A New Social Contract of Accountability? Lessons from Citizens' Response to the Asian Financial Crisis in Taiwan, South Korea, Singapore, and Malaysia

by O. Fiona Yap

Introduction

The Asian newly industrialized countries (hereafter abbreviated as NICs) of South Korea, Taiwan, and Singapore garnered much attention from the 1960s through 1990s because of their strong economic performance. While the specifics of the Asian NICs model were debated, in general, the governments were credited for creating the conditions and policies—notably social stability and political quiescence—that led to the economic accomplishments. In particular, analysts acknowledged the significant expedience offered by the social contract between governments in these Asian countries and their citizens, in which the former delivered economic growth in exchange for the latter's quiescence and acquiescence to authoritarianism.[1]

Recent and dramatic economic downturns in Asia, including the Asian financial crisis, the world recession, and the economic fallout from the Severe Acute Respiratory Syndrome (SARS) epidemic, have refocused attention on the Asian NICs and the social contract. This time around, observers are pointing out a more dire consequence—the possibility of a backlash from the governments' failure to deliver on the contract. Specifically, the governments' inability to produce economic growth in these previously strong Asian economies may lead to political disquiet and precipitate the reversal of political liberalization and the return of strong-arm politics.[2] However, this prognosis suggests that the old social contract based on previous regime practices and policies is still embraced by citizens in the Asian NICs. Yet, there is little doubt that political participation has changed, particularly under liberalization in South Korea and Taiwan.[3] At a minimum, such changes may fortify new citizens' attitudes and expectations of governments' performance or policy making processes.

Indeed, studies on democratizing countries in Latin America, Eastern Europe, and the former Soviet Union show that political transformation also witnessed changes in citizens' expectations of their governments and their policymaking

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processes—the people supported governments that maintained clear, transparent, and consultatory policy making processes and were willing to accept economic downturns, some severe, as the tradeoff.[4] Do such changes in expectations apply to Asia? Is there a new social contract in which citizens support clear, transparent, and consultatory governments even at the expense of economic growth?

This essay examines citizens' political and economic support for governments' and their policies during the Asian financial crisis in Taiwan, Singapore, South Korea, and Malaysia to show that there is such a new social contract in Asia.[5] Specifically, the evidence shows that, despite the economic crisis, citizens responded with political and economic support where governments were transparent and attentive to citizens' concerns or issues, and willing to consult broadly with private sector representatives on further policy development. However, where the government failed to provide clarity, transparency, and consultation, citizens withdrew their political and economic support of the government, which, in turn, compounded political, social or economic problems.[6]

This essay's documentation of the citizens' support for government and policy making processes makes four contributions to the literature. First, it provides empirical evidence that the people support governments that demonstrate the fundamental qualities of democracy—transparency, accountability, and consultation—in Asia.[7] This documentation is particularly important because public opinion surveys have registered respondents' complaints that democratic regimes are less able to produce order or economic growth in the Asian-NICs; while the citizens clearly reject authoritarianism, they also appear to be weak advocates of democracy.[8] Second, related to the first point, the evidence underscores the relevance of citizens' political and economic support for their governments. This is particularly useful for Asia where some of the governments have argued for a unique "Asian-style democracy" that downplays the peoples' participation or retains aspects of an authoritarian government.[9] Third, it makes concrete the incentive for the governments to liberalize in Asia; the evidence shows that it enhances political, economic, and social stability.[10] Viewed from this perspective, governments in Asia that are interested in political and social stability and economic rehabilitation cannot afford to ignore the signals that their citizens endorse the governments' move towards a new social contract. Fourth, the evidence shows that the case that people may support the reversal of political liberalization or the re-installation of authoritarianism is overstated. For one, the documentation of the people's attitudes and reactions shows that they are committed to clear, transparent, and consultatory practices. For another, the evidence makes clear the characteristics that motivate the people's quiescence and acquiescence; authoritarian policy making is clearly *not* the path towards motivating the people's cooperation. Viewed from either perspective, the specter that authoritarian policy making will be reestablished with the support of the people is unlikely to be realized.

To document the citizens' support of governments' and their policies, there is an examination, when appropriate, of the demands of protestors and demonstrators, reports in the popular and international presses, editorials, business studies and reports, survey responses, the government's policy statements and reports, the government's budget reports, reports from international agencies such as the World Bank and the Asian Development Bank, and expert evaluations. In general, these sources provide useful authentication of events, governments' behaviors, and citizens' reactions.

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The following criteria are used to interpret the information collected.[11] In general, the government is clear when it specifies agencies or policy makers to fulfill explicitly spelled-out tasks related to the people's concerns or rehabilitating economic conditions. It is transparent when it investigates, publicizes, and holds high-ranking officials or agencies accountable for concerns and issues raised by citizens through surveys, protests, or feedback via the bureaucracy/representatives, editorials or similar venues. It is open and responsive to consultation when it includes experts, semi-experts, and civic or community representatives in policy making or policy review. These criteria are not mutually exclusive, but comprise sufficiently distinct elements to be treated independently. Change in electoral support for the government is used as a proxy of political support while economic support is based on change in domestic investment portfolios or production investments and change in strike activity, when reported and applicable.

There is a brief recapitulation of the Asian financial crisis to situate the periods examined in Taiwan, South Korea, Singapore, and Malaysia before describing the government's actions and citizens' responses. The paper concludes with a discussion of the findings.

The Asian Financial Crisis

The immediate events that precipitated the Asian financial crisis are probably familiar to many. To recap, property prices fell dramatically in Thailand in late 1996, which revealed the pecuniary shortcomings of financial lending companies that had made large investments in the property market.[12] At the beginning of 1997, the shape of things to come became clear on February 5th, when Somprasong Land, a major property developer in Thailand, failed to meet a foreign debt repayment. The Thai government made repeated assurances to support the financial community and the Thai baht; however, it fell short of actually buying bad debts from finance companies. Speculation rose to a fever-pitch and severely strained the country's foreign reserves and the ability of the Thai government to support the Thai baht at the fixed exchange rate. On July 2, 1997, the Thai government floated the baht.

Similar events occurred in Korea. By the beginning of 1997, Hanbo Steel and Sammi Steel in South Korea had declared bankruptcy while rumors surged regarding the financial weaknesses of other large *chaebols* (South Korean business conglomerates), including Kia Motors, Halla, Koryo, and Yongjin.[13] Kia Motors narrowly avoided bankruptcy by applying for government intervention in June 1997, through the Prevention of Bankruptcy Accord. Nevertheless, the frailties of these large conglomerates were exposed, and the possible ramifications on the survival of small- and medium-sized enterprises, which supported these large enterprises, became all too clear.

There is no question that the vulnerabilities of the Asian economies were exposed prior to the dramatic acceleration in 1997. With each intensifying sign, the international financial community's response was to withdraw capital from countries in the region. This intensely strained the foreign reserves in the region, especially in Indonesia, Malaysia, South Korea, and the Philippines. The extensive capital withdrawals, in turn, triggered a contraction in most of the Asian countries; this contraction undermined investment confidence in the region, which precipitated further capital withdrawals. By 1998, the fallout that many governments in Asia tried to avert was, nevertheless, manifested and felt across Asia.

Governments' Responses and Citizens' Support in the Asian NICs from 1996 to 1998

Interestingly, although the ramifications from the Asian financial crisis are largely similar—economic contraction and instability, bankruptcies, and rising unemployment—the responses of the governments were diverse. Some of the measures adopted by the governments are well known, such as South Korea's acceptance of the International Monetary Fund's (IMF) directives and Malaysia's rejection of the same IMF guidelines. Similarly, some of the citizens' reactions are also well documented, such as the labor strikes in South Korea and demonstrations in Malaysia.[14] The protests to the differing governments' stance on the IMF guidelines suggest that policy alone does not explain the citizens' reactions. Indeed, the evidence below shows that citizens' reactions were aimed at government's behaviors in policy making rather than the policies themselves.

Taiwan

Consider Taiwan. Signs that the Taiwan economy was not as robust as before were evident in 1995; in fact, the government classified the nation's economy performance, in October and November 1995, as recessionary.[15] The economy appeared to recover at the beginning of 1996; however, the economic downturn that had already hit parts of Asia stymied further rehabilitation. Unemployment, which had averaged 1.5 percent for a decade, climbed to 1.79 percent by June 1996; among college graduates, it was reported at 2.5 percent.[16] For a nation used to a tight labor market, these increases in the unemployment rate were extraordinary and disturbing. By October, unemployment had hit 3.2 percent, double the average rate and the highest in more than a decade.[17] The economy of Taiwan, then, was not in the best of shape.

The Taiwan government's response was manifold.[18] Among the first things it did were to acknowledge and publicize the rising unemployment. Then, to deal with unemployment, the Taiwan government called upon the Directorate-General of Budget, Accounting and Statistics (DGBAS), the Council for Economic Planning and Development, and the Council of Labor Relations to pinpoint the causes, review existing programs, and provide relief to unemployment. By June 1996, the Council for Economic Planning and Development had set up a program to uncover the causes of the higher unemployment rates while the DGBAS completed and publicized results from a survey to put a human face on the unemployment statistics. Among its findings, the survey recorded longer lags between jobs and complaints from local aborigines that foreign laborers were depriving locals of jobs. In response, the Council of Labor Affairs prepared an Unemployment Insurance Act to expand unemployment benefits to cover more unemployed over a longer period of time. Also, in a concession to the rising dissatisfaction with the government's foreign labor policy, the Council recommended changes to reduce the influx of new foreign labor and set up job assistance programs to help the unemployed obtain jobs to relieve the unemployment situation. The Council also implemented a program to grant companies a US$184 monthly subsidy per hire if they employed laid-off workers for a period of three months or more.

To minimize the economic contraction and instability, the Taiwan government significantly increased public works spending, including setting aside US$5.6 billion for fiscal year 1999 and 2000, and US$12.6 billion to complete a railway between Taipei and Kaoshiung, in classic Keynesian fashion to stimulate the economy.[19] The Taiwan government also created an NT$283 billion fund to protect Taiwan from precipitous stock market plunges (NT34=US$1). Furthermore, it stepped up efforts to join the World Trade Organization to improve market access for Taiwan producers. Although there was a trade-off from this effort—the government had to reorganize tariff and trade structures in the process—these trade-offs were not prominent between 1996 and 1998, did not generate opposition, and even helped to spur industry development in some areas.[20] The government also reaffirmed its commitment to small- and medium-sized industries by increasing low-interest loans and direct aid. It continued its exercise to transfer state-owned enterprises into private hands. This last move represented a significant awareness of the people's preferences for privatization; survey results showed 45 percent of respondents preferred privatization versus state-owned enterprise.[21]

Throughout these efforts, the government publicly acknowledged the problems, specified clearly the agencies responsible for tackling them, released ongoing information about investigations and analyses, and consulted widely with academics, labor, business, and industry representatives. Indeed, at the end of 1997, Premier Vincent Siew continued to admonish government agencies to "coordinate and make concerted efforts" to deal with the crisis because it was "not over."[22] Just as importantly, the government continued deliberate efforts to solicit and incorporate feedback in the development of future policies.

Among the most prominent of these was the all-party National Development Conference in May 1997.[23] It included opposition parties, policy analysts, business and labor representatives, and academics entrusted to consider constitutional amendments to clarify the relationship between the president, cabinet, and the legislature, help set budgetary priorities and review procedures, recommend labor, industrial, and environmental standards, and propose economic strategies for future development. The participation of the large number of non-government representatives is noteworthy in its effort to realize feedback, concerns, and interests of representative delegates. It was also a substantial step towards realizing government responsiveness and accountability.

Equally important was that many recommendations from the conference were implemented through legislation or even constitutional amendments, including one that retrenched the duties of the Taiwan provincial government to streamline administration and eliminate duplication. The government also reviewed the existing administration to cut expenses.[24] These efforts were significant because it addressed public criticisms of the heavy duplication in government services. The Directorate-General also eliminated special funds to government agencies and reduced the number of non-profit funds from thirty-seven to twenty-nine. And in July 1997, the Directorate-General set up an accounting operation task force to monitor budget execution of each government agency to ensure "maximum proficiency in national resource utilization."[25]

For its clarity, transparency, and consultation, the government was rewarded with political and economic support. Politically, the legislative elections of December 1998 saw the Kuomintang (KMT) retain its majority in the legislature with 46.4 percent of the vote (compared to 46.1 percent in the December 1995 legislative elections).[26] The significance of these electoral results: it was the first free legislative election since 1992, that the ruling KMT government did not lose popular support from the previous election. Economically, Taiwan's portfolio investments remained positive at 3.5 percent for the year, and gross domestic investments increased by 21 percent in 1997 and 14 percent in 1998.[27] These injections helped fuel the Taiwan economy so that the nation suffered the least among the Asian countries during the financial crisis.

Some may expect that a democratic or democratizing nation such as Taiwan would see the government embrace clear, transparent, and consultatory policy making processes. Yet, the evidence from South Korea shows that governments in democracies may, nevertheless, fail to demonstrate these qualities. When they do, notwithstanding the democratization process, citizens withdraw their political and economic support.

South Korea

Quarterly economic reports show that the South Korean economy decelerated in the first quarter of 1996.[28] By mid-year, the news was reporting cutbacks in executive privileges at the large conglomerates, the *chaebols*, including cutbacks in golfing and plans to trim personnel.[29] In the third and fourth quarters, national and international organizations revised growth statistics for the South Korean economy as inventories grew, businesses struggled and the widening trade deficit became larger. Notwithstanding, South Korea eked out a 7 percent growth that belied its economic vulnerabilities.[30]

Even as signs of the downturn began to show, the South Korean government insisted that economic performance would fall within targets and seemed prepared to allow a few non-performing *chaebols* to collapse. Such was the government's confidence that, in December 1996, it pushed through a labor law, opposed by labor and opposition parties, that eased restrictions on employers laying off workers, hiring temporary workers, and replacing striking workers with non-unionized labor. However, signs that the impact of the financial crisis was larger than expected could not be ignored as the number of *chaebols* that announced cash flow and debt-repayment problems rose in 1997.[31] By June 1997, the government was forced to reconsider its former stance of allowing non-performing businesses to collapse. In its place, it enacted a bailout program that granted a temporary two-month stay from creditors through the Financial Insolvency Prevention Agreement and also delivered special financial assistance to banks with non-performing loans as a result of the rising number of bankruptcies. The government also tried to introduce financial reforms to curtail corruption and cross-debt guarantees that formed the basis of these non-performing loans and liberalized restrictions on foreign direct investment. To ease labor unrest, it also annulled the controversial labor bill passed in December 1996.

However, the government's efforts were unfocused and inconsistent.[32] For example, although the government pledged to ease unemployment and its subsequent unrest, it arrested union leaders for illegal strikes and resisted nullification of the December labor laws. And while the government tried to introduce financial reforms, it also reversed parts of a plan to reorganize and revise the roles of monetary and fiscal authorities that would have eliminated duplication, reformed financial supervision, and boosted confidence. Thus, even as the government announced plans for a new financial supervisory board to take control of the nation's monetary policy, it reneged and left the Bank of Korea in control in July 1997. Then, as if to show that it did not completely backtrack on its plans, the government reassigned the Bank's supervisory role over banks to the new financial supervisory board. The frequent policy tweaking and reversals meant little progress towards actual reform and served to drain confidence further.

At various times, the government policies were negated almost as soon as they were made—conflicts in policies were common as newly formed government committees failed to coordinate to avoid redundancy or inconsistencies. In one such example, the Commission for Financial Reform and the Labor Reform Commission openly bickered over sectoral reforms to compound the difficulties of policy making or stall it completely. Policies that were eventually implemented after such bickering were often inadequate. For instance, both businesses and critics criticized the government's bailout program; the former complained of the short respite within which they had to reorganize and emerge from bankruptcy while the latter pointed to the bailout as evidence of the ongoing collusion between government and business. It seems that few government measures were not undermined by its own hesitancy, internal conflicts, news of corruption, resistance to openness or investigation, more bankruptcies, or more labor unrest.

The result of the government's resistance to clarity, transparency, and consultation was to alienate the people's support. In the December presidential elections, the people ousted the incumbent presidential party for the first time in South Korean election history to vote for long-time opposition candidate, Kim Dae-jung.

Yet, the greatest problem was the government's inadequacy to consult with the private sector. In particular, the government was slow to move on charges of bureaucratic misuse of power or corruption. This deficiency could not have come at a worse time; a national survey in November 1996, reported that respondents identified corruption as fundamental and unresolved blight on politics and the economy, with 72.2 percent of the respondents identifying the National Assembly as being most corrupt, followed closely by senior bureaucrats. It did not help that the highest levels of government, including President Kim Young-sam's cabinet, closest aides, his own son, and himself were implicated in these charges. To illustrate the government's lack of clarity, transparency, and consultation, consider that the president issued a public apology for the extent to which his cabinet and aides were implicated in corruption scandals (specifically, the Hanbo Steel conglomerate scandal) in February 1997. However, in May, he rebuffed public calls to disclose details of his campaign funds in the 1992 election. The disjoint between the government's statements and its actions was stark.[33]

Consider, too, the investigation of the corruption case against the president's second son, Kim Hyun-chul. Hearings at the National Assembly, which conducted the investigation, were plagued with mismanagement, indecisions, and irresolution. In fact, the National Assembly had originally voted down a motion to file charges against Kim Hyun-chul. The lack of resolve in the National Assembly did nothing to address the people's concerns of the government's tolerance of corruption in its ranks, its unwillingness to improve clarity and transparency of policy making, or its perceived indifference to the people's issues. Although Kim Hyun-chul was subsequently sentenced to three years in prison for his role in the Hanbo Steel conglomerate, the process highlighted the mismanagement in the government.

Cabinet reshuffling to boost the government's credibility further compounded the situation. In general, cabinet reshuffling represented a last ditch effort to rehabilitate the government's image. Unfortunately, during the financial crisis, cabinet reshuffling became almost commonplace as the South Korean government frequently replaced cabinet members tainted by scandals and rumors of involvement with the *chaebols*. More importantly, the personnel changes served to make the policy making process opaque and inaccessible as tasks and people were reassigned. It seems that the turmoil in the South Korean economy was mirrored in politics and the government.

The government did try to pattern an interparty accord in April 1997, similar to the National Development Conference in Taiwan. It provided for the three major parties, representatives from the business community, labor, and academia to work together on a pan-national economic consultation council to deal with the ailing economy. However, with the prospective presidential elections in December, the parties seemed more intent on distinguishing themselves from each other than working together; candidates vacillated between accepting and repudiating the IMF-bailout as the most expedient response for the Korean economy and spent much of the campaign trading accusations of wrong doings and illicit political funding from conglomerates. It is small wonder that the interparty accord never got off ground.

The result of the government's resistance to clarity, transparency, and consultation was to alienate the people's support. In the December presidential elections, the people ousted the incumbent presidential party for the first time in South Korean election history and voted for long-time opposition candidate, Kim Dae-jung. The people also withdrew economic support; strike activities included a month-long general strike in 1997, unprecedented in scale and longevity, and showed an increase of fifty-one incidents between 1997 and 1998 and by another sixty-nine incidents between 1998 and 1999. Production investments fell by more than 50 percent in 1997 and 1998. Stock prices also fell an average of 21.5 percent in 1997, and 38 percent in 1998.

Are these reactions attributable to the citizens' dissatisfaction with the IMF loan agreement rather than the government's behaviors? The evidence suggests not. Specifically, in the initial months of 1998, the South Korean people appeared ready and willing to cooperate with the new president's party; a national poll, taken in January 15, reported that 53.8 percent of the respondents accepted layoffs while 60.8 percent viewed the IMF rescue package positively at that time. Equally noteworthy was that 68.6 percent blamed the previous Kim Young-sam administration for the state of the economy.[34] Also, the people followed through with actual support for the government; they answered the new president's call, in January 1998, to help the economy by donating personal collections of foreign currency and gold so that, by mid-January, 700 tons were collected. With each ton valued at US$100 million, these contributions represented significant effort to work with the government.

However, when policy making became stalemated under the divided government, the people reacted by withdrawing such political and economic cooperation. In particular, the new president faced a legislature dominated by the former president's Grand National Party. Gridlock and political backbiting replaced clear, transparent, and consultatory policy making. The government's ineffectual policymaking became glaring when the Organisation for Economic Co-operation and Development (OECD) openly criticized the IMF's bailout policies in July 1998 and the IMF itself subsequently admitted that it had mishandled the crisis.[35] To many South Koreans, it suggested that the higher unemployment rates, higher taxes, higher interest rates, and reduced real income endured by many South Koreans could have been averted or minimized. Perhaps as a result, immediately following the OECD's report, a Civic Group for Economic Justice formed to file a class action law suit against the National Assembly. The suit sought damages for the "political in-fighting" in the legislature that had paralyzed the economy and also asked the courts to freeze the salaries of the legislators for "not working" and "inaction." The group's stand was so popular that within an hour of a rally in Myondong, 700 people had signed up on the lawsuit.[36] These events make clear that the people's withdrawal of political and economic support were aimed at the government representatives for their lack of clarity, transparency, and consultation.

The evidence from Singapore further corroborates the possibility set out in this paper that the people appear willing to trade off economic downturns for clear, transparent, and consultatory governments.

Singapore

Unlike Taiwan and South Korea, Singapore was well-placed to confront the Asian financial crisis. In 1996, the government had moved to curb property speculation so that it did not suffer from a comparable bubble in real estate.[37] The government also kept pace with developments in the region and presented a conservative budget for 1997 that emphasized caution in light of an economic slowdown in the region in 1996. Thus, even though the economy grew by 7 percent in 1996, the government projected a modest growth for 1997, between 5 and 7 percent. As a result of these measures, despite the financial crisis, Singapore registered a healthy growth of 7.8 percent in 1997.[38]

Unlike the South Korean government, the Singapore government pointed out that this robust figure belied the extent to which the financial crisis had reverberated onto the country and called for the people to brace themselves for worse in 1998. In fact, when it presented its 1998 budget statement in February 1998, the government emphasized that the financial crisis was not over, that there was still a great deal of economic uncertainty, pledged its diligence to collect and analyze information regarding the breadth and depth of the crisis, and also committed to "keep in close touch with the private sector" regarding economic developments.[39] In preparation for the downturn, the government increased spending, with particular focus on development spending, to stimulate the economy. Its willingness to reveal the true state of the economy, identify vulnerabilities, and explain how the government planned to tackle the uncertainties and vulnerabilities kept the people abreast of the country's economic performance.

The government also commissioned a Committee on Singapore's Competitiveness (CSC) in May 1997, to review and formulate the economic direction for the country, including a fundamental examination and revision of economic policies and reforms in the specific areas of manufacturing, banking and finance, hub services, domestic business, and manpower. Private sector representatives in labor, business, and academia dominated the CSC and its five sub-committees. In fact, there was an average of only one government representative in each of the twelve-member committees.

Even as the CSC was making its review, the government kept to its word and regularly updated the people regarding the state of the economy and evaluated its impact on livelihoods. For instance, the Singapore Parliament gave priority to questions on the financial crisis and its impact on the domestic economy in its sittings. Although the governing People's Action Party dominates the legislature, the members of parliament fielded questions to the government for clarification on help for retrenched and unemployed workers, housing loan repayments, and reemployment. The government also increased the number of outlets for collecting private sector feedback, including launching websites, which provided accessible forums for the people to air grievances, dissatisfaction, or queries to the government and also provided for the government's replies.

Just as importantly, the government followed through on the queries, feedback, and discussions. Thus, when preliminary figures indicated a dramatic slowdown in the economy, the government proposed an off-budget package in June that incorporated the CSC's interim recommendation of US$2 billion business cost cutting and economic stimulus package.[40] The move was significant in two ways. First, it authenticated the government's pledge that it would keep abreast of economic developments and share them with the people. As then Finance Minister Richard Hu noted, "we will not wait for GDP to go to negative before we do something."[41] It was clear that the government intended to maintain clarity and transparency. Second, it demonstrated its willingness to consult with and use private-sector feedback on policy developments.

Indeed, the government implemented the CSC's final recommendations in their entirety in November 1998. The effect of the CSC's recommendations, submitted in a 108-page publicized report to the government, was a total stimulus package of S$12.5 billion, which reduced corporate- and commercial-property tax rebates, levies and land rentals, and charges for telecommunications, electricity, and transportation. Of that, US$1.9 billion was expended for infrastructure construction and development to stimulate employment and another US$1 billion spent on reequipping skills of retrenched workers through the Skills Development and Training and Attachment programs.[42] Deputy Prime Minister Lee Hsien Loong pledged in a televised interview that the government's next measure would be to spend down its reserves, should the economy worsen.

Such clarity and transparency in the government and willingness to consult on policy making were duly noted in domestic and foreign press and policy circles. Although the political systems in Taiwan and Singapore were different, the ruling parties behaved similarly by actively campaigning for voters' support in dealing with the financial crisis.[43] Economic evidence confirmed that the government's efforts paid off; Singapore's investment recovery in the aftermath of the 1997–1998 Asian financial crisis was most rapid among the Asian NICs. Its real investment recovered from the -7.8 percent fall in 1998, to 2.7 percent in 1999 and to 14.6 percent in 2000. In contrast, its larger, more resource-abundant Malaysian neighbor suffered real investment losses of -55.2 percent, -21.8 percent, and -16.7 percent in 1998, 1999, and 2000, respectively.[44] The next section examines the Malaysian government's efforts to tackle the financial crisis.

Malaysia

Malaysia's current account deficit was the focus of much attention in 1996. The IMF had warned that the country, with a current account deficit of 8 percent of the country's GDP in 1995 and about 6 percent in 1996, meant that the resource-rich nation appeared to have more in common with the Latin American-NICs than the frugal and resource-poor Asian counterparts.[45] In particular, this current account deficit, which reflected a capital inflow due to a generous perception of macroeconomic conditions in Asia, fed property and share prices and encouraged an external debt of about 40 percent of the GDP. Given that Malaysia's previous bout with high external debts—between 1980 and 1982, when its external debt reached a high of 41 percent of the nation's GDP—precipitated the country's 1985 recession, the IMF's concern was not groundless.[46] In December 1996, the government launched a national savings drive to close the gap between investments and savings and ensure that the country did not increase its dependency on foreign borrowing. The Central Bank also announced new lending restrictions for shares and properties to decrease foreign borrowing.

However, these preliminary efforts came up short when reverberations from the Asian financial crisis hit Malaysia.[47] The loss in investment confidence led to large sell-offs of the Malaysian ringitt and outflows of capital, resulting in depreciation of the currency and a decrease in stock prices. In three short months, the Malaysian ringitt had lost 20 percent of its value against the US dollar, and the Kuala Lumpur Stock Exchange's composite index had lost 40 percent of its market capitalization. By the end of 1997, the economic slowdown was apparent and presaged negative growth in 1998; inflation and unemployment were up, the stock market had lost almost 45 percent of its market capitalization, and the Malaysian ringitt had lost 35 percent of its value against the US dollar.[48] Malaysia steadfastly refused to turn to the IMF for a bailout, conceivably because the IMF package would come at a price that included, among other things, a renunciation of the government's pro-Malay economic policies.[49] Nevertheless, to stem further problems, the government suspended a total of US$30 billion in mega projects, the huge multibillion projects that included the US$5 billion Bakun hydroelectric dam, a new international airport at Kedah state, and the world's longest two-kilometer building, the Linear City. The Malaysian government also adopted stringent fiscal and monetarist policies consistent with the IMF's prescription; it targeted to reduce the current account deficit, decreased corporate taxes by 2 percent, and set up a contingency fund to deal with nonperforming loans. After some resistance and hesitation, the government implemented an austerity package recommended by then Deputy Prime Minister Anwar Ibrahim, which included a cut in government spending by an additional 18 percent, a rise in interest rates to 11 percent, a limit on the growth of loans down to 15 percent by the end of 1998, and more stringent guidelines regarding loans for vehicles, commercial, and residential properties.[50] Measures were also introduced to rationalize financial companies and reclassify nonperforming loans.

Economic crises do not fundamentally precipitate a rejection of political or economic liberalization.

Nevertheless, it was apparent that the government was resistant and hesitant to address the economy. Indeed, critics charged that the Malaysian government failed to consider private sector concerns and experts' evaluations of the economy and realistically appraise its role of spending.[51] Consequently, the country did not prepare and brace the economy better against the impact of the crisis. Also, public criticisms of nepotism and favoritism started to surface: several of the government's mega projects were Prime Minister Mahathir's pet programs and the delay in raising interest rates benefited the government's political allies and conglomerates linked to the dominant party, the United Malay National Organization (UMNO).

Equally important, in a complete turnaround, the government changed course when the fallout from the long-awaited austerity package began to hit the Malaysian economy. In January, Prime Minister Mahathir convened a National Economic Action Council (NEAC) charged with the task of "arrest[ing] the worsening economic condition and revitaliz[ing] the economy."[52] The NEAC, headed by Daim Zainuddin, Mahathir's ally of more than twenty years, signaled its willingness to intervene economically, bail out enterprises, and implement fiscal stimulus, all of which reversed the government's previous stance. By September 1998, the government's turnabout was complete; it replaced the austerity package with one that provided economic stimulation of RM$66 billion, introduced capital controls, and bailed-out three prominent and politically-connected companies, including one Konsortium Perkapalan, a logistics and haulage company in which Mahathir's eldest son, Mirzan, has a 51 percent stake. In these policy reversals, the government successfully distributed patronage to protect the Malay corporate elites that had risen the ranks through the affirmative action policies of the dominant UMNO party from the perils of economic adjustment. However, these policy reversals also meant that, unless a quick turnaround in the world economy occurred, the government would lose the opportunity of economic recovery through these patronage disbursements. As things turned out, the quick turnaround did not materialize and the Malaysian economy fell in real per capita terms by -9.5 percent in 1998.

Not surprisingly, discontent within UMNO and in the larger electorate rose as businesses continued to fail in a market that showed few signs of recovery. Despite this, the Malaysian government continued on its track of resistance to clarity, transparency, and consultation; in fact, Mahathir called for a freeze in the party's chief posts in the upcoming party elections and accused any call for change as a foreign-orchestrated attack on the NEP.[53] He also moved his confidant, Daim Zainuddin, from head of the NEAC to Finance Minister and fired Anwar Ibrahim from that cabinet post on September 2, 1998. Anwar had repeatedly sought reforms in the political and economic structures and had apparently consolidated enough support to challenge Mahathir for the UMNO leadership. Anwar was subsequently expelled from UMNO following allegations of homosexual activities, charged with corruption and immoral behavior, and convicted and sentenced.

The Malaysian governments efforts from 1996 to 1998, then, were not the substance of clarity, transparency, and consultation; instead, observers called the governments measures confused at best and augmented suspicions of corruption and abuse of power at worst. Investments fell by 55.2 percent in 1998, and by a further 16.9 percent in 1999.[54] Strike activity also increased, by seven incidents in 1998. This increase is noteworthy in light of the labor quiescence in the country in recent years. Demonstrations also became commonplace following the arrest of former Deputy Prime Minister Anwar Ibrahim.

Lessons from Citizens' Support

Observers of the Asian NICs suggest that the economic crisis may reverse political liberalization or even reintroduce authoritarian governments because citizens are not willing to trade off economic growth. Yet, this expectation runs against existing information on democratizing countries, which consistently point out that economic crises do not fundamentally precipitate a rejection of political or economic liberalization. This paper examines evidence of citizens' support for governments and policy making during the Asian financial crisis in Taiwan, South Korea, Singapore, and Malaysia to show that citizens prefer clear, transparent, and accountable governments in these countries and supported such governments even during economic downturns. However, when governments resisted clarity, transparency, and accountability, citizens withheld and withdrew their political and economic support for the government.

The evidence across the four countries during the financial crisis from 1996 to 1998 is consistent: in Taiwan and Singapore, where the governments were clear, transparent, and consultatory, citizens responded by providing further political and economic support. In particular, in both countries, the governments were open and clear about the vulnerabilities of their respective economies, acknowledged problems that had to be resolved, clearly identified the personnel and agencies primarily responsible for dealing with the problems, eliminated duplication, included the private sector in the review, discussion, and analyses of the economies and formulation of stabilization measures, and kept the private sector apprized of developments. In response, citizens accepted the economic downturns and were ready to kick in their political and economic support to help their nations through the downturns. However, in South Korea and Malaysia where the governments resisted clarity, transparency, and consultation, the citizens withdrew their political and economic support for their governments. Thus, in the two countries where the governments appeared confident of their country's economic strengths, failed to examine, investigate or prepare for the possible impact of the financial crisis, resisted measures to address the economic downturn when the crisis became apparent, confounded problems further by creating secondary bureaucracies to deal with the problem, and refused to consult broadly on measures to be adopted, citizens responded with protests, demonstrations, and even lawsuits, against the government for its complacency.

Further, the evidence points out the impediments to clear, transparent, and consultatory governments: divided governments, administrative duplication and bureaucratic redundancy, policy conflicts or inconsistencies from a lack of consultation and coordination within and without the administration, and frequent policy changes or even reversals. These processes, which occur to both authoritarian and democratic regimes, fundamentally erode confidence in the government and its policy-making processes.

This paper's documentation of the citizens' reactions underscores the willingness to support governments that are clear, transparent, and accountable. It suggests that political liberalization may be a process advocated by citizens who are aware of and willing to make trade offs to support democracy. Indeed, the evidence provides a concrete incentive for the governments to endorse a new social contract in Asia; it motivates citizens' quiescence and acquiescence.

Most importantly, the evidence shows that the case that the people may support the reversal of political liberalization or the re-installation of authoritarianism is overstated. This cross-national comparison provides empirical evidence that clear, transparent, and consultatory governments beget political and economic support in Taiwan, South Korea, Singapore, and Malaysia, notwithstanding economic downturns. Whether the new social contract takes root is worthy of continued documentation and examination.

Notes

[1] See William F. Case, "Can the 'Halfway House' Stand?: Semidemocracy and Elite Theory in Three Southeast Asian Countries," *Comparative Politics*, Vol. 28, No. 4, July 1996, 437-63; Larry Diamond and Doh-Chull Shin, "The Rough Road to Democracy," *Hoover Digest*, 1999, No. 4, 1-9; Huang Wen-hsiung, "Presidential Advisor Notes 'awkward juncture' on Road to Democracy," *Taipei Times*, April 17, 2003; Hsu Yung-ming, "Taiwan's Democracy is Now at a Crossroads," *Taipei Times*, July 1, 2003.

[2] For instance, former President of the Philippines, Fidel Ramos, warned of the increasing "temptation to return to dictatorial politics and governance" in these countries (quoted in an interview with *Australian* in *International Herald Tribune*, December 28, 1998). See also Eddy Lee, "A New Social Contract for Asia," *New Perspectives Quarterly*, Winter 1999, 38-9; Nancy Birdsall and Stephan Haggard, *After the Crisis: The Social Contract and the Middle Class in East Asia* (Washington D.C.: Carnegie Endowment for International Peace, 2000). The point is also noted in the popular presses, e.g., *The New York Times*, "Buffeted Asian Economies Raise Fears of Unrest," November 30, 1997; *International Herald Tribune*, "Recession in Asia Brings Resistance to Openness," December 28, 1998.

[3] See Amitav Acharya, "Southeast Asia's Democratic Moment,"*Asian Survey*, Vol. 39, No. 3, May-June 1999, 418-32; Larry Diamond "Elections Without Democracy: Thinking about Hybrid Regimes," *Journal of Democracy*, Vol. 13, No. 2, April 2002, 21-35. Incidentally, they point out that even Singapore and Malaysia, arguably the most "illiberal" of the democratizing Asian countries, operate under the auspices of formal democratic procedures. Mass political indices such as Polity IV and Freedom in the World report Taiwan and South Korea as "free" and Singapore and Malaysia as "partly free" during the Asian financial crisis. Monty G. Marshall and Keith Jaggers, *Polity IV Project: Political Regime Characteristics and Transitions, 1800-2002* (College Park, MD: Center for International Development and Conflict Management, University of Maryland, 2002); Freedom House, *Freedom in the World*, available at http://www.freedomhouse.org/research/index.htm.

[4] See Karen Remmer, "The Political Impact of Economic Crisis in Latin America in the 1980s," *American Political Science Review*, Vol. 85, No. 3, September 1991, 777-800; Alexander Pacek and Benjamin Radcliff, "The Political Economy of Competitive Elections in the Developing World," *American Journal of Political Science*, Vol. 39, No. 3, August 1995, 745-59.

[5] The countries are selected to ensure a mix of democratizing countries, specifically South Korea and Taiwan, and countries that have been resistant to liberalization, specifically Singapore and Malaysia. This ensures generalizability of the argument to show that the new social contract is not confined to democratizing Asian-NICs.

[6] See Robert H. Bates, *Markets and States in Tropical Africa* (Berkeley, CA: University of California Press 1981); Barry Ames, *Political Survival: Politicians and Public Policy in Latin America*, (Berkeley, CA: University of California Press 1987); Pacek and Radcliff, "Competitive Elections in the Developing World," 44-6; O. Fiona Yap, "Non-Electoral Responsiveness Mechanisms: Evidence from the Asian Less-Democratic Newly Industrialized Countries," *British Journal of Political Science*, Vol. 33, No. 3, July 2003, 491-514. These studies show that citizens' withdrawal of economic support, severely compromised the government's economic, political, and social efficacy.

[7] In particular, the literature points out the fundamental values and attitudes for democratic development: citizens' valuation of transparency, attentiveness, and consultation in the government. See G. Bingham Powell, *Elections as an Instrument of Democracy: Majoritarian and Proportional Visions* (New Haven, CT: Yale University Press, 2000); Russell Dalton and Nhu-Ngoc Ong, "Democracy and Markets: Citizen Values in the Pacific Rim Region," 2003, available at http://www.worldvaluessurvey.org/, accessed May 6, 2004.

[8] See *World Values Survey 1995-8, 1999-2001*, available at http://www.worldvaluessurvey.org, accessed May 6, 2004; Doh-Chull Shin, *Mass Politics and Culture in Democratizing Korea* (Cambridge: Cambridge University Press, 1999); Aie-Rie Lee, "Down and Down We Go: Trust and Compliance in South Korea," *Social Science Quarterly*, Vol. 84, No. 2, June 2003, 329-43.

[9] Kim Yung-Myung and Steven Hood cite several academic and political pundits that describe this "Asian-style democracy." Kim Yung-Myung, "'Asian-Style Democracy': A Critique from East Asia," *Asian Survey*, Vol. 37, No. 12, December 1997, 1119-34; Steven Hood, "The Myth of Asian-Style Democracy," *Asian Survey*, Vol. 38, No. 9, September 1998, 853-66.

[10] See Lee, "A New Social Contract," 38-9; Birdsall and Haggard, *After the Crisis.*

[11] See Powell, *Elections as an Instrument of Democracy,* 10-6; Dalton and Ong, "Democracy and Markets;" Ann Schneider and Helen Ingram, *Policy design for democracy* (Lawrence, KS: University Press of Kansas, 1997); Udaya Wagle, "The Policy Science of Democracy: The issues of Methodology and Citizen Participation," *Policy Sciences*, Vol. 33, No. 2, June 2000, 207-223; Peter DeLeon, "Democratic Values and the Policy Sciences," *American Journal of Political Science*, Vol. 39, No. 4, November 1995, 886-905.

[12] See Steven Radelet and Jeffrey Sachs, "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects," *Brookings Paper on Economic Activity*, February 1998, 1-90; Andrew Berg, "The Asia Crisis: Causes, Policy Responses, and Outcomes," International Monetary Fund Working Paper, IMF 1999; Pradumna Rana and Joseph Anthony Y. Lim, *The East Asian Crisis: Macroeconomic Policy Design and Sequencing Issues* (Tokyo, Japan: Asian Development Bank, 2000).

[13] See *Chosun Ilbo*, "Economic Chief Announces Financial 'big bang,'" March 21, 1997; "Kia Avoids Bankruptcy Under FIPA," July 15, 1997; "New Companies Outnumber Bankruptcies," August 23, 1998; "Half-hearted Assistance," August 25, 1997; "Renegotiating the IMF Deal?" December 11, 1997; "Easier Mergers and Acquisitions," December 17, 1997; "Bankruptcies Increase as Banks Tighten Loan Policy," December 28, 1997; "Record Number of Businesses go Bankrupt," February 27, 1998.

[14] Malaysia, in particular, saw clashes between police and demonstrators at rallies of support for the former Deputy Prime Minister Anwar Ibrahim following a fall-out between the deputy PM and the Prime Minister Mahathir over policies to deal with Asian financial crisis and his subsequent incarceration in 1998.

[15] See *Free China Journal*, "Jobless Rate Hits 10-year High," August 3, 1996; "Jobless Rate Reaches 11-year High," October 6, 1996. Scholars have questioned what unemployment figures for Taiwan mean, given the extraordinarily low figures. See David Schak, "Socioeconomic Mobility and the Urban Poor in Taiwan," *Modern China*, Vol. 15, No. 3, July 1989, 346-373). In general, the low figures means that even small changes become important. Thus, for example, the press refers to unemployment as an "urgent problem" when it rises from 1.54 percent to 1.75 percent and 1.75 percent was noted as an eight year high. *Free China Journal*, "Jobless Rise puts Focus on Foreign Labor," June 22 1996.

[16] See *Free China Journal*, "Economy Officially Slips into Recession territory," December 29, 1995; "Economy Steers Back on Growth Track Heading into 1997," January 4, 1996; "Rise in Unemployment Rate Prompts Subsidies Proposal," April 19, 1996; "Jobless Rise puts Focus on Foreign Labor," June 22, 1996, "Jobless Rate Hits 10-year High," August 3, 1996; "Jobless Rate Reaches 11-year High," October 6, 1996.

[17] See *Free China Journal*, "Economy Officially Slips into Recession Territory," December 29, 1995; "Economy Steers Back on Browth Track Heading into 1997," January 4, 1996; "Rise in Unemployment Rate Prompts Subsidies Proposal," April 19, 1996; "Jobless Rise Puts Focus on Foreign Labor," June 22 1996, "Jobless Rate Hits 10-year High August 3, 1996; "Jobless Rate Reaches 11-year High," October 6, 1996.

[18] See *Free China Journal*, "Rise in Unemployment Rate Prompts Subsidies Proposal," April 19, 1996; "Jobless Rise Puts Focus on Foreign Labor," June 22, 1996.

[19] Jean-Pierre Cabestan, "Taiwan in 1998: An Auspicious Year for the Kuomintang," *Asian Survey*, Vol. 39, No. 1, January-February 1999, 172-180; *Republic of China Yearbook* (Taipei, Taiwan, 1999).

[20] *Board of Foreign Trade Annual Report 1998* (Taipei, Taiwan, 1999). The liberalization efforts included substantial cuts in customs duties, removal of regional trade restrictions, improvement of indirect trade with China, and encouragement for increased import levels, and relaxing restrictions on indirect investments in China.

[21] *East Asia Barometer 2001-2*, available at www.globalbarometer.org, accessed May 6, 2004; *China News*, "Siew says Taiwan Safe from Asia's Fallout," December 15, 1997.

[22] *China News*, "Siew says Taiwan Safe from Asia's Fallout," December 15, 1997.

[23] For additional discussions of the significance of the National Development Conference, see Linda Chao, Ramon H. Myers and James A. Robinson, "Promoting Effective Democracy, Chinese Style: Taiwan's National Development Conference," *Asian Survey*, Vol. 37 No. 7, July 1997, 669-82; *Free China Journal*, "National Development Conference," March 1 1997.

[24] See *Directorate-General of Budget, Accounting and Statistics*, "Achievements and Prospects," available at http://www.dgbasey.gov.tw, accessed June 3, 2003.

[25] See *Directorate-General of Budget, Accounting and Statistics*, "Achievements and Prospects."

[26] See *Taiwan Communique*, "Taiwan's Election Surprise," December 1998, "Taiwan Elects New Legislative Yuan," January 1996; *The Washington Times*, "Taiwan's Nationalists Remain Longest-ruling Party," December 16, 1998.

[27] *Yearbook of Republic of China Statistics 2000* (Taipei, Taiwan, 2000).

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[36] *Chosun Ilbo*, "Civic Group to File Class Action Against Assembly," July 20, 1998.

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