



Asia and Oceania

Competing models of transformation

The Asia and Oceania region has improved across each of the three research dimensions. However, no clear course of transformation can be inferred from this fact. Rather, mixed forms dominate – and not every improvement is due to better governance.

With a share of 61.5 percent of the total population of the BTI 2014's 129 states, and an aggregate economic weight of just over 50 percent, the 21 states in Asia and Oceania form the largest and economically most significant region examined in the BTI. At the same time, the region is socioeconomically, culturally and politically a very heterogeneous space, with a number of its politico-economic development paths departing from the BTI normative principles of "dual" transformation. Thus, India has practiced a democratic system of governance since its independence in 1947, but began transformation of its socialist economic system (with market elements) in the direction of a market economy anchored in principles of social justice only in the 1990s. South Ko-

rea and Taiwan exemplify the path of consecutive transformation. Here, the transition from developing to emerging and industrial countries took place under a modernizing autocracy on a capitalist basis. The political transformation to a largely consolidated democracy under the rule of law took place significantly later. An authoritarian modernization without democratization is being carried out today in China, Singapore and Vietnam.

The majority of the political systems in Asia and Oceania are moving between moderate autocracy and defective democracy. In comparison, the number of hard-line autocratic states and well-functioning liberal democracies is quite low. With Myanmar's transition from a pure military dictatorship

to an electoral autocracy, there are only four states remaining in the region that do not allow opposition parties and multiparty elections. Myanmar's change of course after decades of total isolation is also the primary reason why a slight increase of 0.11 points in the regional average can be noted with respect to political transformation, in contrast to a slight average decline in all non-Asian countries.

The hybridization of political systems is echoed in the economic field. Thus, forms of interaction between state and markets are to be found in Asia that are characterized by a significantly stronger state role and state control over the markets than in the variant of capitalism followed by the core OECD states. Nevertheless, as compared to the BTI

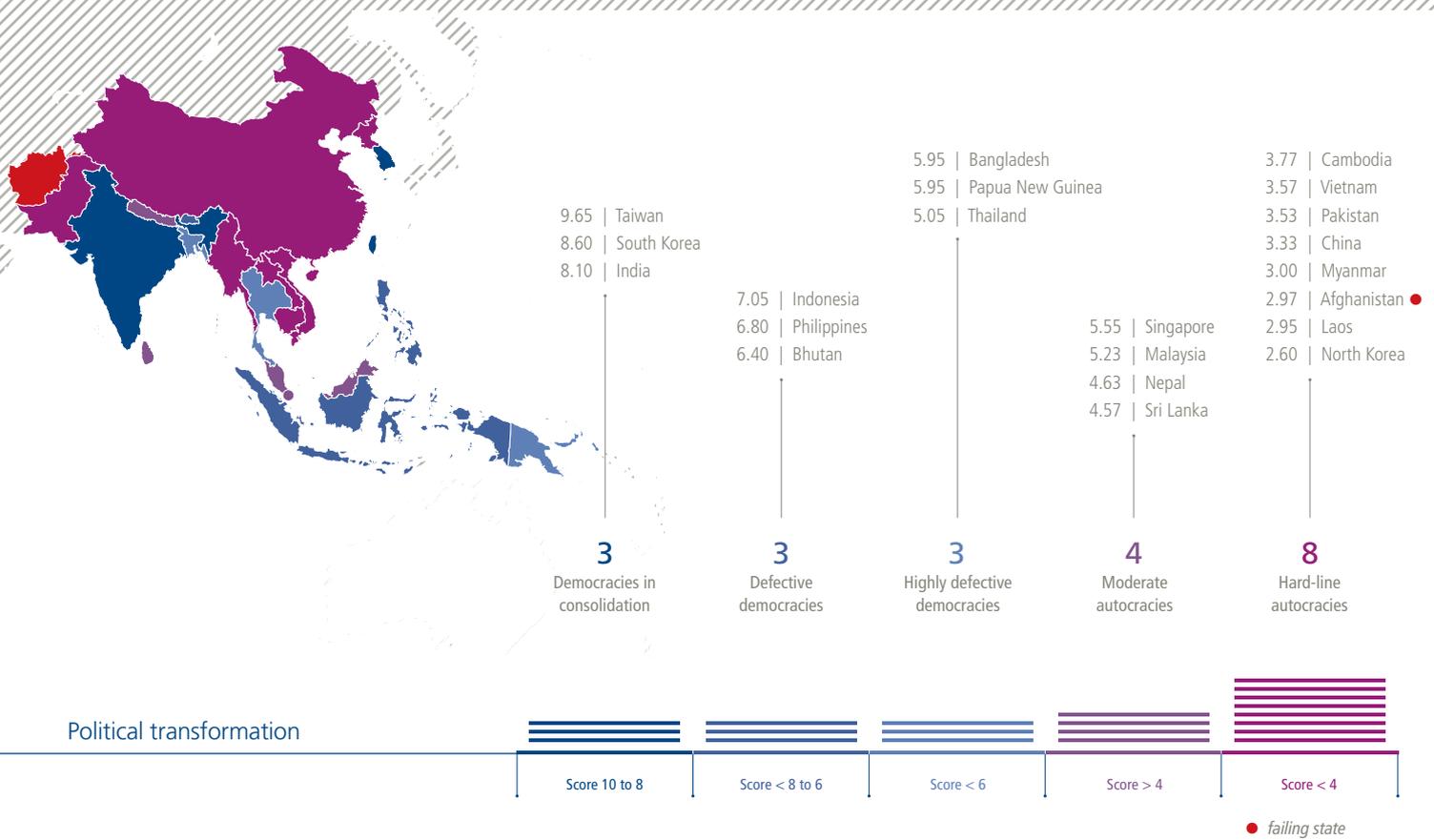


2012, 11 of the 21 states have either made progress with respect to economic transformation or maintained the transformation states achieved in the previous period. The group as a whole showed a small average gain of 0.06 points. However, it should be noted that only minimal institutional changes were observed in the areas of economic transformation that are oriented toward an (ordo-)liberal market-economic conception. In addition, the criteria of sustainability and welfare regime remain underdeveloped in the majority of countries. The absence of massive economic downturns in most states can also be attributed to the regional influence of the Chinese economy. However, dependence on the Chinese market and Beijing's economic policy is at the same time

growing stronger, increasing the vulnerability of many economies and constraining national governments' abilities to steer their economies.

Findings in the area of transformation management, which shows an average regional improvement of 0.12 points, are ambivalent. On the one hand, the management performance of political decision-makers showed significant improvement in Myanmar (+2.22 points) and the Philippines (+0.54 points). To a lesser extent, this is also the case in Bhutan and Thailand. On the other hand, management has suffered in 11 countries, especially in Sri Lanka and India (respectively -0.54 and -0.34 points). This suggests that the above-mentioned stabilization or gains in democratic and economic

transformation do not automatically reflect improved management performances. In fact, out of eight countries that improved their status in both political and economic transformation, only four also improved in the Management Index. In addition, management practices in areas such as steering capability, policy coordination and consensus-building, especially in the economically most successful states of the region, often fail to resonate with the BTI's goals of democratic transformation without appearing to interfere with the effectiveness or legitimacy of governance.



Diverging trends

Some Asian countries have made considerable progress toward democracy. Yet this hardly constitutes a genuine trend. In addition, large intraregional differences persist.

From moderate autocracy to defective democracy: Bhutan managed to jump from the second-worst to the second-best of the BTI's five political system categories. The gain of 1.60 points resulted in part from local elections in 2011, with which free and fair elections for all levels of the government system were inaugurated. Moreover, parliamentary institutions elected for the first time in 2008 functioned quite well, although there was no opposition party of significant strength until the sudden change in the parliamentary majority in June 2013. Thailand is also no longer deemed an autocracy by the BTI, as the opposition won the 2011 parliamentary elections. That democracy still has little substance here can be seen in the fact that even the moderate autocracies in Singapore and Malaysia achieve higher scores in political transformation.

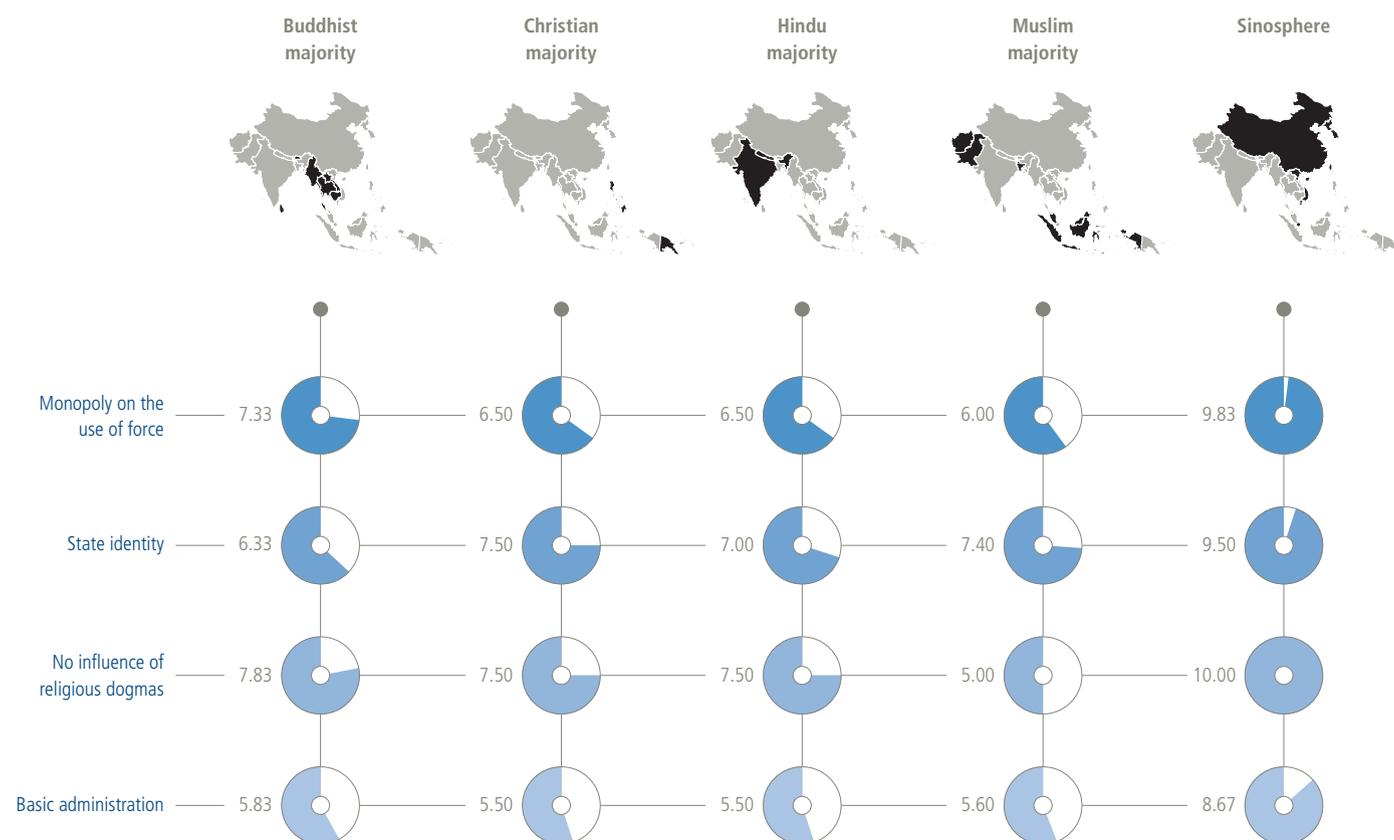
In Indonesia and the Philippines, improvements can be noted in all five political transformation criteria. Yet while Philippine democracy recovered despite the numerous problems deriving from the disastrous Macapagal-Arroyo presidency, the positive overall development in Indonesia has been marred by the delay of important reforms.

Positive developments can also be noted in three Southeast Asian autocracies. In Singapore, the 2011 legislative and presidential elections were characterized by an unprecedented degree of competition, enabling the opposition to make significant gains at the ballot box. In Malaysia, the Internal Security Act of 1947 was suspended, and a new law governing assembly rights adopted. This was counterbalanced by the disproportionate use of police force against anti-government protestors. The governing coalition lost a significant share of votes in the 2013

parliamentary elections, which were also overshadowed by allegations of fraud and manipulation. The changes initiated by Myanmar's government led to improvements in 11 of the 18 political transformation indicators.

In contrast to this record stands the erosion of democratic standards in Nepal (−0.37 points) and particularly in Sri Lanka (−1.03 points). In Nepal, the collapse of the constitutional process in May 2012 culminated in the dissolution of the Constituent Assembly. Currently, the country has neither an elected parliament nor a democratically legitimized government. For its part, the executive and legislative branches of Sri Lanka's government are legitimized through elections. However, President Rajapaksa's governing practice is characterized by the systematic weakening of independent state institutions, the allocation of all significant state posi-

Stateness: strongest in Sinosphere



Indicator averages in "stateness" criterion by religious/cultural affiliation

tions to political loyalists, the elimination of opposition and the marginalization of civil society, and it is associated with impunity toward violations of civil rights and of basic constitutional norms.

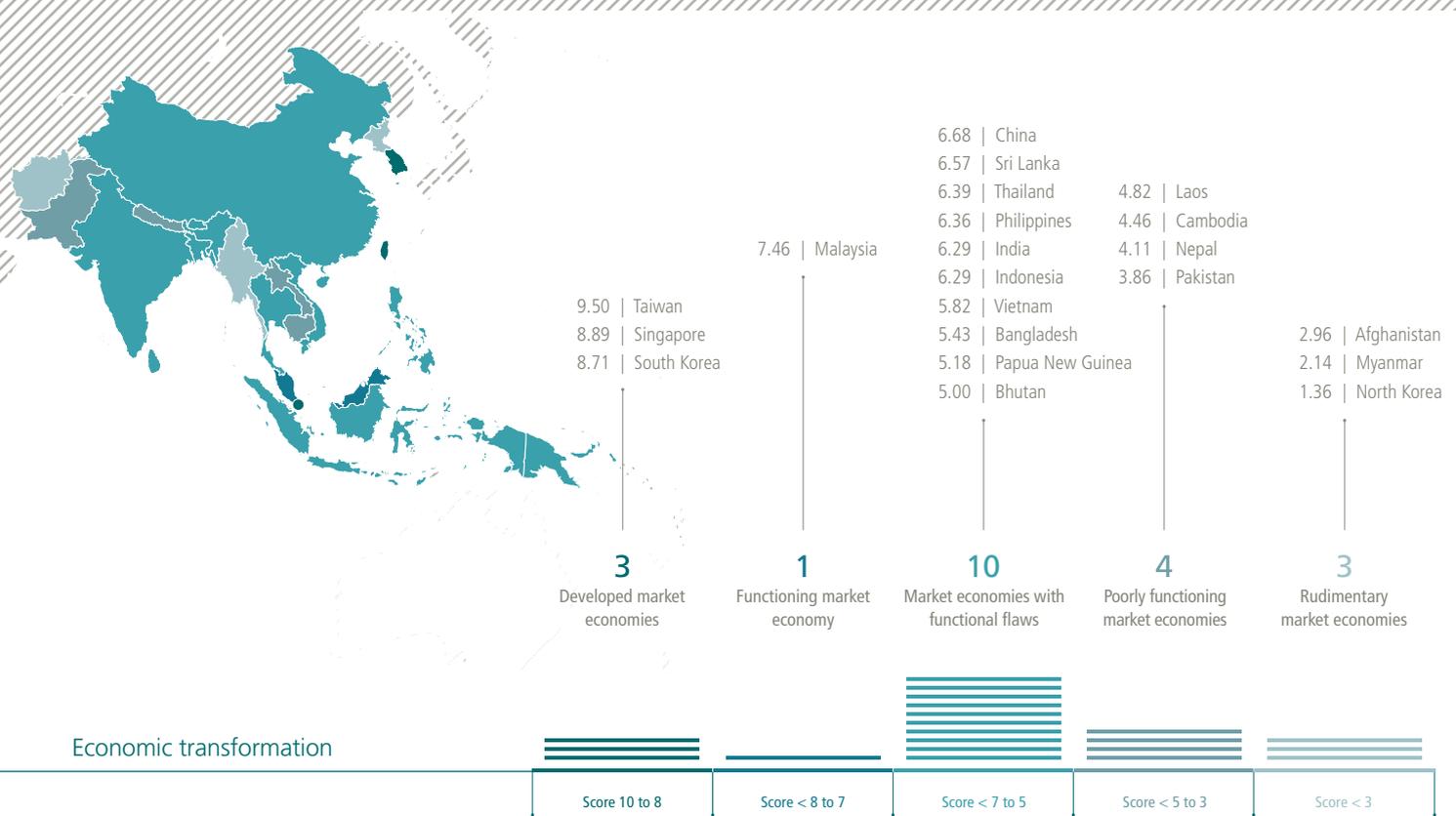
Shortcomings in South Korea and India are much less pronounced; indeed, these states sit with regional leader Taiwan at the forefront of democratic development. However, South Korea achieved the highest possible score in only six political transformation indicators, with India reaching this level for just two. Both countries show a slight drop in quality as compared to the BTI 2012.

The degree of cultural diversity in the region is particularly strong with respect to the acceptance of prevailing political norms by political and civil society actors, and in the interference of religious dogma on political and state institutions. The former reflects the fact that, in a number of South and

Southeast Asian states, the prevailing conception of the nation-state is shared by large portions of the majority population, but not by all minority groups. This is often associated with violent conflicts between the central government and ethnic-minority communities. While the Northeast Asia subregion, traditionally marked by functioning stateness, achieved a score of 9.75 points on the monopoly on the use of force indicator, the average in South Asia is just 6.00 points.

Tensions between religious and secular norms, and the interference of religious dogmas or their adherents on state and political institutions, are significantly more pronounced in majority-Muslim societies than in other parts of Asia. Afghanistan, Bangladesh, Indonesia, Malaysia and Pakistan here reach an average of just 5.00 points. However, even in majority-Christian, -Hindu and -Buddhist societies, the influence of

religious dogma can be noted. For instance, Buddhism is one of the primary sources of legitimation for the monarchies in Bhutan and Thailand, with quite problematic effects with respect to religious minorities' societal and political integration. In India, the Philippines, Sri Lanka and Myanmar, too, the politicization of ethnicity for the purposes of popular mobilization often takes place through the emphasis of groups' religious characteristics.



Asian champions put to the test

A comparison between systems again shows that, despite impressive momentum, authoritarian models of development are by no means superior. This applies even to China, whose structural problems remain unresolved.

Echoing the results of 2012, the findings of the BTI 2014 contradict the popular thesis of the autocratic model of success. Moreover, in Asia and Oceania, the gap between democracies and autocracies has increased in almost all areas of economic transformation. In economic terms, too, the region also appears extremely heterogeneous, although the BTI shows a general, relatively stable upward trend in the medium term. As compared to 2006, a large number of countries show either a positive trend – such as Laos (+0.96 points) – or have been stable. Only Nepal, North Korea, Pakistan and Thailand have deteriorated significantly.

On the positive side is the relatively high degree of currency and price stability found in many quarters, including sound

budget policies and economic performance within many economies. Welfare regime arrangements and sustainability can be numbered among the region's weaknesses. This is true, for example, for Pakistan, which has lost 0.32 points in economic transformation relative to the BTI 2012. A persistent concern here is that growth dynamics are too weak to lead to improvements in living conditions for broad segments of the population. In addition, the country has not been able to fully recover from the effects of the 2008 financial crisis and the catastrophic floods of 2010. By contrast, significant short-term gains were evident in Bhutan, which was pushed a category higher by an increase of 0.64 points, and in Myanmar, which remains the poorest country in Southeast Asia.

With respect to subregions, the BTI has shown a relatively consistent picture since its launch. Despite the performance and governance failures in North Korea, where continuity seems likely even after the death of Kim Jong-il in December 2011, Northeast Asia achieves top scores in the education policy/R&D, economic performance and level of socioeconomic development indicators. Southeast Asia attains comparable or even better scores only in terms of private enterprise, price stability and liberalization of foreign trade. On the other hand, South Asia has declined dramatically in regional comparison in the welfare regime, sustainability and level of socioeconomic development criteria.

And what about China, India and Vietnam, the region's primary drivers of growth?

With respect to short-term trends, Vietnam's decline of 0.36 points makes it one of the BTI 2014's losers. The country demonstrates weaknesses in the areas of macroeconomic stability and price stability. Continued problems can be noted in the banking sector, and growth is slowing. Although stabilization measures taken during the review period prevented the development of a macroeconomic crisis, drastic reforms did not prove politically feasible.

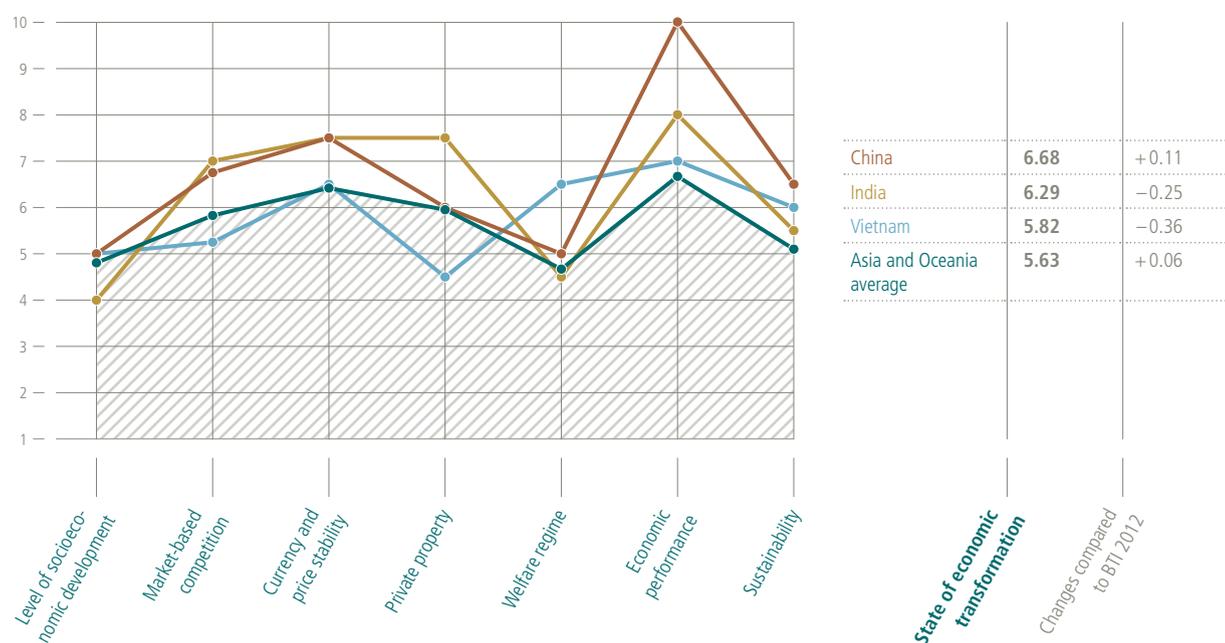
India's loss of 0.25 points also resulted from a slowdown in economic growth. A record trade deficit, a rising budget deficit,

currency weakness and a rising inflation rate also contributed. Moreover, investors have been scared off by energy shortages and the faltering of regulatory reforms in the areas of telecommunications, mining and land acquisition. Poverty is a massive unsolved problem. In India, 68.7 percent of residents live on less than \$2 (PPP) per day, while this share is only 29.8 percent in China.

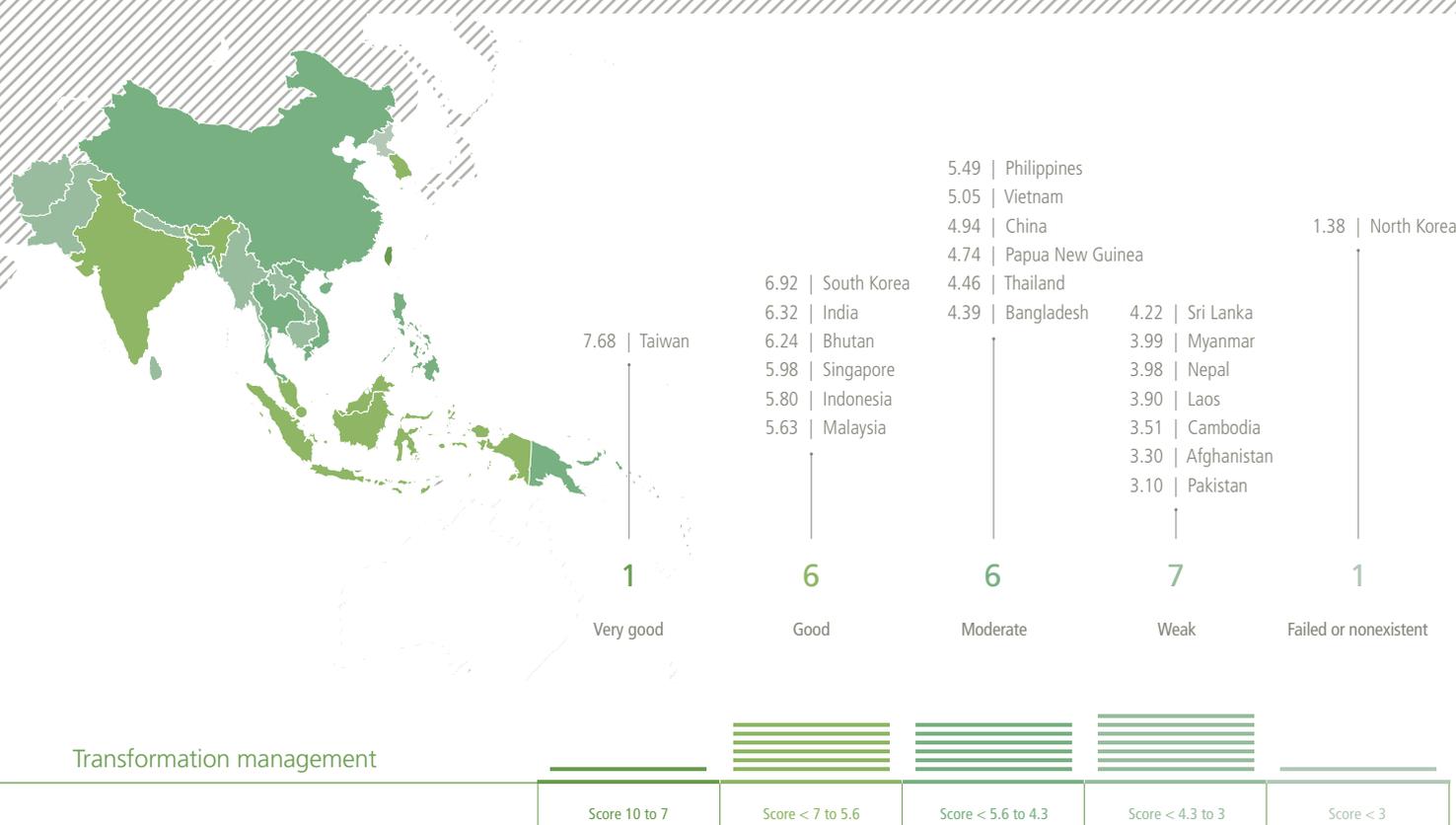
Yet even here, the engine of growth has begun to sputter. China's annual growth rate in 2012 fell to the lowest point since 1999. In addition, development has been

overshadowed by unsolved structural problems, such as the preferential treatment of state-owned enterprises as compared to private firms and the overemphasis on investment as compared to private consumption. Nevertheless, at the beginning of 2013, China was overall a little better off than was the case two years previously, particularly due to small improvements in the areas of market organization and competition as well as currency and price stability.

Socioeconomic development remains below average in economic powerhouses



Status of economic transformation in selected countries, overall and by criterion



The long shadow of violence

Some Asian governments act capably even if they do not target democratic and economic transformation. Others, like Afghanistan, Bangladesh and Sri Lanka clearly show how narrow the scope for good governance is in post-conflict societies. But this in no way relieves elites from their responsibility.

With respect to management, the BTI 2014's top performer comes from Northeast Asia: Taiwan, despite small losses, sits in first place among all 129 countries surveyed. The country distinguishes itself through high scores in all four management criteria, which show successful steering of the transformation process despite occasional weaknesses in the efficient use of assets and consensus-building.

The regional results are somewhat more sobering. While the Management Index average did rise slightly, this is largely thanks to the enormous gains in Myanmar. In all, only eight countries achieved a better score than in 2012, while 11 states saw declines. In comparison to 2008, only seven states show a better rating, while management in eight states has declined by at least 0.30 points.

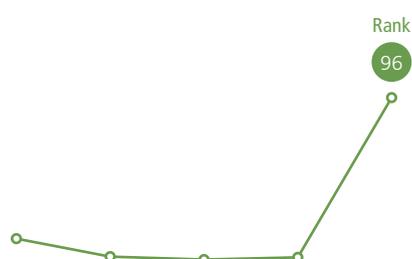
This observation underscores the fact that a considerable portion of the states in Asia and Oceania do not follow the BTI's normative model of dual transformation toward a market economy anchored in principles of social justice as well as a democracy under the rule of law. This applies even to the regimes in Malaysia and Singapore, which clearly do not seek to expand and deepen democracy, yet are nevertheless relatively successful in economic terms. Indeed, Singapore's development has long since reached a level at which its governance challenges correspond rather more closely to those of the established OECD states.

Elected in 2010, Philippine President Benigno "Noynoy" Aquino's government showed a strikingly positive management performance (+0.54 points). Despite con-

siderable weaknesses in steering capability and resource efficiency, it presented a strong contrast to the weak management of the Arroyo government (2001–2010). Bhutan (+0.42) registered significant gains as well. Meanwhile, Bangladesh and Thailand took a different path. The moderate quality of transformation management in both cases lies at the bottom edge of the category threshold. Both countries are still suffering from the effects of major political crises, although the trend in each country points in a different direction. For its part, Thailand has been able to improve its management performance somewhat. At its core, this is due to specific learning processes on the part of the elite in general, and especially to the fact that Prime Minister Yingluck Shinawatra's government has pursued a less



Population: 52.8 mn
 Life expectancy: 65.2 years
 GDP p.c. PPP: \$ 1,400



Transformation management BTI 2006 – BTI 2014

polarizing political strategy since taking office in 2011. This kind of learning process has not been evident in Bangladesh. On the contrary, it is becoming increasingly clear that elites there are incapable of using the window of opportunity that opened during and after the non-party interim government of 2007–2009 to overcome impediments to reform. Instead, politics have fallen back into their old confrontational mold. Even the return of the issue of war crimes and crimes against humanity during the 1971 war for independence, now taking place in the context of the International Criminal Tribunal (ICT), threatens to degenerate into a kind of vendetta politics.

The examination of three additional (post-)conflict societies is also revealing. In Sri Lanka, the government risks missing the opportunity to engage in ethnic reconciliation, state reform and the negotiated creation of new political institutions able to facilitate conflict transition. There are strong indications that President Rajapaksa will instead use the peace dividend politically, acting to consolidate his own power. In Afghanistan and Pakistan, too, management performance has weakened. This reflects the particular burden of problems and the limitation of scope for good management in states facing the legacies of civil war (Sri Lanka) or of ongoing (Afghanistan) or even escalating (Pakistan) violent conflicts. Yet even given the numerous difficulties, the developments in Pakistan clearly show that the decisive actors in large part simply lack the will to develop a strategy able to deal with the escalating politically and criminally motivated violence. This policy failure has undermined the country's international credibility, extending to many different policy areas.

Conditions in North Korea are even more disastrous and are set decidedly against any

form of political easing or market-oriented economic reforms. The BTI 2014 certifies only Eritrea and Syria as having a worse management record. Despite repeated speculation about the introduction of Chinese-style reforms, the regime has to date not initiated any policy change following the transition from Kim Jong-il to Kim Jong-un.

What next for Myanmar?

Myanmar's "rapid transformation" is inextricably linked with February 4, 2011, a date that has become freighted with symbolic import. Yet it remains questionable whether this date – on which Thein Sein was elected president of Myanmar – will go down in the history books as the beginning of a new epoch.

Myanmar has achieved an extraordinarily large leap forward in the Management Index. Its gain of 2.22 points is in large part due to a comprehensive strategy targeting a complete overhaul of the state's governance structures. The strategy lacks coherence, however, when it comes to implementation.

In other respects, too, the record is mixed. Though there is some semblance of conflict management and respect for ethnic minorities demonstrated under the new government, this does not apply to all groups. Since May 2012, at least 200 Muslims have been the victims of attacks by radical Buddhists, and more than 200,000 people have been displaced. Human Rights Watch speaks of "ethnic cleansing" supported by the government. Although it is true that the government has gained the trust of opposition leader Aung San Suu Kyi as well as the international community, it is exploiting the resulting support – possibly for self-interested reasons alone. Despite all the reforms, the military remains at the helm of power and enjoys institutionalized veto rights. In sum, it is still too early to classify these developments as a transformative step toward democracy.



No consensus on “dual” transformation

The transformation record in Asia and Oceania remains ambiguous, both in the light of the BTI 2014 and of previous editions. It is certainly to be counted as a success that, in this period, hardly any regimes have managed without institutional elements of representative democracy or have sought to justify their claims to power without some reference to popular sovereignty and democracy. It is also a sign of progress that most countries aspire in essence to a stable market-economic order. Nevertheless, it is unmistakable that – with few exceptions – the dynamics of transformation in recent years offer little occasion for optimism. Apart from South Korea and Taiwan, as well as to a lesser extent India and Indonesia, democracy in most countries rests on a rather weak institutional foundation. The vast majority of economies function weakly or with shortcomings, and the implementation of comprehensive and in particular lasting reform initiatives remains the exception.

One significant explanation for this fact may be the very widely varying degrees to which stateness has been developed. On the one hand, there are the low levels of stateness or persistent state weakness in South Asia; on the other, there is the well-developed stateness in Northeast Asia and, adding Singapore and Vietnam, in the countries that have been relatively strongly influenced by Chinese cultural and governance traditions. This reveals a cultural path-dependency in the development of politico-

administrative capacities as well as legacies left from previous levels of stateness even in the relatively distant past. With regard to prospects for economic and social development, this is not good news for South Asia or countries such as Myanmar. There, signs indicate that decision-makers in the country’s military-dominated ruling elite are pursuing a power-sharing plan informed by the classic divide-and-conquer strategy, with the aim of renewing an authoritarian regime now indirectly dominated by the military.

However, there are further grounds as to why altogether positive changes should not be expected in the short to middle term: In the majority of Asian countries, there is no consensus on the goal of a double transformation toward a market economy anchored in principles of social justice and a democracy under the rule of law. The (perceived) contrast between the rapid development in China and the difficulties of preserving or deepening democratic and economic transformation successes in other regions, such as Eastern Europe, as well as the persistent problems of democratic regimes in the core OECD states, do little to enhance the appeal of transformation concepts like those underpinning the BTI for the region’s political actors.

At the same time, significant challenges lie ahead for China: The growing uncertainty as to the state of the banking sector, the concern over a growing speculative real-

estate bubble and a looming credit crunch for businesses and banks all dim future prospects. In addition, economic growth has fallen significantly under the average rate of the last three decades, demanding alteration of the economic system along a more sustainable, consumer-based model. The fact that China (like Vietnam) lacks democratic procedures and institutions for integration and the development of consensus represents a further mortgaging of future prospects, making it difficult to deal with social imbalances.

The gloomiest prognosis for any country in the region belongs to North Korea. The dictatorship relies on a very small group of core supporters, whose loyalty is essential to the maintenance of power. If one assumes that they engage in rational behavior driven by a desire to retain power, only one conclusion is possible: The logic of the regime is based squarely on avoiding any kind of political or economic liberalization.



This summary is based on the Asia and Oceania regional report by Aurel Croissant, available at www.bti-project.org/aso



The full reports for each country in the region are available at www.bti-project.org/countryreports/aso

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Interview

“There is too much to lose”

Masood Karokhail on the importance of elections, missed opportunities and why more faith should be placed in Afghans

With elections scheduled for spring 2014 and the withdrawal of ISAF troops later in the same year, 2014 will be decisive for Afghanistan. Yet there is no broadly supported successor to Hamid Karzai, and the list of procedural manipulations is long. What are the chances that elections will be free and fair?

Nobody expects perfect elections. But, as a fledgling democracy, it is important for Afghanistan to continue carrying out elections. Many Afghans do not fully understand how democracy works and the benefits it brings. The Afghan government is in part responsible for this, but the international community, which has undermined its own principles in supporting strongmen, is also to blame. Nonetheless, civil society is uniting around the belief that elections need to go ahead. It is encouraging voters to use their voice and shape the future of Afghanistan, while also targeting irregularities through active citizen monitoring. For many Afghans, there is simply too much to lose; they need a credible government supported by a clear majority. Most Afghans do not want a civil war or anarchy. Only a minority of strongmen and spoilers benefit from insecurity and war.

In your view, how large should the presence of Western forces – ISAF troops – remain?

ISAF may have misunderstood what Afghans wanted. It was never about a full withdrawal of international troops, but about getting them out of Afghan villages. Afghans reacted negatively to the kill-or-capture missions that put communities under pressure. If ISAF and its troops would have focused more on robust peacekeeping, they may not have felt compelled to withdraw entirely. Another reason in favor of a continued but reduced international military presence is that the Afghan National Security Forces will need at least another decade of capacity-building before they can handle a resilient insurgency and provide the necessary protections. Finally, terrorism is far from defeated. Many Afghans are puzzled by the timing of the withdrawal, especially since the insurgency is stronger than ever. Al-Qaeda and its affiliates are not gone; they could create permanent sanctuaries in Afghanistan and in Pakistan.

Afghanistan is dependent on foreign support. Some \$16 billion were earmarked last year for development assistance. Is this sufficient for a country in which a third of the population lives in poverty?

The amount of funds is not the issue. What's important is how they are spent. The international community has repeatedly made the mistake of pumping money into fragile states instead of helping build the means for

those countries to develop their own revenue sources. International assistance must ensure that funds reach the Afghan people, that they create livelihoods for rural communities, and that private-sector growth can foster inclusive economic growth beyond the development sector. Assistance that builds vocational skills and focuses on job growth will trump unsustainable development projects. The international community needs to pressure the Afghan government to deliver to its people and account for its use of international funds. International money should be based on conditionality to move forward with democracy, good governance and peace.

The BTI country report notes a “lack of optimism regarding democracy to stand on its own” and “grave concerns about the future of the country and political stability.” What are Afghans today most concerned about?

Afghanistan has suffered too much in trying quick fixes and expecting change overnight. More faith should be placed in Afghans and civil society. Many have embraced democracy, yet the voices of a few are too often the loudest, which creates fear. Nobody really wants a return of the Taliban; even conservative rural communities know that this means no development, no education and human rights violations. Yet many fear a repeat of what happened when the Soviets withdrew, which brought a bloody civil war. This yearning for peace among Afghans should be used to push the peace process, one in which Afghan civil society can play an important role. We must ensure that rights are not lost in exchange for stability. Any deal reached cannot be an elite deal; it must be acceptable to the Afghan people.

Looking at the past ten years, which opportunities were missed, and what were the West's largest strategic mistakes?

First, the Taliban were a defeated force in 2001, and its leadership was seriously interested in a peace deal. This was a missed opportunity. Pushing the remnants of the Taliban leadership and command to neighboring countries was a mistake. Second, the international community should not have made partners out of warlords who had inflicted only misery on Afghans. Strengthened by the influx of foreign funds, the warlords have engendered corruption, nepotism and weak governance, and have undermined our nascent democracy. The third mistake was made in shifting both focus and resources to the Iraq invasion. This allowed a weak insurgency and Al-Qaeda to regain a foothold, first in the border regions of Pakistan, then in Afghanistan. It took some time for the international community, in particular the United States, to refocus on Afghanistan.