The Asian Economic Crisis and Democracy

Harold Crouch

Some observers have argued that the Asian economic crisis demonstrates the importance of democracy for sustained economic development. While it is not the author's intention to disparage democracy, it is noted that democracies — no less than authoritarian regimes — sometimes exhibit the kind of links between governments and vested interests which inhibit economic development.

THE FLOATING OF THE THAI BAHT ON 2 JULY 1997 SET IN train developments that have shaken East Asian economies to their foundations. The East Asian 'Economic Miracle' seemed to have come to an end. Instead of the high growth rates of the last few decades, Asia now faces the prospect of an extended period of slow growth and, in the case of some countries, even contraction of their economies. It is fair to say that the economic crisis caught most economists by surprise. Certainly economists had noted weaknesses and warned about future difficulties but few expected the kind of collapse that actually began last year. Economists are now faced with the challenge of explaining why the crisis occurred and analyzing its likely implications.

The crisis also poses challenges for political scientists who had grown accustomed to analyzing political developments in countries experiencing rapid economic growth. Before the crash it was commonly argued that the successful economic growth achieved by East Asian countries had been facilitated by so-called 'soft-authoritarian' political systems which had proved themselves more suitable than Western-style liberal democracy in promoting economic development in East Asian circumstances. Since the crash, however, it has become no less common to attribute the economic crisis to

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fatal flaws in these same 'soft-authoritarian' regimes which, some even claim, made the eventual collapse virtually inevitable. Indeed, some observers have seen the economic crisis as underlining the importance of democracy for sustained economic development.

The sudden halt to rapid growth and the prospect of an uncertain period of stagnation also raise questions for political scientists about their likely impact on political systems. Rapid economic growth in the East Asian region during the last few decades was accompanied by significant political change. Several countries in the region democratized themselves or at least moved in a democratic direction while none moved from democracy to authoritarianism. Will the economic crisis reinforce this trend or are economic turmoil and accompanying social disruption likely to result in political instability followed by a return to, or strengthening of, authoritarian rule?

In this discussion I will draw on the experiences of the five countries most severely affected by the financial crisis — Thailand, Malaysia, the Philippines and Indonesia in Southeast Asia and South Korea in Northeast Asia. I will also refer to the cases of Taiwan and Singapore, which were both challenged by the crisis, but succeeded in defending themselves with minimal damage. On the other hand, I will not be discussing countries such as China, Vietnam and Myanmar whose relatively limited participation in the global economy has spared them much of the distress experienced by the open economies of the region. I will also exclude the Hong Kong case which, from a political point of view, is *sui generis*. The discussion will therefore focus on the seven countries whose open economies led to a high degree of integration with the world economy.

SOFT AUTHORITARIANISM AND DEMOCRACY

THERE is no question that East Asian countries ruled by soft-authoritarian regimes achieved substantial economic growth during the last three decades. Adopting strategies of export-oriented industrialization since the late 1950s and 1960s, Singapore and the two Northeast Asian countries transformed their economies and societies. By 1995 Singapore was a wealthy country with a per capita GNP of US$19,850 — higher than that of developed European countries — while both Taiwan (US$10,852) and South Korea (US$7,660) had become established middle-income countries. The other Southeast Asian countries adopted similar developmental strategies in the 1970s and 1980s and they too — except the Philippines — experienced very rapid growth although in per capita income terms still lagged behind — Malaysia (US$3,140), Thailand (US$2,110), the Philippines (US$850) and Indonesia (US$740).[1]

Rapid economic growth and industrialization took place under regimes with authoritarian characteristics. Some were unambiguously authoritarian. In Taiwan the Kuomintang regime launched its industrialization program in the late 1950s; in South Korea the era of rapid growth followed the military coup which put General Park Chung Hee into the presidency in 1961; in Indonesia the industrial transformation followed the installation of General Suharto's military-dominated regime in the mid-1960s. In other cases, rapid growth was managed by governments which maintained democratic institutions while taking authoritarian measures to ensure that the government could not be defeated in elections. Singapore's transformation was launched by Lee Kuan Yew's People's Action Party (PAP) which held every seat in Parliament from 1966 to 1981 while in Malaysia the *Barisan Nasional* (National Front) coalition regularly occupied more than 80 percent of the seats. In Thailand a period of democratic instability following the overthrow of a military regime in 1973 was followed by military coup d'état in 1976 and 1977 which prepared the ground for rapid growth during the 1980s. But not all authoritarian regimes produced rapid economic development. The regime of Ferdinand Marcos proved a disaster for the Philippines which experienced negative growth during the first half of the 1980s.

The success of most of the East Asian authoritarian and semi-authoritarian regimes in carrying out industrialization led to the construction of an 'East Asian model' of development. The East Asian political systems and economic strategies were by no means identical but they seemed to have some general characteristics in common which distinguished them from the liberal democratic capitalism espoused by the West. First, political systems were organized in such a way as to virtually guarantee continuity of government. This was as true of the 'parliamentary democracies' of Singapore and Malaysia as it was of the blatantly authoritarian regimes in the region. In practice, the opposition — even where it was tolerated — had no chance of winning power. Second, governments were highly interventionist in directing economic activity, creating an environment conducive to growth, and guiding investment. Relations between government and business were congenial while at the same time controls on labor were imposed strictly. Third, the formulation of macroeconomic policy was made the responsibility of Western-trained economists or technocrats who generally pursued policies which opened their economies to international trade and investment. And fourth, the system was legitimized by promoting some variant of 'Asian values' in the form of 'Asian democracy', Confucianism or other indigenous concepts. Fundamentally, the developing East Asian states rejected Western liberal democracy.

It should not, of course, be concluded on the basis of East Asian experience that authoritarian rule automatically brought about rapid economic growth. After all, both Taiwan and South Korea experienced authoritarian rule in the 1950s without rapid growth while Sukarno's Guided Democracy in Indonesia before 1965 and Marcos' New Society in the Philippines before 1986 were complete failures. On the other hand, despite the strong influence of the military and the retention of the prime ministership in military hands, Thailand was gradually democratizing itself during the 1980s at a time when its economy was growing at a double-digit rate. In the Philippines, the economy only began to grow under democratic rule in the 1990s compared to its dismal performance during the Marcos era.

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I certainly do not intend to argue that authoritarianism is necessarily superior to democracy in promoting economic development but we cannot simply dismiss the achievements of authoritarian and semi-authoritarian regimes in transforming the economies of East Asia. These East Asian regimes had at least two qualities which favored economic growth.

First, an important political strength of the East Asian regimes was their capacity to maintain political stability which had previously been under threat in one way or another. Most of the authoritarian and semi-authoritarian regimes came to power following periods of grave political crisis. The Taiwan regime was a legacy of the Kuomintang's (KMT) defeat by the communists on the Chinese mainland; the Park junta stepped in following the collapse of an earlier authoritarian regime; Suharto took power after a conflict which culminated in the elimination of the Indonesian Communist Party and the massacre of half-a-million of its supporters. The PAP government consolidated semi-authoritarian rule after Singapore's expulsion from Malaysia in 1965 while the Malaysian government enhanced its authoritarian powers in reaction to racial rioting in 1969. In Thailand the military returned to power in 1976 and 1977 following a chaotic experiment with democracy. Compared to their predecessors, these regimes were able to maintain relatively high degrees of political stability which ensured continuity in government and consistency in policy implementation. Political stability does not necessarily mean that governments cannot change but changes in government should not be accompanied by political upheaval and should not be followed by drastic reversals of economic strategy. Investors, both foreign and domestic, need to have confidence in a predictable economic environment.

Second, in contrast to unfettered democratic political systems, the authoritarian structures of East Asian regimes allowed them to insulate the economic policymaking process from immediate political pressures. To a considerable degree, macroeconomic policy was placed in the hands of professional economists or technocrats. In some cases, the economic policymakers were experienced bureaucrats associated with ministries of finance or central banks while in others they were 'outsiders' brought in from the universities. Their job was to ensure that the economic 'fundamentals' were right so that investors would continue to invest and the economy continue to grow.

But, while the technocrats exercised a substantial degree of control over macroeconomic policy, they usually had little influence over microeconomic matters related to the patronage networks which provided the political base of support for these regimes — with the notable and relevant exception of Singapore. In all the other countries the distribution of contracts, concessions, licences, monopolies and so on was the preserve of the dominant group in the regime whether it be the military and bureaucracy (Korea, Thailand, Indonesia) or the party (Taiwan, Malaysia). Just as the technocrats were insulated by the political system from excessive public pressures in formulating macroeconomic policy, the patronage-dispensers were insulated from public exposure and criticism of their practices which generally solidified elite support for the regime.

It is here, however, that the fundamental weakness of these regimes is to be found. During the period of rapid economic growth stretching over several decades, patronage networks could operate unencumbered by the need to respond to checks and balances. The result, as we saw in 1997, was a plethora of overpriced infrastructure projects, bad debts in the banking system, bail-outs of crony enterprises and pay-offs to power-holders. As long as these economies were growing at six or seven percent or more, the extra costs of cronyism only meant that growth was slower than it would otherwise have been. But these practices resulted in extremely fragile and vulnerable economies which were poorly equipped to deal with hard times. The test came in the middle of 1997. Although, as economists constantly reiterated, the 'fundamentals' were largely in good shape, four other economies were unable to resist the contagion that spread from infected Thailand.

The economic collapse since mid-1997 has resulted in a 180-degree reversal of perceptions of the East Asian political systems. Instead of being seen as part of the explanation of economic success, they are now identified as the source of failure. By suppressing criticism and dissent, these regimes were able to preserve the special relations between political leaders and government officials on one side and individual business-people on the other, resulting in massive waste of public funds and distortion of economic policy. The economic crisis is now seen not merely as a case of mistaken policies but as an inevitable consequence of the East Asian political systems. Pundits now argue that what is required is not just better economic policies but the democratization of political systems in order to guarantee openness, transparency and accountability.

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Some caution, I believe, is needed here. After all, which East Asian countries were hurt most by the crisis? The crisis began in Thailand where governments have been elected democratically since 1992. In South Korea the authoritarian regime was replaced in 1988 and in the Philippines it fell in 1986. And in Malaysia the regime can only be described, as semi-authoritarian, despite the recent arrest of the deputy prime minister, Anwar Ibrahim. Of the five countries most affected by the economic crisis, only Indonesia is unambiguously authoritarian. On the other hand, the two countries which survived the crisis best cannot be considered as models of liberal democracy. In Singapore the system continues to be heavily weighted against political opposition — although it has to be admitted that there are now two opposition representatives among the 83 members of Parliament. In the case of Taiwan, there has been substantial progress in the direction of democracy, including the direct election of the president in 1996 and a strong opposition performance in local government elections in 1997, but the KMT regime remains deeply entrenched and has never been defeated in a national election. It could hardly be said that the secret of the success of Singapore and Taiwan in warding off the threat posed by the financial crisis lay in political systems that are more democratic than those in the badly affected countries — except, of course, Indonesia.

The issue, therefore, is not primarily one of democracy versus authoritarianism but of 'good governance' — to use the current catch-phrase.[2] As long as the external environment favored rapid growth — as it did for some three decades — the East Asian authoritarian and semi-authoritarian regimes proved suitable for promoting the transformation of their economies. In some countries this economic transformation eventually contributed to the democratization of their political systems. But, whether authoritarian or democratic, these political systems continued to depend to a large extent on patronage distribution — except, as already noted, in Singapore. The dependence of business on favors from political patrons was not obviously less under democratically-elected governments — such as those of Kim Young Sam in South Korea or Chavalit Yongchaiyudh and Banharn Silpa-archa in Thailand — than it was under earlier authoritarian regimes. Indeed, the two short-lived Anand governments installed after the 1991 military coup in Thailand appeared to have been far less embroiled in cronyism than later elected gov-

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ernments. I also remain unconvinced that the ties between business and the KMT government have become less important since the gradual transition toward democracy in Taiwan.

It has also been argued recently that among the five badly affected countries, the democracies have been able to cope best with the crisis. In both South Korea and Thailand the presence of democratic institutions made it possible to replace governments when it became clear that they were incapable of dealing with the crisis — although it should also be remembered that both the Kim Young Sam and Chavalit governments had themselves been democratically elected. On the other hand the unanimous re-election of President Suharto last March despite his obvious responsibility for Indonesia's economic crisis showed once again how difficult it is to replace authoritarian leaders.

There is, I think, some force in this argument but we should not make too much of it. Kim Young Sam was replaced not primarily because of his failure to deal with the economic crisis but because it so happened that his term in office had coincidentally expired at the end of 1997. Even if his economic performance had been an unmitigated success, he would have been replaced in any case while, if by chance the crisis had struck earlier in his term, Korea's voters would have had to wait several years for the opportunity to elect a successor. And we cannot assume that, just because Kim Dae Jung was elected democratically, his administration will be more competent in handling the economy. Similarly, the days of the Chavalit administration in Thailand were clearly numbered even without the collapse of the baht. While the new Chuan Leekpai government has in fact risen to the challenge admirably, it needs to be remembered that Chuan's cabinet includes several carry-overs from the Chavalit government and it is not immune to the politicking that has prevented all Thailand's elected governments from completing their full terms. In the case of the Philippines, Fidel Ramos was replaced by Joseph Ejercito Estrada not because he failed to deal with the economic crisis but because the Constitution prevented Ramos from running for a second term. Whether the democratically-elected Estrada will prove to be a better manager of the economy than Ramos remains very much in doubt. Meanwhile, despite its inept initial approach to the crisis, the Mahathir government in Malaysia is coping relatively well.

The case of Indonesia, on the other hand, clearly illustrates the problem that arises when an authoritarian regime fails to cope with a major challenge. Not only was the Suharto government ultimately responsible for the economic difficulties that Indonesia faced but for many months it resisted pressure to carry out the reforms needed to confront the crisis. The failure of the Suharto regime to deal with the crisis was intimately related to its patronage network built around the business empires of Suharto's children. Suharto's resignation in the face of mass social upheaval in May 1998 resulted in his replacement by his civilian vice-president, BJ Habibie. Although Habibie has promised economic and political reforms, there is still considerable doubt about the durability of the new regime. As long as this huge pall of uncertainty remains, it will be extremely difficult for Indonesia to regain the confidence of investors. Not only will foreign investors remain wary of investing in Indonesia but many Indonesians will prefer to keep their funds abroad.

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It is not my intention to disparage democracy as a form of government in East Asia but we do democratization no service by making unrealistic claims about its superiority in coping with financial crises. The fact is that, of the four East Asian countries under consideration here which were practicing democratic political systems when the financial crisis struck, three were among the five countries most badly affected by the crisis. Certainly those three countries have coped better so far with the crisis than the unambiguously authoritarian Indonesian regime but the crisis is by no means over. On the other hand, the semi-authoritarian regime in Singapore emerged more or less unscathed from the crisis. I do not want to argue that Singapore did well primarily *because* of the authoritarian features of its regime. Apart from political factors, economic factors are obviously of vital importance. It is probably no coincidence that Singapore, and also Taiwan, are the two wealthiest countries among the seven and both had healthy foreign exchange reserves in mid-1997. My point is only that the semi-authoritarian character of the Singapore regime did not prevent it from coping a lot better than did three democracies of the region. And Taiwan, where democracy has not threatened the entrenched position of its ruling party, performed much better than the three countries where elections often result in changes of government. Ultimately the question is whether governments can carry out the type of reforms that are necessary to reassure established investors and attract new investors. This will require the curbing of the excesses of cronyism and patronage distribution on which these regimes have previously depended for political support. If democracies have an advantage in this respect I would suggest that it is not because elected governments are less prone to cronyism and corruption. The advantage of democracies is that patronage networks are less deeply entrenched because governments occasionally lose elections and are replaced by new governments. This makes patronage networks more fluid and forces vested interests to maintain flexible links with several patrons. Entrenched pyramids of patronage, like that created by former Indonesian President Suharto over a period of 33 years, are unlikely to develop under democracies when clients cannot be sure that their patrons will still be in power next year.

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I have no universal prescription for the establishment of transparent and accountable political systems. In some countries, democratic government may be able to perform the task but there is certainly no guarantee that it always will. In others, Singapore-style authoritarianism might be more effective.

PROSPECTS FOR CHANGE

ANOTHER question raised by the economic crisis is its impact on future political change in the region. One of the products of rapid economic growth and social transformation in recent years has been the emergence of social forces calling for political liberalization and democratization. What will be the effects of the sudden reversal in economic fortunes and the prospect of several years of stagnation? So far, one year after the onset of the economic crisis, it is a remarkable fact that it has not brought about fundamental change in the political system of any country in the Asian region with the possible exception of Indonesia. Countries which had already moved in a democratic direction have remained democratic while those which were authoritarian have remained authoritarian. In some countries government leadership has changed since the crisis broke but political systems have not undergone transformation. Of course, the full impact of the financial crisis has not been felt and several countries face lengthy periods of economic stagnation. It is therefore still too early to pronounce that major political changes will not follow in the wake of the crisis, especially as economists are divided in their predictions about how long the crisis will last. Nevertheless, no fundamental systemic change has taken place in at least six, and possibly all seven, East Asian countries most affected by the economic crisis.

How can we explain the apparent resilience of East Asia's political systems? In the past East Asia has been associated in the international mind with political crisis and upheaval. Military coups, ethnic conflicts, regional revolts, student demonstrations, rioting and mass arrests of political dissidents have been common in many East Asian countries. But now, when these countries are facing what seems to be their greatest economic challenge, the form of the state seems fairly secure even if particular leaders have been replaced.

The period of rapid growth during the two decades before 1997 was one of significant political change in most of the countries. If we turn our attention back two decades, we see that in 1978 five of the seven countries — South Korea, Taiwan, Thailand, the Philippines and Indonesia — were ruled by unambiguously authoritarian regimes while Singapore and Malaysia, although they maintained formally democratic systems, conducted their elections in such ways as to guarantee the overwhelming victory of the ruling party. Twenty years later in 1998, only Indonesia, at least until May, continued to be ruled by a military-backed authoritarian regime. The Philippines, Thailand and South Korea had not only established formal democratic institutions but were the only countries in the region (apart from Japan) where elections were so competitive that no one could be confident of predicting the outcome of national elections. Competitive presidential elections were held in South Korea in 1992 and 1997 and in the Philippines in 1992 and 1998 while in Thailand the government has changed several times since 1992 as a result of parliamentary elections. Taiwan, too, had democratized itself gradually since the late 1980s and in 1996 the president was elected by popular vote for the first time — although the circumstances were such that President Lee Teng-hui's victory was virtually assured. Taiwan thus shared characteristics with Malaysia and Singapore which maintain formal democratic institutions that operate in such ways as to support the continued dominance of established ruling parties. On the other hand, Taiwan seems to be in a process of transition which could be expected to result in further democratization in contrast to Singapore and Malaysia which are committed to their existing forms of 'Asian democracy'.

To what extent has political change been a result of rapid economic growth? According to one view, rapid economic growth creates social conditions favorable for democratization. Growth leads to industrialization, urbanization, higher levels of education, and the spread of communications. Previously agrarian societies are transformed by the evolution of a 'modern' class structure in which the business, middle and working classes are prominent while the rural population declines. It is argued, therefore, that societies which have undergone such transitions will experience growing political pressures in support of demands for more openness, responsiveness, liberalization and, ultimately, democratization. But we need to remember that successful economic development also tends to strengthen the legitimacy of existing governments — whether they are democratic or authoritarian — because growth enables governments to more easily satisfy the economic demands of their citizens.

In East Asia, it is only Taiwan and South Korea which truly fit the model linking economic development to political democratization. In both countries, the transition toward democratization took place after their economies had reached 'middle-income' status. By the mid-1980s economic development had produced large middle- and working classes while in 1989 the proportion of the work force engaged in agriculture had dropped to only 22.0 percent in Taiwan and 25.7 percent in South Korea.[3] In Southeast Asia two countries democratized but at levels of economic development far below those of the two East Asian countries. In Thailand democratization took place at a time when its economy was growing rap-

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idly but its social structure had not been transformed as in Taiwan and South Korea — the middle and working classes remaining quite small compared to the agricultural work force which continued to make up around two-thirds of the total. Thailand's relatively low level of development was reflected in its per capita income which was not only far lower than those of South Korea and Taiwan but also significantly below neighboring countries — Singapore and Malaysia — which did not experience noticeable democratization. The fourth democratizing country, the Philippines, was even further from the model as the 'People Power' movement which overthrew the Marcos authoritarian regime in early 1986 followed a year in which the economy had contracted by 7 percent. Democratization in the Philippines was more a response to economic decline than to economic growth.

In the other three countries, economic growth did not result in regime change but seems to have strengthened the legitimacy of existing regimes. Singapore, as the most wealthy Southeast Asian country, has vehemently rejected Western liberal democracy and practices its own form of 'Asian democracy' while Malaysia, which is more advanced economically than both Thailand and the Philippines, maintains a political system in which authoritarian and democratic aspects are mixed. Although economic developments brought about a significant social transformation, particularly the spread of education and the emergence of large middle classes, there was little popular demand in either country for further liberalization and democratization. Finally, despite its rapid rate of growth, Indonesia remained the least developed and the most authoritarian of the seven countries. The rapid growth of the previous three decades had undoubtedly strengthened the legitimacy of the Suharto regime but did not sufficiently transform the class structure sufficiently enough to undermine the authoritarian political system.

Thus the patterns of political change in East Asia have been diverse. There is no such thing as *the* East Asian political system. When the economic crisis hit in the middle of 1997, three East Asian countries had adopted democratic systems characterized by competitive elections, three had adopted democratic institutions but held elections which virtually guaranteed the re-election of incumbent governments, and one preserved a military-backed authoritarian regime.

How are these regimes likely to be affected by the sudden halt to rapid economic growth?

The Three Competitive Democracies. It might be expected that the three competitive democratic systems (South Korea, Thailand, and the Philippines) would be most endangered by the financial crisis. While democracies can function well during good times, they are sometimes less capable of dealing with crises. Democratic governments have to respond to multiple pressures from their citizens who are often concerned more with advancing or protecting sectional interests than the broader national interest. When tough measures are needed to cope with crises of one sort or another, democratic governments, especially coalitions made up of rival parties, often find that they lack the unity of purpose needed to carry through reform strategies and are unwilling to impose electorally unpopular policies. On the other hand, democracies have the advantage of institutions which permit discredited governments to be replaced by constitutional means.

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At present, the three East Asian democracies look relatively secure. South Korea's democratization in the late 1980s had been a response to fundamental changes in society. The overthrow of authoritarian rule was supported by the growing middle and working classes created by successful economic development. At the same time the repressive aspects of the authoritarian regime discredited the military which has since accepted its relegation to a professional role. The symbolic turning point was probably the convictions of former Presidents Chun Doo Hwan and Roh Tae Woo, both of whom are retired generals. The military's acceptance of the humiliation of its former leaders suggests that its commitment to democratic rule is strong and makes a return to authoritarianism most unlikely. Korea's democratization, therefore, seems to rest on strong foundations.

Nevertheless, Korea's democratization did not produce strong and effective government. The election on a reform agenda in 1992 of former dissident Kim Young Sam was seen initially as a triumph for democracy but he was later engulfed in various corruption scandals which eventually resulted in his own son, among others, being imprisoned. The close ties between politicians and officials on one side and big business on the other survived the transition to democracy and contributed to the incapacity of the government to deal effectively with the economic crisis when it hit in November 1997. The crisis was accompanied by the collapse of several conglomerates with close links to the government.

Democracy, however, seemed to offer a way out. Unencumbered by the scandals of the previous administration, the veteran leftist Kim Dae Jung won a narrow victory in the December 1997 presidential elections after doing a deal with his former antagonist, Kim Jong Pil, a retired military officer who had served in earlier authoritarian regimes. That Kim Dae Jung found it necessary to appoint Kim Jong Pil as his prime minister suggests that the new government might lack cohesion, but so far at least it has adopted strong measures to face the economic crisis. Reform policies, however, have caused mass retrenchments in a country with a large, unionized working class. Despite the challenges facing the Kim Dae Jung government, however, no credible force has emerged calling for a return to authoritarian rule.

The level of economic development in the Philippines is far below that of South Korea, and yet democratic government seems no less strongly entrenched. In contrast to both South Korea and Thailand where democratic government is a relatively recent phenomenon, the Philippines cannot be considered as a 'new' democracy but rather a restored 'old' democracy. Before Ferdinand Marcos introduced martial law in 1972, democracy in the Philippines had been characterized by robust competitive elections which regularly turned out incumbent leaders. The 14 years of authoritarian rule under Marcos were not long enough to destroy a political culture based on electoral politics; when Marcos was overthrown by 'People Power' in 1986, the old democratic institutions were largely restored. In the late 1980s, the democratic government survived six coup attempts and in 1992 the former Armed Forces Chief of Staff, Fidel Ramos, was elected as president by a narrow margin after a hard-fought campaign.

Compared to other countries in the region, the Philippines was less severely affected by the Asian economic crisis. Its economy had only recently begun to take off so that its external debt was still relatively small. Although

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Compared to other countries in the region, the Philippines was less severely affected by the Asian economic crisis. Its economy had only recently begun to take off so that its external debt was still relatively small. Although government-business links do not seem less close than in South Korea and Thailand, the Philippines had been under IMF tutelage for three decades which helped the government to maintain some financial discipline and thus retain a degree of international confidence. In contrast to Kim Young Sam in South Korea and Chavalit Yongchaiyudh in Thailand, Fidel Ramos remained a popular leader, partly because of the economic growth that had begun under his administration. If the Constitution of the Philippines had permitted Ramos to run again, it is not improbable that he would have been re-elected. On the other hand, the election of Joseph Ejercito Estrada has not undermined international confidence in the peso, despite the new president's reputation as a populist

The financial crisis does not appear to have caused any questioning of the Philippines' democratic system. On the contrary, concerns about the reimposition of authoritarian rule dominated politics in the months after July 1997 and eventually resulted in the rejection of a constitutional change that would have permitted Ramos to stand again were it not for the fear of a return to authoritarianism. The economic crisis did not result in mass demonstrations partly because the impact was less severe in the Philippines and the government was not as blatantly incompetent as Chavalit's in Bangkok and Kim Young Sam's in Seoul. In the Philippines the established democratic institutions, despite their not insignificant weaknesses, seem to be accepted widely while the authoritarian alternative has been firmly rejected.

In contrast to the Philippines, the roots of democracy in Thailand are not so deep. A democratic system was restored in 1992 after a military coup had overthrown the previous elected government in 1991. The violence of the military in putting down popular opposition to the appointment of an unelected general as prime minister discredited the military which then permitted the installation of a civilian government. Since 1992, freely contested elections in Thailand have produced a series of coalition governments.

However, the government headed by former Armed Forces Chief Chavalit Yongchaiyudh, which came to power in late 1996, displayed many of the characteristics which cause some observers to doubt the efficacy of democracies in dealing with crises. The government consisted of a coalition of rival parties which had little in common with each other except the will to survive in office in order to enjoy the perquisites that office brings. Many of the government leaders had business connections which they seemed determined to protect. The government's main base of electoral support, however, lay in the rural areas where corruption in the electoral system was deeply entrenched. Chavalit was able to stay in power by dividing patronage between the rural bosses who mobilized votes for him and the business interests with which many of his ministers were linked. It is commonly believed that the close ties between businesspeople and politicians in Thailand made banks, financial institutions and investors excessively willing to involve themselves in risky projects because of a sense that their political patrons would always be available to bail them out if a venture failed. This nexus between government and business lay behind the economy's fragility and vulnerability in mid-1997.

After the crisis struck, Chavalit's government was too divided internally to formulate coherent policies. Despite its acceptance of an IMF package, it could not risk pursuing policies which were necessary from an economic point of view but which imposed severe sacrifices on significant sections of the community. As mass demonstrations grew, Chavalit resigned in November and was replaced by Chuan Leekpai, a former prime minister with a personal reputation for probity (something that could not be said of several members of his new government who had served in Chavalit's cabinet) who appointed a number of technocrats to key positions in his cabinet. The Chuan government succeeded in impressing the IMF and gradually restored some confidence in the baht.

Although the crisis was by no means over, the Chuan government had more or less stabilized the currency in early 1998 but still faced the prospect of very low growth for the next year or so. While the emergence of the Chuan government can be interpreted as a triumph of democracy, it needs to be understood that Chavalit was not deposed by the people in a general election (though he clearly lost the support of the 10% of the voters who live in Bangkok) but by political maneuvering in parliament. Although Chuan and his technocrats have undoubtedly performed well in restoring some confidence in the baht, the composition of the new government is not completely different from that of the old. Many of the old ties between politicians and business remain as obstacles to firm policymaking. Chuan's leadership seems to have weathered the worst of the storm but the ship has not yet found its way to a safe port; the military lies in wait even as its leaders seem committed to supporting civilian rule.

In all three democracies, therefore, the political system has coped reasonably well with the economic crisis. In South Korea and Thailand, democratic institutions allowed the removal of incompetent governments although in the Philippines the Constitution forced the replacement of a successful president by one whose economic credentials were less obvious. The severity of the crisis was much greater in South Korea and Thailand which had both experienced long periods of rapid growth compared to the Philippines which was just beginning to take off. Although the three democracies have begun to adopt the difficult measures needed for economic reform, they are by no means free of the cronyism and vested interests which made them so vulnerable in 1997. In all these three democracies, however, the authoritarian alternative has been thoroughly discredited.

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The Three Hegemonic-Party Systems. The political systems of the three countries under hegemonic-party rule (Singapore, Taiwan, and Malaysia) seem least threatened by the economic crisis. In the case of Singapore and Taiwan, this is partly because their economies were also least affected. During the second half of 1997 the American dollar had appreciated by 17 percent against the Singapore dollar and 21 percent against the New Taiwan dollar and economists judged their economic fundamentals to be strong. Both had very large foreign exchange reserves and are net investors overseas, not borrowers. The Singapore dollar's gradual decline was not because of its own weakness but due to its close trading and financial links with neighboring countries which were badly hit. In Taiwan's case, its dollar came under speculative attack in September and was allowed to float but its fall was relatively limited. Unlike Singapore where the commercial and industrial sector is largely foreign-owned, domestic capital is dominant in

Taiwan and enjoys a close relationship with the ruling party — which itself is a major player in the economy. An interesting question is why the government-business connection which resulted in the vulnerability of other economies in the region did not make Taiwan similarly vulnerable.

Both Singapore and Taiwan have entrenched power structures. The basic features of Singapore's political system have been in place for nearly three decades while Taiwan has embarked on a gradual and orderly transition from authoritarian rule toward a more democratic system during the last decade. In neither case did the currency crisis generate pressure for political change. In Singapore's case, the government's capacity to cope with the economic challenge in fact enhanced its legitimacy. In the case of Taiwan its gradual evolution toward a more democratic system is the product of both the social pressures produced by economic growth over the last few decades and the government's search for international legitimacy in the post-Cold War environment. These influences have not been undermined by the Asian financial crisis.

Taiwan's gradual evolution toward a more democratic system is the product of the social pressures produced by economic growth and the government's search for international legitimacy.

The third country in this category, Malaysia, has experienced very rapid growth during the last decade but its level of economic development is still considerably below the other two. Malaysia maintains a formally democratic political system with competitive elections but in reality the controls imposed on the opposition make it virtually impossible for the government to be defeated. Nevertheless the Malaysian system is relatively open and elections force the government to respond in significant ways to pressures from society.

The Malaysian political system evolved in a society marked by sharp ethnic divisions. In response to severe racial rioting in 1969 the Malay-dominated government adopted its so-called New Economic Policy (NEP) — a strategy of positive discrimination which provided vastly increased opportunities for the economically backward Malay majority in business, education and employment. Despite widespread predictions of communal bloodshed, the government's management of ethnic relations during the last 30 years has been quite successful. The massive entry of Malays into the modern sector of the economy aggravated racial tensions at the time but it also laid the foundation for a more deeply integrated society. Meanwhile, the Chinese minority maintained its strong position in business. The result is that the Malay majority has been broadly satisfied with the system while the Chinese and Indian minorities feel that it is tolerable; in any case, they don't have any realistic alternatives.

Before 1997, it was common for writers analyzing Malaysian politics and society to note that Malaysia's relative success in handling ethnic relations was made easier by its rapid economic growth. The economic collapse in 1997 therefore gave rise to fears of renewed ethnic conflict; but the absence so far of serious ethnic tension suggests that a strong foundation for ethnic harmony had indeed been laid down during the last few decades. It could be argued that without the NEP, Malaysian society would have been far more vulnerable to ethnic conflict when the economic crisis hit in 1997.

Like most other countries in the region, the links between the dominant group in the government — in Malaysia's case the United Malays National Organization (UMNO) — and business are very close. Most Malay businesspeople (as well as some Chinese) depend heavily on government largesse for credit, contracts, concessions and so on. While they succeeded in good times, many businesspeople lacked the resources to see them through the period of economic decline. Although some appear to have been bailed out by the government, the government's political base in the Malay community seems to be sufficiently secure for it to carry through necessary economic reforms against the interests of politically-linked businesspeople. The economic decline has not generated — so far at least — a significant movement demanding fundamental change in the political system.

The Authoritarian Regime. The final case is that of the authoritarian regime in Indonesia. Established in the mid-1960s after the massacre of half-a-million supporters of the Indonesian Communist Party fatally undermined the regime of Sukarno, the military-backed New Order formed by Suharto laid the political foundations for three decades of rapid economic growth. Rapid growth brought about the transformation of society — especially the emergence of an educated, professional middle class — but the military-dominated political system provided few opportunities for political participation. A brief period of 'openness' in the early 1990s ended with the reimposition of authoritarian controls in 1994.

One consequence of Suharto's 33 year rule was that he was able to build up a deeply entrenched patronage network which was increasingly dominated by his own children and relatives together with a group of Indonesian-Chinese businesspeople. It was the links between this small commercial elite and government leaders which made the Indonesian economy so fragile when the storm broke in mid-1997. As long as the economy was growing at 6 to 7 percent, this business elite could succeed but their massive debts in foreign currencies made them extremely vulnerable when speculators struck against the Indonesian rupiah. Although Indonesia turned to the IMF for assistance, Suharto tried to protect his relatives and friends from the full effects of two IMF reform packages with the result that the rupiah fell to a level where virtually the entire business sector was technically bankrupt. It was in these circumstances that mass rioting led to the withdrawal of elite support and Suharto's resignation on 21 May 1998 in favor of his vice- president, BJ Habibie.

Habibie, however, suffers from many of the same failings as Suharto and looks unlikely to be able to win back the confidence of international investors. Although Habibie has promised 'political reform', he lacks a strong power base in society and ultimately remains in office on the sufferance of the military. Many observers expect Habibie to be replaced sooner or later by a military-backed regime. Thus, although the Asian economic crisis contributed in a big way to the collapse of the Suharto regime, the final outcome might well be another regime backed, or even dominated, by the military. Democracy in Indonesia still seems far-off.

CONCLUSION

AT the level of popular commentary, and to some extent in academic discussions as well, the sudden collapse of the Asian 'Economic Miracle' has been attributed to the lack of democracy in the East Asian countries. As a corollary, the conclusion is drawn that economic recovery and the return to growth will require further democratization in the region. No less an authority than Michel Camdessus, managing director of the IMF, was recently reported as saying in *The Australian* (1998) that 'Democracy and effective economics are sisters.... Some people say for rapid development you need a good, quiet dictatorship... but these are not the old days. That is not the new Asia.'

It is not my intention to disparage democracy in Asia but we need to temper our enthusiasm with a bit of realism. Democracy, like authoritarianism, provides no guarantee for successful economic management. Democracies, no less than authoritarian regimes, often exhibit the kind of close links between governments and vested interests which inhibit the implementation of effective policies. The fact that three of the five countries most hurt by the Asian economic crisis were democracies shows that elected governments in democratic countries are not necessarily more able to cope with economic crises than authoritarian regimes. On the other hand, of course, the abject failure of the Suharto regime in Indonesia to make necessary adjustments shows that authoritarian regimes are not necessarily more capable than democracies.

It is also necessary to temper any optimism that the political systems of East Asia are moving inexorably toward democracy. Before the crisis hit in mid-1997, the usual argument was that economic growth was producing middle classes which would demand political change in a democratic direction. Since mid-1997 the argument has been that the economic collapse demonstrated the failure of authoritarianism — whether in its hard or soft guises — to weather the storm caused by an unfavorable external environment. I have suggested, on the basis of what we have seen so far, that the end of the economic miracle does not seem to be forcing dramatic systemic change in the seven countries considered here — apart from the uncertain case of Indonesia. Leaders have been changed in four countries but within existing political systems. The case of Indonesia may turn out to be an exception but, at this stage, I remain unconvinced. This suggests that the internal political dynamics of individual countries are decisive. In the three democracies, the authoritarian alternative had been thoroughly discredited by domestic events which took place long before 1997 with the result that democratic systems seem likely to survive. In the case

Democracy, like authoritarianism, provides no guarantee for successful economic management.

of Malaysia, no challenge has emerged to its part-authoritarian-part-democratic system which was initially constructed to deal with tensions in a society deeply divided along racial lines while the successful ways in which the governments of Singapore and Taiwan dealt with the crisis are likely to strengthen rather than undermine their legitimacy. Finally, despite the dramatic events last May in Jakarta, I have suggested that it is not unlikely that Indonesia will remain under military-backed authoritarian rule for some time to come.

The political lesson of the economic crisis, however, remains. While corrupt relations between governments and cronies do not necessarily prevent rapid economic growth in good times, they make it very difficult for governments to cope with bad times. The capacity of the Singapore government — unencumbered by the political need to look after the interests of cronies despite its relatively authoritarian political system — shows the need for what these days is called 'good governance'. The political requirement for economic recovery is the capacity of governments to carry out essential reforms which run against the interests of groups previously linked by patronage ties to members of the regime. There is no particular reason for assuming that democracies, any more than authoritarian regimes, can always do this. But we must also remember that they do not necessarily fail.

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NOTES

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1. Data taken from the *Asia 1996 Yearbook* (1997), pp. 14-15.

2. I place 'good governance' in quotation marks because of the lack of consensus about its precise meaning.

3. Data taken from *Key Indicators of Developing Asian and Pacific Countries, 1991* (1992), p. 14. Manila: Asian Development Bank.

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