

# Comparative Economic & Political Systems in the Asia Pacific

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**KING'S**  
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*Comparative Economic & Political Systems  
in the Asia Pacific*

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RSA House  
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<b><i>10-11.15h Varieties of Advanced Capitalism</i></b>	<b>Speakers: Dr Hahee Kang (KCL), Dr Robyn Klingler-Wydra (KCL) &amp; Prof. Hugh Whittaker (Oxford University)</b> <b>Chair: Dr Tat Yan Kong (SOAS)</b>
<b><i>11.45-13h Varieties of Developing Capitalism</i></b>	<b>Speakers: Mr Kyunghoon Kim (KCL), Dr Tomas Larsson (Cambridge University) &amp; Prof. Lina Song (Nottingham University)</b> <b>Chair: Prof. Lawrence Saez (SOAS)</b>
<b><i>14-15.15h Varieties of Democracy</i></b>	<b>Speakers: Dr Michael Buehler (SOAS), Dr Dong Lisheng (CASS) &amp; Dr Dafydd Fell (SOAS)</b> <b>Chair: Prof. Peter Kingstone (KCL)</b>
<b><i>15.45-17h Closing Discussion: Comparing Economic &amp; Political Systems</i></b>	<b>Speakers: Prof. Peter Kingstone (KCL), Dr Tat Yan Kong (SOAS) &amp; Prof. Lawrence Saez (SOAS)</b> <b>Chair: Prof. Dong Lisheng (CASS)</b>

## Panel I. Varieties of Advanced Capitalism



Dr. Nahee Kang's presentation explored the following question: what kind of liberal market economy (LME) is South Korea evolving into - one that is stable and able to generate equitable wealth, or one that is unstable and is generating wealth for a small number of elites? In order to answer this question, Nahee suggested inspecting the politics that shape the 'varieties of liberalization'. This entailed a close inspection of (a) ideas and ideologies of the political elite and (b) the social and political cleavages and coalitions that emerge that shape key reforms. In terms of ideologies of the political elite, Nahee argued that the post Asian Financial Crisis period witnessed the two centre-left governments' significant attempts of introducing neoliberal policies, building the basic structures of the welfare state and regulating the de-regulated financial system and the corporate sector, which enabled the maintenance of equality and some concrete steps towards stability. Moreover, the subsequent centre-right governments have not deviated significantly from this path. With respect to social and political coalitions, new powerful actors - i.e., foreign institutional investors and civic organizations - now operate in the national political economy. These actors are playing a significant role in problematizing the corporate governance problems in chaebols and pushing for corporate governance reforms. In brief, there are encouraging signs that South Korea has developed into a LME that is able to generate equitable wealth and one that is less crisis-prone. However, the question of whether South Korea will evolve into and be embedded in this direction remains uncertain.

Dr. Hugh Whittaker's presentation started by showing that the traditional literature on Japanese capitalism, which centered on the concept of 'developmental state' and 'late development', was abandoned and replaced by popular discourses around business system and Varieties of Capitalism (VoC). Hugh argued that, since the 1980s, capitalism itself has changed dramatically

while fundamentally transforming ‘embedded liberalism’. The story of Japan in the 1990s and 2000s was characterized by its attempts to ‘recover from success’. The very success of Japan - strongly embedded in late development institutions - has made it difficult to adapt to this new environment, not just in terms of macroeconomic management and state-business relations, but business and innovation systems as well. The main argument of the presentation was that Japan’s capitalism - in terms of institutions, business and innovation systems - was formed during the era of ‘late development’, and was so successful during that era that ‘recovering from success’ has been very difficult. In addition, Japan’s success and technological developments provoked changes in US capitalism which led to vertical dis-integration and manufacturing outsourcing, modularization, offshoring and GVCs/GPNs. The US has created demand and opportunities for other Asian developers such as South Korea, Taiwan and China, which responded in the 1990s and 2000s with the ‘foundry model’ and contract manufacturing. Japan was therefore caught in the middle, reluctant to abandon its strengths in monozukuri, integral architecture and integrated manufacturing. The presenter also noted that, after the Global Financial Crisis, Japanese capitalism has developed some ‘new’ paths based on monozukuri. These ‘new’ paths add new strategic capabilities and a different dimension to financialization while placing a premium on ‘global HRM’. Besides, it was also argued that Abenomics’ corporate governance reforms were characterized by the ironic use of government policy to dismantle the system embedded in the developmental state and to force fundamental changes. Finally, the presenter suggested that Japanese capitalism can be located into a wider framework of ‘compressed development’ as opposed to ‘late development’.

Dr. Robyn Klinger-Vidra’s presentation analyzed the economic evolution characterized by the strategy of ‘turning engineers into entrepreneurs’, and its socio-political implications in Hong Kong and Singapore. The presenter noted that both city-states witnessed significant strategic changes in terms of economic development. Specifically, while Singapore’s economic policy had long focused on attracting multinational corporations in order to upgrade the country’s economy, by the 1990s the government put forward a series of policies facilitating the process of turning Singapore’s technical talent from ‘engineers into entrepreneurs’. Similarly, Hong Kong’s economic policy has changed significantly since 1980s due to the ‘limits of laissez-faire’, with the economy striving to diversify away from reliance on financial services and real estate. It was shown that, before the Asian Financial Crisis of 1997, Hong Kong essentially functioned as an international and regional hub for business as well as a trading post and a gateway to China. However, the government has increased the investment in key industrial areas and attempted to drive innovation and economic activities since 1997. The presentation then explored the link between the shift in economic development and political contestation in the two countries. In the concluding part, the presenter identified several important issues that Hong Kong and Singapore are facing. First, economic development begs demand for different economic opportunities. It is part of a global trend in which younger generations want careers with greater autonomy, yet with more risk. And the governments need to deal with housing crises and low birth rates. With respect to the political dimension, the presenter argued that in both Singapore and Hong Kong there will be further political engagement but not necessarily change, and that more politics does not necessarily equate to greater democratization. For now, there is a seeming return to ‘business as usual’ in terms of pushing for political reforms. While the governments continue to encourage innovation and entrepreneurship in both of the two economies, the political context has not matched this development in the same way.

In the Q&A session, the audience and Nahee had a debate over whether there has been a continuity of the 'developmental state' in today's South Korea. While the audience argued that, despite the center-left governments' attempts to dismantle the developmental state after the Asian Financial Crisis, the center-right governments have put forward several policies aiming to bring back the developmental state, Nahee held a different view and argued that there is little continuity of the 'developmental state' in today's South Korea, as the state has increasingly evolved toward a market regulatory state that facilitates a liberal market economy. Another member of the audience inquired about the ambiguity of the South Korean state, as he believed that the state is neither a liberal one nor a 'developmental state'. However, Nahee argued that, rather than looking at the developmental state model, South Korea has taken the liberal market economy as the model of development.

One member of the audience talked about innovation in terms of organized approaches and asked whether this was driven by business or by aggressive political concerns. Hugh believed that individuals and entrepreneurship generated jobs and a stable economy when the political system was not working. However, the concern was that the country might become an internally competing state. The Abe government showed that political intervention in the economy could create social stability. After a brief discussion about the effects of increasing foreign capital in South Korea and Japan, the last question referred to whether there is good research comparing South Korea with Taiwan. The audience noted that most analyses have tended to make a comparison between South Korea and European countries. Nahee agreed that South Korea and Taiwan can be considered as the most comparable cases among late development states. She pointed out that one of the most essential difference between Taiwan and South Korea is that Taiwan's economy seems more stable and is more ambitious.

## Panel II. Varieties of Developing Capitalism



Mr Kyunghoon Kim's presentation started with an analysis of the types of leadership behind the rise of one developmental state - Indonesia. He analyzed the revival of industrial policies including import replacement strategy, export strategies and public-private partnerships as a response to a new style of leadership demanding followership. Kyunghoon explained that the government's budget spent on social policies was relatively low. For example, the Indonesian government has allocated only 5% of the 2016 budget to health, a social policy sector that received limited funding even before. The government has fallen into the trap of fiscal fundamentalism. It has realized that it is costly to emulate other developmental states and strengthen social policies. Furthermore, the government also faces difficulties in collecting taxes in advance. Also, fiscal rules cap annual deficits at 3% of the GDP. The presenter provided policy options to address pressures on government to push social policy. The most essential one is to improve the efficiency in social policymaking, which could be achieved through efficient institution building. Kyunghoon provided a comparative case study to show that Indonesia has very low institutional capacity to be a developmental state. Accordingly, the presenter suggested that the government should chase institutional catch-up to achieve a "mental revolution". Other conclusions of this presentation included i) to increase the transparency of SOEs and in the infrastructure sector and ii) to enhance the visibility of infrastructure projects in "remote" areas.

Dr Tomas Larsson's presentation was based on that fact that Thailand has been trapped as a lower-middle-income country for a very long time - 28 years. This led him to focus on the reasons behind Thailand being caught in the middle-income trap, taking a regional and political perspective. The presenter argued that the requirements for continued catch-up growth include productivity growth in sectors like education, infrastructure, and innovation. Tomas found out

that institutional strengthening in these areas has not been credible. Thailand has relatively low institutional capability to commit to self-restraint. This was linked to the political party system and constitutional arrangements, fiscal state capacity, and legal-administrative state capacity. For example, the fiscal state capability is weak in terms of tax revenue and relative political extraction. The legal-administrative state capability, measured through the indicator of ease of doing business, is also weak. The trap is therefore fundamentally political rather than economic. Thailand is the most oligarchic society in the region and its labour is deeply fragmented, leading the country to be caught in the middle-income trap. Escaping the middle-income trap requires the development of broad coalitions backing policies for industrial upgrading. In his conclusion, Tomas argued that Thailand is caught in both the middle-income trap and the trap of liberal autocracy. The deeper historical and sociological causes of both traps are closely intertwined.

In the subsequent Q&A session, there was a discussion about the possible legacy of the Asian financial crisis on inequality and politics and whether this is a lasting effect or just a blip. Kyunghoon thought that the crash had a severe impact, as reflected by the regionalization of governmental projects. Tomas complemented that the effect in Thailand was significant, pushing back institutional reform of business practices and politics. The problem is that society will not accept these reforms. He pointed out that one lasting effect of the crisis was the shift in ideology with regards to what constitutes an efficient Thai economy. This ideology is rather anti-globalization, hindering technology adaptation, and research and development.

The audience and Tomas discussed the relationship between the conceptualization of middle-class trap and individual modalities of development. Some members of the audience questioned Tomas's understanding of this concept, arguing that it should not constrain individual modalities of development leading to domestic stability and welfare. Tomas clarified that the middle-income trap was a useful heuristic device to shift the focus from GDP towards different measures of human development and welfare. The key finding in his research is that the meaning of trap refers to a slowdown in middle-income states' capability to catch up in terms of education, health and so on. Additionally, the discussion also focused on effects of the entry of China and Vietnam in the global economy in the early 2000s, the intra-ethnic Chinese confrontation between China and Thailand, and how firms in Philippines struggle to develop complex products.

### Panel III. Varieties of Democracy



Dr. Michael Buehler's presentation started by showing a gap in the literature on subnational democratization. The presenter pointed out that, while most existing analyses have focused on federal systems - i.e., Latin American countries and the US - more attention should be paid to decentralized unitary states. The main hypothesis of the presentation was as follows: in the so-called 'decentralized unitary states', subnational undemocratic regimes (SURs) are less likely to emerge; if they emerge, they are likely to be short-lived, because they struggle to fend off democratizing tendencies at the national level. Michael argued that institutional approaches that concentrate on institutions at the state level could not provide accurate insights regarding the emergence and development of SURs, which are more closely linked to local characteristics. He further suggested that, if the local economy lends itself to monopolization, SURs are likely to emerge and survive because it allows local politicians to establish a power base outside the state power. On the other hand, if the local economy does not lend itself to monopolization, it has to rely on the state to mobilize voters. Consequently, it is vulnerable to national-level influence in democratic unitary states. Drawing on the case studies of West Java and South Sulawesi, the presenter showed that there has been a trend towards the 'dynastization' of politics - which is a strong indication of the emergence of subnational authoritarian regimes in Indonesia. Nevertheless, local economic structures make it difficult for local politicians to mobilize the masses. Local elites therefore have struggled to establish power bases outside the state. The presenter concluded by making a prediction that despite the emergence of SURs in Indonesia, it is much more difficult for these SURs to survive than in federal systems such as Latin American countries or in unitary decentralized states such as the Philippines, where the local economy is able to create monopolies.

Dr. Lisheng Dong's presentation provided an overview of the evolution of direct local elections in China. The presenter listed a number of key time nodes in the recent development of democratization and governance innovation in China, which included the trial implementation of the Organic Law on Village Committees in 1987, the launch of experiments on direct and competitive elections of the Village Committees in early 1990s, the first direct election of a township government leader in 1998, as well as the endorsement of deliberative democracy by the CPC 18<sup>th</sup> National Congress in 2012. The presenter argued that, since the founding of the PRC in 1949, free and fair elections have been absent for most part of its history - with the elections being under the full control of the party-state. Nevertheless, since the early 1990s, reform-minded officials and scholars have tried hard to introduce free and fair elections at China's grassroots community level, and international observers saw a move forward towards opening up China's political process. But this has turned out to be a short-lived attempt at democratization. The presenter pointed out that this development process showed that there was a war between the reformers and the party-state. He further noted that every attempt at introducing democratic elements to the Chinese society had been inhibited to date, which made it necessary to reconsider the general understanding of democratization in China.

Dr. Dafydd Fell's presentation provided a comparative approach to Taiwan's 2016 national election, with the aim of showing the ways in which social movements and protest movements were debated in Taiwan's election campaign. Dafydd pointed out that, contrary to the stereotype that Taiwan's election focused mainly on the relationship with the PRC, domestic affairs actually attracted tremendous attention. Social movements such as the Sunflower Movement were highly debated and used for political appeal in the election by both traditional and newly emerging political parties. During the presentation, Dafydd showed a number of pieces of political propaganda from different parties, including Kuomintang, Democratic Progressive Party, New Party, New Power Party and Taiwan Solidarity Union. By comparing these political advertisements, he analyzed how these parties' positions on and values regarding social protest differed and how they used social movements as a strategy to mobilize different groups of voters. In the concluding section, Dafydd pointed out that it is also important to pay attention to the relationship between the social movement groups and the party in power after the 2016 election.

In the Q&A session, several questions focused on Michael's presentation. The first one was concerned with the definitions of federal system and unitary state as well as the difference between them. Michael noted that in most federal systems - exemplified by Argentina and Mexico - local authorities are able to establish their own subnational institutional arrangements and their own constitutions, while in unitary states local jurisdictions do not have such degree of independence. He further explained that his criteria concentrated essentially on institutions rather than on the financial dimension, as his argument aimed to challenge the conventional literature which argued that institutions at the national level have nothing to do with local conditions. Another question inquired into the role of the huge increase in social policy transferred to individuals. In Michael's view, there is no direct link between one's capacity of distributing this kind of cash and welfare transfer and one's success in establishing a dynasty. The third question referred to whether the rise of the middle class and educated groups in Indonesia had generated conflicts with the bureaucratic system because these citizens are more likely to look for an open market and open governance. Michael argued that in Latin American countries, the middle class has more power to reject governmental arrangements. However, this is not the case in Indonesia



yet. This may be because the condition of social equality in Indonesia is not yet as developed as it is in Latin America.

Another question referred to the extent to which national political parties in Indonesia were involved in local elections and the relationship between national parties and local dynasties. Michael explained that, in Indonesia, political parties at the national level had limited influence on subnational authoritarian regimes. Despite the parties' intention to approach the dynasties and seek cooperation, these parties do not have substantial leverage or impact on the local regimes. Subsequently, Lisheng explained the relationship between reformers, local business groups and the party in China. Another audience member asked about how the political campaigns in Taiwan are spread effectively. Dafydd explained that, in the past, political parties in Taiwan disseminated their propaganda through TV paid advertisements, which constituted the largest campaign spending. However, with the rise of new forms of social media, the situation has changed. For example, during the 2016 campaign, small parties were more interested in spreading their advertisements through Facebook and YouTube. Although big parties also take advantage of social media, these channels are more significant for small parties.

#### **Panel IV. Closing discussion**

In the final section, Dr. Peter Kingstone, Dr. Tat Yan Kong and Dr. Lawrence Saez discussed the questions proposed by the Chair, Dr. Dong Lisheng. The first question in this session related to whether there is there a distinctive Asia-Pacific development model. By comparing Latin America and the Asia-Pacific, Peter argued that there is no distinctive Asia model. Every government is facing small interventions from NGOs and other institutions and trying to offer solutions to its society. Differences derive from the capability of a state, which determines whether these small intervention can be powerful enough to become an invasion on the government's power. After shortly introducing Japan's development history from the 1960s, Tat Yan argued that East countries modeled themselves in the 'Japanese miracle' - namely, governmental leadership directing the technological and industrial structure and policy. Following this model, nation states had similar dreams and institutions, but different policy instruments. Lawrence also recognized the similarity of institutions in the Asia-Pacific, but his answer concentrated on the social dynamics across different countries, which meant that there were several clusters of models in this region. Importantly, he pointed out that effectiveness in different domains was a way to divide clusters of models.

The second question focused on a comparison between the Asia-Pacific and American economic models. Peter's reply highlighted the strength of the US government in supporting innovation networks and the role of many different lobbies. Innovation - represented by Silicon Valley - in reflects a competitive domestic environment in the US. Tat Yan pointed out that the comparison about economic models reflects a pressure to replicate best practices, especially those inspired by the US. Economic liberalization - e.g., US liberalism as adapted by a Latin American context - was one characteristic that copied by Asian countries, but the increasing convergence was in form rather than substance. Most economies in Asia are still catching up and are highly interventionist. Lawrence believed that the US was seen as a model and the experience of Latin America was useful to Asian countries. Most notably, there are efforts being made in Latin America to move away from the influence of the US.

The third question focused on the elements accounting for the diversity of political systems in the Asia-Pacific. Tat Yan thought that external constraints should be considered an important factor explaining the diversity of political systems. Examples include the impact of the Cold War on the democratization-authoritarianism divide between US-supported and non-US-supported states. There was also a regional political East-West divide between China and Hong Kong. Lawrence's reply mainly focused on sub-national actors as the element accounting for the diversity of political systems, specifically the variation across different states in how elections are ran. He also believed that there was a big similarity in the diversity of political systems between Latin America and Asia. Peter pointed out that the main element is the relationship between parties and representation. Parties normally have a non-institutionalized quality that made it hard to form stable coalitions, and to reach agreements to actively deal with the concerns of coherent blocks of voters. Therefore, it is the connection building between parties and population that leads to the diversity of political systems.

The final question in this session centered on the degree of openness of Asia-Pacific politics and societies. Lawrence's arguments laid emphasis on India; he thought that the number of voters

and the degree of social integration might to some extent show the openness of political systems. Particularly, in India, the mix of upper and lower caste systems indicates a sense of openness. Tat Yan believed that the degree of openness is dependent on the adoption of liberal democratic regimes or norm-based regimes. Authoritarian regimes resisting the principle of rule of law cannot make the policy-making process accountable. In contrast, social mobilization across countries and domestic movements for justice can show the degree of openness in politics and society. Peter provided an innovative point about the rule of law in the Chinese political system and society; that is, if the rule of law meant that no one could be above the law and rules were created to validate and govern everyone indistinctively, then China cannot be said to have created a set of rules to bind all individuals.

The Q&A section in this session started with the following question: if you could name one thing from the experience of Latin America that sheds light to the development of East Asia, what would it be? Peter said that although Latin America had been influenced by the US, countries in the region had also developed their own domestic models and social policies. One example given by Peter was that of Chile, which had developed a private pension system that was becoming universalized. Latin American countries meet regularly and together make experiments with policy making. Similarly, Asian countries have adopted a liberal model and reached a consensus on the importance of fiscal policy for industrial modernization and technological upgrading.

One audience member asked about what would happen if the future of development is characterized by a condition of undergrowth. By talking about Kazakhstan and how its government was trying to create its national system based on British law, Lawrence generalized that to overcome the problem of undergrowth, certain Asian countries are trying to replicate the conditions in the UK and US. Lisheng then answered a question regarding whether deliberative democracy would be the mainstream democracy in China. He believed that deliberative democracy in China was quite problematic. The Chinese translation of this term is closer to 'consultation' rather than its real meaning. Deliberative solutions were once fashionable in China, but the state has since taken over, changed and reintroduced this concept, so there is little room for it to have an impact on policy-making.