMIC LIBERALIZATION'?

I have written about the New Zealand experience as a major change of direction with economic and non-economic implications. Is it correctly characterized as 'economic liberalization'? It involved a great deal of economic thinking and can be regarded as including giant steps toward economic orthodoxy. I have not had space for all of them in this chapter; the switch from heavy reliance on direct taxation to a mix of direct and indirect tax and the choice of a 'value-added tax' being perhaps the most obvious adoption of economic orthodoxy which has not been discussed here. (The name 'goods and services tax' was the only concession to political correctness, 'value-added tax' sounding like a tax on something which the Labour Party had long related to the 'development' objective in that it wanted to add value to primary products before they were exported. The New Zealand tax was exemplary in its maintenance of the purity of the best international economic thinking.)

I emphasize that the orthodoxy I have in mind is the orthodoxy of theoretical economics, not the predominant fashion in economic policy-making. There were some parallels between the New Zealand reforms of the 1980s and 'Reaganism' or 'Thatcherism' but so there were with the Accord of the Hawke and Keating governments in Australia or with the 'quality of life' strategic policy of the Japanese governments of the 1980s influenced by the Miyazawa plan. All those governments were responding to economic and social trends of the time and it would have been extraordinary if all responses had been entirely different. Equally, a few elements in common do not establish a number of derivatives from a common source. American and British commentators who see the world as copying Reaganism or Thatcherism are simply wrong.

The New Zealand reforms were 'economic' in that they gave a new importance to incentives, and towards the achievement of social goals by creating social structures within which individuals pursuing their interests would incidentally create social optima. My language is chosen to echo Adam Smith, but also modern thinking about the roles of government in creating conditions in which markets can work effectively.[9] All of this is far removed

[9] John McMillan, *Reinventing the Bazaar: A Natural History of Markets* (New York & London: Norton, 2002).

from 'minimalist government', 'leave it to the market', or 'the private sector knows best'.

The difference is best illustrated by the corporatization and privatization processes in which a great deal of effort was devoted to ensuring that regulatory regimes were designed to generate competitive business rather than rent exploitation. The degree of success remains controversial but the profits achieved by some private buyers do not necessarily imply that the original decisions were wrong—they may reveal that the potential for growth was greater than recognized. (This was undoubtedly at least in part the case with telecommunications, where it is hard to believe that new possibilities would have been exploited with anything like the pace achieved had the industry not been privatized.) Certainly, however, learning proceeded with experience. Initially, the biggest source of gain was expected to be the monitoring of asset allocation and management by capital markets once enterprises were privatized, but in practice the main gains came from having shareholders who were less risk-averse than governments. The argument that economic thinking was more important than fashions in economic policy applies less to experience than to the design of the reform policies. The corporatization and privatization policies are reasonably concrete; those familiar with economic reasoning would recognize the centrality of the point about prices as transmissions of information.

Even at the level of policy formation, the 'economic liberalization' character of the reforms was distant from the usual political rhetoric. New Zealand policy had long been conceived in terms of foreign-exchange constraints—exports were not sufficient to finance the imports which were desired at full employment. The 'foreign exchange constraint' idea was developed within New Zealand, but it was also a framework of analysis much used internationally—especially in the form of the 'Scandinavian model' but also in relation to the United Kingdom.[10] The ideas of externally constrained export growth and the theoretical construct of the income elasticity of demand for imports is a fruitful starting point for analyses of various kinds.

It can of course be misused. Economic analysts can take too mechanical an approach to the given nature of export growth or to the constancy of the income elasticity of demand for imports. It is even more possible for policy analysts to confine their attention too readily to the immediate applications of the theoretical construct. New Zealand analysts were right to emphasize

[10] A.P. Thirlwall, *Balance of Payments Theory and the United Kingdom Experience.* (London: Macmillan, 1980).

barriers to agricultural trade relative to barriers to manufactured exports; indeed, we might think that the New Zealand policy machine was slow to recognize the way that trade in manufactured goods had reversed the pattern of the interwar years and become an engine of growth in the 1950s and 1960s.[11] However, it did not follow that export growth rates were entirely beyond the reach of policy influence, or that policy influence must necessarily be through a simple idea of market or product diversification rather than looking more closely at how New Zealand activities could service international consumer demand. Similarly, one might have thought that given the history of 'great constants of economics' which proved to move almost as soon as their constancy was postulated—the wage-income ratio, the incremental capital-output ratio—there might have been more attention to the determinants of the income elasticity of demand for imports, going somewhat beyond the idea of import substitution.

The foreign-exchange constraint was a tool for analysis and exposition, not a direct source of policy recommendations. Quick fixes are attractive, and not only in New Zealand,[12] and it was all too easy for analysis of how New Zealand had developed up to any particular date to be used for inappropriate advocacy of policy stances from that date onwards. Furthermore, the line of thinking could easily be extended into a 'public administration' notion of management from the center. The foreign-exchange constraint approach diverted attention from incentives and indirect effects. When the foreign-exchange constraint was discarded in favor of satisfying international consumer demand—first by Treasury analysts, and then by government policy—incentives and indirect effects moved back to central focus. This was the core of the revival of economics. Treasury analysts did not dictate government policy—the balance of fiscal and monetary policy would have been different and many other policy choices would have been decided differently if they had—but they did bring a new primacy to economic thinking by their impact on the central strategy of policy. It could have come from elsewhere. In Australia, emphasis on foreign exchange constraints had

[11] It was even slower to recognize that the international environment had moved from the initial IMF design of exchange rates which were fixed except in the case of fundamental disequilibrium to one where exchange rates floated and traders across international boundaries gained assurance from market instruments rather than from government commitments about exchange rates.

[12] The Cairncross diaries are fascinating for showing how similar rules of thumb dominated the formulation of much policy advice in Britain in the 1960s. Alec Cairncross, *The Wilson Years: A Treasury Diary, 1964-69* (London: The Historians' Press, 1997).

subsided earlier, being replaced by emphasis on the consistency of labor market settlements with the trend of inflation-adjusted real output which brought into focus the internal consistency of decentralized decisions. However, in New Zealand, the change came in 1984. And not surprisingly, while non-economists did not quite know why their standing had been reduced, they soon knew it had been, and resisted.[13]

My analysis so far starts from 'liberalization' in the sense of 'individual freedom within defined social constraints'. 'Liberalization' also has specific connotations for external economic policy, reflecting the deep interconnections in economic thinking and in nineteenth century British policy development between free trade and laissez faire (in its scholarly rather than debased sense). We have already noted the related significance in New Zealand in the 1980s between the reforms in general and the switch to an 'outward-looking economic stance'. It had a head start in CER, and removal of protection was important in several ways—using international price signals to guide resource allocation, concentrating attention on markets rather than disposal of produce, and demonstrating that government intervention would be guided by efficiency and equity and not by what was customary. It also meant that New Zealand was well placed to respond to changes that became general in the Asia-Pacific Region.

There was, and is, substance as well as PR hype in notions like 'Pacific century'. New Zealand's first interest in the mid-1980s was in deepening relationships with any and all of the world's fastest-growing economies, and many of them were in the Asia-Pacific Region. CER had shown that it was possible to use international agreements to promote liberalization even if the agreement was with an economy that was not itself especially noted for a liberal economic policy. CER was widened and deepened on an accelerating timetable, and it continued to throw up an agenda of new liberalization issues. New Zealand policymakers were ready to listen to ideas like the 'open regionalism' propounded by the Pacific Economic Co-operation Council even if there were many skeptics, some intelligently so and some unwilling to contemplate any departure from standard Anglo-Saxon analysis of trade diversion and trade promotion. At the end of the 1980s New Zealand policymakers were receptive to the development of the regional organization among governments, the Asia Pacific Economic Co-operation community (APEC), and the government of the 1990s participated enthusiastically in its development. It resisted misunderstanding, genuine and deliberate, of the

[13] G.R. Hawke, 'After the world had changed', *New Zealand Books* 6(1) (March 1996), pp.19-21

meaning of Asia-Pacific, and it was well placed as further apparently oxymoronic concepts were developed. In particular, 'concerted unilateralism' posed no problems for New Zealand given its acceptance of the argument that dismantling of protectionism was justified in its own interest. 'Concerted unilateralism' was no more than the mutual support of governments taking actions in their individual interests, and it made very good sense politically even if it puzzled the literally minded. New Zealand could enthusiastically participate in APEC as it took attention away from the legalistic processes of exchanging preferential entry rights to national markets and focused on something more like the economic integration that was at the center of theoretical economics.

Enthusiasm for the reduction of protection fluctuated during the 1990s, and so did commitment to APEC processes, as they did among the membership of APEC generally.[14] New Zealand society registered many debates about its own nature and about its place in regional and international affairs. They overlapped with the ANZUS issue; an especially valuable project led from the East-West Center in Hawaii explored how social, political and economic trends in the US, Australia and New Zealand had diverged in ways that were often not well-understood and which were related to the position of each of those societies relative to the wider Asia-Pacific Region.[15]

New Zealand had its resident puritans and political activists, such as those who challenged the Multilateral Agreement on Investment and disrupted the Seattle conference of the WTO. But their effect was merely to promote reconsideration of some of the implications of a policy switch that had indeed entrenched 'economic liberalization' in any of its established meanings.

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[14] See also John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: CUP, 2001), although his expectations of APEC are too demanding. Had he evaluated GATT after ten years, he would have concluded that it would never amount to much, let alone develop into the WTO.

[15] Richard W. Baker, *Australia, New Zealand, and the United States: Fifty Years of Alliance Relations. Report of a Study Project* (Honolulu, Hawaii: East-West Center, 1991); Richard W. Baker ed., *Australia, New Zealand, and the United States: Internal Change and Alliance Relations in the ANZUS States* (New York, Westport, Conn. & London: Praeger, 1991); Richard W. Baker and Gary R. Hawke eds., *ANZUS Economics: Economic Trends and Relations among Australia, New Zealand and the United States* (Westport, Conn. & London: Praeger, 1992); Richard W. Baker ed., *The ANZUS States and Their Region: Regional Policies of Australia, New Zealand, and the United States* (Westport, Conn: Praeger, 1994).

THE ECONOMIC TRANSITION

'Economic liberalization' is entrenched, but it is sometimes questioned. Key elements such as the Fiscal Responsibility Act and the Reserve Bank Act have not been overturned, although there has been some fine-tuning in respect of the latter, as there has been of the State Sector Act. Sometimes, what has been presented as a major step in a new direction is no more than a clarification returning to the original intent of a reform which was obscured in the course of implementation—as with the supposed emphasis on policy outcomes in relation to departmental 'outputs' in the 'new public management'; the high-level objective was always to articulate what departments did to promote the objectives of the elected government through dialogue between ministers and officials, and to make that consistent with defining what was expected from departments so that their performance could be monitored and appraised. But those who were deflected into sterile debates of 'outcomes' and 'outputs' thought they were reversing reforms in returning emphasis to the former. Similarly, economic liberalization in relation to trade policy had to be repackaged as 'closer economic partnerships' rather than bilateral trade agreements, and as 'fair trade' rather than 'free trade'. But the core liberalization, while slowed down, has not been reversed.

Nevertheless, there has been apparently serious political debate and public discussion over the question, 'have the reforms failed?' Some parts of the media even continue to answer in the affirmative.

The reform process began with a decision that a change of direction was required and that the direction of change was undoubtedly in the direction of liberalization. There was no need and no time to define explicitly the objectives sought or the milestones expected. What are now the standard processes of public sector management came after the reform process was begun. There was, therefore, no statement of expectations to establish a framework within which the success or failure of the 'reforms' could sensibly be discussed.

Furthermore, as we observed, the idea of a discrete reform process was always nonsensical. The world moved on. Economic experience depended on many factors of which policy was only one, and policy was a sequence of decisions rather than a single package. There were responses to every policy initiative, and after a while, experience owed as much to varied responses to subsequent reforms as they did to the initial reform.

The overall performance of the New Zealand economy in relation to economic growth and in relation to comparative income growth rates and

levels within the OECD depends critically on the period within which comparison is made, and assessment of the relative force of various determinants requires care. The most persuasive recent study argues that in explaining disappointing outcomes, international variables and even climate are more important than failed policy influences. And the level of disappointment that is justified is less than is often alleged.[16]

My own view is that the best single summary statistic is that from the Reforms of the 1980s, the long-run average annual growth rate of total factor productivity of the New Zealand economy has increased from about one per cent per annum to about 1.5 per cent per annum. Had we been told in 1984 that we were engaging in both the pain and the excitement of the 1980s and 1990s in order to achieve a fifty percent increase in our fundamental growth rate, I have little doubt that we would have proceeded. It is difficult to take seriously any simple notion that the reforms failed.

We now find an emphasis on 'transformation'. The idea has become prominent in papers written in an effort to give strategic direction to government thinking and from there it has migrated to political discussion. It feeds on analogy with successful economic 'transformations' in the past—the Industrial Revolution, the rise of the 'newly industrializing economies' of Asia—and it might have been linked to 'structural adjustment' if that term had not been pre-empted by the IMF and developing economies and thereby been associated with the rhetoric of failure. In the literature of New Zealand history, the term 'transformation' has been associated with technological progress, and especially with the impact of refrigeration, on society as well as on the economy.[17] The only link between that and the current idea is wishful thinking about the 'new economy'—one could even regret that there is no understanding that just as refrigeration added to the wool-growing industry and did not displace it, so the impact of information and communication technologies on New Zealand is likely to be through agriculture rather than substituting something in its place.

We could quickly come to think that 'transformation' is currently a solution in search of a problem, empty political rhetoric rather than a policy-relevant idea. However it pays to remember that rhetoric about development

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[16] Robert A. Buckle, Kunhong Kim, Heather Kirkham, Nathan McLellan, and Jared Sharma, 'Towards an Understanding of the New Zealand Business Cycle: Analysis Using a SVAR Model of the New Zealand economy', *New Zealand Treasury Working Paper* (December 2002) www.treasury.govt.nz

[17] Tom Brooking, 'Economic Transformation', in Geoffrey W. Rice *Oxford History of New Zealand* (Auckland: Oxford University Press, 2nd edition, 1992), chapter 9.

in the nineteenth century also incurred incredulity and ridicule, and that the rhetoric of the First Labour Government in the 1930s was little developed before it was implemented. The clarity of even 'diversification' owes a lot not only to hindsight but also to historical perspective. We cannot yet do more than make disciplined conjectures about how transformation will appear in the future. My guess is that just as the changes of the 1980s were motivated above all by recognition that New Zealand had fallen behind other countries in average living standards, so 'transformation' will be seen as a response to similar pressures. The relevant concept of living standards in the 1980s was wider-than-average real per capita income, and the current pressures are wider still—they include average real per capital income but extend into the employment and social experiences available to New Zealanders in a much more interdependent international economy, continuing our history of integrating economic and social objectives, and they include realization that valued aspects of New Zealand society are under threat. The notion of equality, which was already an uneasy combination of equality as expounded by Tawney and similar thinkers and half-knowledge of European social insurance ideas, can no longer provide guidance to policy development. 'Transformation' is a step in a process towards evolving—by experience as well as by thinking—a new understanding of the balance of collective and individual as we search again for higher economic growth rates.

THE SOCIAL AND POLITICAL TRANSITION

The 'transition posed challenges to political and social attitudes and institutions. The political challenge is clearest in the replacement of a first-past-the-post (FPP) political system with a mixed member-proportional representation system (MMP), which makes vastly more difficult the kind of dramatic change in policy direction experienced in the 1980s. It is often said that the electorate delivered its verdict on 'economic liberalization' by ensuring that it could not happen again. There is no doubt that dissatisfaction with the state of the world, with politicians, and with government policies contributed to the referendum results that led to the introduction of MMP. 'Economic liberalization' was certainly within the mix of influences that generated that dissatisfaction, but just how important it was is far from clear. Furthermore, it tends to be forgotten that the adoption of MMP resulted from an intellectual study of democratic government from first principles and that the choice between MMP and FPP was between continual monitoring of the executive by

a representative legislature and occasional direct popular judgment on the executive in an election.[18]

The challenge to social institutions is often presented as a loss of egalitarianism, illustrated by the standard distribution of incomes according to deciles. It is often asserted that New Zealand started from an unusual degree of equality in such terms rather than from an income distribution not much different from average OECD experience, albeit with a compressed wage distribution, but the case is far from made. Furthermore, experience in the 1980s and 1990s cannot be expressed simply, and comparisons of deciles at specific points of time can be misleading. The distribution of lifetime incomes probably moved much less than the standard snapshots. The widening of income differentials was an international phenomenon rather than one unique to New Zealand and probably owed most to changes in technology which made cognitive skills and educational capabilities much more important than they had been. To the extent that New Zealand policy decisions were significant, the most important element was probably the unemployment that resulted from economic adjustment. Policy decisions about border protection, labor market regulation, and tax and benefit obligations and entitlements probably came well down the queue of influences.

In any case, this discussion probably focuses on the wrong sense of 'equality'. Discomfort with the social transition owes much more to displacement of the established. Those who had standing no longer have it. We heard and hear a great deal about 'cuts' in government support, and when we explore we find that existing providers have lost ground to new entrants—often Maori or women. Established NGOs welcomed the support to new groups but claimed that their share of government expenditure should not be reduced. We might think of various kinds of impossible dreams as described by Swift:

> These unhappy people were proposing schemes for persuading monarchs to chose favourites upon the score of their wisdom, capacity and virtue; of teaching ministers to consult the public good; of rewarding merit, great abilities and eminent services; of instructing princes to know their true interest by placing it upon the same foundation with that of their people: of choosing for employment persons qualified to exercise them; with many other wild impossible chimeras, that never before entered into the heart of man to conceive, and confirmed in me the old observation that there is

[18] G.R. Hawke (ed.), *Changing Politics? The Electoral Referendum, 1993* (Wellington: IPS, 1993).

> nothing so extravagant and irrational which some philosophers have not maintained for truth.[19]

'Displacement of the established' also has an aggregate aspect. There had been at least some aspects of Tawney's notion of equality. Differences existed but within a common range of experiences. To give a concrete example, most New Zealanders experienced the same conditions of public transport and were not divided into those who belonged to airline frequent flyer clubs and those who did not. The greater comfort of those with assets was less visible. But changes were occurring. Those with assets were less exclusively those who had gained them through their own achievements; smaller family size meant that inheritance was more important than it had been. From the 1980s, change accelerated, because of trends in consumption copied from overseas, because of continuing changes in demography, because of the impact of international trends in technology, and because of local policy decisions. Public understanding did not keep pace with change, and while economic analysis was more influential on public policy, financial rewards to individuals looked to owe more to luck.

After this relatively dramatic economic liberalization we now have several important dimensions of consistency vying for their place in a coherent conceptual framework. There are significant elements in place—the inflation regime of monetary policy and the fiscal framework of the Fiscal Responsibility Act being the most important. But the integration of economic and social objectives is far from obvious to much of the community interested in policy debates. I would conjecture that a key element will prove to be transforming the concern with 'equality' away from distribution at a point of time to managing distribution through time, especially where this interacts with a choice between collective and individual actions. Key issues will be the environment and superannuation, and we will be driven by both experience and international thinking.[20] The ability of the new MMP political system to develop consensus will be well tested.

The New Zealand experience therefore has implications for the regional understanding of transitions. Every economic transition will have international experiences and local peculiarities. Economic change poses challenges to social and political stability, but is as likely to promote regional integration as to engender international rivalries.

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[19] Jonathan Swift 'A Voyage to Laputa, etc.' *Gulliver's Travels* (1726) ch. 6.

[20] But see also N. Barr, *The Welfare State as a Piggy Bank: Information, Risk, Uncertainty and the Role of the State* (Oxford: OUP, 2001).

The clearest lesson of all is the desirability of managing expectations. The governments of the 1980s and the 1990s put their faith in policy analysis rather than political management. The current government is not making that mistake. Nevertheless, the challenge of managing change has not diminished—not since the time of Machiavelli's Italy:

> And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not really believe in new things until they have had a long experience of them. Thus it happens that whenever those who are hostile have the opportunity to attack they do it like partisans, whilst the others defend lukewarmly, in such wise that the prince is endangered along with them.[21]

[21] N. Machiavelli, translated by W.K. Marriott, *The Prince* (London: Dent & New York: Dutton, 1908), pp.47-8.

INDIA TRYING TO LIBERALISE: ECONOMIC REFORMS SINCE 1991

CHARAN D. WADHVA[1]

INTRODUCTION

The foundation of credible national security is based on the level of economic prosperity and well-being of the population of any country. This is especially so for developing countries like India. The attainment of sustained high economic growth is a necessary condition for improving the national security and the quality of life of the people throughout the country.

Many developing countries in the Asia-Pacific region, including China and India where nearly one third of the world's population live, are currently going through economic transitions. The central objective of transition through economic liberalization is to improve the competitive efficiency of the economy in the global marketplace to sustain accelerated rates of economic growth and thereby continuously improve the security and well being of the people.

India launched its market-oriented economic reforms in 1991. China launched similar reforms from 1978 and is now well ahead of India in integrating its national economy with the global economy. However, India is slowly but surely catching up in this race. The contrast in the experiences of these two countries with economic reforms under radically different political systems is remarkable. While comparisons between China and India are often made by development analysts and are inevitable when we discuss economic transitions in Asia, a more realistic assessment of the experiences of both these major countries of Asia can only be made if we explicitly take into account the stark contrast in their political systems.

In India, post-1991 economic reforms have been evolutionary and incremental in nature. There have been delays and reverses in some areas due to the interplay of democratic politics, coalition governments, and pressure groups with vested interests. However, each of the five successive governments that have held office in India since 1991 have carried on these

[1] I thank Dr. N K Paswan for his help in preparing the statistical tables included in this paper.

economic reforms, which have been based on market liberalization and a larger role for private enterprise.

WHY THE POST-1990 REFORMS?

It is well known that from 1951 to 1991, Indian policy-makers stuck to a path of centralized economic planning accompanied by extensive regulatory controls over the economy. The strategy was based on an 'inward-looking import substitution' model of development. This was evident from the design of the country's Second Five-Year Plan (1956-61), which had been heavily influenced by the Soviet model of development.[2] Several official and expert reviews undertaken by the government recommended incremental liberalization of the economy in different areas, but these did not address the fundamental issues facing the economy.[3]

India's economy went through several episodes of economic liberalization in the 1970s and the 1980s under Prime Minsters Indira Gandhi and, later, Rajiv Gandhi. However, these attempts at economic liberalization were half-hearted, self-contradictory, and often self-reversing in parts.[4] In contrast, the economic reforms launched in the 1990s (by Prime Minister P V Narasimha Rao and Dr. Manmohan Singh as his Finance Minister) were 'much wider and deeper'[5] and decidedly marked a 'U-turn' in the direction of economic policy followed by India during the last forty years of centralized economic planning.[6]

THE DRIVING FORCES BEHIND THE REFORMS

As in many developing countries, India also launched its massive economic reforms in 1991 under the pressure of economic crises.[7] The twin crises were reflected through an unmanageable balance of payments crisis and a socially

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[2] See Government of India, *Second Five-Year Plan*, (New Delhi, 1956).

[3] Reference may be made to following illustrative books for tracking down these 'tinkering' changes in the thinking of Indian policy makers and planners : Bimal Jalan ed., *The Indian Economy: Reforms and Prospects*, (New Delhi : Viking Publishers, 1991); Charan D Wadhva ed., *Some Problems of India's Economic Policy* (New Delhi : Tata McGraw Hill, 2ed 1977); and Charan D Wadhva, *Economic Reforms in India and the Market Economy* (New Delhi: Allied Publishers, 1994), Ch. II.

[4] See for example, John Harris, 'The state in Retreat? Why has India experienced such Half-hearted Liberalization in the 80s? *IDS Bulletin* (Institute of Development Studies, Sussex, U.K.), Vol. 18, No. 4, 1987.

[5] Jeffrey D Sachs; Ashutosh Varshney; and Nirupam Bajpai eds., *India in the Era of Economic Reforms* (New Delhi, Oxford University Press, 1991), p.1.

[6] Charan D Wadhva, *Economic Reforms*, *op.cit.*, p.xviii

[7] For details of magnitude and diagnosis of causes of this economic crisis, see *Ibid.*

intolerably high rate of inflation that were building up in the 1980s and climaxed in 1990-91.[8] This can be seen from the data provided in Table 1.[9] The current account deficit as a percentage of GDP peaked at a high of 3.1 percent (compared to an average level of 1.4 percent in the early 1980s). The inflation rate (as measured by point-to-point changes in the Wholesale Price Index) had also climbed to the socially and politically dangerous double-digit level, hitting 12.1 percent in 1990-91.

TABLE 1: SELECTED MACRO ECONOMIC INDICATORS 1989-2003

Indicators	1989-90	1994-95	1999-00	2000-01	2001-02	2002-03
A. Growth of GDP (%)	5.6	6.3	6.1	4.4	5.6	4.4
B. GDP Growth by Sectors (%):						
i. Agriculture & Allied	2.7	4.9	0.3	-0.4	5.7	-3.1
ii. Industry, of Which Manufacturing	6.7	8.3	4.0	7.3	3.4	6.1
iii. Services	6.7	6.0	10.1	5.6	6.8	7.1
C. Inflation Rate (WPI Index (%))	9.1	10.4	4.8	2.5	5.2	3.2
D. Current Account Balance as % of GDP		-3.1	-1.1	-0.5	-0.5	na
E. Foreign Exchange Reserves (US $ Bn.)	3.37	19.65	35.06	39.55	51.05	69.89
F. Exchange Rates (Rs/US $)	16.6	31.4	43.33	45.51	47.69	48.44
G. Rate of Growth of :						
i. Exports (%)	18.9	18.4	10.8	21.0	-1.6	20.4
ii. Imports (%)	8.8	22.9	17.2	1.7	1.7	14.5
iii. Exports as % of GDP	6.4	9.6	9.1	10.4	9.9	na
iv. Imports as % of GDP	9.3	10.5	12.4	11.8	11.6	na
H. Fiscal Deficit as % of GDP	7.9	4.7	5.4	5.6	5.9	5.5
I. Revenue Deficit as % of GDP	2.6	3.1	3.5	4.1	4.2	3.9
J. Saving Ratio as % of GDP	22.3	24.9	24.1	23.4	24.0	na
K. Investment as % of GDP	24.9	25.4	25.2	24.0	23.7	na

Source: Ministry of Finance, Government of India, *Economic Survey*, (New Delhi, various years).

Most economic policy makers and analysts held widely convergent views on the causes of the unprecedented economic crisis faced by India in 1990-91. The root cause of the twin crisis could be traced to macro-economic mismanagement throughout the 1980s as reflected in an unsustainably high

[8] This can be seen from all references cited in footnotes 1,2,4 and 5. In addition see, Vijay Joshi and I.M.D. Little, *India's Economic Reforms 1991-2001* (Delhi, Oxford University Press, 1997).

[9] Other data used in the text (that is, not in the tables) is taken from Ministry of Finance, Government of India, *Economic Survey* (New Delhi, various years) unless otherwise noted.

fiscal deficit, in particular the revenue deficit and the monetized deficit.[10] The central government's fiscal deficit alone peaked at 7.9 percent as a percentage of GDP in 1989-90. Thus growing fiscal profligacy (and irresponsibility) and the unviable financing patterns of the fiscal deficit prevailing in the 1980s made high levels of annual GDP growth (peaking at 5.6 percent in 1989-90) unsustainable.[11] Foreign-exchange reserves dwindled to a low of US$2.2 billion (with less than 15 days' cover against annual imports). India stared bankruptcy in the face as it struggled to meet external debt obligations.

Prime Minister Narasimha Rao converted the prevailing economic crisis into an opportunity to launch massive economic reforms. First, he introduced an economist (rather than a politician) into the Cabinet as Finance Minister and gave the new Minister his full support, allowing him to evolve and implement path-breaking economic reforms. The new economic policies radically departed from the economic policies and regulatory framework pursued in India during the previous forty years.[12]

The Rao government recognized in 1991 that the time had come to reshape India's economic policies by drawing appropriate lessons from the 'East Asian Miracle' based on more export-oriented and more globally connected strategies of development, as successfully practiced earlier by Japan and South Korea and also by the South East Asian tigers Malaysia, Singapore, Indonesia and Thailand.[13] The East Asian development model had been remarkably successful in achieving sustained high growth rates accompanied by rapid growth in the living standards of the people in just two decades. India had missed on both these fronts by relentlessly pursing import substitution and a relatively closed economy model of development.

The Rao government, after launching the relatively aggressive (by past Indian standards) reforms, was soon confronted with the political constraints of 'competitive populism' during elections held at the state level in 1993. Therefore, the government adopted a 'middle path', furthering the economic

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[10] For further details, see Wadhva, *Economic Reforms, op.cit., c*h. I.

[11] Thus the claim that India had clearly transcended the so-called 'Hindu rate of growth' of GDP at 3.5 percent per annum (trend annual growth rate) achieved for the two decades of 1960s and 1970s and had moved over to higher annual average growth rate of 5.5 percent in the 1980s could not be accepted since the latter jump proved to be financially unsustainable.

[12] The major economic reforms launched during the full five-year tenure of the Narasimha Rao Government (1991-96) are highlighted below.

[13] There are of course, lessons to be learnt by India from the 'East Asian debacle' of 1997-98 (the so-called 'East Asian Financial Crisis) but these need not detract us here as most South Asian and Southeast Asian countries had overcome this crisis by 1999.

reforms in an 'incremental' fashion in order to continue to extending their width and depth during the remainder of the government's term.

The government took two years to get over the immediate macro-economic crisis, initially with the help of a balance of payments loan facility from the International Monetary Fund. The government came out with a clear enunciation of its vision and the objectives of its economic reforms only after regaining macro-economic stability. This was contained in the Discussion Paper on Economic Reforms brought out by the Ministry of Finance in July 1993. To quote:

> The fundamental objective of economic reforms is to bring about rapid and sustained improvement in the quality of the people of India. Central to this goal is the rapid growth in incomes and productive employment… The only durable solution to the curse of poverty is sustained growth of incomes and employment…. Such growth requires investment: in farms, in roads, in irrigation, in industry, in power and, above all, in people. And this investment must be productive. Successful and sustained development depends on continuing increases in the productivity of our capital, our land and our labour.
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> Within a generation, the countries of East Asia have transformed themselves. China, Indonesia, Korea, Thailand and Malaysia today have living standards much above ours…. What they have achieved, we must strive for.[14]

MAJOR ECONOMIC REFORMS

Economic reforms launched since June 1991 may be categorized under two broad areas:

- major macro-economic management reforms; and
- structural and sector-specific economic reforms

Naturally, the attention of the new government that took office in June 1991 was primarily focused on crisis management dealing with the balance of payments. It was of the utmost importance to restore India's international credibility by meeting its scheduled external debt liabilities and through maintaining a more realistic exchange rate consistent with market obligations. Achieving macro-economic stabilization was also an urgent priority, necessitating control of intolerably high inflation. It was recognized that

[14] Government of India, Ministry of Finance, Department of Economic Affairs, 'Economic Reforms : Two Years After and the Task Ahead', Discussion Paper, New Delhi : July 1993, pp.1-2.

macro-economic stabilization would provide a sound foundation for medium- and long-term structural economic reforms and accelerate the rate of economic growth in a sustained manner. This would be possible by removing distortions created by controls and by improving the competitive edge for Indian goods and services in global markets as well as in the markets of major regional trading blocs.

I describe below the major economic reforms, with greater focus on structural economic reforms in selected sectors of the economy.[15]

MACRO-ECONOMIC MANAGEMENT REFORMS

Macro-economic management reforms have focused on controlling the politically difficult problems of reducing the fiscal and (even more so) revenue deficits. The capital account deficit does not pose long-term problems as investment in productive capital made in the present, if prudently carried out, will generate an adequate income stream to pay for capital costs incurred and generate positive returns in the future.

India's problem is primarily in the area of revenue deficits. From 1950 to 1980 the national budget was usually characterized by revenue surpluses and capital account deficits . However, after 1980, all (democratic) governments for political reasons had willingly allowed the revenue deficit to rise over the years to dangerously high levels, and had found it increasingly difficult to reduce. The revenue deficits reflected an excess of annual consumption expenditure by the government over its annual income. The deficit was caused by excessive employment in the government sectors, uneconomical pricing of goods and services by public sector enterprises, a growing interest burden, mounting subsidies, and rising defense expenditures. Downsizing the government (through the bureaucracy or public sector enterprises and banks) was also difficult and met staff resistance from the organized employees.

Attempts at Reducing the Fiscal Deficit

Faced with the necessity of reducing the fiscal deficit in the crisis year of 1991-92, Finance Minister Singh attempted to reduce fertilizer and food subsidies in 1991-92 and to some extent in 1992-93. Simultaneously, he (and several subsequent finance ministers) resorted to the softer options of reducing public investment expenditure and reducing public expenditure on social welfare services from 1991 to 1995. These measures did help reduce the fiscal deficit of the central government to 4.8 percent of GDP at the end of

[15] I have drawn upon various annual issues of *Economic Survey* produced by the Government of India (Ministry of Finance) for this section.

1992-93. However, further cuts in fertilizer and food subsidies could not be carried out as these measures were opposed in Parliament and proved suicidal for the ruling Congress Party, which lost power in state elections in 1993-94.

Meanwhile, the fiscal position of the state governments also started deteriorating. The combined fiscal deficit of the central government and the states climbed to the unacceptably high level of 10-11 percent of GDP in 2002-03. Some state governments have begun to address their fiscal deficit problems. The central government has recently started linking further transfers of resources to the states to the progress of state-specific economic reforms aimed at reducing deficits.[16]

The good news for macro-economic management reforms is that the pre-1990 pattern of 'deficit financing' (that is, the printing of currency) to meet the fiscal deficit has now been effectively curbed. The autonomy of the central bank (the Reserve Bank of India) in regulating the money supply to control inflation has been assured within the limits of monetary policy. This has led the government to resort to larger and larger domestic borrowing.

The bad news is that government borrowings have risen so high that the economy is moving towards an 'internal debt trap'.[17] Further growth of internal debt needs to be curbed but the government is in no mood to close off this easy way of financing its rising fiscal deficit. The finances of most state governments are in even poorer shape and some have occasionally resorted to market borrowings to meet their payrolls.

Tax Reforms

Since 1991 several efforts have been made through the annual budget process to achieve tax reforms.[18] These have focused on: (i) expanding the tax base by including services (not previously taxed); (ii) reducing rates of direct taxes for individuals and corporations; (iii) abolishing most export subsidies, (iv) lowering import duties (covered below by us under structural reforms relating to trade policies/external sector); (v) rationalizing sales tax and reducing the cascading effect of central indirect taxes by introducing a Modified Value Added Tax and a soon-to-be implemented nationwide Value Added Tax; (vi) rationalizing both direct and indirect taxes by removing unnecessary exemptions; (vii) providing for tax incentives for infrastructure

[16] For details see Government of India, *Economic Survey 2002-03*.

[17] It is estimated that the interest payments currently pre-empt more than 60 percent of the total revenue of the central government leaving very little resources for fresh public investment. See *Economic Survey 2002-03*.

[18] For details see the relevant official annual documents for the Union Budget usually presented by the Finance Minister to the Parliament each year on February 28, 2003.

and export-oriented sectors, including setting up special (Export) Economic Zones; and (viii) simplification of procedures and efforts for improving the efficiency of the tax administration system especially through computerization.[19]

Resource Generation through Divestment

The governments of India, both at the central and state government levels, have initiated divestment programs to sell government equity in several public-sector enterprises. Unfortunately, the sales proceeds have mostly been used to finance fiscal deficits rather than for fresh public investment, social-sector spending, or reducing the interest burden on ballooning public debt.

STRUCTURAL ECONOMIC REFORMS

Structural reforms since 1991 have been sector-specific. The sectors subjected to reform have been carefully selected and the coverage of sectors under structural reforms has been extended over time. The major structural economic reforms carried out since 1991 have been primarily in the following areas: Trade Policy/External Sector; Industrial Policy; Infrastructural Sector Policies; Divestment/Privatization Policies; the Financial Sector; and in Policies for Attracting Foreign Direct Investment.[20]

The thrust of the reforms in all areas has been to open India's markets to international competition, remove exchange rate controls, encourage private investment and participation in industry and, in the finance markets, to liberalise access to foreign capital and to ensure that foreign investment is not penalized merely for being foreign.[21]

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[19] For the latest proposals for tax reforms, see the two (published) reports of the Committee on Reforms of Direct and Indirect Taxes (Chairman Dr. Vijay L Kelkar), New Delhi : Government of India, Ministry of Finance, 2003.

[20] It may be pointed out that in the vital areas of macro-economic policy including fiscal policy monetary policy and exchange rate policy, there is an overlap between macroeconomic stabilization policies and structural reforms. The long-term growth inducing roles of all macro-economic policies can be considered under structural reforms. We focus here on sector-specific reforms although overlaps exist with agro-economic policies in our discussion. For an annual overview of structural reforms carried out in India, see Government of India *Economic Survey* for the relevant year (latest available being 2002-03).

[21] Financial sector reforms were initiated on the basis of two reports by the Narasimham Committee. Government of India, Ministry of Finance, Report of the Committee on Financial System (Chairman : Mr. M Narasimham), New Delhi : November 1991; and Report of the Committee on Banking Sector Reforms (Chairman : Mr. M Narasimham), New Delhi 1996.

Reorientation of Planning

Consistent with the spirit of the market-oriented and private sector-led economic reforms launched since 1991, the government has reoriented the role of planning in India. It has been recognized that market forces and the state should be given roles that play to their comparative advantages and that they should work together as partners in the economic development of the nation. While private initiative should be encouraged in most areas of business activities, the state should increasingly play a pro-active role in areas in which the private sector is either unwilling to act or is incapable of regulating itself in the social interest. The areas in which the state has a comparative advantage over the private sector include poverty alleviation programs; human resource development; provision of social services such as primary health and primary education; and similar activities categorized as building human capital and social infrastructure. The state also has a new role in setting up independent regulatory authorities to encourage genuine competition and to oversee the provision of services by the private sector in critical areas such as utilities, water supply, telecommunications, and stock market operations to avoid the ill effects of speculation and to maintain a workable balance between the interests of the producer and the consumers.

Economic liberalization in the organized manufacturing sector (subjected to rigid labor laws for retrenchment) has led to growth with very little additional employment. This can create serious social unrest and fertile ground for terrorist and other anti-social activities that attract unemployed youths in the absence of gainful employment. Market-based economic reforms also often lead to increasing disparities between the rich and the poor and between infrastructurally backward and more developed states. The government has to intervene and calibrate the contents and speed of market-based economic reforms to more effectively address the specific areas of 'market failures and weaknesses' to optimize growth with social justice.

The new role assigned to planning, consistent with market-based economic liberalization, can perhaps best be illustrated with the goals and the strategies incorporated in India's Tenth Five-Year Plan (2002-07).[22] The Plan has targeted an annual growth rate of eight percent. Along with this growth target, the government has laid down targets for human and social development. Timely corrective actions will be proposed to ensure growth is accompanied by social justice. The key indicators of human and social development targeted

[22] See, Government of India, *Tenth Five Year Plan 2002-07* (in three volumes) (New Delhi : Planning Commission, 2002).

under this Plan include: a reduction of the poverty rate by five percentage points by 2007; providing gainful employment to at least those who join the labor force during 2002-07; education for all children in schools by 2003; and an increase in the literacy rate to 75 percent by March 2007.

The development strategy adopted for the Tenth plan envisages:

> redefining the role of Government in the context of the emergence of a strong and vibrant private sector, the need for provision of infrastructure and the need for imparting greater flexibility in fiscal and monetary policies. With a view to emphasizing the importance of balanced development of all states, the Tenth plan includes a state-wise break-up of broad developmental targets including targets for growth rates and social development consistent with national targets. The Tenth Plan has emphasized the need to ensure equity and social justice, taking into account the fact that rigidities in the economy can make the poverty-reducing effects of growth less effective. The strategy for equity and social justice consists of making agricultural development a core element of the Plan, ensuring rapid growth of those sectors which are most likely to create gainful employment opportunities and supplementing the impact of growth with special programs aimed at target groups.[23]

THE POLITICAL ECONOMIC DIMENSIONS OF THE REFORMS

India's heterogeneity and unity in diversity through a stable democratic system must be appreciated. A country like India, with more than one billion people, some 16 officially recognized major languages, and vast ethnic and religious diversities, poses major governance challenges. India has achieved remarkable success in holding the country together.

India had governed its economy through a policy regime of centralized planning accompanied by an extensive regulatory framework for more than forty years before it launched economic reforms in 1991. It has, therefore, not been easy to change the mindsets of policy makers (especially at the lower levels of bureaucracy) and of other beneficiaries of the entrenched regime.

Building a political consensus on economic reforms across the various political parties with their vastly different ideologies has been a very difficult process. This has been especially true under coalition governments but also even when a single party has held a majority. Consensus building and reform

[23] As summarized in Government of India, *Economic Survey 2002-03*, pp.41-42.

implementation is complicated further when the central government and the states are in the hands of different parties (or coalitions).

The rapidly increasing frequency of elections at the central and state levels during the post-1990 period of economic reforms has led the incumbent governments and the contesting opposition parties to resort to 'vote-bank' politics or 'competitive populism'. The vested interests of groups such as trade unions, producers with licenses and holding monopoly interests, and bureaucrats with 'rent seeking' capabilities have often scuttled or delayed further market-based economic reforms. These factors explain well India's 'stalled' reforms in certain areas directly hurting vested interests of selected lobby groups.[24] The growth of regional parties and their assumption of power in many Indian states has further delayed the percolation of central-level economic reforms down to the state level.

Weiner has recommended the need for a change in the mindsets of state policy makers:

> The pursuit of market-friendly policies by state governments requires a change in the mindsets of state politicians, new skills within the state bureaucracies, and a different kind of politics. More fundamentally, it requires rethinking on the part of state politicians, activists in non-governmental organizations, journalists and politically engaged citizens as to what is the proper role of government, and how and to what end limited resources should be used.[25]

Considering the compulsions arising from the above political factors, Montek S. Ahluwalia explains the rational for adopting the 'gradualist' approach in implementing of economic reforms and the resultant 'frustratingly slow' pace of reforms (compared to East Asian standards):

> The compulsions of democratic politics in a pluralist society made it necessary to evolve a sufficient consensus across disparate (and often very vocal) interests before policy change could be implemented and this meant that the pace of reforms was often frustratingly slow. Daniel Yergin (1998) captures the mood of frustration when he wonders whether the Hindu rate of growth has been replaced by the Hindu rate of change![26]

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[24] See, 'Introduction' in Jeffrey D. Sachs, Ashutosh Varshney and Nirupam Bajpai, *op.cit.*

[25] Myron Weiner, 'The regionalization of India's Politics and It's Implications for Economic Reforms' in *Ibid.*, Ch. 8, pp.292-3.

[26] Montek S Ahluwalia, 'India's Economic Reforms: An Appraisal', in *Ibid.*, pp.26-27. See also Daniel Yergin, *The Commanding Heights*, New York: Simon and Schuster, 1998.

Finally, most (if not all) political parties implementing market-based economic reforms since 1990 have failed to 'market' these reforms to the masses as being highly beneficial for them. The opposition parties have often termed these reforms as 'pro-rich' and 'anti-poor'. Ironically, even the Congress Party, which initiated the economic reforms when in power, has, as an opposition party, opposed some of them (such as further public-sector divestments) Varshney has made a valid distinction between 'elite-based' reforms versus 'mass-based' reforms. Market-based reforms have not drawn mass appeal nor aroused mass passions. This dichotomy between the concerns of the urban elite and the mass of the population has clearly defined the limits to economic reforms in India.[27]

STATE-LEVEL ECONOMIC REFORMS

To increase the effectiveness of the post-1990 economic reforms, they must be simultaneously extended from central to state governments and below to the third tier of local governments.

The maladies afflicting the finances of the state governments are similar in nature to those afflicting the central finances described earlier. According to the Reserve Bank of India, the Gross Fiscal Deficit of all the states of India (including the Union Territories) was estimated at 3.3 percent in 1991-92.[28] Throughout the 1990s the state governments also experienced a rapid rise in their revenue expenditures mainly through salaries, pensions, interest payments and subsidies (including free power to farmers in some states out of political considerations). This trend has 'severely constrained the states' ability to undertake development activities' and to devote more funds to provide social services such as primary education.[29] The situation worsened after the states were forced to follow the center to implement generous pay increases for government employees recommended by the Fifth Central Pay Commission in 1997-98.

Despite initial resistance in the Communist Party-ruled state of West Bengal, all state governments (including West Bengal), in their own ways and suiting their own conditions, implemented economic reforms in the 1990s and are continuing these reforms broadly in line with the ongoing national economic reforms. This owes in part to enlightened self-interest combined

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[27] For further details, see Ashutosh Varshney, 'Mass Politics or Elite Politics?', in Jeffrey D Sachs, Ashutosh Varshney and Nirupam Bajpai, *op.cit.*, Ch.7.

[28] Reserve Bank of India, 'Finances of state Governments : 1992-93', in the *Reserve Bank of India Bulletin*, March 1993.

[29] Government of India, *Economic Survey 2002-03, op.cit*, p.5.

with a healthy competitive spirit designed to improve their position and ranking among the states. There is also the states' desire to avail themselves of larger transfers of development funds from the center, which the central government linked to economic reforms at the state level. Every state has recognized the need to attract private investment flows from both domestic and foreign investors. State governments have therefore progressively liberalized their policies and procedures on a competitive basis. Several of them have also explicitly recognized the need to improve human resource development and have progressively expanded activities to provide a better quality of life to the population of their states.

Incentives and Conditionalities

The government of India has introduced a scheme called the States' Fiscal Reforms Facility (2000-05). Under the Facility, the central government set up a five-year incentive fund 'to encourage states to implement monitorable fiscal reforms'. Additional amounts by way of 'open market borrowings' are allowed if the state is faced with a structural adjustment burden. State governments may draw up a Medium Term Fiscal Reforms Programme (MTFRP) to achieve specified targeted reductions in their consolidated fiscal deficit, especially the revenue deficit.

The coverage of the MTFRP has been extended to cover a Debt Swap Scheme in order to help state governments reduce their growing public debt. This scheme is designed to help liquidate the burden of high-cost loans taken from the central government through the allocation of additional market borrowings at currently prevailing lower interest rates.

The major structural reforms carried out by several state governments include:

(i) Measures to improve quality of life through improvements in basic public services such as primary health, primary education, and rural infrastructural services such as electricity, water, and roads. Madhya Pradesh has brought out the first state-level *Human Resource Development Report*. Other states have followed suit. The Planning Commission has also published a comprehensive *National Human Development Report* assessing human development nationwide and in the major states.[30]

(ii) Clustering high-tech industries and services (for example, in software parks).

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[30] Government of India, *National Human Development Report 2001* (New Delhi : Planning Commission, 2002).

(iii) Setting up Special Economic Zones and Agri-Economic Zones to promote exports.

(iv) Formulating state-level industrial policies to attract investments.

(v) Power-sector reforms that restructure state Electricity Boards by separating generation, transmission and distribution activities, encouraging independent power producers in the private sector to invest in the power sector, and setting up independent state Electricity Regulatory Authorities.

THE PERFORMANCE OF THE INDIAN ECONOMY

Despite the slow pace of implementation of the economic reforms and certain hiccups and delays caused primarily by the compulsions of democratic politics, the performance of the Indian economy under the reforms carried out so far shows a mixed picture of notable achievements and weaknesses. The performance has been impressive on some fronts, satisfactory on several other fronts, and inadequate in certain respects. India has still to launch deeper (so-called 'second-generation') reforms in various areas to get the best results.

Areas of Impressive Performance

Through reform, India overcame its worst economic crisis in the remarkably short period of two years. Macro-economic stabilization reforms (along with structural economic reforms) were launched in June 1991. Through prudent macro-economic stabilization policies including devolution of the rupee and other structural economic reforms the balance of payments crisis was clearly over by the end of March 1994. Foreign exchange reserves had risen to the more than adequate level of US$15.07 billion and the current account deficit as a percentage of GDP was nearly eliminated. Export growth rate at 20.0 percent in 1993-94 over the previous year was quite encouraging.

Macro-economic stability has endured in the ten years of economic reforms to 2003. Foreign-exchange reserves peaked at US$70 billion at the end of March 2003 (and touched US$80 billion in June 2003).[31] The current account 'recorded a surplus—equivalent to 0.3 percent of GDP—in 2001-02'.[32] Food stocks with the Food Corporation of India, held to ensure national food security, peaked at sixty million tons (compared to the required twenty million tons). It took longer to control inflation but this led to relatively more enduring results (excluding the impact of externally determined fuel prices). Since 2002, the country has enjoyed a low interest-rate regime. These

[31] The Rupee had started appreciating against US$ after April 2003.
[32] Government of India, *Economic Survey 2002-03, op.cit.*, p.3.

performance indicators have helped to provide an 'enabling environment for the macroeconomic policy stance.'[33]

India has also increasingly integrated its economy with the global economy. After half a century of inward-orientation, the share of India's trade as a proportion of GDP rose from 13.1 percent in 1990 to 20.3 percent in 2000. By Indian standards this is an impressive performance.

India's economy has also successfully moved into a higher trajectory of growth and displayed strong dynamism in selected sectors. This encouraging performance brightens the prospects for stepping up India's growth rate and improving the competitive edge in the years to come through further appropriate economic reforms.

The average annual growth rate of 5.8 percent achieved by the Indian economy during the years of economic reforms since 1992 is encouraging. Currently, after China, India is among the fastest-growing countries in Asia. Since the annual rate of population growth has slowed significantly to nearly 1.8 percent during the 1990s, per capita income has been growing at a healthier real rate of four percent per annum.

India's growing middle class of more than 350 million people, with a reasonably affluent standard of living, provides a huge market for foreign corporations, especially since April 2003, when all quantitative restrictions on imports were lifted.

Along with its fairly good growth rate (which, however, is far below the potential growth rate of eight percent targeted by India's Tenth Five-Year Plan), India has been successful in reducing poverty. The poverty ratio (that is, people below the poverty line as a percentage of the population) as estimated by the Planning Commission at the national level came down from 36 percent in 1993-94 to 26.1 percent in 1999-2000. The poverty ratio during this period declined both in rural areas and in urban areas. There is little doubt that poverty in India has been reduced during the last decade. The Planning Commission has set a poverty ratio target of 19.3 percent by the end of the Tenth Plan period (to March 2007).

An important indicator of gains from economic reforms, reflecting the attractiveness of India as an investment destination, is shown by the increasing inflows of both FDI and Foreign Institutional Investment (FII) into India. Inflows of both FDI and FII into India has increased in the decade to 2002. On average, according to the Ministry of Finance's *Economic Survey*, India has

[33] Reserve Bank of India, *Annual Report 2001-02*, Mumbai, Reserve Bank of India, p.1.

been attracting US$2.5 billion to US$3 billion and nearly US$4 billion in 2001-02 in FDI per annum mostly in various infrastructural sectors such as large power and telecommunication projects.

India's economy under the reforms has made rapid strides in selected industrial areas and knowledge- and skill-intensive services. These specific growth areas have experienced significant restructuring under more competitive conditions in the marketplace through mergers and acquisitions and technological and managerial innovations. This has led to the achievement of recognizable increases in international competitiveness in a number of sectors including auto components, telecommunications, software, pharmaceuticals, biotechnology, research and development, and professional services provided by scientists, technologists, doctors, nurses, teachers, management professionals and similar professions. The spillover effects of India's increasing international competitiveness have helped in improving the rate of growth of export earnings. They have also directly benefited Indian consumers by making better quality, lower-priced goods available.

Areas of Weakness

The most notable weakness of the reform process has been in fiscal consolidation. Indian governments at both the central and state levels have failed miserably to reign in growing revenue deficits and reduce the overall fiscal deficit. The foundations for a sustainable high growth rate in any economy lie in maintaining fiscal discipline. This has not been adequately achieved by Indian policymakers. Excessive use of market borrowing to cover budget deficits has often put upward pressure on interest rates and pre-empted ('crowded out') borrowings by the private sector. The structure of revenue expenditure and political obstacles to any reduction of subsidies and downsizing the government at all levels have been primarily responsible for the lack of progress on fiscal reforms. The real issue in restructuring government finances is 'right-sizing' the government by adequately increasing government expenditure on infrastructure of both the hard and soft varieties, based upon growing resources.

India's record on social development expenditure has been poor considering Indian requirements and poor also in relation to many developing countries, including some of the least developed countries in Sub-Saharan Africa. The abysmally low ranking of India on the Human Development Indices computed by the United Nations bears testimony to this assertion.[34] Dreze and Sen remarked in 1995 that India's social development indicators in

[34] United Nations, *Human Development Report*, available annually at http://hdr.undp.org.

1991 (when reforms were launched) were lower than in several East and Southeast Asian countries three decades ago.[35]

India must bridge this social development gap by significantly increasing its public expenditure on social services if it wishes to achieve the targeted annual growth rate of eight percent set by the country's Tenth Plan. As Ahluwalia has remarked, larger investment in the social sectors is 'necessary not only because social development is an end in itself, but also as a precondition of accelerating growth'.[36]

The massive shift required in the pattern of government expenditure in India in favor of social sectors and infrastructure can only be carried out through structural fiscal reforms. The Fiscal Responsibility and Budget Management (FRBM) Act (2003) provides for complete elimination of the revenue deficit by 31 March 2008. This Act is, therefore, a step in the right direction. Despite 'dilution' of the original draft bill, it is important legislation because it sets the condition that the government can run a fiscal deficit only if borrowings are made to finance investments which will enhance productive capacity'.[37]

Another major weakness of the Indian economic reforms is the economy's experience with 'jobless growth' in the post-1990 period. Rigid labor laws relating to retrenchments have constricted growth in the organized manufacturing sector. As a labor surplus country, there already exists a huge backlog of both 'open' and 'disguised' unemployment. With a growing population, every year adds to the labor force. Economic reforms have accelerated growth but failed to generate adequate employment. For example, the rural unemployment rate, after declining to 5.61 percent in 1993-94, rose to 7.21 percent in 1999-2000 as did the All-India (urban plus rural) rate of unemployment. If this disturbing trend is allowed to continue, it will breed social unrest and add to the ranks of terrorists and other anti-social elements in the country.

Last but not least, the reforms have led to growing disparities between richer and poorer states (more and less developed, especially in terms of infrastructure) within India. Although the all-India average annual growth rate in the reform era has been on the order of 5.8 percent, this masks wide

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[35] Jean Dreze and Amartya Sen, *India : Economic Development and Social Opportunities*, (New Delhi : Oxford University Press, 1995).
[36] M S Ahluwalia, *op.cit.,* p.74.
[37] C Rangarajan, 'Focus on Revenue Deficit', *Business Line* (New Delhi), June 10, 2003, p.4

variations in inter-state growth rates, growth of per capita income, and social development.

Most state governments are not well prepared to meet the challenges posed by globalization. The farming sector and the innumerable small-scale industrial units are vulnerable to the impact of global competition. The government and economic players in the private sector need to work more closely as partners to evolve strategies to meet the challenges of global competition more effectively.

THE ECONOMY IN THE INTERNATIONAL ARENA

The Indian economy has been moving towards closer integration with the global economy and with the leading regional trading blocs. This can be seen using three indicators: (i) Trade in goods and services as a proportion of GDP; (ii) Gross Private Capital (In)flows; and (iii) Gross Foreign Direct Investment as a proportion of GDP. In all three areas, China has had the most outstanding performance and is clearly far ahead of India. However, within the constraints of democratic politics (which have forced India to adopt incremental and relatively 'softer' economic reforms), and despite being a late starter in the economic reform process, India can be seen to have done 'reasonably well' in globalizing its economy. The ratio of trade to GDP increased from 13.1 percent in 1990 to 20.3 percent in 2000. The proportion of Gross Capital Inflows to GDP during the same period increased from 0.8 percent to 3.0 percent. Gross Foreign Direct Investment as a percentage of GDP (which was zero in 1990) rose to 0.6 percent in 2000.

India's trading relations with major regional trading blocs in 1990 and 2000 can be seen in Table 2. For the year 2000, APEC countries were India's largest trading partners, accounting for 47.4 percent of India's global exports and 57.4 percent of global imports. India has, therefore, shown keen interest in joining this forum. Unfortunately, APEC has currently imposed a moratorium on new membership.

There is naturally a sharp contrast between India and East Asian countries in their relative rates of export growth due to sharp differences in their export strategies. The contrast is the sharpest when we compare India and China for the period 1950-2000. In 1950, both had roughly similar shares in world trade. China pursued a more aggressive export strategy in 1978 when it created export-oriented Special Economic Zones in Southern China. By 2000, China had captured around 4.0 percent of world trade. In contrast, India's share of world trade had stagnated at around 0.5 percent for the three decades 1960-90

due to its inward-looking policies.[38] By 2000, this share had moved up to 0.7 percent. India has formulated and is further strengthening its latest Medium-Term Export Strategy (MTES) (2002-07), coinciding with the period of the Tenth Five-Year Plan.

TABLE 2: TRENDS AND PROJECTIONS FOR INDIA'S EXTERNAL TRADE 2000-2025

Year	Exports to			Imports from		
	1990	2000	2020	1990	2000	2020
Actual/Projected	***A***	***P***	***p***	***A***	***P***	***P***
India's Global Exports and Imports (US $ Billion)	**18.2**	**37.1**	**63.6**	**23.3**	**41.3**	**61.2**
1. APEC-21	52.06	47.4	43.44	40.98	58.68	57.41
2. ASEAN-10	4.99	6.87	7.38	6.92	9.41	13.1
3. BIMSTEC-4	2.91	4.65	5.45	1.55	1.28	1.45
4. BISTEC-3	2.9	4.51	5.3	1.55	0.8	0.98
5. EU-15	27.6	24.76	25.14	36.62	25.72	23.79
6. GCC-6	5.21	7.17	7.71	8.7	21.05	32.57
7. IOR-ARC-18	13.55	19.26	22.22	13.4	20.93	30.76
8. NAFTA-3	17.13	19.65	16.08	11.2	10.14	11.01
9. SAARC-7	2.65	4.12	4.52	1.78	0.47	0.68

Note : A-Actual and P-Projected

APEC – 21: Asia Pacific Economic Cooperation

ASEAN-10: Association of South East Nations

BIMSTEC-4: Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation

BISTEC-3:Bangladesh-India-Sri Lanka-Thailand Economic Cooperation

EU-15: European Union

GCC-6: Gulf Cooperation Council

IOR-ARC-19: Indian Ocean Rim Association for Regional Cooperation

NAFTA-3: North America Free Trade Area

SAARC-7: South Asia Association for Regional Cooperation

Source : Charan D. Wadhva, **"**India's External Sector**"** Chapter - 12 in the Report of Research Project on *India-2025: A Study of the Social, Economic and Political Stability*, Centre for Policy Research, New Delhi, May, 2003.

[38] As per World Bank's annual *World Development Report*, various issues and other sources.

The MTES for 2002-07 envisages the achievement of India's target of one percent of global trade by 2007 and provides sector-wide targets for niche products and targets for selected niche markets.[39] The active participation of state governments is being sought in establishing and strengthening Special Economic Zones (SEZ) modeled on Chinese SEZs and setting up Agri-Economic Zones to provide a strong push to raise the country's export growth rate. The development of world-class infrastructure in the SEZs will take more time. A new labor policy regime allowing freedom for entrepreneurs in the SEZs to 'hire and fire' labor according to the needs of the market (as permitted in the highly successful Chinese SEZs) will have to be put in place to maximize gains from India's SEZs. As of May 2003, eight SEZs had been approved and have became operational. More such SEZs will be set up in India in the future.

India is trying its best to liberalize and to transform itself into a global player of consequence in the world economy by 2020. It has been ranked by the World Bank as the world's fourth-largest nation in terms of the size of GNP measures in terms of Purchasing Power Parity (PPP) in 2001. Ahead of India in 2001 on this front were only Japan, the US, and China. The World Bank has projected that by the year 2020, China will take the top spot, followed by India.

India's economy clearly is on the move and most certainly has the potential to emerge as a global economic power within next twenty to twenty-five years. However, this potential can be made a reality only if India mobilizes adequate political will and quickly commits itself to design and fully implement the next phase deeper 'second-generation reforms'.

The concept of 'second-generation' reforms has been in the making for some years. However, these are yet to take concrete shape. Considering that India currently has no social security system in place for nearly 90 percent of its labor force employed in the unorganized sectors, India needs to evolve a well-calibrated approach to its future economic reforms. This would also be necessary to meet the challenges posed by the further intensification of the process of globalization. However, clear prioritization of future economic reforms in India will have to be laid down during implementation of the most critically needed 'second-generation reforms'.

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[39] Government of India, *Export Import Policy 2002-07*, New Delhi : Ministry of Commerce 2002.

THE NEXT GENERATION OF REFORMS

The following are ten recommended areas of special focus in the second generation of economic reforms:

1. Political Reforms for Good Governance;
2. Re-engineering the Role of the government;
3. Administrative and Legal Reforms;
4. Strategic Management of the Economy with a focus on knowledge-based HRD Activities;
5. Fiscal Prudence;
6. Agricultural Sector Reforms;
7. Industrial Restructuring;
8. Labor Sector Reforms;
9. Foreign Trade and Outward Investment Policies;
10. Financial Sector Reforms.

Political Reforms for Good Governance

Political reforms are urgently required in concert with economic reforms.[40] Both are essential to ensure good governance. A paradigm shift is required in the prevailing system of governance. Serving the people and putting their interests above the interests of the ruling elite must be the prime motivating force driving the reformed system of governance. Good governance can be ensured through the provision of an adequate quantity of public services and by improving their quality. Indian politicians need to become fully aware of the costs and benefits of economic reforms. Ruling politicians with limited terms in office are often guided by narrow and short-term motivations while formulating policies in the national interest. The Indian public at large also needs to be thoroughly educated on the inevitable need to bear short-term pain in order to reap the somewhat uncertain longer-term gains from economic reforms.

Economic reforms in the future must be more people-centered. They must be given a human face so as to continuously enhance the social empowerments of the poorer and most vulnerable sections of the society. They must be gender-sensitive to improve the status of women and girls. The burden of adjustment to structural reforms must be more heavily borne by the richer sections of the society. Appropriate electoral reforms, including state

[40] For a discussion of the required political reforms in India, see Subhash C. Kashyap, *Political Reforms for Good Governance: A Policy Brief* (New Delhi: Shipra Publications, 2003).

funding of elections, will help to reduce the lobbying power of the entrenched vested interests.

Re-Engineering the Role of the Government

Reforms must be aimed at 'right-sizing' (often involving downsizing) the government. Governments must specialize in performing roles that they can perform better than free-market private enterprise. The government must expand its role in areas such as the provision of public goods, especially primary health, primary education and the creation of social infrastructures. The role of the Planning Commission must be changed to that of a strategic think tank. The mindset of the politicians and the administrators needs to be changed to accept the re-engineered role of government in the context of market-oriented economic reforms. The intensification of economic reforms at the state level needs to be given a higher priority in the future since most social services and infrastructural activities are primarily the responsibility of the state governments.

Administrative and Legal Reforms

No matter how good the design and intent of economic reforms, their success ultimately depends on efficient and speedy implementation through sensitive and responsive administrative and legal systems. Transparency and accountability must be guiding principles for the formulation and implementation of policies and procedures. Improved administrative systems should be devised to ensure that merit subsidies directly benefit the targeted (generally the underprivileged) sections of society. Legal support services should be made available with more public funding and must be strengthened to provide justice to genuinely aggrieved sections of society more quickly and affordably.[41] Second-generation economic reforms also must focus on changing the mindset of administrators (especially at the grass-roots level) and of the judiciary (especially at the lower level) to support administrative and legal reforms that synergize with economic reforms for maximizing social welfare.

Strategic Management of the Economy

Macroeconomic management must be dovetailed with a well-formulated strategic national vision for the economy for the year 2020 (and beyond). Clarity, transparency and accountability (through identifiable responsibility centers) with properly designed incentive (and disincentive) systems should be the guiding principles governing strategic management of the economy. An

[41] See Subhash C Kashyap (ed.), *The Citizen and Judicial Reforms under Indian Polity* (New Delhi : Universal Law Publishing Company, 2002).

appropriate code of conduct should be evolved and observed by economic actors under a new managerial system of governance. The strategic management of the Indian economy in the twenty-first century must focus on human resource development to promote knowledge-based and skill-intensive economic activities in line with India's dynamic competitive advantage.

Fiscal Prudence

The fiscal deficit (especially the revenue deficit) needs to be quickly reduced. India must sincerely implement the Fiscal Responsibility and Budget Management Act . Simultaneous action is required at both central and state levels to raise the tax-to-GDP ratio by expanding the tax base (for example, by taxing services and rich agriculturists) and improving tax administration (for example, through computerization). The revenue deficit must be brought to zero within five years.

Agricultural Sector Reforms

While some agricultural reforms have already been carried out, these are highly inadequate. Primacy must be given to the agriculture sector in all future reforms since many more jobs can be created in the agricultural sector, broadly defined, including activities related to rural industrialization and overall rural development. Both on-farm and off-farm employment potential must be fully exploited. This will raise incomes of farmers and rural labor on a sustainable basis and provide a much-needed boost to demand for industrial products and services, thus spurring all-around economic growth.

There is an urgent need to raise public investment in agriculture substantially. Areas needing investment include: irrigation; watershed development; rural infrastructure; drinking water; housing and sanitation. This will help raise the productivity of Indian agriculture to international levels and help in promoting rural (and interlinked urban) prosperity in India.

Second-generation reforms must reduce the perennial anti-agricultural bias by permitting free® exports of all primary products. This will provide a major boost to India's exports consistent with the rules set by the World Trade Organization. Simultaneously, India must improve its marketing infrastructure. Agricultural reform will unleash high growth rates in agriculture, on which nearly sixty percent of India's population is still dependent for employment. Agricultural prosperity will help to markedly reduce endemic rural poverty.

Industrial Restructuring

Industrial reforms must be geared to explicitly improve the productivity and international competitiveness of Indian industry by focusing on niche products and niche markets. Economic policy in this respect must facilitate

mergers and acquisitions and the winding up of terminally ill enterprises in both the public and private sectors by restructuring bankruptcy laws. Massive restructuring is required of Public Sector Units. Most non-performing public sector units should be quickly sold through a privatization process that also safeguards the interests of workers through fair compensation for loss of jobs. Public sector enterprises should be governed by a commercial culture in which government holdings are no more than 26 percent of equity and are retained only to preserve strategic control. It is of the utmost importance that micro-level reforms must supplement macro-level reforms in the future to achieve synergy. The private sector in India needs to become more international in its outlook to become more competitive and to increase its overseas presence through outward FDI.

Labor Reforms

A properly formulated labor policy must form the core of second-generation reforms. This will require viable alternative social safety nets and effective retraining and re-employment opportunities. Once satisfactory safety nets are in place, more intensive competition should be injected into the labor market by allowing 'hire and fire' policies unambiguously linked to the productivity and profitability of micro-enterprises. The government should start by exempting units in the newly created Special Economic Zones from the rigors of labor laws. These measures would be of great help in redressing inefficiency of workers in public enterprises and public services (such as health care in rural areas).

Foreign Trade and Outward Investment Policies

No economic reforms can succeed in India without ensuring adequate growth of exports of goods and services to ensure longer-term viability of its balance of payments. While anti-dumping measures need to be strengthened to protect Indian industry from unfair import competition, the longer-term reforms must continue to lower import duties to levels comparable to those in leading Southeast Asian countries. Simultaneously, measures should be taken by the government to replace quantitative restrictions (wherever they still remain in place) through appropriately determined tariffs.

The second generation of economic reforms must facilitate the growth of India's own Multi-National Corporations (MNCs). The government must further liberalize outward foreign investment to allow potentially competitive Indian MNCs to establish production bases abroad and trade internationally.

Finally, industry and government must make cooperative efforts to prepare Indian industry to meet the new and ever-emerging challenges posed by the

new world trade order and the new world investment order being evolved under the World Trade Organization.

Financial Sector Reforms

India must heed the lessons of the East Asian economic crisis and recovery, and attached the utmost urgency the next phase of financial-sector reforms. The high level of Non-Performing Assets plaguing long-term Development Financing Institutions and commercial banks must be dramatically reduced.

To summarize, greater competition in the financial sector with an appropriate exit policy to reduce overstaffing together, along with sound macro-economic policies, will help to lower the real rate of interest and spur investment and efficiency, thereby raising growth rates and benefiting consumers. Coupled with the current regime of falling interest rates, greater competition in the financial sector in general and among the commercial banks in particular will help to increase the rate of investment in the economy. Simultaneously, foreign insurance and pension funds should be allowed to operate with fewer restrictions to make more resources available to finance the modernizing of India's infrastructure. Further policy and procedural reforms (especially in the power sector) will help to attract substantially higher investment in India's infrastructural sectors.

Finally, credible policy measures that protect investors, especially individual investors with small savings must be adopted. These measures, if effectively implemented, will help to revive growth in India's capital and stock markets. It must be remembered at all times that the be-all and end-all of all economic activities is the consumer. Future economic reforms must aim to directly benefit Indian consumers through cost reductions, enhanced quality of goods and services, and by expanding customer choice through competition.

CONCLUSIONS

Within the constraints of democratic politics and the relatively 'soft' nature of the economic reforms implemented since 1991, the Indian economy has reaped several welcome rewards from its reforms. These have strengthened the conviction that the broad direction of the reforms is right and, in that sense, made the reform process irreversible. However, India needs to launch a 'second generation' of economic reforms, with a more human face, if it is to reap their full potential. Politicians and administrators need to display greater pragmatism while designing and implementing future economic reforms. The

reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years.

It will be of the utmost importance that all sections of society are educated as to the long-term benefits of reform in order to mobilize public support. These reforms, therefore, will have to be drastically redesigned and politically 'marketed'. Future economic reforms must be seen and experienced as not only good economics but also good politics.

Two paradigm shifts in the reforms, backed up by the effective fulfillment of the promises made, will help to garner the support of the Indian people.

First, these reforms must aim to raise the productivity of Indian labor and improve the work culture and, over time, provide significant rewards to the people of India by spurring growth, providing a higher level of real wages, and generating wider avenues for employment and re-employment. Growth with employment is the most effective strategy for eliminating poverty and improving the quality of life of the people.

Second, the reforms must aim to directly benefit Indian consumers. Over a reasonable time span, the reforms must reduce prices of goods and services (including public goods), improve their quality, and allow much more freedom of choice by maximizing the benefits of healthy competition. This will further expand the size of the market—both domestic and international—and provide incentives to entrepreneurs to raise their investment, output, and employment. A combination of more productive labor and pro-consumer economic reforms will be a win-win, proving to be both good economics and good politics. Visionary political statesmanship will be required for this. It should not be slogan-oriented but more result-oriented since it will likely be perceived and experienced as 'pro-people'.

VIETNAM: WHAT NEEDS TO BE DONE?

ADAM FFORDE

INTRODUCTION

In the modern world, where so much policy study compares 'model with muddle', any situation can and must be described as imperfect, with much remaining to be done, although, in essence, this often seems to amount to setting some unattainable goal, at least in this world.[1]

So what needs to be done in Vietnam? The country has a practice of thinking for the long-term, of 'playing it long', when making changes in its political and economic institutions and in their relationships with society. Vietnam in the early years of the new millennium is a paradoxical image on the world stage. If one wishes to play the role of 'booster', accentuating the positive, then much of what can be said appears startling since it is so infrequently uttered. It is easier to play the role of critic. But let's start with the positives.

Here is a country whose political institutions have permitted an uninterrupted sequence of power changes at the peak that have followed the established formal procedures laid down by the rulers: the Vietnamese Communist Party. In 1986, at the VIth Party Congress, the Central Committee elected a reformist General Secretary, Nguyen Van Linh. In 1991 he was replaced by the more technocratic Do Muoi, who was in his turn replaced by Le Kha Phieu, whose somewhat old-fashioned politics led to his replacement by Nong Duc Manh at the IXth Congress in 2001. Manh is younger, a member of the Tay minority, and has some popular support drawing upon his role as Chairman of the National Assembly. He arguably reflects a return to the more adaptive politics of the 1980s and 1990s.

Political contestation at these core events was intense. Linh was only elected after drawn-out discussions to do with the positions of such eminences as Le Duc Tho and Truong Chinh following the death of old-guard leader Le Duan in mid-1986. Do Muoi came to power in the aftermath of the purge

[1] M. S. Grindle and J. W. Thomas, Public Choices and Policy Change: The Political Economy of Reform in Developing Countries (London: Johns Hopkins, 1991).

from the Politburo of Tran Xuan Bach for alleged 'Yeltsinist' tendencies. Le Kha Phieu entered the IXth Congress as the front-runner, supported by the Politburo, and was only removed after intense infighting. Yet, formal procedures were followed, leaders changed, and no blood was spilt. These three characteristics, clearly, are not common throughout most of the developing world or indeed Southeast Asia.

Here, again, is a country with the deeply textured political machinery of a post-Stalinist if not quite post-Leninist regime: Mass Organizations, a mass Party, a security apparatus, deep influence over the mass media, and so forth. Yet, it is far from the case that policies are set arbitrarily and then enforced—despite many ongoing issues between rulers and ruled, political control is arguably weaker than in countries such as Singapore, where the willingness to openly criticise the government is in many cases less.

MANY PROBLEMS: COMMUNIST RULE, CORRUPTION AND POLITICAL INSTABILITY

It is even easier to point to 'negatives' (notwithstanding the World Bank's strong enthusiasm for Vietnam, expressed in its $3 billion lending agreement).[2]

By comparison with many definitions of what constitutes a well-governed modern state, Vietnam comes out rather badly. She is given very bad scores in international rankings on such things as corruption, the business environment, human rights and so forth. The US State Department website recently characterised the political regime as a 'Communist People's Democracy'. Despite much effort from international NGOS, there is no clear law that defines the position of civil-society organizations, and most bodies that carry out activities of that type tend to operate in the 'shade' of formal organizations under the Vietnam Fatherland Front or some such body. Indeed, the Leninist Mass Organizations remain in place, given responsibility for a range of tasks to do with monitoring state bodies, yet their funding largely comes from the state budget, and they are still organically linked to the Vietnamese Communist Party (VCP) through the 'popular mobilisation' sections of the Party at various levels (the '*dan van*'). The Party maintains organic control over the state through various parallel structures such as the '*ban can su*' at Ministry and other levels. Thus, according to much western thinking, the relationship between politics and state has not developed into a separation that allows for popular

[2] IMF/IDA, *Vietnam: Joint Staff Assessment of the Poverty Reduction Strategy* (Washington DC: IMF/IDA, 2002).

control over the state's activities. Though change is under way, nobody would argue that Vietnam's judiciary is at all independent of political interference, and so most activities to regulate social interactions are governed by societal rather than state or other extra-societal structures.

These issues result, arguably, in a situation where transactions costs are high and society largely ungoverned. The regime rules, but it does not govern. There is no clear break with the Leninist position requiring direct intervention in social organizations through the Mass Organizations and the Party itself, to one where the government 'governs' through a range of indirect 'techniques of rule'. The result is corruption, ineffectiveness in the implementation of central policy measures, and a continued tendency for the population to have to resort to direct measures (such as demonstrations) to curb officials, or to simply by-pass the state in governing social regulations. While 'stable', as Vietnam increasingly participates in the storms and winds of the modern global economy, this will push the burden of adjustment more and more onto those who can least bear it, and as business grows in power and becomes more concentrated, the politics of dealing with the consequences will become more difficult.

In essence, a market economy forces the shift from 'rule' to 'government', and so far the constitutional changes required by this, which would be marked by the emergence of an independent judiciary, effective anti-corruption measures and a sea-change in attitude toward what westerners would call 'civil society', are far from happening. Risks are therefore high and the current social and political stability not likely to endure.

PROBLEMS, YES, BUT WITH THE RIGHT HELP QUITE SOLVABLE

The World Bank, which has Vietnam as number 2 in its list of 'largest recipients of support' (after India), highlights positive issues, but ignores others.[3] Most important here is the focus upon current attempts to address key issues, and the notion of 'process': that the country is headed in the right direction. But does this amount to any more than 'jam yesterday, jam tomorrow, but never jam today'?

This chapter takes the notion of 'problem' with a large pinch of salt. I present an outline of recent change in Vietnam, and proceed to what I think is most focusing the minds of those politicians, officials, and others influencing

[3] *Ibid.*

these change processes. I finish with a discussion of what now needs to be done, and where things may be headed.

COPING WITH POVERTY AND WAR: COMMUNIST VIETNAM BEFORE 1975

Before 1975, the area ruled from Hanoi was one with important elements of wartime 'laissez-faire', with the system of rural cooperatives being one where peasants 'usually' managed to avoid central directives,[4] where SOEs and the planning system were far from matching any of the models to be found in Soviet textbooks,[5] and where the issue of the management of socialist construction in the north in the early 1970s was not so much one of reform, but of the re-establishment of the norms of democratic centralism in a situation where they had become, partly in thanks to high levels of aid-financed imports from the Soviet bloc and China, normally flouted. Despite the rather rapid growth of industrial output in the north after the late 1960s, the planning system never managed to create that self-powering dynamic of 'expanded accumulation' that, as other neo-Stalinist systems showed, would for a while produce fast but inefficient and uncompetitive growth.[6]

Thus, at reunification in 1975-76, the 'problem' facing the north was one of the re-establishment of order along conservative lines. Contradictorily, this meant that the apparatus that was responsible for the management of the south was itself ill disciplined and weak. Would this be capable of imposing its control over the south in a way that could match the requirements of rapid neo-Stalinist growth?

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[4] Adam Fforde, *The Agrarian Question in North Vietnam 1974-79: a study of cooperator resistance to State policy* (New York: M. E. Sharpe, 1989).

[5] N. Tri, ed., *Ve to Chuc San Xuat Trong Cong Nghiep Mien Bac Nuoc Ta (On the Organization of Industrial Production in the North of Our Country)* (Hanoi: NXB Dai hoc va Trung Hoc Chuyen Nghiep, 1972).

[6] It is worth pointing out that the logic of failure to implement neo-Stalinism 'pur et dur' was apparent, arguably, *before*, the start of the Vietnam War, in the events in the early 1960s as the First Five Year Plan was implemented. A. Fforde and S. Paine, H., *The Limits of National Liberation: Problems of Economic Management in the Democratic Republic of Vietnam* (London: Croone Helm, 1987); A. Fforde, "From Plan to Market: The Economic Transitions in Vietnam and China Compared," in A. Chan, ed., *Transforming Asian Socialism: China and Vietnam Compared* (Canberra: Allen and Unwin, 1999).

COPING WITH STALINIST ECONOMICS: BREAKDOWN OF THE OLD SYSTEM, 1978-79

In what has been described as the hubris of victory, the ambitions of the first Five Year Plan of the reunited country were very great. Access to the rice surplus of the Mekong delta, should, theoretically, have eased the central constraint to such ambitions when played out upon the stage of the poverty-stricken and population-saturated north. In classic Stalinist thinking, these resources would be extracted through the mechanisms of forced cooperativization and control over the rice trade.

The problem facing the country at this stage was how to cope with the consequences and strains of this historical push, to realise Stalinist development in a reunited Vietnam. The problem was solved by strangling the attempt at birth. As Melanie Beresford has put it so well, the 'procurement strike' in the Mekong delta in the late 1970s, coming as it did with the loss of Western and Chinese aid, pushed hard for change.[7]

In the early autumn of 1979, with the system collapsing (and important actors shaking the roof pillars), the VCP Central Committee met to discuss economic problems at a scheduled Plenum (the 'Sixth Plenum'). At the start of the discussions, political positioning by the top leadership remained conservative, requiring 'more efforts to implement agreed policies'. By the end, after senior politicians were bombarded by provincial and other leaders, the somewhat opaque resolution argued that almost anything could be done that allowed production to 'break out' (*bung ra*). And so the problem of coping with Stalinist economics was solved by recourse, not to directives and guided change, but by 'going with the flow': the spontaneous marketisation of the economy was legitimised.

COPING WITH BROKEN ICONS: SPONTANEOUS CHANGE AND POLITICAL RESPONSE, 1979-80

But of course, if the very nature of politics is the 'creation and maintenance of order, then what then needed to be done was to read order into what had been done: to look at 'life' (*cuoc song*), to apprehend the 'law' (*quy*

[7] M. Beresford, *Vietnam: Economy and Society* (New York: Pinter, 1988); M. Beresford and A. Fforde, 'A Methodology for Analysing the Process of Economic Reform in Vietnam: The Case of Domestic Trade', *Journal of Communist Studies and Transition Politics* 13/4 (December 1997), pp.99-128.

luat) governing this, and then to produce policies and human laws that corresponded. And this was what was done. This is discussed in greater detail elsewhere.[8] From the other side of the coin, that of Western analysis, what this implied was a need to understand Vietnamese change processes as *essentially* endogenous, coming not from policy change, but from processes deep within the society and economy. But these could be observed through local apprehensions of them, that is, in the policy response.

Through 1980 an important element of Vietnam's international situation was the replacement by the Soviet Union of the lost Chinese and Western aid. This gave them an enhanced position in the policy dialogue, conditioned, of course, by the military issues to do with the Sino-Vietnamese and Vietnamese-Khmer conflicts.

By the beginning of 1981 the spontaneous breakdown of the neo-Stalinist system had been addressed politically by the creation of 'reform policies'. These largely solved the problems of the moment by permitting, well before most other socialist countries, all SOEs to trade on markets in list goods (outside the plan) and also allowed farmers from cooperatives to sell surplus goods in (free) markets. Also, the attempt to collectivise the Mekong Delta was abandoned, and various elements (especially in Ho Chi Minh City) were allowed to import and export freely. This legal 'transitional model' could be and was presented as preserving socialism, but yet (helped by Soviet aid) went with increases in output and incomes.

This required no major political change in terms of the top leadership (Le Duan remained General Secretary), but there were certain adjustments that marked the underlying shift away from hard-line certainties.

COPING WITH THE BABY TIGER: CREATIVE CHAOS AND POLITICAL RESPONSE, 1981-88

The period from 1981 to 1988 can be seen as one of coping with the dynamic consequences of the changes that had taken place in 1979-81, for markets came with private interests and the increasingly powerful forces that supported them (even if these interests remained largely clothed in red SOE fabrics).

The way in which this was done was at root to 'play it long'. It became increasingly clear that these underlying trends were strong and, despite various

[8] *Ibid.*

attempts to rein them in (which tended to backfire),[9] the Party shifted to first an ideological acceptance of these trends with the *Doi Moi* VIth Party Congress of 1986, and then followed this up with the beginnings of a far more pro-active support to these forces with various policies that reduced planners' powers over SOEs, and the power of district-level officials over cooperatives.[10]

The late 1980s were characterised by high inflation and great distributional tensions. As the tax base of a planned economy collapsed, and (as in many other areas) a new fiscal base was yet to be created, important areas requiring state resources (education, health, pensions, state wages) were squeezed hard. Political concerns about the economy led increasingly to short-term measures in addition to the slower-paced move away from a planned economy and towards some as-yet unclear market alternative.

Along with this more active politics in the area of the economy could be seen (again 'played long') a process of effective de-Stalinization closely linked to the reformist General Secretary Nguyen Van Linh, who was elected at the VIth Congress . By 1990, it was clear that the regime was on track for widespread but cautious liberalisation in areas such as foreign travel, ideological purity, contact with foreigners and so on, and by the early 1990s these trends were rather strong.

COPING WITH THE BREAK-OUT TO A MARKET ECONOMY, 1989-90, AND THE POLITICAL RESPONSE

In the very late 1980s, however, the strategy of 'playing it long' was put under great pressure by the collapse of the Soviet Union, and especially the loss of its supply of economic assistance. But the essentially short-term measure taken to attack inflation had important systemic effects, pushing to one side the remaining elements of planning, so that the problems posed by the residual elements of the planned economy were, in the winds of the moment, simply blown away. By 1990 Vietnam had a market economy, but without recognisable markets in land, labour or capital. The certainty that these would come soon, however, yet again allowed the politics of this to be 'played long': there was time to adapt and adjust to what was coming.

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[9] One of most interesting was the so-called 'Price-wage-money' reforms of 1985, which were followed by rapid inflation and major welfare problems for state wage earners, as well as the termination of the political careers of To Huu and Tran Phuong, who had up to then been in the saddle of economic management over this dynamic situation. S. de Vylder and A. Fforde, *From Plan to Market: The Economic Transition In Vietnam* (Boulder, CO: Westview Press, 1996).
[10] *Ibid.*

'TIGER ON A BICYCLE': STABILISATION AND RULE, 1990-1996

An illustration of the situation facing the VCP in the very early 1990s, as it found itself ruling over a landscape lacking both the mother planners—the Soviet Union—and any planned economy through which to finance the military or state sector and act as a foundation for socialist construction) is that of the first Tudor King, Henry Plantagenet (Henry VII). After killing Richard III at the battle of Bosworth Field and crowning himself, Henry based his rule upon nothing other than his own act , and thereafter, his first priority was to stay on the throne—no easy task after the upheavals of the previous decades. The basic political problem facing the Tudors was not so different from those facing the VCP from the early 1990s:

> One of the most delicate tasks that faced the Tudors, therefore, was the creation and education of a new ruling class and the retention of its loyalty. The new men had to be prevented from moving up too fast or too far. The drive and efficiency in economic matters which brought them their wealth and power also made them harsh to their tenants and contemptuous of the common people.[11]

This sense, of a ruler on the throne, surveying a dynamic situation that could easily, by threatening popular opposition to a new ruling class, menace the crown, is suggestive. The Tudor monarchs operated from the position of being on the throne, with new and evolving rules of the game that they could both influence and react to. If they were wise and lucky, they could prosper, but under such conditions perhaps the central issue, after staying in power, was to cope and adapt to events. The situation called for a mixture of tactics, all tending to a shift from rule to government, and to a search for political outcomes that institutionalised and developed rule in ways that secured the position of the crown.

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[11] C. Morris, *The Tudors* (London: Fontana/Collins, 1955) 25-26. See also C. Carpenter, *The Wars of the Roses: Politics and the Constitution in England, Ca 1437 - 1509* (Cambridge: Cambridge University Press, 1997) for an analysis of the triadic relations between population, and central/local political powers in pre Tudor England which is very thought-provoking, not least the discussion of 'pretending there is an effective king' when the poor man was quite incapable of ruling. In many ways contemporary Vietnamese, in retaining so much of the 'pre-modern', has a thoroughly Elizabethan flavour.

The sense of a combination of power and threat is well encapsulated by the expression 'Tiger on a Bicycle',[12] which also points to the growing comparison at this time between Vietnam and its foreign competitors—the sleek and well-supported 'Tigers' of the region. Whether institutionally or financially, Vietnam increasingly appeared weak compared with the formidable accumulated investments in human and physical infrastructure of the emergent 'third tier' of export-oriented Tiger economies of this period, well before the 1997 regional crisis and the seismic shift of FDI away from Southeast Asia and towards China that occurred by the end of the 1990s.

The problem, then, was to cope. Initially, this was done by a political reaction, where the sacking of Politburo member Tran Xuan Bach for 'serious violations' in 1991 marked a termination of any Yeltsinist tendencies to seek political power through elections. Rapidly, the resource base of the state was re-established through the recreation of a tax base, a relative re-closing of the borders (initially to secure import revenues), and imposition of some monetary discipline. As foreign resources started to pour in, FDI and ODA (Official Development Assistance) mounted, and there was little alternative to the state sector as a site to receive them. After the World Bank's strategic decision in 1991 to shift its Vietnamese interlocutor from the leading pro-market and reformist Central Institute for Economic Management Research (CIEM) to the (then) reactionary and anti-private-sector State Planning Commission (SPC), it was clear that some of the major *dramatis personae* of the international system were not going to be major players in this process.[13]

The early and mid-1990s saw important changes to central elements of a country with a market economy. Urban land, for example, went through the process of 'commoditization', shifting from being ownerless to being bought and sold, with middle-class families ending up holding assets worth hundreds of thousands of dollars. It became ideologically and practically normal to buy and sell labour (labour power as a category became acceptable to Party

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[12] A. Fforde, "Vietnam: A Tiger on a Bicycle," *Vietnam Investment Review* (16 August 1993); A. Fforde, "Vietnamese Commerce: The 'Tiger on a Bicycle' Syndrome," *The Columbia Journal of World Business* (Autumn 1993).

[13] See D. Dollar and L. Pritchett, *Assessing Aid: What Works, What Doesn't* (New York: Oxford University Press, 1998) for the fine statement that by 1995-96 (when World Bank resources could finally come in) Vietnam's development policy stance was 'good', which using the standards of that body at the time is outrageous. Dollar had been in charge of relations with Vietnam at the Bank since the early 1990s. The failure of conditionality in the mid-1990s credits is quite clear, but was well covered up. A. Fforde, "What Works, What Doesn't. Donors Face Dilemmas, But, As Always, Vietnam Will Find Vietnamese Solutions to Its Problems," *Vietnam Economic Times* (December 1999), Hanoi.

ideologues). It also became increasingly clear that SOEs were tending to operate as *de facto* 'Virtual Share Companies' (especially the smaller ones), thus reducing economic efficiency and helping to explain the 'Vietnam Paradox' of rapid economic growth, relative macroeconomic stability and a rising state share of the economy (an outcome that would have been impossible in archetypical Latin American or African countries). All this accompanied the focus upon the state sector that characterised the times.[14] But the overall dynamic was dysfunctional.

By around 1996 or so these tactics were running into trouble, but the crown had stayed on the government's head. In general the populace had been quiet and, more interestingly, that fraction of Vietnam's commercial class (the state sector) that had dominated the economy in the early 1990s had shown its shortcomings. Flooded with credits and tax breaks, stuffed with privileges, local monopolies and access to export markets, SOEs as the solution to this historical period were, increasingly clearly, very limited. They created little employment, either for the general population or those 'coming up', they did not create assets that were sufficiently easy to appropriate so they could be passed on to children and other relatives, and they could not be defended easily enough against predations from outsiders (whether true outsiders or simply other elite groups).[15]

Thus Vietnam went into the 1997 Asian monetary crisis with many pigeons coming home to roost. Additionally, there was also a failure to cope with local power in rural areas where, without landlords, rents were there to be appropriated by those well placed to do so. Corruption in the communes of the north created discontent, and in that year Thai Binh province (as well as others) saw an effective local putsch against the local administration.

THE EMERGENCE OF GOVERNANCE, GOVERNMENT AND BEING GOVERNED, 1997-2002

The most penetrating analyses of the meaning of the Vietnamese political context of the late 1990s are by Thaveeporn Vasavakul.[16] His arguments come

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[14] A. Fforde, "The Vietnamese Economy in 1996 - Events and Trends - The Limits of Doi Moi?" in A. Fforde, ed., *Doi Moi - Ten Years After the 1986 Party Congress,* Political and Social Change Monograph, vol. 24 (Canberra: Australian National University, 1997).

[15] M. Gainsborough, *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City* (London: Routledge Curson, 2002).

[16] T. Vasavakul, "Politics of the Reform of State Institutions in Post-Socialist Viet Nam," in S. Leung, ed., *Vietnam Assessment: Creating a Sound Investment Climate* (Singapore: ISEAS, 1996); T. Vasavakul, "Rethinking the Philosophy of Central-Local Relations in Post-Central-Planning

down to the need to respond to the penetration and seduction of state power by emergent 'new forces'; and that this was done in Vietnam both by recognising the problem and (as has happened many times before) shifting fundamentally in the overall concepts governing rule.

Associated with this process, which remains unfinished, were various extremely interesting developments. The first (which appears linked to the local leadership of the UNDP in the early and mid-1990s and its relations to various *eminences grise* in the reform community) is the shift in focus to the provinces and Public Administration Reform (PAR) as key issues. By the late 1990s, the provinces (led politically by local people as they historically always had been) were entering into development partnerships with donors (especially INGOs and bilaterals), and were furthermore becoming the sites for a range of experiments in the exercise of state power. In many ways, this brought politicians, willy nilly, closer to the people, and so prevented many of the normal mistakes of central government. There were, arguably, no successful examples of centrally initiated 'development'.[17] And PAR and the associated notion of the 'Law Governed State' (*Nha nuoc Phap quyen*) focused attention on the need to enhance state capacity per se, again linking politicians to local outcomes. Parallel with this can be seen the emergence of the National Assembly as a forum for improving both the quality of legislation and for exposing ministers to criticism as sessions were televised and became increasingly lively.

Second, the economy was rather successful. Growth continued, there was little inflation, and the tax base remained solid enough to finance both social services and infrastructure. Corruption remained, but transactions costs were falling and social development indicators improving. Poverty statistics showed rapid improvement, and it started to become possible to talk of an 'economic miracle'. This surprised many people.

Third, and prior to any significant formal policy shift, a private sector started to emerge with confidence and vigour. Possibly forced by realisation among 'younger sons' (and southerners far from the centers of influence and privilege) that there were no more opportunities in the state sector, and helped by an understanding that money could be made, this major historical step

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Vietnam," in Mark Turner, ed., *Central-Local Relations in Asia-Pacific: Convergence or Divergence?* (New York: Martins, 1999).

[17] The only counter-example that springs to mind (of success) was the 500 KV North-South power line, condemned by the technocrats and pushed through by Prime Minister Vo Van Kiet.

caused no great ructions on the part of the party's old guard. By the early years of the new decade, the private sector was the fastest-growing sector, soaking up employment; finding dynamic outlets for its energies (such as exploiting the recently signed Bilateral Trade Agreement with the USA); working out how it would address classic problems such as its relationships with the Vietnamese working class; whether state support was good or bad; whether it was a good idea to do business with relatives; and so on.

Finally, the foreign-invested sector, predominantly Chinese of various origins, managed to grow to a very high proportion of the modern economy without leading to any major social or political tensions. Various events pointed to the rules of the game, such as the imposition of an early decision to ban street signs that displayed foreign language more prominently than Vietnamese, and also early publicity given to the government's very negative attitude toward 'traditional' labour management practices by foreign employers (examples were made of South Koreans who beat workers). It has been argued that the emergent labour regime was more 'pro-worker' than in China.[18]

CONCLUSIONS

Vietnam's recent political-economic history allows certain conclusions in terms of the current and medium-term context. First, in Vietnam, simply changing systems has not and does not threaten greatly any significant elites. In time, through relationships and other tactics, new wine is put in old bottles. To put it another way, the successful transformation of the origins of the power of the powerful has *not* greatly changed the families and personalities involved. Some rise, some fall, but on the whole the basic lesson is that it is unwise to be too conservative for too long, because opportunities are missed. The trick is to adapt to change in ways that preserve and enhance local particular interests. Thus it is the changing pattern of interests associated with change processes, rather than interests per se, that is the key.

Second, at times of stress, when certain groups do feel particularly threatened, resources are made available through the system to compensate and support, rather than to force exit or loss. Vietnam's politics are thus, correctly, seen as 'softer' and more flexible than others (the comparison is often made with China). Fewer people are killed, jailed or beaten up; the security forces tend to be used to keep bounds on tensions so that coping

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[18] A. Chan and I. Norlund, "Vietnamese and Chinese Labour Regimes: On the Road to Divergence," in Anita Chan, *et al* eds., *Transforming Asian Socialism: China and Vietnam Compared* (Canberra: Allen and Unwin, 1999).

measures can be put in place. Where the local state is, for dysfunctional reasons, incapable of doing so (for example, because of corruption), we can see other strategies adopted.

Third, within the wider process, we can see, 'fast' and 'slow' change. Here, it is clear that the two central issues (which are themselves nested into other complex knots of puzzles) are *corruption*, and the *nature and status of popular associations and groups* (the essence of the post-Leninist conundrum). And both of these are related, in ways that can be debated, to 'the economy' and the benefits of growth.

These conclusions lead to some further questions.

Globalisation: can Vietnam compete?

This question is impossible to answer. So far, the economy seems to be growing at a speed that suggests that Vietnam can compete. Further, there is clearly scope for obtaining better competitiveness through rationalisation (such as of SOEs). Yet it is simply unclear whether this will be adequate. What is certain, however, is that Vietnamese are acutely aware of the need to compete, and actively seeking ways of doing so. This needs to be done. Without it, what?

Internal changes and political adaptation: Will a state-regulated civil society emerge?

Despite many pointers, there is as yet no clear conceptualisation of just how a post-Leninist and plan-less Communist Party will express the basic norms of its own rule over an increasingly diverse and dynamic country. Here one can start to see deep-rooted tensions created by the rise of the private sector. The private sector is seen by Western development doctrine as vital to success (and now by party reformists as essential to international competitiveness), yet there are profound questions posed by the presence within Vietnam of powerful businesses, employing, firing, dealing and so forth, that are only weakly connected to existing social structures, both visible and hidden. It is worth recalling that the rapid growth of the 1990s was largely mediated through SOEs and the farming family sector; SOE managers were NOT in control of their businesses, but had to negotiate with others, including workers, through the complex and highly fixable structures that Vietnamese find so very normal. some argue (perhaps from a Central or Northern Vietnamese position) that, culturally the Vietnamese simply do not like free markets. They do not like the uncontingent powers associated with private property, in its strict sense. What will happen when private businessmen insist

on their legal rights to foreclose on loans, sack workers, relocate and so on? We will have to wait and see.

How many ways to skin a cat? Corruption and the state-society metaphor

Finally, corruption is in many ways the King Charles' Head of these discussions. It needs to be stopped. We have the example of Hong Kong and Singapore as countries that managed to address the issue, but in neither was the position of the government quite the same as in Vietnam, coping with a dynamic and shifting society. But this needs to be done. Without it, the people will continue to see so many local examples of state activities as illegitimate and extractive, and, as we saw in Thai Binh in 1997, they are not likely to remain quiescent.

VIETNAM IN SOME COMPARATIVE PERSPECTIVE

Vietnam is of course both unique and simply another developing country. Vietnamese farmers sell their rice and their coffee, and these then command prices on world markets that are influenced by global factors. Vietnamese officials negotiate with officials from organizations such as the World Bank whose knowledge base and careers are profoundly global in character. Yet both farmers and officials come from a country whose history, it is clear, has many specific features.

One thing that seems of interest, within a discussion of 'transitions', is the way in which the historical theatre since 1975 has tended to be one where, for all the massive extent and speed of change, the basic tactic of 'playing it long' has been common and feasible. This tends to result in a sense of adaptation, of an evolving understanding and cognition, and a competitive politics that follows changing rules, both institutional and informal. While 'understanding is certainly limited and misunderstanding limitless', this history, and the current reality, seems orderly. The basic political task, of the creation and maintenance of order, seems to have been carried out.

Following from this, or rather parallel to it, is the sense that the basic fact of victory in 1975 created space for this evolving order to be very local; not very much of the above-sketched history is to do with the outside world. The VIth Congress of 1986 had little to do with Gorbachev and a group of reformist Soviet advisers. No foreign guru can be found to explain the emergence of the private sector in the late 1990s. And so on. 'What needs to be done' is a Vietnamese question, first and foremost, and this statement is

based upon analysis of what happens, rather than upon some model of what should happen to a newly emergent Southeast Asian economy.

Finally, one can note that the extent of Vietnamese involvement in the world is now very great. The economy is very open, with perhaps fifty percent of GDP exported. Vietnamese businesses start to pop up in interesting places (not counting the well-established wheelers and dealers in Eastern Europe and Russia). The country remains very poor, and its market penetrations usually insignificant. Yet in areas where it is an important player (rice and coffee), Vietnamese plays are significant. When this is placed beside the extensive levels of spending on social areas, and the highly positive results in terms of social development indicators, then this is hardly surprising. Producers bear, and are able to bear, high levels of business risk, and this is a good platform for further development of trade. Land holding remains very widespread, given that this is a market economy. Continuing inefficiencies in various parts of the economy (such as SOEs) offer scope for rationalisation.

So, what needs to be done? This is clear. A more robust politics, with a clearer understanding of the nature of government over a market economy, will result in measures to curb corruption, probably within the next decade, and, more interestingly for an East Asian country, in a regulation and governing of society that meets the complex and frequently contradictory needs of rapid change and economic transformation. This will involve a clearer definition of state-society relations as that paradigm of political science becomes apparent. Again, this will be 'played long' and be a precondition for dealing with corruption in ways that enhance change, development, and growth.

TRANSITIONS IN MALAYSIAN SOCIETY AND POLITICS: TOWARDS CENTRALIZING POWER

MICHAEL LEIGH & BELINDA LIP

There are many dimensions to national transition, and all are of course inter-related. Some transitions are a consequence of government policy; others take place despite the government. This chapter focuses upon a number of important transitions that have taken place in Malaysia over the decades since independence. Together, they explain the kind of society Malaysia is today and many of the tensions within Malaysian society.

TRANSITIONS IN IDENTITY

Ethnicity has been asserted as the dividing line in Malaysian society. Populations can identify by their culture, their mother tongue, their religion and their locality. Each of those defining identities overlaps, but they are not coterminous. The colonial government chose quite deliberately to organize people according to their ethnicity, not according to geography, religion, or culture. The ideological justification of white colonial rule was based upon ethnic identification, and ranking from superior to inferior on the basis of race. The continual reinforcement of racial identity as the cutting line in Malaysian society was not something that happened by chance, it was quite deliberate. The post-independence political leadership has organized its support base by continuing to emphasize race as the most important dividing line between peoples. In Malaysia, it is the Malay and Chinese communities that have been most loudly assertive of their identity, perhaps due to their strong differences in culture, as well as their political and economic pre-eminence in the national leadership.

Components of the Malaysian population today have quite distinct perceptions of their identity and status in the country from that held before independence. The 1972 New Economic Policy (NEP) imposed a change on the perceived status of each ethnic community. Under the colonial policy of ethnic 'divide and rule' each community had a different perception of their status, one that was linked to their roles and utility in society. The government's affirmative action policy and subsequent grant of business

favors to ethnic Malays has served to enhance a perceived importance of the Malay community. Such an approach appealed to the Malay community's insecurities and, as Crouch has stated, it also constituted an unambiguous symbol of Malay dominance.[1] Implementation of the NEP was linked to the introduction of the Sedition Act, which prevents anyone from questioning the special rights and privileges accorded to the Malays, and the right of non-Malays to citizenship.

The Malays of the past have been extremely conscious of their status in what they saw as their homeland. In fact the correct translation of the name of independent Malaya was the Federation of Malay Lands *Persekutuan Tanah Melayu*. During colonial time, Chinese and Indians were brought in as immigrant laborers. The party that has led the Government since before independence, the United Malays National Organization (UMNO), and remained in power for 45 years, has depended heavily on rural Malay votes during elections, sometimes playing on their insecurities. Today Malays constitute a narrow majority (50.8 percent) of the population,[2] but the need to feel a sense of status in the community persists, especially among the middle class. The government's favoritism towards the Malay *bumiputera* (sons of the soil) businessmen has only served to enhance the 'perceived importance' of the Malay community, whilst contributing to a persistent sense of insecurity. Ironically, it added to the Chinese community's sense of importance in the community, especially economically.

The changes in the perception of identity and status by individuals within Malaysia, are also evident amongst the younger generation, brought up in a distinctly different environment than their parents or grandparents. This younger generation does not have strong attachments to the historical independence 'bargain' that is deeply entrenched in many of the old folk's minds and hearts. The post-independence generations have been born directly into a multiracial community, which regards Filipinos, Indonesians and Bangladeshis as immigrant workers, and Chinese and Indians as Malaysians. The perceptions of the non-Malay ethnic groups towards their status in Malaysia thus changed from the time when a compromise was made during Malaysia's independence.[3] Any appreciation associated with the granting of

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[1] H. Crouch, *Government and Society in Malaysia* (Ithaca: Cornell University Press, 1996), p.158.
[2] Government of Malaysia, *Yearbook of Statistics* (Malaysia: Department of Statistics, 2000), p.35.
[3] In the negotiations that led to the granting of independence in 1957, the leaders of the three dominant ethnic communities (Malay, Chinese and Indian) reached an understanding, the essence of which was that Malays would be dominant in government while the non-Malays

citizenship to non-Malay citizens has worn off long ago. The post independence generations of Chinese, Indians and indigenous peoples of Sabah and Sarawak question the superior status granted to Malays in what they now perceive as their country. The old 'motherland' attachments to country of origin are but historical memories.

However, resentment towards this discrimination has been balanced, for many, by material improvements. Crouch states that economic prosperity has made it easier for the non-Malays to accept, however reluctantly, the basic character of the political order.[4] Perhaps their perceived sense of importance also helps to reduce their resentment.

Former long-serving Prime Minister, Dr. Mahathir Mohammad has been very outspoken in his attempts to transform the mentality of the Malay community. While Prime Minister he repeatedly harangued his own community, especially at meetings of the ruling UMNO. The flavor of his remarks often leaves a bitter taste to Malays, and confirms caricatures held by other races.

> …The Malays are still weak, the poorest people and are backward. If we take out the Chinese and all that they have built and own, there will be no small or big towns in Malaysia, there will be no business and industry, there will be no funds for subsidies, support and facilities for the Malays.[5]
>
> The Malays do not lack anything. They have the brains, the energy…
>
> If they have not succeeded after being given the opportunities many times, after they have been helped with all kinds of facilities and even money, the reason is that …they are lazy and like to find the easy way and the quick way, no matter what the end results.[6]
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> What is obvious and the truth is that they, in their own country, have to depend on other races to build up the country's prosperity, and various affairs of the community are planned and implemented by other races.[7]

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were granted citizenship and assured that their position in the economy would not be disturbed (Crouch, *op.cit.,* p.157*).*

[4] Crouch, o*p.cit*, p.195.

[5] Speech by Dr. Mahathir Mohammad at the UMNO General Assembly, Putra World Trade Centre, Kuala Lumpur, 20 June 2002.

[6] *Ibid.*

[7] *The Straits Times Interactive.* www.straitstimes.asia1.com.sg.

The Malay status glorified in the past does not receive the same respect today by this outspoken leader who called for a *Melayu Baru* or 'New Malay.'

Within Malaysia, people identify themselves according to their ethnic group, regardless of generation. They will debate whatever government policy that appears to threaten their own cultural identity, language and religion, elements that they see as signatory to their being Chinese, Malay, Indian, Iban or each of the other groups. However, outside Malaysia, self-identification customarily places country above ethnicity and they introduce themselves not as Malay, Chinese or Indian but as Malaysian. National identity and ethnic identity therefore become two separate identities adopted by Malaysians. Thus, the concept of nation (*Bangsa Malaysia*) outlined in Mahathir's Vision 2020 is already a contingent reality.

The persistence of the individual groups identifying themselves primarily according to ethnicity can be attributed to the difficulty in defining just what it is that constitutes a Malaysian nation. The concept of '*Bangsa Malaysia'* is one that is ambiguous. The translation into English of the term *bangsa* can be either race or nation, depending upon the context. The distinction between *bangsa* (nation) and *bangsa* (race) is quite unclear. Lukman argues that a nation (in this context, people) must be present before a country is created and therefore the Malaysian nation was present before the formation of Malaysia.[8] That Malaysian nation is known as *bangsa Melayu* or the Malay nation. He goes on to say that the 'Malaysian nation' underwent a dynamic transformation from one that symbolizes a mono-ethnic Malay to one that symbolizes multi-ethnic Malaysians. This transformation is a result of the country's independence and the need to downgrade the use of 'Malay nation' to 'Malay race' to truly represent the country's three major ethnic groups as one nation. He likened the Malays to a people who have lost their country, like the Maori in New Zealand. He concludes that Malays have lost the land in which they can fully identify themselves, compared to the Chinese and Indians who still can identify themselves with China or India.

Perception of identity is closely linked to culture, and religion as well. The Chinese and Malay ethnic groups in Malaysia have most often defended the preservation of their culture through debates on government-imposed policies in the fields of education and language usage.

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[8] Lukman Z. Mohamad, '*Transformasi Bentuk Bangsa Malaysia dan Identiti Nasional*', Conference paper, August 2001, (http://phuakl.tripod.com/pssm/conference/LukmanMohamad.doc).

TRANSITIONS IN EDUCATION AND LANGUAGE

Education and language policies in the early years of independence were formulated with communal identities and interests in mind. Only in the twenty first century have these policies been redefined to better equip the society for the challenge brought about by the demands of development and globalization. In the 1990s the issue of language in relation to communal identity became less prominent, having been obscured and overridden by discourse on Islam. However, quite recently discourse on language has resurfaced, with former Prime Minister Mahathir taking a very utilitarian approach, focusing on the need to meet the challenges from external pressures in the new millennium.

The establishment of a National Language was a source for political debate and manifestos, for the 1955 general elections. It was revived again from 1964 when Lee Kuan Yew's People's Action Party pushed for a 'Malaysian Malaysia,' which was clearly contrasted to what he saw as the ruling Alliance Party's preference for a 'Malay Malaysia.'

Related to this is the debate on a national education system and its language medium. The proposal for the national education system was outlined in the Razak Report in August 1956.[9] English remained the medium of instruction for the middle class of all races until the end of the 1960s. Following the communal upheaval in 1969, a new education policy was introduced whereby English-language schools were converted to Malay beginning from the first year of primary school in 1970 and ending with the last year of high school in 1982.[10]

The subject of Malay as the National language was endlessly debated in the context of Malaysia as a Malay nation. The 'sovereignty of the Malay language' was generally considered a symbol of the Malay nature of the state and the Malay predominance over it.[11] The National Language Act of 1967 aimed at making Malay the sole official language of the country, underlining Malay sovereignty. It was designed to help quell the feelings of dissatisfaction among the *bumiputeras* over their loss of exclusive rights to citizenship.

The political leaders' gradualism towards the implementation of the National language and liberalism towards the use of other languages may have

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[9] Margaret Roff, 'The Politics of Language in Malaya' *Asian Survey*, May 1967, p.318.
[10] Crouch, o*p.cit*, p.160.
[11] *Ibid.,* p.159.

helped reduce tensions between ethnic groups. However, many Malay leaders were impatient and demanded immediate and clear implementation of the National Language. One particular faction was the *Barisan Bertindak Bahasa Kebangsaan* (National Language Action Front), which consisted of many UMNO members and Alliance parliamentarians. This faction had strongly opposed the 1967 National Language Bill, claiming that UMNO had sold out the Malays. They based their claims on the pre-independence agreement between the Alliance partners that non-Malays are accepted as citizens in return for Malay being unconditionally accepted as the national and sole official language. This cause suspicion within the Chinese community, particularly those concerned with preserving their ethnic identity and importance, to the extent of creating dissension within the Malayan Chinese Association (MCA).

Roff states that the main concern underlining the strong opposition of the National Language Action Front (NLAF) was with the promotion of English vis-à-vis Malay.[12] The parties that sought to diminish the prominence of English should be satisfied with the outcome today, whereby the Malay language has been deeply ingrained within the community, especially the Malay community, and has surpassed English in its usage in Malaysia. Upon reflection, the Malay language now also functions to unite a multiracial community through widespread use and knowledge of a common language. Communication cannot be expected to be effective between different ethnic communities if they only emphasize the importance of their distinct languages.

One of the supporting justifications for the implementation of a National Language in the past was that it would facilitate easier access to employment. However, currently one of the most important requirements that employers seek is the ability to speak English, especially in areas where technology and global business are concerned.

Information technology has progressed rapidly in Malaysia, introducing the concept of a borderless flow of information, information at the fingertips, and online transactions worldwide. The introduction of the Internet greatly improved access to information and the dissemination of information. The Internet, however, is limiting in terms of the language of communication used, knowledge, and affordability. This places new emphasis on the use of English as the international *lingua franca.* The government therefore aspires to re-emphasize the importance of the English language using science and mathematics as an avenue for its reintroduction. The Cabinet discussed this

[12] Roff, *op.cit*, pp.327-328.

proposal on 17 August 2002.[13] Prior to that, a new concept school was introduced, the Vision School. Under the Vision School concept, the national, Chinese and Tamil schools are housed in one complex and share common facilities such as canteens and playing fields.[14] The concept has been proposed to promote racial unity. The government strategy was to bring students from these three ethnic-based schools together. Mahathir stated that: '…we find that many (parents and students) are not interested because of too much politicking that the national schools now want to segregate the races, like for example, Muslims cannot mix with the non-Muslims'.[15]

The proposal was met with objections by various Chinese associations, the strongest coming from the *Dong Jiao Zhong* (the collective name for the United Chinese School Committees Association Malaysia, [*Dong Zhong*] and United Chinese School Teachers Association Malaysia, [*Jiao Zhong*]). Their main concern was for the future of vernacular schools and the development of education in their own mother tongue. These Chinese associations fear that the use of *Bahasa Malaysia* (the Malay language) as the main medium of instruction will gradually be imposed. Such fears brings back reminiscences of the past when national-type schools were proposed.

Proposals to use English in school subjects can still incite fear among some groups in the community. The superiority of *Bahasa Malaysia* as the National Language and the use of other languages in Chinese and Tamil schools has been acknowledged and well established. Mahathir would argue that this would appear to be the time when the use of English in certain areas could be implemented without raising fears of any loss of cultural identity. He has noted: 'I learnt English in school when I was very young but I did not become an Englishman. You will not become an Englishman just because you learn English'.[16]

Mahathir also warned people (whom he calls extremists) not to politicize the issue by raising racial issues. The government's wary approach to the subject of education and language policy highlights the sensitivity of the issue. The change in nomenclature of the national language from *Bahasa Malaysia* to *Bahasa Melayu* and then back to *Bahasa Malaysia* reflects this uncertainty. Even simple administrative matters have been converted into issues of racial survival by ambitious politicians, who can easily forget that the function of language is

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[13] The *Borneo Post*, 7 August 2002. p.8.
[14] *Ibid*, p.9
[15] *Ibid*, p.9.
[16] *Ibid*, 11 August 2002. p.12.

to serve as a tool for communication, for the basic understanding between two persons.

A broad question now is whether the mother tongue is required in order to preserve culture. The argument is that culture is intrinsically linked to language. The desire to protect culture ironically brings the Chinese and the Malays on to a common platform, objecting to extended use of the English language in schools.

TRANSITIONS IN THE ROLE OF ISLAM

Islam has always been a mainstay in the politics and culture of Malaysia. It plays a role in the identity of Malays in Malaysia. Under the national constitution, Islam is the national religion and 'Malay' means a person who professes the Muslim religion, habitually speaks the Malay language, and conforms to Malay custom.[17] UMNO has always sought to emphasize development issues and the economic benefits of its leadership of the Malay community, whereas the opposition Parti Islam (PAS) has taken the high moral ground stressing Islam as the key to unity and progress of the Malay community.

UMNO was formed as a communal party, its object being to protect and promote an ethnically defined community. The principal challenge to UMNO has come from Parti Islam, which asserts the primacy not of race but of religion. Parti Islam has succeeded in its efforts to steadily shift the political discourse toward religion, where it can take the high moral ground, rather than being on the defensive when UMNO stresses the more tangible benefits of economic improvement. These two parties have provided their respective interpretations on Islam, sparking a debate over who has the more 'correct' interpretation of Islam.

UMNO's position on Islam has always been one of detachment and defensiveness. It has done what is necessary to uphold the constitutional provision that Islam is the national religion. UMNO has responded to the PAS challenge by building Islamic institutions throughout the country, and implementing a policy called the Islamization of the government apparatus. However, UMNO has never been fully recognized by Malays as the champion of the religion, but rather as the champion of Malay rights, uplifting the

[17] Pt. XII Article 160. Federal Constitution of Malaysia. (Incorporating all amendments up to 1 June 1970).

economic and societal status of Malays.[18] The dismissal of Anwar Ibrahim, a symbol of Islamic resurgence within UMNO, further eroded the party's reputation as the upholder of Islam. Islamic appeals replaced the rhetoric of uniting the Malay community, especially after Anwar's expulsion from UMNO on the charge of sodomy and the tragedy of 11 September 2001. The Malay community was united in sympathy and outrage over the two incidents, both of which appeared to misappropriate Islamic laws. Sympathy for Anwar arose from disbelief at the allegations, which were in stark contrast to the pious image with which he was associated.

According to Vidhu Vermathe, the Islamic resurgence of the late 1990s was different from earlier incarnations.[19] It was brought about by the authoritarian politics practiced by Mahathir, changes in Malay identity, and popular views. It is viewed as an appropriation of political space within the arena of institutionalized repressive tolerance.

Dr. Mahathir managed to garner the widespread agreement of the Malay community when he commented that the US should go to the root of the problem in combating terrorism: 'I explained to him (President Bush) the anger and frustration of the Muslim world and he seemed to appreciate and understand what I was saying'.[20]

This gives the Malay community a sense that they have always been tolerant and patient despite the oppression displayed in the Anwar situation, Mahathir's criticism of Malays and their own achievements relative to other ethnic groups. Dr. Mahathir's politics provided psychological unity, not only to Muslims in Malaysia but all over the world. Mahathir had also loudly proclaimed that Malaysia is not just an Islamic nation but an Islamic fundamentalist state.[21] Islam therefore becomes a greater factor of identity to the Malays and the Muslims.

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[18] Ahmad Hussein Syed, 'Muslim Politics and the Discourse on Democracy', Francis Loh Kok Wah & Khoo Boo Teik, eds., *Democracy in Malaysia Discourses and Practices* (Surrey: Curzon Press, 2002), p.89. Contemporary argument states that 'in the short term, Mahathir's Islamization policy had been effective in its 'task…to domesticate [the] assorted Islamic loyalties to its own purpose without losing its own moral or religious control' but the parallel tightening of the political arena had helped steer Islamists into new areas of dissent—that of social justice, clean government, democratic space, honest elections, rights and freedoms. To them these were as central to the teachings of Islam as the Islamic programs and institutions that UMNO initiated'.

[19] Vidhu Verma. *State and Civil Society in Transition*, (Colorado: Lynne Rienner, 2002), p.209.

[20] *The Star*, 21 October 2001.

[21] *The Borneo Post*, 18 June 2002.

TRANSITIONS IN THE ECONOMY

The dominant trend in the post-independence period in Malaysia's economy has been a transition from dependence on primary exports to a diversified economy with a vigorous industrial sector; and a rise in per capita income brought about largely by industrialization.[22] This brought about changes to the balance between rural and urban population, changes in societal structure and a gradual change of mindset in the people.

This shift has not been prominent, however, in East Malaysia, which still depends heavily on the export of primary produce, the most valuable of which has been timber. There is an imbalance in economic development amongst the states of Malaysia. While Peninsular Malaysia's economy shifts further away from dependence on primary products, Sarawak appears to be moving in the opposite direction. Sarawak has experienced a net transfer of revenue to the Peninsula since it signed over Petroleum rights to Petronas (the national oil company) in 1974.[23] The federal government's revenue from Petronas has been very high and the profits have supported the government's ability to undertake financial rescue operations critical to UMNO's support base.[24]

The economy during the colonial period, especially in the case of Malaya (Peninsular Malaysia), was exceptionally open in every sense—to international trade, foreign capital inflows, and immigration of labor from countries with population surpluses (India, China, Indonesia, the Philippines, etc).[25] The community structure from the colonial 'divide and rule' approach remained intact. Unequal distribution of economic wealth propagated and resulted in state interventions to the open market. Government economic policy moved from a largely laissez-faire stance in the 1960s to more state-directed and supported modes in the 1970s and 1980s while economic growth accelerated.[26] State intervention, with the introduction of the NEP, saw a large influx of

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[22] Amarjit Kaur. 'Economy and Society: The Formation of a National Economy', Amarjit Kaur & Ian Metcalfe eds., *The Shaping of Malaysia* (Basingstoke: MacMillan Press, 1999), pp.119-163.

[23] Michael Leigh, 'The New Realities for Sarawak', Colin Barlow, ed, *Modern Malaysia in the Global Economy: Political and Social Change Into the 21st Century* (Cheltenham: Edward Elgar Publishing, 2001), p.120.

[24] *Ibid.* p.130.

[25] Ibid. pp.196-208.

[26] J.H. Drabble, 'The 'Lucky Country: Malaysia's Twentieth Century Economic Transformation' in Kaur & Metcalfe, *op.cit.*

population to the urban town areas. Economic policies capable of absorbing the increased amount of wage labor were needed and implemented.

The formation of the Malaysian Federation was a convergence of economies at various development stages: Singapore, Malaya, Sabah and Sarawak. In anticipation of the formation of Malaysia, a World Bank mission submitted a report on the economic aspects of the federation, endorsing the thrust of post-colonial Malayan industrialization policy and the setting up of a Tariff Advisory Board.[27] The economy remained relatively open at this stage and Malaysia continued with industrialization, strategizing on import substitution in the 1960s coupled with rural development in the 1970s, then moving on to export-oriented manufacturing in the 1980s and 1990s.

Malaysia's economy was affected by fluctuations in the world economy at various periods in time. Foreign investment slowed down at the end of the 1960s. One of the factors affecting the slowdown was the devaluation of the pound sterling in 1967 and the racial riots in 1969. Malaysia also had to face a shift in the attention of British investors towards Europe.[28] In the mid 1980s, worldwide recession occurred. The slump intensified the slowdown in capital investment which had occurred with the implementation of the Industrial Coordination Act (ICA) 1975. Malaysia had initially reacted to the slowdown with increased state investment, especially utilizing revenues from petroleum. However, the impact of the mid-1980s world recession forced a relaxation of the ICA, and heavy promotion of foreign investment, with the leading investors coming from Japan. This followed the 'Look East' policy and heavy industrialization program that was carried out through Heavy Industries Corporation of Malaysia (HICOM) in the early 1980s, when Dr. Mahathir became prime minister of Malaysia. In 1997 Malaysia experienced another economic downturn caused by a devaluation of currencies in the Asian region, starting with Thailand's baht.

Economic growth was impressive during the first fourteen years of the NEP, averaging 7.8 percent during the 1970s and 6.9 percent between 1982 and 1984.[29] The NEP was temporarily shelved for a period between 1985-86 with a relaxation of rules governing FDI, seeking to increase input from this source.[30] A new source of capital was needed since the deepening world

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[27] *Ibid.*

[28] J.H. Drabble, *An Economic History of Malaysia, c.1800-1990*:*The Transition to Modern Economic Growth* (London and US: MacMillan Press & St. Martin's Press, 2000), p.243.

[29] Crouch, op.*cit.,* p.222.

[30] Kaur, o*p.cit.,* p.160.

recession of the 1980s prevented the government from continuing to inject funds into the economy. The economy contracted one per cent in 1985.[31]

The timing and volume of FDI in Malaysia were crucial determinants of the pattern and rate of growth of Malaysia's economy, particularly due to political strategies of favoritism adopted by the ruling government, which inhibited investment from the principal domestic savers, the Chinese.[32] FDI became the alternative, possibly the only alternative, to capital for development. A heavy reliance on FDI though, put the Malaysian economy at the mercy of foreign investors, and it contracted significantly when they withheld their investments. Table 1 shows the FDI totals. We should note that the extent of FDI may be related closely to a country's openness to trade.[33]

Table 1: Net FDI in Peninsular Malaysia (1961-1990)

TOTAL INVESTMENT APPROVALS (US$ MILLIONS)[34]

Year	Amount
1961-80	4,453
1981-90	11,850
(1988-90)	5,523
1961-90 (Total)	16,303

Source: Drabble *op.cit.*, p.240.

Dr. Mahathir's response to western-style globalization was critical. Mahathir warned of free capital flows leading to an 'anarchic' globalized market.[35] He also continually expressed concern over possible political control that can be gained by large multinational corporations over a country, even though he continued to court FDI.

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[31] Drabble, 2000, o*p.cit.*, p.200.

[32] *Ibid,* p.240.

[33] Avik Chakrabarti, *Determinants of FDI: A Comment of Globalization-Induced Changes and the Role of FDI Policies,* http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Chakrabarti/$File/CHAKRABARTI.PDF. Chakrabarti suggests that countries intent on increasing FDI should increase participation in the process of globalization as well as regional economic integration. World economies are now converging on the platform of globalization, an economic transition that is being pushed upon all countries regardless of ranks in development. This transition had been largely brought about by the more developed Western economies.

[34] *Ibid.*

[35] 'Malaysia's Mahathir Warns of "Anarchic" Globalisation', http://asia.news.yahoo.com/020603/reuters/nklr152056.html

Despite Mahathir's wariness over having to depend on FDI, Malaysia may need to continue relying on FDI for sheer economic survival. A recent report argued that Malaysia may need to become more competitive vis-à-vis its neighbors through more traditional methods of attracting FDI,[36] this contrasts with Mahathir's policy of embarking on an IT-based economy. Under that policy, one of the projects, the Multimedia Super Corridor, was set up to attract foreign investment and technological exchange. The need for continued reliance on foreign investment is enhanced by the slow progress of the IT-based economy.[37]

These economic transitions helped shape the skills of the society, bringing them from the farms to the factories and now towards computerized facilities. Skill development is forced upon them regardless of their readiness. These transitions have also occurred in a relatively short span of time, commanding considerable flexibility on labor skills.

TRANSITIONS IN UMNO

The United Malays National Organization or UMNO has always asserted its centrality to the Malay community's hopes, aspirations and development. UMNO was formed initially to oppose the implementation of the Malayan Union. Its aristocratic leaders articulated Malay racial interests at a time when the Malay sultans and aristocracy felt extremely threatened. They needed protection and drew upon popular support based on common ethnicity.

A split in the party occurred when Date On Afar, the founder, wanted to transform UMNO into a multiracial organization. His proposal was not well received and he later resigned to form the IMP (Independence of Malaya Party), which was open to all ethnic groups. The new UMNO leader, Tunku Abdul Rahman, formed the Alliance with the MCA and MIC (Malaysian Indian Congress), a multiracial front to contest the 1955 general elections. Tunku had the difficult task of striving to accommodate both Malay and non-Malay interests. The balance was difficult to attain without raising the suspicion and fear of other members. Tunku later faced challenges from the 'young Turks' of his party, prominent among them being Dr. Mahathir, who wanted the leaders to fight for more Malay interests in business and society. They called for the expansion of state capital to create a Malay capitalist class

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[36] S. Jayasankaran, 'Fear of the Future', *Far Eastern Economic Review,* 19 September 2002, p.60.
[37] The government aims for a transition from a p-economy (product economy) to a k-economy (knowledge-economy). The country thus moves from tangible to non-tangible commodities.

through the government-sponsored Bumiputera Economic Congresses of 1965 and 1968 which resolved that the government 'must act as the helper, protector, enforcer and promoter of *bumiputera* economic interests in entrepreneurship, industry, mining, transport, marketing, capital investment and training.'[38]

The seeds of greed and dissension had been sown when rising young 'entrepreneurs' had seen what the government can do and will do for them. This seed was nurtured and rooted when Tunku's successor, Tun Razak, brought bigger shares of business in the economy to the Malay community, particularly to members of UMNO. Razak had been more aggressive in his policies than Tunku. The NEP had been a major influence. 'UMNO went into business with the implementation of the NEP'.[39] The economic prosperity and the continued growth of Malay influence in the business arena prompted deeper UMNO involvement in business, concentrating more corporate wealth into the hands of an elite minority. The 'Individual *bumiputera'* share of total *bumiputera* equity dropped from sixty percent in 1970 to thirty-four percent in 1980 despite an increasing annual growth rate of individual *bumiputera* equity by 23.5 percent per annum.[40] By the time that Mahathir took over leadership of the party, many attitudes such as the subsidy mentality were already deeply entrenched in the party. Gomez attributed the rise of the money politics phenomenon to a rent-seeking middle class in UMNO.[41]

The change in purpose, leadership and member composition in the party created rifts. The party's grassroots leadership composition underwent a gradual change, from a more ideological rural base to a more commercial urban base. This was reflected in the change in the composition of the UMNO General Assembly participants. Teachers made up forty-one percent of the UMNO delegates in 1981. This dropped to nineteen percent in 1987 while the number of businessman in the delegates constituted twenty-five percent in 1987.

Faction formation was also more rampant than ever. Milne and Mauzy have argued that, 'factions in UMNO became more acrimonious than those under any previous president, so acrimonious that the party split in 1987, was

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[38] Edmund Terrence Gomez, *Political Business: Corporate Involvement of Malaysian Political Parties* (James Cook University of North Queensland: Australia, 1994), p.52.
[39] Edmund Terrence Gomez, *UMNO's Corporate Investments* (Selangor, Malaysia: Forum Enterprise, 1990), p.166.
[40] Gomez, 1994, *op.cit.,* p.56.
[41] *Ibid.*

declared an illegal organization and had to be reconstituted'.[42] Milne and Mauzy also described UMNO's transition as 'a swift transition from traditional deference in UMNO to an era of rampant money politics without any perceptible intervening period of democracy in the party'.[43] In the late 1970s, as prime minister, Tun Hussein Onn agonized over the explosion of corrupt practices as party members seized opportunities provided by the affirmative action policy (the NEP) and turned them to their own individual benefit, whilst claiming to be acting on behalf of the Malay community.

Contesting his first general election as prime minister with the slogan '*bersih, cekap dan amanah'* (clean, efficient and trustworthy) Dr. Mahathir articulated the desire for a clean and non-corrupt functioning of the government. The success rate does not appear to be convincing though. With the introduction of UMNO into business, a different goal or source of attraction keeps the party members together today. Although the purported role UMNO plays in the Malay society still remains the same, that is to protect the rights of the Malay community, the emphasis on 'which class of the community' has substantially changed. To some, UMNO also projects an image of aggressiveness today, in part because of its unchallenged role as the leading party of the ruling Barisan Nasional, the National Front.

TRANSITIONS IN GOVERNMENT

The authoritarian character of the Malaysian government has been enhanced incrementally over time.[44] The Malaysian political system continues to display a democratic character despite increasing authoritarian behavior since the ruling government continues to adhere to the letter of the Constitution. The Constitutions has, however, been amended numerous times.[45] All that is required to amend the constitution is a two-thirds majority in both houses of the federal parliament, and the Alliance/National Front Government has always held more than two-thirds of the seats in every sitting of Parliament. The government has cleverly amended the Constitution, on the one hand preserving the structure of democratic governance while at the same time making changes to suit their desire for greater authority. The authoritarian character of the political system was strengthened when Mahathir, after

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[42] R.S. Milne, & D.K. Mauzy, *Malaysian Politics under Mahathir* (New York: Routledge, 1999), p.185.
[43] *Ibid.*
[44] Crouch, 1996, *op.cit.*, p.96.
[45] *Ibid.*

experimenting with political liberalism for a brief period (1981-1987), decided that the Malaysian society would develop better with more stringent political controls. (The mirror image prevailed in the economic realm, Dr. Mahathir having initiated state-led heavy industrialization and restrictions during the first half of the 1980s, only to change tack and follow a policy of economic liberalization during the second half of that decade).[46] In 1987 Dr. Mahathir faced-off a challenge to his leadership of UMNO and launched Operation Lalang, employing the Internal Security Act (ISA) against organizations and individuals who were simply critical of government policies, but by no stretch of the imagination could be deemed subversive, pro-communist or utilizing unconstitutional means to oppose the government in power.

Authoritarianism has been slowly weaved into the fabric of government, thanks in part to the Sedition Act. This act made it an offense to question constitutional provisions relating to the position of the Malay rulers, the special privileges accorded to the Malay community, the rights of non-Malay citizens, and the adoption of the Malay language as the sole official language of the country.[47] Other facets of authoritarianism are the loss of independence of the judiciary, the reduction in the rulers' powers and in the continuing use of the colonial era Internal Security Act (ISA).[48]

The judiciary's loss of independence is not recorded in school history texts. The judiciary's independence was drastically reduced following a series of court cases whose outcomes had not been satisfactory to the government. The first concerned the takeover of Bank Bumiputera Malaysia by Petronas. The government had amended the Petroleum Act in May 1985 retroactive 1 October 1974 to make the takeover legally possible.[49] The High Court ruled in favor of the Government but ordered costs to be paid to a lawyer who had sued the government on the legality of the takeover. The second involved the suspension of the *Asian Wall Street Journal* from publication and the expulsion of two of its journalists. The Supreme Court had ruled in favor of the newspaper. Public attacks on the judiciary followed, and the verbal tussle

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[46] One can draw parallels with the Communist Party of China, which has asserted very tight political hegemony, whilst at the same time liberalizing the economic domain. The Chinese leadership were highly critical of the way in which the Communist Party of the Soviet Union liberalized its political control, with the resultant destruction of Communist leadership and balkanization of its territory.

[47] Khoo Boo Teik, 'Nationalism, Capitalism and "Asian Values"' Loh & Khoo *op.cit.,* p.59.

[48] The rulers are the Sultans who rule their states and the *Agong* or king who is drawn from the ranks of the Sultans.

[49] Tun Salleh Abas & K. Das, *May Day for Justice* (Kuala Lumpur: Magnus Books, 1989), p.8.

between the prime minister and members of the judiciary was much publicized. The head of the judiciary, the Lord President, and two other Supreme Court judges were then removed on the grounds of conduct unbecoming of a judge. Dr. Mahathir, in an interview with *Time* magazine, implied that judges should not interpret the law independently but 'according to our wish'.[50]

Another demonstration of the power of the executive over all other institutions in the country is the reduction of the power of the Malay rulers. Amendments to the constitution were made to remove the veto powers of the Malay rulers over legislative bills. A further amendment was made to the constitution to remove the immunity of the sultans for criminal offences, so that they would not be above the law.[51] This amendment was made after the Sultan of Johor's alleged assault on a hockey coach. The amendment to remove the veto powers of the sultan was not signed by the *Agong*, who felt that his position would be threatened if he signed. The situation was finally resolved when a compromise was reached whereby the king would be given sixty days to delay any piece of legislation, compared to the proposed fifteen days, provided he gave reasons for the delay. Once the legislation was returned to Parliament, Parliament had the power to approve it a second time and it would become law.[52] Mahathir announced that 'the feudal system was over' after the Constitution (Amendment) Bill 1983 was finally signed by the deputy *Agong*.[53]

The strongest symbol of authoritarianism is the Internal Security Act (ISA). The use of the ISA has considerably limited the scope for civil rights and opposition debate. The ISA was designed to combat communist insurgencies. Under the ISA anyone considered to be likely to act 'in any manner prejudicial to the security of Malaysia' is liable to be detained.[54] Over the years, the function of the ISA has broadened to include anyone likely to act 'in any manner prejudicial to the ruling government or the ruling party'. According to Crouch, the number of detainees under the ISA totaled around three thousand between 1960 and 1981.[55] The number of detainees fluctuated

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[50] Khoo Boo Teik, *op.cit.*, p.13.
[51] Kaur, *op.cit.*, p.114.
[52] *Ibid*, p.113.
[53] Milne & Mauzy, *op.cit.,* p.34.
[54] H. Crouch, 'Authoritarian Trends, the UMNO Split and the Limits to State Power', Joel S. Kahn & Francis Loh Kok Wah, eds., *Fragmented Vision: Culture and Politics in Contemporary Malaysia* (Sydney: Allen & Unwin 1992), p.23.
[55] *Ibid.*, p.23.

over the years, from nine hundred in the 1970s, to 586 in 1981 when Mahathir took power and fell to forty by the end of 1986. The number of detainees increased again with the sudden arrest of 106 mostly opposition party members from DAP and PAS, including the parliamentary opposition leader Lim Kit Siang, in October 1987. That wave of detentions had a very chilling impact on political discourse in Malaysia, as many of those incarcerated without trial were active in a range of non-government organizations, and could not be deemed to be communist by any stretch of the imagination.[56] The government justified its actions by claiming that there had been a sharp rise in racial tensions during that period. All 106 were gradually released. Contrary to the negative image that was previously associated with its implementation, since the September 11 2001 terrorist attacks in the United States and related counter-terrorist activities in Southeast Asia, the ISA has gained acknowledgement in the international arena as an effective tool to curb terrorism.[57]

While Prime Minister, Mahathir initiated most of the measures described above in order to consolidate executive control and eliminate autonomous nodes of power. Unlike several past leaders, he has a different view on what democracy should mean in Malaysia. Dr. Mahathir holds that Malaysia is a democratic country on the criteria of direct representation of the public, majority rule through a government of elected representatives, periodic elections allowing for possible replacement or change in government, separation between executive, judicial and legislative branches, and responsiveness of elected representatives and the government to public opinion.[58] He constantly rejects the western definition of democracy, stating that Malaysia's democratic government is not a 'slavish copy of the kind of liberal democracy that has developed in the West in recent years…[which] worships individual and personal freedom as a fetish'.[59] Most of the younger generation appears to share the view that democracy basically means the freedom to vote for the government of your choice. They have known no other leader. His ideological authority stems from his image as a strong leader who challenges Western hegemony, and stands up for Malaysian concepts and definitions of global realities.

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[56] This was Operation Lalang mentioned above. Lalang is the unwanted grass that takes over denuded land, and is not fit to be eaten even by animals.
[57] The *Star*, 30 September 2001.
[58] Khoo Boo Teik, *op.cit.,* p.60.
[59] Quoted in *Ibid*., pp. 59-60.

TRANSITIONS IN POLITICAL LEADERSHIP

The ideologies, vision and strength of leaders in Malaysia have an influential effect on the outcome of development. Society at large responds and adapts to each new leader and the new policies implemented, provided the leaders are responsive to their interests as well. Tunku Abdul Rahman's resignation had been caused by his perceived failure to respond effectively to the Malay community's interests. Tunku led on the premise that Malaysia would remain a secular state, therefore remaining sensitive to the needs of other races in Malaysia. Tunku tried to set an example of how ethnic issues or rights should be exercised with considerable tolerance. Tunku is widely known as the 'Father of Malaysia' or *Bapa Malaysia*.[60] Tunku could be described as a victim of the open economy practiced during the colonial times. The trading economy, promoted by the British, had left the Malays very backward economically, leading to Malay dissatisfaction. Tunku's continual and persistent tolerance and lack of clarity on Malay rights within the community added salt to the wound. He was succeeded after the racial riots that occurred in 1969, which he said were due to unequal distribution of wealth among the different ethnic groups.

Tun Razak's leadership was marked more by his leaning towards economic development and restructuring, particularly for the Malay community. He responded to the Malay community's interests as well as the interests of those that had elected him. Tun Razak changed the 'rules of the game' and shed 'the democratic excesses of the old system.'[61] He stamped out any ambiguity towards the Malay position when he introduced the NEP and entrenched the Malay language as the teaching medium in schools and universities. Until then, the three major ethnic communities (Malay, Chinese and Indians) had enjoyed relative freedom to run their own ethnic-based schools, under the secular governance of Tunku. This was a new environment. Tun Razak used the ethnic Malay electoral majority to balance the 'gold' on the Chinese side.

Tun Razak shared a similar trait with Mahathir in that they were both hard workers and lacked confidence in delegation. Tun Razak's achievements were as impressive as Mahathir's. He produced a report for the creation of a national system of education with a common syllabus (1956); as minister of

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[60] Tunku became UMNO leader by chance when Dato Onn left and his friend Razak who had been asked to put forth his name, suggested Tunku's name instead because he thought himself too young.

[61] Cheah Boon Kheng, *op.cit.,* p.109.

National and Rural Development, he adapted some of the techniques used to fight the communist insurgency, he set up a series of 'operation rooms' to record which agricultural projects were proceeding as planned and which were lagging; he reshaped the Federal Land Development Authority (FLDA, later FELDA). He was used by Tunku as a trouble-shooter during the confrontation with Indonesia and in discussions on the separation of Singapore. Milne and Mauzy recognized him as a genius at innovation, pointing to some of his most outstanding achievements: the launch of the NEP; introduction of the concept of 'neutrality in the region', and his success at persuading China to endorse it; and his idea for a multi-ethnic Alliance party when he formed the Barisan Nasional in 1974.[62] Consequently, Tun Razak is known as the Father of Development or '*Bapa Pembangunan'* for his contributions to economic prosperity in the country.

His innovation appears to be almost equivalent to Mahathir's and perhaps he could have achieved more as PM had he not been stricken with leukemia. Both Mahathir and Razak were ambitious. They were determined to achieve their ambitions, and were further urged on by their fear of insufficient time. Mahathir's sense of urgency, however, pushed him to seek other means that he deemed necessary to achieve his ambitions.

Razak's successor, Tun Hussein Onn, had a brief period in office. His achievements and strength of character, in contrast to the other prime ministers were rather limited. Cheah Boon Kheng described him as indecisive, allowing crises to solve themselves.[63] He appeared at times to be overwhelmed by the societal transitions that were underway. As a deeply moral man, he expressed anguish at the growing corruption of many beneficiaries of government initiatives, but was unable to deal decisively with the complexities. According to Milne and Mauzy, he lacked a strong political base and his return to the political scene was too sudden for him to forge close political ties.[64]

Milne and Mauzy raised the question: how long do, or should, leaders stay in power?[65] The Razak and Hussein governments had been cut short by illness. Mahathir's premiership was the longest of any Malaysian leader by the time he handed over power in October 2003. Dr. Mahathir's relationship with his

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[62] Milne and Mauzy, *op.cit.,* p.5.
[63] Cheah Boon Kheng, *op.cit*., p.111.
[64] Milne and Mauzy, *op.cit.* Tun Hussein Onn had followed his father, the founder of UMNO, when he left the party to form the Independence of Malaya Party (1951) following the rejection of his proposal to turn UMNO into a multiracial party. He rejoined UMNO at the invitation from Tun Razak, his brother-in-law only after his return from studies in England.
[65] *Ibid.*

deputies and potential successors has been fraught with difficulty, as was evident in the incarceration of Anwar Ibahim, whose case overstepped the tolerance point for many Malaysians. Tunku's transfer of power to Tun Razak was gradual and uncontroversial, as was the transfer from Tun Hussein Onn to Dr. Mahathir. Mahathir has also been the most outspoken PM. He assumed leadership with a relatively liberal approach. Language, cultural and educational policies were considerably liberalized. The leader of an opposition party, the DAP, went so far as to blame 'liberalization' for his party's defeat in the 1995 elections: 'Our defeat in the previous general election was not because the DAP did not call for reforms…The Barisan Nasional's major victory was because the PM is now more liberal…'.[66]

Mahathir's background differed from his three predecessors. He was not educated in England nor was he educated in law. He also had no royal lineage from which to garner traditional Malay loyalty and respect. His detractors even alluded to his part-Indian ancestry. His view of Western liberal democracy is reflected in an excerpt from the Malaysian Prime Minister's Department and quoted by Khoo.

> Malaysian democracy is not a liberal democracy and not bound to accept every new interpretation of democracy in the west where democratic fanatics have pushed devotion to a pedantic notion of democracy to include the protection of neo-fascists or the empowering of a vocal minority of political activists over the silent majority of ordinary citizens.[67]

Mahathir was very much an ideologue. He was the first prime minister to articulate a vision to lead the public towards common goals. Vision 2020 serves as a framework for policy making as well. Internationally, he has made himself known with his loud and constant criticisms of the West, especially with his outspokenness towards the United States. Unlike all of his prime ministerial predecessors, Mahathir has more affinity with businessmen than with civil servants, and his policies have reflected those instincts. He campaigned on the 'buy British last' policy, advocated 'Look East' to learn from Japan, Korea and Taiwan, introduced the Malaysian car and a subsidized steel industry, embarked on massive privatization programs of state assets, and

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[66] Francis Loh Kok Wah, 'Developmentalism and the Limits of Democratic Discourse', Loh and Khoo *op.cit.,* p.34.

[67] Khoo 2002, *op.cit.,* and Mahathir bin Mohammad, *The Malaysian System of Government* (Kuala Lumpur: Prime Minister's Department, 1995).

successfully pegged the Malaysian currency to the US dollar[68], demonetarizing the national currency outside its boundaries in a successful effort to undermine currency speculation.

CONCLUSION

This chapter has discussed a range of transitions that have taken place in Malaysia since independence. One of the most significant transitions has been the closure of venues for the articulation of political dissidence, particularly the closure of organizations that have been strongly and effectively opposing the rulers, whoever they may be.

There is a major argument, spelt out by Stenson, that the Communist insurrection was launched in mid-1948 because the British had closed down trade unions and political parties of the left in the name of national security. [69] Those who wanted to work through open organizations were arrested, and the organizations declared illegal. So the fighters assumed leadership, and held sway.

One after another, Malaysian political organizations that threatened those in power have been proscribed as a threat to the nation. On careful analysis of various cases, it was the regime that was under threat. Leaders erroneously equated survival of the government in power with survival of the nation.

The closure of political organizations, especially those that were multi-racial, meant that unhappiness was channeled increasingly through religious or educational organizations, whose members were exclusively of one race or religion. What that meant was that instead of cross-ethnic, cross-religious and cross-cultural compromises being worked out at the local level, articulation of politics was increasingly mediated through avenues that stressed exclusivity.

The politics of regime survival have thus handed huge political advantages to those whose appeal is to religious and racial exclusivity and, dare I say it, extremism. In the short term this gives greater power to the regime to balance the demands of these exclusive groups. The symbol of the ruling National Front is the scales, for the top leaders have assumed the role of weighing up competing demands and effecting compromises from above.

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[68] In financial terms this was equivalent to having substituted the US dollar as the currency of Malaysia, but much more palatable to nationalist sensitivities.

[69] M.R. Stenson, *Industrial Conflict in Malaya* (London: Oxford University Press, 1970).

With the closure of democratic avenues, whether in the name of national development or national security, a trend is being consolidated whereby those who triumph politically are leaders who portray religion or ethnicity as immutable dividing lines between people. Democracy is a very sensitive plant.

The transitions in Malaysia have been totally legal and constitutional, have asserted an absolute pre-eminence of the executive branch of government, have personalized power over institutions, and have left mainly exclusivist avenues for those who challenge the ruling power.

MONGOLIA: MANAGING THE TRANSITION FROM NOMADIC TO SETTLED CULTURE

MASHBAT O. SARLAGTAY

The twentieth century was a century of transition for Mongolia. In the early 1900s Mongolia reestablished its independence from Manchu domination and after periods of both independence and subordination to Russia and China it became a communist state in 1924. Now it is changing its political and economic system from communism to democracy and, consequently, society is transforming itself from its previous base of nomadic animal husbandry to one based on settled industries in an urbanized environment. The transition began in the last century and is still continuing. This chapter analyzes Mongolia's cultural transition using the case of land privatization to demonstrate the actual and potential pitfalls that must be faced by societies and the governments that represent them as they move from one form of society to another. This chapter also describes the political efforts and the fight to legalize land privatization and ownership. Though all Mongolian political parties agree that land privatization is necessary, some parties, basing their position on political values, criticize the government for being unprepared for land privatization. Also discussed are the main arguments related to the social aspects of today's society and its influence on the issues.

There are two sets of competing values. The first is that of the traditional nomadic mentality that resists the concept of land privatization. This is one psychological aspect of the nomadic worldview of the Mongols. The second is that of the political elite (of both government and opposition parties) that supports land privatization as necessary concomitant to transform Mongolia into a modern society.

HISTORICAL CONTEXT: NOMADIC LIBERTY VERSUS LAND OWNERSHIP

The Hunnu Empire, the nomadic people's first empire in what is now Mongolia, was founded in 209 BC.[1] The current heritage of Mongolian statehood has profound roots in the Hunnu Empire.

The very first border agreement between Mongolians and Chinese was made by the Shanyui (king or emperor) of the Hunnu Empire and the emperor of the Han dynasty in 198 BC. The Spring and Autumn sessions of the State Great Hural (Mongolia's parliament) have their origin in the Hunnu Dynasty.

One of the principles of nomadic statehood, perhaps the most important one, was stated by Modun Shanyui, the first Shanyui of the Hunnu dynasty. He said: 'the land is the ground of the state'. Later, this quote was interpreted as a restriction of land ownership and the precept was strictly followed by successors of the nomadic statehood heritage. The state enjoyed a monopoly on control of the land and land was the foundation of nomadic liberty.

Nomadic liberty is fundamental. Mongolians as a nomadic nation do not like boundaries or limits. The mentality and lifestyle determined by animal husbandry cannot simply recognize any limits in any dimensions, including time and space. Liberty for Mongolians means 'no limits'. Many Mongolian folk tales and myths conflate time and space as they ignore the, to them, artificial boundaries imposed by these constructs.

Unlimited nomadic activity means that there can be no private ownership of land. Land in a nomadic society is like the air or the ocean, it is impossible to divide and possess. It is not even public property, but simply a limitless expanse where we live and move. Nomads want to travel everywhere and across everything, without any limit. Can you imagine their thoughts if a stranger appeared before them, saying 'This piece of land is mine' and prohibiting them to go across it? To own a little piece of landmass of the universe, saying 'It is mine', sounds to them like 'this cubic meter of air is mine, so, you cannot breath it!'. It is impossible to imagine.

One reason for the Mongol Empire's greatness was the absence of any understanding of 'border', of land limits. The nomads were just traveling and looking for good pastureland. When they saw a settled town or cultivated area, they did not understand the different culture and lifestyle. In the same way, the

[1] However, there is discussion among scholars (especially those of inner Mongolia), who are well versed in ancient Chinese historic documents and characters, attempting to prove that the history of nomadic statehood precedes the Hunnu Empire by more than three hundred years.

settled cultures too, usually described nomads as barbarians. Thus, the leader of the town would say, 'go away from our land', and the Mongols would get angry and destroy them. It was the clash of civilizations of the day.

Modun Shanyui's original testament is alive today (indeed, even the great Chinghis [Genghis] Khan was not so brave as to break this testament) and all Mongolian dynasties have followed these words. There is no societal tradition of private land ownership, but today, with the move to an urbanized and settled society the issue has to be rethought.

POLITICS AND LEGAL RULE

There have been attempts to privatize land in the past. The Uigur and Kidan dynasties implemented a policy to privatize land under the influence of (Chinese) settled cultures. Unfortunately, these attempts were ended by the collapse of their mighty dynasties. A third attempt was made during the Bogd Khan Kingdom of Mongolia (1911-1924), but the result was the same, and was ended by the people's revolution in 1921. All three attempts were taken under the influence of powerful and imperialist neighbors and the results were quite destructive. The current process is the fourth attempt at promoting land privatization.

During the Communist regime all land was state property. The 1960 Constitution stated that:

> All land, treasures under it, forests, rivers, their resources, state enterprises, mines, Power Stations, railroads, highways, air and naval navigation, communications, banks, agricultural industries, social welfare facilities, basic apartment and buildings stocks, raw materials and products of state industries, commercial organizations, cultural and scientific facilities and all property of state organizations shall belong to state ownership and are the property of the people. [2]

The statement is, of course, an example of Communist ideology, centralizing the economy and restricting private property. Concurrently, it strengthened and harmonized with the Mongolian traditions of state monopoly on land. Consequently, there were no land-related social problems in Mongolia during the Communist regime.

The democratic revolution led to the concept of land privatization as a basic tenet of economic reform. In 1992, during discussions over a new

[2] Article 10. The Constitution of The People's Republic of Mongolia, adopted in 1960. It was the third and last Constitution of the Communist regime, terminated by the New Democratic Constitution in 1992.

constitution, one of the thorniest issues was over an article in the new constitution on land. The draft of the constitution presented a completely new idea (for Mongolia) of land ownership and granted citizens of Mongolia the right to own private land. Discussion of this specific article lasted ten days and the result was that restrictions on the ownership of pastureland would remain, but private ownership would be permitted for land near the big cities. The 1992 Constitution stated:

> Only a citizen of Mongolia may be permitted to own land, except pastureland and areas under public and special use. This provision does not apply to the ownership of the subsoil thereof. A citizen shall not transfer his or her private land to foreign or stateless person in any manner of selling, bartering, donating or pledging, nor give others possession or usage without the permission of the respective government authority.
>
> The Government may hold landowner responsible in regard to land, or change land on basis of national necessity. The Government also may terminate land ownership in the case of that land being used against the public health, environmental protection and national security interest.
>
> The Government may allow temporary usage of land by a foreign or stateless person with payment in accordance with law.[3]

This was a compromise between the two sides of the debate but at least caution about the concept of private ownership may be seen. The debate continues today.

In order to implement the Constitution, the Law on Land of Mongolia was adopted in 1994. It had a specific provision allowing citizens to own private land but this was not implemented. The government of the day, which consisted of ex-communists of the Mongolian People's Revolutionary Party (MPRP),[4] decided to delay land privatization.

Democratic forces, as they usually call themselves, have always pursued land privatization. In 1996-2000 there were several attempts by the government, which by then consisted of leaders of the Democratic Coalition,

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[3] Paragraphs 3, 4 and 5, Article 6, The Constitution of Mongolia, adopted in 1992 by the People's Great Hural of the People's Republic of Mongolia. It was Mongolia's first democratic constitution and the result of the peaceful and bloodless democratic revolution of 1990.

[4] The former communist party of Mongolia. It was founded in 1921. The party ruled Mongolia for over 70 years and is still one of the major parties of Mongolia.

to adopt a Law on Land Privatization.[5] But the attempts faced strong resistance from the one-time communist opposition leaders of the MPRP. The opposition's main argument against land privatization was that society was not yet ready. The opposition prevailed.

Despite the political arguments and counter-arguments and a series of political crises in which each side blamed the other for delays in the privatization process, the government finally decided to issue certificates of land possession and use to implement the 1994 Law on Land and to promote economic and social reform. Citizens now have the right to possess land for sixty years in accordance with the law, but in practice the license term was limited to only one year during the MPRP government before 1996. The certificates changed this situation, granting citizens the right to possess land for minimum terms of fifteen years. The certificate may be purchased by one individual and may be transferred through inheritance.[6]

The issuance of the certificates has had a tremendous impact on society. Land was already being bought and sold but such purchases were illegal. As soon as the certificates were issued, land purchases was legalized, and the market became much more active. Technically, this was not a real estate sale but the sale of a certificate of land possession and use. However, it was in fact the purchase of land. Moreover, the certificates re-emphasized a change of perceptions about land and its relationship to society and social activity.

Land is now in demand and prices have risen. Taller and taller buildings are being constructed. Cities, mainly Ulaanbaatar, have begun to spread.

Legally, land is still technically state property, but in practice is not. As such, the concept of land possession is ill-defined and developing in a chaotic way. Land claimants typically erect fences marking what they believe to be their possession. The size of an individual land tract is often limited only by its location and access to infrastructure. There has been almost no registration. The government has been unable to exercise its powers as the ultimate owner, technically, of land, and civil servants have been deeply corrupted.

The government established as a result of parliamentary elections in 2000, in a change of its position before 1996, is keen to promote land privatization.

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[5] The coalition was the ruling political force in Mongolia from 1996 to 2000. It consisted of the Democratic Party of Mongolia, Social-Democratic Party of Mongolia and National Progress Party of Mongolia. The coalition was broken up in 2000 and later reunited as a new party, the National Democratic Party of Mongolia (NDPM). It is one of the major parties of current Mongolian political life.

[6] Section 2, Article 30, Law of Mongolia on Land.

The government's most reformist step has been the adoption of a new law on land privatization. On 17 June 2002, the 'Law on Allocation of Land to Citizens of Mongolia for Ownership' was adopted nearly unanimously by the State Great Hural. However, there was some dissension, even within the government, about whether Mongolia was ready for private ownership of land.[7]

A small opposition party, the Civil Courage Republican Party (CCRP),[8] supported land privatization but was also concerned that land privatization without any preliminary program for preparing for it might have tragic consequences, going against all traditions and morality. The CCRP called for a concrete program implementation plan that would first prepare the country for this momentous step. Professor Dashnyam L. Goroechin, one of the CCRP leaders and a presidential candidate in 2001, emphasized that privatizing land was not to be taken lightly, invoking the testament of Modun Shanyui and Mongolia's nomadic heritage.[9]

The CCRP leaders warned the government that land privatization without any concrete strategy of implementation could have tragic consequences similar to or worse than a scandal surrounding the privatization of small and medium-sized enterprises. They also cited results of a research project by specialists from the University of California, under contract to the government of Mongolia, which concluded that 'privatization in Mongolia was completely unsuccessful. Shareholders existed only in theoretical terms, but not in real life'.[10]

The 'Law on Allocation of Land to Citizens of Mongolia for Ownership' is the first decisive break from the two thousand year-old testament of Modun Shanyui. and the most serious challenge to the nomadic heritage, mentality, and lifestyle. It is shaking all of society and public opinion remains divided; city-dwellers welcome the law, but nomads in the countryside look at it with deep misgivings.

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[7] '*2.400.000 irgen gazar omchilno*'. (2.4 million citizens may become land owners)'. Report from Party group session of Parliament. *Odriin Sonin* (Daily News) 11 June 2002, No. 143 (1016).

[8] The party was founded in 2000 by one of the political factions of the Democratic Coalition. Since its establishment the party is recognized as the third force in current Mongolian political life, next to the two major parties, the MPRP and the NDPM.

[9] G. Otgon, '*Gazriig omchluulehiig yagaan tasalbariin budliantai zuirlev* ' (Land Privatization is Compared to Privatization by Security Stock Scandal) *Zuunii medee* (The Century Sensation). June 18, 2002. No 151 (1037).

[10] *Ibid.*

TRADITIONALISTS VERSUS PRIVATIZATION SUPPORTERS

The land privatization law is the clearest example of the changing mentality in Mongolian society and is part of the current Mongolian cultural conundrum. Mongolian society is composed of two different cultures: nomadic and urban.[11] More than two thirds of the population is settled in an urban area, but animal husbandry is still a significant component of the economy.[12]

The nomadic heritage is now facing a transition to settled culture and urban life. This is the most difficult problem for Mongolian culture and society today. On the one hand, there is an attempt to preserve national identification and cultural heritage, but on the other there is the unavoidable phenomenon of urbanization. Many of the customs appropriate for the nomadic lifestyle do not fit well in an urban lifestyle.

However, as the government is pursuing land privatization, social opinion is divided. One group supports land privatization for economic reasons, saying that land ownership is a part of global culture and is unavoidable. The other side recognizes the winds of change are blowing but believes land ownership must be limited. They resist complete land privatization or the transfer of the land from state ownership to private property. Extremists within this traditionalist group, whom I would refer to as ultra-traditionalists, call on the people to protect '*hel, hil, mal*' or 'land, language and animals.'

Ts. Nyam-Osor, leader of an ultra-traditionalist party, has penned a naïve and romantic image of a 'pure Mongol state' of the future. He imagined a Mongolia in which there were no cities or towns; everything should be movable and nomadic. Mongolians should live in traditional *khots.*[13] The president should have one *khot*, consisting of his administration and counselors, in a place surrounded by the beauty of nature. The prime minister should also have a *khot*. Each minister and parliament member should also have his or her own *khot.*[14]

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[11] Alicia J. Campi. 'Moving Mongolian nomadism into the 21st century: Cultural and ecological preservation coupled with economic vitality and national security', Research thesis (Washington, 1997), p.7.

[12] 'Human development report Mongolia 1997', (Ulaanbaatar, 1997), p.3.

[13] A nomad unit that consisted of several families. Historically, a khot consisted of ten families and has been the basic administrative and military unit in Mongolia since the Hunnu Empire. After the collapse of the communist regime and disintegration of 'negdel', the centralized socialist animal husbandry unit, herders organized in the form of khots again. But the khot is no longer an administrative unit, simply an animal husbandry unit.

[14] Ts. Nyam-Osor '*Minii medeh Chingis*' (Chinggis [Genghis] Khan As I know) (Ulaanbaatar, 1995), pp.19-22.

Ultra-traditionalists consider poverty, famine and luxuries to be a phenomenon of settled culture. In the history of Mongolia there has not been one single famine. Famine was a kind of natural selection, and one who was starving just died somewhere on the great. Hunger and famine were not viewed as a social problems, but as an individual struggle against nature. There were no street children, only orphans who were taken care of by the tribe.

We may see, therefore, that the question 'to be or not to be' for Mongolia as a nation, is hidden in the nature of disputes over whether to privatize the land.'[15] Land privatization, in this formulation, is a matter of national security and concerns the existence of Mongolia itself. Resistance to land privatization is supported by herders and traditionalist philosophers and poets.

Supporters of land privatization usually explain the matter from an economic point of view.. D. Oyunchimeg, former vice-director of the State Department of Geodesy and Cadastral Mapping, says that 'if we do not privatize the land we will be like a poor man sitting on a treasure'.[16] She explains that eighty percent of national wealth is in the land. In the global financial and banking system, eighty to ninety percent of all loans are granted for land purchases. Her calculations are that about twenty thousand hectares (fifty thousand acres) of land in cities and towns will be privatized and that one hectare costs approximately US$400,000. This makes the land worth some US$8 billion. That would represent a huge investment in the national economy.[17] The significance of the money becomes clear if one compares it to the US$874.6 million foreign debt Mongolia incurred in the last decade.[18] There is about another US$10 billion in foreign debt owed to Russia from the period of the communist regime.

Supporters of land privatization do not worry much about the impact it will have on national security and cultural identity. If land belongs to private owners, related cultures will simultaneously emerge. The same tendency is

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15 Khavkh N. Sanjmytavtoin. '*Mongolchuudiin gazar ezemshih ulamjlalt togtolcoo hiigeed nuudliin soyol irgenshil (mal aj ahui)*' (Mongolian Traditional System of Land Possession and Nomadic Civilization (Animal Husbandry) '*Undesnii Ayulgui Baidliin Uzel Barimtlaliin Shinjleh Uhaanii Undes; Erdem shinjilgeenii hurliin embhetgel*' (Scientific Rationales for National Security Concept: papers presented to scholars' conference) (Ulaanbaatar: National University of Mongolia, The Institute for Strategic Studies, 2001), p.79.

16 D. Oyunchimeg, '*Gazriig es huvichilbal Altan deer suusan Guilgachin heveer uldene*' (Poor Man Sitting on a Treasure; Land Privatization), *Zuunii Medee* (The Century Sensation). 28 June 2002. No. 160 (1046)

17 *Ibid.*

18 S. Oyun. '*Mongoliin Shinechleliin Huvi Zaya*' (The Current Political, Social and Economic Situation in Mongolia and the Fate of Transition) (Ulaanbaatar, 2002), p.17.

possible to observe even today. After privatization, the tendency will be even more serious and active, because it will have a practical economic value[19].

Supporters of land privatization even have some radical opinions about re-phrasing the constitutional provision. The Constitution permits only citizens of Mongolia to own land. Some say this is unfair and must be changed to all persons, including foreign and stateless persons. 'Let some John, Ivan and Zhan have private land in Mongolia, and the national interests of America, Russia and China will concentrate here', they say.[20] Therefore, land ownership by foreign citizens will have no negative impact on national security, only a positive one.

It is difficult to say which one of these two views is correct. One is too romantic, sometimes even naïve. But other is too utilitarian and almost ignores its affect on culture and society. If the next century will be the era of a 'clash of civilizations' as foreseen by Huntington, this civilizational aspect must not be ignored.

GENERATIONAL AND CULTURAL CHANGE

Traditionalists are not very active in Mongolian politics, but are more so in cultural spheres. Generally, all major political parties agree on land privatization. Even the conservative party, the CCRP, supports it provided that preparatory and implementation programs are first put in place.

This broad support for land privatization may be explained by the following social and economic developments.

Mongolia is one of the most youthful countries in the world. Seventy-five percent of the population is under thirty-five years old, a trend that gained pace in the rapid urbanization of the 1970s and 1980s. It is driving people away from the nomadic life. Many people are third- to fifth-generation city dwellers. Youths today are attracted to a western lifestyle, not the nomadic traditions of generations ago. They are filled with a radical desire to reform every sphere of life. The urban lifestyle, which took root under the cultural influence of Eastern Europe during the communist regime, has provided fertile ground for the development of liberal ideas. This urban liberalism is eager to abolish any tradition that stands in the way of the construction of a new civilization.

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[19] Oyunchimeg, *op.*cit.
[20] *Ibid.*

Immigrants from rural areas to cities feed this mindset because they come to cities seeking an opportunity to improve their lives. The development of urban culture means more opportunity for them. More than two thirds of the population is now settled in urban areas.[21] This shows that Mongolians are no longer nomads, but have became settled or semi-settled people.

Only some twenty-five percent of the population lives in the countryside, following a traditional way of life. This means that the majority of the population is already in a settled cultural environment. More than twenty-five percent of the population lives in Ulaanbaatar. Another ten percent lives in four other major cities: Darkhan, Erdenet, Choibalsan and Choir. Others live in small villages or province towns.

In the twentieth century the government of Mongolia always supported urbanization. American scholar Alicia J. Campi presented the following data:

> Mongolia began the twentieth century with a very rural population. In 1925, 86.6 percent of the people were self-employed herders and craftsmen. In 1956, 78 percent of the people lived in the countryside. By 1989 collectivization and urbanization policies turned 72 percent of the people into factory workers and public administrators. The rural population was down to 27.8 percent... In 1990 35.5 percent were in industry, 28.2 percent in trade, and only 18.7 percent were in [nomadic] herding'.[22]

However, nomadic animal husbandry is still an important part of the national economy of Mongolia. In the last decade, economic growth was observed only in animal husbandry, in which all animals were privatized and herding was based on private initiative. Some observers wondered if Mongolia was stepping backward into a feudal society based on primitive business relations.[23]

In fact, the rapid growth of livestock exceeded the natural productivity of the pasture lands. There are twenty-six million head of livestock,[24] but Mongolia's pasture land cannot sustain those numbers. The result of this

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[21] 'Human development report: Mongolia 1997' (Ulaanbaatar, 1997), p.3.

[22] Campi, *op.cit.*

[23] Ole Bruun, Per Ronnas and Li Narangoa, *Mongolia: Transition from the Second to the Third World?* (Nordic Institute of Asian Studies: Stockholm, 1998). The book analyzed Mongolian social and economic developments in the last decade and expressed concern about Mongolian steps backward.

[24] G. Purevbaatar. '*Manai Ediin Zasag, Ekologiin Ayulgui Baidal Suirliin Irmeg deer Baina* (Economic and Ecological Security of the Country is Seriously Threatened), *Odriin Sonin* (Daily News) 17May 2002, No. 123, 124 (996, 997).

imbalance, combined with recent harsh winters in Mongolia, devastated herders in 2000-2002.

Natural conditions in recent years have hastened the decline of nomadism. The Zud, the harsh winter and heavy snow, was nature's way of balancing animal numbers and pasture capacity. In 2001-2002 some 4.2 million head of livestock were lost. The herders faced a third harsh winter the following year and specialists expected that about three million animals would die.[25] The Zud is a natural disaster that has a crucial impact on the nomadic economy. As a result of the Zud, nomadic animal husbandry is gradually being pushed out of the economy.

The communications, computer services, and banking sectors are aggressively taking the place of animal husbandry in the Mongolian economy. This has contributed to the weakening of nomadic traditions in society.

The declining economic significance of nomadic animal husbandry lends impetus to land privatization. In a typical scenario, families from rural areas come to cities and build fences around tracts of land for their private use. This usually triggers a dispute with the city administration. The administration says the land belongs to the city, but the rural families say they have nowhere to go. Finally, the city permits the family to stay where they are or moves them to another site, provides all the necessary documents granting a land lease to the squatters. Now, people migrating to the cities support the law on land privatization, expecting to obtain land of their own.

Rapid urbanization and the decline of animal husbandry has changed the nomadic mentality in a radical way. Campi observes correctly that 'Mongolian intellectuals for generations have been taught to regard the herders' life as non-progressive, old-fashioned, even though the repository of Mongolian heritage. The urban life is viewed as modern and somehow better despite the accompanying pitfalls'.[26]

In view of generational change and the urbanization process, the nomadic tradition of the Mongols will likely be even more quickly abolished and replaced by the modern or post-modern lifestyle of today's information society.

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[25] *Ibid.*

[26] Campi, *op.cit.*

CONCLUSIONS: CULTURAL TRANSITION TODAY

In a narrow spectrum, land privatization is only a matter of changing traditions and the regulation of land capacity. In a wider spectrum, it is one of the expressions of the ongoing painful transition of a nomadic mentality to settled modern culture. The current situation of the Mongolian cultural problem in the case of land privatization can be described as follows:

- There is an ongoing process of change in the nomadic mentality. This is the most important part of the cultural transition that began in the beginning of the last century. Nomadic liberty that simply does not recognize any limits has to be changed and is changing now. It will face even more radical changes, or be abolished in the next century.
- The Constitution provides for land privatization and all political parties agree with it. They generally ignore the opposite opinion of the traditionalist minority. But there are many questions for them to address, such as when land privatization should be launched, how and by what strategy the policy should be implemented, and how the right of land ownership must be limited.
- The government and all political parties wish to change the traditional mentality as well. Implementing land privatization will affect nomadic values, which all Mongolian traditions are based on. Because of this, the policy must be well-planned and carefully implemented.
- The opinions of traditionalists are not taken too seriously. The arguments that they use are somewhat naive and romantic. But the truth is, land privatization has a great impact on Mongolian culture and this impact must not be ignored. On the other hand, the arguments of supporters of land privatization are too utilitarian. They ignore the social and cultural aspects of this momentous change.

TONGAN DEVELOPMENT AND PACIFIC ISLAND SECURITY ISSUES

I. C. CAMPBELL

External perceptions of the Kingdom of Tonga tend to be dominated by the awareness that, as a monarchy in which the king exercises significant authority, it is an anomaly in a world where democracy and republicanism are ascendant. All other Pacific states, like other 'new nations' of the so-called 'third world', are republics with constitutions drafted in the framework of the liberalism and optimism of the 1960s. Tonga's constitution is a liberal document of the 1870s, making it one of the oldest functioning constitutions in the world. This longevity attracts scorn rather than admiration from external observers, who see its survival not as evidence of stability and adaptability, but of anachronism, ossification and authoritarianism. It is, however, by no means self-evident that this constitution is inappropriate, and a strong argument can be made that the quality of life enjoyed by Tongans under this constitution is superior, by conventional indicators, to that of most other Pacific Islanders and other 'third world' populations.

The presence of a chapter on Tonga in this volume acknowledges the perception of Tonga as politically and socially archaic, and that as such it is likely sooner or later to experience the pangs, not to say upheavals, of a lurch into the modern world in circumstances that could make it a source of regional instability. If 'security' is an issue for the Pacific Islands, it concerns this question of internal disorder having a capacity to infect the internal affairs of neighboring countries, an interpretation which has some limited empirical support.

On the whole, none of the Pacific Island states constitutes a security threat in the normal sense of the term. That is, they are not militarily expansionist, and none of them has the military or economic capacity to threaten states outside their immediate region. With some considerable augmentation of armaments and logistics it would be physically possible for any of them to intimidate or even subdue any of the smaller states nearby given the considerable disparities of population and land area, ranging from Papua New Guinea with a land area of 462,243 kilometers and a population of nearly five million, to Niue with a population of sixteen-hundred, and Nauru with a land

area of twenty-one square kilometers.[1] Further, detaching an isolated but imperfectly integrated possession from one state and annexing it to a neighbor would also be physically possible if the region were composed of mutually hostile units defining their interests as finite and competitive. It is not outside the realm of imagination that such exchanges might take place in order to expand the size of territorial seas should these assets appreciate significantly in value.

However, the ethos of international relations in the Pacific shows no such likelihood. This benign state of affairs reflects the fact that the well-being of Pacific Island states is defined more in terms of their relationships (individual and collective) with the major international aid donors than by their relationships with their intra-regional neighbors. While they might in a sense be competitors for aid, they are not competitors for regional resources, and their aspirations therefore do not bring them into conflict with each other. Moreover, extra-regional powers continue to exercise a paternalistic guardianship of the affairs of Pacific Island states, and at the present time it is inconceivable that they would acquiesce in any acts of international destabilization.

The case for Tonga being a source of regional instability rests on persistent media representation depicting Tonga as an antiquated, feudal, absolutist state, its people oppressed and yearning for the saving breath of democracy. [2] Tonga, according to this view, is ripe for transition, and on the assumption that transitions are periods of increased risk of disorder, Tonga may be imagined a potential security threat.

The 'transition hypothesis' presupposes change of a particular kind, not the evolutionary, barely perceptible progressive change in which almost all societies participate to a greater or lesser degree. The word 'transition' is better reserved for a series of structural shifts from traditional to 'modern' rather than applied to a process of evolution within a historical trajectory of established structures. In this chapter I suggest that continued movement within the present trajectory is the more likely path for the immediate future of Tonga than a 'transition'.

Tonga does not fit the scenario built on the transition hypothesis. The threats to stability arise not from a supposed state of arrested modernization represented by the continued existence of a monarchy possessing both

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[1] Ron Crocombe, *The South Pacific* (Suva, 2001), pp.685-86.

[2] See Kerry James, 'The Recent Elections in Tonga: democratic supporters win, but does democracy follow?' *Journal of Pacific History*, vol.37 no.3 (2002) p.321 n.21.

legislative and executive powers. On the contrary, potential instability arises from inequalities of wealth, the prevalence of injustice, and the weakness of political accountability. None of these is a structural inevitability: they do not follow inexorably from the constitutional forms. Regardless of the nature of Tonga's problems, the kingdom is itself too small and poor to constitute a direct security threat to its region. However, the failures of governance in certain roles means that like all isolated, small and underdeveloped states, the threat to regional security if any would lie in its potential as a staging area or transit place for extraneous destabilizing influences, such as drug trafficking, money laundering and terrorist activity. International law enforcement has already produced evidence of Tonga being used as a transit point.[3]

THE HISTORICAL BACKGROUND TO MODERNIZATION IN TONGA

The modern-traditional dualism that underlies the 'transition' hypothesis is unsatisfactory as a tool of analysis in Tonga because Tonga has been 'modernizing' progressively for nearly 200 years. The traditional, Polynesian political system characterized by arbitrary authority exercised by a chiefly caste and validated by religion began to break down before European influence became significant.[4] The former political structure was destroyed by civil war and assassination extending over nearly forty years between about 1780 and 1820. Before they could be re-established, Christian missions arrived and from the late 1820s conversion to Christianity was both rapid and permanent. A new basis for political authority was established in the notion of the rule of law and the idea of the Christian state, parallel with the re-establishment of a unitary, nation-wide political system. A series of law codes adopted in 1839, 1850 and 1862 enhanced personal freedoms, extended the protection of law to all persons, and dismantled the political if not social privileges of the aristocracy. This process was taken to its apogee in 1875 with the adoption of a formal constitution incorporating a Bill of Rights, establishing parliamentary government and providing an equitable basis for land tenure. By this time the monarchy was established on the British Victorian model and was subject to law. Local government was in the hands of elected officials (mayors or town officers) and magistrates appointed by the state.[5]

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[3] Crocombe *op.cit.*, pp.365, 569. See also *Matangi Tonga* vol.6 no.3 (May-June 1991), p.16, and vol.7, no.2. (March-April 1992), p.5.

[4] I. C. Campbell, *Island Kingdom: Tonga Ancient and Modern* (Christchurch, 2nd ed, 2001), ch.5.

[5] Sione Latukefu, *Church and State in Tonga* (Canberra, 1974).

On the basis of a modern, written constitution, which was liberal by the international standards of the time, Tonga sought and obtained international recognition as a state, confirmed in treaties with Germany (1876), Britain (1879) and the United States (1886).[6] In an age of increasing international tension manifested in the 'New Imperialism' of the late nineteenth century, Tonga hoped to remain independent but became a British protectorate. [7] During the protectorate period (1900–1970) Tonga continued to be governed by its own monarch, parliament and civil service, though British subjects occupied key positions requiring particular expertise. The restoration of full independence was taken in a series of steps over the two decades before 1970.[8]

Important economic developments accompanied and underwrote these political and social changes. The most important was the prohibition of land sales to non-Tongans in the 1830s, the absolute non-alienation of land as the property of the state in the constitution, and finally in 1882 the institution of a system of individualized perpetual leasehold which ensured that all householders could claim and register a defined area of land sufficient not only for subsistence purposes but also for cash cropping.[9] Tongans became increasingly involved in trade from the 1840s with the development of the trade in coconut oil, and when this was superseded by copra in the 1860s, all Tongans had their own individual means of entering a cash economy.[10] Compulsory, secular education was adopted in 1882.

Thus all the normal criteria for a modern society were established in principle by the early 1880s in a series of major structural adjustments extending over about half a century. This may be referred to as a period of 'transition' in the sense that major structural departures were accomplished. Nevertheless, they were both protracted and incomplete insofar as implementation faltered from time to time, and cultural and mental habits were changed less readily than laws. In the subsequent century consciousness has gradually harmonized with the new structures.

The insulation of Tonga from serious political challenges (either internal or foreign) by the British protectorate arrested the further evolution of the

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[6] Noel Rutherford, *Shirley Baker and the King of Tonga* (Melbourne, 1971), chapters 7 and 9.
[7] Paul Kennedy, 'Britain and the Tongan Harbours' *Historical Studies* vol.15 no.58 (1972), pp.251-67.
[8] Penny Lavaka, 'The Limits of Advice: Britain and the Kingdom of Tonga 1900-1970' (Unpublished PhD thesis: Australian National University, 1981).
[9] A. Maude and F. Sevele, 'Tonga: Equality overtaking Privilege.' In Ron Crocombe (ed.), *Land Tenure in the Pacific* (Suva, 3rd ed. 1987).
[10] Campbell, *op.cit.,* ch.9.

constitution and of political conventions within the constitutional framework.[11] Similarly, the isolation of Tonga from major centers of population and major trade routes impeded the development of new economic challenges or opportunities. Consequently, Tonga came to full independence in 1970 with institutions not much modified from the late nineteenth-century form.

Government had already embarked on a set of policies that would result in major social and economic changes. Heavy investment in education, agricultural diversification, electrification, international communications and public health projects during the 1950s and 60s positioned Tonga to face large-scale public investment in the 1970s. These programs were guided by a series of economic five-year plans and fuelled by lavish foreign aid, mainly from Australia and New Zealand, and on a declining scale by Britain. Rapid population increase with annual growth rates in excess of three percent strained land tenure because the 1882 system was not adapted to a growing population or to new commercial realities in that it did not permit a market in land. The economic strains were in some ways enhanced and in other ways relieved by the increasing numbers being educated at tertiary level abroad from the 1950s, and during the 1970s by the large numbers able to emigrate, mainly to New Zealand, and to a lesser extent Australia and the United States.[12]

During the 1970s tension began to build. People's economic and social aspirations were being expanded by government policy, education, and overseas experience faster than they could be satisfied. Personal freedoms expanded as opportunities for expression became available, but at the same time, as the government was taking a more directive role in economic change, its centralist tendencies inclined toward more authoritarian rather than more liberal.[13] Simultaneously, aid money increased the money supply and enhanced the opportunities for corruption. Social status and aristocratic privilege easily led to exploitation of the needs of the people while the government rather single-mindedly pursued policies that were shaped partly by rational development thinking, and partly by the forceful personality of the king and his more fanciful aspirations.[14]

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[11] The process is discussed but with a somewhat different reading in Elizabeth Wood Ellem, *Queen Salote of Tonga. The Story of an Era 1900-1965* (Auckland, 1999).

[12] Campbell, *op.cit.*, chapters 14-15.

[13] The tendency towards authoritarianism may be seen in theattempts to ban the liberal, pro-reform newspaper, *Taimi o Tonga*, published in Auckland by an expatriate Tongan. See Note 20 below.

[14] Campbell, *op.cit.*, chapters 15-16.

POLITICS AND MODERNITY

While policies of growth and diversification made government both more complex and larger, there was not a commensurate increase in popular participation in decision-making. Large numbers of unemployed youth untouched by increasing economic opportunities, and educated professional people disenchanted with limited means of political articulation or of input into development planning, constituted complementary nodes of unrest. The underlying tension manifested itself first in access to land, which also focused attention on aristocratic privilege and corrupt practices, and drew attention to the government's unresponsiveness to popular opinion. Expressions of dissent were especially aired in church and educational circles, and the government chose first to ignore and then to discourage dissent.[15] As a result the constitution has become controversial in Tonga and misconstrued abroad.

The constitution preserves powers for the monarch consistent with nineteenth-century thinking. His approval is necessary for all legislation, and he presides over the supreme governing body, the Privy Council, which consists of himself and the cabinet. He chooses and appoints the prime minister and all ministers who by convention rather than constitutional requirement are drawn from outside parliament. On appointment they become members of parliament and their appointments are *sine die*. Other members of parliament include nine nobles elected by the nobles of whom there are only twenty-nine, owing to some titles having merged. The people are also represented by nine members, elected by universal adult franchise triennially.[16] There is only the one house of parliament. The 'government' thus is the king's, not parliament's. Although there is an impeachment provision in the constitution, the government does not hold office at the pleasure of parliament. Elections do not choose or change governments, and the role of the people's representatives is to reflect public opinion not to decide policy. There is no requirement for government to take any notice especially as in recent history the government has generally been supported by the nobles' representatives. It was not always so, and it need not be in future. The people's representatives in recent years have inclined towards strong criticism of the

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[15] I. C. Campbell 'The Emergence of Parliamentary Democracy in Tonga.' *Pacific Studies* vol.15 no.1 (1992), pp.77-97.

[16] The population as enumerated by the most recent census in 1996 was 97,784, with an estimated annual rate of increase of 0.5%. The electoral roll numbered 59,239 at the 2002 election, of whom 28,953 (forty-nine percent) voted. James, *loc.cit*., p.317.

government, but they have no organization, are not united and do not vote consistently with each other.[17]

The democratic features of the constitution are subordinated by political convention and the dominant personality of the king. Despite the well-publicized opinion that the constitution needs reform, the present structure is capable of producing a different political culture, but as long as the king chooses to assert his constitutional prerogatives to the limit permitted by law, the system is bound to exhibit anti-democratic features. The same practice inhibits reform: any constitutional amendment, like any other legislation, requires royal consent. Critics of government point to abuses of power, the absence of accountability, corruption in high places and infringements of personal freedoms.[18] On the other hand, the constitution succeeds in protecting fundamental rights and freedoms thanks to the independence of the judiciary. The courts have been successfully used to obtain redress of grievances, and government has found it expedient to meet some of the criticisms. There are no political prisoners in Tonga, have been no political assassinations,[19] and the strongest critics of government are still able to speak freely in Tonga and abroad. Attempts to silence them have generally yielded to the rule of law and have therefore failed.[20]

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[17] Various publications record the recent political history of Tonga, see especially I. C. Campbell 'Tongan Politics: the Arrival of Instability', *New Zealand International Review*, vol.16 n1, 1991: 8-11; 'The Emergence of Parliamentary Politics in Tonga*', Pacific Studies*, vol.1 no.1, 1992: 77-97; 'Tonga since the 1990 election: Things Change But Stay the Same.' *Journal of Pacific History*. vol.27 no.3, 1992: 61-65; 'The Doctrine of Accountability and the Unchanging Locus of Power in Tonga. *Journal of Pacific History* vol.29 no.1, 1994: 81-94; 'Fakalelea Filo and Pepetama in Tongan Politics.' *Journal of Pacific History* vol.31 no.3, 1996: 44-52; 'The Democracy Movement and the 1999 Tongan Election.' *Journal of Pacific History,* vol.34 no.3, 1999: 265-272; 'Tonga,' in Dieter Nohlen, Florian Grotz, and Christof Hartmann eds., *Elections in Asia and the Pacific, Vol.2: South East Asia, East Asia, and the South Pacific* (Oxford: Oxford University Press, 2001), pp.809-22. Also annual reports on Tongan affairs by Kerry James in *The Contemporary Pacific.*

[18] Kalafi Moala, *Island Kingdom Strikes Back. The Story of an Independent Island Newspaper—Taimi o Tonga*, (Auckland 2002), *passim.*

[19] The last attempted assassination was in 1887. Rutherford, *op.cit*., chapter 10.

[20] This statement has been overtaken to some extent by events in 2003. Beginning in February, there were repeated attempts by the government to ban the newspaper *Taimi 'o Tonga.* Each attempt was ruled invalid or unconstitutional by the Supreme Court. At length, to circumvent recourse to the court, the government introduced a constitutional amendment, and two items of legislation, 'An Act to make Provision for the Regulating of Newspapers in the Kingdom (Act No. 18 of 2003)' and 'An Act Relating to Licensing of Media Operators (Act No. 4 of 2003)'.These empowered the government to prevent the publication or distribution of certain publications. A Tonga Government press release of 6 June 2003 described the constitutional

By the late 1980s a core of critics was elected to parliament. They found that the structure of parliament made it impossible to influence government or to demand accountability. Consequently, the non-democratic features of the century-old constitution and the scope for arbitrary powers by the executive came to public attention. During the 1990s the government's critics attempted on several occasions to form both political and popular organizations to press for constitutional reform. These efforts had small success, but their relative failure is due not to government oppression or opposition, but to disunity among the government's critics and the weakness of popular feelings in favor of change.[21] Contrary to widespread media impressions, political parties are not illegal in Tonga. On the whole the government did not concede the criticisms being voiced freely in the Tongan media, and such minor concessions as it had made do not satisfy the critics who now have a well organized, well-led lobby in the Human Rights and Democracy Movement of Tonga which, however, is not a political party.

The inadequacy of accountability has so far not had serious consequences comparable with the failures of governance in other, democratic, Pacific states. Scandals have been exposed over various government projects to increase foreign earnings, the most infamous of which was the sale-of-passports scheme.[22] It is unclear whether this was originally devised for personal gain or as a national project, but the former is widely suspected. Dubious development or investment proposals have for many years been inadequately scrutinized, and the king seems susceptible to the blandishments of plausible foreigners promising massive development. That these have not seriously compromised either Tonga's sovereignty or its economy seems to have been due to good fortune more than good governance, but their exposure nevertheless indicates a degree of health in the body politic.

None of these incidents has given rise to instability, to any serious threat to the regime in general terms, or to the position of the king. The reform movement has sponsored discussion of constitutional and political issues several times since 1989, but the government is unresponsive and the movement itself is non-violent. There is no likelihood of change in the foreseeable future, though speculation surrounds the policies of the next king,

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amendments as clarifying rather than restricting freedom of expression and exempting decisions of parliament and Privy Council from the prerogatives of the Supreme Court. The amendments were gazetted on 27 November 2003.

[21] Campbell, *Island Kingdom*, chapters 16 & 17, and see n 16 above.

[22] Campbell, *Island Kingdom*, pp.237, 242, 245; Moala, *op.cit.,* pp.77-83.

whose accession has been thought for many years to be not long distant; the king in 2003 was 85 years of age.

It is suggested therefore, that Tonga's travails in the recent past, present and near future are less a matter of traditional structure confronting the modern world with its alien ways of doing things, alien ideas and disturbing economic practices, than of the particularities of dominant personalities. Tongans do not distinguish between their own lives and modernity: access to education and modern healthcare, the distribution of modern technology and access to foreign places and ideas is almost universal, and well in advance of the other fully independent states of the Pacific Ocean. Per capita gross domestic product in 1999 was estimated at US$1,487; life expectancy at birth was 68.8 and 72.9 years (male and female respectively, 1999 estimate), infant mortality 20.6 per thousand, and the 1990 estimate of population per physician was 2,195. Adult literacy is almost one hundred percent and well over ninety percent of primary school-age children of both sexes attend school regularly. These are all extremely favorable levels by Pacific and third-world standards.[23] Tonga's Human Poverty Index rating is 5.9 (the lowest for PDMCs) and its Human Development Index rating is 0.647, third highest among PDMCs.[24] Tonga's modernization has extended over nearly two centuries, and usually in a process which has been free of bloodshed or disturbances. Neither in its external orientation nor in its domestic arrangements does Tonga contribute anything to regional instability.

ACCOUNTING FOR TONGA'S STRENGTHS

Thus, the prevalent idea in some circles that Tonga is a society untouched by modernity is false, as is the corollary that its transition from tradition to modernity has any security implications for the region. Tonga is stable, by the standards of the region well governed and neither through its strengths nor its weaknesses does it pose a security threat. This is not to say that it might not be used by extra-regional interests for their own purposes. Tonga is susceptible to manipulation by confidence men, and has been a haven for international

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[23] Data from *Asia-Pacific in Figures 2001*, Statistics Division, United Nations Economic and Social Commission for Asia and the Pacific. The National Reserve Bank of Tonga *Quarterly Bulletin* gives more favorable estimates for 2001, particularly for infant mortality, estimated then at <15/1000.

[24] Asian Development Bank, *Country Assistance Plan. Tonga 2001-2003* (December 2000). For comparison, the HDI rating for Papua New Guinea is 52.2. 'PDMC' is Pacific Developing Member Country of the ADB.

criminals through the sale of passports and even of citizenship. The country has already been used for drug trafficking.[25]

In all these hazards, Tonga is far from unique. All the weaknesses possessed by Tonga are also possessed by most other states of the Pacific Ocean. Tonga's stability and relative prosperity have instructive hints for understanding instability elsewhere. The greatest problems facing the Pacific Islands region are represented not by this stable quasi-democracy, but by the failed or failing democracies with modern, liberal constitutions in which politicians can be bought, elections rigged and government seriously unbalanced by corruption from both internal and external sources. This is a trend that calls into question the belief that democracy is a universally viable political form, and the belief that democracy is the means to ensure peace between communities and prosperity within them. Governance is weak throughout the Pacific, and especially so where the temptations of office are not adequately balanced by either convention or law enforcement. Tonga is the state least susceptible to these hazards in the region.

As a counter-example or exceptional case, Tonga is perhaps useful in diagnosing the ills of the less successful Pacific states. First, Tonga is distinguished for its political stability and relative prosperity. Its Human Poverty Index ranking and Human Development Index ranking indicate that Tonga may be considered a success. Stability and prosperity are almost certainly related. Fundamental to both is the absence of deep ethnic or social divisions. Since pre-European times, speakers of Tongan have constituted a single, coherent political and social system. Unlike almost every other political entity in the Pacific, the state formation of the colonial period neither divided Tongans between different polities, nor joined them to another ethnic group. Consequently there is no internal ethnic rivalry to complicate politics, and there is a strong sense that the system of authority is rooted in Tongan culture. The ruling elite constitute a social category that belongs to the community as a whole rather than being alienated from it. Almost all other Pacific states are multi-ethnic, even though the different ethnicities as in French Polynesia or Cook Islands might be very closely related. In other states, such as Kiribati which has a high level of cultural coherence, there was never in pre-European times, political unity coterminous with the perceived cultural category, and it has been accordingly much more difficult to create a single, all encompassing focus of national identity or loyalty. In the largely plural societies of the Pacific, constitutional democracy tends to accentuate divisions rather than ameliorate

[25] See n.3 above. Also Moala, *op.cit.*, p.91.

them, so it is ironic that the least democratic state—Tonga—is probably the one in which democracy would work most successfully.

Second, constitutionalism has been absorbed into Tongan culture to a greater degree than is the case anywhere else. With a constitution that has been operating since 1875, the form of government and other principles that it established have become incorporated into Tongan perceptions of the Tongan way of life, and people look to it and to the rule of law to provide stability and redress of grievances. Everywhere else, constitutional history is shallow, being the product of the decolonization that occurred in most places between 1961 and 1980. Not only does that not give time for a particular constitution and the idea of constitutionalism to become naturalized, but the modern constitutions belong to a period when constitutions have seemed pliable or ephemeral, serving specific political purposes or factions. Tonga's constitution was from the first regarded with awe rivaling the reverence for Holy Writ.

Similarly, Tonga has a long civil service tradition. Tonga's bureaucracy has been staffed mainly by Tongans since the beginning of modern government, again a span of about 5 generations. Its procedures are stable and orthodox, and were not destabilized by an unsettling period of rapid localization which elsewhere enabled conventions to be set aside or neglected. Parallel with this is a long tradition of elite education. The elite schools of the late nineteenth century produced a high caliber of scholarship, which set a standard for later generations. While the standard was not maintained consistently over time, the association of formal education with accomplishment and with social and personal advancement predates modern commercial or political paths. Tonga thus has a longer tradition of valuing and using western education than other Pacific states.

In short, Tonga is a state that was not created by colonialism. A long-term view might encourage the conclusion that the travails of the modern Pacific states are in the nature of 'teething' problems. Tonga had its teething problems comparable to those of modern states between about 1890 and 1920. It is a striking parallel that during the first decade or two of independent government for the other states there was a similar cycle of initial stability followed by a period of disorder. Tonga came out of its period of disorder by means of strong, centralized rule that eclipsed the democratic features of the constitution.[26]

[26] Campbell, *Island Kingdom,* chapters 10-11. Also Lavaka, *op.cit.*

External factors have, however, been an important component of Tonga's prosperity and stability. High rates of population increase since World War II gave rise by the 1960s to alarming population projections, followed in the mid-1970s by a perceived land shortage. Opportunities for work in New Zealand, followed by increased migration opportunities first there, and later to Australia and the United States, alleviated these pressures to the extent that the 'population bomb' failed to materialize.[27] The population 'safety valve' was almost certainly a social and political one also, and certainly alleviated the kind of social problems that overcrowding and underemployment might have created. Without emigration on the scale of the last quarter of the twentieth century, Tonga's population would probably have been about fifty percent larger by 2000 than it was.

Accompanying the large levels of emigration was the remittance of millions of dollars to migrants' families. These payments soon became a significant factor in Tonga's economy. For most of the period since the late 1970s, remittances exceeded the value of all exports by a factor of three.[28] The resulting import boom gave the Tongans a standard of living far beyond their productivity, and underpins Tongan prosperity. In later years, more of this remittance income was used as venture capital or for capital investment. Several other Pacific Island states have similarly benefited from liberal migration and currency policies by the Anglophone rim countries (Australia, New Zealand, the United States), while those that have continuing constitutional or compact relationships with industrialized countries have benefited from large official capital inflows as well. These include Cook Islands, Niue and Tokelau (New Zealand), French Polynesia, Wallis & Futuna, and New Caledonia (France), and Marshall Islands, Federated States of Micronesia, Palau, Northern Mariana Islands, Guam and American Samoa. (United States). This is in addition to development assistance programs from many countries and multi-lateral organizations. Not all countries however have been as fortunate as Tonga in being able to send migrants to hospitable and liberal host societies, and those that have not are the ones with the greatest social and economic problems.

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[27] The 1966 census estimated the population at 76,121, a rate of increase of four percent per annum over the 1956 count. This rate of increase projected a population in 1976 of 102,000. In fact, the 1976 census counted 90,085. Birth rates remained high, and the lower growth rate was entirely due to emigration. Campbell, *Island Kingdom*, p.208.

[28] During the 1990s the value of exports was generally less than twenty million pa'anga (Tongan dollars), while private transfers were officially estimated (and probably significantly under-estimated) at fifty to sixty million pa'anga.

COMPARISON WITH TONGA'S NEIGHBORS: POLYNESIA

Samoa, Tonga's northern neighbor, is also the state with which Tonga has the closest traditional cultural affinities. It too has a heritage of ethnic and cultural homogeneity but the significant difference is that Samoa is a state only by virtue of its colonial history. The elite chiefly tradition created such intense rivalry as to prevent the creation of a single political unit that commanded universal adherence in pre-colonial times. Consequently, Samoa experienced 60 years of colonial rule and on attaining independence in 1962 acquired a constitution that ostensibly combined western constitutional principles with Samoan expectations about the location and exercise of power. The result was the juxtaposition rather than the integration of two different political traditions. This formula has successfully supplied political stability, but it has also created opportunities for high levels of political corruption.[29] At the same time, Samoa has many of the advantages of Tonga, particularly in the strength of its educational tradition, but the presence of a colonial government, and Samoan non-cooperation with it in the 1920s and 1930s, deprived Samoa of the strong civil-service tradition that might have endowed government with greater honesty. Samoa also shares with Tonga the high levels of emigration to New Zealand and beyond, and the corresponding high levels of remittances which likewise are the main source of foreign revenue, the prop of the economy, and the foundation of the appearance of prosperity.

Cook Islands contrasts more strongly with Tonga insofar as it is a wholly contrived political unit. It was neither traditionally united nor culturally homogeneous. Its constituent parts did not all speak the same language, and its widely scattered islands were seldom or never in contact with each other before European contact. Even more than Samoa, Cook Islands owes its existence as a state to the experience of colonialism, and as elsewhere, that took a form which did not promote integration of the various parts until the closing years of foreign rule. More so than in Samoa, however, the importance of the traditional chieftainships was eroded during the colonial period so that electoral politics developed unrestrained by considerations of traditional

[29] Malama Meleisea and Penelope Schoeffel, 'Western Samoa. "Like a Slippery Fish,"' in Ron Crocombe and Ahmed Ali eds., *Politics in Polynesia* (Suva, 1983), pp.80-112, deals with the early stages of this process. For developments in the 1990s and later see the annual reports on Samoan affairs in *The Contemporary Pacific.*

personal rank. Political parties have flourished, but as in Samoa, more on the basis of personal loyalties than any serious ideological distinctions. [30]

Like both its neighbors, Cook Islands owed its prosperity for many years to emigration and remittances, and unlike Tonga and Samoa, to high levels of budgetary subsidies from New Zealand, with whom it retains constitutional ties. Cook Islanders are New Zealand citizens, and can move freely between the two countries, and therefore also benefit from visa-free movement between Australia and New Zealand.[31] It is only in recent years that the development of cultured pearls has given Cook Islands an export more valuable than its remittances, but there is a long history of ethically and legally dubious practices including money laundering, off-shore banking and ship registration.[32]

When Fiji came to independence in 1970 it had a more mature infrastructure, a wider resource base and more diverse economy than any other Pacific state, a tradition of elite education and a flourishing free press. It was also the site of the newly established regional university, the University of the South Pacific. Under the leadership of its first prime minister, Ratu Sir Kamisese Mara, Fiji emerged as the most influential of the new states, and there were good reasons to be optimistic about its future. On the other hand, Fiji had serious potential problems: first, it too was a state that owed its existence and configuration to colonialism, and the unity and shared identity of Fijians was shallow, masking both social and geographical differences. More serious was the fact that Fiji had become ethnically bipolar as a result of the importation of large numbers of Indians as agricultural laborers between 1881 and 1916. By the time of independence miscegenation was practically non-existent, there was a long history of contentiousness between the two populations, and the Indian population was slightly in the majority. Apart from the French territory of New Caledonia, Fiji was the only state featuring such extreme ethnic polarization. Economically, Fiji was less well positioned than Tonga, Samoa or Cook Islands to tap into international emigration, and accordingly did not benefit from remittance flows to the same extent. However, its economic diversification and international marketing arrangements for its sugar gave it a prosperity that did not need migrants'

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[30] Kathleen Hancock, *Sir Albert Henry. His Life and Times.* Auckland, 1979. Also annual accounts of Cook Islands affairs by Marjorie and Ron Crocombe in *The Contemporary Pacific.*

[31] Crocombe estimates that eight-three percent of Cook Islanders live abroad. Crocombe, *The South Pacific*, p.452.

[32] Annual reports on Cook Islands affairs by Crocombe and Crocombe in *The Contemporary Pacific.* Also Crocombe, *The South Pacific*, *passim*.

remittances. The security issue as it concerns Fiji arises from ethnic bipolarization which has resulted in electoral politics being discarded in the coups of 1987 and 2000. Nevertheless, Fiji is remarkable for its adherence on the whole to constitutionalism, and to the vigor of its democratic processes. The ethnic polarization which instills venom into politics is also an important contributor to Fiji's comparative economic strength.

Thus in many ways Fiji stands apart from its Polynesian neighbors, but it shares an important feature in the strength of its aristocratic tradition, which guided democracy during the first seventeen years of independence, and still provides the framework for the apparently democratic behavior of the indigenous Fijian population,[33] including high rates of voting in general elections.[34] Aristocracy has not been eclipsed by social change and democratic institutions to the extent that this has happened in Cook Islands or appears to have happened in Samoa, and contributes to the social and political stability of the nation. As a working hypothesis it may be suggested that stability is proportional to ethnic homogeneity, a history of political unity, and the weakness of the democratic tradition in the context of a strong aristocratic one.

COMPARISON WITH TONGA'S NEIGHBORS: MELANESIA

The contrasts between Tonga and the states of Melanesia are so striking as to eclipse the similarities. All states are multi-ethnic, encompassing a common Austronesian heritage with varying degrees of Papuan culture (in Papua New Guinea and Solomon Islands), but these categories mark extreme linguistic diversity, strong local identities and differences in social organization and land tenure. Not only was there no tendency towards political unification in pre-European times, even the colonial powers could not overcome the enormous difficulties in trying to create the rudiments of stable, prosperous states in the short time available to them. This process was far from complete at the time of independence (1975 for Papua New Guinea, 1978 for Solomon Islands and 1980 for Vanuatu). To some extent, the difficulties faced by these states reflect the incompleteness of the work of colonialism, but they also reflect the failure of successor regimes to continue the work of state building.

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[33] See Morgan Tuimaleali'ifano, '*Veiqati Vaka Viti* and the Fiji Islands Elections in 1999.' *Journal of Pacific History* vol.35 no.3 (2000) pp.253-67.

[34] Even in the disillusionment following the 2000 coup, voter turnout was high at 78.6 percent, though in the context of earlier Fijian elections, it was considered 'relatively low'. Brij Lal, 'In George Speight's Shadow: Fiji General Elections of 2001.' *Journal of Pacific History* vol.37 no1 (2002) p.87.

In Vanuatu, infrastructure is uneven, and basic services including education, health and financial services have made little progress despite two decades of independence and international aid. In the meantime, there have been acute disputes of authority between prime minister and president including the jailing and dismissal of a president; governments have not lasted their full parliamentary term as shifting coalitions form and dissolve in the quest to satisfy personal ambitions; and there have been confrontations between the government and the paramilitary forces. Nor is the task of government made easy by geography, which has provided a chain of islands varying greatly in size and usually mountainous, extending from north to south over nearly 1,000 kilometers often separated by wide ocean distances.

Solomon Islands adopted a form of provincial government to try to accommodate strong feelings of regional difference which did not solve the fundamental lack of common identity. Although threatened by secession movements in the Western District in the early years of independence, the greatest threat to the state came from a different quarter. In 1999 government broke down altogether with the formation of violent opposing forces centered on the two principal islands. The government was overthrown in 2000, and although a successor was appointed, it did not possess the strength to control the contending forces which themselves did not agree to surrender their newly asserted power. The Solomon Islands case remains the most extreme example of the failure of governance, but its circumstances are sufficiently particular to not affect processes elsewhere. Similarly, the anarchy there has not provided a seedbed for ideologically revolutionary forces to establish a bridgehead among vulnerable states. On the other hand, the civil war or rebellion in Solomon Islands is believed to have been encouraged and materially assisted by the Bougainville civil war.

Papua New Guinea has been troubled by rumors and threats of military coups from time to time; to frequent changes of government between elections, and to a protracted rebellion or civil war on the large and resource rich island of Bougainville since 1989. Provincial governments were created at the time of independence as a way of satisfying local identity and development aspirations but have neither provided good government, nor been adequately controlled by central government. In some parts of the country, notably the Highlands, the failure of authority and accompanying rise of violence became increasingly common in the 1990s. Notwithstanding substantial mineral development and continuing budgetary support from Australia ever since independence in 1975, Papua New Guinea has experienced low rates of growth and increasing incidence of urban poverty and violence.

All three Melanesian states are such extreme examples of problems present in the Polynesian states as to constitute a distinct category. Extreme ethnic fragmentation is the obvious differentiating factor. To allude again to some of the advantages possessed by the Polynesian states, the Melanesians have virtually no emigration possibilities to alleviate social or political pressures, no remittance revenue to compensate for the failure of export industries, and the lack of a universally recognized elite class. Many Melanesian societies have inherited chieftainships, but these are not so common as to represent an aristocratic class, and chiefs are not recognized as such by society at large.

Thus in Melanesia all three independent states have difficulties with maintaining central authority and law and order, and to some extent all faced serious internal security problems. All have liberal, democratic constitutions. While it is striking that these extreme examples of failed or failing governance contrast strongly with Polynesia in general and particularly with Tonga, it is equally striking that the degree of veneration for aristocracy correlates consistently in Polynesia as well. Within Polynesia the respect for aristocratic leaders distinguishes Tonga, Fiji and Samoa from Cook Islands, and the three of them from Melanesia. This single factor is not adequate to account for the differing levels of public morality in the different countries. Tonga, for all its stability and success in terms of the Human Poverty and Human Development Indices, exhibits failings of governance similar to those observed elsewhere, though to a lesser degree.

SOME COMPARATIVE REFLECTIONS

Democracy certainly opens the door to corruption and injustice, but oligarchy is no safeguard against it, for Tonga offers ample evidence of official arrogance, weakness of accountability, susceptibility to corruption, and violations of common principles of justice. [35] The Tongan example shows that corruption is attractive wherever there are disparities of wealth, and not just in democratic states where public office acquires a market value. Moreover, corruption in Tonga appears to be greatest among the elite, that is, among the economically privileged. If the wealthiest are those most prone to corruption,

[35] Corruption is widely observed and commented on, and frequently referred to in the literature as a well-known and endemic condition. Rigorous studies of corruption however are lacking. I know of no studies which have attempted to quantify it in any of the Pacific Islands, or which have constructed a typology of corruption, or even an attempted sociology of corruption. The most comprehensive discussion is in Crocombe, *The South Pacific*, especially chapter 19.

it follows that their reference group for measuring relative wealth and status is not their own impoverished compatriots, but an international peer group with whom they increasingly associate both at home and abroad. Thus it is not poverty as such that is the cause of corruption, but the opportunities of elites to depreciate their personal relative impoverishment.

Second, the means of corruption are mostly external. Extortion and abuse of power are generally home-grown, but corruption increases as the state becomes more engaged with the international economy.[36] Foreign interests (capital rather than governmental so far, but official sources of corruption cannot be excluded) buy privileges, pervert legislation and can change governments through their power to suborn politicians or to influence election campaigns. Corrupt capital is thus an international problem and may therefore be regarded as an international security issue in a double sense: the sources are from outside the Pacific, and the corruption itself is mobile, being able to shift from state to state according to need or opportunity. The remedy therefore needs also to be international.

Corruption, moreover, is at the core of injustice, human rights violations and misgovernment. The smallness of Pacific Islands states makes it correspondingly easier for relatively modest amounts of money to have extensive effects on the quality of governance. Even a modest corporation from a developed country will have greater revenues and disposable cash than most of the island states. Tonga, for example, in 1998-99 budgeted for a revenue (recurrent sources) of $68.3 million (equivalent to US$43 million at the prevailing exchange rate).

The Tongan example also shows that the most effective restraint on corruption and its corollaries is an independent judiciary and a critical, free press. It is to the credit of the Tongan government that the independence of the Supreme Court is maintained by its continuing to appoint the chief justice and puisne judges from overseas. As to the critical press, the most effective organ has had to move offshore to escape restrictions imposed by the government, but it continues to circulate freely in the country.[37]

The common trends in the Pacific are manifested in different degrees, but the pattern is such that the following generalizations are offered, leading to the conclusion that security problems in the Pacific are almost entirely an

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[36] Crocombe, *The South Pacific*, esp. p.647 on the easy penetration of Pacific Island societies by criminal interests from outside the region.

[37] Until 2003. See n.20 above. Also Moala, *op.cit.*, *passim*.

expression of political instability, political corruption, and poverty: in a phrase, weak governance.

- First, whereas in most Pacific democracies national leaders can come to power without their well-known failings, faults and inadequacies being an impediment, such people do not have the moral authority or probably the inclination to discipline lesser politicians or officials. The combination of democracy with a weak sense of morality is disastrous.
- Second, where opportunity makes people susceptible to bribery—whether of individual voters, of officials or of politicians—corruption becomes professionalized and endemic at all levels.
- Third, where resource limitations or capital shortages deny ambitious people honest outlets for their energies and creativity, they will take advantage of opportunities to circumvent the obstacles to wealth and power. Where foreign investors are likewise seeking similar circumvention of law or policy, a sinister harmony of interests comes about.
- Fourth, where these conditions become established there is virtually no scope for a society to reform itself. Unscrupulous power always overwhelms the scrupulous. In Papua New Guinea and Solomon Islands, where the recent rise of warlordism threatens to overwhelm the state, one cannot expect the resulting authoritarianism to institute new standards of public morality. Aid programs by Australia and New Zealand which are aimed at reform of governance are the most humane and realistic approach to a remedy, but unlikely to lead to any permanent, fundamental shift in public morals.

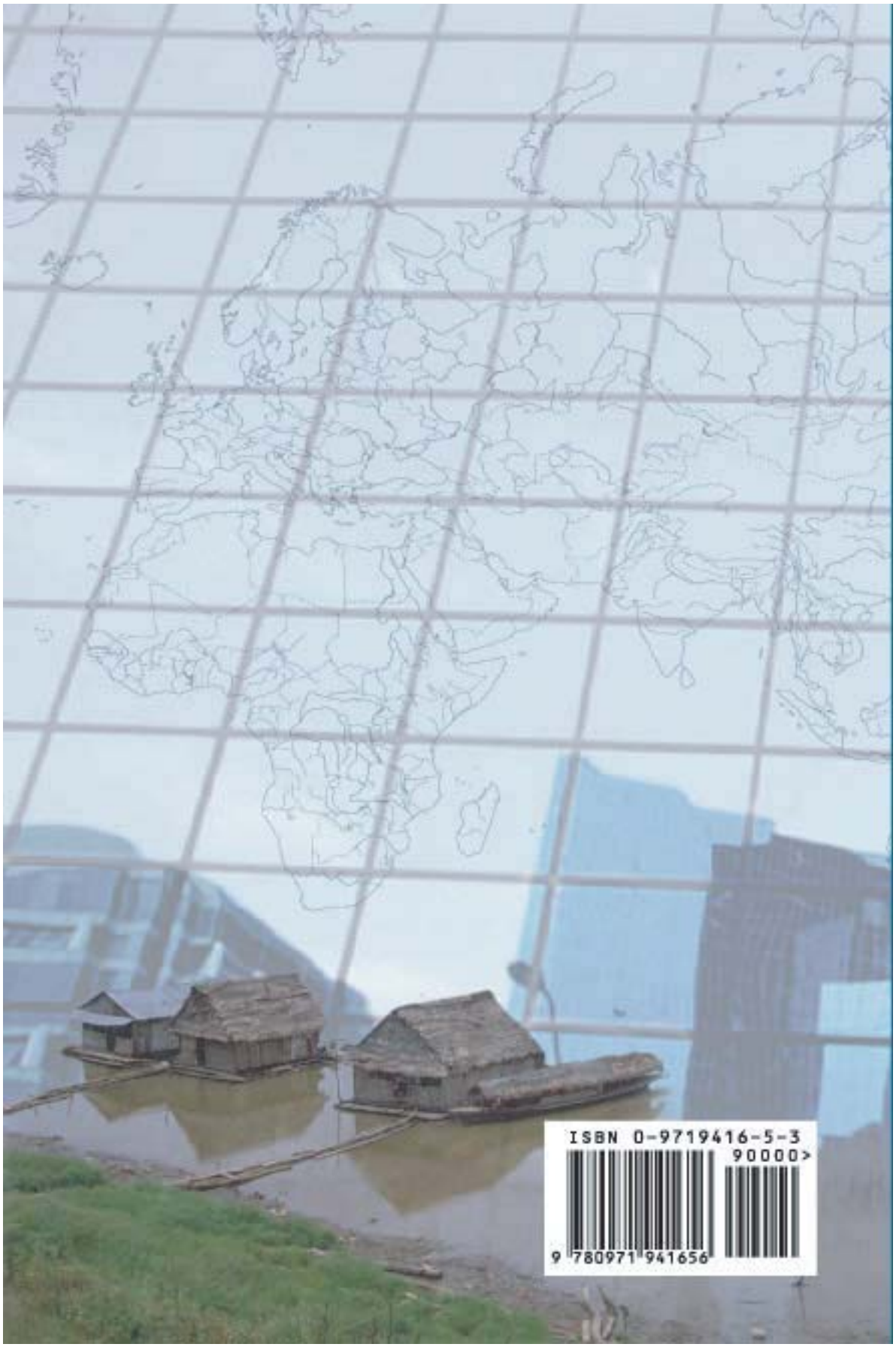
SOME IMPLICATIONS

The massive failings of democracy in parts of the Pacific and the relative success of the quasi-democracy of Tonga call into question both the notion of transferability of institutions, and the idea that it is a safeguard against corruption or poverty. Much depends on the particular context, which is shaped not only by social patterns but also by the actions of individuals. Moreover, the problems of governance and their security implications are unlikely to be solved by internal reforms. Reformers cannot achieve power without prior reforms, and those in power have no incentive to institute them.

It is a mistake to regard these difficulties as a symptom of transition or of a failure to modernize. Transitions create opportunities which might be used one way or another: Tongan transitions have on the whole been managed successfully because they have taken place over a long period of time and, during the period of accelerated change in recent decades, have been ameliorated by emigration and remittance income at the same time as restraint on popular political participation has restricted opportunities for corruption

such as flourished in Samoa and Cook Islands. Modernization and globalization however, have generally increased the scope and severity of the problems, in contrast with the preceding colonial period, which interrupted a previous phenomenon of globalization and delivered better government, especially in its later stages. Better governance, and therefore greater security, is most likely to be achieved in the Pacific by international cooperation.

In conclusion, security and insecurity in the Pacific Islands cannot be explained away by recourse to the modernity/tradition dyad. As an explanation this leads to the assumption that the remedy is simply more modernization.



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