

# Assessing Pathways to Success

Need for Reform and Governance Capacities in Asia

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# Pathways to Success

Christian Göbel, Sebastian Maslow

## 1. Introduction

Since the end of the Asian Crisis, which wreaked havoc on many of the region's economies in 1997 and 1998, most countries in Asia have performed remarkably well. In seeking to better understand this phenomenon, we have elected to trace a number of very different countries' pathways to success. Our sample is a motley crew, containing longstanding democracies (India, Japan), young democracies (South Korea, Indonesia), autocracies (China, Vietnam), and states that some observers refer to as "semi-democracies," but which we prefer to call "electoral autocracies" (Malaysia, Singapore). Our conception of this latter category derives from the fact that despite their holding competitive elections, these regimes must nevertheless be considered authoritarian (Göbel 2011; Dahl 1971; Schedler 2009; Levitsky and Way 2002; Slater 2010). All of these countries differ not only in terms of regime type, but also in size, language and political culture. What they have in common is that we consider them to be successful in one or more respects.

This raises the question of how we define success. The concept of success we use for this assessment is demanding, because we do not, as is often done, refer solely to growth or declines in a country's gross domestic product (GDP). Rather, this analysis subscribes to the vision that underlies the Bertelsmann Stiftung's Sustainable Governance Indicators (SGI) project. As the name implies, the SGI are forward-looking in the sense that they treat sustainability as an additional indicator of success, defining successful political management as that which "adopts a long-term view of societal development, takes into account the interests of future generations, and retains capacities for societal change" (Bertelsmann Stiftung 2011: 74). We conceive sustainability to be a form of growth that is not achieved at the cost of environmental deterioration or the exploitation of workers, and which is associated with a form of social equality that renders people free from want, gives them access to education and does not discriminate against people of a certain gender, religion or sexual preference. Measured against this demanding standard, the countries in our sample show various degrees of success, but all still have room for improvement.

Because comparing countries at different stages of development against a unified ideal standard might be considered unfair, we also utilize another measure that compares the present-day performance of our sample members against that of the recent past. Most of these countries remain far from the ideal (as are many OECD countries; see Bertelsmann

Stiftung 2013), but they have made impressive strides in improving their scores on one or more of the core SGI measures. Though these improvements are still ongoing, we will refer to the difference between the past and present as progress, stagnation or deteriorations. However, this analysis is not focused merely on the question of where our cases have improved, but also on how this has been achieved. In addition to documenting the changes in SGI scores, we will mine the country reports assembled in the SGI volume to identify the forces driving these changes.

With so many countries and so many pathways, getting lost is a serious risk. Hence, when embarking on such a journey, it helps to bring a map and to first decide on what kinds of roads to take. Given the scope of this analysis, we leave aside the small and winding country roads, which are doubtless interesting, but would prolong the journey and make it easy for non-specialists to lose their way. Rather, we take the comparatively quick route of focusing on the role of the government. Has the government been instrumental in bringing about success, has development been centered on society, or have government actors perhaps even proven a hindrance to development? Does regime type matter? Are democracies more likely to be successful than autocracies in all dimensions?

The journey becomes even easier to make if we know what to look for, and we let theory be our guide. Based on existing findings on the relationship between regime type, quality of governance and development, we will formulate expectations of what we are likely to find along the road. Should these expectations prove unfounded, or should we encounter surprise twists and turns on our mission of discovery, we will suggest alterations to the road map. In this way, we provide not only structured information on the differences and similarities shown by the eight countries of our sample, but at the same time contribute to the development of theory.

We will begin the analysis by justifying our approach, defining and conceptualizing our core terms, and formulating the theoretical expectations that will guide the analysis. The following section compares our eight cases on the basis of our indicators for success and achievement. Drawing from the SGI scores and country reports, sections four to six then test our expectations of how countries at different stages of development and with different regime types should perform with respect to economic development, social development and environmental protection. Where necessary, we will provide alternative explanations for unexpected outcomes. We hope to provide an informed analysis of the interplay between regime type, governance and development in our eight cases, and to highlight how each country engaged in trade-offs when prioritizing certain dimensions of development over

others. Last but not least, we also hope to provide a readable introduction to Asia's political, economic and social development during the last decade.

## **2. Key factors for sustainable development – the role of governance**

Why are some countries successful in increasing their GDP, increasing their populations' living standards, protecting the environment and establishing a high-quality democracy? Why are other countries mired in underdevelopment, with their population suffering from abject poverty, repression and environmental destruction? Is there a recipe for success, or do success and failure stand at the end of individual and highly contingent pathways, representing experiences that cannot be replicated or serve as object lessons for others?

### **2.1 Good governance and sustainable development**

A quick glance at the relevant literature suggests that there are indeed clear answers to these questions. In cross-national statistical analyses, good governance is positively correlated with GDP and development more generally, and the strongest performers on these measures generally are democracies (Kaufmann, Kraay and Mastruzzi 2007; Przeworski and Limongi 1993; Burkhart and Lewis-Beck 1994). A recent study by the Bertelsmann Stiftung confirms this insight: Analysis of the 2011 SGI Status Index reveals that in the OECD countries, policy performance is highly correlated with the quality of democracy (Sustainable Governance Indicators 2011: 103).

However, the relationship between governance, democracy and development is not a straightforward one. For example, Chong and Caldéron show that improvements in governance cause economic growth, and that economic growth in turn enables governments to invest in the improvement of governance (Chong and Calderón 2000). This raises the chicken-and-egg question of where a country should start its journey toward development and economic success. As Merilee S. Grindle (Grindle 2004) convincingly illustrates, the burgeoning good governance agenda does not provide an answer to this question. Rather, it specifies an inchoate and expanding list of preconditions for good governance. Grindle's evaluation of the World Bank's World Development Reports from 1997 to 2003 reveals that "in the 1997 report, developing countries were advised to pay attention to 45 aspects of good governance; by 2002, the list had grown to 116 items" (Grindle 2004: 527). Grindle's analysis makes clear that, scientifically speaking, the theory of what causes development suffers from overdetermination. In practical terms, developing countries are overwhelmed with the task of having to produce multiple institutional improvements at once:

“The agenda does not set priorities or define sequences of action. It does not separate activities that are easier to undertake from those that are more difficult, those that can be achieved in the short term from those that will take years if not decades to accomplish. It does not take seriously the contentious nature of the changes it recommends. And it does not separate an ideal state of good governance from one that is ‘good enough’” (Grindle 2004: 530).

In consequence, Grindle develops the compelling notion of “good-enough governance” (GEG). GEG suggests a universally applicable list of priorities, but stresses that states need to devise their own solutions to pressing problems based on the resources at their disposal. This does not necessarily mean that we cannot generalize across development experiences, but it means that in order to arrive at such generalizations, we need to disaggregate the existing concepts of good governance to separate those measures that are necessary for development from those that are desirable. In addition, we need to disentangle the relationship between cause and effect. For example, democracy might not be a precondition for development, but may in fact result from it, which is exactly what modernization theory describes (Lipset and Bendix 1959). Finally, development must be seen as a process in which progress build upon each other in a cumulative fashion. Members of a society still dominated by “survival values” (Inglehart 1997) are less likely to pressure their government for environmental protection or democracy than are citizens of a society in which “self-expression values” have come to prevail (Charron and Lapuente 2010).

The elements of the SGI, demanding as they are in their totality, enable us to clearly differentiate between the various dimensions of governance, regime type and development that are often lumped together in development discourses. The SGI is composed of two main parts, the Status Index, which measures quality of democracy and policy performance, and the Management Index, which assesses executive capacity and executive accountability. In this analysis, we will adopt a different pairing usefully suggested by Rüb and Ulbricht (Rüb and Ulbricht 2011: 21), who disaggregate the SGI into “general systemic” and “special democratic” performance criteria. According to this typology, policy performance and executive capacity belong to the former category, and quality of democracy and executive accountability to the latter.

The main advantage of this pairing is the following: With democracy no longer a component part of the aggregate measures, non-democracies no longer automatically receive lower scores than democracies. Rather, the impact of democracy on a country’s performance in various policy domains can be realistically assessed. For example, the notable achievements of autocracies such as Singapore and China, and the ongoing problems of democracies such

as India and Indonesia make it seem possible that it is not the quality of democracy, but rather executive capacity that matters at early stages in development. In addition, it allows us to throw a light on the relationship between the quality of democracy and economic development: As we will see, a high-quality democracy cannot be built from scratch, but requires considerable investments in the hardware (institutions) and software (education) of a country. These are investments that poor governments cannot muster, and it might take a generation or longer before the impact of these investments becomes visible.

## **2.2 Dimensions of success**

Based on these insights, our initial propositions and the existing literature, we will now outline the theoretical framework that guides our analyses. Our framework rests on the following two premises: First, that high-level performance in all four dimensions of success (sustainable growth, social justice, environmental protection, a high-quality democracy) cannot be achieved simultaneously. Second, the dimensions of sustainable governance are not of equal importance at various developmental stages. Hence, we hold that that development progresses in sequences or stages, and that the importance of each of the dimensions of sustainable governance varies with the stage of a country's development.

We hold that the first phase of a country's path to success will be dominated by economic growth, often at the expense of social welfare, the environment and individual freedom. The reason for this is twofold: At this stage, countries rarely have sufficient resources to enable expenditure on social services and environmental protection, while the population typically has not yet begun to demand these goods (Charron and Lapuente 2010). Individual freedom is often subordinated to economic development as well. With regard to resources and production factors, capital is largely absent in poor countries, and growth needs to be based on the exploitation of land and labor. The cheaper that land and labor can be acquired, the larger the corresponding profits, so the initial stages of development often coincide with exploitation of the workers, expropriation of land and pollution of the environment (Acemoglu and Robinson 2001; Haggard and Kaufman 2012). Exceptions can but are not likely to occur when governments can gain access to capital in the form of development aid or foreign direct investment. However, aid needs to be both significant and wisely allocated; and developing countries attract FDI precisely because of their low wages, cheap land and lax environmental and labor regulations (Gutterman, Brown and West (Firm) 2010; Mabey and McNally 1999). With respect to the demand side, people who are concerned with survival are likely to sacrifice long-term interests such as environmental protection for short-term economic gains, and are likely to subordinate civil and political rights to economic growth (Charron and Lapuente 2010).



As a country moves into the second phase of development, social policies will be addressed. However, implementation will not be uniform here, either. Driven by economic imperatives, a rational government will first strive to improve those sectors most relevant for economic growth. One such sector is education, another health; a well-educated work force is needed to move beyond agriculture and unskilled manufacturing to more intellectually demanding tasks, while a healthy work force is important for increasing factor productivity. In addition, chronic disease is the chief cause of personal poverty (Corbett 1989). Widespread poverty not only depresses domestic demand, but also undermines governmental legitimacy, which becomes a concern the farther a country develops. Finally, integration policies in the form of enabling women to work serve to increase the size of the work force and thereby the productivity of an economy overall.

As modernization theory predicts, economic growth goes hand in hand with detraditionalization and urbanization, and self-expression values gradually take the place of survival values. Of course, this process does not happen everywhere in a country at the same time, and ruling elites are faced with the challenge of overcoming the dualism of a rapidly modernizing and increasingly productive urban sector and a far less productive agricultural, traditional and often informal rural sector (Bourguignon and Morrisson 1998). In this phase, social inequality will increase, and governments need to cope with the challenge of different social and economic sectors developing at different speeds.

As this happens, the frequency of interactions between the (urban) population and the government will increase. A growing civil society will make demands on the government, which the latter can either heed or ignore. State-society interactions – in many cases conflicts – will increase in frequency and intensity. Along with social and political issues, environmental concerns will drive these conflicts. While people tolerate environmental degradation if they feel it is necessary for their survival, they cease to accede to the destruction of their surroundings once their basic economic needs are met. At this point, the development process is moving into a third phase, in which social issues related to self-expression and environmental concerns enter the political agenda. If the country is non-democratic, the legitimacy of the regime will be challenged even if it has previously performed well. This is what Samuel Huntington has called the “performance dilemma”: Autocracies often justify dictatorship by citing a need to implement development policies efficiently and swiftly. However, once a certain level of modernity is achieved, continued dictatorship is difficult to justify. In this phase, executive capacity will have to increase to meet social demands, maintain social stability and justify continued dictatorship.

The jury is still out on the question of whether autocracies can improve indefinitely, or whether some populations are willing to accept that they will never live in a democracy. Resilient autocracies such as China, Singapore and Russia have cast doubt on the assumption that all countries will eventually become democracies, but even these models of autocratic stability are continually faced with challenges to their rule. In any case, even autocracies imbued with a high degree of executive capacity will need to respond to social demands, so channels of communication between state and society will need to be created (Göbel 2011). While such channels might mimic democratic institutions, modern information and communication technologies could prove to be more suitable to the task, as their information flows can be more easily controlled and manipulated by the government (Göbel 2013a). If people participate from their homes, the risk of publicly vented dissatisfaction spiraling out of control is reduced. A similar logic applies if the country is already democratic, with the main difference being that existing democratic institutions need to increase in quality.

Should a country democratize (like Indonesia), or already be democratic (like Japan and India), the fourth developmental phase consists of a continual enhancement and fine-tuning of democratic institutions, a process referred to as “democratic consolidation” (Diamond 1999). With continued development, social demands will multiply, and only a high-quality democracy will be able to process and address these demands adequately. Only in this final and perhaps never-ending phase will countries be able to achieve high scores on all SGI measures, and therefore be considered truly successful.

In a nutshell, we hypothesize that governments will first focus on economic growth at all costs, then strive to achieve a minimum of social equality, and only in the last instance work to protect the environment, establish a democratic system or significantly improve the quality of existing democracy.

### **2.3 Improving governance**

A second set of hypotheses pertains to which factors in the governance concept enhance success at the various stages. Again, we can draw on a considerable body of scholarship in formulating these hypotheses, and the four dimensions of the SGI (quality of democracy, policy performance, executive capacity, executive accountability) provide useful building blocks in this regard. On the most abstract level, we expect to see improvements first in the general systemic criteria of policy-specific performance and executive capacity, and only afterward in executive accountability and the quality of democracy. One level deeper, we expect internal and external security and economic policies to take initial priority over labor policies, social affairs and resources. As Linz and Stepan have famously argued, the

existence of an undisputed state is a precondition for any development to occur (Linz and Stepan 1996). Once that precondition is met, governments will need to enhance their executive capacity in order to maintain social stability and engineer economic growth. In the next stage, policies related to economic growth are likely to emerge first, with labor market regulation being a good example. Finally, although the quality of democracy is at the heart of most concepts of good governance, the sad message we will convey is that this matters only at the late stages of development, when citizens come to demand institutional and civil-society improvements, and when strengthening democratic practices has at the same time become crucial for designing and implementing advanced development policies.

1) **Internal and external security** refers to issues such as the absence or prevention of civil war, international armed conflicts, massive social unrest and terrorist attacks. We hold that internal and external security thus defined represents a precondition for any dimension of development to unfold (see also Fearon 2008). With respect to the growth dimension, investors and employees risk their lives and their property in regions where armed conflicts occur. In addition to the danger of being affected by violence, governments might requisition private property for the purpose of fighting internal and external enemies, and war or internal strife might cripple the government to the extent that it is no longer effective or can no longer uphold economic laws (Collier and World Bank 2003; Rotberg 2004). Alternatively, the government might impose martial law on society and suspend these and other laws. Given that relocation is costly, existing enterprises might take this risk, but new enterprises are likely to set up shop elsewhere ( 2012) in the absence of security. Violent conflict also disrupts the provision of social services, while martial law allows constraints on civil liberties, and the value systems of people in conflict zones might shift back from a concern with self-expression to survival values (see Rotberg 2004).

2) **Executive capacity** refers to several interlocking features: the ability to formulate cogent strategies for solving pressing problems that block further national development, as well as the capacity to coordinate these policies across ministries and administrative levels. Open channels of communication must exist between a central government, ministries and sub-national government units. Where this is not the case, there is a risk that illegitimate non-state actors might gain illicit control over public resources and thereby undermine development policies. These channels need to reach throughout the state territory in order to prevent the emergence of alternative centers of power. Finally, a government cannot enhance a country's development if it does not possess a functioning bureaucracy (Göbel 2011). A functioning bureaucracy refers to one that "tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training" (PRS Group 2012). In a similar vein, the government should be insulated from undue influence by

the bureaucracy. A bureaucratic apparatus of high quality (which does not necessarily mean high complexity) enables governments to process information speedily and to solve social grievances. Conversely, social and economic actors can rest assured that a change in government will not disrupt vital administrative services such as the granting of a business license or the processing of a social welfare claim. As this brief list implies, creating a potent, coherent and efficient administrative apparatus is neither a simple nor inexpensive task. It is for this reason that economic growth is prioritized over all other policies, and that governments must improve their capacity to levy and redistribute tax revenue (Brautigam, Fjeldstad and Moore 2008). Economic policies and executive capacity are closely related: Together, they enable a government to regulate the economy and society and obtain the necessary information and funds to do so. Governments need to appropriate a part of the GDP in order to finance their own operations, correct market failures and sustain policies that are not cost-neutral.

3) At least three positions can be found in the relevant literature regarding the role played by the **quality of democracy** and **executive accountability** in the development process. The conventional wisdom, which is informed by statistical analysis, is that there is no relationship between regime type and economic growth (deHaan and Siermann 1996; for a review of this position, see Gerring et al. 2005: 323). A more recent position, elaborated by Gerring, Bond, Barndt and Moreno, questions these findings on the basis of methodological shortcomings. Measuring countries' democratic "stock" or democratic experience, they instead find that democracy has a significant and positive impact on economic growth. They argue that over time, democracy contributes to a country's physical, human, social and political capital (Gerring et al. 2005: 325; for the classical argument, see Olson 1993). A contrary position, often brought forth by autocrats to justify authoritarian rule, holds that economic growth is facilitated by the absence of democracy, because this allows political elites to a) make economic decisions unencumbered by organized interests and b) to depress wages, grab land, and pollute the environment without fear of being voted out of office. Hence, the absence of democracy can render economic decision-making more efficient and at the same time serve to increase profit margins by depressing the prices of inputs (Hasset 2007; for the classical argument, see Huntington, Nelson and Harvard University 1976). Based on these findings, our hypothesis is that improving the quality of democracy is not a necessary precondition for economic growth, and that by extension, neither is executive accountability. However, we hold that both become more important as a country progresses into higher stages of development. As a country's political system becomes increasingly complicated, democracy enables decision-makers to identify policy arenas where immediate action is necessary, to receive feedback on particular policies and thereby broaden the knowledge base for policymaking, and to monitor the conduct of state agents. At the same time, the

country's citizens will demand to be included in the making and monitoring of decisions. These pull and push factors will make the quality of democracy and executive accountability important for development, but only at a late stage.

One exception is the sub-dimension of the **rule of law**. However, a distinction must be made between the object of regulation and the degree of enforcement. A country's legal system might expand to cover a great range of issue areas, but only some of these might be subject to rigid enforcement. We hypothesize that laws enhancing a country's stability, such as criminal laws, and laws facilitating economic growth, for example investment regulations, will be passed or at least enforced before social welfare and environmental laws. Similar modifications pertain to the prevention and control of corruption. Corruption in the form of a politician diverting a share of economic transactions small enough to avoid crippling an enterprise is not incompatible with economic growth (Wedeman 1999), whereas nationalizing or bleeding fledgling enterprises to the point of failure certainly is. At the same time, some corruption exists in any economy and will not inhibit growth if it remains within reasonable bounds. As is the case with the rule of law more generally, corruption takes place within a variety of arenas, and might hurt minority groups more than the economy at large. Accordingly, anti-corruption measures are likely to be extended over time from the economic to the social welfare and then environmental protection realms.

### **3. Success and progress**

In the following sections, we will compare the performance of our eight cases with regard to economic growth, social justice, environmental protection and democratic quality. The picture that emerges is highly uneven, but largely confirms our initial expectations. As will be shown, none of our cases improved in all dimensions simultaneously. As a general rule, economic growth has come first. After a certain level of growth is achieved, countries tend to broaden their focus to include social justice. In line with our "economy first" hypothesis, social policy first targets those dimensions that are conducive to economic growth, such as improving labor markets and labor conditions, basic health, and education. Family and social-inclusion policies tend to come later. Finally, performance is far from ideal in terms of providing sufficient old-age pensions to retirees even in the sample's developed countries, and environmental protection is sacrificed to economic growth in nearly all of our cases.

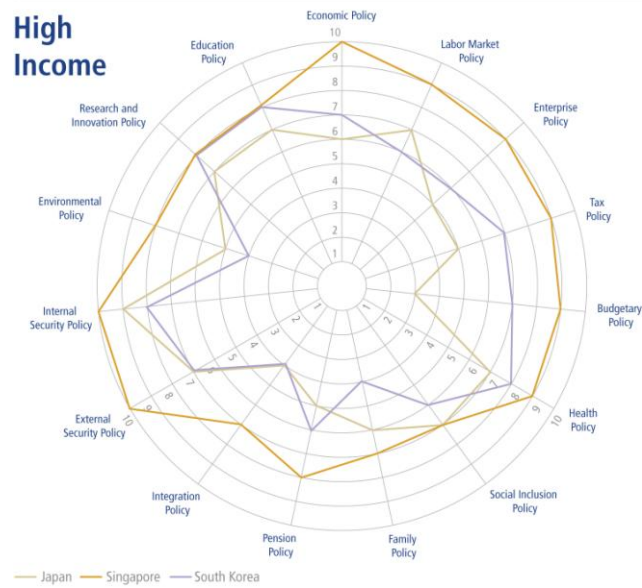
#### **3.1 Policy performance**

A comparison of our cases along the SGI's policy performance indicators illustrates the above conclusions well. In line with World Bank classifications, we have grouped our cases into high-income (Japan, South Korea, Singapore), high-middle-income (China, Malaysia) and low-middle-income (India, Indonesia, Vietnam) countries.

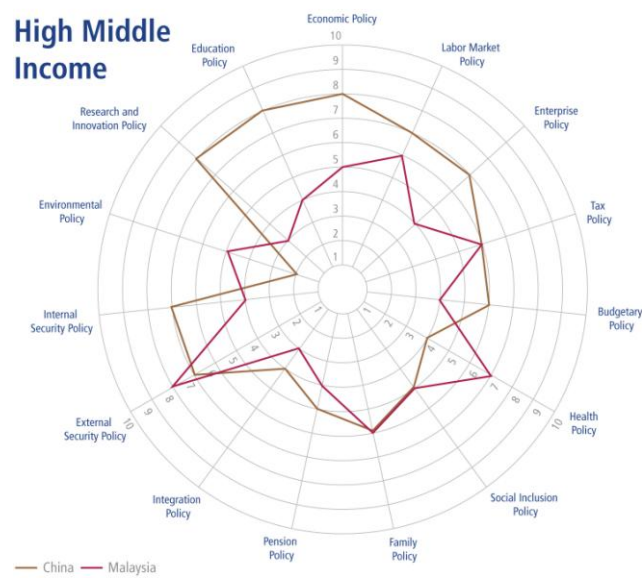
Figure 3.1: Policy Performance

SGI scores

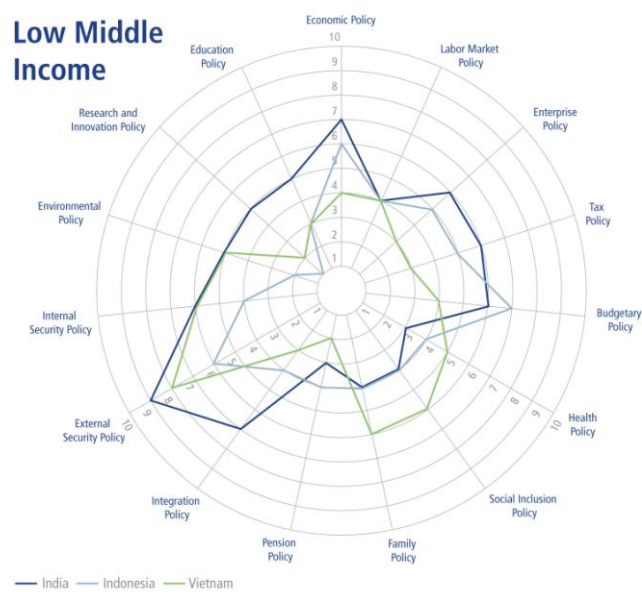
## High Income



## High Middle Income



## Low Middle Income



Source: SGI Asia Study 2013, Country Reports.

BertelsmannStiftung

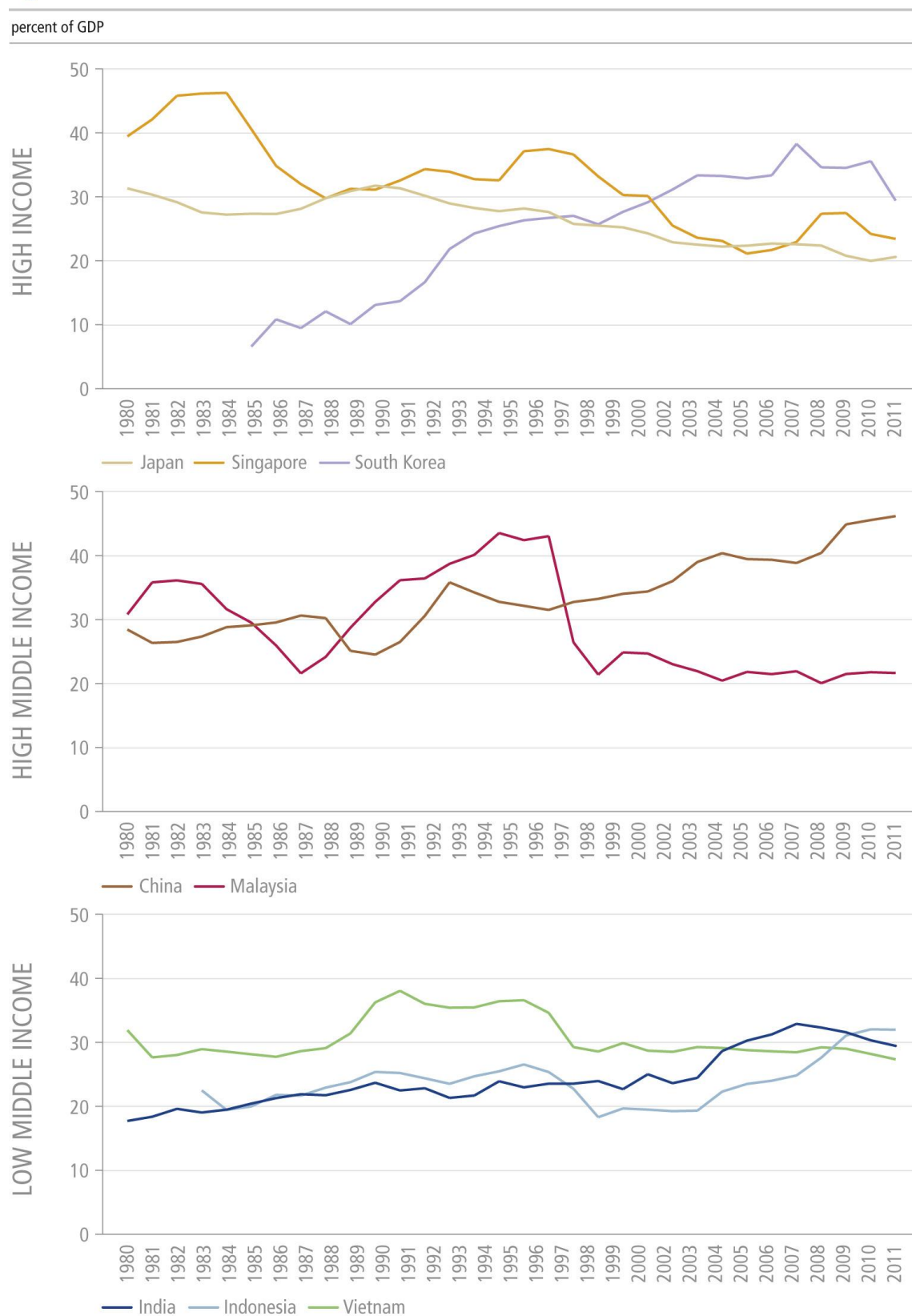
Figure 3.1 provides a first cautious affirmation of our hypotheses. First of all, all of our cases fulfill the minimum condition of not being involved in debilitating internal or external conflicts. As can be seen, with the exception of Malaysia and Indonesia, each of which faces some internal conflicts, all countries perform rather well on both security dimensions. Moreover, as a general trend, the high-income countries tend to perform well on virtually all policy performance indicators, while the upper-middle-income countries China and Malaysia receive higher scores for economic than for social and environmental indicators. Finally, the low-middle-income countries perform well only with respect to economic policy, budgetary policy and external security.

On a country-by-country basis, Singapore and South Korea, the two other high-income economies aside from Japan, perform comparatively well in terms of social welfare provision, although as the country report shows, Korea's labor market is in the midst of a transformation from widespread job security toward an increase in low-paid and nonsecure employment. China and Malaysia, the two upper-middle-income economies, generally do not perform as well in the social indicators. However, Malaysia is a promising outlier in providing a better health policy than we would expect given its middle-income status, despite the fact that health expenditures are comparatively low. In contrast, China's good performance in providing old-age pensions is surprising, and is a signal that the government takes the closing of the demographic window seriously. As expected, heavily populated India and Indonesia receive the lowest scores in most of the social welfare indicators. India stands out with a relatively positive record in terms of improving access to education. With respect to negative surprises, nearly all of our cases perform badly on indicators of gender equality, with progress slow even at higher levels of development. Even in Japan and Korea, women remain at a serious disadvantage with respect to education and labor opportunities. Finally, environmental protection is not a high priority in any of our sample countries, although Singapore receives a surprisingly high score on this measure.

Two countries deserve special mention: Vietnam, because it performs better than expected in terms of family, social inclusion and environmental policies, and Japan, because it receives relatively low scores for growth-related indicators. Japan, as we will see, is different from all other cases in that the development process was initiated much earlier, consequently reaching its development apex during the first half of the 1980s. The second half of that decade witnessed speculation-driven growth that produced a bubble economy, which burst in the early 1990s and resulted in two decades of low growth and deflation (Cargill and Sakamoto 2008). Japan's comparatively low scores in this area hence result from the fact that it did not manage to adjust its growth model in a way that would make it more competitive on international markets. Japan's growth has mainly been fueled by domestic

consumption, but the viability of this domestic growth strategy is today questionable. Fixed investment and household savings rates are steadily declining (Figure 3.1.1).

**Figure 3.1.1: Gross fixed investment**

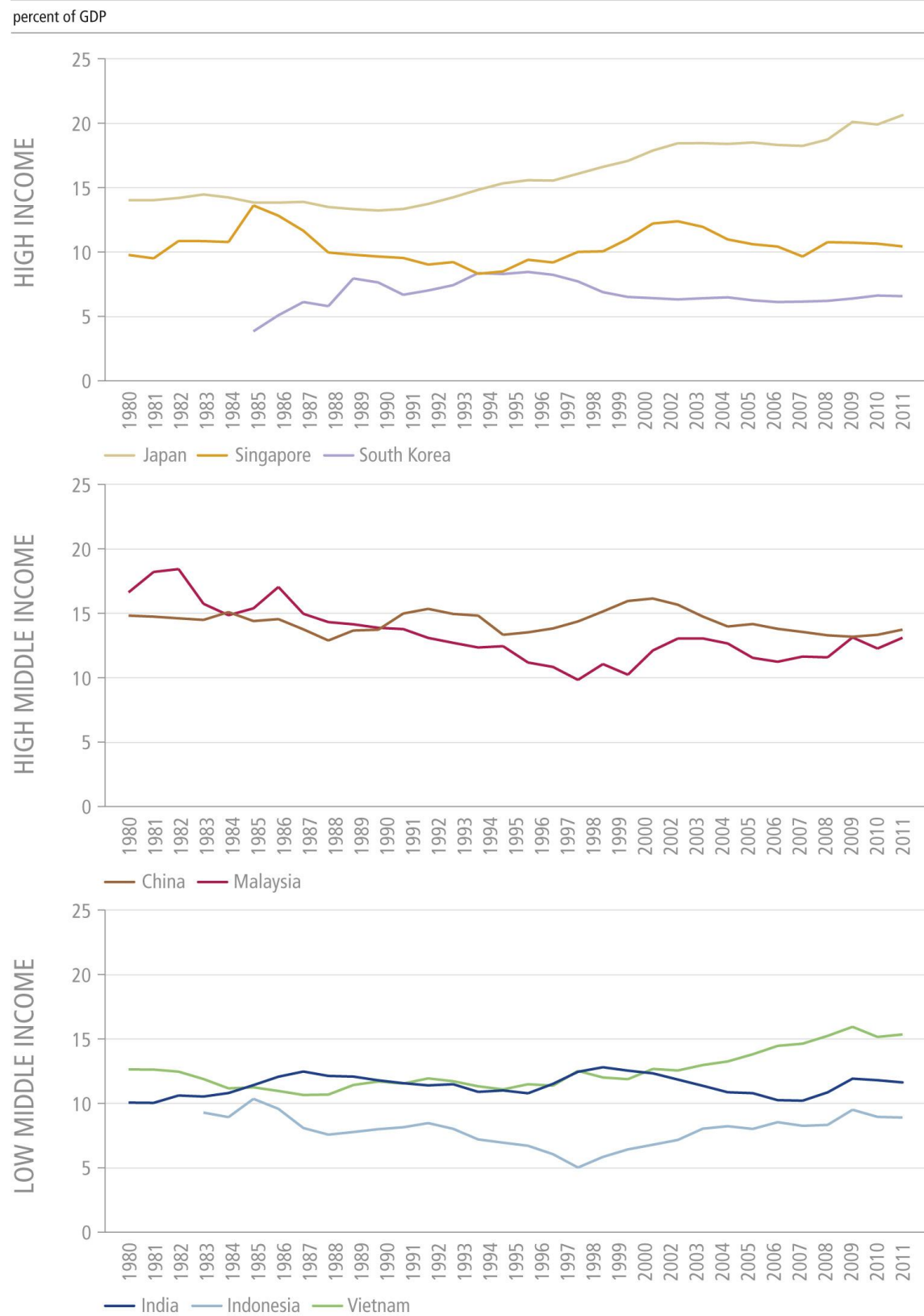


Source: World Bank: World Development Indicators.

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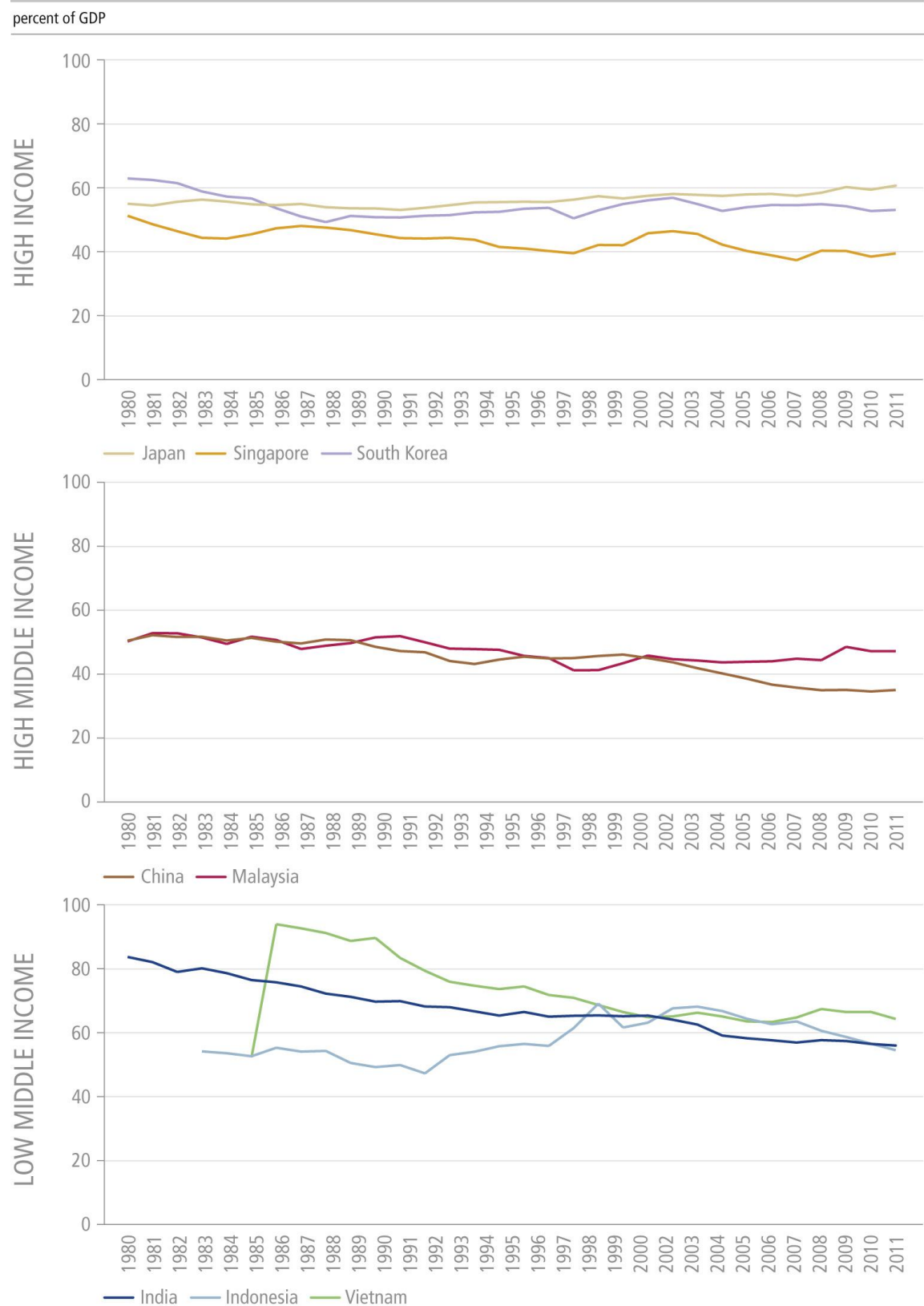
**Figure 3.1.1: Government consumption**



Source: World Bank: World Development Indicators.

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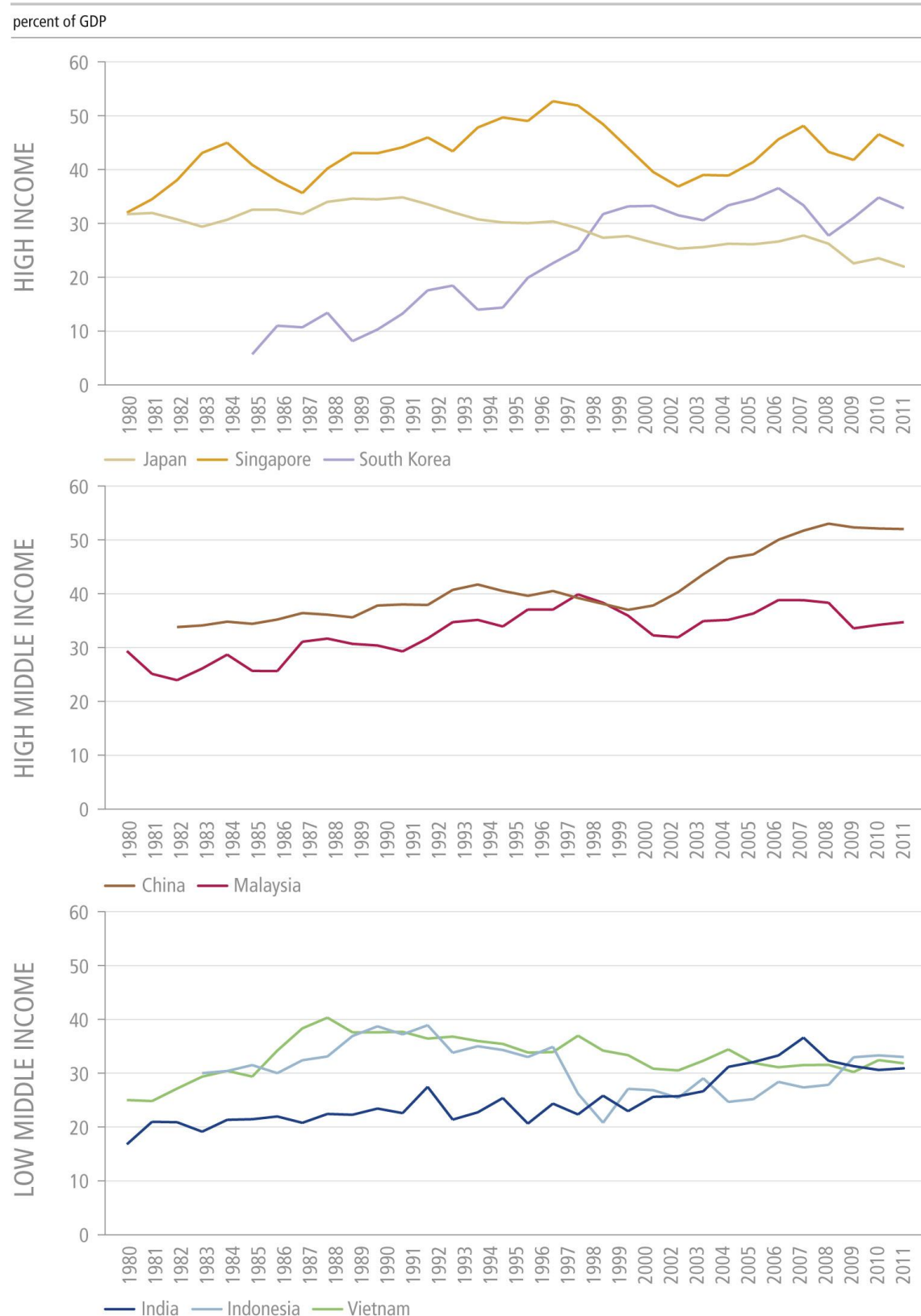
**Figure 3.1.1: Private consumption**



Source: World Bank: World Development Indicators.

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**Figure 3.1.1: Gross national savings rate**



Source: World Bank: World Development Indicators.

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Accounting for 20 percent of GDP, Japan's government consumption is by far the highest in the region, and the share of private consumption (60% of GDP) nearly matches that of

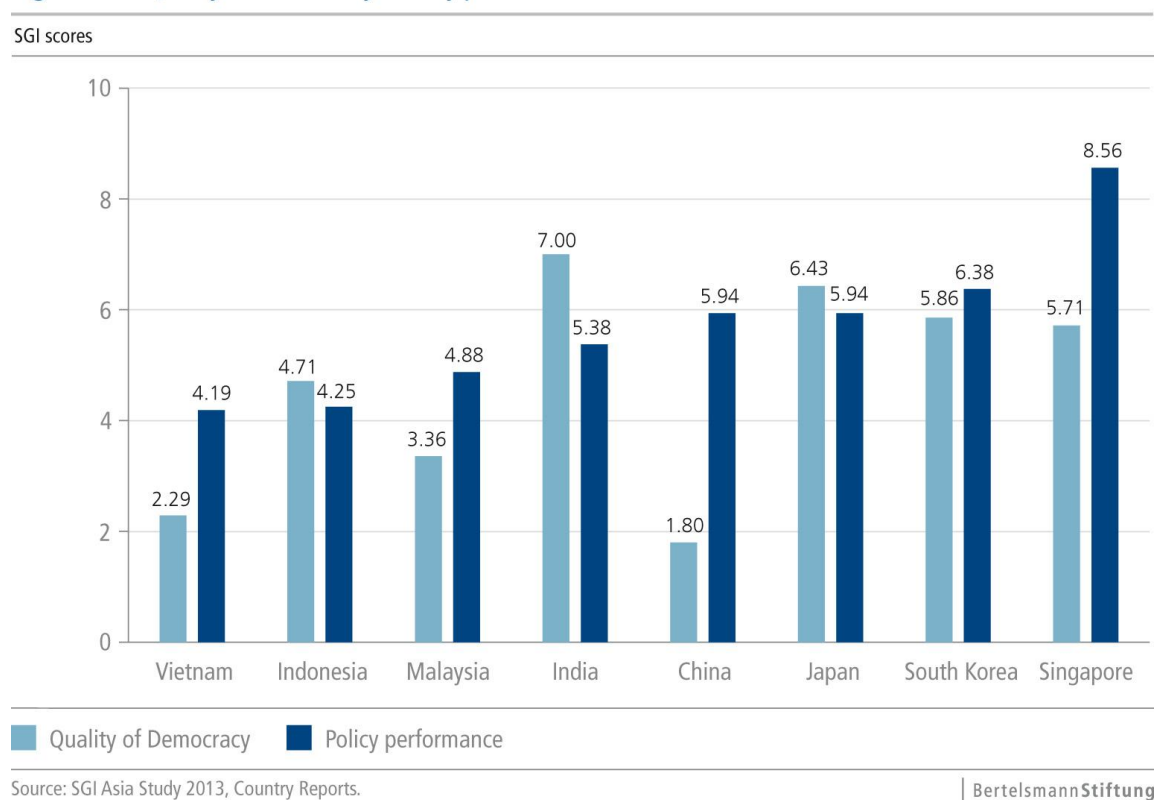
Vietnam, India or Indonesia, countries in which the high private consumption share is the result of a comparatively low level of development. In contrast to Japan, however, savings and capital investment rates are increasing in these countries, while private consumption as a percent of GDP is showing a downward trend. In other words, these countries are developing, while Japan has largely sought to sustain the status quo. In the second half of the 1990s, a series of deregulation and liberalization measures within the retail and financial market sectors were passed, but these were insufficient to resolve Japan's predicament (Vogel 2006). Given the high and increasing levels of public debt, an increasing turn toward precarious labor markets and the resulting uncertainty in incomes, the continued viability of this strategy is questionable. In contrast to economies such as China and Malaysia, which the World Bank sees as susceptible to getting stuck in a "middle income trap" (Kharas and Kohli 2011), Japan's predicament might be termed a "high income trap." While the former countries will soon face the challenge of moving from labor-intensive production into capital-intensive market segments, Japan needs to tap international markets.

Vietnam is a special case not because its government has sought to put social harmony and the environment before economic growth, but because the country is singular in the role development aid plays in shaping public policy. International donor agencies pour billions of dollars into the country, and have been quite successful in ensuring that a substantive percentage of these funds are used for their designated purposes, including fighting poverty and improving governance among others. Vietnam's challenge will be to sustain these programs should donor agencies decide to withdraw their support. If the experience of the other countries can serve as a guide, these programs face a great danger of collapsing very quickly should that be the case. Vietnam's government is no exception in that it values economic growth before other social goods, and can thus be expected to invest as much as possible into the continuing industrialization of the country.

### **3.2. Quality of democracy**

A brief glance at our sample countries' performances in the area of quality of democracy serves to show that policy performance and quality of democracy are probably not interrelated.

**Figure 3.2: Quality of Democracy / Policy performance**



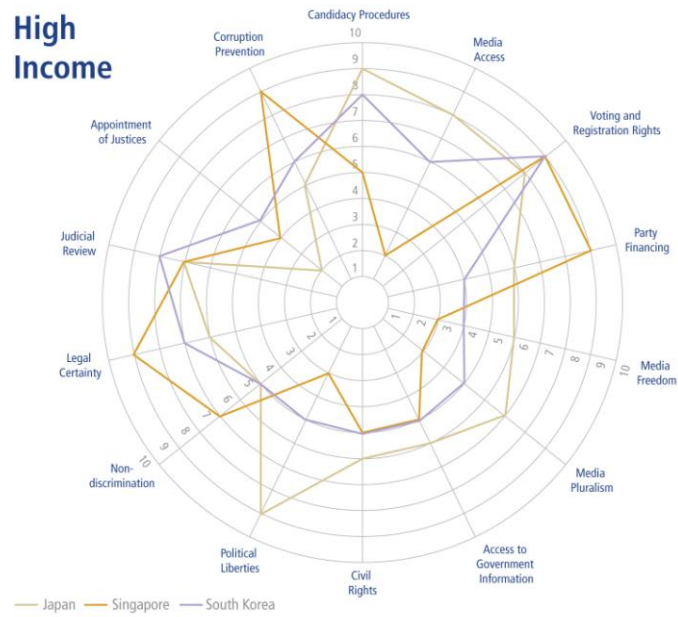
Starting at a high level of abstraction, Figure 3.2 shows that a non-democracy performs best in terms of aggregate policy performance, and that conversely, high-quality democracy does not ensure good policy performance (India, Japan). Indeed, the case of China illustrates the fact that countries with a very low quality of democracy can perform reasonably well. These findings stand in marked contrast to Bertelsmann's recently published SGI study on the OECD countries (Dümic and Zohlnhöfer 2011: 103). Three explanations for this puzzle immediately suggest themselves: measurement error, the small size of the Asia sample, and the possible presence of a distinct "Asian model" of development that might differ from that of the OECD. The "developmental state," characterized by a strong executive, weak civil society, and formal and informal networks between politicians, bureaucrats and economic elites might present such a model (see, for example, Johnson 1982; Evans 1995; Wade 1990; Woo-Cumings 1999). The first two explanations cannot be tested in this report, but some thought will be given to the possible existence of an "Asian model."

One analytical level deeper, we can see that even Asia's high-income countries perform very unevenly across all but two dimensions (Figure 3.3).

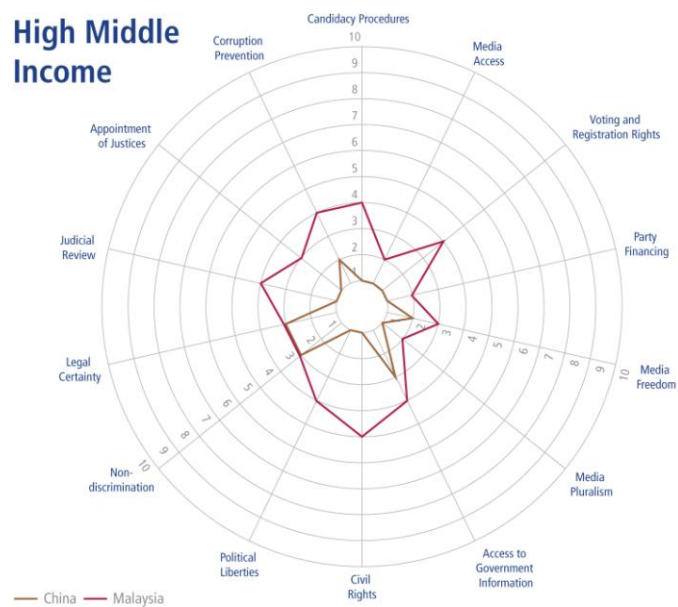
Figure 3.3: Quality of democracy

SGL scores

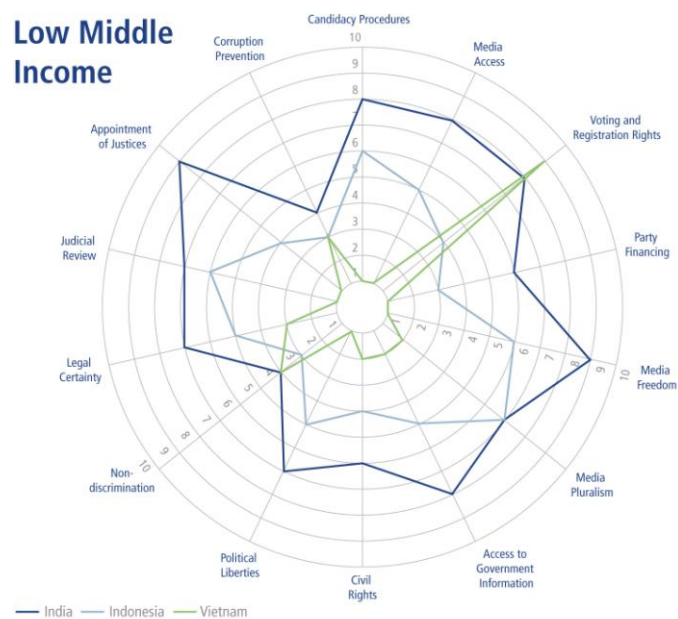
## High Income



## High Middle Income



## Low Middle Income



Source: SGI Asia Study 2013, Country Reports.

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Interestingly, all countries receive high scores on the issue of voting and registration rights, but it is difficult to imagine a causal relationship between this dimension and economic growth policies, especially since scores for access to government information, media freedom, media pluralism and even civil rights are rather low for democracies in all cases except India. Rather, this picture corresponds to our assertion that the quality of democracy matters for social and environmental policies that are not directly related to economic growth – perhaps improvements in democratic quality would enable social forces to push these agendas more vigorously, for example. The same is true for Indonesia, which despite having been democratic for more than a decade, has not been able to develop a high-quality democracy. Even India, which is the longest-standing democracy in the region, receives low scores for non-discrimination and corruption prevention.

The next sections will elaborate on these insights more thoroughly. Having examined the SGI's aggregate Status Index measures, we will now examine our sample countries' progress in some individual core indicators.

### **3.3. Economic indicators**

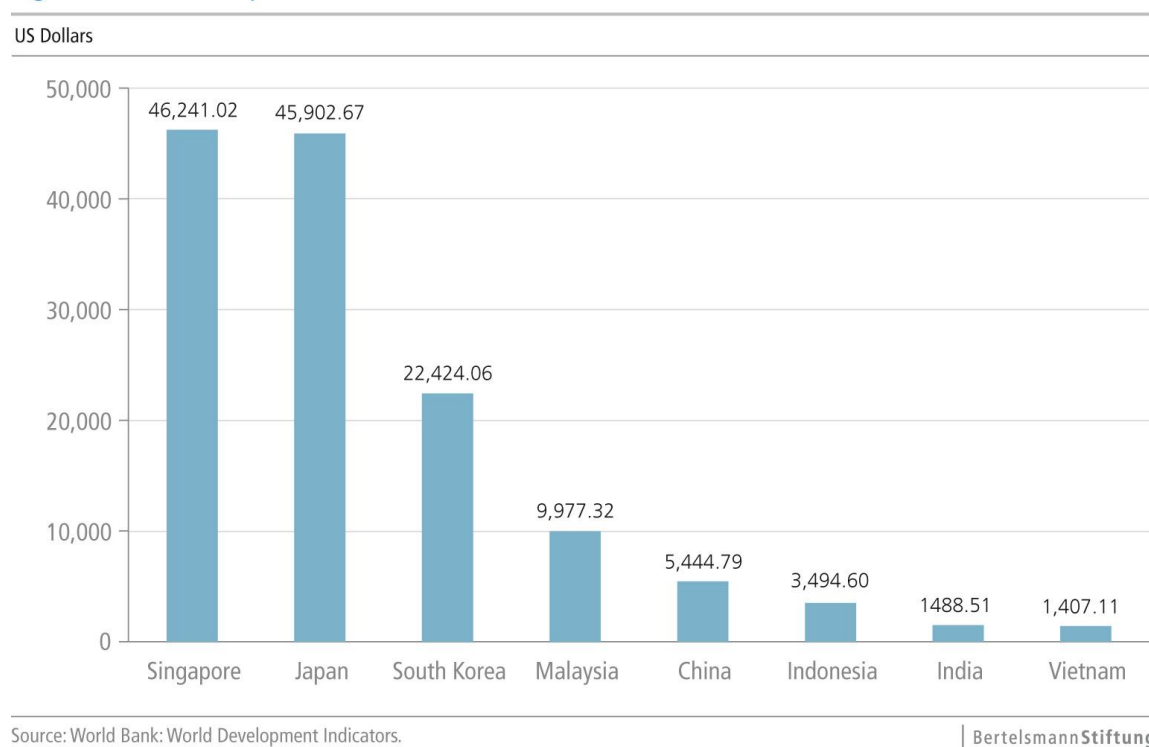
While GDP growth is important, a robust measure of economic success should also consider how the national income is distributed. Increases in GDP figures alone can mask the fact that not everyone is profiting from this growth in economic activity.

#### ***Income***

Of the countries in our sample, Singapore, Japan and South Korea have the highest GDP per capita, and are categorized as high-income economies by the World Bank (Figure 3.3.1).

Singapore (with a GDP per capita of \$46,241) and Japan (\$45,902) even surpass the OECD average, and must therefore be considered the most successful cases in the region by this measure. Korea comes in a distant third (\$22,424). If a price-adjusted indicator is used, Singapore looks even more impressive; with a per capita GDP of \$59,380 (on a purchasing power parity (PPP) basis), Singapore is the world's fourth-richest country by this measure, while Japan (\$35,330 PPP) moves closer to Korea (\$30,370 PPP). The World Bank considers Malaysia (\$15,650 PPP) and China (\$8,390 PPP) to be upper-middle-income economies, while Indonesia (\$4,500 PPP), India (\$3,590 PPP) and Vietnam (\$3,250 PPP) are listed as lower-middle-income countries.

**Figure 3.3.1: GDP Capita 2011**

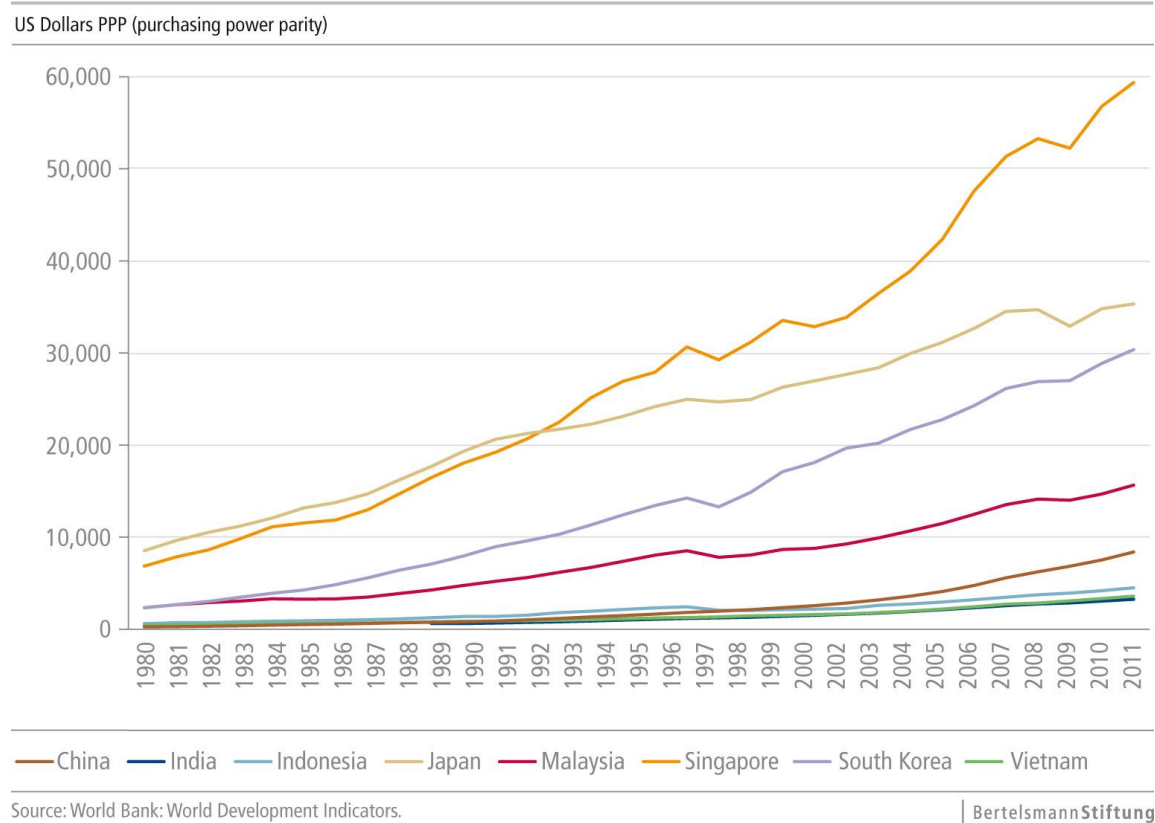


In terms of economic progress over the past several decades, GDP growth rates have varied by period (Figure 3.3.2). Unlike Singapore, Japan and Korea, which had their most impressive growth spurts in the fourth quarter of the last century, China, India and Vietnam have seen annual growth rates at or above 10 percent just before the World Financial Crisis. At single-digit rates, the developing economies of Malaysia and Indonesia have grown much more slowly, perhaps even below their potential. The performance of all these countries during the global financial crisis also reflected their overall economic performances. The developed economies of Japan, Singapore and Malaysia all went into recession, while South Korea registered zero growth in 2009. China, India and Vietnam merely suffered from reduced growth rates, and the impact on Indonesia seems to have been minimal.

Taken together, these findings illustrate that all of the countries in our sample have made significant strides in their economic development. Despite their different levels of development, none save perhaps Japan seem to have exhausted their growth potential, especially not China, India and Vietnam. Indonesia is a peculiar case; as its level of GDP per capita is still quite low, we would expect higher growth rates.



**Figure 3.3.2: Gross domestic product, 1980-2011**



### ***Inequality***

When examining economic success and progress, patterns of income distribution must be considered next to overall macroeconomic performance. The more unequally GDP is distributed, the less able per capita figures are to serve as an indication of real individuals' situations. A high level of income distortion might not only be considered unjust, but also poses problems for the economy. High concentrations of wealth undercut domestic consumption and lower the productivity of investments.

With a Gini coefficient of 48.1 – a quite high level in international comparison – Singapore seems to belie Kuznet's hypothesis that inequality lessens as a country develops. The same is true for Japan, where income inequality is also quite high (Gini coefficient of 38.1). South Korea is an exception; its Gini coefficient has hovered around 30, which corresponds to levels within Europe. Stark differences also exist between the developing countries. China (47.4) and Malaysia (46.2) display high levels of inequality, while incomes in India (33.4), Indonesia (34.0) and Vietnam (35.6) are distributed more justly. In most of the countries in our sample, Gini coefficients have remained steady during the period of observation. An obvious exception is China, where inequality has increased rather steeply.

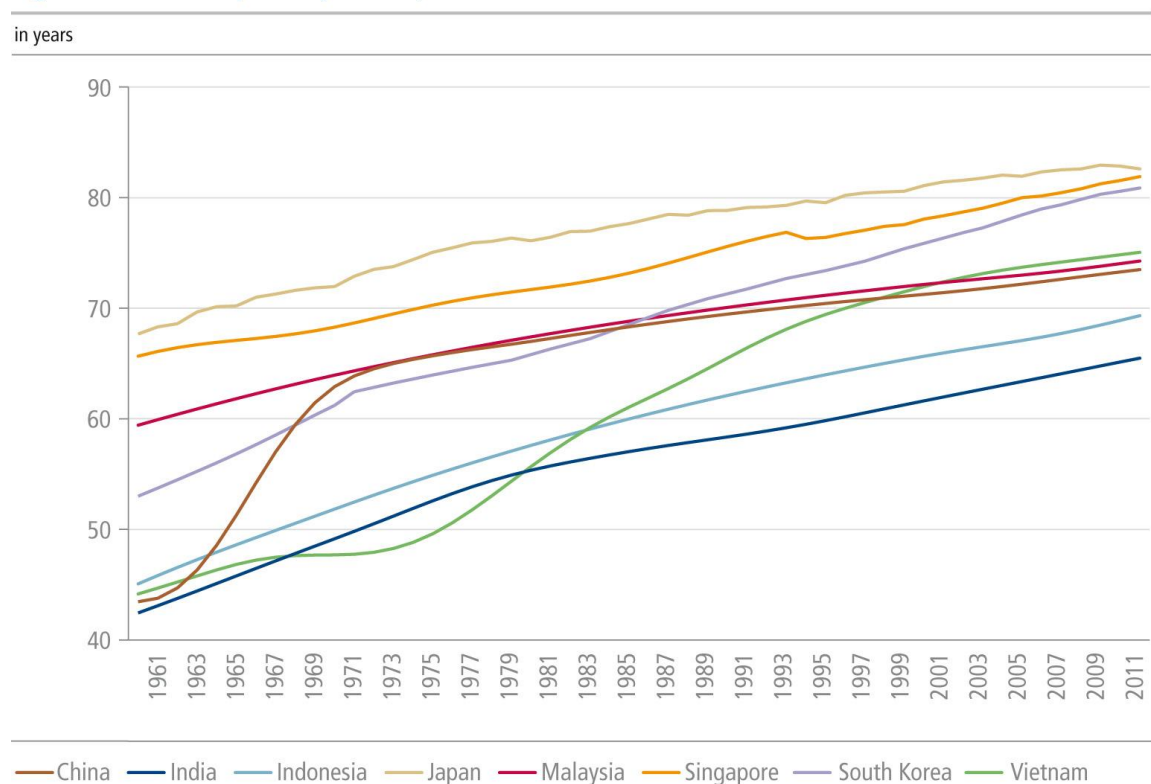
Our sample thus contains very different development profiles: Japan and Singapore combine a high level of development and high levels of inequality, while South Korea shows a high level of development and medium levels of inequality. Among the countries with a medium level of development, income distribution in Malaysia and China is highly unequal, while India, Indonesia and Vietnam are far less unequal.

### 3.4. Social indicators

The second dimension of success is social development. Here, we consider the crucial indicators to be a high average life expectancy, low poverty levels, access to education, non-discrimination and gender equality. In terms of average life expectancy, the stratum reaches from 65 years (India) to 83 years (Japan) (Figure 3.4.1).

People who live in the countries with a high per capita GDP can also expect to live longest. By comparison, life expectancy is about five years lower in the high-middle-income economies of Malaysia and China, and even lower in low-middle-income Indonesia and India. Vietnam is an outlier insofar as life expectancy is even higher there than in Malaysia and China. In global comparison, however, all countries save India perform rather well in this dimension.

**Figure 3.4.1: Life expectancy at birth, total**

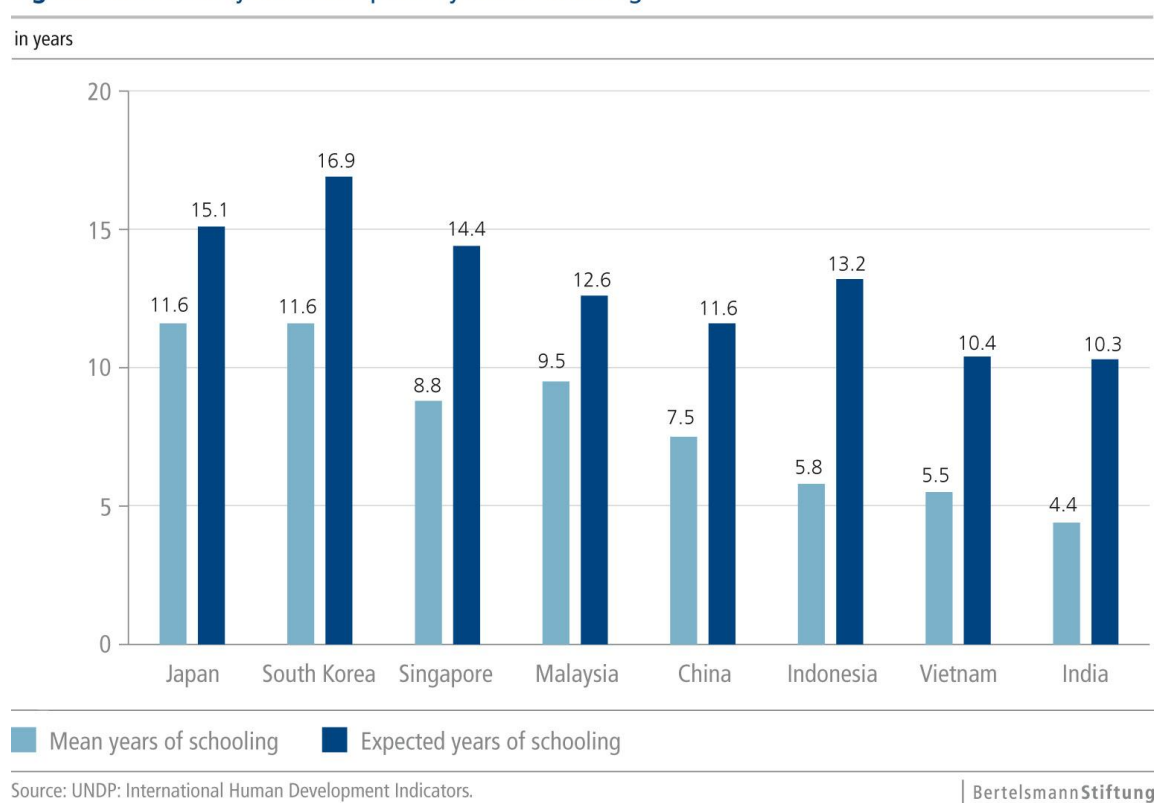


Source: World Bank: World Development Indicators.

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In terms of progress, Figure 3.4.1 reveals some interesting tendencies. First, the correlation between GDP and life expectancy holds largely true well into the past. As can be seen, India, China, Vietnam and Indonesia, all low-income countries at the time, also had the lowest life expectancy in the early 1960s. As might be expected, early developers Japan and Singapore fared best, while Malaysia and Korea lay between these extremes. The graph expresses the fact that life expectancy was depressed in China after the “Great Leap Famine,” which followed on the heels of a botched attempt at rapid industrialization, as well as in Vietnam during the course of the Vietnam War. In concert with the country’s industrialization, life expectancy increased rapidly in South Korea, which overtook Malaysia in the mid-1980s. However, life expectancy has increased most quickly in Vietnam, which was able to overtake India and Indonesia in the beginning of the 1980s.

**Figure 3.4.2: Mean years and expected years of schooling**



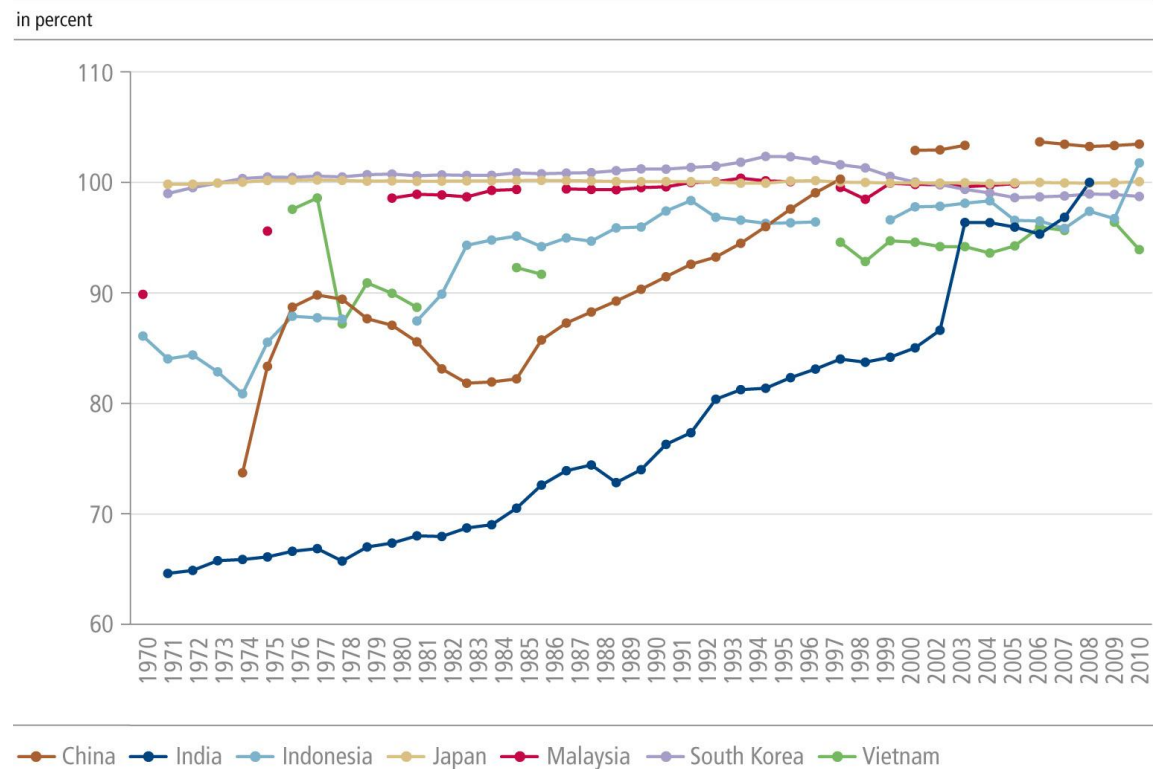
In contrast to life expectancy, access to education has not converged (Figure 3.4.2). In 2011, the average Japanese or Korean citizen had completed nearly 12 years of education, as compared to just four years in India. Once more, the high-income economies of Japan and Korea are the top performers. Singapore is an exception; with less than nine mean years of schooling, it ranks even behind its neighbor Malaysia, where the average citizen has gone to school for almost ten years. With less than eight years of mean schooling, the educational progress of China, Indonesia, Vietnam and India must be considered to be comparatively low. Important to note, however, is that these figures represent the average educational

attainment of all people in these countries today, not how many years a present-day child can expect to go to school. A second indicator, “expected years of schooling,” measures the “number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrollment rates persist throughout the child’s life.” The difference between the two figures indicates shifts in education policy. In other words, if the number of expected years of schooling is greater than the mean years of schooling, an improvement in education policies has taken place.

Indeed, today’s children can expect to receive more schooling than in the past across our sample. This is especially pronounced in India, Indonesia and Singapore, where the difference between mean and expected years of schooling is six years or more. In all other countries, including the high-income economies of Japan and Korea, the difference is between three and five years. Especially noteworthy is Korea, where children today can expect to receive almost seventeen years of schooling. It should be pointed out that especially in Japan and Korea, many children not only attend regular schools, but also spend a significant part of the day in prep schools.

Increased performance in this area can be the result of two separate developments: General access to education might have improved, or children that were previously barred from receiving an education may now have been granted equal access. This might apply to ethnic minorities, pupils from rural regions, poor households or girls. Data for this last category of students is readily available, and comparing the differences between male and female years of schooling not only provides us with a hint as to why the average number of school years has increased, but also serves as an indicator for a country’s gender equality (Figure 3.4.3).

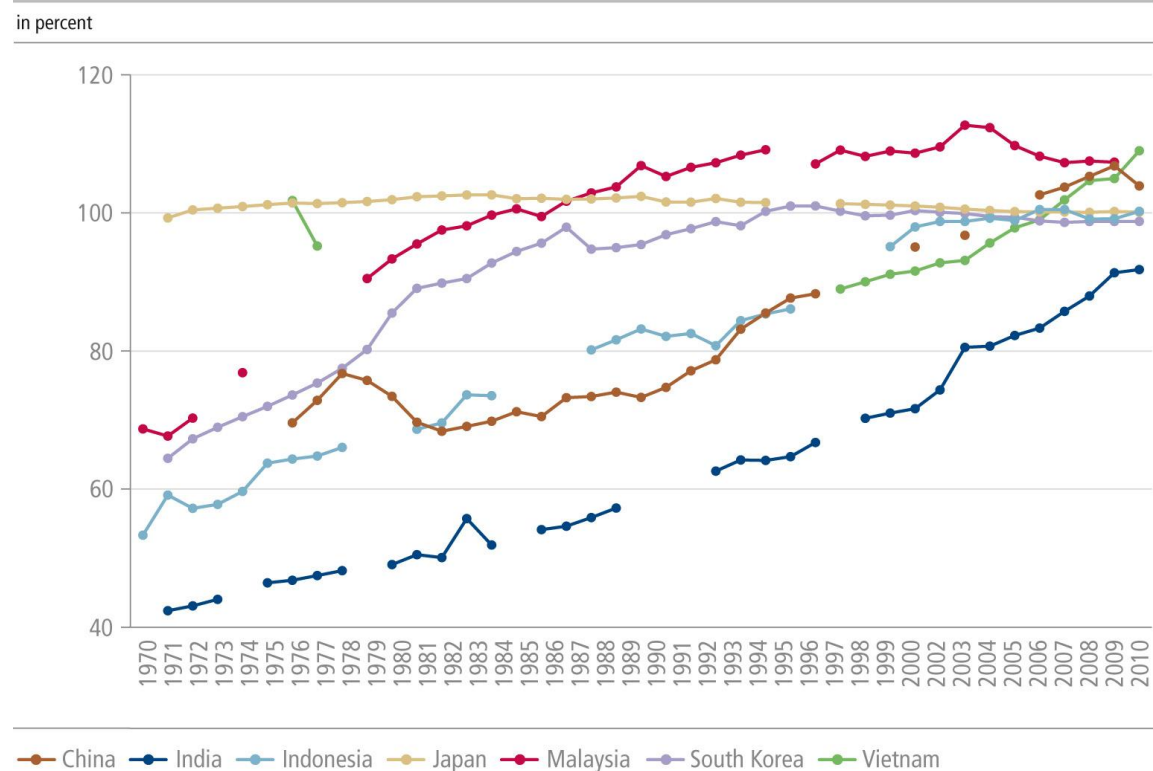
**Figure 3.4.3: Ratio of female to male primary enrollment**



Source: World Bank: World Development Indicators.

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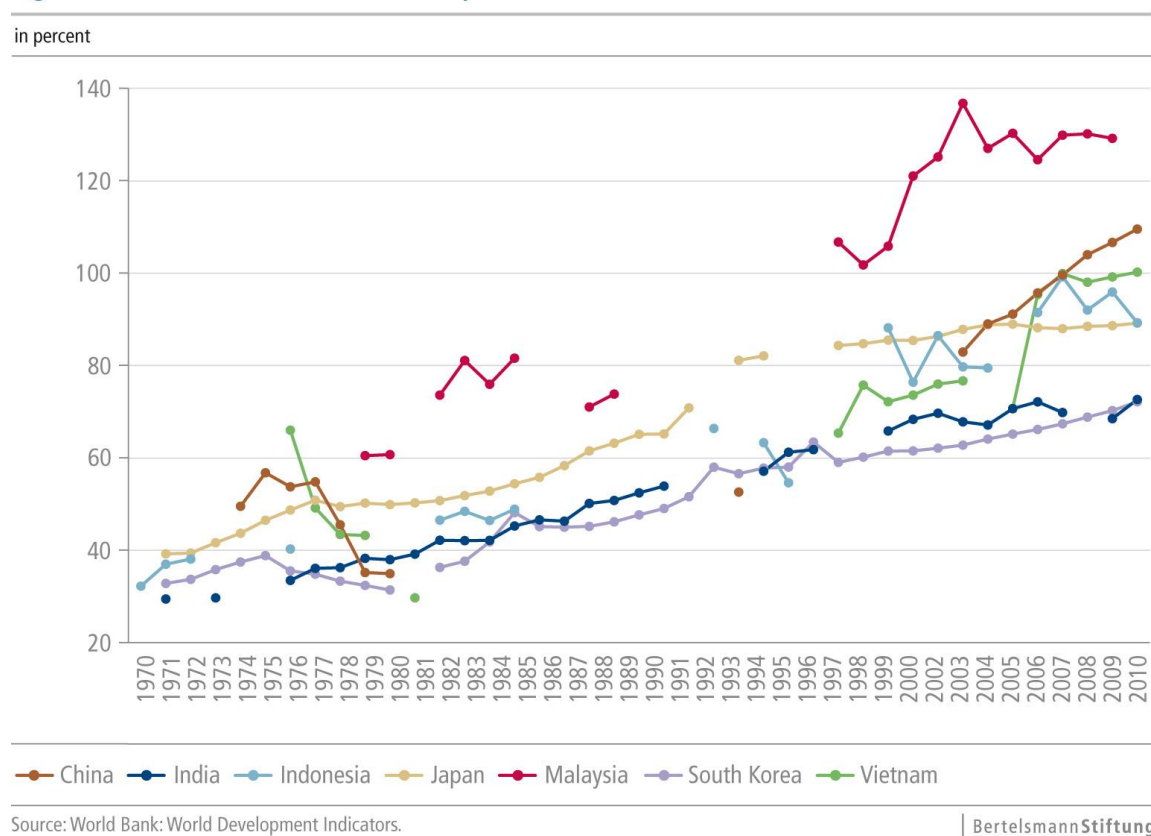
**Figure 3.4.3: Ratio female to male secondary enrollment**



Source: World Bank: World Development Indicators.

| BertelsmannStiftung

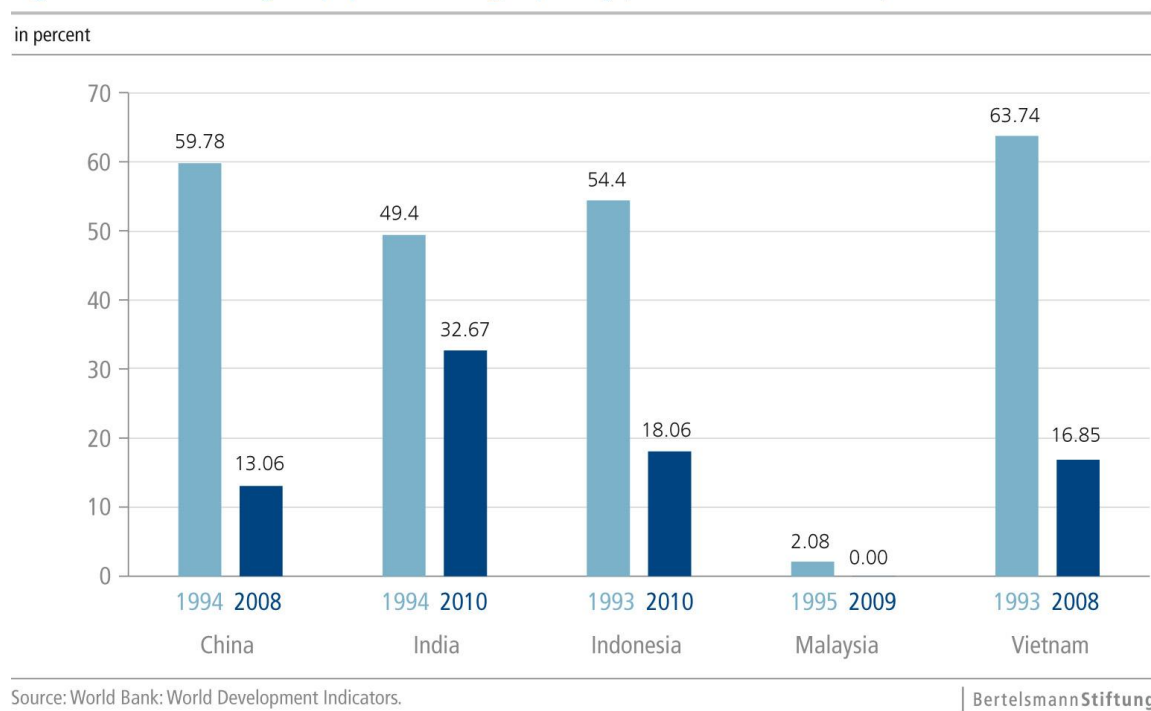
**Figure 3.4.3: Ratio female to male tertiary enrollment**



Analyzing the enrollment ratio of girls to boys within the primary, secondary and tertiary education levels separately provides a still clearer picture as to the gender dimension in each country's educational achievements. For example, some countries provide primary education for both boys and girls, but prevent girls from attending high schools and universities. Figure 3.4.3 reveals some very interesting trends. First, some countries – notably India, China, Indonesia and Vietnam – have a history of gender inequality in access to all kinds of education. Second, girls in the past were excluded from educational opportunities at increasingly higher rates as the level of education rose. While Japan, Korea and Malaysia provided equal access to primary education as early in the 1970s, access to secondary education was much more unequal, with the notable exception of Japan. As for tertiary education, the male-female ratio was 2:1 in almost all our sample countries until the early 1990s. Finally, all countries have made significant strides in closing the gender gap at all levels of education. Women today have near-equal access to all forms of education in almost all countries. Notable exceptions are India and South Korea. Unlike India, where girls were disadvantaged at all levels of education, women in Korea have long enjoyed equal access to primary and secondary education. Even today, however, they find it harder to enter university than do their male counterparts.

Finally, all countries have made considerable progress in fighting poverty. If we apply the World Bank's poverty line, which specifies that a person who subsists on less than \$1.25 (PPP) per day must be considered poor, we can see that all countries have reduced poverty significantly in the last two decades (Figure 3.4.4).

**Figure 4.3.4: Percentage of population living in poverty (less than 1.25 USD PPP)**



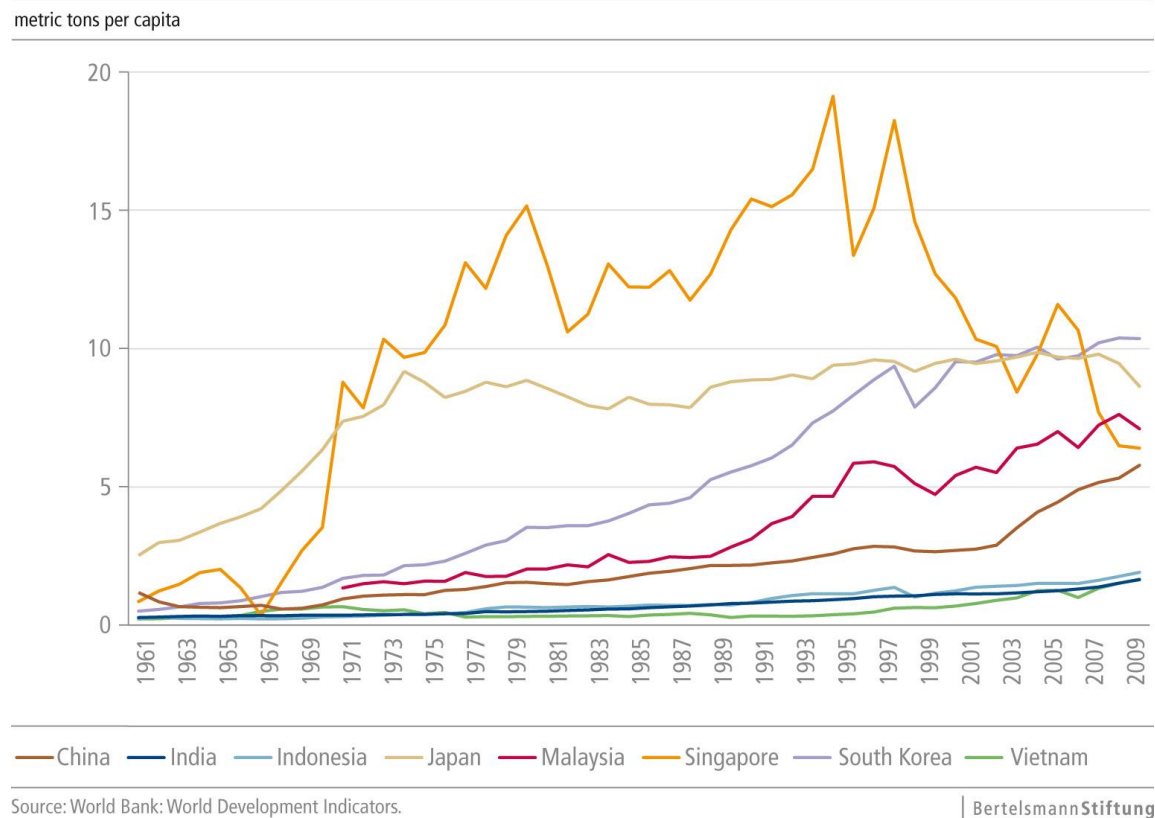
While nearly 60 percent of all Chinese citizens subsisted on less than \$1.25 PPP per day in 1994, only 13.1 percent fell below the World Bank poverty line in 2008. Similarly drastic reductions have occurred in Indonesia and Vietnam, where however almost one-fifth of the population still live below the poverty line. Malaysia, which had a low poverty rate to start with, has completely eradicated poverty under World Bank standards. India, on the other hand, has been the least successful in reducing poverty: In 2010, almost one-third of the population still lived in poverty.

### 3.5 Environmental indicators

Carbon dioxide emissions are a widely used indicator for a country's level of environmental pollution. In order to control for the population of a country, absolute figures are divided by the number of people in a country. The figure below depicts the production of metric tons of CO<sub>2</sub> per capita in each country (Figure 3.5.1).



**Figure 3.5.1: CO<sub>2</sub> emissions**



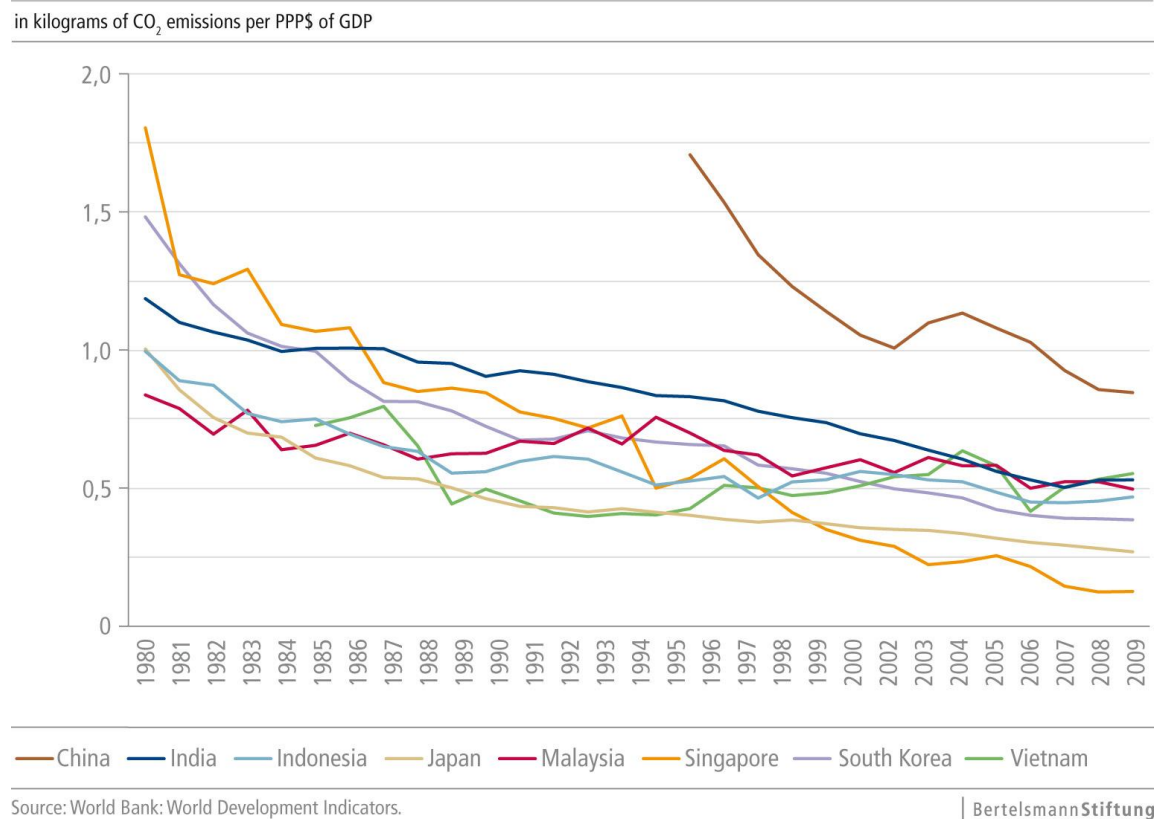
Worryingly, per capita CO<sub>2</sub> emissions are increasing in nearly all countries. Only Singapore has achieved any substantive reduction in emissions, a fact that might be related to the economy's shift away from industrial production and toward service provision. Japan, the second of the highly developed economies, registered a slow increase in emissions until 2007, and a sharp decline thereafter. This should not be misinterpreted as a shift toward services or green technologies. Rather, this signifies reduced demand for consumer goods in the course of Japan's ongoing recession. Similar to Japan, Korea's emissions have remained rather steady after 2000, at about 10 metric tons per capita.

Per capita CO<sub>2</sub> emissions within the middle- and low-income economies have remained well below those of their high-income counterparts, but seem to be gradually taking off. This is a very disturbing trend, particularly because China, India and Indonesia are among the world's four most populated countries. Global CO<sub>2</sub> emissions are already today well above sustainability levels. If Figure 3.5.1 indeed signals that these heavily populated countries are in a takeoff phase of industrial development, it is hard to imagine where this trend will lead us. If we define achievement as a decrease in CO<sub>2</sub> output, then only Singapore can presently be said to have attained success, while the other countries have deteriorated on this measure.



However, late developers need not take the same path as earlier developers. Generally, industry produces very inefficiently at early stages of development, but increases resource productivity over time so as to save costs and lessen the pressure on the environment. Unlike in the 1970s and 1980s, when Japan, Singapore and South Korea experienced rapid industrialized growth, green technologies are now available. If these are applied, resource use efficiency should increase faster today than was the case 30 years ago.

**Figure 3.5.2: Resource efficiency**



As Figure 3.5.2 shows, resource efficiency, measured in kilograms of CO<sub>2</sub> emissions per PPP dollar of GDP, has increased gradually in nearly all countries in our sample over the last 30 years. Singapore's performance has been most impressive in this respect: Emissions were reduced from 1.8 kilograms per PPP dollar of GDP to only 0.13 kilograms over this time. Reductions in Japan and Korea have been equally impressive. Malaysia, Indonesia and India have seen a slow and gradual increase in resource efficiency, while the sustainability of Vietnam's GDP seems to have decreased in recent years. China has recently approached the level of the other countries in the sample, but in 2009, its resource efficiency remained substantially lower than that of the other Asian economies. For example, it emitted almost double the amount of CO<sub>2</sub> for each dollar of GDP than did Indonesia. Still, this is a vast improvement over past initial levels, which stood at a whopping six kilos of CO<sub>2</sub> per PPP dollar of GDP in 1980.

## **4. Explaining economic growth**

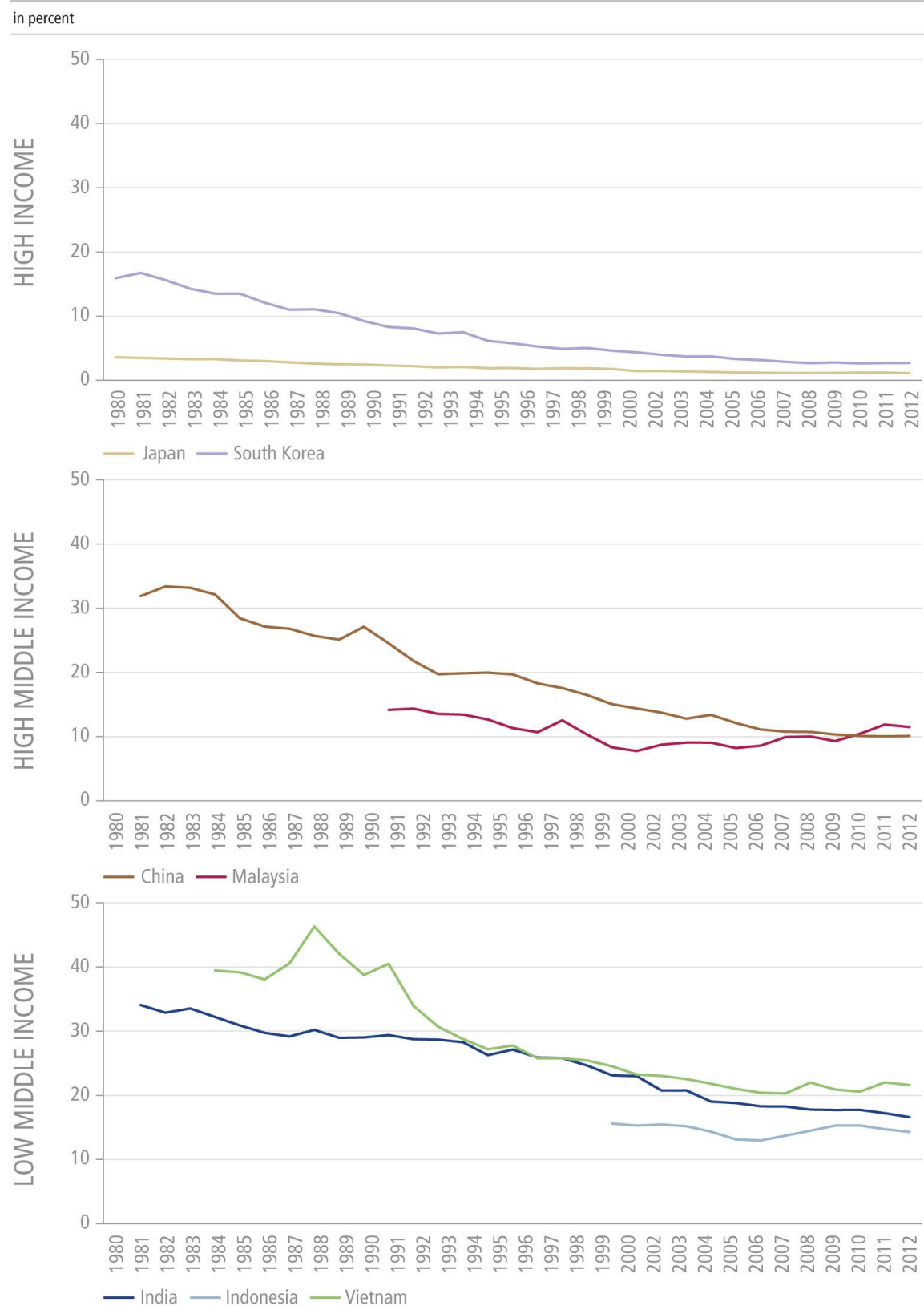
Having fleshed out how the countries in our sample have progressed with respect to democracy, economic growth, social justice and environmental protection, the next three sections will examine the pathways taken and the sources of these progress. In particular, the importance of improving government steering capability, policy implementation capacity and adaptability will be highlighted. However, some of the obstacles involved in this process should be first explained. As the pathway to success travelled by each of the countries in our sample began long before this study's initial observation point, a short review of our sample countries' histories is necessary.

The challenge of any economic transformation is to build up viable industrial and service sectors. This is a particular challenge in countries where GDP is dominated by agricultural production. The value added within the agricultural sector tends to be low, which makes it difficult to generate the surplus funds needed to build up industrial structures. In addition, the negligible value added by subsistence agriculture makes it difficult for governments to generate tax revenue, which in turn hinders the construction of the physical and social infrastructure needed for industrialization. In our sample, the governments of Japan and South Korea tackled this problem by manipulating prices for agricultural inputs and outputs and shaving off a portion of the peasants' meager profits, and investing these funds into the creation of an industrial sector. Another way of producing the funds necessary for industrialization is to allow foreign direct investment. Foreign companies are lured into developing countries by the promise of cheap labor and low social and environmental standards, and can hope that the construction of production facilities in developing countries will pay off quickly. Of course, the governments of the host countries must make a credible commitment to the protection of property rights.

### **4.1 Structural change**

This industrialization process took place in Japan in the 19th century, and in the 1960s in South Korea. Hence, the contribution of agriculture to GDP in these two countries was already low by 1980, the earliest date depicted in Figure 4.1.1, which depicts the development of the agricultural sector in each of our sample countries. Similarly low agricultural shares can be seen in Indonesia and Malaysia, where industrialization also began in the 1960s. As a city state, Singapore has never had a strong agricultural sector, and its GDP is today composed entirely of industrial and service-sector activities.

**Figure 4.1.1: Agriculture/GDP**

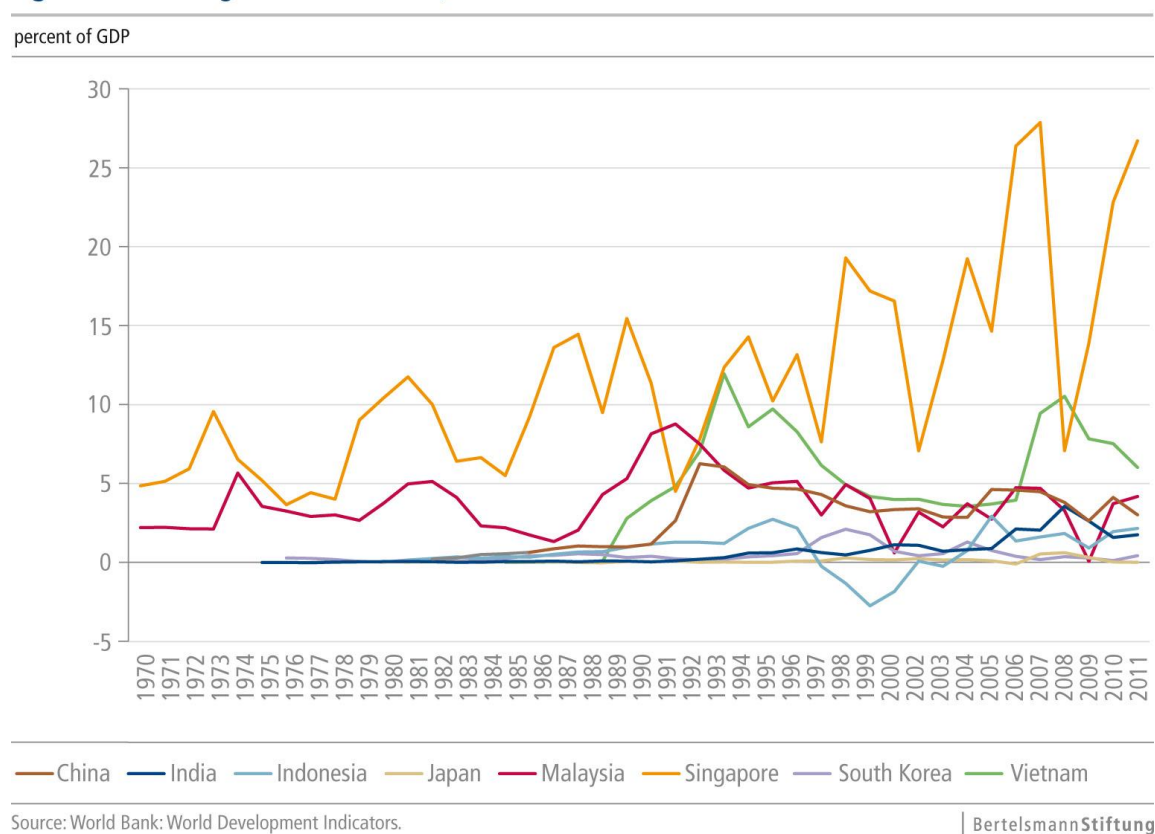


Source: World Bank: World Development Indicators.

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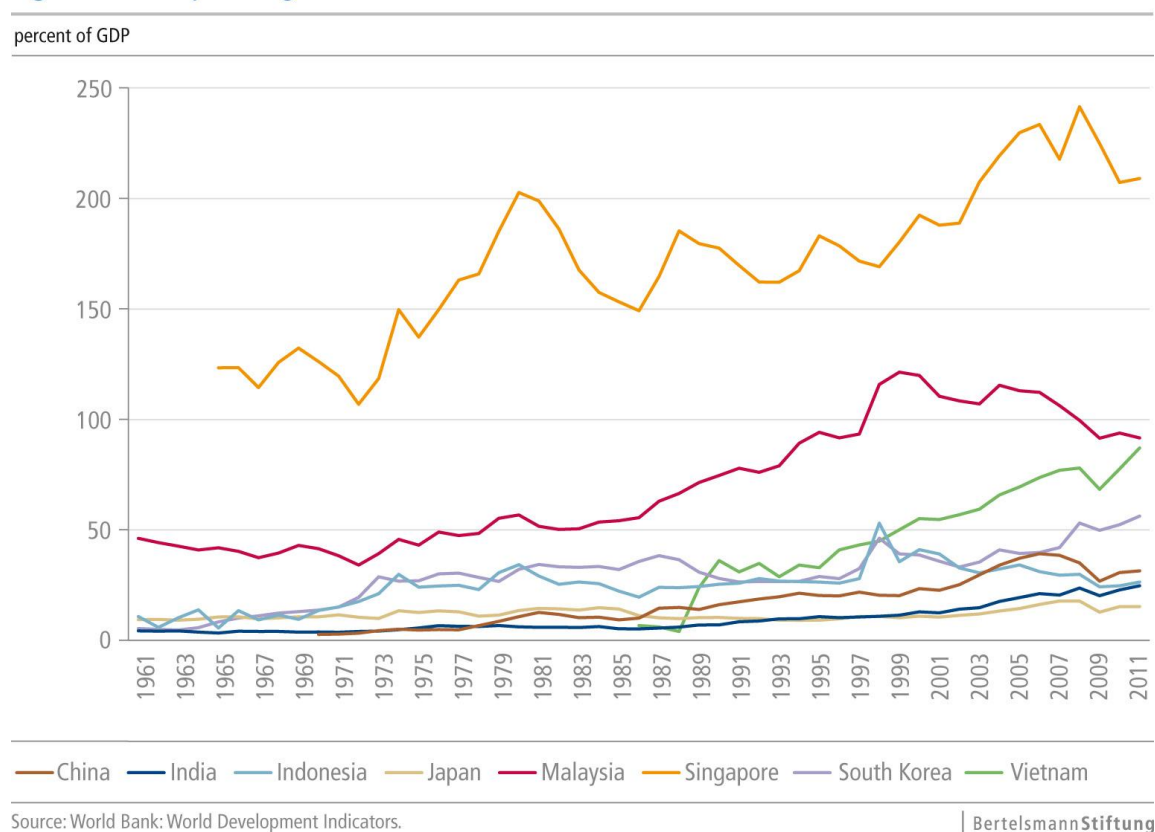
In contrast, the GDP of China, Vietnam and India was still dominated by agriculture in the early 1980s. These countries embarked on a rapid path of structural change in the 1990s. By examining net FDI inflows, Figure 4.1.2 illustrates the different development strategies chosen by the countries in our sample.

**Figure 4.1.2: Foreign direct investment, net inflows**



As can be seen, Singapore and Malaysia solved the problem of financing industrialization by relying to a large extent on FDI. With a gradual increase in net FDI inflows to 25 percent of GDP, Singapore clearly leads the pack, but FDI into Malaysia was substantial as well. In contrast, other countries were either slow to seek or initially unsuccessful in attracting FDI. In the early 1990s, however, Vietnam and China also launched FDI-based growth strategies, and Indonesia too began to open itself cautiously to FDI in the mid-1990s. The large oscillations visible in Figure 4.1.2 illustrate the risk of this strategy, which rests in its vulnerability to sudden withdrawals of capital or crises in the investor countries. The Asian financial crisis of 1997 represents one instance where investors suddenly lost trust in the soundness of Asian economies' financial structures, and reacted by ceasing or (in the case of Indonesia) recovering investments (MacIntyre, Pempel and Ravenhill 2008). Conversely, the world financial crisis that began in 2007 affected the institutional investors themselves, and the resulting shortage of capital forced them to recoup their investments (Krugman 2009).

**Figure 4.1.3: Exports of goods and services**

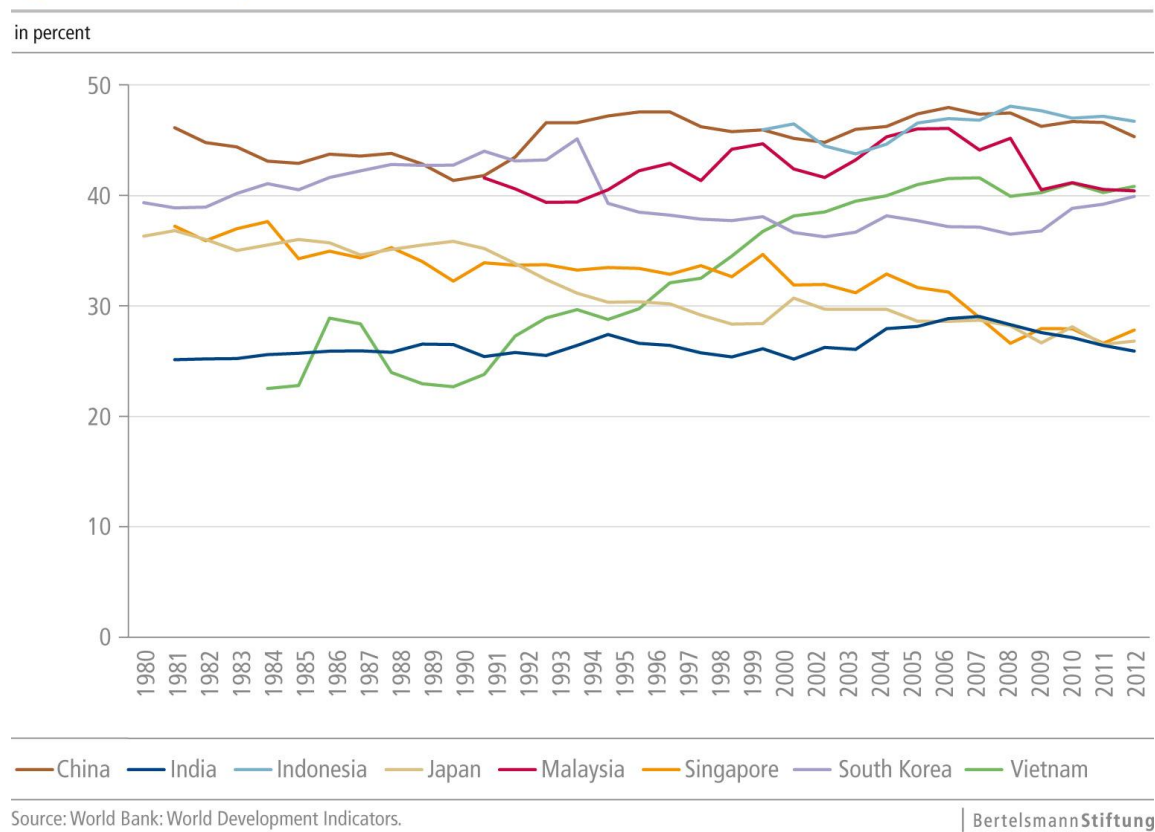


Another element forming part of the trajectory to economic success has been production for export markets (Figure 4.1.3). Singapore, South Korea and Indonesia all chose this strategy in the 1970s. However, the three countries differed widely in their approaches: Indonesia's exports consisted mainly of oil, South Korea built up its domestic manufacturing sector, and Singapore had become a trade hub for foreign investors. In the early 1990s, export volumes picked up steeply in China and Vietnam, and India also experienced a gradual increase in exports. As can be seen, the export increases in China and Vietnam correspond to the increase in FDI, a signal that a good part of these exports have originated from enterprises funded by foreign investment. India's development strategy has been different. In the 1990s, India's relatively minimal exports consisted of low-technology products manufactured by domestic enterprises. Moreover, compared with the other economies in this sample, India's industrial sector never really took off, with services taking an increasing share the country's export portfolio in the 2000s. Hence, India is an example of a successful transformation directly from labor-intensive manufacturing to a focus on service-sector exports, mainly in computer services.

In theory, developing country economic structures should typically move initially from agriculture to industry. Within the industrial sector, we would expect countries to exploit their comparative advantage, which frequently lies in cheap labor. This might take the form of

labor-intensive manufacturing in industries that require only low skills and little capital, such as food processing, plastics or the assembly of prefabricated parts. As labor costs increase, industries should gradually move into high-technology sectors, while low-intensity manufacturing should move to comparatively less developed countries where labor is cheaper. At the same time, the service sector should grow, as markets are created for banks, insurance products and various consumer-oriented services.

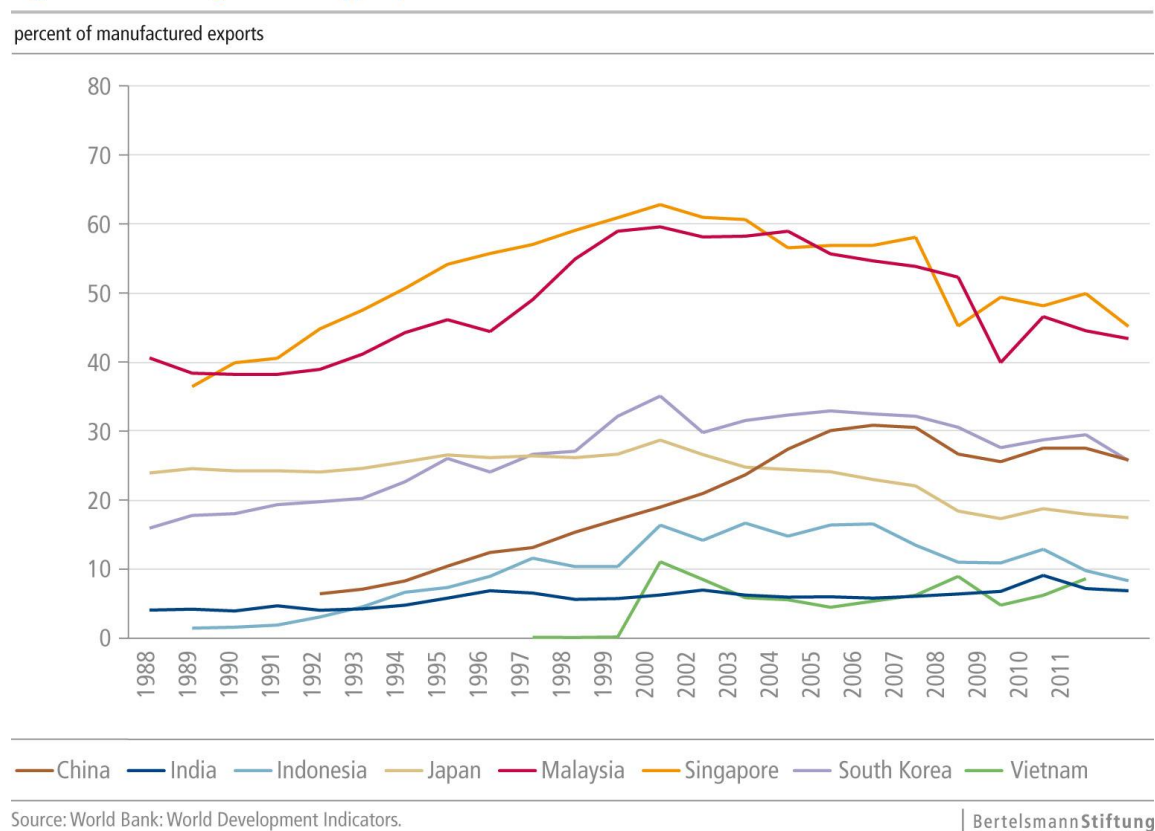
**Figure 4.1.4: Industry/GDP**



As outlined above, we have seen a decline in agriculture's share of GDP in each of our cases. Japan started this process earliest, followed by South Korea, Indonesia and Malaysia, and finally China, Vietnam and India. The industrialization of Japan, Singapore and Indonesia occurred before the years covered by our chart, but the growth of the industrial sector's contribution to GDP in South Korea, Malaysia, Vietnam and China is clearly visible in Figure 4.1.4. As can be seen, the industrial sector's contribution to GDP has steadily declined in Japan and Singapore, as well as in South Korea after 1994. In these countries, the service sector has become increasingly important, testifying to the gradual transformation from an industrial to a knowledge-based economy. What can also be seen is the effect of the world financial crisis on Malaysia's manufacturing sector, which was especially hard hit by the collapse of exports to the United States (Abidin and Rasiah 2009).

Finally, Figure 4.1.4.1 nicely illustrates how countries move into high-tech sectors as they are developing.

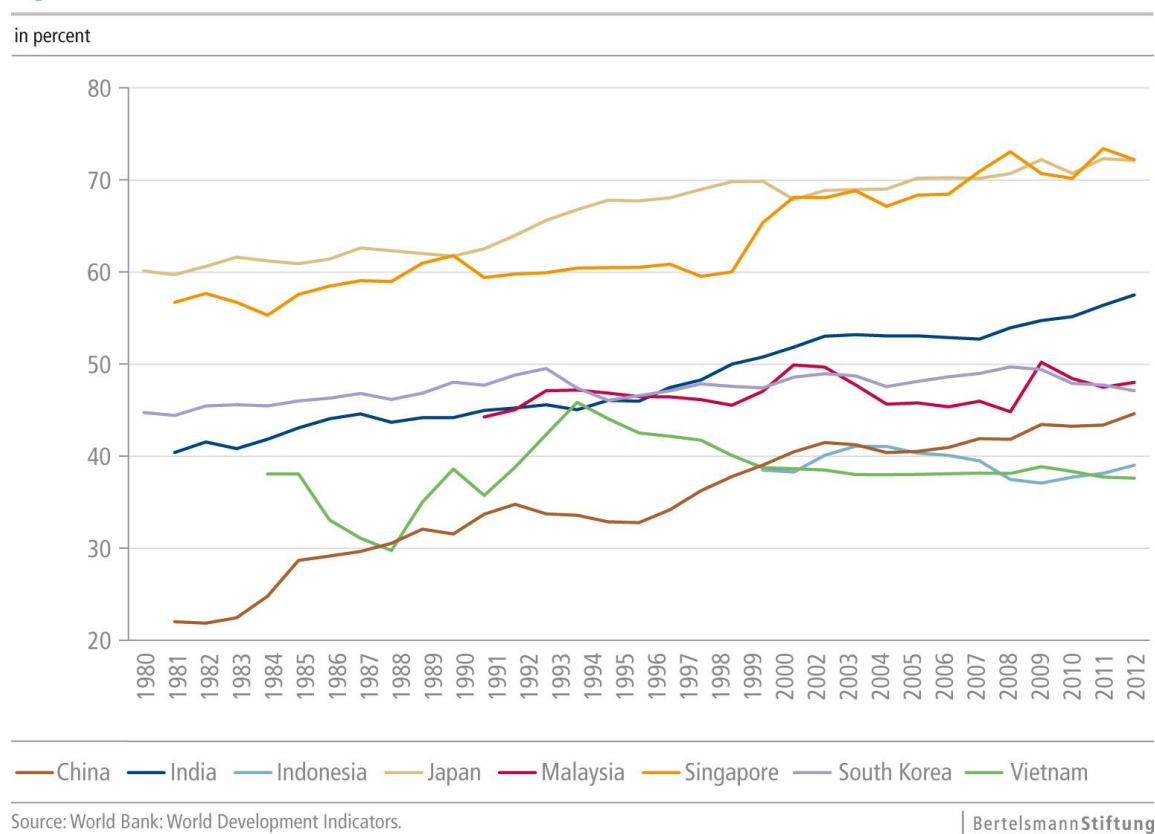
**Figure 4.1.4.1: High-technology exports**



As can be seen, high-technology exports account for a significant share of manufactured exports in the high-income economies of Singapore, Japan and South Korea. Moreover, the share of high-tech exports in each of these nations increased in the latter decades of the 20th century, but decreased in the early 2000s. Among the higher-middle-income economies, Malaysia, whose development process commenced far earlier than that of China, even rivals Singapore. In China, on the other hand, the volume of high-tech exports increased only with China's opening to FDI in 1992 – joint ventures, and later wholly foreign-owned enterprises, are responsible for the majority of these exports. Commensurate with their level of development, the lower-middle-income economies of India, Indonesia and Vietnam are not strong in high-tech exports.



**Figure 4.1.5: Services/GDP**



Looking at the development of services (Figure 4.1.5), we see that services as a percentage of GDP have increased not only in the early industrializers Japan, Singapore and South Korea, but also in China and India. India's development is especially noteworthy, because its strong service sector was not preceded by a high level of industrialization. One could say that India has gone almost directly from manufacturing to a service-based economy. While Vietnam seems to follow the expected path of industry first, services later, Malaysia and Indonesia have been hit so hard by the two economic crises that their economic structure today resembles that of a decade ago.

## 4.2 Growth and governance

The previous section has provided early indications of the various economic development paths taken by our eight sample countries. We have found some similarities, but also a number of differences. One important similarity is that in all countries, a structural shift away from agriculture took place. In Japan, this process started in the late 19th century, in Indonesia and Malaysia in the 1960s, and in South Korea in the 1970s. More recently, the industrial and service sectors became the main contributors to GDP in China, Vietnam and India. Indonesia and India stand out in this company: Indonesia's recent growth rate has been quite slow for an early industrializer, while India has neglected industrial development in favor of service-sector development. Following this structural change, GDP per capita



increased in each of our countries, and with the exception of Indonesia, the early transformation countries today have the highest GDP per capita. GDP per capita has increased rapidly since the early 2000s in each of our other cases as well. Hence, the transformation of the economy has been one crucial factor underlying the progress of all countries in the sample.

In the following two sections, we will examine the institutional configurations and policies that affected this transformation. Once more, we would like to first draw the reader's attention to a comparative evaluation of the relevant SGI indicators. Figure 4.2.1 compares our sample countries' scores on all Management Index indicators, separated by income status.

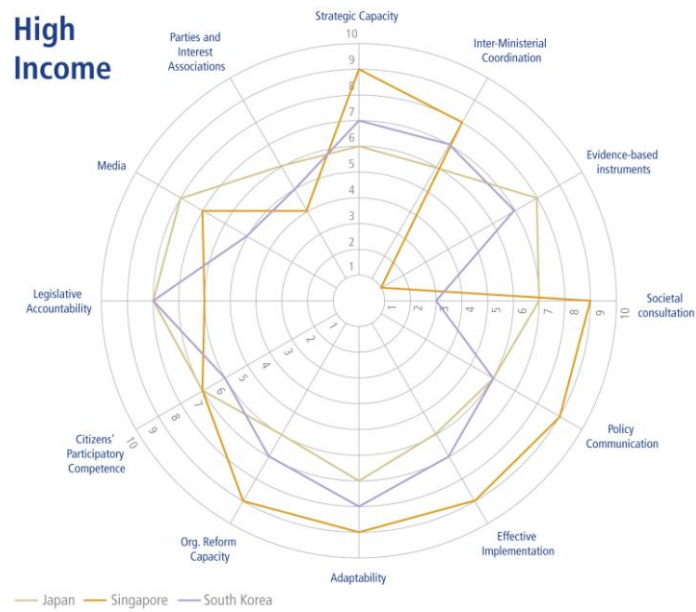
Immediately evident is the fact that the high-income countries score highly on most indicators, and that parties and interest associations play a comparatively weak role in these economies. This corresponds well with the assumptions of the developmental state theories introduced above, particularly that economic growth in developmental states is driven by state, business and bureaucracy, and that civil society is accorded little role in this process. As for developing China and Malaysia, Figure 4.2.1 also seems to confirm our assertion that a powerful and effective executive is vital for development. Both countries receive relatively high scores for their strategic capacity, inter-ministerial coordination, policy communication, policy implementation, adaptability and reform capacity. As expected, scores for executive accountability are very low here. The low-middle-income countries show some surprises, however. First, India receives surprisingly high scores despite its overall low state of development. With Management Index scores at the advanced OECD level, it could be expected to perform much better from a developmental perspective, especially given its similarly high scores for democratic quality. It remains unclear why India, which the SGI depict as possessing a highly democratic and powerful government, cannot engender a stronger developmental profile.

The second surprise comes from Vietnam, which shows a very uneven profile. Inter-ministerial coordination, policy communication and effective implementation are rated highly, as might be expected from a one-party state. However, it is striking that an authoritarian economy of low-middle development status should apply evidence-based instruments, especially when its strategic capacity, adaptability and reform capacity are so low. A glance at the country report enables us to resolve this puzzle, however. While the low scores duly reflect the capacities of an autocracy at a relatively early stage of development, the application of evidence-based instruments is a result of the influence of international donors.

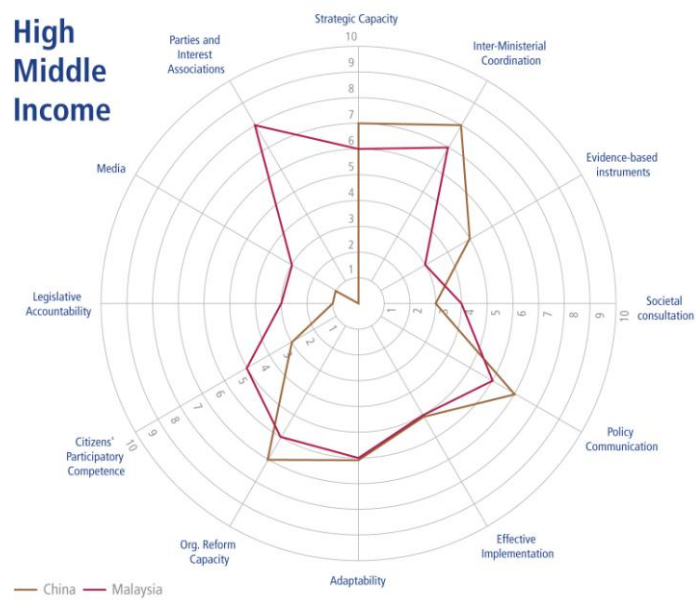
Figure 4.2.1: Management Index

SGL scores

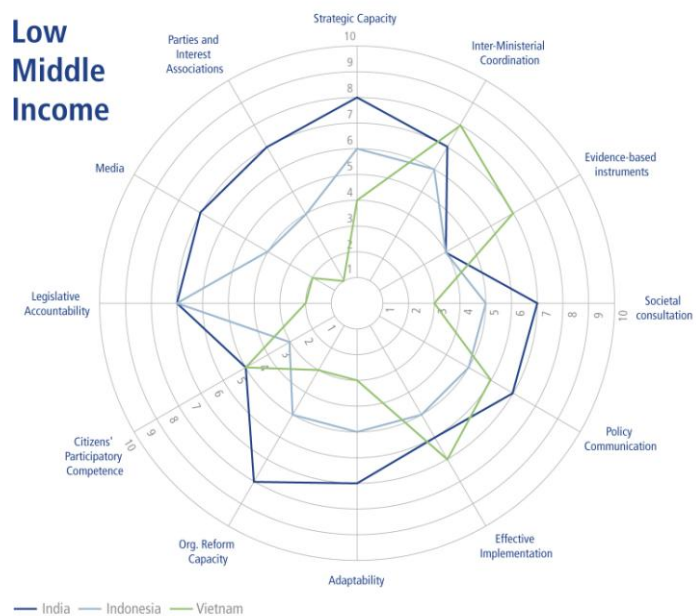
## High Income



## High Middle Income



## Low Middle Income



Source: SGI Asia Study 2013, Country Reports.

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International development assistance is allowed to assist in the formulation of policies, but has little to no access to the inner sanctum of Vietnamese politics, the commanding heights of the Vietnamese Communist Party. Therefore, external bodies' ability to assist Vietnamese leaders in reforming their governing structure is very limited. Still, the confluence of a widespread application of evidence-based instruments, effective policy implementation and the country's unexpectedly good performance on many social indicators gives reason to hope that international development assistance can facilitate policy improvements that are more than cosmetic. Again, the question is whether Vietnamese politicians will continue to embrace evidence-based instruments once they cease being rewarded for doing so.

Indonesia seems to be the only country in the income group that confirms our expectations. Here, executive accountability is higher than is the case for non-democracies, but is still low overall, probably corresponding to the equally low quality of democracy. Steering, implementation and learning capabilities rank below those of India, and in some indicators even below those of Vietnam. This would explain why Indonesia has achieved less than expected.

Since all our sample countries have been politically stable and generally violence-free, we will not examine the impact of internal and external security policies here. In examining other factors, however, the cases in our sample confirm our expectation that a government's steering capability, implementation capacity and adaptability are the most important factors for economic success. The higher a country's scores on these measures, the more stable its economic development. As for the rule of law, its absence and extremely high levels of corruption seem to be problematic, but the thresholds for improvement are low. Indeed, a modicum of property rights protection and market regulation seems to be enough, and economic growth is actually compatible with fairly high levels of corruption, as the examples of China and Vietnam show. Sadly, the quality of democracy matters least of these variables. Though two of the three best-performing countries are democracies, this correlation is evidently spurious; we could find no causal link between these indicators and economic development. In Indonesia and India, the existence of democracy – even one of high quality in the case of India – has had no direct impact on economic growth. In contrast, Singapore, China, Malaysia and Vietnam are growing despite low levels of democratic quality. Finally, in Japan and Korea, where democracy and high growth correlate, the country reports offered no indications of a linkage between the two.

### ***The Japanese model***

Rather than high-quality democracy, what the successful developers have in common is the presence of effective governments. Japan represents the textbook case of how economic

planning and the manipulation of markets by administrative guidance through executives that are closely linked to meritocratic bureaucracies and important economic actors can enhance growth. Singapore, South Korea and China are also characterized by strong government involvement in the economy (Beeson 2007).

Japan has often been conceived as the archetype of the “developmental state” (Johnson 1982), characterized by an economic planning apparatus, a bureaucracy that is staffed through meritocratic examinations, and close formal and informal relationships between politicians, bureaucrats and economic elites. According to proponents of the developmental state theory, the combination of an institutional configuration that linked all relevant actors and a high degree of professionalism enabled the Japanese government to structure industrial policy effectively (Johnson 1982; Okimoto 1989; Pempel 1987). This was accomplished by stimulating the development of the industrial sectors deemed to be most competitive or profitable, selectively promoting individual enterprises (“picking winners”), and using price manipulations both to protect native industries and to create incentives for further product improvement.

Interestingly, Japan, despite being the “classical” developmental state, does not receive high marks in sub-indicators such as strategic planning, government office (GO) expertise, GO gatekeeping, line ministries or line ministry civil servants. Indeed, its performance in many of these indicators is considerably worse than that of China, Malaysia, India and even Vietnam. This finding highlights what might be a potential weakness of the Japanese model – the constituent parts are integrated to an extent that new governments find it difficult to take over the reins. The basic features of this model are often referred to as the “iron triangle” of politicians, bureaucrats and big business, but it should not be forgotten that the Liberal Democratic Party, which ruled Japan almost without interruption between 1945 and 2009, formed the backbone of this system. During LDP rule, nearly all cabinet members and bureaucrats were drawn from the party. Law drafts were prepared in LDP committees, policies were coordinated within the party, and the LDP also served as a link between bureaucrats and politicians at the various administrative levels (Pempel 1998).

However, the latest SGI country report refers to a period where, for the first time in Japan’s modern history, an opposition party had been in power for more than just a few months. When the Democratic Party of Japan (DPJ) took over the government in 2009, it found itself excluded from these traditional mechanisms of political coordination. Instead of devoting its full attention to addressing Japan’s ongoing recession, a considerable part of the DPJ’s energy was spent on penetrating or bypassing political structures that had been custom-tailored for an LDP government. Indeed, upon coming to office, DPJ politicians found it

difficult, if not impossible, to navigate a polity in which most civil servants had pledged allegiance to the LDP. Institutional linkages between LDP, big business and the bureaucracy still prevailed, although this model ostensibly outlived its usefulness, which is one of the reasons why the LDP fell from power (Rosenbluth and Thies 2010). It is perhaps for this reason that the Koizumi government sought to reduce the LDP's dependence on powerful interest groups. The political influence of these groups might be further reduced when Japan joins the Trans-Pacific Partnership (TPP).

### ***The importance of economic planning and meritocratic bureaucracies***

At least in the intermediate stages of a country's development, technocratic economic planning by a strong executive that is integrated with a meritocratic bureaucracy and tied through formal and informal institutions to powerful economic actors seems to be a recipe for success. Singapore and China have very similar structures in place. In both countries, strong executives devise economic plans that are implemented through a well-integrated bureaucracy. They are also characterized by hegemonic parties, which serve as command centers and transmission belts between government, ministries, bureaucracy and society. Even in China, where the size of the polity and developmental differentials prevent many public policies from being implemented properly, economic policy-making and implementation has come to function surprisingly well, and the quality of government has been improving at a steady pace. Although corruption is still endemic, and the rule of law nonexistent, political commitment offers large corporations a secure enough environment to warrant even medium- to long-term investments. For small and medium-sized companies, both foreign and domestic, the situation is different, however; foreign medium-sized companies in particular find it very difficult to survive in China. Given that medium-sized companies are the main drivers of sustained economic growth, this is one of the major weaknesses of the Chinese system. South Korea represents another deviation from the developmental state. Its success is also based on economic planning, intimate relationships between government and business, and a meritocratic bureaucracy, but it lacks a unifying party. Perhaps because of this, the executive is stronger than in Japan, where government initiatives need to overcome the resistance of the powerful bureaucracy. In addition, the South Korean model has followed the Japanese example of relying much more than the other countries on the presence of the concentrated economic power of very large family enterprises. David Kang has aptly termed the relationship between business and politics in South Korea as one of "mutual hostages" (Kang 2002).

Malaysia, Indonesia and Vietnam are curious cases, because they possess many of the building blocks of a developmental state. All three countries have a history of or are still characterized by one-party dominance. Like China, Vietnam is a socialist one-party state,

while powerful parties rule Malaysia and Indonesia with organizational links to business and society. As described above, Malaysia has been reasonably successful, and the country report shows that a functioning economic planning mechanism and government-business relations have contributed to this success. However, the country report also notes that Malaysia has not developed to its full potential in part because affirmative action policies favoring the Malay population undermine the property rights of non-Malay domestic investors.

The predicament faced by Indonesia and Vietnam is related to the presence of an ineffective bureaucracy combined with local state capture; Indonesia's economic dependence on natural resources has additionally prevented it from developing an industrial and service structure independent of these resources. Attempts were made to diversify in the 1970s and 1980s, but largely failed, and the breakdown of Indonesia's rent-based economy in the 1997 Asian crisis was largely responsible for the concurrent breakdown of the Suharto regime. In Vietnam, both the low quality of governance and the lack of strong domestic economic actors prevent the country from becoming a developmental state for the time being. External observers often blame corruption for these woes (World Bank 2012). While it is true that according to Transparency International, Indonesia and Vietnam are among the most corrupt countries in Asia, so are China and India – on the group's Corruption Perceptions Index 2012, which measures corruption on a scale ranging from 0 (very corrupt) to 100 (not corrupt), Vietnam and Indonesia's respective scores of 31 and 32 are only slightly lower than those of India (36) and China (39). However, the form of corruption is more important: According to Andrew Wedeman (Wedeman 1999), rent-seeking and dividend-collection, as found in China, are much more compatible with economic growth than is outright predation, a problem of particular virulence in Indonesia.

Finally, India is another curious case where the successful development of a service sector was achieved despite the absence of economic planning structures, difficulties in policy coordination, and the presence of a bureaucracy characterized by massive corruption. As the next section will show, India's success in developing services has depended on the presence of a vibrant small and medium-sized enterprise sector. In contrast to all other cases discussed in this study, growth in India has been enterprise-based and decentralized.

### 4.3 Innovation policy

Japan and South Korea, which are counted among the classical developmental states (Woo-Cumings 1999), have displayed marked similarities in their approach to innovation. Governments in both countries have concentrated on financially supporting large corporations and shielding them from international competition, and have invested in science and technology innovation (STI). Generally, STI has been geared toward the development of market-ready products for domestic consumers. Combined with the strong executive and the integration of the bureaucracy and domestic businesses into economic policy-making processes, this strategy has been very successful in sustaining decades of economic growth. It is no coincidence that China is today applying exactly the same strategy. In contrast to China, however, where the government aims to enhance the capability of economic and scientific actors even before market pressure demands such innovation, this innovation strategy might have outlived its effectiveness in Japan and South Korea.

One particular challenge of state-led innovation is that preferential policies and special support for state-owned enterprises or large conglomerates undermines the competitiveness of private enterprises, if these are even allowed to compete. Market pressure ordinarily forces enterprises to come up with new products or develop existing products to increase profit margins. However, state-led economies present these companies with hurdles; for example, it is difficult for private enterprises to enter protected markets, state subsidies to big enterprises reduce other actors' profit margins, and access to credit and venture capital necessary to finance R&D is restricted.

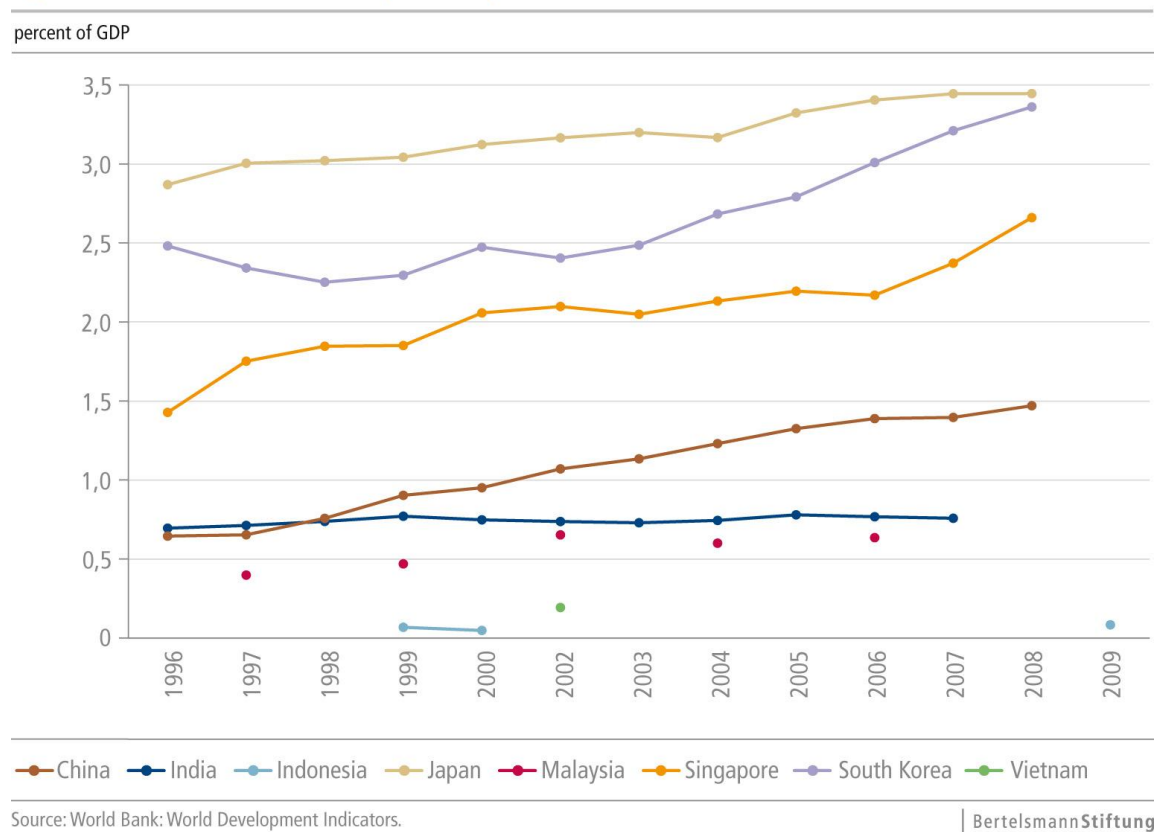
The big enterprises, on the other hand, become "too big to fail," which creates moral hazard and the danger that enterprises will fail to direct R&D funds with maximum efficiency. This seems to be the case today in Japan and South Korea, where big enterprises have resisted structural changes, to the detriment of small and medium-sized private enterprises and the overall competitiveness of the economy. China, although situated at a lower stage of development, is facing similar challenges. Here, individual consortia of elite universities, selected government research institutes and state-owned enterprises produce high technologies at a very advanced level (Göbel 2013b). However, many of these technologies fail to be transformed into marketable products, and the technological capabilities of these individual actors are not diffused beyond the consortia in which they are created.

Like foreign investors, Chinese actors who are active in research and development are concerned that their knowledge might be pirated. As in many Western counterparts, Asian economies have developed by absorbing foreign technologies through reverse engineering and reproducing them for domestic markets (Odagiri 2010). While Japan and South Korea

long ago moved beyond the copycat stage and have developed indigenous innovation capacities, China presently seems to be moving toward this threshold without passing it. In China, private enterprises can still survive by reverse engineering foreign technologies and reproducing them at low cost (and low quality) for the domestic market.

However, the Chinese government is actively pushing for the development of indigenous innovation capacities. Besides promising to better protect intellectual property rights (IPR) in the future, outlays for R&D are rapidly increasing (Figure 4.3.1).

**Figure 4.3.1: Research and development expenditure**



As Figure 4.3.1 illustrates, China is swiftly approaching the gross R&D levels of the highly developed economies of Japan, South Korea and Singapore. By 2020, R&D spending is expected to reach 2.5 percent of GDP in China, and had already reached 1.79 percent by 2012. An active innovation policy is pursued in Singapore, Malaysia and India as well as in China. As in China, Singapore's recent development of a high-tech industry has been driven by corporations linked to the government, with little space for private enterprises. Malaysia has some state-owned companies in strategic sectors such as oil, gas and public utilities, but is otherwise dominated by multinational corporations. Fully 95 percent of Malaysia's businesses are small or medium-sized enterprises, but these carry little weight economically. Perhaps for this reason, the Malaysian government is not investing substantively in R&D, but



is rather aiming at improving access to and the quality of education. However, the lack of attractive employment opportunities domestically pushes many well-educated Malaysians to search for job opportunities abroad – brain drain is a major problem for the country, as the country report illustrates. In contrast to Japan, South Korea, China and perhaps Singapore, all of whose main challenge is to strengthen innovation capacities within the private sector, Malaysia is still faced with the task of building up a basic innovation infrastructure.

The same seems to be true for India. As Figure 4.3.1 shows, India's R&D expenditures are reasonably high compared with those of the other low-middle-income economies; however, according to the country report, most of these expenditures flow into nuclear and space research, with the ultimate aim of securing India's energy independence and external security. Commercial R&D levels are comparatively low; the business sector is responsible for 25 percent of total R&D expenditures, as opposed to the OECD average of more than 70 percent. This comparative neglect of industrial research should guarantee that the industrial sector's contribution to India's GDP remains at a low level. Guaranteeing external security drives R&D in Japan, South Korea and China as well as India, however. Military R&D is geared toward improved nuclear weapons, carrier technology and satellites.

Finally, R&D levels in Vietnam and Indonesia have long been stagnant at a low level of below 0.5 percent, testimony to the fact that innovation is not high on the government's agenda. This is confirmed by the countries' low performance on other input-related indicators such as the number of researchers produced, as well as on output-related indicators such as the number of international patents and citations in international scientific journals (OECD 2012b). Although governments in each of these countries have said that improving their economies' innovation capacities is high on the political agenda, policy has not to date gone beyond a rhetorical commitment.

It follows from the above observations that the countries in our sample can be divided into three stages: Japan and Korea have pushed state-led innovation to a degree where high levels of inputs produce high levels of outputs, but where the high degree of government involvement has already begun to affect economic competitiveness negatively. Singapore and China are currently pursuing a state-led innovation strategy, erecting the foundations of what could ultimately become healthy innovation systems. In these countries, inputs into the innovation system are substantive, but outputs still low. Finally, Malaysia, India, Vietnam and Indonesia are characterized both by low inputs and outputs.

The governments in all these countries are of course aware of the problems that restrain (further) innovation, and have articulated policies designed to improve their nations'

technological capabilities. Japan and South Korea have pledged to support basic research, or research that is not expected to yield commercially viable products immediately. In addition, both governments have said they will increase their focus on green technologies. In China, the state sector profited significantly from the government's stimulus in the wake of the 2007 world financial crisis, to the detriment of the private sector. The Xi Jinping administration has promised to provide more support to the private sector, thereby realizing a crucial element of China's innovation policy guidelines, which have ostensibly been in effect since 2006. India, where company-level R&D is increasing, aims to encourage this trend further by supporting small and medium-sized enterprises. In Indonesia, investors might look forward to an improved investment climate if the government holds true to its promise to reduce red tape. Finally, in Vietnam, the SGI country report notes that private companies are already reacting to increased levels of market pressure, but that the government still has no plan for reforming the state sector.

## **5. Beyond economic growth: The evolution toward social development**

This chapter examines the factors responsible for progress and failures to progress in the dimension of social development. To recall, we hypothesized that social development policies will take political precedence only after a certain level of economic development has been reached. On the one hand, economic development enables a government to afford costly social policies, while providing the resources necessary to administer such policies effectively. On the other, economic modernization creates a demand for such policies. Companies in advanced market sectors need a well-educated and healthy work force, and governments need to provide social services to maintain legitimacy in the eyes of increasingly demanding populations. When countries enter this stage of development, they cannot rely on executive capacity alone. Executive accountability and quality of democracy (or at least channels of communication between state and society) are needed to implement the right policies and ensure that resources are not diverted.

With respect to the dimensions of development, chapter three largely confirmed our "economy first" hypothesis. In addition, it demonstrated that the high-income countries in our sample (Japan, South Korea, Singapore) perform comparatively well in the social dimension, while the upper-middle-income economies of China and Malaysia lag behind their richer counterparts. Finally, the lower-middle-income economies of India and Indonesia achieve the sample's lowest scores across most of the SGI social indicators. This chapter examines the reasons for these differences to see if differences in economic demands, public demands, and the quality of governance structures are indeed responsible for these divergent outcomes.

Before looking at the data, we will provide support for our assumptions with some findings from the literature on the development of welfare systems in Asia.

### **5.1 Explaining Asian welfare regimes**

Unraveling the factors behind Asia's economic growth has been a prominent theme in social science scholarship. In contrast, assessing the impact of economic development on the distribution of social resources and the evolution of social welfare regimes in Asia is a fairly new focus in political science research. As our findings so far have illustrated, Asian development strategies have been dominated by a concentration on economic development, with resources allocated to sectors considered strategically important for industrial modernization and growth. Thus, compared with public spending on health care in OECD countries, for example, our cases must be considered "welfare laggards." Compared to the OECD average of 9.5 percent (as of 2010, OECD 2012a) of GDP being spent on health care, none of our cases crosses this threshold (see "social policies" and Figure 5.1). This phenomenon has informed the argument of an Asian "exceptionalism" in social development, which contrasts Asia's high economic growth rates with its low levels of social justice. In the following paragraphs, we will sum up the most important structural, cultural and institutional explanations of this alleged exceptionalism, which invoke the lack of a political left, distinctive cultural values and political preferences to explain the region's low levels of social welfare spending.

#### ***Structuralist explanations***

Nita Rudra (Rudra 2002) examines the impact of globalization (defined as increased levels of international trade and capital flows as a share of national GDP) on social welfare in less-developed countries in contrast to developed countries, with her work including all sample countries studied here. She reveals a decline in welfare state institutions in less-developed countries, as the large pool of low-skilled labor and surplus workers prove unable to prevent spending cuts on welfare services. This contrasts with experiences in developed countries, where organized labor has typically managed to prevent the dismantling of the welfare state. In this vein (and with the important exceptions of Vietnam and China), Rudra considers the absence of a strong political left an important factor in explaining lower levels of social development.

Proponents of this approach usually employ some version of the dominant power resources theory (Esping-Andersen 1990) in order to link the absence of strong political leftist parties and labor unions to the weakness of the welfare state. This line of argument fits with the developmental state model discussed in chapter four. Representative of this model is Japan, where a dominant political party, bureaucratic and corporate elites, and large enterprises

have teamed up to form a growth-orientated industrial policy. Within this arrangement, the Japanese government developed a set of functional welfare equivalents in order to woo important electoral groups and to sustain the coalition of corporate and conservative political elites. Hence, the Japanese welfare state has been functionally linked to efforts to sustain LDP one-party dominance (Estévez-Abe 2008). Similar arrangements can be observed elsewhere –in most Asian countries, labor unions were co-opted into the state apparatus, excluded from policy-making or simply crushed as political forces in the pursuit of rapid industrialization. Japan's example is instructive, as it serves almost as a blueprint for what happened elsewhere. Here, the power of labor unions diminished as major state enterprises were privatized in the 1980s. Unions were organized at the company level, and the formation of large sector-specific organizations was discouraged. T.J. Pempel and Keiichi Tsunakawa (Pempel and Tsunakawa 1979) have famously termed this arrangement “corporatism without labor.”

South Korea has a similar pattern, with an intimate link between bureaucratic and business elites in the running of large enterprises, though without a strong unifying party. Here as in Japan, the corporate sector provides the main welfare benefits as part of employment packages, and the autonomy of labor unions has been constrained by the government (Park 1987). Although labor activism intensified in post-authoritarian South Korea, the influence of large family enterprises on industrial policymaking remains dominant (Koo 2000). Governments in Malaysia and Indonesia have also constrained the growth of organized labor. In contrast, a labor movement exists in India, but as most workers are employed in unorganized sectors, its political influence is low.

An important consequence of the developmental state model, as we discussed above, is the dependence of export-oriented economies such as Japan and South Korea on large corporations, which cannot be allowed to go bankrupt. This leaves them vulnerable to the pressures of globalization and global economic crises in particular. In both countries, labor market deregulation resulted in a significant increase of nonregular employment in the 2000s. New social disparities reflected in the growing population of the working poor have highlighted the need for social welfare reforms in these high-income economies.

### ***Culturalist explanations***

In addition to the structural factors deriving from a weak political left and low levels of labor mobilization, the literature on welfare policies in Asia attributes low levels of social welfare provision to cultural factors such as the prevalence of “Asian” or “Confucian” values. These values allegedly revolve around the family as the chief provider of welfare functions (Peng and Wong 2012). Proponents of this approach identify low female participation rates in labor

markets as a key indicator of a low level of social development, as basic welfare functions such as child care and care for the elderly are outsourced to the family, particularly women. Levels of private household savings and private education spending are traditionally high. Moreover, the concept of “company welfare” in Asian capitalism identifies family businesses as the key providers of social services (Peng and Wong 2012). In other words, where the family is strong, the state does not need to and is not expected to interfere. This argument, however, does not travel very far in Asia. Countries such as Indonesia, Malaysia and India are characterized by completely different cultural configurations, and are marked by high degrees of religious, ethnic and cultural diversity. In these cases, ethnic and religious boundaries constrain social mobility. For example, comparatively small ethnic groups such as Malaysia’s Orang Asli complain that they suffer from higher poverty rates than the average Malaysian. In India, the caste system has structured social inclusion along rigid social and cultural norms.

### ***Political preferences***

Finally, the productivist argument developed by Ian Holliday argues that governments advance industrialization at the expense of social development (Holliday 2000). According to Holliday, Asia’s industrializing economies do not introduce social policies for the sake of social security. Rather, social policies tend to be advanced by economic elites as a means of sustaining human capital investment and economic growth (Peng and Wong 2012: 658). Policies promoting social inclusion are selective and subordinated to the imperative of labor production and reproduction. Along with the structural explanation, with which it is highly compatible, this line of argument resonates well with our theoretical premises and empirical findings. Yet in providing an evolutionary view of a society’s overall development, our study goes one step further. In particular, it links the rationality of economic planning to the overall progress of national development.

In sum, it is this mix of structural factors, cultural values and political preferences that determines the progress, stagnation and deteriorations in social development examined here. However, generalizing our cases into a single category of “welfare laggards” would be a static view that dismisses the various though moderate progress our sample countries have made in the area of sustainable governance. The next section will outline these achievements.

## **5.2 Social policies**

Economic transformation depends not only on the creation of viable industrial and service sectors, as shown in chapter four, but also on providing access to education. An educated workforce is needed if a shift in production focus from agriculture and unskilled labor toward

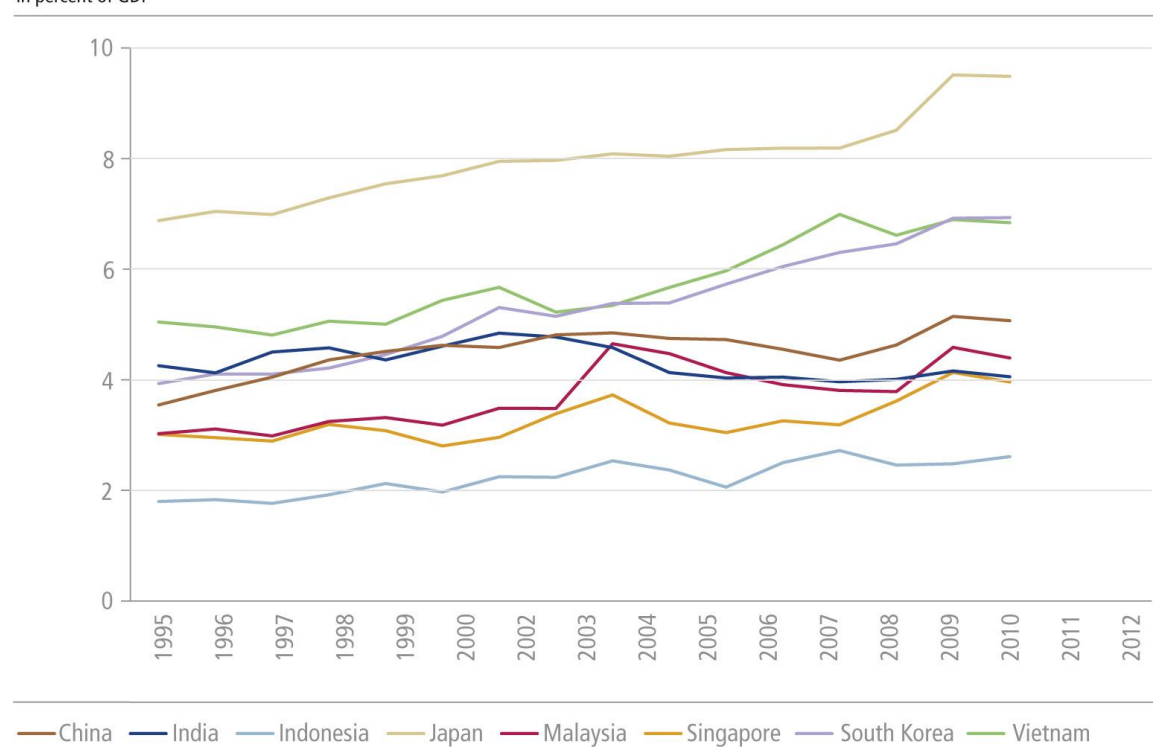
the more intellectually demanding tasks of high-tech manufacturing and services is to be made. Providing the conditions for a healthy work force that is capable of sustaining growth and of increasing factor productivity is paramount for a country at a later stage in the development process. Moreover, as we have outlined above, chronic disease is the chief cause of personal poverty, and poverty undermines not only domestic demand but also government legitimacy. Finally, as industrial modernization continues against the background trends of demographic change and an aging society, the integration of women into the workforce and the provision of pensions become increasingly important in sustaining productivity and domestic demand. Therefore, in conjunction with our previous discussion of economic growth, the following sections will examine the paths and sources of social development policy achievements. Chapter three has already introduced the key indicators on which we will base our examination of policy performance; these include health spending, poverty reduction, access to education, provision of pensions, and the implementation of gender equality with respect to female labor participation.

### ***Health and demography***

As we have pointed out above, aggregate social spending remains below the OECD average across the region (20.5% of GDP as of 2005), and is particularly low when compared to European welfare regimes (27% of GDP as of 2005) (Peng and Wong 2012: 657). Broadly speaking, a look at health care spending data reveals two tiers of development, with one group showing moderate spending increases above levels of 5 percent of total GDP, and the other demonstrating spending levels that have stagnated below the 5 percent threshold. It should not be surprising to see the high-income countries of Japan and South Korea spending more on social welfare than the upper-middle and low-middle-income countries examined here. In fact, the location of each of our sample countries in Figure 5.1 generally reflects their level of economic development. Indonesia and India are the lowest performers, and Japan and South Korea the best performers. Vietnam's performance, however, is somewhat surprising. Despite being a low-middle-income country, we see it making increasing outlays for health care throughout the 1990s and 2000s. As we have mentioned earlier, Vietnam's strong performance is at least partly owed to external development assistance. In contrast, although Singapore is a high-income economy, it spends comparatively little on health care. These low spending levels are accounted for by a policy mix of government subsidies, price controls, and investments in medical research and innovation. This has produced high levels of competition and transparency in the medical sector, while keeping public outlays low. Finally, a large portion of Singapore's aging population relies on family assistance for retirement. Indeed, such family support is mandated by law, thus stressing the importance of the family as welfare provider as outlined above.

**Figure 5.1: Total Health Expenditure**

in percent of GDP

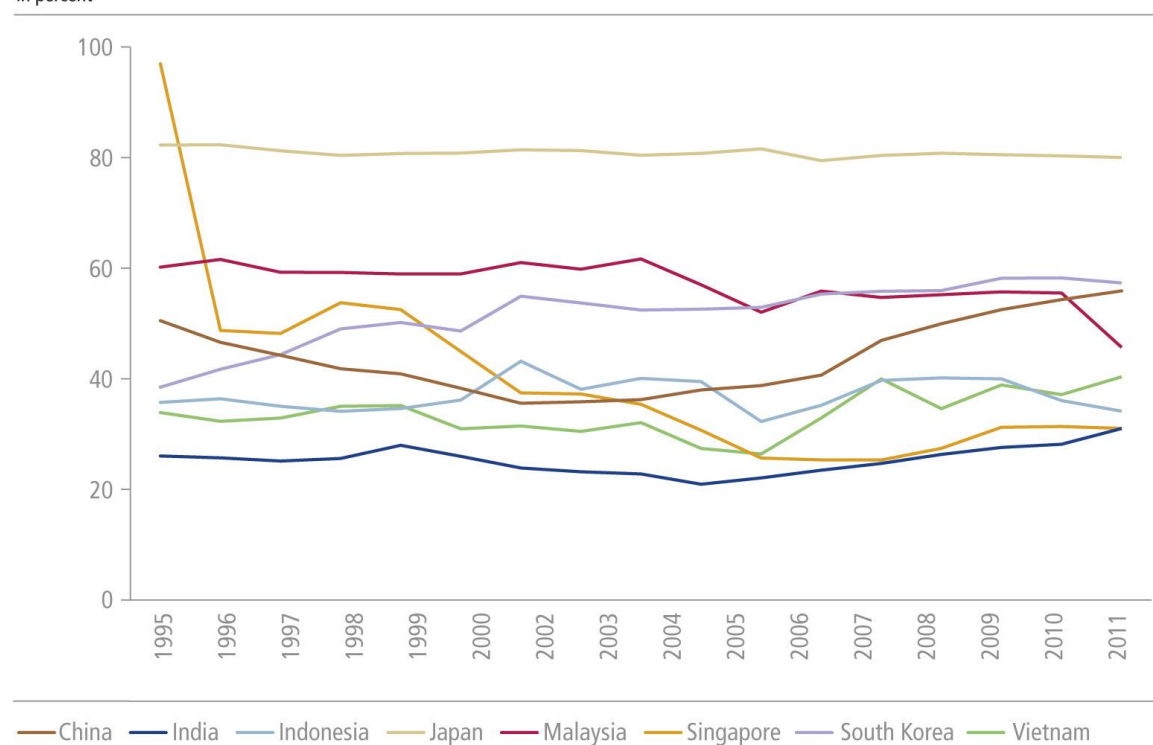


Source: World Bank: World Development Indicators.

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**Figure 5.1.1: Government's Share of Total Health Expenditure**

in percent



Source: World Bank (2013).

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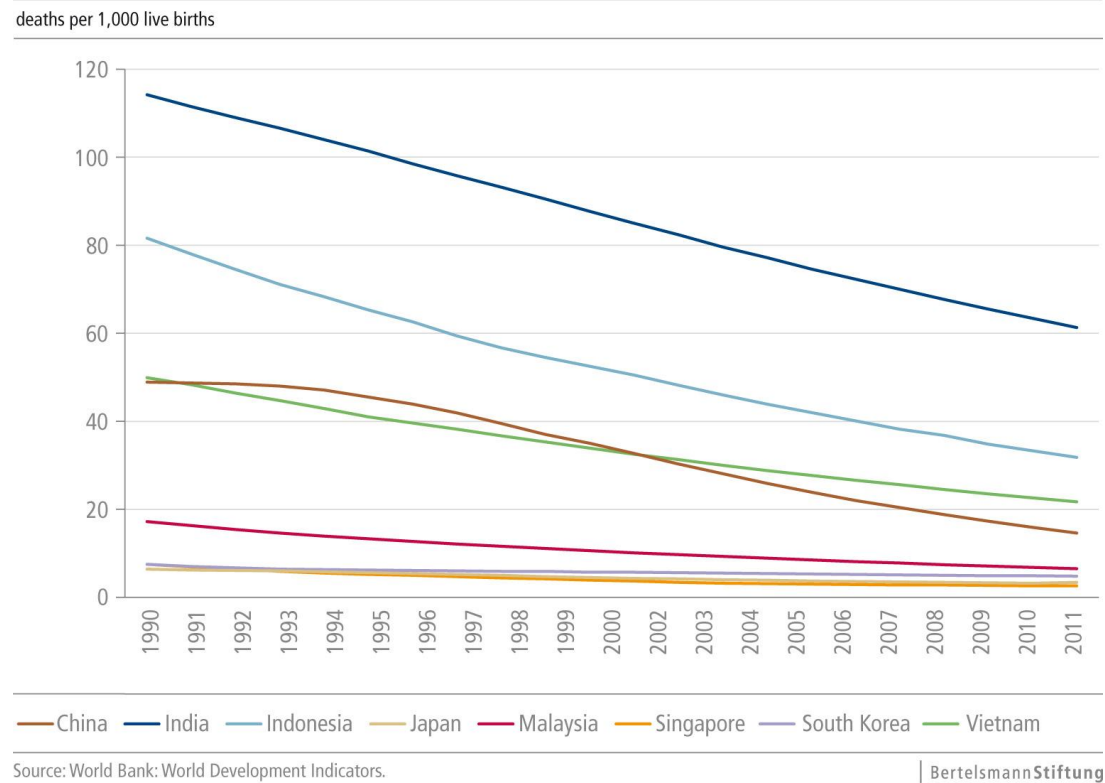
The increase in health care spending in the high-income countries of Japan and Korea can be explained by demographic change. The percentage of the population above the age of 65, which tends to demand extensive medical care, is rapidly increasing (Figure 5.3). Moreover, in both post-bubble Japan and post-Asian crisis South Korea, rising suicide rates represent just one symptom of the various mental health effects suffered by these post-industrial societies.

China and Malaysia have also seen moderate improvements in their social development. In response to its industrial modernization and economic growth, China has made efforts to bridge the substantial gap between rural and urban levels of health care and pension benefits. Since the early 2000s, health insurance and welfare aid have gradually been universalized. Moreover, the extension of pension programs across the whole population suggests that China has taken the demographic challenge seriously. As social stability in rural China has been threatened by the lack of executive accountability, the expansion of welfare services represents an attempt to maintain regime stability. Malaysia, the other upper-middle-income country, has opted for privatization of large parts of its medical and health care services. As this excludes large parts of the population from the provision of high-quality health care, spending levels remain low. In addition, only 60 percent of the labor force is covered by the pension scheme, which raises fears of poverty among the elderly. Finally, further down the income scale, Indonesia's welfare infrastructure suffers from the decentralized structure of the country's governance, which has made it increasingly difficult to set national standards and to provide universal access to health insurance in the years following the downfall of the Suharto regime. The SGI country report reveals that 44 percent of the Indonesian population continues to lack access to health insurance and many other social services, while noting that a deficit in executive capacity constrains the quality of policy performance. Finally, while India's spending levels are above Indonesia's, its relative spending level is low given the size of its population and territory. Indeed, although the government in New Delhi has introduced efforts to improve the quality of social services, welfare institutions have become the target of corruption allegations and growing public distrust. Thus, in a manner similar to Indonesia, a lack of executive capacity has constrained the positive effects of policy innovation. As both lower-middle-income countries have a large percentage of informal workers, pension and social insurance programs remain porous.

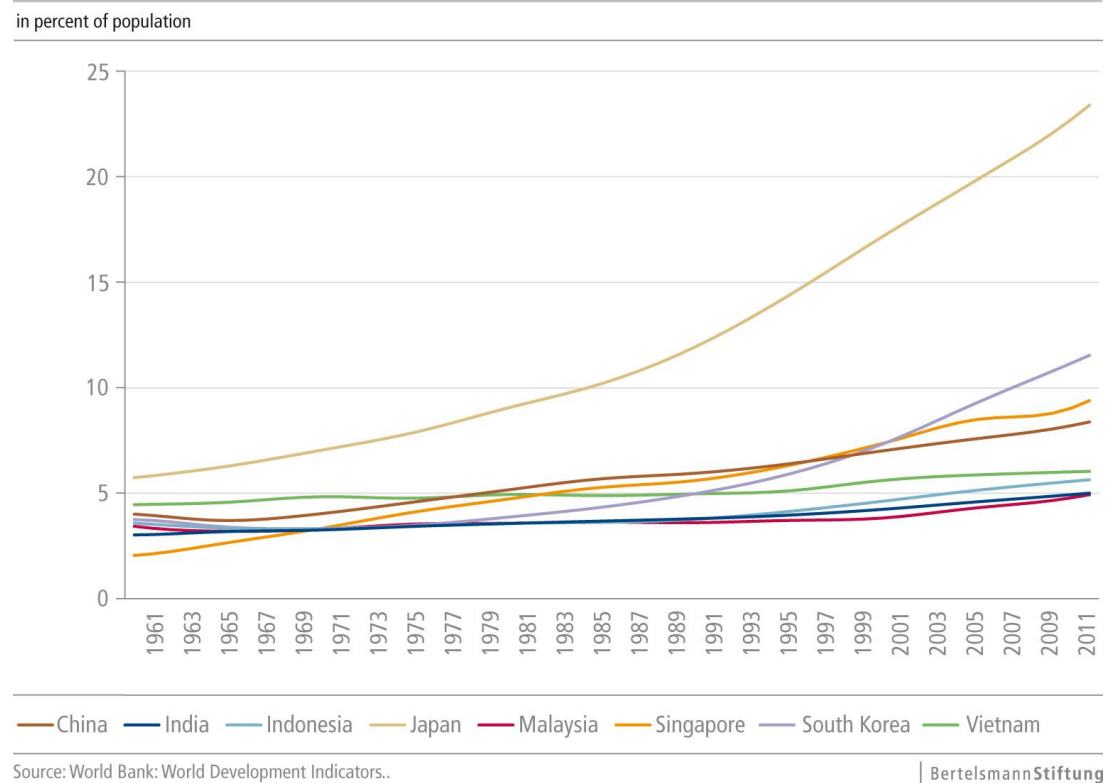
The negative effect of deficient social welfare instruments is reflected in the mortality rates of children under the age of five (Figure 5.2), as well as in the differences in life expectancy highlighted in Figure 3.4.1 above. Although gradually declining, child mortality rates are significantly higher in the countries of low-middle development status than in the rest of the sample, with the important exception of Vietnam.



**Figure 5.2: Mortality Rate of children under five**



**Figure 5.3: Population aged 65 and above**



To sum up, we can confirm Ito Peng and Joseph Wong's (Peng and Wong 2012) finding of the existence of two broad patterns of welfare provision in Asia. One is the universal "social

insurance models” that can be found in Japan, South Korea, China, Vietnam and Indonesia; the other is represented by the “individualistic and market-based models” found in Malaysia and Singapore. In light of the high prevalence of informal labor and sustained poverty, the trajectory of India’s welfare sector remains unclear. In addition, the empirical examples in this section have illustrated that welfare policies are often the result of economic and social demands, but that demand alone is not enough to guarantee successful social inclusion. As the examples of India and Indonesia illustrate, social policies are difficult to implement at low levels of executive capacity. These examples also show that a modicum of executive accountability is necessary to guarantee the effective provision of social services.

### ***Education***

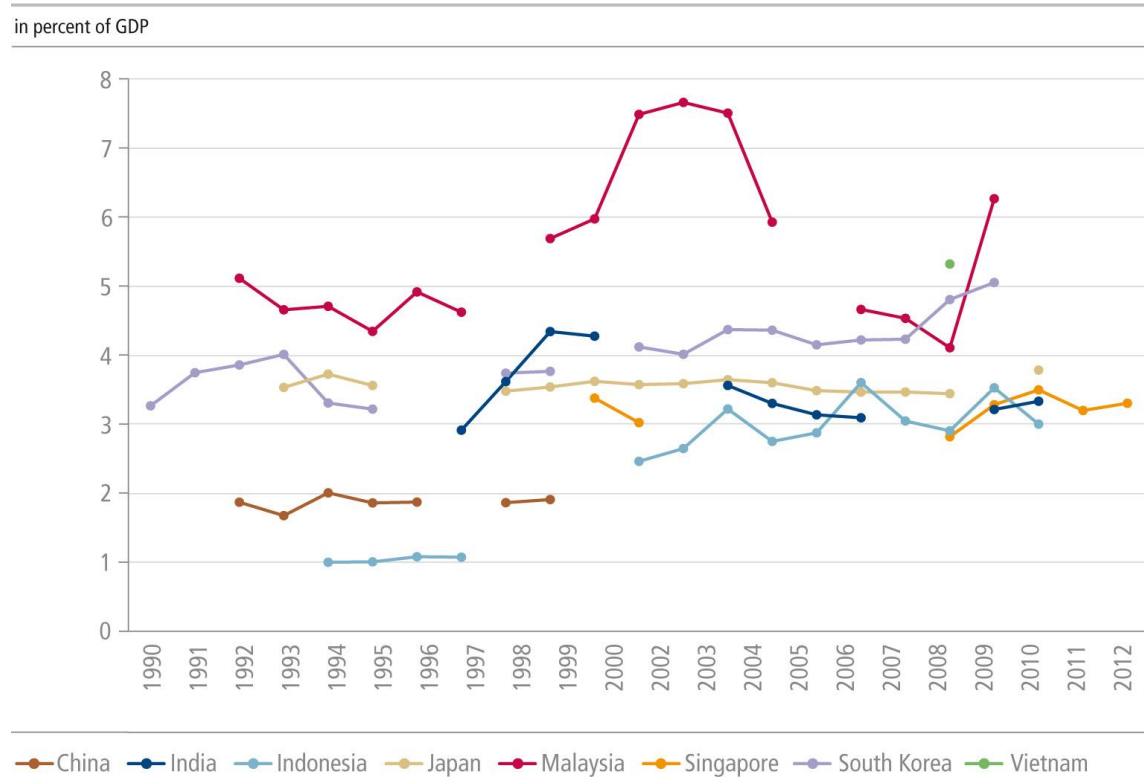
If our theoretical reasoning is correct, then our cases should show improvements in the quality of education as their economies move up the value chain, in part because higher education levels are a prerequisite for economic transformation and high factor productivity. In addition, equal access to education should be improved in order to make available previously unused human resources. As we showed in the section on successes and progress, our sample countries do display large discrepancies in terms of access to education as measured by the gap between mean years of schooling and expected years of schooling (Figure 3.4.2). As expected, this difference corresponds to differences in economic development. However, when disaggregated along gender and education levels, an unexpected picture emerges: Gender inequality both in access to education and in labor market participation seems to be independent of the level of development, and is in fact lowest in nondemocratic China and Vietnam. The following paragraphs will first examine overall differences in access to education, and will then account for the unexpected findings that gender inequality in access to education is higher within high-income countries than in upper and low-middle-income countries, and that such inequality is most evident in Asia’s democracies.

With respect to general access to education, Japan, South Korea and Singapore are internationally known for their high standards in elementary, secondary and tertiary education. These countries scored significantly above the OECD average in evaluations of their students’ performances (OECD Programme for International Student Assessment, or PISA; OECD 2010). These good results are intimately related to the countries’ development models. The elite universities prepare students for a career in large enterprises or the government bureaucracy, but access is difficult and regulated by fierce competition. Being admitted to one of these universities not only serves as an entrance ticket to the world of high-powered business and politics, but also marks the student as part of the educational elite and increases her social rank, as well as that of her family. It is no exaggeration to say

that millions of parents invest significant time and money in the pursuit of this goal, even though they are perfectly aware that only a fraction of the student population is admitted into one of the top universities.

In some cases, country-level PISA scores are disaggregated with the aim of controlling for high social disparities between rural and urban regions. Thanks to this practice, we can see that the urban region of Shanghai scored even better than Singapore, South Korea and Japan in the categories of reading, mathematics and science. Indeed, Shanghai received the highest scores in all categories in 2009. China follows Japan, Korea and Singapore in making educational background the most important determinant of occupational success and social status. Here as well, rapid industrial development has triggered education-based competition. However, it needs to be emphasized that not all are equal in this competition. Due to a quota system, those who are registered in a city hosting one of the country's top universities are more likely to be accepted. In addition, those born in the countryside are strongly disadvantaged in the race to the top, as they often suffer from the low quality of rural education; a family inability to afford school, prep school and university fees; and a scarcity of government scholarships for gifted children.

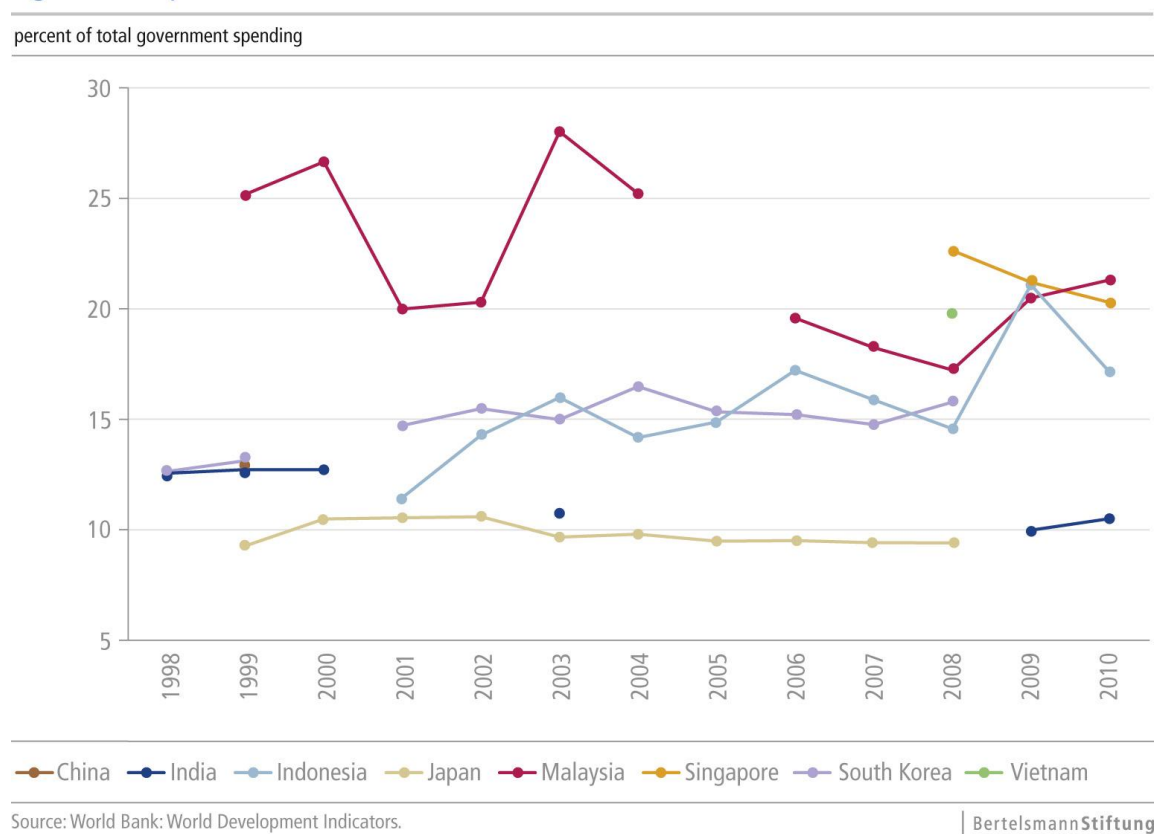
**Figure 5.4: Public Education Spending**



Source: World Bank: World Development Indicators.

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**Figure 5.5: Expenditure education**



Though the available data does have gaps, it appears clear that a country's level of education spending correlates with the average years of schooling a person can expect to receive, with Japan serving as only exception among our sample countries (Figure 5.5). Given the fact that private schools are prominent choices for enrollment in many countries, education also serves as an important investment outlet for private household savings. It is interesting to observe that in lower-middle-income countries such as Vietnam, the government has increased the level of financial support provided to education. Here, when measured in terms of the government's public spending on education as a share of its total expenditure the share of the government budget devoted to education has increased significantly, from 17 percent in 2005 to 20 percent in 2010.

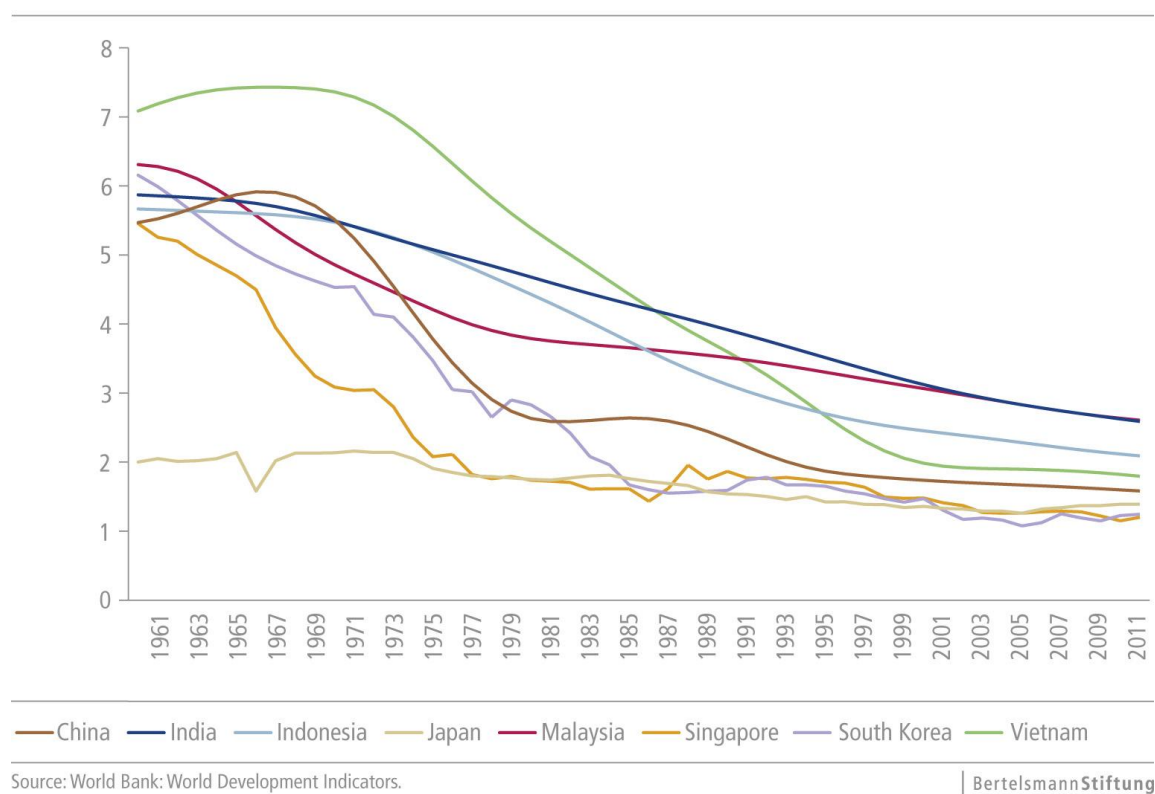
Vietnam has achieved almost universal education at the primary level. As in other policy areas examined, development aid has played an important role in shaping Hanoi's education policy. In India, which is in the same national income category, access to and the quality of education is largely determined by income differentials and the urban/rural divide. The country that most stands out in terms of spending is Malaysia. Here, the government has acknowledged the strategic need to develop a skilled workforce. New policies have been introduced that include promises to increase spending on and investment in education. Similarly, the Chinese government is seeking to mitigate the large quality differences

between rural and urban areas, while at the same time improving access to university-level education.

Recent policy shifts in many of our sample countries reveal that as nations progress along the value chain, education increasingly becomes a strategic target deemed critical for sustaining economic growth. Universities in South Korea, Japan and Singapore are struggling to internationalize in an attempt to attract new students and skilled labor from abroad. At the same time, economic development and social competition are spurring novel educational structures, while further increasing the inequality in access to education. Notably, private schools and universities charge high tuition fees, thereby generating new dynamics of social exclusion. The overall positive trend of improved access to education is mirrored in the rising literacy rates in all of our countries. Even in India, a lower-middle-income country, the literacy rate of the 15–24 age cohort increased from 76 percent in 2001 to 81 percent in 2006. In all other sample countries, this cohort's literacy rate is already above 95 percent, which testifies to the general progress being made in access to elementary and secondary education (World Bank n.d.). In all our low-middle and high-middle-income countries, these positive developments are the result of government education policies.

In sum, these developments form a complex picture. Even as overall access to education has become more equitable, access to high-quality education has become more difficult. As the number of students who enter the education system increases, competition for access to elite universities intensifies. Those lucky enough to be male and live in the big cities, and who have parents who can afford an expensive elite education, are better placed in this competition than equally gifted counterparts born into peasant families – especially if these latter students are women. As we have argued earlier, the proliferation of equal access to basic education among low-middle and upper-middle-income economies signifies that policy performance and quality of democracy are necessarily interrelated. However, the relative progress of China and Vietnam in education policy illustrates that countries with a low quality of democracy can perform reasonably well. The low-middle and upper-middle-income economies within our sample have been accountable to the public demand for better education. It is too early to tell how this will improve the general executive capacities of these economies. Yet the high-quality education systems in place in Japan, South Korea and Singapore serve as useful examples of how high performance in education policy can result in sustained high capacity in governance.

**Figure 5.6: Fertility Rate**



### **Equal opportunity in education and labor**

As important as education for sustaining growth and development is improved access to the labor market. In high-income countries such as Singapore, Japan and South Korea, demographic change presents a severe challenge to productivity, which can be mitigated by increasing women's opportunities to enter the labor market. It is therefore astonishing that this has not yet happened. The female labor-market participation rate has increased slightly only in Singapore, but has stagnated at or below 50 percent in Japan and South Korea. This is despite the fact that rapid industrialization since the late 1950s and 1960s has disrupted traditional family structures in South Korea, Japan and Singapore, with the core family becoming the main family model. The declining fertility rates particularly in South Korea and Japan illustrate the shifts in life design and career choices in post-industrial societies (Figure 5.6). Legislation on equal employment opportunity does exist in most cases, but countervailing social conventions remain strong. Many women leave the workplace upon marriage and pregnancy. In Japan and South Korea, many women fortunate enough to receive a university education never enter the labor market.

Hence, culture plays an important role in shaping female access to education and employment; this explains why our initial assumption that female participation in the labor market would increase with a country's development was wrong, as well as why women are

disadvantaged in terms of access to tertiary education even in high-income countries (chapter 3.4). Unfortunately for our theory, this cultural effect is not offset by proactive measures to change the situation. This holds true not only for Singapore, Japan and Korea, but also for the upper and low-middle-income countries of Malaysia, India and Indonesia, where religious and cultural cleavages determine access to the labor market. The only exceptions in our sample are Vietnam and China, where socialist regimes have improved female access to work and politics. In our sample, gender equality is thus highest in the non-democracies, while Japan, Korea and India can rightly be called “male democracies” (see Figures 5.7 and 5.8).

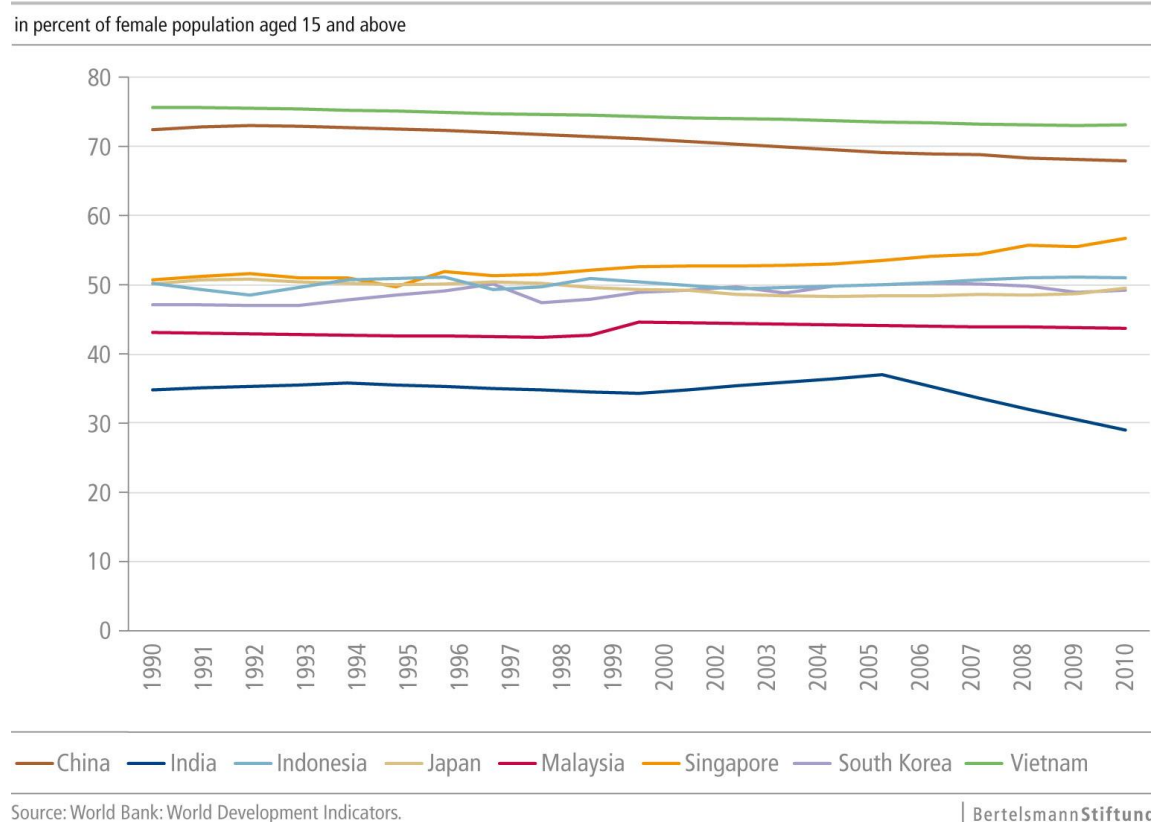
Another aspect of inequality deserving of analysis pertains to those who have secured employment. This is especially true in high-income countries, where politicians have responded to the pressures of increased competition in global markets by deregulating labor markets. As a consequence, nonregular employment is on the rise in Japan and South Korea. Although overall unemployment rates have remained low in these countries, the incidence of inequality and poverty is increasing. This phenomenon is less marked in the upper and low-middle-income countries of China, India and Indonesia, where rural and low-skilled employment in particular has always been largely informal (the exception being Mao-era China). One worrying phenomenon seems to be that unemployment or irregular employment combined with limited access to welfare systems and high-quality educational opportunities seem to replicate themselves in a vicious circle that extends over generations.

Although female participation in the workforce is stagnating, fertility rates are decreasing in all our cases. There are several possible explanations for this. For example, it is possible that gender equality policy and family policy alike are being neglected. In Singapore, South Korea and Japan, access to child care facilities is insufficient and often unaffordable, potentially presenting women with a choice either of spending their wages on child care or of staying at home to provide care themselves. Another explanation might be a differentiation in child-rearing practices. As in many developed economies, high-income couples might decide to have just one child or no children at all. In contrast, fertility rates in lower income groups might remain unchanged. A third explanation pertains to the particular case of China, where the decreasing fertility rate is not only the result of career choices or economic necessity, but also of a rigid birth control policy in place since the 1980s.

In conclusion, the previous paragraphs have presented a picture of diverse social developments that are only partly determined by the level of economic development. One notable outlier is gender equality, where most of our sample countries perform poorly – the only partial exceptions being China and Vietnam, where female labor market participation is

particularly high. This is a good start, but as noted above, women are disadvantaged vis-à-vis their male counterparts in these countries too.

**Figure 5.7: Female Labor Participation Rate**

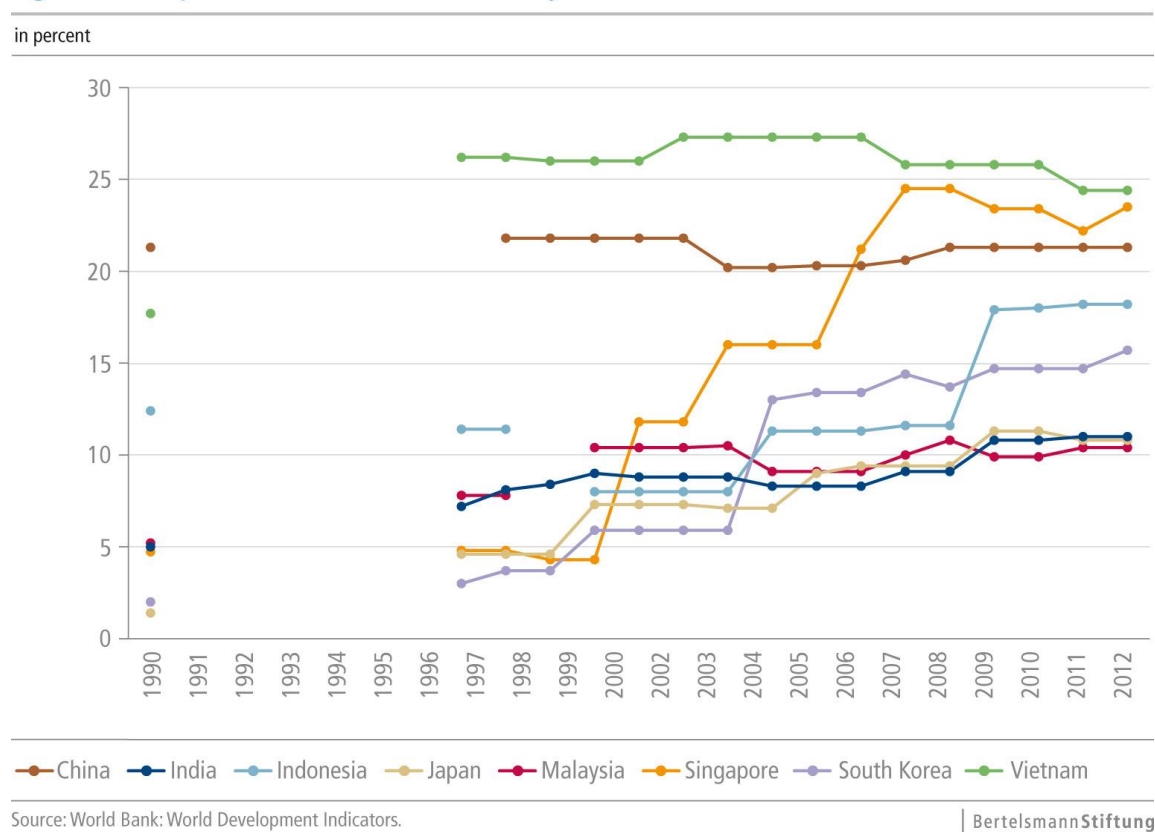


Hence, it is evident that cultural as well as economic factors have a substantial impact on welfare access in Asia. Integrating the nonregular workforce into regular employment structures in lower middle and upper middle countries will be critical in order to extend social inclusion. At the same time, the integration of women into the labor market on equal terms and the provision of access to child care facilities will be crucial in coping with demographic change in Asia. Independent of the level of economic development, policy choices promoting social inclusion will be critical for sustained growth.

With respect to the paths chosen by the countries in our sample, the previous sections suggest that social policy has largely been an extension of economic policy, with significant constraints imposed by cultural factors. Once more, capacities necessary for economic development have also been employed in the shaping of social policies, while social demands for more equal access to education or job opportunities seem to have remained limited at best. Perhaps it is here that the nexus between the generally low levels of democratic quality and small achievements in social development lies: Low levels of demand and inadequate participatory channels might reinforce each other.



**Figure 5.8: Proportion of Parliament Seats Held by Women in National Parliaments**



## 6. Balancing economic growth and environmental protection

This chapter examines progress, stagnation and deterioration in the area of environmental governance. Our theoretical premises include the principle that countries allocate resources to environmental protection only after they have achieved comparatively high levels of economic development. As a result, the road to economic development is a highly polluted one. Japan's postwar economic recovery and high rates of growth since the 1950s, the economic modernization of the newly industrializing economies such as South Korea since the 1970s, and the recent economic rise of upper-middle-income economies such as China and low-middle-income nations such as Vietnam and Indonesia have all put tremendous pressure on the natural environment. High levels of carbon dioxide emissions and energy consumption in all our sample countries illustrate the growing ecological footprint associated with industrial growth (Figure 3.5.1).

On the other hand, our data shows that industrial modernization has also triggered an increase in resource efficiency in all our sample countries over the last three decades (Figure 3.5.2). In light of the intensified competition over natural resources and the international pressure to reduce carbon emissions, economies of all income categories have turned to nuclear energy. However, the March 2011 catastrophe at the Fukushima Daiichi nuclear

plant in Japan has led to uncertainty with regard to the future of nuclear energy in Asia. Yet despite the economic costs of that disaster – estimated at \$250 billion or more – as well as the unpredictable consequences for environmental and human health, nuclear energy has witnessed a renaissance in Asia since the end of 2011. In addition to moderate growth in renewable energies, nuclear power remains a crucial component in national growth strategies. In this chapter, we will continue to examine how differences in economic demands, public demands and the quality of governance lead to divergent policy outcomes.

### **6.1 Political accountability and sustainable development**

As we have shown above, industrial policies in all our sample countries but India have evolved in the form of government-guided and market-interventionist economic growth-first programs. To recap our theoretical assumptions: Governments tend to prioritize economic growth and energy security over environmental protection. As a consequence of industrial development and natural resource extraction, the economies studied here have witnessed disastrous environmental pollution. The Minamata disease, caused by industrial wastewater pumped into local fishing grounds and thus causing serious cases of mercury poisoning during Japan's early postwar industrialization in the 1950s, is just one famous case illustrating the tensions between industrial growth and environmental health. The Minamata mercury poisoning triggered a massive environmental movement demanding stricter environmental regulation and compensation for victims. As our theory predicts, the advance of economic development has triggered a shift from an emphasis on "survival values" towards "self-expression values," expressed in the emergence of environmental movements. The consolidation of Japan's postwar democracy illustrates that enforcement of environmental protection represents a critical factor in the building of civil society and the consolidation of democratic regimes. Today, Japan has one of the strictest environmental pollution laws of all the advanced economies. Meanwhile, social instability related to environmental pollution in low-middle and upper-middle-income countries such as China has intensified pressure on local and national political elites to search for sustainable development strategies as a means of ensuring regime stability (Jahiel 1998; Economy 2004). Cases such as Japan and China illustrate that as economic development advances, ruling elites attempt to co-opt societal pressure through environmental legislation and enhanced political accountability.

Social values that emphasize environmental protection and sustainable development presumably evolve only after a society makes the transition from low levels of economic development to more advanced levels. Social concerns that address environmental preservation are commonly considered to be postmodern (Inglehart 1997). The combination of rapid economic growth and rising social inequality in the wake of the accelerated globalization since the early 1990s has forced the issue of sustainability onto the global

policy agenda as a key indicator of good governance. A critical juncture in the diffusion of sustainable development norms was the 1992 United Nations (U.N.) Conference on Environment and Development (also known as the Rio Summit). The notion of sustainability derived from this event involved a comprehensive revision of national patterns of industrial production as a precondition for the reduction of carbon emissions and the preservation of biodiversity (United Nations 1992). Furthermore, these policy goals were reemphasized at the U.N. Millennium Summit in 2000, and constitute a substantial component of the U.N. Millennium Development Goals (MDG) (United Nations n.d.). While the MDGs have been the target of frequent criticism, Ashwani Saith has pointed out that the MDGs and environmental sustainability in general are feasible criteria for evaluating the advance of good governance and executive capacities (Saith 2006).

### ***Political accountability***

Policy performance in the governance dimension of environmental protection is closely linked not only to a regime's executive capacity, but also to its degree of accountability and democratic quality. How a government responds to public demands for action to address environmental pollution indicates a regime's level of democratic and economic development (Diamond and Morlino 2005). While our performance analysis in chapter three shows that economic development goes hand in hand with low levels of environmental protection, we have argued that late developers need not follow the same path as earlier developers. Governments can respond to environmental degradation and public demands for a cleaner environment by introducing newly available green technology as well as by implementing stricter environmental pollution standards.

Political accountability is associated with the provision of reliable information on political decisions (Schmitter 2005). On the demand side, political protest is tied to political accountability and policy change. If governance structures provide access to political processes, protesters receive public attention, electoral competition forces political elites to respond to public concerns, and governments can be held responsible if they do not comply with implemented regulations (Schmitter 2005: 25). As democratic regimes enjoy both higher levels of political accountability and provide more channels of participation than do nondemocratic governments, they should in theory perform better when it comes to environmental protection.

Meanwhile, a regime's unaccountability in the face of public concerns over pollution and poor performance on issues of sustainable development may be the result of a lack of financial or executive capacities, corruption, nepotism or tensions between local or national authorities. As such, the state of the environment allows general conclusions on a regime's state of

democratic governance to be drawn. Illustrating the causal link between democratization and increased awareness on environmental protection, Lim and Tang have demonstrated how in South Korea since 1987 the gradual introduction of competitive elections, increases in local autonomy and press freedom, and the proliferation of new associations have resulted in the diffusion of environmental interests (Lim and Tang 2002). As such, South Korea resembles Japan insofar as environmental movements and the rise of civil society have contributed to democratic consolidation.

### ***Pathways toward green growth***

All countries examined in this study have implemented environmental regulatory measures such as environmental impact assessment (EIA) legislation. However, the quality of environmental health in these countries differs significantly. As the SGI country report reveals, environmental protection in low-middle-income India is constitutionally enshrined, yet environmental regulation largely fails to preserve the country's national resources and environmental quality. As a result of India's lack of capabilities to implement and monitor its environmental regulations, the cost of individual and environmental health problems caused by water and air pollution and soil degradation is estimated by the World Bank at 5.7 percent of India's annual GDP (Mani 2013). Recent cases of local protest against industrial developments such as the POSCO Steel plant project near the village of Govindpur in the state of Odisha, or the construction of the large-scale nuclear power plant in Jaitapur in the state of Maharashtra, reveal that the siting policies of environmentally risky projects often target structurally weak communities at a nation's geographic, economic and political periphery. What becomes clear from the study of environmental pollution in low-middle and upper-middle-income economies is that environmental harm and social inequality are closely related. Residents often lack the financial and organizational capacities to mobilize and to file lawsuits. A high level of local corruption further adds to this tendency.

This is true also for low-middle-income Vietnam and upper-middle-income China, which have produced mixed results in the area of environmental protection. Both countries have acknowledged the need to act on pollution to ensure regime stability. Drafting numerous new environmental initiatives, Vietnam has acknowledged the pollution-poverty nexus. With the help of foreign assistance (mainly from Japan), the Vietnamese government has promoted a "green economic development," based on strict legal measures, as a means of enforcing environmental protection. Hanoi today allocates 1 percent of its annual budget to these measures. As a result, Vietnam has substantially expanded the range of its protected habitats, while strict regulation of logging has resulted in remarkable growth in the amount of land covered by forests. In this case, economic protection has not resulted primarily from

public pressure, but rather from external influence and the incentive provided by financial rewards.

However, with most of its energy supplied by coal, oil and gas-fired thermal power plants, Vietnam's industrial growth has triggered an enormous rise in CO<sub>2</sub> emissions, from 17.2 million tons in 1990 to 114.1 million in 2009. As an attempt to slow this increase in carbon emissions, the country's leadership has also embraced nuclear energy, planning to construct 13 new nuclear power plants by 2020.

For its part, China has seen an increase in social instability resulting from environmental degradation. Dead pigs fished out of the Huangpu River in Shanghai are only one recent example of mainland China's environmental crisis (Economy 2013). Cognizant of mounting pressures on social stability and environmental health, Beijing has promised to cut energy consumption and to reduce the country's carbon dioxide emissions by 45 percent per unit of GDP by 2020, and in 2008 upgraded its environmental protection agency to the status of a ministry. In addition, individual policy initiatives such as the establishment of low carbon zones in selected areas are being pursued. Diffusion of Internet access has further increased the availability of information on environmental pollution in China, pushing Beijing to enforce its regulatory measures. While the Chinese government has announced a renewable energy target of 20 percent by 2020, the plan for accomplishing this goal encompasses environmentally high-risk projects such as large hydropower plants and an expansion of nuclear energy. As is generally the case, environmental degradation is unevenly distributed. China's industrial Northern region shoulders the heaviest burden as compared to other parts of the country. Moreover, as in India, pollution in China disproportionately affects the poor. As such, 75 percent of low-income households in rural China with children under five years of age have no access to running water (in comparison to 47 percent within higher-income categories). Many households consequently rely on surface water, which is often highly polluted, as a source for drinking water (World Bank 2007). The example of China illustrates how expectations of sustained high economic growth rates in Asia often conflict with environmental protection goals and initiatives aimed at increasing energy efficiency; however, it also shows that even a highly autocratic government must respond at some level to public demands. The dual spread of postmaterialist values and information technologies produces pressure that forces even an autocratic government to action (Göbel 2013a).

In middle-low-income Indonesia and upper-middle-income Malaysia, environmental protection also remains insufficient. This is the result of decentralized governance structures and insufficient capacities to enforce legal measures. This has raised concerns over the preservation of the countries' biodiversity and the health of ecoregions. Illegal logging (often

facilitated by foreign investment) represents a major concern in Indonesia, with efficient protection of natural habitats often undermined by corruption, nepotism and the lack of governance capacities to enforce environmental regulation. Much the same is true of Malaysia, where 18 percent of all native species are today regarded as endangered, and where approximately 8 percent of the country's forest cover was lost between 1990 and 2008. Energy consumption is rising in both countries, while political concerns over environmental protection and sustainable development are evolving slowly. This has given birth to activism within the realm of civil society. As democracy is still young in Indonesia, environmental activism promises to play a crucial role in democratic consolidation.

The fatal accident at the Fukushima nuclear power plant in the aftermath of the earthquake and tsunami on March 11, 2011, highlighted the causal link between structural economic weakness, environmental degradation and the lack of political accountability in Japan. As a resource-scarce economy, Japan is highly reliant on energy imports. Strategies to reduce carbon emissions and address resource scarcities have been based on a strategic expansion of the nuclear energy sector to a share of 50 percent of all energy production by 2020. As this goal has been formulated, Japan's energy policy has been steered by a closed network of vested interests involving LDP politicians, bureaucrats and the corporate sector. Energy security has been deemed a key strategic developmental target, resulting in a highly regulated energy market. The state has targeted economically weak regions with large subsidy payments promoting the proliferation of nuclear power plants (Aldrich 2008; Fackler and Onishi 2011). In Japan as elsewhere, environmental harm follows the lines of regional income disparities, with economically poor regions carrying the heaviest burdens. Due to the financial costs, the Fukushima Daiichi operator Tokyo Electric Power Company (TEPCO) has been nationalized. A number of reports commissioned following the disaster criticized the nontransparent relationships between Japan's nuclear power safety regulators, the corporate energy sector and political elites that emerged in the evolution of Japan's developmental state. Increased pressure has caused institutional change, decoupling safety regulation agencies from the government organizations in charge of promoting nuclear power. However, the promotion of truly renewable energy sources has proceeded only slowly, with civil-society organizations and prominent corporate business figures taking the lead (DeWit 2012a; DeWit 2012b). The introduction of a feed-in tariff system in 2012 promises advances in alternative energy production, while disaster-affected areas in the Tohoku region of Japan are embracing renewable energy as a business opportunity related to regional reconstruction and industrial revitalization. It should be noted that Japanese companies such as Sanyo were leaders in the solar energy field in the early 2000s. However, as vested interests influenced energy market regulation so as to favor nuclear energy, demand for alternative energies failed to emerge, and Sanyo's solar technology business was ultimately sold to

China. By 2011, renewables accounted for less than 1 percent of Japan's overall energy production.

As in Japan, South Korea's environmental policies are closely entangled with business interests. Particularly under the government of Lee Myung-bak, South Korea saw a mainstreaming of environmental policies. The government promoted new technologies such as hybrid and electrical vehicles and LED-based lighting and displays, with the stated aim of fostering economic "green growth." Moreover, Korean companies have identified green technologies as a key growth sector. However, many infrastructure projects ostensibly intended to foster green growth, such as the Four Rivers Project, have in fact been criticized for negative environmental impacts. As South Korea's civil society gained significant strength in the 1990s and 2000s, implementation of such projects became more difficult, with legislators increasingly forced to respond to demands for sustainable planning. However, South Korea significantly increased its investment in nuclear energy in 2011, despite the Fukushima accident. In addition, the country lowered gasoline taxes in 2008, despite the fact that South Korea has demonstrated the OECD's largest increase in carbon emissions since the 1990s.

In a manner reminiscent of South Korea's green growth initiative, Singapore has sought to reinvent itself as a model "green city," embracing environmentally sustainable development as a key component of city development planning. The opening of the \$810 million Gardens by the Bay project, which houses 80 percent of the world's plant species, has burnished Singapore's image as the world's "Garden City." However, a proactive stance toward green development cannot hide the fact that 90 percent of the city-state's forests and 67 percent of the island's birds have already been lost in the process of industrial growth and infrastructure construction. Moreover, Singapore is one of the world's highest per capita carbon emitters, and the island suffers high levels of air pollution. While Singapore has transformed itself into a service-based economy, changes in urban design and lifestyle have only recently begun to catch up with demands for environmentally sustainable development.

## **6.2 Assessing environmental policy performance**

Despite the diversity of developmental paths and political regime types, all countries included in this study have seen an increase in social and political attention paid to issues of environmental protection. This has in part been the result of popular dissatisfaction voiced primarily by the affluent population, in part the effect of international pressure and incentives, and in part genuine political foresight. All countries have introduced substantial regulatory measures aimed at strengthening environmental impact assessment and planning capacities.

The World Bank considers the degree and quality of environmental impact assessment (EIA) practices and strategic environmental assessment (SEA) capacities to be key indicators in the area of sustainable development (Dusik and Xie 2009). Malaysia spearheaded this movement with the development of its Environmental Impact Assessment Order as early as 1987. Vietnam followed suit in 1994. Japan passed its EIA Law in 1998, and South Korea in 1999. Singapore introduced environmental assessment legislation in 2000, Indonesia in 2001 and China in 2002. In relation to our own SGI policy performance indicators, these findings are important because they illustrate that even in longstanding and highly developed democracies such as Japan and Korea, environmental assessment practices are often confronted or influenced by vested corporate interests or energy security issues. Thus, it can be seen that the road to economic development is not linear. Just as high income does not automatically lead to gender equality, it does not automatically guarantee effective political action in the area of environmental protection. In fact, low-income economies have often addressed environmental pollution issues comparatively early in their developmental course, but have failed in their attempts due to their lack of executive capacities.

The mixed environmental-protection record in the eight countries analyzed here corresponds with overall assessments of environmental policy performance as captured by the environmental performance index (EPI) developed by Yale and Columbia University. The EPI focuses on a set of environmental issues for which governments can be held accountable. Specifically, the index traces policy performance in reducing environmental stresses to human health, as well as ecosystem vitality, a measure of ecosystem health and the efficacy of natural resource management. As such, the index, which evaluates a total of 132 countries based on 22 key policy categories including water regulation, air pollution, climate change, energy efficiency and agriculture, adds important depth to our SGI data (Emerson et al. 2012). Echoing our detailed analysis above, the EPI index demonstrates that countries with high GDPs tend to score higher than poorer countries in terms of environmental health policies. While this suggests a causal relationship between economic development and environmental protection, our detailed analysis above has shown that the relationship between economic development and environmental pollution is more complex. The degree of public pressure brought to bear, the extent of pollution-inflicted social costs, and the existence or absence of an enlightened government are all factors that can accelerate or forestall governance sustainability.

As a result, environmental challenges such as air pollution or soil degradation differ significantly at each stage of socioeconomic development. Developing and developed economies alike show high levels of greenhouse gas emissions and increasing levels of



waste. In addition, underdeveloped and developing countries are faced with environmental challenges that are directly related to poverty and underinvestment. As the case of China illustrates, for example, a significant (though declining) part of the population lacks access to safe drinking water because of industrial pollution. Within our sample, the EPI generally awards higher scores to advanced economies; Japan scores the highest with a rank of 23rd place out of 132 countries worldwide, followed by South Korea (43rd place), Singapore (52), Indonesia (74), Vietnam (79), China (116), and India (125).

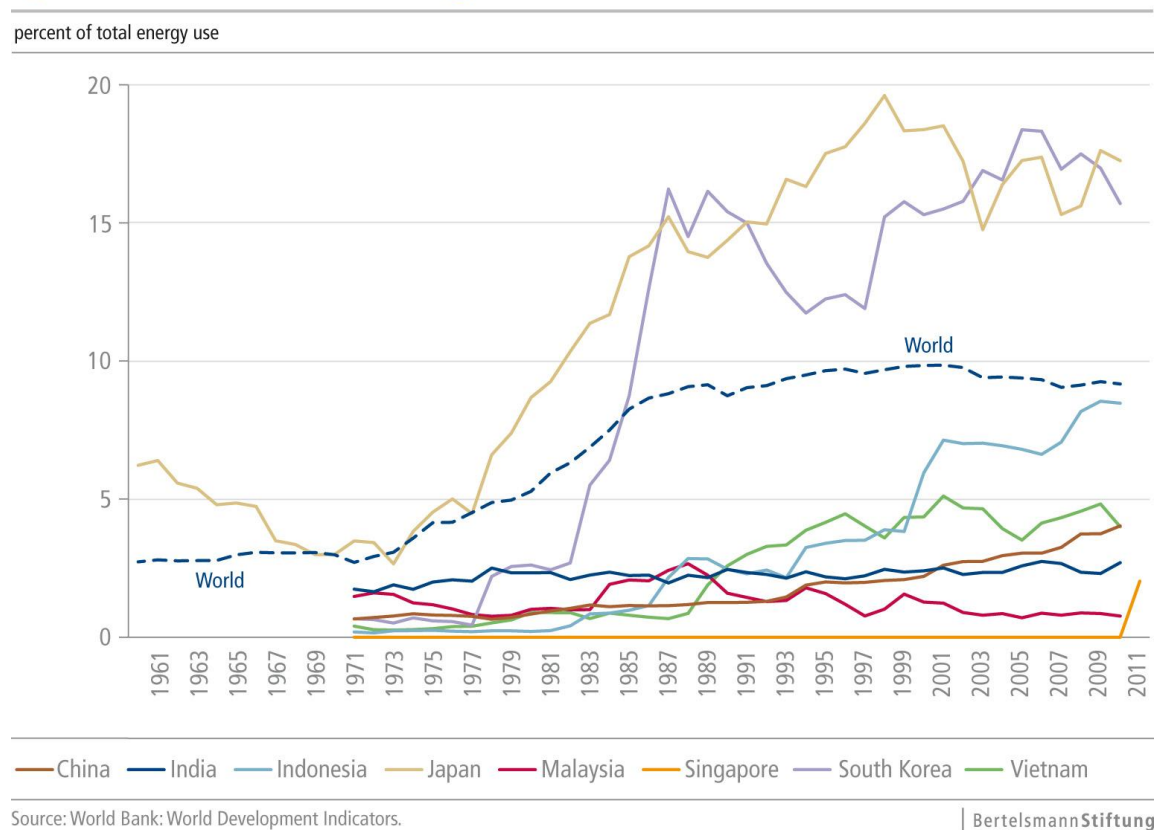
The important exception of Vietnam notwithstanding, these results tend to confirm our theoretical assumptions linking a country's stage of economic development with efforts to promote environmental sustainability, even though our model did not include the effects of international incentives and political foresight. Moreover, the case of India suggests that the existence of democracy alone is not sufficient to achieve high levels of performance in the governance dimension of environmental protection. The cases examined here illustrate that executive capacity, executive accountability and the quality of a country's democracy are equally important. In addition, we failed to account for the fact that environmental protection is not only a public good, but is a market that is poised to grow. Because of this fact, developing and developed countries alike have invested heavily to secure themselves a piece of the green technology pie.

### **6.3 Shifting energy production patterns**

Increasing levels of investment in renewable energy, defined here as non-carbon-emitting energies (excluding nuclear power), offer an additional indicator enabling assessment of environmental policy strategies in Asia. The 2012 Global Trends in Renewable Energy Investment report demonstrates that developing countries are beginning to rival developed countries in terms of investment in alternative energies (see Figure 6.1). In 2011, developing countries' share of total global investment in renewables reached 35 percent, compared 65 per cent for developed economies. Emerging economies are key investors in specific technology segments. Chinese investments in green technology grew by 18 percent in 2011 to a total of \$52 billion. Moreover, India witnessed a sharp growth in renewable energy investments at 62 percent to \$12 billion. In comparison, investment in renewables in the United States rose by 57 percent in 2011 to \$51 billion. This general growth trend in 2011 can be traced to lower costs in photovoltaic and wind energy technology. In general, the green technology investment landscape suggests that upper-middle-income economies with a reasonably developed technology base today regard green technology as a promising sector for industrial growth and investment. Moreover, as Japan's early-2000s failures illustrate, a shift toward renewable energy production depends on government support. Despite the strength of large corporate enterprises such as Sanyo, the creation of new and

competitive markets for alternative energies required market deregulation and financial support by the government, both lacking in Japan in this case. The strength of the developmental state model lay in the creation of precisely such industrial policies. Yet the experiences of Japan and to some extent South Korea suggest that policy changes in support of innovation can be forestalled by vested interests that have gained power under this particular growth model.

**Figure 6.1: Alternative and nuclear energy**



In China, the lion's share of alternative energy investments has gone to wind energy technology, where Beijing, despite still employing second-generation technology, has become a dominant global player. For its part, India rapidly expanded its investment in green technology by 62 percent to \$12 billion in 2011 as compared to 2010. Totalling just \$9 billion in 2011, Japan's investment levels in green technology remained modest underscoring Tokyo's reluctance in supporting renewable energy (Frankfurt School UNEP Collaborating Centre for Climate and Sustainable Energy Finance 2012). However, with a new feed-in tariff scheme in place since 2012, profitable companies such as Japan's Softbank have been led to announce new investments. As part of its green growth strategy, South Korea pledged in 2011 to invest \$31 billion in the area of renewable energy technology (including nuclear energy) by 2020, aiming to capture a share of 10 percent of the global clean-energy market. Indonesia has marshaled Southeast Asia's largest concentration of investment capital and

public finance devoted to renewable energy, with investment in the sector reaching \$1 billion in 2011, a fivefold increase over 2010. Singapore has attracted \$800 million in renewable energy technology investment, while Malaysia has attracted less than \$100 million despite its prominent role in the biofuel sector. Indonesia, Malaysia and Vietnam have announced plans to further increase renewable energy supplies in the period between 2011 and 2025 (Frankfurt School UNEP Collaborating Centre for Climate and Sustainable Energy Finance: 28).

**Table 6.1: Nuclear energy in Asia**

absolute numbers, percent, terawatt hours

	Number of nuclear power plants connected to national grid	Share of nuclear energy in total energy supply (%)	Nuclear electricity supplied (GW.h) as of 2012
India	20	3.6	29664.74
Japan*	50	2.1	17230.09
South Korea	23	30.4	143549.92
China	17	2.0	92652.38

\*Due to security test of all nuclear power plants in the aftermath of the Fukushima accident, operation of reactors has been suspended in all but two units as of September 2012.

Sources: IAEA (Agency 2013a).

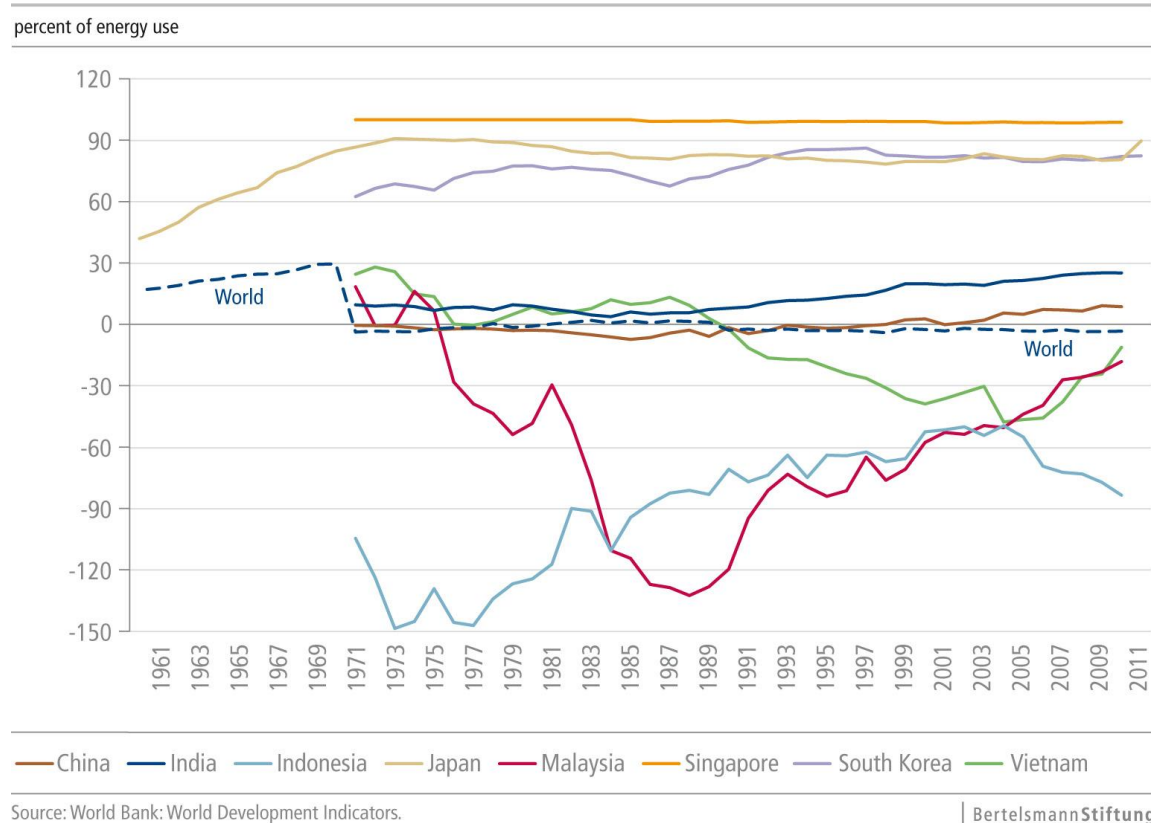
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All of the Asian countries in our sample have expressed the aim of reducing domestic carbon emissions, as well as of reducing reliance on energy imports through the expansion of nuclear energy production. Thus, despite Japan's disastrous Fukushima Daiichi accident, which caused enormous economic damage and displaced more than 80,000 people in the prefecture of Fukushima, nuclear energy policies in Asia have seen little change. India operates 20 nuclear reactors in six power plants, with another seven reactors currently under construction. China is engaged in the world's largest nuclear development program, adding 26 new reactors to its existing 16, with another 51 in the planning process. South Korea's 23 reactors already generate 30 percent of the country's energy, but the government plans to expand that share to 60 percent by 2035 by adding another 11 reactors to the power grid. Moreover, Seoul is moving toward the promotion of nuclear energy technology as a key export item, seeking to sell its reactors to countries such as Indonesia and Malaysia. Here, South Korea directly competes with Japan, where calls for a total end to nuclear energy production have lost momentum just two years after the Fukushima meltdown. While the Japanese government has subjected its remaining 50 reactors to strict safety checks and temporarily removed most of the country's reactors from the power grid, the new government has declared that it will resume operations and continues to consider nuclear energy to be a vital part of the nation's energy mix. Indonesia, meanwhile, plans to construct four nuclear power plants by 2024, and Malaysia announced plans to build two reactors by 2022 (Vivoda

2013). Within our sample group, only Singapore has expressed no plans to rely on nuclear energy in the foreseeable future.

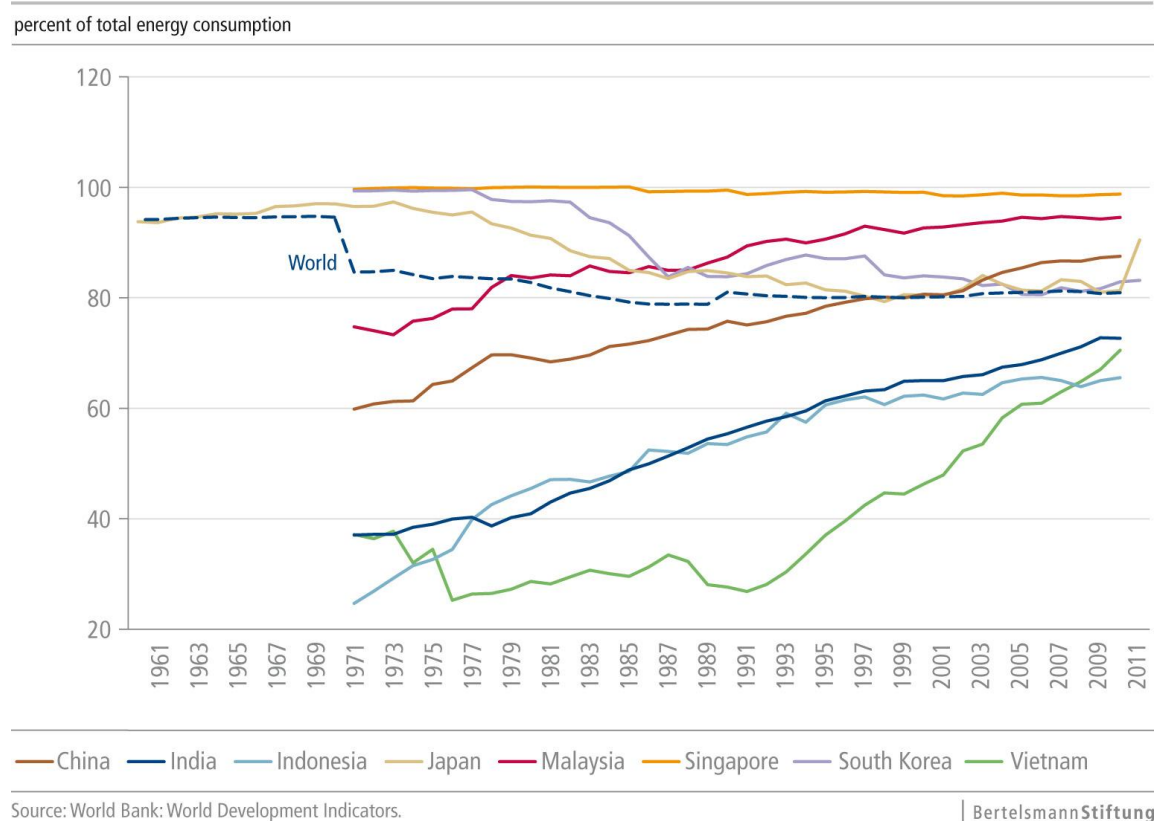
In sum, across all income levels, the Asian economies studied here have embraced nuclear energy within their industrial growth strategies as an attempt to mitigate environmental pollution and reduce their dependency on global resource markets. As energy imports and fossil fuel consumption increase in par with advanced economic development (see figures 6.2 and 6.3), sustainable growth is conceived to be reliant on an energy mix in which nuclear energy will play an important role. In addition, nearly all of our cases seem intent on participating in the future growth market represented by alternative energy technologies.

**Figure 6.2: Energy Imports**



To conclude, this chapter has illustrated that progress in environmental protection is mainly driven by a mix of public pressure brought by comparatively well-off social groups, incentives provided by international actors, and efforts to exploit future market opportunities. However, it has also shown that a high level of executive capacity and a modicum of executive accountability are necessary for this progress. Overall, progress tends to be most substantial where executive capacity and democratic quality are also high.

**Figure 6.3: Fossil Fuel Consumption**



## 7. Conclusion and outlook

Japan, Singapore, South Korea, China, Malaysia, Indonesia, India and Vietnam have all undergone tremendous economic and social changes in the past decades. Despite their differences in regime type, culture, geography and population, nearly all of these countries have made significant progress in dimensions such as per capita income, poverty reduction, access to education and access to social welfare. Improvements were less marked in the areas of gender equality and environmental protection, where the performance of many of the countries in our sample even deteriorated. In addition, persistently high levels of inequality in half of our cases imply that this progress is not evenly distributed, meaning that life chances are improving for only some citizens, while deteriorating for others in relative or even absolute terms. Perhaps commensurate with this observation, even the established democracies display serious deficits in democratic quality, especially in dimensions such as government accountability, media freedom and even civil rights. Moreover, this progress has been and is still being made at high environmental costs. Even the developed and democratic countries in our sample continue to sacrifice environmental health for economic growth. This is a significant concern, and our findings lead us to believe that the ecological situation in Asia will worsen considerably in the years to come. The developmental models

pursued in Asia demand huge sacrifices, notably in the form of inequality and environmental destruction.

### ***Explaining variance***

To be sure, our cases are far from uniform in their performance. Notable exceptions to the general patterns are Vietnam, where life expectancy has soared, and which scores higher than the other low-middle-income economies in the areas of social inclusion and environmental protection. Malaysia, which receives high scores for its health policy, is another positive exception. On the other hand, despite their status as democracies, India and Indonesia receive the sample's worst scores on the social welfare indicators, while Japan's scores on growth-related policies are lower than might be expected. This finding can be interpreted to mean that it is not the mere existence, but rather the quality of democracy that matters for sustainable governance. It can also be read as a confirmation of the hypothesis that development requires fiscal resources, which need to be proportionately more ample in countries with large populations.

However, the differences in seem to be differences in degree rather than in kind. Arguably, our sample countries are situated at different positions along a similar path. The countries that embark on this path leave agriculture to first engage in simple manufacturing, and then move up the economic value chain over time. In most of the counties examined, inflows of foreign direct investment and/or production for export markets enabled the acquisition of additional capital, a strategy that often entailed the expropriation of land and labor. Appropriating part of the surplus associated from these activities, governments profit from developmental advances, and as a result become increasingly involved in shaping future change. Typically, this involves moving from simple manufacturing to high-tech manufacturing and an expansion of the service economy; from the provision of universal basic education to increased high school and university enrollment rates; from unregulated to regulated labor markets; from solidarity-based welfare to company-based welfare; and from resource-intensive production to increased levels of environmental awareness. This transformation is more difficult for countries with large populations and high levels of inequality, as poor people demand rather than produce resources.

### ***Forces of change***

With respect to factors propelling these changes, we have found that government has played a similar role throughout the countries of our sample. Indeed, with the exception of India, where change has been more decentralized, government has been the main actor in bringing about economic and social change in each case. If there is an Asian model, then it is characterized by a pro-business government that increasingly seeks to govern markets as its

executive capacity grows, and which prioritizes social and environmental issues that are beneficial for economic growth. As a general tendency, we have found the mutually dependent relationship between economic growth and increased executive capacity to be a vital ingredient in shaping the paths that, in terms of the normative frameworks underlying the SGI, can be considered successful.

Our assumption that democracy does not play an important role in the early stages of development has been confirmed. Among those countries that have been successful in promoting growth and social development are democracies (Japan, Korea), but also autocracies (Singapore, China). Conversely, we find both regime types among countries that show lower levels of achievement (Vietnam, Indonesia, India). This does not mean that democracy does not matter, but rather that it appears not to matter as much as we might hope in countries that are poor and underdeveloped. In addition, democratic status alone might not be particularly significant in countries where the quality of democracy is low. Hence, if a country's overall developmental performance is to be increased, becoming a democracy represents only a first step. Equally important, and perhaps even more difficult, is the need to increase democratic quality, which seems to be necessary in order to boost performance particularly in developmental dimensions that do not directly contribute to economic growth. High democratic quality, in turn, seems to depend at least in some degree on economic development, which provides the financial means to improve democratic institutions and creates public pressure for better governance.

This finding confirms the proponents of authoritarian developmental models. However, we should be aware that this also means that those affected most by these monumental social and economic changes can influence these changes only at a very late stage of development, when it is too late to reverse earlier changes. In other words, the developmental state logic rests on the premise that authoritarian governments know best what is good for their people. To some extent, this logic seems to apply even to the developed democracies in our sample, where severe deficits in democratic quality still exist. An important commonality in all our cases is that executive capacity – specifically the elements of strategic capacity, inter-ministerial coordination, policy communication, policy implementation, adaptability and reform capacity – seems to be more highly valued than are transparency, accountability, the rule of law and democratic participation.

Matters become more complicated as opportunities for participation expand. Hence, the general tendencies observed become subject to variation as a country develops. Pathways that start out in a very similar fashion – by a government stimulating economic development, appropriating part of the surplus, and investing this surplus into increasing its executive

capacity – tend to diverge later. As this study has shown, the assumption that economic growth will first lead to social development and only later to environmental protection does not play out so neatly in reality.

### **Surprises**

In the social realm, the observation that government policy prioritizes issues that are beneficial to further growth conforms to our expectations. However, we also found that contention over environmental issues arises much earlier than expected. In fact, the country reports yield the impression that there is more contention over environmental pollution than over social issues, even in autocratic states. Later research will have to ascertain whether this is a function of inequality; it is likely, for example, that environmental issues do not become a concern of all members of a society at once, but are instead voiced by those who have already achieved a modicum of wealth. This reasoning seems to be confirmed by the observation that even in Japan, one of the most developed countries in our sample, the production of nuclear energy was sited within those regions willing to receive financial compensation for assuming the significant associated risk. Similar observations were made for some of our other cases as well; here too, polluting industries tend to move to locations that are less well-off in relative terms.

This brings us to the exceptions to the general developments noted above. One surprise finding was that despite the presence of an “economy-first” developmental logic, which thoroughly and irrevocably altered social configurations in the interests of economic development, even developed democracies have acted cautiously on the issue of gender equality. Although nearly all of our sample countries have regulations ostensibly aimed at improving gender equality, enforcement seems to be lax. This seems to be one of the rare instances when culture has trumped economic demands, as governments have not dared, or rather have been reluctant to improve the situation of women in society. Another surprise finding was Japan’s low performance on economic policy indicators, which might be explained by the Japanese government’s inability to relax its grip on the economy. This finding raises the question of whether the state-led growth model ultimately exhausts its potential, requiring the government to take the difficult step of loosening its previously strong control over national economic development.

Rather more positive surprises included Malaysia’s strong performance on health policy indicators; the fact that China and Vietnam perform better on issues of gender equality than even Japan and South Korea; and Vietnam’s role in spearheading social change even at comparatively low levels of development. We were able to explain these differences. In the area of gender equality, China and Vietnam are socialist regimes that placed gender equality



on the political agenda at a very early stage. With respect to social development in Vietnam, external assistance coupled with financial rewards has provided incentives to engage in policies that came much later in the other countries' development path. The picture is more ambiguous for Malaysian health policy, however; here, access to improved health care services is restricted to those who can afford it.

### ***Pathways are not forces of history***

Despite being important in their own right, these examples show that developmental pathways are not fixed; nor are "right" and "wrong" paths somehow determined by natural laws. It is quite possible that similarities in development paths result from mutual learning, and perhaps also from the direct and indirect influence of international development agencies that prescribe many of the policies implemented by our sample countries. In other words, concern with social and environmental policies does not have to come only at the end of a long and inevitable course of previous development. However, these examples also illustrate that early achievements carry a significant price, which the countries themselves are often unable to pay; indeed, external demands for democratization or environmental protection are more likely to be heeded if they are backed up by long-term financial and political commitments by donor countries or organizations.

It must also be stressed that most of our sample countries are still in the midst of ongoing change, in some cases on a daily basis. The examples of Japan and South Korea, where state-led development is beginning to show strains, illustrates that it is too early to make judgments as to success or failure even for those cases that have performed well on most SGI components. These developed economies are today faced with challenges including aging populations, innovation systems with decreasing yields, and the risks associated with company-based health systems, especially as employment becomes increasingly insecure. It is possible that a higher level of democratic quality would enable them to better weather these challenges; this is a question that deserves to be explored. As for the upper-middle-income economies (and China in particular), governments face the challenge of dealing with increasingly assertive populations, especially in the area of environmental protection. Similar challenges lie ahead in India, Indonesia and Vietnam, but as India and Indonesia in particular show, political changes are difficult to make if executive capacity is lacking. In these countries, policies designed to improve social welfare and the environment have been undermined by poor planning, poor execution and corruption.

Moving beyond statistical indicators, the shifts documented in the SGI country reports show that life for many if not most people in our sample countries has changed dramatically even in the past 20 years. The influence of political, economic and social forces on individual lives

has been thoroughly recalibrated, with the economy and politics playing a more prominent role in individual lives than before. In contrast, the impact of the family and the larger community on how people live their lives has lessened. On the one hand, this shift can be interpreted as an increase in personal freedom. On the other hand, it means that individuals need to assume far more responsibility for their lives than before. Although most individuals in our sample countries would presumably not want to reverse these changes, especially if they have profited from them, it needs to be emphasized that these changes have been forced upon them. They were not asked if they wanted to exchange subsistence agriculture for wage labor, move to the cities and depend on the government rather than family members for social welfare. When talking about progress and success, it should be kept in mind that these terms are grounded in developed-country assumptions as to how everyone should live, and that moving along this road inevitably entails sacrifices of environmental health, social traditions and cultural diversity. Having examined overall performance on a number of indicators for eight countries, we are not in a position to document and explain these sacrifices and trade-offs in detail, but they should certainly be the subject of in-depth country studies, especially when assistance policies are being formulated. Given the indeterminate nature of the development paths explored here, compassionate creativity and participatory approaches to development assistance are necessary.

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