

WHAT DEMOCRACY CAN DO FOR EAST ASIA

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Between 1960 and 1997, East Asia's high-performing economies consistently grew faster than the world rate of growth. This remarkable record rests in part on innovations in policy and governance made by governments in Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand. Now, in the wake of the late 1990s financial crisis and in the midst of a worldwide economic downturn, these governments must make tough policy choices, some of which may upset the very groups who were the biggest "winners" from the high-growth years. What insights should guide today's leaders as they work to restore a unified commitment to genuine national development? How can democratic principles assist them in this task?

Anxious to counter Chinese belligerence and the spread of communism during the Cold War, East Asian leaders realized the need to craft strategic social compromises within their own societies. They adopted innovations in governance in order to reduce social divisions. While the primary intention may have been political, there were huge material benefits as well, for these reforms laid the groundwork for the extraordinary economic success that the region would enjoy throughout almost the whole of the late twentieth century.

Fearing enemies at the gate, elites throughout East Asia made short-term sacrifices in authority, rents, and privileges in order to improve the living standards of the rural poor and the working class. Convinced that economic failure could lead to national disintegration, the leaders of these countries gave technocrats authority over economic policy.¹ With national

survival demanding collaboration among different social strata, narrow redistributive goals gave way to more inclusive policies that required sacrifice and coordination to produce broad-based benefits. The resulting social cohesion—unique in the developing world—helped motivate East Asian populations to learn, to innovate, and to absorb new ideas.

Growth favoring one group over another would have undermined the political bargain needed to sustain national economic policies. Therefore government-sponsored credit schemes for business and industry were accompanied by improved access to jobs, housing, health care, and education for ordinary workers and citizens. This two-pronged approach was wise and necessary, but in recent years its once-hidden downside has become plain. Many firms favored for decades with political access and subsidized credit have become hothouse flowers, feeble and uncompetitive. Continuing to prop them up has involved unappetizing choices and high social costs, but standing by while established and prestigious firms flounder or even go under has also not been easy for officials to do. Policy makers throughout the region have continued to wrestle with this dilemma.

Ominously, in the years since the financial crisis of 1997, we have seen the East Asian capitals of Manila, Seoul, Bangkok, Kuala Lumpur, and Jakarta rocked by violent, class-tinged street demonstrations. Likewise, the Philippines, South Korea, Thailand, Malaysia, and Indonesia have all experienced a resurgence of regionalism in politics. The sprawling island nations of Indonesia and the Philippines are both facing strong secessionist movements.

Why are these things happening, and why now? One explanation is that at the end of the Cold War, East Asian leaders shifted gears, quietly downgrading the need to maintain the implicit social bargain. The result has been internal discontent and a consequent frustration of the very policy reforms needed to restore growth. These domestic schisms, even more than external threats, are the gravest threat to regional stability. Has increasing democracy, as some critics maintain, helped to bring these schisms to a head? Are there ways in which democracy can actually bolster social cohesion?

Where Have All the Leaders Gone?

Many say that the region's democratically elected leaders do not measure up to their authoritarian predecessors, who often oversaw the periods of fastest growth. Today's leaders, these critics claim, lack the will to implement bold and badly needed policy initiatives in their crisis-stricken states. These charges are far from baseless. The elected officials who came to power in Indonesia, South Korea, Taiwan, and Thailand after the financial crisis of 1997 all had strong reformist credentials and were thought to be highly qualified to improve governance and restore a

unified commitment to genuine national development. Yet three years later, these same leaders have squandered opportunities to bring about change and have not delivered the reforms they promised.

Even the most successful current East Asian leader, Nobel Peace laureate Kim Dae Jung of South Korea, failed in his promise to rein in Daewoo, Hyundai, Samsung, and other powerful *chaebols* (conglomerates). Instead, President Kim allowed a handful of tycoons to block public scrutiny of their companies' accounts. He forged an unlikely alliance with his long-time enemy Kim Jong Pil, an archconservative who was prime minister during the dictatorship of President Park Chung Hee (1961–79). Such compromises with the enemies of change, common throughout the region, mortgage the future by deferring badly needed reforms in the name of immediate political survival.

After coming to power in 1997 with an overwhelming mandate, Thai prime minister Chuan Leekpai's Democrats fell victim to many of the same special-interest pressures that had corrupted previous governments. In January 2001, the opposition Thai Rak Thai ("Thais Love Thais") party, backed by moneyed interests, turned the Democrats out in elections and promised to wipe out many of the recent reforms. The new prime minister, Thaksin Shinawatra, openly embraces business oligarchs who trade on the basis of personal reputation and social networks, and place little value on strengthening the creaky set of legal procedures and institutions that Thailand uses to handle bankruptcy cases. As many as a hundred of his party's candidates allegedly cheated in races where millions of dollars went to buy villagers' votes. As if to add insult to the Democrats' injury, the victorious Thaksin announced that he would form a coalition with two traditional rural-based parties run by ex-premiers whose tenures were noted for disastrously poor governance: the New Aspiration Party of Chaovalit Yongchaiyut and the Chart Thai party of Banharn Silpa-Archa.

Elsewhere in the region, disturbingly similar stories unfolded. In Malaysia, Prime Minister Mahathir bin Mohamad has been accused of reverting to crony privatization by bailing out the same politically connected firms whose poor management triggered the country's crisis in 1997. In the Philippines, impeached president Joseph Estrada disappointed the poor who elected him by compromising economic reform for personal gain. He promised to protect the downtrodden, but robbed them instead. The irregular manner in which he was driven from office and his replacement by establishment figure Gloria Macapagal Arroyo brought the poor into the streets to protest giving old vested interests privileged access to the presidential palace. As frustration mounts, violent revolutionary movements grow. The New People's Army more than doubled in size between 1995 and 2001, and is now said to have more than 11,000 troops. The Islamic Abu Sayyaf movement is also gaining strength. Reform was also difficult in Taiwan. Chen Shui-

bian, the former mayor of Taipei who was elected president in March 2000, faced impeachment charges from old-line politicians who rejected even modest proposals for change. To increase his prospects for reelection, he too may have to forgo many of his reformist ambitions.

The most embattled leader of all was Indonesia's Abdurrahman Wahid, a visionary with a long record of standing up for human rights during the 31 years of Suharto's dictatorship. His powerful rivals, including many holdovers from Suharto's New Order regime, resorted to terror campaigns in their struggle to regain power and prevent the prosecution of Suharto-era crimes. Nevertheless, by the time he was driven from office in mid-2001, Wahid had compromised his integrity in the eyes of many of his supporters by holding backroom talks with the same wealthy Chinese conglomerate owners whom he publicly castigated for their Suharto connections. As a result, these conglomerates' bankrupted assets were neither restructured nor sold while under government control. Many fear that they will wind up back in the hands of their original owners as a result of sweetheart deals backed by government loans.

Wahid's successor, Megawati Sukarnoputri, gained stature by keeping her independence from Suharto. Yet to supplant Wahid she built close ties to the former dictator's loyalists, including his political party, Golkar, and the armed forces. Many fear that her dependence on Indonesia's powerful and politically active military will restrict her ability to defend human rights and will mean that the generals behind the suppression of East Timor will never be brought to justice.

Similarly, many fear that Megawati's ascension to the presidency will stall the battle against corruption because she cannot afford to challenge members of her own coalition. Megawati's willingness to make peace with the forces that kept Suharto in power comes at a price: Strengthening the legal and judicial system is a cause likely to find few supporters among her core backers. How can she be expected to devote her attention to resolving the country's most serious difficulties with bad debts while trying to hold on to the approval of political elites who grew rich from Suharto-era corruption?

Particularly troubling is the eclectic composition of her cabinet, which seems to have been put together with minimal regard for policy coherence but maximal regard for ensuring that no group is excluded when favors are handed out. What is to prevent Megawati from choosing the easiest way to consolidate power in her new position by reconstructing a system of patronage much like the one that sustained Suharto for more than 30 years? Can she surmount these risks by placing policy in the hands of able technocrats? She has put together a qualified economic-policy team, thereby winning at least the initial support of international donors. But Indonesia's executive agencies remain weak, and these are where private interests often manage to distort or compromise public policy. The agencies that manage the money, plan the projects, and evaluate the

results are often dominated by entrenched bureaucrats with a financial stake in those very projects. To protect technocratic bodies from pressures to distribute favors, Megawati must build truly independent regulatory and oversight institutions. This will require multiple, reinforcing, and overlapping layers of accountability in the form of agencies that can scrutinize and check one another, as well as improved accountability to the electorate and to civil society. An effective and independent court system, central bank, state bureaucracy, and public-auditing agency are all desperately needed, as are the judges, accountants, investigators, and lawyers who will staff them.

Why do Indonesia's elected leaders keep courting the very elites that have led the country into bankruptcy and social conflict and that continue to deny the need for reform? Wahid's and Megawati's courting of moneyed interests is indicative of leadership trends throughout East Asia. Wahid, many believe, was simply trying to raise enough money for the 2004 presidential campaign. But in trying to create a sustainable political base, he ended up failing to resolve any of the nation's pressing problems. In this regard, Wahid's failure, his inability to surmount the entrenched interests of the past to make the right choices for the future, may be the rule rather than the exception in East Asia.

"Poor leadership," real though it may be, is hardly the only obstacle to economic reform in East Asia. Throughout the region the worst such stumbling block is the vast expense of political campaigns, which are perhaps costlier per capita than they are in richer societies where voters do not expect individual payoffs. The massive vote buying in Thailand in 2001 was not an isolated case. To raise enough money to win, candidates must appease the wealthy. As a result, governments that once enjoyed unchallenged authority have become hostage to corporate elites. It is a conundrum of democracy in the developing world: Aspiring leaders cannot get elected if they pledge to reform failed economic policies because the beneficiaries of those policies hold the purse strings.

Weaning the State from Economic Control

Adding to the region's woes is the erosion of states' power to foster the collaboration needed to support economic policies that benefit the whole of society. Even with Western lectures on the evils of state-led development ringing in their ears, many East Asians have mixed feelings about having central bureaucracies hand over power to the corporate sector. Many East Asian countries lack the smooth-functioning legal systems usually associated with high-growth economies and they have relied on able bureaucrats to fill the gap. Now we are seeing bureaucracies lose power while legal systems remain weak and good governance suffers. Public authorities will find it hard to enforce contracts, and investment flows will diminish. In Suharto-era Indonesia, for instance,

investors knew that the strongman and his Chinese cronies—if properly cultivated—would safeguard investments and enforce contracts. That personalized mechanism vanished from the scene along with Suharto, and no one really believes that Indonesia’s attenuated legal system can adequately uphold the integrity of contracts.

In thinking about economic reform, the region’s policy makers must concern themselves first with restraining powerful firms and individuals from buying politicians and bureaucrats. In 1961, Korean coup leader General Park Chung Hee began his tenure by throwing wealthy conglomerate owners in jail. Today, the leaders of these same firms openly resist democratically elected President Kim Dae Jung’s efforts to promote corporate restructuring and put an end to “crony capitalism.”

The hard truth is that authoritarianism, whatever its sins, did foster well-developed organs of public administration. One need not wish for authoritarianism’s return in order to point out that democratic governments must find lawful, peaceful ways to stop wealthy minorities from distorting public policy to serve their own ends. Civil society, regrettably, still suffers from an authoritarian hangover (social mobilization always required government approval), and so in this crucial struggle its effectiveness is limited. Interest intermediation is restricted to a few narrow, elite-dominated channels. Civil society groups tend to be too thin on the ground, too poorly organized, and too weakly represented to ensure that public institutions are used to uphold public interests rather than to maintain the power of ruling coalitions.

The absence of a strong civil society to counterbalance the power of the wealthy is also a big reason why democratically elected regimes in East Asia are failing to deliver equity to their citizens or to implement effective reform programs. The concentration of economic power in firms with a history of political connections creates conditions that lend themselves to corruption. Corporate owners and officials, anxious for continued special treatment, can and do tempt judges, politicians, civil servants, and other agents of the state with huge bribes. The wealth that these corporate interests dispose of is itself the result of previous government interventions in their favor. The current holders of this wealth know that paying for more such interventions is the key to continued fortune. In this environment, governments are challenged to build institutions that can oversee and regulate economic activity with an eye to promoting fairness, accountability, healthy competition, and the public weal. The result is popular frustration, resentment, and, ultimately, political instability.

The Drivers of Change

Decentralization is sweeping East Asia, driven by a technological revolution that has boosted the ordinary citizen’s access to information.

East Asian governments once enjoyed virtual media monopolies, which they used in time-honored fashion to glorify the lineage, magnify the deeds, and dilate upon the virtues of those in power. Rulers could keep a rein on radical ideas, whether home-grown or imported.

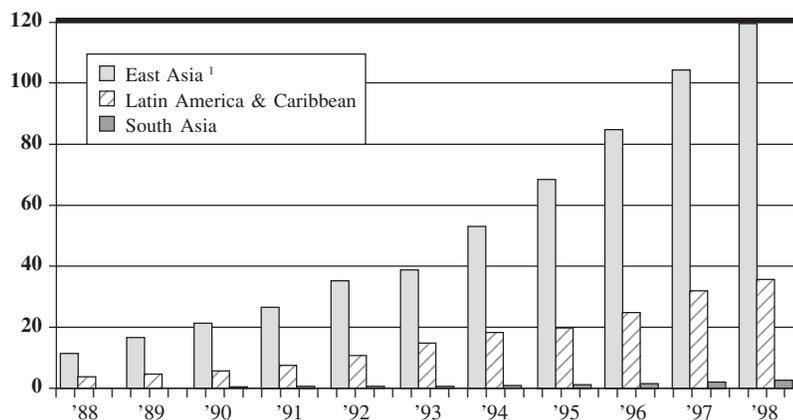
With modern media and the Internet, all this is changing. Yet the implications for democracy and better governance are not yet clear. Will growing information access give a new voice to the poor and force the elites to listen? Or will the rich be able to use the media to distract the poor with false solutions and misleading explanations for their plight? The most probable answer is a little of both, but we may take it as axiomatic that failing to chart national courses aimed at continued growth with equity will breed exasperation, and perhaps eventually radical disaffection.

On the positive side, increasing literacy and greater access to information technology and international media, have initiated a process of change that can never be reversed. Adult literacy rates in the region are 20 percent higher than the world average. In East Asia, the number of Internet hosts per capita is four times greater than in Latin America and eight times greater than in sub-Saharan Africa. The number of personal computers per capita is three times what it is in Latin America and ten times what it is in South Asia. Growing knowledge of English offers further access to ideas not always expressed in native languages, including such concepts as “accountability,” “transparency,” and “conflicts of interest” between public and private activities. If rulers and the moneyed interests behind them continue to reject open scrutiny of their dealings, there is a danger of a social “arms race” in which elites seek to leverage their behind-the-scenes influence while average citizens gravitate toward violent protest. Democracy or liberalization may thus increase the near-term danger of social conflict, even as it opens up opportunities to renegotiate the implicit social contract.

Fear of a militant China once motivated East Asian populations to put aside their deep social divisions and agree upon arrangements that allowed effective, centralized leadership. When post-Mao China began to tone down its radicalism and become more of a “normal” economic competitor and trading partner, elites and workers in the rest of East Asia found themselves with less incentive to cooperate with each other. Ironically, since then, in nearly every country of the region, domestic policy reform has suffered collateral damage from an improvement in the external security situation. The question now is whether national unity can be freely forged by citizens who sense a common interest in holding those in power accountable for the results of their policies.

Over the next 20 years, China’s role in the Pacific Rim economy is likely to grow, giving the People’s Republic added diplomatic heft in the region and beyond. Membership in the World Trade Organization

FIGURE—COMPUTER ACCESS BY REGION
PERSONAL COMPUTERS PER 1,000 PEOPLE



¹ East Asia includes Indonesia, Malaysia, Philippines, Singapore, South Korea, and Thailand.
Source: The Milken Institute.

(WTO) will be particularly important in changing China's relationship with the rest of East Asia. China's smaller neighbors will have more opportunities to tap the vast Chinese market, but at the same time they may find themselves more vulnerable to Chinese pressures on their internal policies. (See the Figure above).

In other words, there is a danger that trade may do less to liberalize China than to spread Chinese-style illiberalism to its neighbors. With the big stick of trade in its hands, Beijing may be able to confound Western preferences. Unlike the United States and other democratic powers, China does not see liberalization, democratization, and economic reform as a path to better relations among nations. On the contrary, we may expect to see China intensify its tactic of siding with nationalistic forces throughout the region in opposition to globalization and "Western meddling." China does not currently hand out much foreign aid, but what it does send abroad comes with no conditionality requirements for transparency or accountability. Beijing has shown itself ready to back those who reject as "foreign" the calls now being heard throughout the region for more transparent corporate governance, more secure rights and liberties, and fairer labor standards. China backs the Burmese junta and joins hands with those in Cambodia who want to keep former Khmer Rouge officials from being brought to justice before international tribunals. Channeling funds through unaccountable rulers and non-transparent businesses gives China more political clout in return for its investments than it would gain if it worked through international financial institutions or nongovernmental organizations.

The U.S. response to all this needs to be exquisitely discerning. If the

United States reacts to China's maneuvers by seeking to reinforce status quo forces among its allies, then U.S. policy could wind up accidentally blocking or undermining democracy. This has occurred in the past, as for example when U.S. support may have inadvertently encouraged the Indonesian military in its assault upon the people of East Timor. That experience, as well as the history of relations between Washington and the late Ferdinand Marcos, should serve as cautionary tales about the risks that occur when democratic principles are too easily allowed to take a back seat to the imperatives of geopolitics.

The fortunes of East Asian democracy are closely bound to events on three economic policy fronts where the United States is a major player and where progress can be made simultaneously: These are 1) trade treaties; 2) support for Asian regionalism; and 3) increased support for international institutions.

First, permanent and mutually open trade relations with the United States are a proven winner from the standpoint of policy reform and enhanced governmental accountability. A case in point is Mexico, where seven years after the implementation of NAFTA a truly indigenous reform movement based in the trade-friendly north managed peacefully and lawfully to win the presidency away from the world's longest-ruling political party. Mexican voters ended the 73-year-old sway of the Institutional Revolutionary Party (PRI) in July 2000, not because any foreign power demanded it, but because a constituency for fundamental political reform had emerged within Mexico itself. The reform movement's strength in the north was no accident, for there commerce across the Rio Grande had created numerous jobs and thus thinned the patronage networks that had long been among the mainstays of PRI rule.

Free trade also promotes democracy by taking away the traditional "rents" that authoritarian regimes can collect through their control over customs arrangements, access to markets, and rulemaking powers. Agreements like NAFTA do more than ensure economic freedom; they promote political and social freedom as well.² Strategic free-trade agreements between the United States and various countries in East Asia could lead to similar gains as the middle classes expand and begin demanding genuine reform and accountability from their governments.

Second, the United States must encourage regional integration within East Asia. Plans for a regional free-trade area consistent with the WTO's multilateral efforts have the potential to deliver great benefits to the region. East Asia has two great advantages vis-à-vis China: 1) East Asian nations are generally ahead of China in tackling the challenges of corporate restructuring and political reform; and 2) a prosperous collection of East Asian nations, unlike a thriving China, will pose no threat to regional security. To capitalize on these advantages, the countries of the region must start thinking of themselves as parts of a single economy with distinct specializations. They must also expand

and liberalize trade among themselves in order to attain the scale necessary to attract capital.

Many investment funds are now global and see large-scale companies as the best places to put their money to work. Likewise, China benefits because investors prefer to do business with one huge economy rather than several smaller ones. In their eagerness to gain access to whole regional markets, global investors will ignore individual companies in Thailand, Singapore, or Korea, however well managed they may be. If the countries of East Asia do not learn the art of economic integration, they will be left watching from the sidelines as China attracts more and more global investment capital.

Third and finally, the United States must stand behind the efforts of international institutions such as the World Bank and the International Monetary Fund to promote high and universal standards of accountable and transparent governance. These institutions do yeoman work, but their capacity to monitor actual policy implementation is limited. They need U.S. help. At the same time, the United States must remain mindful that throwing its weight around too vigorously in international financial institutions might backfire by boosting economic-nationalist sentiment among elites who will already be prone to view free trade as a threat to their interests.

Choppy Seas Ahead

East Asia faces an unstable future unless its new leaders can find a way to expand the number of people who profit from the economic system and wield power within it. Global competition is forcing Asian societies to relinquish the old bureaucratic ways that underpinned growth and stability for more than a generation. Economies can no longer be run by centralized bureaucracies that order firms to build more ships or make more steel. New wealth-creating enterprises are more likely to involve software code or digital satellite broadcasting than hard goods and heavy industry. The new economy needs entrepreneurs, self-starters who are prepared to take risks and think creatively. It also needs investors who are willing to bet on new and untried ideas. The capital to fund such ventures will appear only to the extent that East Asia's corporate elites permit economic reform to take place. The rise of information technology is making obsolete the economic and social relationships upon which these elites have always depended and threatening their habits of control and penchant for self-dealing. Getting them to accede to serious reforms will not be easy, and conflict among divergent social interests will almost certainly increase. Although some might be tempted to see authoritarianism as a shield against such conflict, the truth is that democracy is made not less but *more* necessary by such uncertain conditions. For only democracy, and the rule of laws made freely and

fairly by self-governing peoples, can offer solid prospects for settling unavoidable social conflicts with peaceful suasion and open political competition rather than bayonets, backroom deals, or Molotov cocktails.

Whatever their other failings, East Asia's current or recent leaders have been much better than their predecessors when it comes to reducing corruption. Though he has gotten little credit for it, South Korean president Kim Dae Jung's anticorruption committee has raised standards measurably in his country. In Indonesia, the alleged abuses that helped run President Wahid afoul of parliament were trivial by Suharto-era standards. Even Estrada was but a petty thief compared to Marcos. Despite critics who painted it as soft on corruption, the government of Chuan Leekpai significantly improved the ability of Thailand's anti-corruption agencies to monitor official behavior. To some degree, the critics' harshness reflects not worse corruption but rather greater public awareness of the problem. Today, the level of official corruption is probably lower than it ever has been in the modern history of East Asia, but public readiness to censure malfeasance has never been higher. Regimes that do not tackle corruption effectively will find their legitimacy undermined. And as President Wahid learned to his chagrin, a leader thus undercut will find it far harder to succeed with a reform agenda.

Ironically, the weapons used in the battle against corruption can be *too* effective. How can democracy bring stability to the region if government after government is prevented from serving out its term? In a context of weak institutions, corruption legislation can be used idiosyncratically for political purposes. If government after government falls, then democracy too can fall. If no government is capable of living within the rules, then society and its habits will have to change.

Advocates of "Asian values" often portray demands for greater political participation as part of a Western agenda imposed on East Asians by well-intentioned Western advocacy groups. The Nobel Prize-winning economist Amartya Sen, among others, has challenged this view. As Sen points out, economic growth is but one component of development and, though it may act as a catalyst for broader social change, it is not an end in itself. Without the institutionalization of political participation, economic growth and sound economic policy will not produce stable societies.³

In order to deliver stability in East Asia and improve the quality of life for the region's populations, democracy must create favorable conditions for bolstering political accountability and transparency. East Asian countries need reforms that will strengthen the integrity of their civil services, judiciaries, organs of public finance and procurement, and systems of campaign financing. Broader information access will help by eroding the disproportionate powers of elites. A more equitable distribution of political power should be the end result. As the economic

base of the elites weakens, winning elections the old way—through jobbery and payoffs—will become more difficult.

This tendency has already become apparent in local elections in the Philippines, where several well-heeled incumbents have run out of resources trying to drive away well-funded challengers. Once the resources of the wealthy minority are exhausted, leaders who want to sustain a large following will have to offer policies that produce benefits for broad segments of the population. East Asia's leaders will become competent in economic policy once political competition compels them to reach for political coalitions too broad to be held together with bribes and personal favors.

Broad-based political development will also be a cornerstone of the region's military security. When leaders are largely unaccountable, they can get away with bad strategic decisions and military adventures, and lose wars without the risk of being replaced. But when they must answer to voters, they will be inclined to order only military operations that have at least a reasonably clear justification and chance of success. If China were to lose a war, its communist rulers would be more likely to remain in power than would a government that had to face an election. Thus a nonrepresentative government may be willing to take military risks that a democratic one is more likely to resist,⁴ especially when the military is a major political player.

Toward a Culture of Democracy

During the Cold War, East Asia was more exposed to the risk of confrontation between the superpowers than perhaps any other region of the world. Now, with two global powers again vying for influence, the region can draw solace from its past success at foiling the plans of competing superpowers. Ironically, during the Cold War, the Chinese ended up strengthening capitalism, and the United States—despite its rhetoric of democracy and freedom—helped to make dictatorships and military rule into viable tools of development in Indonesia, South Korea and Taiwan. The Philippines, which benefited the most from U.S. protection, ended up with a less equitable social distribution of power and wealth than its less democratic neighbors.

Is there a simple lesson to be learned from the region's history of being able to chart its own course despite strong intervention by outside forces? If an angel rides in this East Asian whirlwind, we can be fairly sure that it will not be one sent from either Washington or Beijing. The best hope for regional security and prosperity is a strong, independent, and interdependent East Asia whose citizens seek participation in the global economy because the benefits they derive from that participation support stronger, more equitable societies at home.

Investors have become impatient with East Asia's unsteady first steps

under democracy, and many have preferred China's larger market. External investment has plummeted. To win investors back, East Asians should embrace a region-spanning commitment to democracy. Such a culture of democracy will unite the region and prove a bulwark of peace and prosperity. A democratic ethos combined with increasing regional trade and investment is the surest hope for wealth creation, social fairness, and political stability both at home and in the larger region. A new East Asian identity that combines commercial and political liberty will help the region become an integral part of a stable world economic system.

To restore growth is a regional task that will require making democracy work. Accountability will be key to both. It is not only a domestic political issue, but a regional one as well, with implications that reach far beyond the borders of any particular country. As the contagion associated with the 1997 financial crisis has so clearly shown, what happens in one country affects how its neighbors perform and how they are viewed by investors around the world. In an age of instant news, around-the-clock stock trading, and global capital flows, accountability and transparency matter more than ever before.

East Asia's democratic governments face a large task of institution building before they can hope to implement national development policies with the effectiveness that once flowed from the top-down models of the past. They need institutions that will increase the costs to individuals of engaging in corruption. They need watchdog agencies and multiple layers of accountability that allow agencies of government to scrutinize one another and that allow the electorate and civil society to monitor the officials of the state. The judicial system must be able to impose penalties without interference by money or influence. Citizens must be assured that public accounts will be subject to independent, systematic, and regular reviews. Legislators must have the tools to assess and design legislation. Voting procedures must be safeguarded by independent electoral commissions. Tax collection must be fair, predictable, and comprehensive, with proper legal processes and grievance procedures in place. The media must be credible, and independent and professional organizations must be able to ensure that their members derive their stature from the integrity with which they serve the public. These are just some of the things that must be in place if citizens are to be able to hold government responsible in economic and other matters.⁵

Domestic reform will gain an extra boost from the establishment of region-wide standards of governance that can be monitored within a region-wide framework for trade and investment. Creating a pool of experts who can hold countries to verifiable standards of financial assessment will give investor confidence a huge boost. In Europe, the Common Market secured political as well as economic benefits for an entire conflict-prone continent by grounding membership in a

commitment to democracy. Enshrining a region-wide commitment to accountability and transparency in a common institution can likewise help East Asia to deal with both the economic competition and the political pressure brought to bear by China.

Ultimately, regional integration and freer trade will mean stronger democracy in a part of the globe that is home to nearly a quarter of the world's population, and where political tutelage and economic servitude are still too common. The people of East Asia deserve something far better. Democratic and commercial liberty—the ordered, peaceable freedom of well-informed citizens and fairly run markets throughout this vast region of the Earth, under laws that bind rulers as well as the ruled—can help them to attain it.

NOTES

1. See Jose Edgardo Campos and Hilton L. Root, *The Key to the Asian Miracle: Making Shared Growth Credible* (Washington, D.C.: Brookings Institution, 1996).

2. Speech by Fausto Alzati, former Mexican Minister of Education, at the Atlas Economic Research Foundation program, "Free Trade in the Fox-Bush Era," 18–19 April 2001, available at www.atlasusa.org/highlights/archives/index.html.

3. Amartya Sen, "Democracy as a Universal Value," *Journal of Democracy* 10 (July 1999): 6–9.

4. This argument about the relationship between war and democracy, which was first laid out by Immanuel Kant, has received an excellent contemporary exposition in Bruce Bueno de Mesquita, James D. Morrow, Randolph M. Siverson, and Alastair Smith, "An Institutional Explanation of the Democratic Peace," *American Political Science Review* 93 (December 1999): 791.

5. See the essays collected in Andreas Schedler, Larry Diamond, and Marc F. Plattner, eds., *The Self-Restraining State: Power and Accountability in New Democracies* (Baltimore: Johns Hopkins University Press, 1999).