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ASIAN JOURNAL OF PUBLIC AFFAIRS

Volume 8

Issue 1

2015

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Note from the Editor-in-Chief

Dear Readers,



Welcome to the inaugural issue of the revamped AJPA. Since August 2014, AJPA undertook reforms to improve services to our constituents. Readers will find a diverse range of more strictly vetted research articles that emphasize public policy implications. At the same time, authors will benefit from an expedited editorial process, which stresses constructive feedback and guidance from both peer reviewers and editors. The journal has assembled an International Advisory Board to provide advice on strategic direction. In recognition of an increasingly digital readership, AJPA now publishes on a rolling basis electronic versions of accepted manuscripts which can be downloaded for free from the journal's website. Other notable changes include a redesign of both the electronic and print versions. Finally, AJPA remains committed to focus on public and international issues pertaining to Asia and aspires to be a conduit between Asia and the world, between theorist and practitioner, and between theory and practice. In this issue, we deliver a good spread of research articles, commentaries and book reviews that reflect the breadth of public and international policy issues that AJPA covers.

The first article by Megan Bowman, George Gilligan and Justin O'Brien explores how recent trends in foreign state capital investment are changing perceptions in investee countries after the 2008 Global Financial Crisis. The authors report that aside from an overall increase in global flows of state capital, there has also been a reversal in predominant sources of state capital investment: a majority of the deals now involve non-OECD countries like China investing and acquiring assets in OECD countries. Bowman, Gilligan and O'Brien argue that the signing of the China-Australia Free Trade Agreement represents growing acceptance of state capital despite continued concerns over security and other risks.

On the same theme of international economic relations, Patrick Stefford dissects rival perceptions of foreign aid in Myanmar: aid as neo-colonialism versus aid as genuine capacity development. After examining five cases of foreign-funded development projects in Myanmar, Stefford finds that foreign aid is largely perceived to be locally empowering and is seen to be consistent with declared principles of Overseas Development Assistance (ODA). The paper highlights the importance of ownership as an ODA principle. The author found that development projects are more likely to be labeled neo-colonial when there exist conflicting interpretations of ownership.

Raphael Zaffran and Nicolas Erwes examines why the F-35 Joint Strike Fighter program continues to be viewed as a necessity by the United States and its allies despite the program's spiraling costs and widely perceived failures. The authors argue that a discourse based on a China threat underlies the continued investment by the US and two of its allies, Australia and Japan, in the F-35 programme.

Nilanjan Raghunathan and Phillip Truscott challenge popular views about changing trends in male and female sexual behaviour in India. Their paper unravels how statistics on pre-marital sex rates have been misinterpreted and misrepresented. By re-examining the numbers, the authors correct a common misconception—unmarried females in India are having less not more sex. Hence, they conclude that policy targeted towards addressing risky sexual behaviour by men may potentially be more effective towards reducing incidences of sexually-transmitted diseases.

In our first commentary, Ketaki Purohit examines the political trilemma (sovereignty, democracy and globalisation) that India faces in the ratification of the Trade Facilitation Agreement whose negotiations were concluded at the recent Bali Ministerial Round of the WTO in December 2013. In a rather musical commentary on Singapore's Public Service Excellence, Max Everest-Phillips paid tribute to the late former Minister Mentor Lee Kuan Yew's words in 1965: 'economics is politics'. Forty years later, the 2008 UN/World Bank Growth Commission report reached the same conclusion: economic growth is primarily a political process delivered by effective political leaders with a vision for improving prosperity.

'Economics is politics'. These are the words of a wise statesman to whom Singapore owes her successful transition from a Third World nation to a First World nation in one generation and for whom the Lee Kuan Yew School of Public Policy is named. It is food for thought for all readers: grand (macro) theories, middle-range theories, meso (interactional) theories, micro theories versus common sense wisdom, commoner wisdom, popular wisdom, everyday wisdom versus practitioner wisdom, statesman wisdom, sage wisdom, spiritual wisdom. For the longest duration of our human existence, we relied on sage and spiritual wisdom to guide our lives. For many social sciences, theories were first established by practitioners and statesmen based on their wisdom from decades of relevant experience. With the advent of natural science and its dominance in academia, human sciences emulated epistemological and ontological assumptions of the natural sciences for nearly half a century. Theories trumped wisdom. Wisdom was relegated to second-class status because it was untestable or unfalsifiable. Wisdom became connoted with commoner wisdom premised on hearsay and majority opinion, less the relevant experience. Are we now seeing another paradigm shift? Only time can tell.

In closing this note, on behalf of AJPA teams, past and present, I would like to pay tribute to the seeds that Mr Lee Kuan Yew has planted, which are now bearing fruit and will be reaped by succeeding generations. May his words of wisdom remain useful to theorists and practitioners of public and international affairs, of today and tomorrow.

Phua Chao Rong, Charles
Editor-in-Chief, Asian Journal of Public Affairs
Founder/President, Association for Public Affairs
May 2015

The China-Australia Free Trade Agreement and the Growing Acceptance of Chinese State Capital Investment

Megan Bowman, George Gilligan and Justin O'Brien*



Keywords: state capital, foreign direct investment, policy influence, free trade agreements

Suggested Article Citation: Bowman, Megan et al., "The China-Australia Free Trade Agreement and the Growing Acceptance of Chinese State Capital Investment," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 03 - 24

<http://dx.doi.org/10.18003/ajpa.201501>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

ABSTRACT

This article maps the emergence of state capital as an increasingly valuable source of liquidity in global capital markets and foreign direct investment. In particular, this article considers how the rising influence of state capital is changing the perceptions of investee nations towards foreign state capital investments. Using the example of the China-Australia Free Trade Agreement finalised in November 2014, this article contends that although prima facie Australia has maintained a hardline policy stance towards Chinese inward state capital, closer examination reveals an increasing acceptance of Chinese state capital over time in Australia. Such a long-term policy recalibration has the potential to be repeated in other jurisdictions in the Asia-Pacific region.

INTRODUCTION

The 2014 G20 Leaders Summit was held in November in Brisbane, Australia, where it was agreed that there would be further multilateral regulatory innovation to lift growth and create jobs, build a stronger and more resilient global economy, and strengthen global institutions (G20 2014). At the conclusion of the Summit, Australia and China signed a historic agreement for a China-Australia Free Trade Agreement (ChAFTA) to implement major improvements in market access between the two countries in key economic areas. The ChAFTA has been described as the most ambitious agreement signed by China since it joined the World Trade Organisation (WTO) in 2001 (Garnaut 2014). It promises billions of dollars in new markets for Australian exporters, with 'soft' industrialists such as dairy

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farmers and winemakers gaining entry to Chinese markets with the aid of significant tariff eliminations over four years (DFAT undated-c). Similarly, product tariffs on Australian goods such as seafood and horticultural products will be removed by 2019 and tariffs on coal removed by 2016 (DFAT undated-c).

The ChAFTA has assuaged some of China's concerns regarding Australia's treatment of foreign investment under the Australian Foreign Investment Policy (AFIP) (The Treasury 2013a). Reassuringly for China, under the new ChAFTA, privately owned Chinese enterprises will be treated equally to similar investors under Australia's existing FTAs with New Zealand, the United States (US) and the newly created 2014 FTAs with Japan and South Korea (Prime Minister of Australia 2014; Minister for Trade and Investment 2014). Specifically, these FTAs provide that proposed investment from Japanese, South Korean and US counterparts will be scrutinised by Australia's Foreign Investment Review Board (FIRB) only if the investment exceeds AUD\$1.08 billion, a significant easing from the non-FTA threshold of AUD\$248 million. These preferential parameters have now been extended to Chinese private investors under the ChAFTA (DFAT undated-d).

Despite the easing of restrictions for Chinese private investors under ChAFTA, all investments from SOEs will continue to be subject to automatic foreign investment review, regardless of the proposed amount or target of investment (DFAT undated-d). This aspect of the ChAFTA surprised media and business commentators given the public statements by Australian Prime Minister Tony Abbott and Treasurer Joe Hockey that the government was considering preferential treatment of Chinese SOEs as a condition of signing the FTA (see e.g. Coorey 2014). Arguably the ChAFTA presented a prime opportunity for Australia to welcome Chinese state capital and investment by SOEs. The fact that Australia did not do so indicates a lingering anxiety towards foreign state capital investment.

This article posits that even though *prima facie* Australia has maintained a hardline policy stance towards Chinese state capital under the ChAFTA, closer examination reveals a legal framework that can provide for an eventual and legitimate softening of Australian policy towards Chinese state capital over time. Our reasoning for this contention is that the FTA will be reviewed in three years; Australian foreign investment review processes rarely result in a negation; and the welcoming of private Chinese investors aligns with an emerging change of the guard between SOEs and privately owned companies in China's approach to 'going global'. We argue that the combination of these factors indicates a subtle easing of the governmental approach to Chinese state capital, upon which a future softening of policy towards it can be predicated. We further explain that Australia's process of softening its stance on inward state capital investment is intrinsically linked to the growing strategic importance of China as Australia's most important two-way trading partner and the increasing strategic importance of state capital in global capital markets.

Indeed, Chinese investment into Australia represents a core national strategic issue given China's importance in Australian trade and Australia's increasing reliance on trade with neighbouring Asian countries to maintain economic stability. Table 1 demonstrates this economic reality very clearly. In terms of two-way trade, China tops the list (making up 23.3% of total trade), followed by Japan (10.9%), the United States (8.9%), and South Korea

(5%). In terms of the top export markets for Australian goods and services, China is again first (31.9%), followed by Japan (15.5%), Republic of Korea (6.7%) and the United States (4.9%).

Table 1: Australian trade with key partners in goods and services in 2013 (AUD million)

Import markets		Export markets		Two-way trading partners		
% share	Total	% share	Total	% share	Total	
15.0	49,329	31.9	101,136	23.3	150,865	China
6.5	21,221	15.5	49,492	10.9	70,713	Japan
3.3	10,813	6.7	21,285	5.0	32,099	Korea
11.9	39,181	4.9	15,531	8.4	54,642	United States

Source: Australian Government, Department of Foreign Affairs and Trade, 2013.

Australia's legal approach towards Chinese state capital investment under the ChAFTA assumes importance because of the role that SOEs play in Chinese foreign investment. China prefers to invest abroad through its SOEs, an approach not taken by Korea or Japan. This is evidenced in China's trade statistics. In 2010, Outward Direct Investment (ODI) flows by Chinese SOEs accounted for nearly 62 percent of China's total global ODI flows (Liao and Zhang 2014), a phenomenon that is mirrored in Sino-Australian investment (KPMG and the University of Sydney 2012).

The economic interactions between China and Australia may well have broader implications for the Asia-Pacific region in terms of state capital flows and economic security. Indeed, prior to signing the ChAFTA with Australia, China's President Xi Jinping sketched his vision of what he recently called his 'Asia-Pacific Dream', emphasising a 'shared destiny' of peace, prosperity and collaboration in the region (AFP 2014).

Australia's legal approach towards Chinese state capital investment under the ChAFTA assumes importance because of the role that SOEs play in Chinese foreign investment.

This article begins by mapping the state capital phenomenon and its relevance to Australia in recent years. We do this by undertaking a desk-based review of extant investment data and state capital literature in the context of classification, motivation, scale and scope of sovereign wealth fund (SWF) and SOE-led foreign direct investments. As a first step, we classify key pools of state capital and map their global momentum, particularly from emerging economies such as China. We focus on investor nation motivations for why state capital nations adopt SWFs and SOEs in order to understand the state capital phenomenon. In so doing, we build on existing literature. We adopt a tripartite classification of SWFs into Reserve Investment Corporations, Commodity Stabilisation Funds, and Sovereign Pension Funds. In contrast to investment mechanisms like SWFs, SOEs are widely deemed

to be state-owned operating companies. However, unlike private corporations, SOEs are administratively and financially controlled by a state entity. This has created some concern by recipient countries regarding the potential political, rather than commercial, motives of state-directed foreign direct investment (FDI).

The majority of government-related investment deals in national strategic sectors occur through SOEs and not SWFs, which may make SWFs a state capital actor of less concern to investee nations. We address the plausibility of these concerns by investigating the different motivations of contemporary SWFs and SOEs.

This conceptual framework becomes important in the final parts of the article when we consider the (changing) policy approach of Australia towards Chinese state capital and its implications for the broader Asia-Pacific region. This article contends that Australia is adopting a more welcoming approach towards inward state capital from China despite an initial hardline stance on SOE-led investment in the ChAFTA. Recent statements by high-level Australian ministers and Australia's 2013 policy to remove certain conditions on foreign investment by Chinese SOE Yanzhou Coal indicate movement in this direction. We suggest that the ChAFTA also indicates that Australia and China are together beginning to encourage investment in 'soft' resource sectors as Asian markets become increasingly open and integrated.

THE EVOLUTION OF STATE CAPITAL

State capitalism embodies a form of hybrid capitalism in which a government actively promotes economic growth by picking and/or backing national champions while also using capitalist tools to this end, such as stock market listing, external financing and subjecting those champions to global competition (Musacchio and Lazzarini 2012). This approach contrasts with the liberal capitalism model that has dominated many advanced Western economies, under which market actors are less regulated. The comparison might be conceptualised as the visible hand of the government massaging economic prosperity in contrast to the invisible hand of the free market system (Wooldridge 2012).

In recent years, state capital actors, such as development banks, public pension funds, SWFs, and state-controlled corporations, have played an increasingly important role for both developed and emerging economies. For example, SWF assets have grown from US\$500 billion in 1990 to over US\$5 trillion in June 2013 (Bernstein et al. 2013; SWF Institute 2013). Similarly, SOEs, which did not feature at all among the top ten firms in the Fortune Global 100 in 2005, now comprise three out of the top ten firms in the rankings, with combined revenue of over

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US\$1trillion as of July 2013. Due to preferential government policies, these firms often have privileged access to financing through domestic state-controlled banks (Li 2012).

The two main groups of state capital actors comprise SOEs and SWFs, the latter of which can be further sub-categorised as detailed below. These state pools of capital are acknowledged as increasingly valuable sources of liquidity in capital markets, particularly in times of low liquidity such as the recent global financial crisis. However, there is uncertainty regarding the different forms of state-related capital and their classification. Thus, the following sections provide classifications, motivations, and the evolution of SWFs and SOEs as state capital actors.

Classification and Structure of State Capital Pools

Although SWFs have been in existence for centuries, public recognition of the label is relatively recent. SWFs can take a variety of forms, including legal entities (such as the Abu Dhabi Investment Authority), corporations (such as Singapore's Temasek Holdings) and *sui generis* institutions (for example, Norway's Government Pension Fund - Global). Moreover, the term SWF still lacks definitional clarity. Truman (2008) defines SWFs as "a descriptive term for a separate pool of government-owned or government-controlled financial assets that include some international assets" (2008, p. 1). The European Commission (EC) has vaguely defined SWFs as "state-owned investment vehicles, which manage a diversified portfolio of domestic and international financial assets" (Commission of the European Communities 2008, p. 3). In an attempt to refine the criteria, the International Working Group of Sovereign Wealth Funds promulgated its own definition as part of the Generally Accepted Principles and Practices (GAPP) known as the Santiago Principles:

SWFs are defined as special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets (International Working Group of Sovereign Wealth Funds 2008, p. 3).

Scholars have not agreed on whether certain institutions are sub-groupings of SWFs or additional and separate pools of state capital. For example, Blundell-Wignall and Wehinger (2011) subdivide government-related pools of capital into behaviourally

Our framework adopts a tripartite classification of SWFs similar to that of Monk, involving three main types of SWFs, namely Reserve Investment Corporations (RICs), Commodity Stabilisation Funds (CSFs), and Sovereign Pension Funds (SPFs), each with a slightly different purpose.

homogenous groupings such that SWFs are separate from official foreign exchange reserves, social security reserve pension funds, and sovereign pension reserve funds while noting that sovereign pension reserve funds are most comparable to SWFs. In contrast, Grenville (2011) argues that the latter two pension fund categories can be combined into one category, while Monk (2010) categorises pension funds as a sub-grouping of SWF.

Our framework adopts a tripartite classification of SWFs similar to that of Monk, involving three main types of SWFs – namely Reserve Investment Corporations (RICs), Commodity Stabilisation Funds (CSFs), and Sovereign Pension Funds (SPFs) – each with a slightly different purpose.

- RICs enable countries to insure themselves through investments in foreign exchange reserves. Countries with large stockpiles of foreign reserves can invest their assets in higher yielding securities to diversify their portfolios by using an RIC as opposed to their central bank.
- CSFs allow countries to convert their physical assets into financial assets for the long-term. Monk describes how CSFs “help countries to manage rents, restoring a certain amount of stability and, indeed autonomy to resource-rich countries that have seen their position in the global economy change due to factors beyond their control” (2010, p. 12). In so doing, CSFs are also a means of securing inter-generational equity by managing finite resources for future generations in an uncertain world.
- SPFs are a policy response to a nation’s growing social welfare costs due to an aging population. Through SPFs, countries can guard against their unfunded pension liabilities through investments in riskier assets. As such, they embody a politically palatable alternative to increasing industry superannuation fund contributions or cutting benefits (Palacios 2002). Unlike private pensions or very large pension funds run by governments where the assets are actually owned by the beneficiaries (eg. California’s CalPERS), SPFs have no designated claimants to the available assets (Monk 2010; Yermo 2002). In this way, SPFs, like RICs, are “commitment mechanisms for politicians that might prefer to spend their countries’ wealth today instead of saving it for future generations” (Monk 2010, p. 14).

In contrast, SOEs are widely deemed to be state-owned operating companies rather than investment mechanisms like SWFs. Instead of making portfolio or indirect investments as SWFs do, SOEs tend to make commercially strategic direct investments, often through mergers and acquisitions (M&A). An SOE can be defined as a commercial enterprise in which the state has control through total, majority, or significant minority ownership (OECD 2005). Thus, in a state capital jurisdiction such as China, the central or local government will be a controlling shareholder of an SOE, whereas in a liberal capital jurisdiction such as the US or Australia, that controlling entity would more likely be a private institutional investor.

Indeed, China provides a useful illustration of the centrality of the government to an SOE’s corporate purpose. Economic reforms in China during the 1970s first took place in rural areas where agricultural industry was decentralised to local governments, and

commercial “township and village enterprises” emerged as an early form of SOE (Ruskola 2013). Thus, an SOE was administratively controlled by the government, which had the right to appoint management and appropriate profits. Since the commencement of the Chinese ‘corporatisation’ program, as expressed in the 1994 Company Law and the 2006 PRC Company law, Chinese companies can take one of three legal forms: a company limited by shares; a company limited by liability; or a company wholly owned by a state agency. This legal corporatisation process has not resulted in widespread privatisation (Howson 2014). Indeed, top executives at 53 of the most important Chinese central SOEs have ministerial-level status and equal rank to provincial governors (Brødsgaard 2012).

These classifications of SWFs and SOEs highlight the clear potential for state influence over the investment objectives and activities of state capital actors. This has created some concern by investee countries about the political (rather than commercial) motives of SWF- and SOE-directed FDI. Specifically, there has been concern that, through the investments of SWFs and SOEs, foreign governments may obtain access to sensitive information or technology that jeopardises an investee country’s national interests or security (Golding 2014; Bernstein et al. 2013). This is discussed further below.

Nonetheless, while state capital actors have close ties to their government sponsor, they are established for a variety of macro-economic purposes and have a range of different motivations. This is not to say that the state has no influence, but rather that the interest of the state is subject to a range of competing and, at times, conflicting influences.

Motivations and Objectives of State Capital Actors

The motivations of state capital actors tend to vary with the interests of their enabling government. The traditional view of state capital actors, particularly SWFs, is that they are long-term investors that can provide liquidity in times of crisis. Governments, independent of their variety of capitalism, use SWFs as special-purpose vehicles to invest assets in private financial markets. Thus, while different state capital actors might have differing macro-economic purposes, they exist primarily “to preserve local autonomy and state sovereignty by harnessing the power of finance” (Monk 2010, p. 2).

It is only in recent years that scholars have been able to explain the rise and motivations of SWFs. Das et al. (2009) state that no accepted explanation exists regarding why and when nations establish SWFs. Monk (2010) proffers the explanation that SWFs are an assertion of sovereignty and authority in response to increasing globalisation and financialisation. Grenville notes “the diversity of origin and motivation behind institutions that are commonly described as sovereign wealth funds” with the effect that SWFs have a “mish-mash of motivations” (2011, pp. 17-18).

The International Monetary Fund (IMF) (2008) recognises SWFs as a heterogeneous group with five main objectives: (i) stabilisation of funds to help insulate the economy from the effects of swings in commodity (usually oil) prices; (ii) saving funds for future generations to mitigate the effects of Dutch disease; and functioning as: (iii) reserve investment corporations; (iv) development funds; and (v) contingent pension reserve funds in case of unspecified pension liabilities on the government’s balance sheet.

In the case of SOEs, the traditional view is that they are national corporate champions built to fulfil their government's investment mandate abroad. Accordingly, SOEs have tended to invest in areas of national priority, such as natural resources, utilities, telecommunication services, and defence. However, there is a growing debate about the extent to which SOE investment decisions are being exercised independently of their sovereign sponsor. Multiple external parties are involved in SOE investment decision-making abroad, including domestic consultants, corporate partners and financiers, such that decisions are clearly not being made solely by a government entity (Clayton Utz 2013). On this point, the Peterson Institute for International Economics asserts that SOEs operate and make investment decisions not as agents of the state but like any other corporation (Kotschwar et al. 2012). With regard to China, Howson (2006) claims that SOEs have independently championed the 'going global' strategy, citing the action of China National Offshore Oil Corporation (CNOOC) in bidding for Unocal in 2005 despite opposition from the central government. KPMG and the University of Sydney argue that "Chinese SOEs abroad have shown strong commercial motivations, similar to those of multinational corporations from developed countries" (2012, p. 13). The commercial motivations of SOEs are evinced by capital investments to secure stable and high-quality supplies of natural resources; mergers and acquisitions to acquire new brands and technology; and efforts to access new markets and export home brands.

The typological framework that we adopt above allows for a better understanding of how features of the different types of state capital influence the perceptions of investee nations. In this way, it becomes apparent that state capital may be less welcome by an investee nation with domestic concerns regarding state security, sensitive sectors, and/or the risk of over-dependence on limited investment sources. Yet at the same time, issues of capital shortage and increasing competition for the foreign investment dollar will make nations more willing to accept those risks, as discussed below.

STATE CAPITAL IN THE GLOBAL ECONOMY

Scale and Scope of State Capital in the Global Economy

The increasing investment role of SWFs and SOEs reflect changing relationships in the global economy, especially the economic rise of the BRICS countries (Brazil, Russia, India, China, and South Africa). As the strategic economic and political importance of these countries increase, so does the need to understand how international regulatory infrastructures might evolve in order to accommodate such changes.

Emerging economies have significant state capital investment actors. Coleman (2013) demonstrates that China, the UAE, Saudi Arabia, Kuwait, Hong Kong, Russia, and Qatar are amongst the countries that possess the ten largest SWFs by assets under management.

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Moreover, the SWF Institute (SWFI) has specified the geographical origins of SWFs as follows: 40% in Asia; 35% in the Middle East; 17% in Europe; 3% in Africa; 3% in the Americas; and 2% in other areas of the world (SWF Institute 2013).

Similarly, SOE capitalisation constitutes a significant element in three of the BRICS countries: SOEs comprised 80 percent of the value of the stock market in China, 62 percent in Russia, and 38 percent in Brazil in 2012, and accounted for one-third of the emerging world's FDI from 2003-2010 (Wooldridge 2012). In 2013, SWF assets were valued at over US\$5 trillion (Bernstein et al. 2013; SWF Institute 2013) and SOE assets at over \$2 trillion (Business Council of Australia), not insignificant figures when compared to global GDP of \$74.9 trillion (World Bank 2013). Moreover, although SOEs represented just one per cent of all transnational corporations in 2013, they accounted for over 11 percent of global FDI flows (World Bank 2013).

The rapidly increasing global economic influence of China is particularly notable. China has increased its foreign reserves from 5 percent of its annual GDP in 1992 to 45 percent of its annual GDP in 2012 (Song et al. 2010; Rapoza 2012). These decoupling effects are fuelled by the fact that emerging markets have been growing at an average of 5.5 percent (in contrast to 1.6 percent for developed nations) in recent years and the activity of these emerging markets is projected to make up half of the world's GDP by 2020 (IMF 2013).

Interwoven with these predictions is a new era of more proactive state-led investment capitalism in which existing and future state-related pools of capital are likely to become increasingly influential in their contribution to the broader global economy as well as and domestically in Australia.

Investment Strategies of State Capital Actors

A global economic changing of the guard is best evidenced by patterns of investment by state capital actors over time. Blundell-Wignall and Wehinger (2011) show that, prior to 2006, the largest SOE foreign investment deals involved OECD nations as both investee and owner countries. Since 2006, that picture has changed dramatically with the majority of deals involving non-OECD nations as the acquiring entity and OECD nations as the investee nation. From 1990 to 2009, nearly two-thirds of the largest 50 SOE foreign investment deals took place in four key sectors: energy and power; telecommunications; materials (including non-renewable resources); and high technology (with potential military use). These sectors are considered areas of strategic concern to investee nations, being germane to their national security and national interest.

In contrast, only five of the 50 top deals made by SWFs for that same time period were made in sensitive sectors (Blundell-Wignall and Wehinger 2011). Indeed, papers by Gompers and Metrick (2001), Lerner et al. (2007), and Hochberg and Rauh (2011) highlight the heterogeneity of institutional investment strategies and ultimately returns. Specifically, Bernstein et al. (2013) note that a growing number of nations that hoard foreign currency, such as China, are seeking broader portfolios in which to invest it, rather than putting these reserves under the mattress in low-risk/low-return US Treasury bonds.

Accordingly, the majority of government-related investment deals in areas of strategic concern tend to be undertaken by SOEs, not SWFs. Analysing the data above, we suggest that SWFs are a state capital actor of less concern than SOEs. However, government policies by investee nations make little differentiation between the categories. For example, under the Australian foreign investment regime, both SWFs and SOEs come under the label 'foreign government investors' (The Treasury 2013a). State capital investment activity is viewed in the aggregate by some investee nations whereby the combined trend towards investment diversification and risk, and investment in areas of strategic concern, carries overall implications for cross-border foreign exchange liquidity.

In the past, investee states came up with effective strategies for financial and political protectionism against the varied and aggressive investment strategies of state capital actors (Weisman 2007). This was seen clearly at the time of Chinese acquisitions (attempted and actual) during 2004-2005, including the failed bid by CNOOC for America's Unocal, which raised "fierce political opposition" in the US and resulted in US-China political tensions (Barboza 2005). Concerns were also evidenced in 2012 when the Canadian investment policy guidelines to the Investment Canada Act were revised to provide that "investors will be expected to address, in their plans and undertakings, the inherent characteristics of SOEs, specifically that they are susceptible to state influence" and that entities that are "owned, controlled or influenced, directly or indirectly by a foreign government" must satisfy the Canadian Minister of Industry that the project is commercial and free from political influence (Industry Canada 2012). Similarly, in Australia, Chinese SOE investment has motivated policy changes in AFIP and also captured the media's attention with Australian headlines such as "China's state-owned enterprises obtain FIRB approval by stealth" (Frith 2013). The nature of an SOE as a government-owned or controlled entity can cause anxiety in both developed and developing nations (Bath 2014) by blurring the conceptual distinction for investee nations between political and commercial motivations of the corporations doing the investing.

Yet issues of capital shortage experienced during the global financial crisis and the increasing competition for the foreign investment dollar, as discussed below, are likely to make nations more willing to accept perceived risks. The conceptual framework typology that we have adopted allows a better understanding of how the different types of state capital may influence the receptivity of an investee nation toward inward state capital.

To this end, the next section focuses on the policy approach in Australia vis-à-vis Chinese state capital as a relevant case study in the Asia-Pacific region.

THE CHINA-AUSTRALIA FTA

The typology and momentum of state capital from China, as highlighted earlier, has important implications for FDI into Australia given that Australia's post-boom economic well-being is increasingly intertwined with neighbouring nations in the Asia-Pacific region, particularly that of China. China is Australia's most significant two-way trading partner, receiving nearly one third of Australian exports and equating to nearly one quarter of Australia's two-way trading. These statistics are well ahead of Australia's other top economic partners, Japan, South Korea, and the US.

The accumulated amount of Chinese FDI into Australia for the period 1 January 2005 to 31 December 2012 was US\$51,020 million, which is slightly larger than Chinese FDI into the US for the same period of US\$50,730 million (The Heritage Foundation 2013). SOE-led investments dominate the Sino-Australian investment landscape. The Australian Foreign Investment Review Board (FIRB) Annual Reports do not differentiate between SOE and non-SOE foreign investments in Australia, but private sector research goes some way to filling these gaps. Clayton Utz (2013), an Australian law firm, reports that in the Australian mining and energy sectors, for the period January 2005 to December 2012, Chinese SOEs accounted for 76 percent of deal volume in total, 100 percent of all deals greater than AU\$250 million, and 97 percent of the accumulated investment value. Regarding total Chinese SOE-led FDI in Australia, KPMG and the University of Sydney (2012) report that investments valued US\$5million and above for the period September 2006 to June 2012, nearly 80 percent of which was made by 45 SOEs; more than 95 percent of deal value involved SOEs during this same time frame. Those percentages are notably higher than average Chinese SOE-led investment deal value figures for the US (65 percent) and Europe (72 percent) (Rosen and Hanemann 2011; Hanemann and Rosen 2012).

Indeed, the ten largest Chinese corporate investors in Australia have all been SOEs (Gilligan and Bowman 2014). These ten SOEs accounted for US\$39,000 million out of a total accumulated direct investment of US\$51,020 million for 1 January 2005 to December 2012, which equates to 76 percent of accumulated Chinese direct investment into Australia over these seven years.

The Future of State Capital: Policy Implications for Australia

With abundant natural resources, Australia has had a comparative advantage as an investment destination for Chinese state capital in the energy and resources sector to date. Yet in a post-boom economy and with increasing global competition for FDI, there are now important implications for state-led FDI into Australia.

The federal Bureau of Resources and Energy Economics (2013), the key forecaster on commodities, reported that Australia's resources boom had peaked and predicted further that the value of committed and potential projects in Australia's energy and resources sector will fall from AU\$350 billion in 2013 to AU\$25 billion in 2018. Similar findings were announced by the Grattan Institute, which gave an additional warning that Australia had "not saved enough of the windfall from the boom" (2013, p. 32). Commentators in the Australian business community have expressed concern that due to its zero threshold for state capital FDI, Australia is "missing out to competitor countries who are increasingly more adept at attracting these new sources of capital" (Business Council of Australia 2014, p. 3). For example, Canada has set a more generous SOE screening threshold of CA\$330 million (Industry Canada 2012b), and the United Kingdom has recently approved a number of Chinese SOE acquisitions in traditionally sensitive sectors, including nuclear power stations and high-speed rail projects (Business Council of Australia 2014). In this context, the ChAFTA is a significant step. At first glance the Australian government has maintained a hardline policy stance toward Chinese state capital, particularly from SOEs, by keeping those inflows subject to automatic foreign investment review by FIRB. However, after closer examination

we argue that the ChAFTA comprises a legal framework that allows for legitimate softening of policy and the increasing acceptability of Chinese state capital over time. We propose three main factors that indicate a subtle easing of governmental approach to Chinese state capital, upon which a future softening of policy can be legitimately predicated.

First, the FIRB review processes result in very few declined proposals. In 2011–2012, 10,703 applications for foreign investment proposals were approved, with 5,803 subject to conditions specified by FIRB and 4,900 not subject to any. Only 13 were rejected, all of which were in the real estate sector (FIRB 2012). In 2012–2013, 12,731 proposals for foreign investment were received by FIRB, and none were rejected (FIRB 2013). It is notable that Australia has never rejected a proposed investment application from a Chinese SOE, regardless of the sector. Anti-SOE political sentiment in Australia may have been high in 2008/2009 when Chinese SOE Chinalco first sought to take a significant stake in Australian mining company Rio Tinto. Amidst heated public debate about potential threats posed by state capital interests owning strategically important Australian entities, then-Treasurer Wayne Swan released six principles to more clearly articulate criteria for consideration regarding government-directed investments (Australian Treasury 2008a). Swan eventually granted approval to Chinalco to acquire up to 14.99 percent of Rio Tinto provided that it did not raise its holdings without seeking fresh approval from the Australian government (Australian Treasury 2008b).

Second, the welcoming of private Chinese investors in the ChAFTA, consistent with those of other FTA nations aligns with an emerging change of guard between SOEs and privately-owned enterprises (POEs) in China's approach to 'going global'. In 2001, China initiated its global strategy under the label *zouchuqu* which literally means 'go out' but can also be interpreted as 'go global' (Cheng and Ma 2010). Pursuant to this strategy, Chinese SOEs - as national corporate champions - were given preferential treatment in order to seek out and acquire foreign assets and equity interests as opposed to merely trading in global commodities and raw materials (Howson 2006). In this way SOE hegemony crowded out POEs, a phenomenon described as *guo jin min tui*, which has been criticised as not being conducive to a competitive domestic market (Liao and Zhang 2014; Song et al. 2011). Yet in its 2013 Decision on Major Issues Concerning Comprehensively Deepening Reforms, China set a course for reform to create a more market-based and competitive economy and, in so doing, signalled a lessening of state involvement in corporate activity by implementing market-oriented SOE reforms (Communist Party of China 2014). Such significant cultural-corporate reform will take time to embed. Evidence is emerging, however, that ODI is increasingly coming from POEs outside of strategic industries (Hubbard and Williams 2014) with some Chinese commentators predicting that POEs will eventually overtake SOEs as the dominant Chinese foreign investment modality (Huang 2012; Liao and Zhang 2014). Indeed, the bulk of assets in the Chinese industrial sector are now outside of SOE control (National Bureau of Statistics of China 2013).

Nonetheless, Chinese investment into Australian natural resources is likely to remain SOE-led for the intermediate future, given the strategic nature of that sector to the Chinese central government, which means that FDI in the sector tends to be SOE-dominant. Indeed, from January 2005 to December 2012, the ten largest Chinese investors in Australia were all

central SOEs and all within the energy and natural resources sectors (Gilligan and Bowman 2014). Nonetheless, the ChAFTA may be implicitly encouraging POE-led investment in 'soft' resource sectors by opening Chinese markets to Australian services and products with the phasing out of tariffs (DFAT undated-c). Certain assets will be in shortage in China, especially natural and agricultural resources, which thus present attractive investments. Indeed, the recent OECD/FAO Agricultural Outlook 2013-2022 report, which includes a chapter titled 'Feeding China: Prospects and Challenges in the Next Decade', highlights the increasing symbiosis between global markets and China's increasing appetite and reduced output: "With one-fifth of the world's population, high income growth and a rapidly expanding agri-food sector... developments in Chinese agriculture may have a major influence on world markets" (OECD/FAO 2013, p. 9). While agricultural output from China will likely slow in the next decade due to increasing resource constraints on production, land degradation, water depletion, and greater production variability due to climate change, the report specified that the rapid increase in China's urban population will continue to impact global food demand patterns particularly for increasing imports of dairy and meat. The opening of "soft resources" commodities markets in China presents timely new opportunities for Australian meat, dairy, and grain producers in areas that are outside of traditional SOE domination. By way of comparison, due to a small number of large deals in the real estate and food sectors, Chinese POEs accounted for 87 percent of transactions and 76 percent of total Chinese ODI value in the United States in 2013 (Hanemann and Gao 2014).

Third, the ChAFTA contains provisions for in-built review of the agreement three years after its enforcement (DFAT undated-e). This review period is shorter than comparable FTAs: the Japan-Australia FTA is open to general review six years after enforcement (Department of the Prime Minister and Cabinet 2014, item 177) and the Korea-Australia FTA does not include a process of review except through joint FTA institutional provisions (Department of the Prime Minister and Cabinet 2013, item 120). We contend that the ChAFTA review period of three years is significant for facilitating potential policy changes in light of the first and second factors discussed above. Specifically, we discern an easing of political approach toward SOE investment since 2009. For example, in 2013, current Treasurer Joe Hockey decided to remove certain foreign investment conditions that were imposed on Yanzhou Coal Mining Co. Ltd. (Yanzhou) in 2009. Yanzhou is a Chinese SOE with 52.9 percent ownership vested in the Shandong provincial government. The 2009 conditions compelled Yanzhou to reduce its ownership in its subsidiary vehicle Yancoal Australia Limited from 100 percent to less than 70 percent by end-2013 along with reducing its economic interest in Felix Resources coal mining assets and Syntech Resources and Premier Coal mines by end-2014. Specifically, Yanzhou's economic ownership of the underlying mining assets was stipulated at that time to stand at no more than 50 percent.

The Chinese SOE policy discussion did not close when Australia signed the ChAFTA but appears open for increasing acceptability of Chinese state capital.

In contrast, the 2013 changes now require Yanzhou to hold at least 51 percent of shares in Yancoal and extend existing loans to Yancoal if required. Treasurer Hockey stated in a treasury media release that this decision was due to “slowing demand, declining coal prices and a number of mine closures” and that the government is “open to any... proposals from Yanzhou in the future” that seek 100 percent ownership of Yancoal (The Treasury 2013b). The changed conditions saw an immediate increase in Yanzhou’s FDI into Australia of US\$250 million (ASX 2013). While a number of factors contributed to the Treasurer’s decision, it is clear that the triangle of substantial unemployment pressures in regional Australia (where Yancoal is a major employer), the gloomy outlook for energy and resources investment, and the expectation that a free trade agreement would be reached with China in 2014 all played a key role. Prime Minister Abbott has stated that the government is open to considering a zero threshold for proposed investment by Chinese SOEs (Coorey 2014). While this reform did not occur in the first iteration of the ChAFTA, it may well feature in subsequent reviews for the reasons detailed above. Together, these factors indicate that the Chinese SOE policy discussion did not close when Australia signed the ChAFTA but may remain open for a legitimate and more gradual softening of policy and increasing acceptability of Chinese state capital.

CONCLUSION

The signing of the ChAFTA between Australia and China in November 2014 completes a trio of recent FTAs between Australia and its key economic partners in the Asia-Pacific region, namely China, Japan, and South Korea. These FTAs liberalise trade and economic conditions between party states in key areas, including preferential treatment for private investors. Specifically, Chinese investment into Australia represents a core national strategic issue given that, first, China has become Australia’s most significant two-way trading partner and, second, Australia’s stability and economic well-being is increasingly intertwined with neighbouring jurisdictions in the Asia-Pacific region. A significant modality of Chinese investment abroad is SOE-led investment, an element that is not visible in Korean or Japanese foreign investment. It is intriguing then that Australia’s policy stance toward Chinese inward state capital, whereby all proposed SOE investments remain subject to automatic foreign investment review regardless of the proposed amount or target of investment, remains unchanged. The fact that Australia did not liberalise this aspect of its policy under the ChAFTA indicates lingering anxiety of inward Chinese state capital.

In order to understand the motivations of state capital investor nations and the perceptions of investee nations as accepting or anxious toward inward state capital, this article has mapped the state capital phenomenon over recent years. Specifically, we adopted a conceptual typology framework that allows a better understanding of how different features of the different types of state capital influence perceptions and policy of investee nations. These typologies of SWFs and SOEs highlight the clear potential for state influence over investment objectives and activities of state capital actors, which has created some concern by investee nations about the political (rather than commercial) motives of state capital investment regarding state security, sensitive sectors, and/or the risk of one nation’s over-dependence on limited investment sources.

Nonetheless, we have argued that issues of capital shortage following the global financial crisis, the momentum of state capital flows, and increasing competition for the foreign investment dollar will make investee nations more willing to accept perceived risks. Specifically, we have suggested that FTAs are political-economic vehicles that can have the effect of signalling greater acceptance of inward state capital by investee nations and we have used Australia-China and the recent ChAFTA as a case study in the Asia-Pacific region.

Despite Australia's initial hardline policy toward SOEs, we have argued that the ChAFTA provides for a legitimate softening of Australian policy towards Chinese state capital over time. Our reasoning for this contention is threefold. First, Australian foreign investment review processes rarely result in a negation and have never blocked proposed investment by Chinese SOEs. Second, the welcoming of private Chinese investors aligns with a growing changing of the guard between SOEs and POEs in China's evolving approach to 'going global', which is particularly salient in areas that the ChAFTA does liberalise, namely 'soft' commodities export markets. Third, the ChAFTA contains provision for review in three years, which is significant for facilitating gradual policy change in light of recent statements by the Australian Prime Minister and Treasurer that the government is open to considering a zero threshold for proposed investment by Chinese SOEs. These factors combined indicate a subtle easing of the governmental approach toward Chinese state capital, upon which a future softening of policy can be predicted. Moreover, such policy change is likely given the economic primacy of the Sino-Australian relationship.

These economic interactions between China and Australia may well have broader implications for the Asia-Pacific region in terms of state capital flows and economic security. Prior to signing the FTA with Australia, China's President Xi Jinping sketched his vision of what he recently called his "Asia-Pacific Dream", emphasising a "shared destiny" of peace, prosperity and collaboration in the region (AFP 2014). Indeed, as evidenced in this paper, China is the most important economy in the Asia-Pacific region and likely to become the world's largest economy by 2030 (PwC Economics 2013). Its core policy stance is the maintenance of trade relations, which requires not only stability but also a continuing process of acceptance and legitimisation of state capital flows, a trend that Australia may well have commenced.

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RESEARCH ARTICLE

Foreign Aid for Myanmar's Transition: Capacity Takes Precedence

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Keywords: foreign aid, capacity development, ownership, Myanmar

Suggested Article Citation: Strefford, Patrick, "Foreign Aid for Myanmar's Transition: Capacity Takes Precedence," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 25 - 46

<http://dx.doi.org/10.18003/ajpa.201503>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

ABSTRACT

Myanmar is in the nascent stage of what could possibly become the most extensive transition undertaken by any country in recent history. After twenty-plus years of sanctions, Myanmar is now the darling of the international development community. This paper will investigate the aid programs offered to the Myanmar government to assist in its massive reform effort. This research will focus on answering the following question: With particular reference to capacity development, what conflicts exist between the principles of the international official development assistance (ODA) regime and the realities of development in Myanmar? Utilizing a comparative case studies approach, the findings of this research are that while certain principles of the ODA are not being adhered to, these cases are minimal. In such cases, the logic of capacity development seems to take precedence.

INTRODUCTION - THE RUSH FOR MYANMAR

Before the 1988 popular uprising and subsequent pro-democracy movement swept Burma onto the very center of the world stage, it was a reclusive nation guarding its independence so fiercely that it had adopted a foreign policy of non-alignment and isolation. These policies reflected a "Burmese Way to Socialism" and were intended to preserve control and independence over the economy, which subsequently led to long-term underdevelopment.¹

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¹ The "Burmese Way to Socialism" was the model of economic development adopted by the government between 1962 and 1988. It stressed self-reliance (severely limiting foreign investments) and state planning and control of the economy (extensive nationalization).

After the 1988 suppression of the pro-democracy movement, and the 1990 annulment of the election results that saw the opposition National League for Democracy (NLD) take a resounding win, Myanmar's isolation (outside East and South Asia) became externally enforced by sanctions, especially those of the United States and the European Union. During the past two decades, the sanctions were steadily deepened and broadened in response to the perceived lack of progress towards democratization and the continuing poor human rights situation, leading major global companies to divest. The 2011 reform efforts of President Thein Sein were received with much cynical disbelief, which over the year transformed into cautious optimism.

After the inception of the reform process in 2011 and subsequent victory of Aung San Suu Kyi in the April 2012 by-election, the first high-profile Western leader to visit Myanmar was British Prime Minister David Cameron. This was followed by visits from US President Barack Obama, EU President José Manuel Barroso, and Japanese Prime Minister Shinzo Abe and Foreign Minister Koichiro Genba, who expressed their support of the reform process. This diplomatic flurry was matched by a technocratic flurry of government and intergovernmental agencies responsible for the disbursal of official development assistance (ODA).

This paper will investigate the donors' response to the transition in Myanmar, focusing on technical assistance (TA) to support capacity development (CD) primarily in the public sector. The public sector is in the unenviable position of being both the principal executor of the reforms and a primary target for scrutinizing the success or failure of the reforms. The donor community is aware that Myanmar's transition to an open, democratic society will be determined by the capacity of the public sector to implement the reforms. An appreciation of this predicament provides the rationale for this research, which will attempt to answer the following question: What conflicts exist between the principles of the international ODA regime and the realities of development in Myanmar? To answer this question, this paper will illustrate the extent to which CD has become a core component of the international ODA regime. Focusing on CD in particular, the following section will show the extent to which the Myanmar government has (at least officially) accepted the principles of ODA and development as stipulated by the international ODA regime. The first section will provide an analysis of conflicting views on CD as a modality of development cooperation. This will provide the theoretical framework for an analysis of the reality of CD in Myanmar. The methodology section will describe the comparative case study approach and lay out the main hypotheses. Each of the case studies will be presented, describing the development projects and programs that provide evidence to test the hypotheses and highlight conflicts in ODA principles.

CAPACITY DEVELOPMENT: A CORE MODALITY

Like any new concept that enters the public domain, the definition of capacity development is open to some debate. The United Nations Development Programme (UNDP) defines CD as “the process through which individuals, organizations, and societies obtain, strengthen, and maintain the capabilities to set and achieve their own development objectives over time” (UNDP 2009). According to Amartya Sen’s interpretation of the meaning of development, capacity is the capability of individuals to increase their potential, to increase the number of options available, and to hence increase their freedom. This then enables the individual to choose the way of life that has value for them (Sen 1999). However, in the international ODA literature the concept refers to external support for CD, which means the deliberate intervention by external actors to improve capacity. As one author put it, “Capacity development and development, and institutional strengthening together with good governance have become the latest philosopher’s stone of official aid agencies” (Riddell 2007, p. 207).

This seemingly paradoxical relationship between capacity and ownership is a key issue in our analysis of CD. The UNDP definition of CD above hints at ownership, defined as “the exercise of control and command, from the idea to the process, from input to output, from ability to results” (quoted in Lopes and Theisholn 2003, p. 2). According to the World Bank, “country ownership means that there is sufficient political support within a country to implement its developmental strategy”, although more importantly, “ownership requires that a country has sufficient institutional capacity for defining and implementing a national development strategy” (World Bank 2008). According to this logic, if we assume that capacity is being insufficient, a country needs external assistance to increase capacity and achieve ownership.

The purpose of public sector CD, then, is to improve the capacity of governments in recipient countries to provide services (and goods) to their citizens. The level of such services depends on the wealth of the country and government revenues. However, the level of services that citizens receive should be commensurate with government income and should be distributed in a fair manner, according to need. Most importantly, citizens should perceive this to be the case. The provision of government services is, of course, a core component of the social contract that underpins state-citizenry relations. In this way, the delivery of services provides the state with legitimacy beyond the ballot box, which may or may not exist.

As Myanmar transitions into a democracy, improvement in public service, in addition to being a concrete sign of economic development, will also play an instrumental role in gathering public support. If the international donor community is to support and facilitate the reform effort in Myanmar, it is critical that support is directed at this goal of public service improvement, and that efforts to improve public services are successful.

In contrast to public sector CD, the purpose of private sector CD is to empower citizens to increase their own productivity, along the lines advocated by Amartya Sen. Furthermore, this empowerment refers to the ability of private citizens to actively participate in the process of development, which incorporates their own development (capacity as freedom), into the development of their society as a whole.

Eminent international development scholars such as Paul Collier (2007) and Jeffrey Sachs (2005) have long argued that CD must be a key component of donor assistance to developing countries. The power of this argument is reflected in the fact that the donor community has comprehensively embraced CD, which has become such a core component of the international ODA regime. More than a quarter of ODA finance, US\$25 billion a year, goes to CD in the form of TA.

According to the Development Assistance Committee (a grouping of bilateral donors) of the OECD, "The 2005 Paris Declaration on Aid Effectiveness highlights the importance of capacity development for Southern ownership and leadership of development strategies and processes. Since then, capacity development has been at the centre of international aid debate" (OECD 2010, p. 1) Following the Paris Declaration, the 2008 Accra Agenda for Action (AAA), which called for the integration of CD into all development strategies, contained 16 different passages on CD, and placed CD at the heart of the AAA (OECD 2008). The Busan Partnership for Effective Development, although not focusing on CD, stresses the importance of alignment and the use of country systems, rather than bypassing or attempting to replace country systems. The rationale for this is that using these country systems will develop their capacity.

The Paris Declaration identified five principles of ODA that are relevant to this study: ownership, alignment, harmonization, results and mutual accountability. Principles of ownership and alignment have been described above. Harmonization refers to coordination between donors. Results are self-explanatory, and mutual accountability refers to the accountability of donors and recipients to each other and to achieving results. Under mutual accountability, partners commit to participatory approaches to development, involving a broad range of development partners (OECD 2005). The Accra Agenda and the Busan Partnership added the principle of *inclusive development* partnerships that would encompass all local, national, and international stakeholders in the development process (OECD 2011).

While the World Bank provides loans and grants to developing countries, it has also developed its role as a global development knowledge network. The World Bank's Capacity Development Resource Center indicates that "more than 20 percent of the World Bank's lending and a majority of non-lending services focus on capacity development." The World Bank strongly promotes the emerging CD agenda. According to the Bank, "At the heart of international consensus is the notion that capacity is the ability to solve problems, make informed choices, define priorities and plan futures. The objective of aid assistance is to help developing countries build their capacities, that is, boost their ability to achieve

development goals” (World Bank 2011). In line with this role, the World Bank Institute (WBI) runs the Leadership Development Program, which is designed specifically develop the capacity of high- and mid-level decision makers. The Bank has also established LenCD, an “open Learning Network on Capacity Development”.

Capacity development is also a priority for the Asian Development Bank (ADB), as evident in the US\$1.2 billion dispersed for CD projects between 2007 and 2010. The ADB has been actively elevating the status of CD, in line with the global development agenda, as a key aspect of its 2004 Reform Agenda. It acknowledges the importance of strengthened capacity not only for achieving public sector performance, but also as an essential prerequisite for optimizing the impact and sustainability of development aid (ADB 2013a, p. 9).

Thus, improving capacity is not only a goal of ODA, but is also a necessary condition for the success of that very same ODA. Capacity has become the new aid conditionality, and CD the new modality through which aid is disbursed.

While the international donor community has established capacity as a necessary condition, and primary goal, of development, and has concurrently instituted CD as a core modality of ODA, has this also been accepted by aid recipients such as Myanmar?

Improving capacity is not only a goal of ODA, but is also a necessary condition for the success of that very same ODA. Capacity has become the new aid conditionality, and CD the new modality through which aid is disbursed.

A DOMESTIC CONSENSUS ON CAPACITY DEVELOPMENT

There is widespread recognition within the Yangon-based donor community that a number of key ministers have a conspicuous lack of enthusiasm towards reforms from a number of key ministers.² Pederson (2013) does note, however, that the three military-appointed ministers in the cabinet or the military bloc in parliament have not made any attempts to block government reform efforts. These problems were present even before the slowdown and backsliding in reforms identified by President Obama before his second visit to Myanmar in November 2014 (Irrawaddy 2014). While this does not manifest itself as outright opposition to the President’s reform efforts, this acquiescence is likely a response to the considerable momentum that is carrying the reforms forward. Such non-cooperation, or passive resistance, could transform into a more active kind if the reforms were to stumble. Nevertheless, it seems that in the early stages of the transition (2012–2014), although the capacity of government officials is regarded as low, the donor community has found counterparts that they are able to work with.

² *Interviews with donor officials, Yangon, August 2013.*

While Myanmar's public sector suffers many of the ills common to developing countries, the years of military rule have also left their mark. The militarization of the state of Myanmar placed military officers in all government ministries, which resulted in all mid-level and senior level positions being held by current or retired military officers. The result was a highly hierarchical (military-like) state bureaucracy that prioritized the military over the citizenry. Even though there has been a substantial reduction of the military's role in bureaucracy with the transfer of hundreds of mid-level military officials out of government departments back to military units or into the police force (Pederson 2013), decision-making remains highly centralized. Many ministers are retired senior military officers, and it is the perception of donor officials that the decision-making system remains one in which all decisions, even relatively minor ones, can only be made at the director general level (or above). This perception has dramatically slowed the reform effort.

The transfer of military officers out of ministries has, resulted in a perceptible increase in qualified personnel. It seems that most donor agencies have found it easier to work with deputy ministers rather than ministers, or with lower level bureaucrats.³ Thus, in line with the dominance of capacity and CD in the international ODA discourse, officials from donor agencies acknowledge the deficit in capacity in the public service. How about the instigators of reform? Has the leadership also recognized this deficit, thereby embracing the seemingly preeminent position of capacity in the global development agenda?

In a December 2012 speech on reforms to improve the management and administrative capacity of the government, President U Thein Sein, talking to senior government leaders, referred to capacity a number of times. Acknowledging that "the capacity of the government will play an important role in deciding the success and failure of economic reforms in the country", Thein Sein accepted that "local state officials have come to lack the capacity to meet the needs of the local people and to solve the problems that they are facing". In this way, the President was both accepting the importance of CD and acknowledging the capacity deficit in the public sector in Myanmar. He concluded that "while undertaking political and democratic reforms, we must wholeheartedly try to improve the capacity and performance of both individual public servants and the entire bureaucracy as a whole" (President's Office, 2012).

The January 2013 *Nay Pyi Taw Accord for Effective Development Cooperation* is an agreement to which the Government of Myanmar and the donors have committed themselves (NPTA 2013). Its primary purpose is to improve aid effectiveness. According to the document itself, it reflects the "conclusions of the international dialogue on aid effectiveness, including the Paris Declaration and the Accra Agenda for Action", as well as the "principles... .. embodied in the Busan Partnership for Effective Development Cooperation". This is not surprising, as the current Minister of National Planning and

³ Interviews with donor officials, Yangon, August 2013.

Economic Development, Dr. Kan Zaw, attended the Busan Conference. Capacity is mentioned six times in the 1500-word document, referring to, for example, “enlarging capacity... ..to reduce poverty”, “integrating capacity enhancing objectives into all development plans”, and building national and government capacity. So, in the pursuit of its development goals, it seems that the government of Myanmar has formally accepted the prime role of CD as established by the international ODA regime.

While the Myanmar government continues to stress its long-held predisposition for independence, framed firstly within the confines of the Cold War, and then with reference to the pressure of the Western sanctions, it has also accepted the development discourse as framed by the international (Western dominated) donor community. Burma's predilection towards independence and neutrality is evident from its role as a co-organizer of the 1955 Bandung Conference that paved the way for the Non-aligned Movement (NAM). Indeed, an early study suggested that, “the Burma government pioneered the policy of neutralism” (Johnstone 1963, p. 1). The importance of independence was further shown by the 1979 withdrawal of Burma from the NAM because some members were advocating interventionism (Taylor 1987). In the post-Cold War era, Myanmar long resisted the pressure of Western sanctions, arguing that it was foreign interference in domestic affairs.

Myanmar's acceptance of the new development aid agenda (as formulated in the Paris Declaration, AAA and the Busan Partnership) could be understood to be evidence of the appropriateness of that agenda for recipient countries. The donor community likely sees the response of Myanmar as a validation of the donors' own efforts at reform. This raises the stakes for all involved. Myanmar will become a primary case study for testing both the applicability of the principles laid out by the international ODA regime and compliance by the donor community with what it has been preaching. If Myanmar, with its strong preference for independence, can accept the principles and practices of development as outlined by the international ODA regime, then surely most other recipients can as well.

THEORETICAL FRAMEWORK: THE CULTURE OF CAPACITY DEVELOPMENT

According to Peter Morgan's (2006) analysis of CD within the international ODA discourse, capacity is a symbol behind which programs and initiatives “can be re-packaged, re-labeled and re-legitimized.” The global donor community has established CD as a core modality of ODA and recipients, such as Myanmar, seem to have accepted this. However it is not clear whether this acceptance is based on its effectiveness as a development tool in a reformed international aid regime focused on real partnership, or on submission to the unequal donor-recipient relationship inherent in neocolonialism.

Prior to the international aid reforms of the Paris Declaration and AAA, strong advocates of TA and CD recognized that “intelligent aid would require a substantial reorganization of how technical assistance is delivered” (Collier 2007, p. 181). A World Bank review of TA between 1971 and 1991 concluded that “the efficacy and effectiveness of TA had been disappointing” (Riddell 2007, p. 206). The UNDP also concluded that TA had not

been effective at strengthening the capacity of local institutions and “was expensive, donor-driven, often served to heighten dependence on foreign experts, and distorted national priorities” (Fukuda-Parr et al. 2002, p. 4).

The perception that ODA is a gift from the rich to the poor is still pervasive, although more so among the general public than within the development community. It was Gapsler's (1999) conclusion that charity is the ethical underpinning of most aid, although 20th century ODA documents (the Paris Declaration, the AAA, and the Busan Partnership) seem to connote ODA as a right, reflected in the framing of ODA as a partnership.

The international ODA discourse is increasingly making use of the term *partnership*, despite the unequal nature of the relationship. Economically developed donor countries are likely to have superior capacity relative to developing countries. It is likely that donors are assisting developing countries to follow the same path to development that they themselves have taken. It is logical to think that, as with master-apprentice relationships, the benefits to the recipient outweigh those of the donor. This explains how even unequal relationships can also be thought of as partnerships, as a form of collective action or cooperation for mutual benefit.

However, the neoclassical agenda is still apparent in the discourse. Donors and their populations recognize the rational basis underlying aid, namely self-interest. However, “aid partnership is a moralizing process expressed through an ideology of ‘capacity’ (a will to modernize) which is both personal and has an ‘ordering power’ which creates its own hierarchy of authority and expertise” (Mosse and Lewis 2005, p. 20). According to this line of reasoning, capacity is the excuse through which donors influence recipients. The recipient must conform to the model of economic development as outlined by the donor, and must also follow the conditionalities that donors attach to their aid.

As outlined by the international ODA regime, capacity is the latest conditionality necessary for development, and hence also for development assistance. The donor community's passion for CD “gives expression to the deep-seated will to civilize, it does so in a way that reaffirms sacred values of the aid domain: modernity, rationality and political neutrality” (Gould 2005, p. 69). If this is indeed the case, it is no wonder that constituents within recipient countries often refer to the international ODA regime as merely the latest manifestation of the asymmetrical power relations that produced colonialism. This power relationship has resulted in a situation whereby “the development industry creates objects out of development initiatives rather than partners” (Fukuda-Parr et al., pp. 10–11).

A somewhat different perspective on the issue is indicated in an example from the World Bank. The Bank has observed that its most successful CD efforts occurred when there was political support for them (World Bank 2005). While this may seem like common sense, it can be inferred that the World Bank has undertaken CD in countries where there is no political support for them. In the implementation of development projects, the idea of capacity may take precedence over the need for ownership. Hence, the Bank's insistence

on the necessity of CD for project success may be perceived as a neo-imperialist threat to state sovereignty. Countries in early stages of state building, such as Myanmar, may be more sensitive to issues of sovereignty.

CD may mean little more than donors providing training to local bureaucrats on how to complete the paperwork for donor-funded development projects. For transition countries like Myanmar, there is a large gap between the procedures and standards of donors and those of recipients. CD is “embedded in interventions with specific goals that are almost always about conforming to formal demands or expectations of aid-related actors and processes” (Gould 2005, p. 70). Such technical skills are transferable and likely to increase the capacity of the public sector, which will also add the necessary human component to the partnership. However, this implies that the success or failure of development depends on the adoption of the donor’s particular processes and procedures.

Partnership between rich donors and poor recipients is more likely a paradox than a possibility (Jensen and Winthereik 2012). The equality implied by the term partnership is especially difficult to achieve when it comes to providing capital, technology, or skills on concessionary terms from advanced countries. Gould concludes that “the partnership regime is not hegemonic, it is flimsy”, meaning that the problem is not that the partnership is unequal, but that it does not exist in any meaningful way. In this way, “Fostering partnerships... [is a] public relations exercise, contingent on immense aid-dependency (Gould 2005, p. 83).

Trust is a key component of partnership. Given the CD discourse, one may infer that the donors’ trust in recipient institutions is relatively low. While individual officials can establish a transnational working relationship that is based on trust, such relationships will likely be transient in nature given the short postings of ODA donor officials.

A final important issue to consider is that, while donor officials and government bureaucrats attempt to portray CD as merely a ‘technocratic’ process, it is highly likely that this is never actually the case. CD involves empowering one group of officials within an organization or one group of stakeholders, which inevitably affects the distribution of power between the various stakeholders. In this way, CD has a significant political aspect. It will certainly be the case that some stakeholders will perceive their interests to be under threat, and will hence attempt to counter the influence of the CD. It is possible that in rigidly hierarchical organizations, seniors will be reluctant to support CD for their juniors. Such will likely be the case in non-meritocratic organizations where rewards are determined by patron-client relationships rather than merit.

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METHODOLOGY

This paper used comparative case study analysis of donor's CD to support the transition in Myanmar. This research investigated the culture of CD in Myanmar, relying on evidence about the perspectives of planners and practitioners.⁴ The literature review provides the theoretical framework for analyzing the reality of CD in Myanmar. In addition to this, official documents of the international ODA regime, as well as those of the government of Myanmar were analyzed to yield policy insights.

CD has become a core modality of ODA policy and practice because it is regarded as a key to development, particularly in countries in transition such as Myanmar. This is one reason why it has been chosen as the focus of this research. As argued in the preceding section, CD is a highly contentious approach. One perspective considers the culture of CD to be supporting neocolonialism, in that it is a component of the hierarchy of power relations that perpetuates the control of developing states by developed states.⁵ This leads to the hypothesis that capacity development is a method through which donors influence (exert some control over) recipients; i the rival hypothesis is that CD is a tool to empower recipient countries to plan their own development. This paper will use a comparative case study approach to test these two rival hypotheses, while highlighting the inherent, and possibly unavoidable, conflicts between different principles of the international ODA regime and within the culture of CD itself.

The empirical side of this research comes from interviews carried out with development practitioners on a number of field trips to Myanmar between 2013 and 2014. All respondents were interviewed alone to ensure privacy. Prior to commencement of the interview, the author explained the research project and assured respondents of anonymity and confidentiality to encourage them to speak freely. Interviews were conducted in an informal or conversational manner to elicit the most candid responses, which were noted by the author, and then transcribed after the interview. Interviewees included expatriate officials of bilateral donor agencies, (the UK, Japan, the United States, Germany, and Norway), multilateral donors (the European Union, World Bank, ADB, and UN agencies, such as the ILO and UNICEF), and local Burmese development practitioners involved in general development work, including some involved specifically in CD in the public sector. The researcher was not able to interview recipients of, or participants in, CD projects or programs, and this must be recognized as a weakness of the research. The researcher was also not able to interview Burmese policy makers or bureaucrats involved in planning and implementing public sector CD projects and programs.

⁴ Culture is here taken to refer to a set of norms, language and behavior that characterizes a social group.

⁵ Neocolonialism here is taken to mean the use of cultural imperialism, in the form of capital, expertise, and technology to influence the decision making process within the country.

A number of case studies have been chosen as a representative sample of CD projects and programs from among the multitude of programs and projects being undertaken through ODA in Myanmar during this early period of reforms. Following the case study selection techniques outlined by Seawright and Gerring (2008), the case studies are classified as 'typical' or representative and are used to confirm or refute the hypotheses. Our case studies are typical because they highlight an issue that is especially relevant in Myanmar, but may also illuminate issues regarding donor approaches in general. However, these case studies are also high profile cases because they have been identified by recipients and donors alike as most necessary and urgent. They are also considered flagship projects or programs because, besides the intended developmental impact, they attempt to garner popular support for the reform process.

COMPARATIVE CASE STUDIES

National Community Driven Development Project

The World Bank has been one of the main proponents of CD within the international ODA regime. How has this manifested itself with regard to Bank operations in Myanmar? In its Interim Strategy Note (ISN) for FY2013–2014, the Bank affirmed that it would focus on supporting “national efforts to rebuild and transform Myanmar’s institutions” (IDA and IFC 2012, p. 12). However, in recognition that institutional capacity building is a long-term exercise, the Bank will also assist in building confidence in the reform process. To support this, in November 2012 the Bank announced the US\$80 million National Community Driven Development Project. The rationale of this grant was to support “an urgent government priority critical to the success of Myanmar’s triple transition - moving from top-down decision making to participatory approaches and bottom up planning” (IDA and IFC 2012, 1). A process of workshops and consultations yielded a list of stakeholders, from which the government selected the pilot townships. While it seems likely that certain civil society groups did have some input on the selection process, without observing the process itself it is impossible to ascertain the significance of such an input. It is also possible that at least some of the civil society participants considered it a worthwhile effort. This project is providing a forum and assistance to Civil Society Organizations (CSOs) to participate in decision-making. The aim of increasing participation was to increase capacities of CSOs, which will decentralize the decision making process and enable true ownership.

If such projects are to truly become people-centered, then CD will undoubtedly become a key component. In line with this, in November 2013, World Bank officials visited the selected townships and met local administrators and villagers. At these meetings locals were urged to form a management committee and were told that “the Bank will also conduct training for financial management” (Eleven Media 2013), basically training local members (citizens) of the management committee, with the intention of achieving people-centered development and empowering locals to take ownership of the development process.

However, it is unclear how local government officials will be integrated into this people-centered approach. The traditional hierarchy of decision making in Myanmar has excluded citizens from the decision making process, so it is plausible that local government officials would feel threatened by such CD, if they were not direct recipients. It is very likely that local government officials have a different idea of ownership than do donors and may favor greater central government control, particularly in countries that have suffered from civil war, and struggled with extending state authority across the territory, leading to an overlap in the interests of local elites and central government. It must be recognized that such CD projects, while perhaps not actively encouraging such an outcome, will inevitably cause a shift in local power distributions that may result in conflict. In this way, while donors may insist that CD is a technocratic process, it is not politically neutral. However, such shifts in power are a natural result of any type of development, and will occur even without any external factors.

Electric Power Project

In September 2013 the World Bank approved the Electric Power Project whose purpose is to increase electricity generation in Myanmar. Power infrastructure is underdeveloped, and it is estimated that only 20-30% of the country is covered by the electricity grid. The Bank project will begin with the upgrading of gas turbines at the Thaton Gas Turbine station in Mon State. The Environmental and Social Assessment Report for this project, published in August 2013, highlights the lack of legal requirements and institutional capacity for effective safeguard preparation and implementation in infrastructure projects as a major hurdle for investments by international financial institutions and responsible investors (Norconsult 2013).

The World Bank is trying to undertake a relatively large-scale infrastructure project, with the specified aim of supporting the reform process, despite recognizing that legal frameworks and institutional capacity are far below its own operating standards. The prevalent view of donor officials in Yangon is that the capacity necessary for ownership in the public sector is severely lacking.⁶ Obviously, the potential for ownership is limited at this stage. In this way perhaps, at Myanmar's level of development, ownership should be considered a medium-term goal.

The same World Bank report further states that out of a list of 10 World Bank Safeguard Policies, the one concerning indigenous peoples will be triggered (Norconsult 2013).⁷

The World Bank might be under pressure to assist the government in achieving quick wins, but this is a risky endeavor. Within the international ODA discourse, participatory development, partnership, and ownership are all stipulated to be inclusive; if indigenous peoples will suffer from a development project, this is an obvious infringement of those

⁶ Interviews with donor officials, 2013-2014.

⁷ The Safeguard Policies are those policy areas especially vulnerable to negative impacts from development projects, for which special safeguards must be assured.

principles. However, it must be recognized that all development is a trade-off that includes a cost-benefit analysis undertaken with incomplete information.

Through projects such as this, the World Bank will be attempting to raise the Myanmar government's operating standards, and it is here that this project involves CD in the public sector. Myanmar is not alone in being in such a situation. The World Bank has considerable experience operating under such conditions in other parts of the world. What is perhaps unusual is the extraordinarily high level of attention that Myanmar is receiving, not only from the international donor and business community but also from the global mass media and transnational civil society networks. As a flagship project of the nascent reengagement between the World Bank and the government of Myanmar, the Electric Power Project will be subject to especially powerful scrutiny by the global community.

ADB Technical Assistance

While the World Bank has taken a cautious approach to CD in Myanmar, the same can certainly not be said for the ADB. Like the Interim Strategy Paper of the World Bank, in October 2012, the ADB published an Interim Country Partnership Strategy (2012–2014) that outlined its framework for full resumption of operations in Myanmar. According to this strategy, the ADB will focus on the following three objectives: human and institutional capacity development, an enabling economic environment, and infrastructure and rural development.

In the second half of 2012, the ADB approved US\$5.4 million worth of aid for 12 TA projects in the areas of “policy advisory, capacity development, and institutional strengthening in some critical areas”, including two major TA projects (ADB 2013b). The first of these is the project for Capacity Development and Institutional Support (US\$1.5 million), which will focus on civil servants in government ministries and related public companies. The executing agency is the Ministry of National Planning and Economic Development (MNPED); a sub-committee under the government's Aid Management Working Committee that coordinates TA activities will select participants for the various components (seminars, workshops, etc.) of this TA support. International advisers will also be placed in key ministries.

The second TA project is on Capacity Development Support for Project Identification (US\$1.5 million). It is built on the recognition of the shortfall in civil servants' ability to prioritize potential projects, to identify feasible investment projects and to prepare pre-feasibility analysis of pilot projects. This project focuses on the four sectors of transport, energy, water supply and other municipal services and agriculture and natural resources, which were “identified based on the expressed priorities of the government and the results of the preliminary assessments, strategies, and road maps conducted by ADB staff” (ADB 2012).

The inability of civil servants to identify and implement projects is and will continue to be a serious bottleneck that will impede growth and slow the reform effort. Indeed, as previously outlined, the civil service in Myanmar is severely lacking capacity, an example of which is that even job descriptions do not generally exist. The rigid hierarchy within the Myanmar bureaucracy also impedes development of individual autonomy. However, if framed within the previously outlined culture of CD, then the imperative of improving capacity and modernizing institutions could be interpreted as a hierarchical, conforming process, in which donors lead, and recipients follow. Even if this were true, the provision of such a project could conversely be interpreted as being based on a joint needs assessment. Both parties, donors and recipients, recognize the deficiency in these skills within the civil service. In this way, the ADB is assisting in building the capacity of civil servants to set their own development priorities, which will facilitate recipient ownership of the development process. Either way, the provision of CD is normatively framed as a condition for development and further development assistance.

Projects such as these are the first prong in the ADB's approach to CD in Myanmar. The second prong is a long-term focus on education, utilizing the internal mechanisms that are already in place, the country systems, as identified in the Busan Partnership. The current plan seems to be for creating a new type of TA that will be much more flexible to recipient needs.⁸

If this can in fact be achieved, then it could potentially overcome many of the previously outlined weaknesses of CD. A new project, the Support for Long-Term Capacity Development of Civil Servants project, was proposed in July 2013. Amounting to US\$1.5 million, and funded through the Technical Assistance Special Fund, this project will finance the first three years of a 10-year vision for CD in Myanmar and establish a forum that will act as the "long-term capacity development body" (ADB 2013c). This is the first time that the ADB has formally adopted a long-term approach to CD, and it will thus be seen as something of a flagship of ADB aid to Myanmar. It could also become a model for long-term CD to countries in transition. However, it will obviously require a level of commitment that is often perceived to be lacking.

Japanese Scholarships

Quickly following the 2012 by-election, at the Japan-Myanmar Summit that took place on the sidelines of the Fourth Mekong-Japan Summit Meeting, the Japanese government announced it would cancel 303.5 billion yen (about US\$3.7 billion) of Myanmar's debt to Japan. While the cancellation would be contingent on the joint monitoring of continued progress towards reform in Myanmar over the following year, it allowed the Japanese government to disburse new ODA loans (MOFA 2012). Two new ODA grant projects for Myanmar were announced on that very same day, one of which was focused on CD.

The US\$2 million Project for Human Resource Development Scholarship funds the studies of Burmese students in Japan. According to the Japan International Cooperation Agency (JICA),

⁸ Interview with ADB staff, Yangon, August 2013.

this was the first step in what would be a considerable expansion of the scholarship program.⁹ In May 2013, it was announced that a further US\$3.7 million would be provided in grant aid for Human Resource Development Scholarships. The public sector administrative officers from Myanmar who study in Japan in this program are expected to contribute to the construction of mutual understanding and a friendly relationship between Japan and Myanmar (MOFA 2013).

Provision of education and training in Japan for Burmese public servants is a clear manifestation of CD in the public sector. As a result, almost 1,000 government ministry officials have studied in Japan. Even though it is difficult to measure the actual impact of CD on the public sector as a result of the program, it is possible to say that the effort is considerable, and the impact on individual capacity could be substantial, though the impact on institutional capacity is likely more limited. Yet, if we frame this assessment according to the culture of CD, then certainly the students must conform to the education system of Japan, which is extremely rigid and hierarchical. Furthermore, the program is certainly not in keeping with using country systems, as specified by the Busan Partnership. It focuses on individual rather than institutional capacity. If we further frame such scholarships within a concept such as Akamatsu's 'flying geese paradigm', then certainly it is a hierarchical power relationship, in which the 'modernized' Japan leads and the developing country follows.

JICA Technical Assistance

JICA is providing support to jointly organized seminars in Thailand in which Burmese bureaucrats can study alongside officials from other Southeast Asian countries. In September 2012, JICA provided support to a seminar that was jointly organized by Myanmar's Ministry of National Planning and Economic Development (MNPED) and the Vietnamese Ministry of Planning and Investment. JICA's support seems to be based on an understanding that Myanmar's government would be more receptive to feedback from its regional neighbors. It also seems that JICA regards such South-South cooperation both as worthwhile and as an area in which Japan has some advantage over other donors, as Japan is apparently the only bilateral donor actively endorsing South-South co-operation vis-à-vis Myanmar.¹⁰

Another example of JICA TA to Myanmar is the October 2012 Seminar on Reforming Legal Systems of Public Company and Corporate Governance, co-sponsored by JICA and the Union Attorney General's Office. Lawyers and Legal scholars from Japan participated in the seminar alongside Burmese bureaucrats.

In October 2012, 22 bureaucrats from the General Administration Office, Ministry of Home Affairs attended a two-week workshop in Japan under the JICA-financed Training Program for Young Leaders 2012 - Local Governance Course. While the course focuses on different aspects of local government, such as management of infrastructure, the

⁹ Interview with JICA official, Yangon, August 2013.

¹⁰ Interview with JICA official, Yangon, August 2013.

participants “can get a chance to learn about the culture, economy, politics and history of Japan”. As with the previously outlined scholarships, this program is expected to strengthen existing friendship and cooperation between Myanmar and Japan. It is also likely that interaction at such seminars could build trust between individuals that would provide a base for forging future partnerships. As previously outlined, it may be more useful to focus on the trust aspect of partnership rather than equality because equality may be difficult to achieve in development cooperation between donors and recipients.

In September 2013, JICA held a seminar in Tokyo for 41 Burmese government officials. The specified purpose of this seminar was to increase the capacity of officials with regard to “the process, procedures and guidelines of Japanese ODA loans so that they can smoothly carry out projects and realize tangible results as quickly as possible”. In the words of a JICA official, “this is the very first time for Myanmar officials to receive a training program in how JICA has been providing ODA loans to developing countries and will focus on enabling trainees to implement the projects effectively and efficiently” (Global Post 2013). According to the formerly outlined culture of aid, TA for CD is interpreted as being a hierarchical, conforming process in which donors lead, and recipients follow. This CD is merely to train Myanmar officials in how to conform to JICA norms and standards. Presumably, the rationale behind it is that such CD is the first essential step, without which other CD is not possible.

After years of international sanctions, it is no surprise that Burmese officials are not familiar with dealing with foreign donors. However, given that all donors have different administrative procedures, different training sessions might be necessary for different donors. Does this then mean that these Myanmar officials will deal only with the donor who has trained them? Or does this training transcend the methodologies of the donor concerned? This is a question to be answered by further research. This particular CD may also be interpreted as an attempt by the donor to influence the domestic aid-related decision-making processes. It seems reasonable to assume that after the training session, Burmese officials would feel more comfortable dealing with that particular donor (and its methodologies). The donor may well argue that, by building capacity, it is enabling the partner country to maintain sovereignty over economic policy, and considering the limited capacity of the Myanmar bureaucracy, it is essential to increase capacity to overcome this bottleneck that restricts the inflow of development finance.

DISCUSSION

Do conflicts exist between the principles of the international ODA regime and the realities of development in Myanmar? Our comparative case study analysis concludes that certain ODA principles (alignment, harmonization, mutual accountability, results) are generally uncontroversial, but the principle of ownership is particularly complex. Different interpretations of national and local ownership can lead to conflicts with the principle of inclusive development. In addition, ownership is in some ways in direct conflict with the idea of capacity development.

The World Bank Electric Power project highlights the issue of different interpretations of ownership, in that the state may interpret ownership to mean national ownership, while the principle of inclusive development interprets ownership as local. In this project the principles of ownership and inclusive development were compromised because of the potential negative impact on indigenous peoples. Ethnicity and ethnic politics is a highly volatile issue in Myanmar, and the donor community must be extremely cautious in their selection and implementation of development projects. If, as outlined by the Environmental and Social Assessment Report, an indigenous group suffers from a development project, the World Bank will be perceived to be favoring one group over another, which could have disastrous consequences for the resolution of ethnic conflict in Myanmar and could damage the reputation of the Bank.

The capacity deficit is deemed to be a serious bottleneck to development, and Myanmar has some particular characteristics that compound this problem. The hierarchical nature of the country's public service complicates CD efforts. The limited autonomy of public agencies and departments results from this hierarchical structure, and is another challenge for donors. Furthermore, true ownership, in terms of localized participatory development, is in direct conflict with the traditional decision-making approach in Myanmar. This means that, in CD programs such as the World Bank's National Community Driven Development Project, donor agencies will be supporting and empowering one group at the expense of another group, and will therefore not be able to claim political neutrality. However, political conflict is almost always a byproduct of development, as economies change structure and inevitably affect the distribution of political power.

The initial analysis of the discourse of the international ODA regime and the case studies show that donors consider capacity to be a precondition for ownership. This study has shown that all donors perceive capacity in Myanmar to be extremely low, and all donors also see capacity development as a fundamental imperative. The normative position of capacity within the international ODA discourse has been accepted by the Myanmar government, which now also sees CD as a key modality of ODA and an important priority. Our comparative case studies here have shown that, in some cases at least, the imperative of capacity has

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taken precedence over other principles of ODA: in practical terms, capacity comes first, and ownership comes second. This is the condition of partnership between donors and recipients in Myanmar.

It seems that the ADB is using Myanmar as the testing ground for a new approach to technical assistance and capacity building. Critics of traditional TA and CD have advocated the long-term approach that the ADB is now in the first stages of implementing. The ADB is focusing especially on the public sector, reflecting its critical importance to the reforms. The ADB seems to be aware of the potential conflict between CD and ownership, and this is probably the reason why the ADB is focusing on direct support for country systems in the form of the civil service.

Three out of five of the case studies (The National Community Driven Development Project, The Electric Power Project and the ADB TA) support the hypothesis that CD empowers the partner. Aside from the previously mentioned issue of indigenous peoples, all principles of ODA were adhered to. In contrast, the two other case studies (the scholarships and JICA TA) support the hypothesis that CD is a form of neocolonialism. The prime reason for this is that in both case studies there existed a strong potential for influencing the decision-making process in the partner country towards the interests of the donor country. Having said that, the scholarships are intended to improve the bilateral relationship, and it is logical to assume this includes increasing influence. The scholarship scheme seems to contradict the ODA principles of ownership, harmonization and alignment. The main reason for this is that CD is provided by Japanese educational institutions, over which the partner has no control. The standards and content of these institutions varies considerably. The JICA-specific training, in particular, does not conform to the alignment principle of ODA because the training is specific to JICA-funded ODA. This has implications for the ownership principle in terms of influence over domestic decision-making, and this is why it supports the hypothesis that this CD is a form of neocolonialism.

CONCLUSION

In the debate over aid as neocolonialism or aid as empowerment, the case studies utilized in this research supports the latter. While there is limited evidence that aid could be interpreted as neocolonialist, this is when other motivations for providing aid are powerful. It is also possible that the lack of inclusive development can be misinterpreted as donor neocolonial tendencies because of different understandings of the meaning of ownership. It seems likely that in many developing countries, and especially those relatively new ex-colonies, the imperative of state building has created a tendency to perceive ownership to mean state or national ownership over the development process. In this way, it reflects the power relations between the local and the national, rather than between the national and the international. While adhering to the principle of (national) ownership (or sovereignty), donors place themselves in a position whereby they may compromise the principle of inclusive development. The prevalence of different understandings of the meaning of ownership is an important area for future research.

Whilst capacity is necessary for development, the eventual goal of CD is to achieve true ownership.

This research has also highlighted the delicate relationship between ownership and capacity, and how this can result in perceptions of aid as neocolonialism. Ownership, especially local ownership, is a goal of development to be achieved through CD that empowers locals. Whilst capacity is necessary for development, the eventual goal of CD is

to achieve true ownership. Consequently, external interventions to increase capacity will always be vulnerable to criticisms of neocolonialism. This highlights the problematic, almost paradoxical, relationship between capacity and ownership.

ACKNOWLEDGMENTS

This work was supported by JSPS KAKENHI Grant Number 25380211.

This work was completed while on sabbatical as a visiting researcher in the Faculty of Humanities and Social Sciences at Oxford Brookes University. The author wishes to thank the faculty for its support and hospitality.

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RESEARCH ARTICLE

India's Gender-Divided Sex Behavior: Illusion or Policy Challenge?

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Keywords: gender divide, misinterpretation of data, India, sex

Suggested Article Citation: Raghunath, Nilanjan, and Philip Truscott, "India's Gender-Divided Sex Behavior: Illusion or Policy Challenge," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 47 - 63

<http://dx.doi.org/10.18003/ajpa.201502>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

ABSTRACT

This paper studies the misinterpretation of survey data of gender-divided sex behaviour in India and argues that the misinterpretation of statistics can mislead policy makers and present challenges in policy making. Some academic and media interpretations have indicated that Indian premarital sex rates have risen sharply in recent decades. On close examination these reports appear to have misrepresented the data. For instance, small-scale local surveys have been portrayed as representative while research on one age cohort has been reported as if it had covered multiple decades. In contrast, the National Family Health Survey, which is a multi-decade national survey that asked detailed questions on sexual history, shows small but statistically significant declines in female pre-marital sexual activity from the late 1960s (2.4%) to the 1990s (1.7%) (IIPS, 2006a). During the same time period male

premarital sex rates have increased from 9.8% to 20.0%. This observed gender gap in sex behaviour calls for a special male-focused policy response.

INTRODUCTION

Popular press (and even some academic research) have portrayed a dramatic change in the sex behaviour in India, especially among the younger population. The Indian economic reforms of 1991 caused changes that went far beyond the realm of economics. According to Sharpe (2005, p. 58) the term "global India" refers not only to the expatriate diaspora but also "signifies the social and cultural transformation India has undergone

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since 1991." An article in the *Times of India* (Fernandes 2011) stated that sex taboos are changing in India. The death of the so-called 'Permit Raj' in economics has been shaped in the popular imagination with a rising tide of libertarianism in the social field. Is there any hard data to support these claims?

This article will argue that the data only show rising premarital sex rates for men. For women, the premarital sex rates have always been low and have actually declined in recent decades. Furthermore, this article argues that policy makers should be careful with overgeneralizations of statistical data and closely examine the survey methodologies and assumptions. While social commentators portray rising rates of premarital sex among Indian females, statistical evidence shows the contrary.

This issue involves many important questions of disease control and gender justice. Men can indulge themselves sexually with almost no cultural consequences even if they end up being infected with HIV. This is usually not the case for women. The current public policy response cannot adequately address a widening gender gap in sex behaviour if policy makers are misled by the claims of popular media. Most studies claiming higher rates of premarital sex are based on small samples (relative to India's population), which are not nationally representative.

METHODOLOGICAL ISSUES IN PREVIOUS STUDIES

Local Surveys and Small Samples

In 2001, the *British Medical Journal's* news roundup page included an attention-grabbing headline: "More than a quarter of India's youngsters have premarital sex." However, readers who took the trouble to study the survey description closely would have detected that the data did not refer to a representative sample of young Indians, but to a sample of young slum dwellers from Delhi and Lucknow (Sharma 2001). There was no attempt to explain the sampling method of the survey or whether these slums were representative of India as a whole.

In the case of the Durex Global Sex Survey, the data collection process does claim national coverage. The survey makes dramatic claims, one of which was that 15% of Indians admit to extramarital affairs (Durex 2005). The report for the 2005 round of the Durex survey did not state the sample size although the 2012 round reported that a total of 26,032 people from 26 countries worldwide were surveyed. Still, it is unclear whether the Indian sample was representative. Furthermore, the Durex 2012 survey was conducted online by a market research company. This is especially problematic since internet users comprise only a small percentage of the Indian population (CIA 2012). Given that Durex is in the business of selling condoms, one can challenge the objectiveness of its sex-related surveys. Durex's populist sex research creates an underlying belief that Indian sexual norms are changing. However, many professional researchers can point out that the survey does not have enough methodological rigor to support these claims.

A Chronological Misconception

The *Youth in India: Situation and Needs Survey* by Sathya et al. (2012a) made an important methodological innovation by gathering data using both face-to-face interviews and self-administered questionnaires submitted in sealed envelopes. The anonymous sealed envelope format was designed to overcome reticence towards sex-related questions, hence revealing higher rates of sexual activity. In particular, the authors reported that: an assessment of any pre-marital sexual experience reported in face-to-face interviews and via the anonymous sealed envelope format suggests that 27% of young women and 17% of young men who reported sexual experience did so only in this format (Sathya et al. 2012a). This is certainly an important insight about the data collection process, which should be considered in future surveys.

However, just as the slum-based surveys have sometimes been imputed with a misleadingly wide geographical coverage, the sealed envelope studies (Alexander et al. 2006; Sathya et al. 2012a) have sometimes been imputed with an unduly wide chronological coverage. The statement that 27% more young women were sexually active when measured by the sealed envelope method naturally led commentators to claim that 27% more single women were having sex than was previously thought. This could be easily misinterpreted as a rising *rate* of premarital sexual activity when it was only the *awareness* of it that has increased. Since both surveys only gathered data from youths (ages 15-24) in the 21st century they cannot be used to make statements about people in older age cohorts.

It has not always been found that more impersonal methods of data collection have led to higher estimates of sexual activity. Another technique to avoid social desirability bias about sex behaviour is to use computer-assisted interviews. Jaya, Hindin and Ahmed (2008) compared data from computer-assisted self-interviews with personal interviews and discovered differences in the responses, by gender. Male respondents were more likely to report heterosexual intercourse in a computer-assisted interview as compared to a face-to-face interview, whereas the opposite was true for females.

An Epidemiological Misconception

Just as the sealed envelope methodology may have created a chronological misconception, the loose discussion of HIV infection rates may have caused an epidemiological one. When journalists wrote that Indian HIV infection rates have increased in recent decades, many readers were led to believe that it was the result of the rising trend of engaging in sexual relations with multiple sexual partners. However, any new contagion will appear to have rising infection rates in the decades immediately after its onset. The first instance of HIV was detected in Tamil Nadu in 1986 (Simoes et al. 1987). By the year 2000, the prevalence of HIV among adults was estimated to be 0.7% of the Indian population. The Indian government estimated the absolute number of infected people as 3.86 million (Ramasundaram 2002). The deadly nature of the infection stirred media's attention, and shaped the public's perception.

In his article titled “Can India avoid being devastated by HIV?”, Ramasundaram (2012) opines that any author who claims that the HIV risk has been overstated will doubtless be accused of a potentially lethal complacency. While all of Ramasundaram’s health policy prescriptions may be valid, the situation of HIV infections in India is still far from reaching the state of sub-Saharan Africa. The National Aids Control Organization (NACO) reported an adult HIV prevalence of 0.88% or about 5.2 million people in 2005 (NACO 2006). The most recent estimate published by the United Nations AIDS organization, however, lists India’s overall infection rate at only 0.3% or about 2.5 million people for the year 2009 (UNAIDS 2012).

It is quite possible that the main reason India’s HIV history did not mirror Africa’s was due to rising female abstinence. Given that there was already strong pressure on Indian women to be abstinent, the idea of contracting a fatal STD may have contributed to a further decline in premarital sex rates. In this context it is particularly tragic that so many of India’s new infections are among women who marry HIV-positive men. Santhya and Jejeebhoy (2007) reported several anecdotal accounts of women who married infected men only to discover their partner’s condition after consummation. Their analysis also showed that the infected women were not predominantly sex workers who actively transmitted HIV but were instead infected by their partners.

Jejeebhoy (1998) did a meta-analysis of studies on Indian adolescent sexual behaviour which concluded different sexual activity rates between the genders. Six research studies found that female premarital sex rates ranged from 1% to 9% with an average of 6.5%. This average excluded an outlier of 47% that was reported in a tribal area of rural Maharashtra. In comparison, ten research studies found that male premarital sex rates ranged from 9% to 30% with an average of 22.8%. This meta-analysis revealed that the average male premarital sex rates were more than three times higher than the female rates. As a caveat, it should be stressed that most of the studies included in the meta-analysis were not nationally representative. It was not until the Demographic and Health Survey (DHS) of 2005-06 that an all-India survey asked the crucial questions about sexual relationship history which allowed for the analysis presented in the following section of this paper.

HIV transmission is consistent with the report *Containing HIV/AIDS in India: The Unfinished Agenda* (Chandrasekaran et al. 2006) which uses the term “bridging populations” to describe men who intravenously use drugs, hire commercial sex workers who then transmit the infection to women. Given that women may be the victims rather than the agents of HIV transmission, it is entirely possible that female sexual abstinence could have

The idea of contracting a fatal STD may have contributed to a further decline in premarital sex rates.

In this context it is particularly tragic that so many of India’s new infections are among women who marry HIV-positive men.

increased while infection rates climbed. Their sad reality was to live up to the expectation of India's strict sexual norms for females, but suffer from the risky behaviour of others.

Different attitudes about the permissibility of premarital sex can be discerned even at the primary school level. Research on Indian students in grades 6-12 found a statistically significant gender difference on attitudes to the statement that "Sex is OK for good friends." Predictably, male students were more likely to agree (Tikoo 1997) India. Students from Grades 6-12 were randomly selected to respond to the questionnaire that included 99 items pertaining to demographics, knowledge, attitudes, and behaviors regarding human sexuality and AIDS. Simple statistical analyses (frequencies, t-tests, and one-way analysis of variance.

Female sexual abstinence could have increased while infection rates climbed. Their sad reality was to live up to the expectation of India's strict sexual norms for females, but suffer from the risky behavior of others.

EXPLAINING THE RISE IN FEMALE ABSTINENCE: A NATIONAL MULTI-AGE COHORT SURVEY

The year 2005 was the first year that the Demographic and Health Survey (DHS) of India asked women about the date of their first sexual intercourse and the number of lifetime sex partners (the previous waves of the survey in 1992 and 1998 omitted these items). In 2005, the survey results were reflective of a nationally representative sample of 124,385 women (IIPS 2006b). Although the new questionnaire did not directly ask questions on premarital sex, one can identify and estimate premarital sex rates using responses to questions relating to the number of lifetime sex partners, age at marriage and age at first intercourse. If the respondent first had sex with her future husband in the same year as her marriage, that was not considered as premarital sex. Table 1 compares premarital sexual activity rates for different age cohorts. It attempts to replicate recent research on the 15-24 age group by excluding people in any age cohort who had their first intercourse above the age of 24.

Table 1 is based on age cohorts that group women into five-year age bands. The groups only contain women who have reached the age of 25 (those born after 1981 were excluded from the analysis). Those who were first married or had a first sexual experience after age 24 have been excluded from all groups. The numbers in Table 1 thus show the premarital sex rate in the 0-24 age group for all cohorts. The 24-year age limit was chosen to maximize comparability with other studies (e.g. Sathya et al. 2012b; Singh and Ram 2009).

The *female* part of Table 1 gives an impression of slightly increasing social conservatism that contradicts the popularly held norms; the *male* section shows rising premarital sex rates that conform to them. For this group of women the premarital sex rate peaked at 2.37% for those born during 1962-66. It declined to 2.11% for the group born during 1972-76 and then to 1.66% for the youngest cohort. The relationships are significant (*probability of X^2* = 0.006).

Table 1: Premarital sex by age cohort for both sexually active and married under age 25

Females Age Cohort (by Year of Birth)	Has Had Premarital Sex	
	Yes	No
1956-61 (n=10,081)	1.98%	98.02%
1962-66 (n=12,148)	2.37%	97.63%
1967-71 (n=14,562)	2.17%	97.83%
1972-76 (n=15,728)	2.11%	97.89%
1977-81 (n=17,352)	1.66%	98.34%
Total (n=69,871)	2.03%	97.97%

Pearson: Uncorrelated $\chi^2(4) = 21.0257$
 Design-based F (4.00, 279285.82) = 3.6591 Pr = 0.006

MALES Age Cohort (by Year of Birth)	Has Had Premarital Sex	
	Yes	No
1956-61 (n=7,733)	9.97%	90.03%
1962-66 (n=7,768)	9.81%	90.19%
1967-71 (n=8,986)	11.86%	88.14%
1972-76 (n=8,821)	14.13%	85.87%
1977-81 (n=7,407)	19.99%	80.01%
Total (n=40,715)	13.13%	86.87%

Pearson: Uncorrelated $\chi^2(4) = 479.6747$
 Design-based F (4.00, 162769.80) = 68.0297 Pr = 0.000

Are these apparent declines the result of real changes in behaviour over time? Subaiya (2008, p. 58) noted the same trend but seemed to attribute it to reporting bias, saying that "the higher rates in the older ages could be either due to the 'ability' to report on a sensitive topic like premarital sex or due to the higher likelihood of premarital sex among the older cohort and those with a later age at marriage". Regarding the ability to report a concept, it has a definite attractiveness as a theory. Married women might be willing to admit premarital sex because they have already found marriage partners. This may be not true of single women since they are afraid that the information would damage their unmet marital needs. It might also be the case that those who first married in their

late 20s or 30s had a higher risk of premarital sex (due to many more years of opportunity). Subaiya's concerns suggest constructing a different type of analysis. Accordingly, Table 1 addresses these concerns by excluding those who are single and those who married above the age of 24. Even with these limitations, the premarital sex rate declines over time.

Table 5 also analyses women from all the age cohorts but excludes those first married and sexually active older than 24. The odds ratio of premarital sex still declines as the year of birth increases. Subaiya also argues that women are under-reporting their premarital sex activity. This estimation may well be true. It aligns with the research on the sealed-envelope technique and it may well be the case that *all* the female rates in Table 1 should be increased by 0.5% in line with the findings of Sathya et al. (2012b). As the same correction should be made to all the age cohorts, the finding does not invalidate the age-cohort comparisons where all the cohorts were surveyed in the same way. There would still be a downward trend in sexual activity rates. In the survey with a sealed envelope method, a female premarital sex rate of 4% was reported (Sathya et al. 2012b). As mentioned, 27% of women who had engaged in premarital sex were willing to report the information only through this more private method. It may be not plausible to argue that the youngest age cohort is relatively more reluctant to report intercourse than its older counterparts. Public discussion of sexual matters has become more open not more taboo.

Multi-Generation Households

What could explain rising abstinence? Recent development in India may have strengthened patriarchy and the nuclear family. At the time of the 1992 Demographic and Health Survey (IIPS 1993), 71.2% of never married females described their relationship to the head of household as "daughter." In the 2005 DHS, this proportion had risen to 80.5% (with a corresponding decline in multi-generational households headed by a grandparent). An American panel study analysed of Udry and Newcomer (1987) confirmed earlier research that being in a mother-only household predicted early coitus for girls. Their article suggested that "fathers may carry more authority than mothers, or the fear of having to confront a father with evidence of a sexual infraction may be more intimidating than having only to confront a mother" (Newcomer and Udry, 1987, p. 236). Given the aforesaid 10% rise in Indian father-headed households, the decline in female premarital sex might be an Indian version of the same phenomenon.

During the same time period, the average household size fell from 7.7 to 6.2 persons. If fathers are more zealous in supervising the behaviour of their daughters in smaller family units, then the independent agency of India's single women may have been more challenged than facilitated by economic growth.

However, the lack of longitudinal data covering these questions should make one cautious about drawing any firm conclusions. From the DHS questionnaire, it is not possible to know what the respondent's household situation was at the time of her first intercourse.

Premarital Sex and Education

The Indian survey data challenges the traditional Western view of the effect of education on premarital intercourse. As far back as the 1930s, the American social researcher Willard Waller (1937) painted a detailed picture of female coeds living an independent lifestyle far from their parents in dormitory buildings. In India, the stay-at-home students do not have as many options as their North American counterparts. They rarely live away from home during their college study. Another difference between India and the US may be that Indian parents believe that a university degree can increase a daughter's ability to make a good social match and they help to discourage premarital sex as a way to protect the 'marital investment'. This argument is supported by the fact that more years of female education are associated with a lower probability of premarital sex, as can be seen from Table 2. It is also possible that the longer period of education is associated with greater financial and family stability, which may reduce the rate of premarital sex. A study local to the Pune district of Maharashtra also found that the number of years of schooling was associated with a lower probability of "physical intimacy or sex" (Alexander et al. 2007).

Table 2: Premarital sex by religion – All sexually active women

Respondent's Religion	Had Premarital Sex	
	Yes	No
Hindu (n=69,521)	2.0%	98.0%
Muslim (n=12,241)	1.9%	98.1%
Christian (n=7,370)	3.9%	96.1%
Sikh (n=2,057)	3.3%	96.7%
Buddhist (n=1,227)	3.4%	96.6%
Other (n=1,558)	9.5%	90.5%
Total (n=93,974)	2.1%	97.9%

Pearson: Uncorrected $\chi^2(5) = 252.8892$

Design-based $F(4.62, 434110.51) = 41.5372$ Prob = 0.000

Source: Individual DHS 2005-2006

Premarital Sex and Religion

Developed country survey data might show a significant number of non-religious women, which could allow for the testing of hypotheses that their sexual behaviour differs from their peers. In contrast, there are negligible numbers of Indians who report being non-religious. In the 2005 DHS, only 38 respondents out of 93,974 said they had "no religion." Hindu and Muslim women appeared to be more traditional in their sexual behaviour than other Indians.

Table 3: Religion by age cohort - All sexually active women

Year of Birth	Respondent's Religion			
	Hindu	Muslim	Christian	Other
1956-1966	82.3%	11.3%	2.8%	3.7%
1967-1974	81.0%	12.9%	2.5%	3.6%
1975-1980	81.1%	13.5%	2.2%	3.2%
1981-1991	81.3%	14.8%	1.5%	2.4%
Total	81.4%	13.1%	2.3%	3.2%

Pearson: Uncorrected $\chi^2(9) = 292.4309$

Design-based $F(8.75, 822334.27) = 23.6987$ Prob = 0.000

Source: Individual DHS 2005-2006

The most sexually abstinent group in Table 2, the Muslims, appears to be increasing as a proportion of the female population. Table 3 shows that the weighted total of Muslim women increased from 11.3% of the survey population in the earliest cohort to 14.8% in the latest age cohort. This may have been achieved largely through higher fertility. In the 2005 DHS, there were 3.26 births per Muslim woman compared to 2.73 for the entire sample. Since the least abstinent religious groups are declining, a reduction of premarital sex rates may indeed be a real phenomenon rather than a statistical illusion.

Autonomy of Spousal Selection

Another useful measure of western-style modernity would be women's autonomy of spousal selection. The Indian Human Development Survey showed that the proportion of women who chose their own husbands only increased slightly during the closing decades of the 20th century. For those married during 1960-79 only 3.4% of women said that she chose her husband independently. For those married during 2000-06 this had risen to 8.8%. Thus, in more than half of all marriages in the 21st century, the parents alone selected the husband.

Multivariate Models

Table 4 shows the odds ratios of various factors that affect premarital sex. Model 1 simply predicts the odds based on the bride's age at marriage. Model 2 adds various factors where the p-value is significant at least at the 0.05 level.

Tables 4 and 5 exclude all women whose first intercourse or marriage was after the age of 24 (thus N=69,917). This was done to remove the possibility that the women born in earlier decades just appeared to have more premarital sex because they have more available years to participate in it. More years of education and membership in the two largest religious groups (Hindu / Muslim) are associated with a lower probability of premarital sex. Membership in one of the other religious groups, older age at marriage,

residence in a megacity, and female employment are all associated with higher probabilities (not all the categories of occupation and religion could be represented in Table 4 while satisfying the requirement of statistical significance).

Table 4: Logistic regression model showing the effect of multiple factors on the risk of premarital sex

	Probability of Premarital Sex	
	Model 1	Model 2
Age at First Marriage	1.110*** (23.49)	1.127*** (23.93)
Years of Education		0.949*** (-11.56)
Hindu or Muslim		0.624*** (-5.81)
Christian		1.305** (2.83)
Mega city		1.407*** (4.21)
Sales & Clerical		1.291* (2.24)
N	93,720	93,720

Note: Odds Ratio; t statistics in parentheses, * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

Source: Individual DHS 2005-2006

While Table 4 evaluates multiple characteristics, Table 5 attempts to simplify the analysis by considering only the age at the first marriage and the respondent's year of birth. The results in Table 5 still indicate that an increasing year of birth is *negatively* associated with the probability of female premarital sex (significant at the 0.001 level). However, the trends over time show a markedly different trajectory for men and women. Female premarital sex rates have been decreasing (the odds ratio for female year of birth is less than 1); male premarital sex has been increasing (the odds ratio of year of birth is more than 1). Both are significant at 0.001.

While attributing causal factors to premarital sex may seem premature due to lack of good longitudinal data, the possibility that changes in Indian sexual behaviour amount to a uniform liberalization can already be discounted. Since the economic reforms of the 1990s, the evidence of changed behaviour is gender segregated. Contrary to earlier predictions, the direction of change in female sexual behaviour can be discerned as more abstinent.

Table 5: Logistic regression – Predicting risk of premarital sex from age at 1st marriage and year of birth- females

Females	Probability of Premarital Sex	
	Model 1	Model 2
Age at First Marriage	1.161*** (18.86)	1.163*** (19.04)
Year of Birth		0.987*** (-3.77)
N	69,917	69,917

Note: Odds ratio; t-statistics in parentheses, * p<0.05 ** p<0.01 *** p<0.001

Source: Individual DHS 2005-2006

Males	Probability of Premarital Sex	
	Model 1	Model 2
Age at First Marriage	1.155*** (17.18)	1.154*** (17.10)
Year of Birth		1.025*** (9.74)
N	26,542	26,542

Notes: Odds ratio; t statistics in parentheses* p<0.05 ** p<0.01 *** p<0.001

Source Male DHS 2005-2006

DISCUSSION

What factors have led to a lower incidence of premarital sex in the female age cohorts we have studied? The first factor could be greater access to higher educational and professional opportunities. Whereas this might have led to increased premarital sex in the West, Indian families, which invest heavily in the careers of girls, want to make sure that female sexual history is as attractive as their earning power.

Another reason for the decline in rates of premarital sex among females is the growth in the proportion of Hindus and Muslims over the years in India (see Table 4). The Muslim population is growing at a higher rate than Hindus, but Hindus still constitute the majority. These groups are the most conservative when it comes to marriage norms. With this in mind, the understanding of rising female abstinence rates would require an analysis of social pressure on gender and sexuality, which current studies do not really address. The

growth in population among these religious groups is only part of the story. The increasing conservatism among the population creates a pressure that affects the marriage market. According to Gladwell's tipping point theory, certain historical changes rapidly accelerate when the population notices that a trend has become fashionable (Gladwell 2002). India is very far from the situation where nearly half of the women are engaging in premarital sex and the social norms further reinforce conservatism. Using Gladwell's theory, India's situation would create pressure towards abstinence rather than premarital sex.

Sexual behaviour is also dependent on prior learning. Institutions such as religion should be examined since each institution provides a sexual ideology (Foucault, 1998). Religious leaders and the economy have a profound bearing on patterns of sexuality, especially marriage and childbearing (Teachman, Tedrow, & Crowder 2000) Tedrow, & Crowder, 2000. Socially learned sexual scripts define whom to have sex with and when it is appropriate (Hyde and Delamanter 2008). Opportunities in the marriage market affect attitudes towards premarital sex and thereby define premarital sexual scripts.

Those who claim that India is undergoing a sexual liberalization often fall into the trap of assuming that changes for small groups of people speak of trends in the entire nation. In India, women's sexual liberation has only partially kept up with the developed world. Images of the sexually exotic have been exported from India through the Kamasutra. However, in contemporaneous reality, there are strict taboos about female expressions of sexuality. Norms of female chastity, which dictates no sex before marriage and loyalty after marriage, are deeply inherent in the Indian cultural ethos across religions and caste barriers. The Indian term for an unmarried virgin woman is *kanya*, while *pativratha* is used for a married woman who is faithful to her husband. These terms are often used when describing the ideal virgin bride or a loyal wife.

The social position of Indian women nowadays is of extreme irony. Their status appears to be very traditional even though the law gives them far more rights than their predecessors. Women not only obtained the right to vote and work after political independence, but can no longer be married away below the age of eighteen according to the Child Restraint Marriage Act of 1929. Although these laws often had more reality on paper than in practice, their significance lay in the fact that they decriminalized the act of choosing one's own partner (even if it meant overriding communal and traditional dictates). Table 4 shows that years of college education are associated with a decreased risk of premarital sex. This implies that most female Indian students either live with their parents or are under the watchful eyes of friends and extended family. One study shows that women from poorer families face less supervision and are more exposed to the possibility of premarital sex (Hindin & Hindin 2009). According to the same study, 32% of male respondents engage in premarital sex while only 6% of female respondents engage in premarital sex.

Madhu Kishwar, a prominent feminist activist and social scientist, aptly points out the enigmatic and despondent state of women's emancipation in India. Legal reforms are gradually moving towards gender equality, but families typically do not care about women's rights or the legal implications of such when it comes to practices such as arranged marriages, dowry, abuse, etc. Furthermore, women police other women (Kishwar 2008). The strong cultural value placed on virginity means that women supervise themselves to

resist temptation before marriage. One could also argue that it is not convenient for women to have sex before marriage because of strong social control by their kin, lack of privacy and most importantly loss of face and options in the marriage market. The Indian Human Development Survey (2010) shows that the age of marriage has only increased marginally. The Hindu population has seen a tiny increase in the average marriage age from 17.7 years in the age cohort born from 1956-66 to 18.1 years for those born at the end of the 1970s (IIPS 2006a).¹ There was no significant increase in marriage age for any other religious groups. An educated woman holds a big advantage to marry in her twenties because she is likely to have more options in the marriage market due to a homogamy preference in terms of caste, social class and age (Driver 1984). The theory of homogamy envisages the tendency of most people to marry within their own social group as expressed by Kalmijn (1998).

Matching as many attributes of socio-economic status is considered crucial to a successful marriage (Raghunath, 2007). The notion of an arranged marriage, however, has somewhat shifted from being just a merger of two families or finding a male provider for one's daughter. Educated middle class women use the arranged marriage system for migration options and also to negotiate for grooms who are equally educated (Uberoi & Palriwala 2008). In order for a woman to find the "right match", virginity is still an important virtue in the arranged marriage market. While this might suggest that both men and women might lie about their past sexual encounters, extensive background checking makes this difficult. Also, there is a danger of the marriage ending in divorce if the partners and families were to find out about the women's past sexual activities.

While some literature might assume that rising urbanization would lead to more premarital sex, there is no clear relationship between sex and urbanization in India. The National Family Health Survey shows no clear link between premarital sex rates and the size of the city a woman lives in. Mega-cities have a higher than average rate, but small cities have a lower rate than rural areas (IIPS 2006b).² While the mega-cities may be slightly more westernized, urban living is less private, depriving young people of secret or private spaces.

The growing media attention to premarital sex in India does not reflect a widespread social reality. Moreover, wider access to sex education, information and counselling on safe sex, will make young people more aware of the risks associated with pre-marital sex while older couples will be empowered to make the right choices. Urbanized and educated men and women are highly valued in the marriage market. Smaller living spaces and more family policing in urban areas means that early marriage to a suitable person is a way out – a pathway to a global career and greater location choices. Virginity may seem a small price to pay for a stable married life full of global opportunities.

¹ In order to control for the fact that the later cohorts cannot include women who married after the age of 30, the youngest cohort was excluded and those who married after this age were excluded from all the cohorts.

² While the National Family Health Survey (2005-2006) does show slightly higher sexual activity rates for "mega-cities" such as Mumbai, it shows that rural areas have higher rates than medium-sized cities.

CONCLUSION

The snapshot of Indian sex behaviour provided by the 2005 DHS shows a striking dichotomy between the attitudes of the sexes. While male premarital sex is increasing, society's attitudes to the same activity by women continues to be extremely censorious. The double standard is illustrated in a comment on premarital sex captured by Abraham (2002, 346):

"Most of these are time pass affairs, and not serious ones. Girls are taking a big risk. Can get pregnant ... but more than that, [girl loses her honour, gets bad name, does not get married]."

Even for the women who play by India society's rules, marriage can run aground on the rocks of the husband's un-reported sexual behaviour. Health advocates (Chandrasekaran et al. 2006) who argue that HIV prevention should focus on high-risk groups (such as sex workers and intravenous drug users) are making a logical case. However, if the main bridging population, premaritally active men, has doubled in size and is increasing rapidly, it raises the question of whether more effective interventions could persuade more men to avoid risky behaviour.

One way that this could be done is through premarital testing. For example, compulsory premarital HIV testing was introduced in the state of Illinois in 1988 (McKillip 1991). However, The Illinois program was not popular. It was repealed in 1989, and was not judged to be cost-effective (Turnock & Kelly 1989). The argument for premarital testing would be stronger if Indian HIV rates start moving towards African levels. The main reason the Illinois couples disliked the testing law was the intrusion of social controls into their very libertarian culture where adults can do whatever they want without the fear of a parental veto. The Indian reality is very different as there are already many social controls. The marriage process is matching of two individuals and an alliance of two families. A more moderate version of the policy would be a requirement to inform marriage license applicants of the option to undertake a publicly funded blood test (or a partly subsidized test).

The case for premarital testing in India would seem to be stronger because of markedly different sexual behaviours of brides and grooms. For Indian men, the concept of a premature AIDS-related death seems so distant as to be meaningless. The prospect of not being able to marry freely would be a much more immediate concern and a much stronger incentive. Due to limited health resources, it seems wise to concentrate interventions on high-risk groups. What if HIV rates start to climb due to rising premarital sex rates among a much larger population of heterosexual men (or bisexual men who later marry)? If the HIV increases are caused by the bridging population, something at least as radical as premarital testing would be required to make a meaningful impact. Generic preaching about male abstinence seems unlikely to change behaviour.

The fact of diverging premarital sex rates raises important questions for further research. Does it simply a more widespread use of sex workers? How can the rates diverge, unless a small minority of women is greatly increasing its number of lifetime sex partners?

Is there a rising culture of men undergoing loss of virginity as a form of initiation to a male peer group? The important point is that policy makers need more effective and widespread studies, which use multiple methods in order to address issues such as HIV prevention, and better social welfare for women. Many more studies need to be carried out to understand the different patterns of sexual behaviour amongst the various demographic groups.

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Beyond the Point of No Return? Allied Defence Procurement, the ‘China Threat’, and the case of the F-35 Joint Strike Fighter

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Keywords: F-35 Joint Strike Fighter, defence procurement, alliance relations, US-China competition, securitization, contingency discourse

Suggested Article Citation: Zaffran, Raphaël, and Nicolas Erwes, “Beyond the Point of No Return? Allied Defence Procurement, the ‘China Threat’, and the case of the F-35 Joint Strike Fighter,” *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 64 - 88

<http://dx.doi.org/10.18003/ajpa.201508>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

ABSTRACT

Why does the US government and some of its allies persist in controversial defence procurement projects? Using the F-35 Joint Strike Fighter (JSF) as a case study, this paper suggests that a contingency discourse created by key actors in the United States (US) military industrial complex has been internalized by policy makers. This is the case not only in the United States but also internationally among the decision-making elites of those countries involved in the production of the F-35. By focusing on the discursive evolution of key actors’ responses to concerns of additional costs, delays, technical failures and waning innovative superiority of the F-35, this paper attempts to comprehend how the US and its allies have justified continued investment in such a controversial defence procurement project. This paper shows that a contingency discourse on the spectre of China’s military build-up and the resulting arms race between the US and China is being deployed by policy makers in

the US, Australia and Japan to make the F-35 look like a continuing necessity.

INTRODUCTION

Persistence in apparently controversial projects has been a recurrent phenomenon, not only in the realm of politics and wars but also in business and project management

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(Brockner, Shaw and Rubin 1979; Mark and Cunningham 1975; Staw 1976). Project leaders often find it difficult to terminate a project despite rising political stakes from unforeseen increases in human and financial requirements. A project usually then becomes controversial when its progress is stalled and it becomes unlikely to meet its initial objectives or to add value. A recurrent puzzle is therefore to understand why project leaders tend to persist in investing resources in such projects.

This attitude of wishful thinking is particularly present in war making, during which political and military leaders perceive failure in war endeavours as unacceptable. Leaders' justifications for prolonging controversial wars have often been embedded in notions of prestige, national security, or even survival. Such rhetoric for instance was strongly embedded in the discourses made by the United States' political and military leadership during the Vietnam War. In order to prevent the 'domino effect' from unfolding, US policy makers were determined to prevent communism from spreading in Asia. By doing so, they effectively tied their fate to the survival of the US-friendly South Vietnamese regime, which made it difficult for them to abandon the war effort (Gelb and Betts 1979). Furthermore, leaders tend to frame military setbacks as a temporary period that can later be overcome (Jervis 1977; Paul 2009). Such rhetoric was used by high-level decision makers like US Defense Secretary Leon Panetta, who praised the success of the International Security Assistance Force (ISAF) despite a growing number of reports disputing the level of progress made in Afghanistan (Feffer 2009). It is even more challenging however to terminate a conflict when other allies are involved, as the cases of Iraq and Afghanistan both illustrate, because each state has a responsibility towards its fellow partners.

An interesting parallel can therefore be made between the difficulty of withdrawing from strenuous conflicts and states' persistence in controversial defence procurement projects. The fifth generation F-35 Joint Strike Fighter (JSF) for instance, the most expensive defence procurement project in history, has been the object of heated debates for the past few years. While its advocates perceive the F-35 as "the saviour of US airpower", critics consider it as "a failed acquisition program that illustrates the inherent incompetence, graft, and corruption all too common in Washington, D.C." (Lowther and Wrenn 2014). This paper therefore seeks to understand how the US government and some of its allies have justified continued spending on the F-35, one of today's most controversial defence procurement projects.

The core issues surrounding the decision to quit a highly controversial defence procurement project are similar to those associated with the termination of conflicts. First, when considerable human and financial resources have been invested, project leaders do not want those resources to have been invested in vain. Second, there are substantial reputational considerations associated with quitting a project that has involved large amounts of taxpayer money and national resources. Upon acknowledging that a project has failed, leaders face severe political backlash and may see their reputation tarnished. Finally, joint venture projects are difficult to terminate because of the potential reputational, legal, political, and financial implications of abandoning the other partners. As the first acquisition program co-developed and co-produced by the US along with other foreign partners, the issue of 'joint venture' is particularly salient with the F-35 (Kapstein 2004).

The international dimension of the F-35 suggests that the project is not only a matter of defence policy, but also one of foreign policy. Indeed, the F-35 procurement process was rapidly embedded within alliance dynamics. As a fifth generation fighter jet, the F-35 is more technologically advanced compared to competitors like the Dassault Rafale or the Eurofighter Typhoon (Gertler 2014; Piquard 2011). Key actors in the US military industrial complex have also underlined the geopolitical value of the JSF. Indeed, as this paper will demonstrate, the F-35 has increasingly been portrayed as a necessary asset to contain China's growing military capabilities, especially its own fifth-generation stealth fighter jet, the Chengdu J-20, which conducted its first flight on 11 January 2011 (BBC News Asia-Pacific 2011).

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After briefly walking the reader through the general debate about the F-35, this paper will consider whether historical institutionalism and prospect theory may help understand the US government's persistence in the JSF program. Given that these analytical frameworks are insufficient to explain the persistence phenomenon, this paper will then explain how a 'contingency discourse' around China's military rise was developed and later internalized by US policy makers. The paper will continue by illustrating how this contingency discourse was subsequently adopted by Australian and Japanese policy makers, two key US allies in the Asia-Pacific region. Finally, several policy implications are drawn from this study.

ABOUT THE F-35 JOINT STRIKE FIGHTER LIGHTNING II

The controversy behind the JSF is best explained by comparing the project's initial objectives with its actual progress and ability to meet these objectives, while looking at the JSF's eventual added value. The F-35 program represents the US Department of Defense's (DOD) largest weapons procurement program in terms of its projected acquisition cost. The DOD planned to acquire in total 2,457 F-35 JSF, which would be shared by the Air Force, Navy and Marine Corps for an estimated total cost of \$329 billion (Gertler 2014).¹ The initial benefit presented by the program was first and foremost the international dimension of its production, with partner countries sharing the financial burden in terms of procurement and development. Moreover, the F-35 was supposed to be both at the cutting-edge of technological advances and relatively cheap, with each unit projected to cost around \$35 million (Kapstein 2010). The international dimension of the program initially guaranteed that the costs would remain low, as foreign sales would help decrease the cost per unit.² In addition, foreign involvement also suggested that partners' expertise could be used, sometimes even at lower cost, in order to meet the program's goals in terms of technological

¹ All figures are in 2015 US dollars unless otherwise stated.

² The eight countries involved in the program are the UK, Italy, the Netherlands, Turkey, Canada, Australia, Norway and Denmark.

superiority and affordability (Kapstein 2010). In terms of its capabilities, Lockheed claimed that the F-35 would be “four times more effective than current fighters in air-to-air combat” and would “require less logistics than existing fighters” (Hughes 2015, pp. 7-8). Overall, the Pentagon described the JSF as “the most affordable, lethal, supportable, and survivable aircraft ever to be used” (Hughes 2015, p. 8).

The F-35, however, was quickly confronted by a variety of challenges. First, the international dimension of the program turned out to be a double-edged sword. The different financial contributions by involved parties reflected their varying expectations and budget allowances. It thus became a logistical nightmare for Lockheed Martin and the Pentagon to coordinate this large array of preferences and integrate them into their own decision-making processes. Second, the aircraft faced various technical deficiencies in critical technologies. An evaluation conducted by DOD’s Systems Engineering office, for instance, discovered that the F-35 “is on track to meet seven of the eight” key performance parameters (KPPs), with the exception being sortie generation rate. It cautioned, however, that “although on track, the combat radius, STOVL [Standard Take-Off and Vertical Landing] performance, and CV [Carrier Variant] recovery KPPs have limited margins” (Welby 2014). Diverse structural issues were also found in the aircraft: a crack in the turbine blade and excessive wear on the rudder hinge attachments were discovered in 2013 while an engine caught fire during take-off in 2014 (Capaccio 2014; Hughes 2015). These incidents have caused the F-35 fleets to be grounded on multiple occasions and have thereby increased production delays.

While such mishaps are part of the developing stages of any defence procurement project, the F-35’s additional costs stand out from other similar programs. Lockheed claims that unit costs “will be reduced by 4% lot over lot” and that the F-35 would eventually cost less than any fourth-generation fighter in the world (Butler 2013; Clark 2013). The unit acquisition cost was estimated at around \$112 million (Gertler 2014, 16). This price, however, does not include the engine program, estimated between \$17.7 million and \$23 million per unit (Gertler 2014, 16). Other studies have contested these forecasts, estimating the current unit cost at \$200 million dollars a unit (Wheeler 2013). Other calculations made by the US Government Accountability Office (GAO) estimate that the program’s costs are “well over twice its initial cost estimates” and “that the program is at least seven years behind schedule” (Hughes 2015, p. 9). Moreover, the GAO found that the annual F-35 operating cost is much higher than the combined annual cost of several US legacy aircrafts (United States Government Accountability Office 2014). Recent estimates suggest that the total JSF acquisition cost will soar to about \$400 billion, and that the 55-year life cycle cost of the entire program will approach \$1.5 trillion (Bender, Rosen and Gould 2015).

In addition to being expensive, some analysts suggest that the F-35 is fast losing its technological edge, hence putting into question its eventual added value. This includes the F-35’s stealth capability, whose value will only be ‘transitory’ given the parallel technological advances in anti-stealth radars (Henrotin 2011). A study conducted by RAND Corporation in 2008 even concluded that the F-35 was inferior in visual range combat relative to modern Russian/Chinese fighter designs (Axe 2014). Despite these facts, it is imprudent to label the F-35 as a failed defence procurement project at this stage because it has not been

operationally engaged in conflict. Only the future will tell whether this was a worthwhile investment, and thus, for the purposes of this article, the F-35 is simply defined as a controversial programme.

This paper seeks to elevate the debate about the F-35 beyond the question of effectiveness by looking into how US policy makers have justified continued investment in the program. The JSF was initially conceived in the 1990s as a plane that would replace the older generation fighters of the Cold War. Indeed, the F-35 would help to “save hundreds of billions of dollars in maintenance and modification expenses over the next two decades while

reducing the need for specialized support aircraft” (Thompson 2015). Faced with a US Congress showing little interest in the defence budget and the prospect of running an aging and increasingly expensive fighter fleet “in a strategic environment where air superiority and safe in-theatre were virtually guaranteed”, the USAF wanted an aircraft that could embody all the different capabilities of its previous fighters (Kopp 2002). Given that other US allies’ fleets were also aging, an international defence procurement program was created to cover part of the research and development costs. The F-35, however, was quickly confronted by a strategic environment for which it was not designed. Kopp (2002) accordingly described the F-35 as a “Cold War anachronism”, because it was not meant to “hunt high technology Russian mobile surface to air missile systems, [...] or a bunch of terrorists in a four wheel drive.” In light of these ‘asymmetric and unconventional threats’, the rise of China provided the F-35 with a new ‘traditional’ state threat, similar to the ones which had influenced its conception towards the end of the Cold War.

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After considering historical institutionalism, sunk costs and prospect theory as potential bodies of literature that may help understand persistence in such a controversial defence procurement project, the paper will look into how key actors in the American military industrial complex have constructed a contingency discourse based on an ongoing arms race with China. Similar to the ‘domino theory’ in Vietnam, the contingency discourse is centred on containing China’s growing military capabilities and preserving the status quo in the Asia-Pacific region. This rhetoric was subsequently internalized by policy makers in the US as well as by some of its allies involved in the F-35’s production. This paper will first focus on the discursive evolution of key military actors’ responses to concerns of additional costs, delays, technical failures and waning innovative superiority inherent to the F-35, while examining how this discourse may be linked to the parallel security discourse on China’s military rise. The internalization of the contingency discourse amongst American, Australian, and Japanese policy makers will then be investigated, before finally reflecting on the overall impact of the F-35 program on Sino-American relations.

HISTORICAL INSTITUTIONALISM, SUNK COSTS AND PROSPECT THEORY

The literature on historical institutionalism, sunk costs and prospect theory provides a logical starting point to understand why the US and some of its allies have persisted in investing resources into the F-35 JSF program. Two key theoretical elements emerge as being potentially part of the answer. On the one hand, historical institutionalism highlights the importance of patterns of timing and sequencing, suggesting that some specific courses of action may sometimes be impossible to reverse once they have been introduced (Pierson 2000). In other words, the literature on historical institutionalism indicates that the US government's choices regarding the F-35 program may be constrained by an effect of path dependence. This is a particularly interesting point, especially in light of what was stated above with respect to the international dimension of the program, which is making it difficult for the Pentagon to coordinate key decisions amongst the parties involved. Paul Pierson's seminal work on the topic gave a new facet to the analysis of path dependence in political processes. By applying the economic concept of 'increasing returns,' which he defined as "a self-reinforcing or positive feedback processes (Pierson 2000, p. 253)," he effectively demonstrated how path dependence processes are central to collective action (Pierson 2000). The use of increasing returns processes in explaining certain political phenomena is particularly helpful to our discussion on the characteristics of 'inflexibility' and 'potential path inefficiency'. On the one hand, inflexibility suggests that "the farther into the process we are, the harder it becomes to shift from one path to another" (Pierson 2000, p. 253). On the other hand, potential path inefficiency raises the issue that "in the long-run, the outcome that becomes locked in may generate lower pay-offs than a foregone alternative would have" (Pierson 2000, p. 253). Applied to our discussion, it would seem that the US government's behaviour is constrained by the duration as well as the collective nature of the F-35 program, and has effectively become 'locked in' to an outcome that is creating additional costs, and thus generating lower pay-offs.

It would seem that the US government's behaviour is constrained by the duration as well as the collective nature of the F-35 program, and has effectively become 'locked in' into an outcome that is creating additional costs, and thus generating lower pay-offs.

The literature on sunk costs and prospect theory has also attempted to explain persistence in controversial endeavours. After seeing how institutions matter in constraining choices, this body of literature focuses on the individual and the role of psychological variables in decision-making. By looking at individual psychological processes in the face of failure, sunk cost theory sheds light on the US government's attitude towards the F-35. Sunk costs may be defined as invested resources or sacrifices. Sunk cost theory establishes that when a certain course of action is failing, invested resources cannot possibly be

retrieved. Therefore, the rational need to alter or end a failing course of action should not be influenced by already invested resources.³ Yet a recurrent paradox – referred to as the sunk cost trap or ‘paradox’ (Zaffran 2012) – often occurs, whereby individuals’ strong desire to avoid losses prompts them to try to ‘gamble for resurrection’ (Downs and Rock 1994) by “throwing good money after bad” (Garland 1990). The irony behind the sunk cost trap lies in the fact that individuals will often engage in high risk-taking behaviours that could generate larger losses in order to avoid or recoup relatively smaller losses.

Individuals’ aversion to losses has also been a central element of prospect theory, which has often integrated the discussion about sunk costs and taken it one step further by providing a systematic analytical framework to study individual decisions made in the face of failure or adversity (Boettcher III and Cobb 2009). Prospect theorists have therefore modelled individual decision-making processes in the face of failure as being dependent on individuals’ psychological state of mind, be it a psychological domain of ‘losses’ or a psychological domain of ‘gains’ (Mercer 2005). According to prospect theory, individuals deviate from traditional rational-choice models of cost-benefit and utility-maximizing analyses prior to making choices (Kahneman and Tversky 1979). Prospect theorists demonstrate that individuals frame outcomes according to their perceived gains and losses from an established reference point (McDermott 1998).

Explanations based on sunk costs and prospect theory provide interesting insights for the evolution of the F-35 programme. Those political and military leaders in the US and partner states who have been at the forefront of the project’s initial rationale and procurement have invested considerable financial, human, and political resources.

Despite the F-35’s additional costs and forecasted obsolescence, sunk cost theory therefore tells us that project leaders are unwilling to sacrifice resources invested thus far by stopping or revisiting the project. Prospect theory also predicts that in a psychological domain of losses, project leaders are likely to adopt increasingly risk-taking behaviours. In the case of the F-35, the psychological domain of losses stems from those significant delays, severe technical difficulties, additional costs and questions over the fighter jet’s comparative advantages, all of which suggest that the project is encountering difficulties in meeting its initial objectives. F-35 project leaders would therefore be more likely to persist and further invest in the project – which would constitute a risky behaviour – than to exit or scale down their investment.

Despite the F-35’s additional costs and forecasted obsolescence, sunk cost theory therefore tells us that project leaders are unwilling to sacrifice resources invested thus far by stopping or revisiting the project.

³ For further discussions in the management and economics literatures of both the rational and distorted organizational approaches to sunk costs, see Chip Heath, “Escalation and De-escalation of Commitment in Response to Sunk Costs: The Role of Budgeting in Mental Accounting,” *Organizational Behavior and Human Decision Processes* Vol. 62, No. 1 (April 1995), 38-54; David J. Sharp and Stephen B. Salter, “Project Escalation and Sunk Costs: A Test of the International Generalizability of Agency and Prospect Theories,” *Journal of International Business Studies* Vol. 28, No. 1 (1997), 101-121.

The literature on historical institutionalism (through path dependency explanations) and on prospect theory (through the influence of sunk costs and psychological domains) therefore provide interesting insights in demonstrating how both institutions and psychological factors may constrain policy choices and explain persistence in controversial endeavours. Yet these explanations only appear to explain only part of the story when looking at persistence in the case of the JSF F-35 project.

Firstly, path dependency arguments generally appear to be overly deterministic when it comes to complex collective action in multi-stakeholder settings such as the F-35 JSF program (Thelen 1999). By making change impossible due to increasing returns and particular reproduction mechanisms, path dependency explanations are neglecting the influence exerted by several key factors. Moreover, given the relative dissatisfaction among F-35 key stakeholders and the fact that such discontent took place amidst times of financial crisis and budget cuts, path dependency mechanisms could also have worked in the opposite way, convincing stakeholders of significantly downsizing their collective procurement efforts. Historical institutionalism plays an important part in explaining persistence in the case of the F-35. Yet, an explanation based on processes of path dependence and increasing returns in multi-stakeholder projects such as the F-35 lacks a strong catalyst or explanatory variable in order to account for the sheer presence but also the direction of the reproduction mechanisms. It will be argued below that a strategic policy discourse may have been central in orienting and convincing F-35 partners to continue investing in the project.

By focusing too much on individual leaders' obsession to avoid losses, prospect theory and sunk costs-based explanations cannot sufficiently account for decisions occurring in collective and international decisional settings. Moreover, given that prospect theorists have not yet effectively theorized the notion of 'reference point,' it is not clear how prospect theory would model several evolving reference points (i.e. F-35 partner countries' reference points) into a consistent explanation. Even though path dependency dynamics and sunk costs exert significant influence in institutional settings, distinct policy changes are highly dependent on the evolving discourse of participating actors (Smith 2004). This paper will therefore demonstrate how the construction of a contingency discourse based on China's rising power has been influencing policy makers, gradually persuading them of the F-35's vital necessity. Furthermore, there seems to have been a contagion effect among the F-35 partners, through which the contingency discourse was jointly internalized and institutionalized, thus shaping decisions associated with the F-35 program. The influence of such discursive dynamics on policy helps complement explanations derived from historical institutionalism to explain persistence in the controversial defence procurement project. Strategic policy discourses influence particular courses of action. The following section will develop this argument by drawing from the securitization literature and using discourse analysis as a method to gather empirics to support this argument.

The notion of contingency discourse addressed here draws from theoretical underpinnings found in securitization literature. In order to construct something as a threat to security, one needs to 'securitize' it, which amounts to framing it as "an existential threat to a designated object" (Buzan, Wæver, and de Wilde 1998, p. 21), namely the state or a group of states. The overemphasis on the threat of China's military rise has led to the

effective securitization of China's defence policy. Moreover, in order to efficiently securitize something, Buzan, Wæver, and de Wilde tell us that security discourse must construct a sense of urgency and priority, thus presenting the securitized issue as possibly leading to grave consequences if not addressed (Buzan, Wæver, and de Wilde 1998, p. 25). It must be noted that when both the construction of threats through discourse and the creation of a sense of urgency come directly from policy makers, as in the examples above, it "installs responsibility and legitimizes the exercise of power (Hansen 2006)."

This paper therefore uses discourse analysis to unravel the dynamics behind the contingency discourse. Special attention will be dedicated to the discursive evolution of key actors' responses to concerns of additional costs, delays, and technical failures and waning superiority of the F-35. The actors under scrutiny include high-level government officials, high-ranking military officers, and defence analysts. In addition to investigating the public statements and declarations made by these actors, this paper will also examine reports published by relevant agencies (such as the DoD) and articles published by military procurement analysts or Asia-Pacific security analysts. The analysis of these various discourses will reveal how the contingency discourse was produced, understand its political meanings, and identify overlapping or contradictory interests between different actors. More importantly, this methodology points to the power of ideas in decision-making processes and the construction of interests in defence procurement projects.

Given that this paper seeks to comprehend how the US, Australia, and Japan have used the contingency discourse to justify continued investment in the F-35 project, discourse analysis will play a pivotal role in highlighting how ideas evolved and influenced different actors. The paper builds upon Lene Hansen's view that "for discourse analysis, the challenge raised is to show 'how much discourse matters' for state action" (Hansen 2006, p. 25) by examining the explanatory power of discourse relative or compared to material factors. As a result, this paper's use of discourse analysis does not follow a strict definition of causality, in which "theories hypothesize about causal effects". Instead, discourse analysis is used to enhance analytical depth and provide a more comprehensive explanation to the puzzle of persistence.

Two main limitations must be noted. First, the scope of the conclusions drawn from the analysis is constrained by the fact that only two allies are examined. Although Australia and Japan are strong examples of how the contingency discourse was internalised by foreign policy makers, more research should be conducted to verify whether other US allies have been affected by this rhetoric. Second, although we suggest that the contingency discourse acts as a catalyst for the effects of historical institutionalism to materialize and be sustained, we acknowledge that other variables were omitted from the analysis. Future research should therefore consider looking into the role of domestic political parties, rival ally defence projects, or legal and normative discourses on new military technologies in influencing the decision making processes of military procurement projects.

THE CONTINGENCY DISCOURSE AND ITS INTERNALIZATION IN THE UNITED STATES

In order to understand how policy makers have internalized the contingency discourse, this paper begins by highlighting the influence of Lockheed Martin, the central actor behind the F-35 program, in creating this discourse. Lockheed's complex campaign to obtain political support for its fighter jet is based on economic and security considerations. Economically, the firm insists that "the multi-role fifth generation stealth fighter is responsible for more than 120,000 direct and indirect jobs" (Hartung 2014). In terms of national security, the operations lead for the JSF office, Thomas Lawhead, explained that "if [we] look back to 2001 when the JSF threat started, the threats were mostly European centric -- Russian made SA-10s or SA-20s. Now the future threats are looking at more Chinese-made and Asian made threats" (Osborn 2014). The rise of this 'new' threat has urged Lorraine Martin, Vice President and General Manager of Lockheed Martin, to underline how the F-35 "will deliver decisive advantages over any potential adversary for decades to come" (Martin 2014). Given the JSF's aforementioned technical delays and issues, analysts such as Hartung have argued that Lockheed's "argument seems to be one of last resort" and that questions about the required number of F-35s fail to appreciate the fact that "aerial combat between rival fighters seems like an increasingly obsolete form of warfare" (Hartung 2014).

Various reports have demonstrated that the most vocal congressional advocates for higher funding levels for the F-35 program are those with production sites in their districts (Axe 2013). Indeed, during the 2012 campaign cycle, Lockheed – either directly or indirectly through its employees and political-action committee – spent millions in campaign donations to virtually every member of Congress. The company's lobbyists included seven former members of Congress and dozens of others who have served in key government positions (Opensecrets.org 2014). Republican Senator John McCain raised concerns about US government-industry 'cronyism' in developing the F-35. As a key member of the Senate Armed Services Committee, he found that the government's persistence in the F-35 program was "disturbing" and that more needed to be done to avert the "unwarranted influence" of contactors on government programs (Shalal 2014). Even so, the F-35 has been portrayed as "a formidable game-changer in the air combat arena" to counter the fifth-generation stealth fighter jets that Russia and China are currently developing (Yeo 2014).

Although the military build-up is more a result of China's economic growth than willingness to prepare for war, such realities have nurtured fears amongst US policy makers over China's actual intentions.

As explained previously, the notion of contingency discourse provided in this paper is defined as the combination of alarming statements regarding China's military build-up and the urgent need to compete. In essence, the F-35 program is designed to address China's increasing military budget, valued at FY 2015 \$134 billion in 2014, a 12.2% increase from the previous year (The Economist 2014). Although the military build-up is more a

result of China's economic growth than the country's willingness to prepare for war, the increasing spending has nurtured fears amongst US policy makers over China's actual intentions. Indeed, since the 1990s, China has reformed and strengthened its armaments industry with the goal of building strong, reliable, well-equipped, and self-sufficient armed forces. Beijing has made huge investments in the state-controlled aviation industry in hopes of modernizing its air force (Wyss and Wilner 2014). In the 2014 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China, the DoD signalled that:

China is also vigorously pursuing fifth-generation capabilities. Within two years of the J-20 stealth fighter's first flight in January 2011, China tested a second next-generation fighter prototype. The prototype, referred to as the J-31, is similar in size to a U.S. F-35 fighter and appears to incorporate design characteristics similar to the J-20. It conducted its first flight on October 31, 2012. At present, it is unclear if the J-31 is being developed for the PLAAF or the PLA Navy Air Force, or as an export platform to compete with the U.S. F-35."

(United States Department of Defence 2014, p. 9)

These perceptions of the Chinese threat were also articulated in the US Air Force's 2014 new strategic framework, which states that "while the US will strive to remain first among equals, other nations will rise to challenge global powers and achieve near-peer status (United States Air Force)." Furthermore, the report acknowledged that "the Air Force's ability to continue to adapt and respond faster than our potential adversaries [will be] the greatest challenge [it] faces over the next 30 years (United States Air Force 2014)." Such discourses reflect the DoD's newly adopted concept of 'strategic agility', which requires the US military to respond faster than potential adversaries (Pappalardo 2014). China's military menace has also influenced the US Navy. In order to ensure the transition for existing naval aviation assets to meet 21st century challenges, the Navy has acknowledged the F-35C "as a truly game-changing platform for the carrier air wing" (Barno, Bensahel and Davis 2015, p. 11).

In addition to overstating the spectre of the Chinese threat, key actors of the US military industrial complex have been down-playing the issues associated with the F-35 while attempting to convince US policy makers that F-35 JSF completion is crucial to American national security. According to Frank Kendall, Under Secretary of Defense for Acquisition, Technology, and Logistics, the F-35 program was "something that no one has ever done before, which will put us all a decade or more ahead of anybody else out there" (Aitoro 2014). Likewise, Air Force Chief Mark Welsh argued that although "today's enemies, Al Qaeda and the Taliban pose no threat to American jets," the United States could lose its ability to control the air in future conflicts without the F-35 since China and Russia "understand that going to this next generation of capability in fighter aircraft is critical to survive in the future of battle space" (Bogdan 2014). General Welsh also warned about potential adversaries "acquiring fighters on par with or better than our legacy fourth generation fleet" (Colon-Francia 2013). He accordingly stressed that "the F-35 is a vital

capability that the nation needs to stay ahead of adversary technology gains” and that it “is the only real, viable option to form the backbone of the future fighter fleet” (Colon-Francia 2013). Although these testimonials clearly illustrate that American policy makers have been influenced by the contingency discourse, Ciralsky (2013) has suggested that the political engineering behind the F-35 – notably how Lockheed Martin sought out 1,400 separate contractors in 46 states – means that “the [US] program is essentially immune from termination.”

CONTAGION EFFECT: US ALLIES INTERNALIZING THE CONTINGENCY DISCOURSE

China’s growing power projection and military capabilities appear to have made policy makers in the other countries participating in the F-35 program internalize the contingency discourse. As Tago and Vucetic (2013) explain, “while the multiplicity of the so-called ‘channels of contact’ remains an important determinant of military acquisitions, it is ultimately not as important as the durability of indigenous support for participation in US-centric global security architectures.” An example of such a security architecture is the US ‘pivot’ to Asia, which includes a military dimension based on increasing US capabilities and deepening security relations with local allies (Dian 2013). Regional actors thus appear to procure F-35s for several reasons: to guarantee interoperability with US forces (Basham and Rouleau 2015), to hedge against the rise of China’s military and its own stealth fighters, the J-20 and J-31, and out of fear that the US is losing its security grip on the Asia-Pacific region as China continues to push forward (Clark 2013b).

Given that more countries in the Asia-Pacific region are interested by the F-35 JSF to ensure their own security, China has effectively become Lockheed Martin’s best salesman (Minnick 2014). US policy makers have amplified this trend by continuously stressing that deep cuts to the F-35 program might damage the alliance system and leave the United States and its allies ill-prepared for contingencies (Grant 2013). The financial interests behind keeping the F-35 program an international one has prompted the US government to mobilize and sensitize its allies, thus effectively creating a “group think” (Bennett 2014). Australia and Japan are good illustrations of the internalization of contingency discourse by US allies since the two countries were recently nominated as Asia-Pacific service hubs for the F-35 (Mehta 2014) and also agreed to strengthen security cooperation with the US (Nikkei Asian Review 2014).

Although Australia’s strategic environment has been described as benign, Canberra has increasingly acknowledged the geopolitical tensions in the wider region such as territorial disputes in the East and South China Seas (Yeo 2014). Given US-China strategic competition, Australian strategists “are no longer asking whether large-scale regional conflict is likely in the coming decades” and are now focusing on “how Australia should prepare for war” (Morini 2012). While Australia has a “long history of fear from external threats by powerful Asian giants,” Morini (2012) argues that China’s rise, through gradual testing and degradation of American influence in East Asia, constitutes a “direct challenge to Australian identity.” Australia’s previous Prime Minister, Kevin Rudd, also repetitively warned “of the serious and long-term challenge to Australian security posed by China’s meteoric rise” (Morini 2012). Australia’s recent decision to acquire 72 F-35s for \$12.4 billion

(Kelley 2014) should be understood as a move meant not only to strengthen the US alliance, but also to remain technologically ahead of its immediate Asian neighbours. Convinced that the JSF would “give Australia the regional air combat edge when [the F-35] takes to the air from 2020” (Australian Broadcasting Corporation News 2014), the Abbott government expressed interest to buy an additional 28 F-35s in the next few years (Reuters, May 3, 2013).

Canberra’s unwavering support for the US military industrial complex will transform the country into a linchpin ally supporting American security policies in the Asia-Pacific (Yeo 2014). Lockyer notes that “the US has been Australia’s country of choice when searching for military equipment” with almost every fighter procured since 1960 coming from the United States (2013, p. 72). As Burns and Eltham explain, “alliance commitments have helped shape Australian strategic culture” (2014, p. 5). Indeed, Australia’s most recent National Security Strategy has been given a greater emphasis on the importance of the Australia-US alliance (Department of the Prime Minister and Cabinet 2013). Due to increasing anxiety over China’s military rise and a desire to be more actively engaged in the region, Australia has come to acknowledge the need for a US-led coalition to counterbalance China in the Asia-Pacific (Burns and Eltham 2014) and, as expressed in Prime Minister Abbott’s words, to “[deal] with foreseeable contingencies” (Kelley 2014). Australian defence policy makers have thus embraced the concept of ‘interoperability’ with the United States by “moving from an operational to a politico-strategic conceptualization of interoperability” through the F-35 program (Lockyer 2013, 89). More importantly, Australian policy makers are acutely aware that cooperation and integration with US forces is required in order to deal with the increasing cost of the fighters and the ‘quantitative gap’ in Australia’s defences, insomuch that there are not enough fighters to protect the entire territory (Lockyer 2013, p. 89). Fortunately for Australia, several regional allies – notably Japan, which was described by Abbott as “Australia’s best friend in Asia” (The Australian, October 20, 2013) – have also demonstrated their eagerness to purchase the F-35. This provides a boost to Lockheed Martin which has been affected by the potential withdrawals from the crisis-riddled JSF projects in other countries such as Canada and Denmark.⁴

Australian defence policy makers have thus embraced the concept of ‘interoperability’ with the United States by “moving from an operational to a politico-strategic conceptualization of interoperability” through the F-35 program

⁴ As Tago and Vucetic explain, a result of “an unfavourable report from its auditor-general regarding its plan to acquire F-35s, Canada has reopened its fighter competition” and delayed the procurement process until at least 2018. See Tago and Vucetic 2013, p. XX??

In contrast to Australia, Japan faces a more acutely intensive geostrategic environment. Confronted by China's increasingly assertive military posture, as well as a continuing ballistic missile threat from North Korea, Japan intends to spend more on defence, boosting its air and maritime forces. The Japanese media have frequently discussed the issue of air performance in air sovereignty missions, especially now that its neighbours have developed next generation fighters of their own (Tago and Vucetic 2013). Prime Minister Abe saw the F-35 as the key deterrent against China's constant rising aggressiveness, "especially in the East China Sea region where both countries are locked in a bitter territorial dispute over a string of uninhabited islands" (Hofilena 2014). Such security fears are echoed by Japan's Cabinet, which recently approved the country's largest defence budget in history, "including plans to buy surveillance aircraft, drones and F-35 fighter jets to help counter China's rising assertiveness in the region" (The Times of India, January 24, 2015). Likewise, in the recently published National Security Strategy, Japan has depicted China's actions as "destabilizing the security environment surrounding Japan" and underlined the need to bolster its capabilities to address China's growing military capabilities (Ministry of Foreign Affairs of Japan 2014; Keck 2013). Japan has indeed become disturbed by China's procurement of an aircraft carrier and the development of the J-20 – widely considered to be a realistic challenger to US air superiority fighters now operating in the Pacific.

The US pivot towards the Asia-Pacific has thus accelerated the development of the US-Japanese alliance (Dian 2013). The most recent plans included buying 28 F-35 aircraft over the next five years (Pocock 2014). This purchase will be a major boost for Lockheed Martin and will likely influence other Asia-Pacific nations to consider the F-35 as the best buy available (Defense Update, December 20, 2011; Thompson 2012). Furthermore, Lagassé and Vucetic (2010) argue that Japan's selection of the F-35 ensures more effective interoperability of the American fifth-generation with Air Self-Defense Force (ASDF) to defend Japan in the event of a major military confrontation in Asia. The JSF program clearly demonstrates how the US is "using military technology to strengthen its worldwide network of alliances" (Keck 2014). On the one hand, the F-35 was designed to increase economic interdependence between the US and its allies with each nation utilizing comparative advantages in producing various parts of the aircraft. On the other hand, the F-35 enhances interoperability between the militaries that use them (Keck 2014). As Kerk (2014) underscores, "this will be especially important for the US in the Asia-Pacific which currently lacks the kind of collective security mechanisms found in Europe or even the Persian Gulf."

While the current number of ordered F-35s cannot provide Tokyo with the means to effectively defend its airspace, "they can materially and symbolically complement hundreds of combat aircraft [...] that the US military keeps in Japan and South Korea" (Tago and Vucetic 2013). This suggests that Japan is indeed concerned about China's military might and has also internalized the contingency discourse linking the F-35 with fears over China's rising military. As noted by Professor Narushige Michishita, the Japanese government's choice of the F-35 was "understandable" given that Japan is gradually looking to Washington to "contain China's growing might" (Fukue 2011).

CONCLUSION

This paper attempts to answer the puzzling question as to how the US and its allies have justified continued investment in the controversial F-35 JSF program. The investment has proved incredibly costly and unstable, while delays in the chain of production have gradually made the F-35's initial technological comparative advantage in terms of stealth and innovative fighting capabilities close to already outdated. Explanations to our research question may be found in the literature on historical institutionalism, prospect theory, and sunk costs. The international dimension of the F-35 JSF constrains the ability of the US and its partners to abandon the project. Explanations based on sunk costs underline the dangerous tendency of policy makers to focus on resources they have already invested in a project when considering whether to terminate a contentious project (Staw 1976). Yet these theories do not fully explain the US government's behaviour with regard to the F-35 JSF program.

Another possible explanation lies in the contingency discourse that is created by key actors of the American military industrial complex to persuade policy makers of the necessity of the F-35 to contain China's military growth. An analysis of discourse made by key actors of the military industrial complex and policy makers show how these actors continue to justify high levels of investment for F-35 JSF defence acquisition program. The contingency discourse is built on exaggerating and over-emphasizing China as a future security threat. China's recent military reformation and the development of its power projection within the Asia-Pacific region have nurtured American wariness towards China and have gradually made American policy makers more receptive to the contingency discourse discussed in this paper (Krugman 2010). These policies have pushed the US and its allies to strengthen existing defence partnerships.

Four policy implications can be drawn from the analysis. First, the analysis demonstrates the extent to which the military industrial complex influences policy making (and biases strategic thinking). While most critics of the F-35 have focused on the technological limitations and the price tag, a number of other strategic questions emerge. Is there a future for man-piloted aircraft? Is the F-35 really the key to containing China's military expansion? Even acknowledging China's military threat (which in itself is debated), the United States should not forget to invest in other areas likely to be central to US-China competition, such as cyber security or unmanned aircraft systems (Helft and Markoff 2010).

Second, this paper demonstrates how the F-35 has been used by the US to strengthen alliance dynamics. Australia and Japan are two good examples of countries which have accepted the F-35 not only to protect their national interests but also to ensure interoperability with US forces in the region in accordance with the 'pivot' towards the Asia-Pacific region. Although it may also be argued that Australia and Japan chose to update their military arsenals out of scepticism of the US's ability to defend its interests, the two countries have implicitly embraced a strategic alliance with the US by choosing the JSF. This rapprochement was made possible by converging fears about China's military build-up.

The F-35 program also serves as a lesson for future acquisition programmes. Despite various acquisition malpractices (such as putting the plane into production before the test flights were completed), the JSF's international dimension has had various benefits. It has helped to share the costs of research and development, ensured interoperability between its users, and secured a minimal market of buyers, which in turn decreased the cost per unit. More importantly however, a 'snowball effect' is underway as more countries – who were not part of the original program – want to be interoperable with other F-35 users such as Japan, South Korea, Singapore, and Israel. The JSF also points to the difficulties of coordinating an international programme, and how delays in production can jeopardize the initial strategic advantages of the aircraft. Future projects will need to better manage expectations and take into account geostrategic changes that could reduce the need for F-35 fighters.

Finally, the JSF program has profound repercussions for Chinese policy makers. The contingency discourse which was constructed to justify continued investment in the F-35 is obviously a reductionist interpretation of Chinese motivations in the region. Like all states, China's policies are influenced by hardliners and moderates alike. Whereas the former advocate for a more assertive Chinese stance in the region, the latter stress the importance of more constructive ties with the US. The F-35 program in the Asia-Pacific, with its alliance dynamics, will therefore only bolster the stance of hardliners within Chinese policy making and contribute to the construction of an antagonistic "Cold War" environment. Chinese policy makers must therefore strive to reduce such misunderstandings. The recent creation of a new website on military defence procurement projects is a positive step towards increasing transparency and helping to deconstruct the underlying assumptions present in the contingency discourse (Defense World, January 5, 2015).

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BOOK REVIEW

International Monetary Regime: What is Next?*Mehmet Kerem Coban**

American Power after the Financial Crisis, by Jonathan Kirshner. Ithaca: Cornell University Press (2014), ix + 217 pp., US\$27.95 (hardcover). ISBN 978-0-8014-5099-0

The Dollar Trap: How the U.S. Dollar Tightened Its Grip on Global Finance, by Eswar S. Prasad. Princeton, N.J. and Oxford: Princeton University Press (2014), xix + 408 pp., US\$35.00 (hardcover). ISBN 978-0-691-16112-9



Keywords: International monetary regime, China, US, US dollar, Chinese Renminbi

Suggested Article Citation: "International Monetary Regime: What is Next?", *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 89 - 94

<http://dx.doi.org/10.18003/ajpa.201506>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

The global financial crisis shook the world in 2007-08, however its effects can still be seen and full recovery has yet to be achieved. News headlines are still full of stories of a weak recovery, and continued implications on employment, interest rates, capital flows, and overall economic growth around the globe. The International Monetary Fund (IMF) has recently revised down its forecast figures on global economic growth in 2014 from 3.9% to 3.3%. As uncertainties on recovery from the global financial crisis prevail, and the efforts to remedy these losses continue, Jonathan Kirshner and Eswar Prasad's books come as a timely relief. Both look at the present state of the global economy to discuss how an uncoordinated international monetary regime should be avoided looking.

Kirshner argues that the global financial crisis equates to a "learning point" which constitutes a systemic shock to paradigms primarily defined by the United

States. This learning point is expected to force emerging countries, particularly China, to look for alternative economic policies. The United States, as a result of the international reserve currency role of the dollar, has been militarily, economically, and politically active in world politics. However, its hegemony might not last in the aftermath of the global financial crisis. The US is prone to external monetary pressures and might be vulnerable because of

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events such as a dramatic depreciation of the US dollar or willingness of other countries to build up dollar claims. These pressures may not reduce the US dollar's domination in the short-run, but might do so in the long-run.

Kirshner identifies the global financial crisis as the end of the “second American order” after World War II – the order that started in 1994 and ended with the crisis. The first order was set with the Bretton Woods Agreement in 1948 that lasted until the mid-1970s, when the US decided to delink the US dollar from gold. This order was built upon the supremacy of Keynesian macroeconomic policies that made the world economically and financially stable between 1945 and 1973. As Kirshner argues in the second chapter (Learning from the Great Depression), Keynes had several concerns about the functioning of markets and the structure of the international monetary regime. Keynes underlined that markets worked well most of the time, even when they are prone to failure. Keynes recognized other reasons for market failure as “animal spirits” of hoarding, unanticipated shifts in behaviour and uncertainty; whenever these reasons come together we see market failures producing negative externalities. It is because of these reasons that markets, especially international financial markets, should be well regulated, and that national authorities are granted more discretionary power on their policy choices. The Bretton Woods system had been designed upon these concerns. However, when the system failed as a result of inflation and stagnation, Keynesian policies were delegitimised.

Kirshner argues that the global financial crisis equates to a “learning point” which constitutes a systemic shock to paradigms primarily defined by the United States.

The second US-led order began with the idea of designing domestic and international financial markets. Kirshner explains how a paradigm shift emerged with the help of several policymakers such as Alan Greenspan, Larry Summers, Phil Gramm, and Robert Rubin. In the third chapter (From the First to the Second US Postwar Order) he describes the efficient markets hypothesis and how the rational expectations theory dominated the mind-set so as to free the financial sector from the grips of the US government. Domestic policies did not remain within US territory thanks to proactive engagement of the US and international organisations, and because “all politics is global”; deregulation and liberalisation policies were publicised or in some cases imposed on developing countries, particularly in Asia, where these policies led to the Asian financial crisis in 1997-98. In line with Chwieroth's valuable contribution, the author points out that the IMF and the US Treasury pushed countries in the region to liberalise their capital accounts. They were initially reluctant to do so, but eventually complied. The crisis taught countries in the region to cushion their future downfalls by building more reserves. Another crucial lesson was that the model the US offered – of capital account liberalisation and deregulation of the financial system – should be questioned. The seeds of suspicion for this model were cultivated with the crisis. As policymakers did not take necessary measures to prevent the “couch grass” in the system, they flourished over two decades and ultimately led to the failure of the system.

The lessons learned from the inter-war period and the trente glorieuses have been neglected, even though Kindleberger, Minsky, and Keynes warned that crises are not a rare phenomenon (pp.96-97). This has also been recently documented by Reinhart and Rogoff. Kirshner argues that the unlearned lessons have resulted in the global financial crisis. The crisis has triggered heterogeneity of thinking regarding the macroeconomic policy framework. First, regional powers became cognizant that dominance of the US dollar should be challenged. China has accelerated internationalisation of the Renminbi (RMB), particularly in Asia, where it aims to dominate the regional economic and political scene. China obtained leverage against the US because it holds trillions of reserves in US treasury bonds. In the wake of the financial crisis, China learned that its dependence on the US dollar in trade and finance would be detrimental for its economy. China's relative emergence has been channelled through the internationalisation of the RMB; it has been signing agreements on swap deals with several countries and promoting bonds issued in RMB. This stand, Kirshner assumes, would help insulate China from global markets and would also lead to a relative decline of the US. The author strengthens his argument by assuming that other countries have become less eager to rely on the US dollar after the crisis. According to Kirshner, as China promotes the internationalisation of the RMB, the US financial model would fall into disrepute.

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Eswar Prasad offers a contrary view to Kirshner's main argument. The Currency Composition of Official Foreign Exchange Reserves (COFER) database of the IMF indicates that the US dollar has a steady upward trend among developed and developing countries.¹ The major reasons behind this trend are the countries' export orientation and drive to earn more hard currency, and a desire for resilience against potential downturns, which require reserves mainly invested in the low-yield US treasury bonds. Prasad argues that the global financial crisis did not diminish the power of the US dollar, but rather strengthened its relative positioning vis-à-vis that of (potential) contenders such as the RMB. Interestingly, the emerging economies have now built up their reserves, and have a stake in the stability of the system. If it fails, these countries may not easily discount possible negative externalities if the US dollar loses its supremacy.

¹ The database is available at: <http://www.imf.org/external/np/sta/cofer/eng/cofer.pdf>, accessed on October 18, 2014.

Contrary to Kirshner's engaging view of China's readiness to promote the RMB worldwide, Prasad argues that it may be a gradual process – encompassing capital account convertibility, internationalisation, and reserve currency – but achieving even the first stage appears difficult given the deposit rate cap in China. Capital account convertibility is likely to incentivise depositors to take deposits outside the country for higher returns. In addition to possible outflows with supposed negative effect on balance sheets in the private and public sectors, the RMB's emergence as at least one of the reserve currencies may not come that easily. Prasad points out that Chinese financial system lacks breadth, depth, and liquidity (p. 240). The first requires various financial instruments; the second requires a larger volume of financial instruments; and the third requires a higher number of players and a high turnover rate. Since the Chinese financial system lacks these three crucial elements, Prasad argues that the RMB is unlikely to emerge as a contender against the US dollar. He concludes by describing how ideals and reality can be different; so it seems a safer position to double-check with reality in which we are currently living.

Prasad argues that the RMB is unlikely to emerge as a contender against the US dollar. He concludes by describing how ideals and reality can be different; so it seems a safer position to double-check with reality in which we are currently living.

To discuss about the differing views on RMB's position and its implications on the international monetary regimes, the focus should be brought on the limitations of and complementarily views of Kirshner and Prasad. Kirshner's focus has been on international political economy whereas Prasad's is on international finance and economics. Kirshner underlines the importance of heterogeneity of thinking around the globe. The US dollar would supposedly remain as the international reserve currency in the short-run, but as the balance of power gets diffused between China and other regional powers, its may fall from its supreme location into a "negotiated currency." At the same time, Kirshner is cautious about the future of China and the European Union. Since he eschews from making predictions, the book does not tell the reader more about whether China is a powerful contender against the US. Prasad's persuasive arguments indicate that China has a long way to go until it becomes the central bank of the world. China's currency would be negotiated as well. The balance of power around the world would be affected by having two "negotiated" currencies from which countries may choose to form currency holdings. The authors don't touch upon whether such competition would guarantee stability in world markets.

Prasad argues that the "dollar trap" became stronger during the global financial crisis because many countries wanted to swap their currencies with the US dollar. The Allies received a favourable treatment, whereas other requests were not entertained. However, Kirshner did not mention the ways in which the US projected its power during the crisis.

Third, both arguments have a number of limitations. Both are unclear on China's ability to offer an alternative economic and financial model, although this is not a major concern in Prasad's case. Eventually, the internationalisation of the RMB would be a gradual process and is likely to invigorate unintended dynamics like international politics, economics and finance around the globe. Neither author discusses the uniqueness of China's financial model. According to Kirshner, tighter regulation and better supervision is required for internationalisation to happen. Also, not many alternative models that are different from the US model could be found around the globe to replicate.

Balance of power around the world would be affected by having two "negotiated" currencies from which countries may choose to form currency holdings. Would such competition guarantee stability in world markets?

To summarize the arguments of both Jonathan Kirshner and Eswar Prasad, they both touch upon the question of future of dominance of US dollar in international monetary regime. Both books are highly recommended especially for those interested in understanding the paradigm shifts that happened in the international monetary regime in the 1970s and 1980s. Kirshner gives valuable insight into the leading actors that promoted deregulation in the US and around the world whereas Prasad covers the possible reasons why the US dollar may not remain the international reserve currency in the future. Money always talks and can buy favours, but without a model the structural power may not arise that easily. If emerging economies wish to have more say in the international monetary regime it would mainly be a result of their dependence on the model of hegemony.

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BOOK REVIEW

Eurasia: Re-focusing Central Asia as the Centre of the World*Phua Chao Rong, Charles**

The Eurasian Core and Its Edges: Dialogues with Wang Gungwu on the History of the World, by Ooi Kee Beng. Singapore: ISEAS (2015), ix + 254 pp., SG\$45.90 (hardcover). ISBN 978-981-4519-85-4



Keywords: Eurasia, global balance of power, China, US

Suggested Article Citation: Phua Chao Rong, Charles, "Eurasia: Re-focusing Central Asia as the Centre of the World," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 95 - 99

<http://dx.doi.org/10.18003/ajpa.201509>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

This distillation of Ooi Kee Beng's dialogues with eminent historian Wang Gungwu can be considered an Asian version of "grand theory" of world history. There are many grand theories of world history. Most are linked to Leopold von Ranke's Rankean historical positivism with the usage of primary sources and its integration with the bigger picture – universal history. Oswald Spengler's *Decline of the West* (1961) and Arnold Toynbee's *A Study of History* (1939) (Rise and Fall of 26 civilisations) are considered seminal works in this category. The more contemporary examples include Paul Kennedy's *Rise and Fall of Great Powers* (1989), as well as the more normative and hence somewhat controversial works such as Samuel Huntington's *Clash of Civilisations* (1996) and Francis Fukuyama's *End of History* (1992). Therein lies the paradox in historiographical research; whilst historians strive to be as positivist and objective in their historical analysis, the higher levels of aggregation to present

the big picture inevitably run into charges of being value-laden and biased. In philosophy of history terms, while Ranke advocated "reporting history as it actually happened" (as cited in Houlgate & Baur 2011, 334), and E H Carr gave the reality check that it is inevitable that "historians choose which facts they use" (1961, 8-13). In the worst case, history is presented in a highly thematic and structural deterministic manner that is devoid of human agency, as the Hegelian approach and exemplified by Fernand Braudel's *longue-durée* approach (continuities in deepest structure of society) in *History of Civilisations* (1993).

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The Eurasian Core differs from the usual grand theories in that it focuses on contextualism, instead of universalism. Wang Gungwu seeks to understand historical events in the context of a personality/entity/country/civilisation, its history and geography (contextualism), rather than seeking to explain events using universal laws as if history follows neat natural laws (universalism) (Bevir 2011, pp. 11-23). For example, in explaining the 2nd Sino-Japanese war and Kuomintang (KMT)-Chinese Communist Party (CCP) relationships (pp. 144-147), Wang dissects Chiang Kai-shek's personality using process tracing (of Chiang's writings and diaries) and understands him as a traditional figure adhering to Sun Zi. Wang puts himself in Chiang's shoes in the 1930s and rationalises why Chiang decided to fight the Chinese Communist Party instead of the Japanese: the Kuomintang were no match for the Japanese and Chiang was doing so for political self-survival. Such a contextual approach is important in historiography lest history becomes a clash of underlying ideologies and historical and personal biases.

The Eurasian Core makes four key conclusions about world history. First, in revisiting the past, Wang is able to re-centre world history on Eurasia, rather than Europe or Asia (China). Hence, to Wang, Eurasia (Central Asia), where steppe warriors expanded into and retreated from both Europe and Asia in the past millenniums, is a key missing piece of the puzzle connecting Euro-centric and China-centric world-histories. This total view of world history is refreshing. Next, Wang expounds on how maritime power enabled Western nations to triumph in colonialism of the non-West and how equestrian (horse) power enabled Central Asia to triumph in their conquests of Europe and Asia and how modern technology eventually made their power irrelevant.

The global balance of power still favours the Western edges (America) not because of US unparalleled military and economic power, but because US borders are totally secure and its navy peerless.

This book also serves as background reading for students of international relations. One can find frequent attempts to provide a historical basis to contemporary flashpoints such as the South China Sea dispute (pp. 99-101), Chinese nationalism (Tibet, Xinjiang; pp.103-4; 125-9; 167), relations with Africa (pp. 82-3; 215-6) and Japan amongst others. Wang alludes to the importance of geography in history. He postulates that the global balance of power favours the Western edges (America) not because of US unparalleled military and economic power, but because US borders are secure and its navy peerless (p. 233). This is in stark contrast to China which is plagued with a continental front with Russia, India, Central Asia, East Asia, and Myanmar (pp. 167-73) that will continue to dilute China's focus. However, Wang is cautious in making those inferences based a dynamic interaction of natural (such as geography) and human volition factors from the countries' perspectives, rather than imposing his own theoretical or normative framework. Drawing a parallel from the comparative advantage (Ricardo 1817) vs competitive advantage (Porter

1985) debate in economics, Ricardo would say natural factors of endowment such as labour and natural resources determine a country's comparative advantage. Porter would counter-argue that competitive advantage added human volition to the equation; a country can build its own advantage by strategizing (cost leadership, differentiation, innovation and operational effectiveness) and synergising complementary industries together to form their own Silicon Valleys. It appears that one can either choose comparative or competitive advantage in a philosophical dualist mode of reasoning. Wang's dynamic approach alludes to a philosophical position of 'both and &', whereby both comparative and competitive advantages are important and can co-exist. Similarly, natural and human factors co-exist and interact in dynamic ways in history. Simon Tay (2010, xiii) in his book on US-Asia relations labelled this philosophical predisposition as "the Power of &".

Chapter four, on China's struggle with the "Western edge," was particularly well-written. This 72-page chapter gave sufficient breadth and depth to cover China's uneasy entry into the Westphalian system of nation-states. To date, China is still experimenting. The application (yong) of Western technologies and methodologies is now prevalent but the core ideology (ti) embedding Chinese actions is still sorely lacking. The recent CCP call for "socialism with Chinese characteristics" appears to be a case of having form without substance (pp. 150-4). An interesting ensuing discussion on inherent Chinese pragmatism rationalises why universal law as Western natural law never took root and the Chinese prefer flexibility and instrumental usage of laws. In Wang's analysis, this is a more realistic position with respect to reality. In simple terms, Wang's interpretation of the Chinese psyche is: "we [the Chinese] start by assuming it [the law], but you [the West] start by asserting it [the law]. But in the end, we are all practical and pragmatic, and we have prepared to look at it and make adjustments. From there, we can converge" (p. 156).

While The Eurasian Core manifests itself as a "never-ending dialogue between past and present" (Carr 1961, 30), enabling the re-conceptualisation of world history to consider the centrality of Central Asia (Eurasia), the label "Eurasian core" is not intuitive precisely because it is a new approach to viewing world history. To this end, The Eurasian Core could have been dissected further and the why and how aspects more closely examined. It is counter-intuitive that there was no chapter on Eurasia per se; even in the first chapter, where one would anticipate an elaboration of Eurasia, discussion of China predominate (pp. 1-5; 27-55). This is perhaps due to Wang's expertise in ancient China and overseas Chinese; while the references to non-Chinese subjects are insightful but appear to be scattered and less coherent as compared to the book's treatment of China.

The scatteredness is perhaps due to the methodology of semi-structured interviews. Ideas may not flow neatly, coherently or logically. For example, in chapter five, on continental and maritime power, the sections jump from Islamic continental power to US continental power to the end of the Central Asian core with occasional references to China, Russia and the United States. Even chapter four appears ‘jumpy,’ covering a range of issues including China adapting to world order; pragmatism; maritime global power; China’s continental front; China’s soft power; overseas Chinese; family as a social base; and parallels between big powers (US and China). This might be due to the flexibility accorded by the semi-structured interview format, where the dialogue can move in surprisingly new directions based on an interviewee’s response to the previous question. To this end, the book conjures an image of patchiness. Perhaps a mapping of the key ideas or more structured way of interview would have added clarity to the comprehensiveness of the dialogue. In addition, it would be useful for the author to have guiding paragraphs for each chapter to crystallise the key ideas and discuss any inherent contradictions within the chapter or across chapters.

In conclusion, The Eurasian Core crystallises decades of cross-country historical research conducted by Wang Gungwu. His historically grounded analysis of the world has strong similarities with the English School of international relations: Evolution of International Society (Watson 1992), Expansion of International Society (Bull & Watson 1985) and International Systems in World History (Buzan and Little 2000). Evolution and Expansion were comparative historical analyses of the entry of different non-Western countries into the Westphalian system. International Systems was a theoretical framework of units, interaction capacity, processes and structures in an international system with interaction analysis of these systems in the ancient and classical worlds. All four works attempted to link international relations and world history. The Eurasian Core can be seen as a middle way between Evolution/Expansion and International Systems with its focus on cross-country comparison (West, Asia and Eurasia) and interactions within the international system (in Eurasia).

Eurasian Core can be seen as a middle way between Evolution/Expansion and International Systems with its focus on cross-country comparison (West, Asia and Eurasia) and interactions within the International System (in Eurasia).

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COMMENTARY

The Political Trilemma and India at the WTO

*Ketaki Purohit**



Keywords: The political trilemma, WTO, India, Trade Facilitation Agreement, globalisation

Suggested Article Citation: Purohit, Ketaki, "The Political Trilemma and India at the WTO," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 100 - 105

<http://dx.doi.org/10.18003/ajpa.201505>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

INTRODUCTION

The conundrum that countries face between the three conflicting goals of democracy, sovereignty and globalization is conceptualized by the 'political trilemma'. India faced the political trilemma in terms of ratification of the Trade Facilitation Agreement whose negotiations were concluded at the December 2013 Bali Ministerial Round of the WTO. India faced a trade-off between acceding immediately to the Trade Facilitation Agreement and prioritizing the interests of millions of its farmers. The Indian stance of prioritizing farmer interests paid off, with India and the United States arriving at a consensus in November 2014 that has given India immunity from legal action under the WTO until a final agreement is reached.

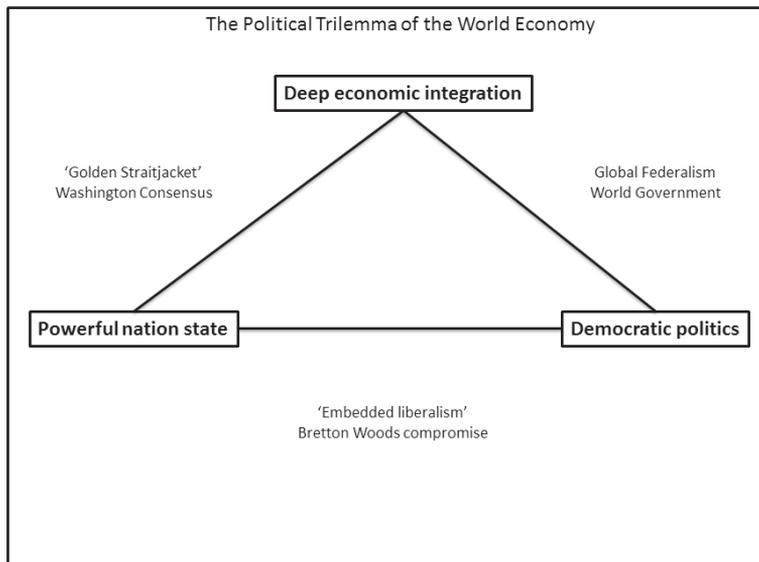
WHAT'S IN A TRILEMMA?

Dani Rodrik conceptualized the political trilemma and has written extensively about the choices nations faced since the first stage of globalization began, with the Gold Standard in 1870 (Rodrik 2008, 2011). The trilemma suggests that nations constantly face a trade-off, or conundrum between the three mutually exclusive goals of democracy, sovereignty and globalization. Democracy is understood as the imposition of the 'will of the people' or attainment of populist measures through democratic processes and governments being held accountable to the people, and functioning at the pleasure of the people of a nation. Sovereignty is the power of a nation to pursue its own policies without external interference or influence. The goals of a multilateral organization often involve nations having to sacrifice some sovereign power. Globalization, in Rodrik's trilemma, is the economic integration of nations through international trade, international finance and increased mobility of factors of production across national borders.

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According to the trilemma, nations can pursue and achieve only any two of these goals at a given time. That is to say, nations may choose to attain democratic goals and retain their sovereign power, but doing so would involve the loss of economic integration or globalization: For instance, a nation with a functional democracy and a sovereign government that has closed its borders to trade and does not give in to the demands or rules set by multilateral organizations. Alternatively, a country could retain sovereign power and globalize, but at the cost of pursuing democratic goals or domestic interests. Or a nation could choose to retain democratic processes and globalize, but to do so it would have to do away with a sovereign government and hand over its policy-making authority to a supra-national organization or world government.

Depicted pictorially, the trilemma is a triangle with the three goals at three corners:



Source: Adapted from Dani Rodrik's Weblog,
http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html

BRETTON WOODS: THE GOLDEN AGE OF GLOBALIZATION

Rodrik (2011) argues that for the three decades following the Second World War, the Bretton Woods 'compromise' achieved a fine balance of the three ends of the trilemma. However, with the advent of what some scholars term as the third stage of globalization, supranational organizations such as the World Trade Organization (WTO), and the European Union (EU) are becoming more powerful. The emergence of powerful multilateralism, more open economies and enhanced capital mobility is forcing more and more countries to concede some democracy and/ or sovereignty and accede to the rules imposed by a multilateral system. Proponents of globalization such as Thomas Friedman (1999) argue that countries must inevitably don the "Golden Straitjacket" of economic liberalization and adapt to a flatter, globalized world where national interests are secondary. Rodrik (2007) and other scholars opine that the WTO has not left enough room for nations to give due consideration to domestic interests and has forced nations back into the political trilemma.

The Indian position on the Trade Facilitation Agreement demonstrates that although countries continue to be bound by the trilemma, more and more, developing countries are more and more able to assert themselves and place domestic considerations at the forefront. Rodrik's views hold only partially, at least in the context of the WTO.

CORNERED NATION? INDIA AT THE WTO

Trade facilitation has been on the WTO's agenda since the 1996 Singapore Ministerial Conference. After years of painstaking deliberation and negotiations, member nations reached a consensus at the Bali Ministerial Round in December 2013, and the WTO set a deadline of 31 July 2014 for members to sign the Trade Facilitation Agreement (TFA). The TFA would ease cross border trade by harmonizing and standardizing customs and border procedures, enhancing transparency, reducing import duties, cutting red tape, including automation procedures and so on. The Organization for Economic Cooperation and Development (OECD) estimates that potential gains from the TFA are significant, in the form of substantial reductions in trade costs to low-income, middle-income and high-income countries (OECD 2014).

The Bali Ministerial conference also had on its agenda the issues of subsidies, public stockholding and food security under the Agreement on Agriculture. It was agreed that developing member nations whose subsidies exceeded the WTO commitment of 10% of the total value of farm production, would receive a reprieve until 2017, by which time members were to find a permanent solution to these issues.

At the end of July 2014, India did a volte-face on the issue of the TFA. Citing concerns for millions of Indian farmers that are dependent on the minimum support price and subsidies provided by the Indian government, India refused to sign the TFA unless substantial progress was made on negotiations relating to public stockholding and food security. The Indian government faced heavy opposition from the United States and Western media for the drastic turnaround and the failure to concede to multilateral interests. A last minute compromise through the good offices of the WTO Director-General Robert Azevêdo failed, and the deadline of 31 July 2014 was missed (The Economic Times 2014).

The Indian circumstance can be best understood by analysing it through the framework of the political trilemma. Acceding immediately to the TFA would involve gains in economic integration while jettisoning farmers' interests. Instead, India held its ground and chose to place domestic considerations and democracy at the forefront while giving up, at least temporarily, the gains from the TFA. While the gains from the TFA are enormous

Although countries continue to be bound by the trilemma, more and more, developing countries are able to assert themselves and place domestic considerations at the forefront.

and accrue to all the member nations of the WTO, the costs to developing nations – if issues such as food security and farmers’ protection are left on the back burner – are quite substantial.

The Indian stance of prioritizing negotiations on public stockholding and food subsidies ultimately paid off for the country, with the United States and India reaching a bilateral pact on the TFA in November 2014. In return for agreeing to ratify the TFA in December 2014, India has managed to secure an indefinite immunity under a “peace clause” that will allow the country to provide WTO-prohibited subsidies to its farmers until a permanent solution in the form of a final agreement is reached between members of the WTO. The bilateral pact remains to be ratified by the WTO, but is highly probable given the influence of the United States.

Let’s Be Optimistic

Opponents of aggressive globalization such as Rodrik would hail the Indian stance as laudable and argue that especially in the context of development, nations should sacrifice economic integration to some extent and choose to exercise their sovereign rights in pursuing domestic policy considerations. While Rodrik may be right about the Indian stance in the context of developing nations, his view that the WTO forces nations into the trilemma is perhaps slightly pessimistic. While it is partially true that the pursuit of globalization has cost certain developing countries their domestic interests, the WTO contains several provisions that permit manoeuvring room for countries to pursue democratic goals.

The Indian government faced heavy opposition from the United States and Western media for the drastic turn around and failing to concede to multilateral interests.

The Indian ‘victory’ in the context of the TFA is a case in point that the WTO does not always force countries to don the ‘golden straitjacket’ to the extent that Rodrik claims it does. The pact between India and the United States allows India to continue providing support to its farmers and to feeding millions of Indian citizens until a permanent solution can be found after negotiations with all WTO member nations. India did not have to make any major concessions to obtain the “peace clause”, and consequently, has affirmed that sovereign interests are crucial to the present BJP-led government agenda. This also improves the Indian bargaining position at subsequent global talks (Bagri 2014). In addition, the setback to the TFA was merely a temporary delay, and once implemented, WTO member nations will enjoy the benefits of harmonization in trade facilitation. This is true not just of developed countries; a recent report by the OECD also shows that the TFA would be vastly beneficial to enhancing trade in the developing world (OECD 2014).

While it is true that in this instance India had a useful bargaining chip at the negotiating table (one that other developing countries may not always possess), the fact that it is a rule-based organization where members are fairly represented allows manoeuvring room for countries. Most importantly, the WTO has adopted the principle of “special and differentiated responsibility” for this very purpose – in order to provide developing countries with more time to become WTO compliant. In addition, as compared to GATT 1947, a significant reform of the WTO is the establishment of the Dispute Settlement Body under the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). The dispute settlement process under GATT 1947 was prone to delays and uncertainty, while the DSU has been lauded for ushering in an era of “rule-based” and time-bound adjudication of disputes that provides developing countries a fair playing ground (Koul 2005). More and more, developing countries, led by the BRICS and the G-33, are able to voice and push for domestic considerations to take priority over economic integration, especially in the context of food security (ICTSD 2012).

While Rodrik may be right about the Indian stance in the context of developing nations, his view of the WTO forcing nations into the trilemma is perhaps slightly pessimistic.

The lessons to developing countries from the WTO context can be transposed in other multilateral forums such as the UN Security Council, where there is a growing demand for adequate representation of the developing world. Emerging markets also have options apart from the IMF for financial assistance, including the newly established BRICS New Development Bank and the AIIB. Better representation at international organizations and enhanced institutional and voting capacities of the developing world mean a step away from the ‘golden straightjacket’. With more rule-based organizations, rather than power-based ones, perhaps a balance of the goals of sovereignty, democracy and globalization can still be achieved and nations can find a way out of the trilemma even in this third stage of globalization.

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COMMENTARY

The Lyrics of Public Service Excellence

*Max Everest-Phillips**



Keywords: Lee Kuan Yew, public service, nationalism, Singapore, development

Suggested Article Citation: Everest-Phillips, Max, "The Lyrics of Public Service Excellence," *Asian Journal of Public Affairs*. Vol 8, Issue 1 (2015): 106 - 109

doi:<http://dx.doi.org/10.18003/ajpa.201504>

ISSN 1793-5342 (print); ISSN 2382-6134 (online), © The Author 2015. Published by Lee Kuan Yew School of Public Policy, National University of Singapore

The death of the founding father of Singapore, former Prime Minister Lee Kuan Yew (LKY), in March 2015 renewed worldwide interest in Singapore's rapid development. The 'Singapore Story' has been remarkable and comparatively well documented. One essential factor, however, has attracted relatively little attention: LKY's instinctive understanding that economic growth is too important to be left to economists. As a profound process of social transformation, he pithily observed in 1965 that "Economics is politics".¹ Over forty years later, in more convoluted prose, the 2008 UN/World Bank Growth Commission reached the same conclusion: economic growth is primarily a political process delivered by effective political leaders with a vision of improving prosperity.

Credibility in this objective requires competent administration, not just prudent policies. To achieve that effectiveness, LKY, supported by his talented team of ministers and senior officials, began by stressing 'common citizenship' in establishing Malaysia in 1963, strengthening national identity as a shared commitment to development. Only through collective investment in the prestige of the nation could the federation succeed.² After separation and independence in 1965, LKY turned to competitive nationalism. He saw this as fostering, but also making politically viable, individualism as the driver of economic growth. The aim was to "maintain that climate of quiet confidence and the establishment of labour attitudes and social conditions which will assure local investors and overseas investors of the certainty of their planning assumptions for the establishment and expansion of their industries". He also continued, therefore, to stress collective well-being, dependent on "the capacity of our population to adapt and to adjust, without any whimpering or wringing of hands..."³ Employers, trade unions and his People's Action Party (PAP) government required a shared interest in growth and in public service becoming more effective.

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¹ *12 August 1965, ABC News interview.*

² *Eg. Radio Singapore, 18 August 1962.*

³ *Parliament, 8 September 1967.*

The shock of sudden exit from Malaysia in 1965 incentivised the PAP to focus on delivering that through a meritocratic administration in his image of academic excellence. He made this politically feasible by portraying meritocracy as positive for the future good of the whole nation rather than as merely in the self-interest of entrepreneurs and officials. Forging pro-growth nationhood and non-corrupt bureaucracy out of a diverse population has ever since been pursued openly, intentionally and with remarkable success. The result is manifest in the country's rapid rise to one of the wealthiest countries in the world. LKY's realisation that state-building, not easily observed in action, requires pragmatic realism (or, in modern jargon, purposively muddling through) has resulted in its GNI per capita in 2013 at US\$72,371 being more than twice that of its former colonial master, the UK (US\$35,002).

Like everything else in Singapore, state-building through economic growth and bureaucratic effectiveness has not been left to chance. One aspect of this is forging nationalism, about which excellent evidence exists in an interesting phenomenon – state-sponsored patriotic song writing. Already a concern at the start of LKY's premiership in 1959,⁴ and at independence within the Malaysian Federation in 1963,⁵ these songs aimed at more than just promoting racial harmony in the wake of the communal violence seen in 1964 and 1969.

For the first two decades, the songs were the most direct, least subtle expression of LKY's priorities. The National Song contest was inaugurated in 1967 to stimulate patriotism as an intrinsic motivation for a disciplined workforce in both the public and private sectors.⁶ Every new nationalist song renewed that political vision, and subtly updated the PAP's 'political settlement' around development objectives. For example, the 'founding myth' that meritocracy in the public service nurtured Singaporeans' well-being, and was reciprocated with electoral loyalty to the PAP government, was a consistent theme, reflected in the lyrics of *Stand Up for Singapore* (1984), *Count On Me Singapore* (1986) and *We Are Singapore* (1987). These built on early aspirations. The original Malay version of the 1950s song *Singapura, Oh Singapura* had declared "I respect you forever My country ... Work hard, strong determination". Singapore's national anthem, *Majulah Singapura* (1958), also written in Malay, instructed "Come, let us unite in a new spirit ... Onward Singapore". LKY, however, saw English as the unifying language and through its medium the early songs of the Republic (such as *Five Stars Arising*; *Stand Up For Singapore*; or *Count on Me, Singapore*) emphasised Singapore's new collective identity.

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⁴ *National Archives of Singapore (NAS) item 727/59.*

⁵ *NAS 229/63PTI.*

⁶ *NAS 248/65VOLIPTI; see also The Straits Times, 18 October 1967, page 4.*

LKY understood music (yue) as expressing the Confucian search for harmony of heaven and earth, revealing the hidden forces regulating emotion. This gave political power to patriotic songs. LKY observed in his memoirs that music “is a necessary part of nation building. It uplift[s] the spirit of a people”.⁷ So in 1988 LKY approved the launch of the Sing Singapore initiative, with the aim “to develop a strong sense of belonging to Singapore” and forging national unity at a tense time over the ‘Marxist Plot’. Every year for the last 30 years, therefore, the National Day Parade Executive Committee has commissioned a new song. Broadcast on radio and television endlessly in the weeks leading up to National Day, and sung in all schools across the country, the annual song gives voice to the shifting sense of public service. One People, One Nation, One Singapore (1990) made the message clear. The message of “Strong and free,” repeated in at least 7 separate songs across the last 30 years, depends on citizen support for public service excellence.

LKY understood music (yue) as expressing the Confucian search for harmony of heaven and earth, revealing the hidden forces regulating emotion. This gave political power to patriotic songs, LKY observed in his memoirs that music “is a necessary part of nation building. It uplift[s] the spirit of a people”.

But as the population became more educated and acquired greater aspirations, there was an increasing emphasis on reassuring Singaporeans while reminding all of Singapore’s vulnerability. More recent songs, including Shine For Singapore (2008) and Song For Singapore (2010), have continued that hard sell, but also introduced sentiments such as Reach Out for the Skies (2005), and In a Heartbeat (2011). The celestial forces over Singapore will “shine on me” and “Shine on Singapore”, “turning darkness into light”, offering a “rainbow of a thousand colours” and “stars arising”, and so “brighten up the skies”. Citizens must reach out for the skies but remain loyal to Where I Belong (2001). A Place In My Heart (2003) and There’s No Place I’d Rather Be (2007) stress the emotional attachment towards Singapore. National unity is reaffirmed by Together (1999). Home (1998) and My Island Home (2006) offer sentimental nationalism, while We Will Get There (2002), Will You (2007) and What Do You See (2009) renew the challenge to citizens to “build our dreams”.

Citizenship is, however, not just about ‘dreams’ facilitated by public service but also requires delivering on responsibilities to the state, such as national service and reservist duties for all male nationals. A Place in Our Hearts (2003) expresses this Confucian model of governance, reminding the singer and audience that a well-ordered society lives at peace through its citizens achieving inner harmony and solidarity. One People, One Nation, One Singapore (1990), Together (1999) and One United People (2003) also suggest that an identity common to all, despite cultural differences, offers the basis for unity in the multi-

⁷ *Op. cit.*, 2000, p. 301.

racial and multi-ethnic city-state. Meanwhile *Stand up for Singapore* (1984) proudly reminds the audience of the achievements of the early days, when Singapore faced communist insurgency and a confrontation with Indonesia: “There was a time when people said that Singapore won't make it, but we did”. The “we” here is clearly an ‘administrative state’ that succeeded in transforming the country into a modern nation despite the turbulent early years of independence. By the 1980s success made complacency seem a threat. The second verse of *Stand Up for Singapore* instructs the citizenry to “defend their country with a smile ... You'll find it all worthwhile”. It continues in a self-help fashion: “Believe in yourself, you've got something to share”, but then, switching into communitarian ideology, orders “show us all you really care”.

LKY's successors continue to worry that prosperity is bringing about increased “individualistic behaviour”, so the songs remind citizens to “share our joy”, “something to share”, “together we can share”, “so much we can share” and “care and share”. But the appeal of greater individualism cannot be ignored. “My country”, “my flag”, “my future”, “my dreams”, my friends” and “my home” culminate in *Shine on Me* (2000), which reassures that the “Stars and Crescent shine on me”.

Fears over the long-term prospects for the country are directly addressed. The state's messianic role as *A Land of Destiny* (2009) implicitly echoes the “city upon a hill” mind-set of the USA, reassuring citizens that their “dream” too can still be fulfilled. So the future of Singapore remains positive: it “will always achieve” and “will always be”. Existential threats, however, remain, and challenges will continue. Words like “defend”, “soldiers”, “marching on” and “victory” highlight Singapore's vulnerability to the “stormy sea”. “The darkest storm” expresses the need to “make a stand”, “show the world” and “overcome anything” through public service excellence. *Count on me, Singapore* (1986) reminds citizens that personal sacrifices continue to be needed. Yet LKY also understood that crude nationalism had its limitations and recruited talent from abroad – so the classic patriotic songs *Stand Up for Singapore* (1984), *Count On Me, Singapore* (1986) and *We Are Singapore* (1987) were not written by Singaporeans, but by a Canadian.⁸ If the population sings with happiness, how troubling are alleged autocratic tendencies? After singing LKY's praises, however, his obituaries all agreed that, in future, public service in Singapore now without its maestro conductor risks losing its tempo, falling out of tune and even going deaf.

After singing LKY's praises, however, his obituaries all agreed that, in future, public service in Singapore now without its maestro conductor risks losing its tempo, falling out of tune and even going deaf.

⁸ *Hugh Harrison was working in Singapore when, in 1984, the Ministry of Culture sought a song to celebrate the 25th anniversary of Singapore's self-governance. Harrison's entry, Stand Up For Singapore won, and in later years the other two pieces were chosen as the annual National Day song.*



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