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CALL FOR SUBMISSIONS

Current graduate students and recent alumni are invited to submit papers, case studies, and book reviews for the fourth edition of the *Asian Journal of Public Affairs*.

Paper Guidelines: Please substantiate your analysis with tangible policy recommendations. Papers should not exceed 6,000 words excluding endnotes and bibliography. Submissions must include a one-page abstract of the paper with contact information. Citations must follow the social science author-date system in the Chicago Manual of Style. Authors are also encouraged to submit policy case studies (max. 6,000 words) and book reviews (max. 1,000 words).

Final Submissions Deadline (Vol. 3, No.1, Fall 2009):

July 15, 2009

Dear Reader,

The fourth issue of the Asian Journal of Public Affairs has many firsts under its belt. This is the first print issue of the journal – a mark of its growing contribution to addressing policy concerns pertaining to Asia, expositied by graduate students. This is also the first issue to present a thematic commentaries section, with no less an issue covered than the ongoing international economic crisis. We hope that this issue throws light on concerns that have hitherto been unaddressed and puts forward workable solutions in the Asian context; a context that is increasingly enmeshed in the dynamics of an interconnected world.

Our fourth issue begins with a commentary by Dr. Charles Adams, a Visiting Professor at the Lee Kuan Yew School of Public Policy, who critically examines the Asian growth paradigm in his piece Towards Better Balanced Asian Growth. The crisis not only reflects a disorderly unwinding of the global imbalances problem, but also presents the regulatory lacunae in the global financial system. In the second commentary, Dr. John Palmer, an Adjunct Professor at the Lee Kuan Yew School of Public Policy, reflects on the financial crisis in Causes and Effects: Some Reflection on the Global Financial Crisis. Dr. Paul

Gruenwald, Chief Economist, Asia and Ivy Tan, Director – Credit Research for the ANZ Investment Bank, in the third commentary, take a non-public sector view of the lessons learnt by Asian Banks from the present crisis.

Developing countries like India have seen a considerable improvement in Merchandise Trade Performance after Adopting Economic Reforms. However, fruits of greater international integration remain unharnessed in many emerging economies due to poor human capital. This has had direct consequences for education policy as seen in Lifelong Learning Policy in Thailand. Increasing skills-mismatch in labour markets and the disconcerting trend in Employment in the Organised Sector after adopting liberalisation reforms remain issues that reminds policymakers of the unfinished agenda of growth with social justice. Times of crises witness the greatest need for cooperation between various governments. While reforms of major international organisations are often slow to come, significant forward-looking developments are still possible, as one can see with ASEAN's efforts in Cooperation, Multipolarity and East Asian Regionalism. Although regional cooperation and international treaties play an important role in

chugging the agenda of cooperation forward, exceptionalism and noncompliance remain a stumbling block in the creation of an egalitarian society. Comparing American and Chinese Exceptionalism to the United Nations Convention against Torture, one can understand the uniqueness of different strands of exceptionalism and noncompliance, especially from two different economic power-centres of the world.

We hope our fourth edition will be of interest to you and that it will spark policy debates on the issues addressed by graduate students. We would once again like to thank those who have provided their invaluable advice and guidance in making the Asian Journal of Public Affairs transform into a print journal. We are especially grateful to our faculty advisors, Prof. Mukul Asher and Assoc. Prof. Darryl Jarvis and to our mainstay, Ruth Choe.

Yours Sincerely,
The AJPA Editorial Board
February 2009

Charles Adams

The ongoing economic crisis reflects the disorderly unwinding of a number of significant imbalances that emerged during the very benign conditions of the last decade. The key macroeconomic imbalances included the large current account deficits of the United States and the corresponding surpluses in the rest of the world, notably in Asia and the oil producing countries of the Middle East and Russia—the so-called global imbalances. The key financial imbalances included massive increases in leverage as well as bubbles in a number of property and equity markets and, more generally, a sharp narrowing of risk spreads across a wide range of financial instruments. With the crisis unfolding, the various imbalances are starting to unwind as U.S. private saving rises sharply, massive deleveraging gets underway, oil and non-oil commodity prices weaken, and risk is re-priced on a wide range of financial instruments. Even though the reduction of the macroeconomic and financial imbalances will ultimately strengthen the world economy, the accompanying adjustments are turning out to be extremely costly and are contributing to a very deep and synchronised global slowdown.

When the crisis first erupted in the sub-prime segment of the U.S. real estate market, the expectation of

many Asian governments was that the spill-overs to the region would be relatively limited. Limited spill-overs were seen as likely to result from the region's small direct exposure to U.S. sub-prime and related products, its relatively strong macroeconomic and external fundamentals, and the much improved safety and soundness of its largely bank-based financial systems. In the event, and as a result of the region's very heavy dependence on export demand and sharp pullbacks of financial capital, spill-overs to the region have begun to increase dramatically. Even under optimistic assumptions about the near-term stabilisation of the global economy, Asia is likely to experience a sharp slowdown in growth this year and the strength and timing of the ensuing recovery remain very uncertain.

There is tendency during any crisis to try to ascribe blame, and a number of commentators have labelled the current crisis as being "Made in the USA". However satisfying it might be to play the blame-game, it is clear that there is more than enough responsibility to go around for the various imbalances that emerged before the crisis and, in particular, for the large global current imbalances, which, by their nature, must be a shared responsibility across countries. Where the US and a number of other advanced countries

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should assume responsibility is with regard to their failure to adequately regulate and supervise key components of their financial systems, which allowed for a massive build-up of leverage and risk taking. In any event, the first priority at the current juncture should be to arrest the sharp downward spiral in global economic activity and set the conditions in place for a resumption of growth. After the crisis is over, if not before, there will be a need to address the numerous policy and other shortcomings that contributed to the crisis including macroeconomic and exchange rate policy weaknesses and inconsistencies across countries, severe shortcomings in both micro and macro prudential oversight of financial systems, serious deficiencies in private risk management, and the current high degree of pro-cyclicality of financial systems.

Asia can play an important role in helping cushion the effects of the global slowdown and putting in place the conditions for a resumption of world growth. Not only will such a role be commensurate with Asia's growing importance in the world economy and its international responsibilities, it will also be in its own best interest from a short and medium-run perspective. Fundamentally, what is required is that countries in the region undertake a significant rebalancing of their economies. Key interrelated components of such rebalancing are as follows. First, there is a need to switch from foreign (exports) towards domestic sources of demand. Second, there is a need to improve the region's inter-temporal allocation of

resources, which will mean raising the region's generally very low consumption rates. Third, it will be important to ensure that the region's scarce savings are optimally invested which will likely involve making greater use of savings at home rather than exporting them overseas via official reserve accumulation. Finally, it will be helpful to improve the potential for domestic expenditure smoothing both over the business cycle and over time. This will help private domestic demand cushion the effects of swings in foreign demand and also allow for some of the benefits of higher future incomes to be consumed today. The overall rebalancing process will not involve the region turning away from its traditional high degree of openness in trade and financial capital flows. Rather, it will involve "growing" the domestic infrastructure of regional economies and a reduction in a number of policy and other distortions that emerged in the period since the 1997 Asian financial crisis that have contributed to the region's tendency to run large and persistent current account surpluses.

Needless to say, regional rebalancing will present a number of significant challenges for policy-makers in the region. As will be discussed in a forthcoming Lee Kuan Yew School Task Force Report on the crisis, a number of changes will be required in the orientation of the region's macroeconomic and structural policies, stepped up efforts will be needed to prudently broaden and deepen regional financial markets to increase the scope for expenditure smoothing, and the current struc-

tures for regional economic and financial cooperation will need to be strengthened. Across the region, the institutions for economic policy formulation and implementation will need also to be strengthened and their capacities improved so as to better manage the economic and other policy challenges associated with regional rebalancing.

A sine qua non for regional rebalancing will be the bringing forward of long overdue reforms in the international financial architecture that will meaningfully address regional concerns about the legitimacy and effectiveness of the official international financial institutions. Most importantly, the significant underrepresentation of the emerging market economies of Asia and other regions in these institutions needs to be addressed to better reflect the current international order. And the ability of the international institutions to provide needed liquidity support during crisis periods—without imposing unnecessary and costly conditionalities—needs to be strengthened to reduce the need for emerging market economies to hold large war chests of international reserves in order to protect themselves from international financial instability.

The current crisis is an important wake-up call regarding the urgent need for reforms in a wide range of areas, including the need for a significant rebalancing of Asian growth and meaningful reforms of the international financial architecture. During the last decade or so, the international economy has managed to successfully absorb the rapidly growing

mega economies of China and India with the result that these countries have been able to achieve huge improvements in their living standards. Looking forward, the growth of these and other emerging market countries in the region will not be able to depend on continued strong demand growth in the rest of the world as the global current account imbalances narrow. Better-balanced Asian growth will be required and will be a strong positive both for the region and for the global economy.

CAUSES AND EFFECTS: SOME REFLECTIONS ON THE GLOBAL FINANCIAL CRISIS

John Palmer

In September, 2006, the Lee Kuan Yew School of Public Policy hosted the Raffles Forum¹, to coincide with the Annual Meetings of the International Monetary Fund (IMF) and the World Bank in Singapore. At the Raffles Forum, a number of illustrious speakers made presentations or participated in panel discussions on important public policy issues. One of the events at the Forum was a panel discussion on the steps that had been taken by financial authorities and institutions to improve both systemic and institutional risk management and reduce the risk of financial crises.

Following the discussion, I asked one of the panellists, the Head of Risk Management for Goldman Sachs, what probability she would assign to a global financial crisis occurring sometime in the next decade. She replied, without hesitation: "high", and, as I recall it, went on to explain that financial transactions and relationships among financial counterparties had become so complex that no one could understand or predict the contagion effects if and when significant losses were to occur. By coincidence, I had made similar comments in a November,

2005, interview with the "Financial Regulator" publication.²

As a proliferation of "talking heads" and learned articles emerges to explain the current global financial crisis, we are hearing that the crisis is a "once-in-a-century" or a "black swan" event that could not have been foreseen and predicted. The exchange I have described illustrates that most of the comments along these lines are self-serving nonsense.

The global financial crisis has been caused by an unprecedented build-up of debt or leverage in the financial system, largely within the private sector. Leverage, as measured by assetcapital ratios of banks in a number of major countries grew to levels unprecedented in modern times, often exceeding fifty to one. A shadow banking system emerged, including a host of special purpose vehicles (the vehicles that issued the now infamous "CDO's" used in subprime mortgage securitisation). Such vehicles had virtually no capital and thus infinite leverage. Joining the credit bacchanalia were hedge funds and private equity funds, also highly levered and making use of financial instruments that are, themselves, a form of leverage. Individuals accu-

¹ Raffles Forum on Good Governance and the Wealth of Nations, Singapore, 14-15 September, 2006.

² Financial Regulator, December, 2005, Vol. 10, No.3, Interview: John Palmer, in conversation with editor Neil Courtis.

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mulated high levels of debt to purchase or refinance homes, to acquire automobiles and make other consumer purchases.

Taken together, the growth in debt was staggering, particularly in countries like the United States and the United Kingdom. In a recent Financial Times Article,³ Martin Wolf pointed out that total U.S. debt grew from about 150% of GDP in 1980 to 358% of GDP in the third quarter of 2008. Based on a U.S. GDP of roughly USD14 trillion, the indebtedness added since 1980 represents about USD 28 trillion. The equivalent figures in the UK are even more stunning. Total UK debt grew from less than 100% of GDP in 1987 to nearly 500% of GDP at the end of 2007. No one knows what a manageable level of debt to GDP ratio might be, but any material adjustment back toward the levels of twenty years ago will remove massive amounts of credit from the economy, with a devastating impact on aggregate demand.

Some commentators believe that the cause of the crisis was the creation of financial assets arising from the securitisation of sub-prime mortgages in the United States, which turned "toxic" when the residential real estate market began to fall. In my view, this was the catalyst, not a cause. The huge and growing debt overhang was a house of cards waiting to collapse. If sub-prime mortgages had not caused the implosion, some other form of financial excess

³ Why dealing with the huge debt overhang is so difficult – Martin Wolf – Financial Times, Wednesday, January 28, 2009-02-08.

would have done so. There were many culprits to choose from including other forms of securitisation, highly levered buy-outs by private equity firms and credit default swaps.

So if the financial crisis could have been foreseen, why didn't the authorities act to prevent it?

This is the really important question arising from the crisis. If we can answer this, we may have a chance of preventing, or more realistically, mitigating the seriousness of a future crises.

First, it must be said that some authorities were aware of the growing risks and stresses building up within their financial systems and did take action to counteract them within their economies. China began cooling off the torrid growth of its economy well before the crisis began by increasing interest rates and bank reserve requirements in order to slow down the growth of credit. The Reserve Bank of Australia became concerned about a housing bubble and raised interest rates in a successful effort to curb mortgage lending and slow the rise in housing prices. Singapore has always taken a prudent approach to the management of its financial system. By maintaining high capital adequacy requirements for its banks and encouraging robust risk management practices, the Monetary Authority of Singapore helped to ensure that its banking system emerged relatively unscathed from the first phase of the crisis. Similarly, in my country of Canada, bank leverage levels were tightly

restricted and rigorous supervision discouraged some of the risky practices occurring in other countries, ensuring that Canadian banks too, were not seriously affected in the first phase of the crisis.⁴ The authorities in both Singapore and Canada also took careful steps to prepare for a possible financial crisis, including running crises simulations.

However, in larger countries, those which dominated the global financial system, such action was either not taken, or, was not taken with sufficient determination to prevent the disaster which eventually occurred.

Why would authorities in different countries take such different approaches? There would seem to be several reasons for this.

One of these, a particularly disappointing one, is the failure of the new science of macro-economic surveillance to sound the alarm and spur the responsible authorities into action.

“Macro-economic surveillance” is a term often used to describe what central banks do to carry out their mandates to promote financial stability. Following the regional financial crises in the nineteen nineties, and encouraged by international organisations like the Financial Stability Forum and the IMF, central banks began to carry out and publish regular studies on emerging risks and threats to financial sys-

tems. The results can be found among the publications of a number of central banks in periodicals bearing such titles as “Financial Stability Review”. The IMF and other international bodies have published similar studies.

Such studies have been useful, but tend to have been longer on analysis than on calls to action. Many of these studies identified the “twin deficits” in the United States (fiscal and current account deficits) as a growing threat to global financial stability. Some also pointed out the growing mortgage indebtedness and the possibility of a housing bubble in the United States, and warned that the bubble might one day burst.

But these studies rarely portrayed these and other threats as imminent. They generally called for continuing vigilance on the part of the authorities but not for direct action to curb the threats.

That they did not may illustrate one of the most important reasons why authorities did not act. In my view, it was because many, despite recognising growing risks and stresses, had come to believe that the world had entered a new, lower-risk age of ample liquidity and effective risk management at both the systemic and institutional levels. And in fairness, there was much evidence to support this, including several years of relatively low volatility in financial markets, steady growth in equity prices, low interest rates and risk premia, demonstrably better management of monetary and fiscal policy by the authorities in those developing

⁴ Newsweek, February 16, 2009 issue: Worthwhile Canadian Initiative, article by Fareed Zakaria.

countries that had been impacted by past regional financial crises, and significant efforts by financial institutions and supervisors to strengthen risk management, exemplified by a sophisticated new capital adequacy model for banks known as "Basel II".

We now know that much of this evidence was illusory, in part driven by the growth of credit that caused the crisis, but at the time it contributed to a kind of complacency; a sense that despite the direction of some of the data, nothing was likely to go wrong. Complacency encouraged "pro-cyclical" behaviour in which the authorities lost sight of the need to "lean against the cycle".

In addition to complacency, many other factors appear to have contributed to the crisis. I believe that some of the more important may include:

- An excessive and poorly-founded reliance on/faith in the ability of financial innovation to mitigate the growing risks taken by financial institutions;
- Related to this, an excessive pre-occupation, on the part of some banking supervisors, with Basel II, which has some positive elements but serious flaws, while allowing bank leverage to grow to dangerous levels;
- A blindness to the growing dependence of banks and other institutions on financial transactions at the expense of their traditional intermediation business (gathering deposits and lending

to consumers and businesses) and the resulting implications for bank risk profiles;

- An inability to understand the real dynamics of risk management in financial institutions, including the emasculation of risk management functions;
- A failure to understand risks inherent in different types of institutional funding models and to monitor funding and liquidity in the supervision of banks;
- A growing emphasis on the growth and development of financial centres at the expense of effective supervision, and, related to this, the use of light-touch, institution-friendly supervisory models to reduce the costs and irritants caused by financial supervision and attract financial institutions to particular financial centres.

While the authorities in some countries may have been "asleep at the switch" as the stresses leading to the crisis built up, they cannot be accused of complacency now. As the crisis entered its first phase and banks in several countries experienced serious liquidity problems, the authorities showed creativity and determination to keep banks in business and prevent the crisis from spreading to the real economy. Despite unprecedented efforts, in which the lender-of-last-resort facilities of central banks were significantly expanded to cover non-banking institutions, commercial entities and low-quality assets, the au-

thorities failed. They failed because they addressed the symptoms of the crisis – drying up of liquidity – and not the causes, including the erosion of capital levels and confidence in financial institutions. The authorities are addressing the causes now, but several months too late. Pandora's Box has been opened and the furies are fanning out across the globe.

The crisis has now entered its second phase as the accumulation of excess leverage unwinds. Problems in the financial system, particularly the reduction in credit available from the banking system and more importantly, the shadow banking system, have spread to the real economy, causing dramatic slowdowns, including recessions in many countries. Some of those affected are countries with well-managed financial systems that were relatively free of the excesses evident in some larger economies. Indeed, it seems clear that no country will escape unscathed from the most serious financial crisis the world has seen since the great depression of the nineteen thirties.

There will be a third phase to the crisis, already beginning to occur, as the downturn in the real economy causes losses to those financial institutions still standing after the first phase. This is a risk for those countries whose financial systems were relatively unaffected during the first phase. It will also threaten the survival of many financial institutions, including some that have already become wards of the state. It is not clear that those countries with banking systems materially larger than

their national economies will be able to provide unlimited support to their problem banks.

What can we expect now? How serious will the recessions be? How long will they last? Which countries will be most affected? These questions are impossible to answer because we are sailing into uncharted waters. It is clear that some of the early optimism about shallow recessions and quick recoveries was unfounded. The current crisis is likely to be longer and deeper than most of us have experienced in our lifetimes and the prospect of a thirties-type depression can no longer be ruled out as the spectre of protectionism arises in developed countries.

How will Asia be affected? The early hope that Asia would not be seriously affected because its rapid rise had "decoupled" it to some extent from the developed world is not proving out. A number of Asian countries, including China, Japan and Korea, are heavily dependent on trade with the developed world and are now suffering from a dramatic fall in exports. There is still reason to hope that the crisis will be less serious in many Asian countries than in the West, in part because of opportunities in countries like China to stimulate domestic demand to partially offset the loss of exports, and in part, because effective management of Asian financial systems since the regional crises of the last decade have given the authorities more room to manoeuvre than some of their Western counterparts.

Is there any good news to come out of this crisis? Of course there is, particularly for the generation of young people represented at the Lee Kuan Yew School of Public Policy. Over the years, most important improvements in public policy have occurred as we learned the lessons from various crises and took appropriate action. As a result of this crisis, big changes will occur in the management of financial systems, financial regulation and in the way financial institutions operate. While it is likely that we will overshoot in the short term, undermining the efficiency of financial systems, in the longer term, financial systems and economies will surely emerge from the crisis stronger than before.

Paul Gruenwald and Ivy Tan

At first blush, the title may seem odd. Weren't Asian banks able, for the most part, to avoid the excesses of their American and European brethren as regards their exposure to toxic assets? And, as a result, haven't they been able, for the most part, to come through the global credit crisis largely unscathed? The answer to both questions is: yes. However, that does not imply that there are not lessons to be learned. This article seeks to identify and, where possible, answer how Asian banks have been able to weather the ongoing credit crisis. Was it due to good planning? Skill? Luck? Some combination of these factors? Analysing these issues will not only shed light on events since the eruption of the crisis in mid-2007, but also on how prepared Asian banks may be to combat the next crisis. If the banking and financial crises over the past few decades have taught us anything, it is that no two crises are alike and that being prepared to fight (or having survived!) the previous crisis is no guarantee of success for the next one.

Asia's Minimal Exposure to Toxic Assets

The epicentre of the current global financial crisis was the collapse of US housing prices and the quality of financial instruments collateralised by those assets. The wonders of

modern finance allowed for the slicing, dicing, leveraging and repackaging of risks associated with US mortgage products, as well as the widespread dispersion of these risks beyond the borders of the US. (Other underlying asset classes were securitised as well, and the same argument applies.) Risk diversification is one of the pillars of investment theory. And, at a fundamental level, the process above was supposed to have allowed those best able to understand and benefit from the risks to be able to purchase those claims.

The US housing market started to deteriorate well beyond a "normal" correction in 2006 following a number of years of very robust price growth. As a result, the value of assets securitised by those claims began to deteriorate sharply, including many highly rated securities. As the amount of impaired assets began to swell far beyond the initial estimates,¹ the immediate concern became: who was ultimately exposed to those claims? As it turned out, most of the claims were held by banks, although often indirectly through various special investment vehicles. In addition, it became clear

¹ For example, the initial estimate of the US Federal Reserve Bank was \$50-100 billion. Even the estimates of "bears" such as Nouriel Roubini of New York University were \$400 billion.

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early on that a sizeable proportion of banks holding these assets were located outside of the United States.

Table 1: Losses and write-downs announced since mid-2007, in billions of US dollars

Country of Origin	
United States	427.0
United Kingdom	118.0
Continental Europe	158.9
Canada	10.8
Japan	13.7
Other	14.1
Total banks	812.0
Other institutions	258.7
Total	1038.5

* 'Other institutions' include insurance companies and the US GSEs.

Sources: Bloomberg; IMF; ANZ Market Economics and Research.

Table 1 shows the holders of impaired assets by country as of January 2009. The first feature to note is that the total losses associated with impaired assets have now reached US\$1 trillion, or several times more than even the direst original estimates! Moreover, the latest projected total from the IMF is on the order of US\$2 trillion.² The second feature is the geographic distribution of these losses. While over one-half of the bank totals corresponds to US banks, almost the entire remainder corresponds to European banks; Asian banks have less than 4 percent of the total! Importantly, these ratios have been broadly stable as total bad loans have continued to rise. The implication is that European banks (and their shareholders and governments!) have ended up with a sizeable chunk of the risk associated with the sharp decline in US home prices, while Asian banks have been largely spared.

² Global Financial Stability Report, January 2009.

How Did Asian Banks Avoid Toxic Assets?

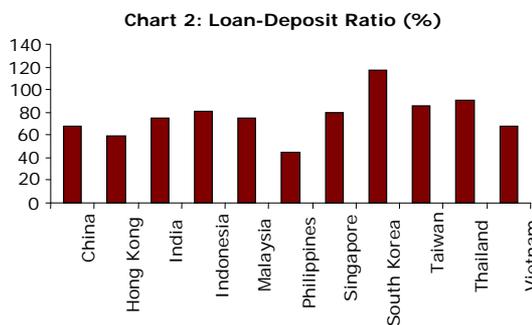
How did Asian banks manage to avoid loading up on so-called "toxic assets"? This section identifies and discusses a number of tentative conclusions. However, a definitive, rigorous analysis is beyond the scope of this article. We would focus on the following candidate explanations:

Natural conservatism: A common observation of Asian finance is its conservatism. Relative to the "West," products are simpler, deals are simpler and what is not fully understood is treated with scepticism, and not purchased. Given the degree of financial engineering at play in packaging risk in the boom years (e.g., CDO-squares and the like) this reason would seem to hold some merit, although one could also argue that lack of conservatism was a factor in the Asian financial crisis. A related key difference between Asian and "Anglo" economies is the degree of leverage in bank balance sheets (excepting Korea). See Figure 1.

Lessons learned from the crisis: A slightly different, but related, reason is that Asia learned its lessons from the crisis and avoided the risky credits this time around. Ill-advised investments in structured products (for example, by Korean merchant banks) as well as lax due diligence by banks in the run-up to the crisis have been internalised by financial entities according to this line of thinking, making the banks more

cautious than before. We fully concede that the crisis remains a fresh memory for many in the region and that this could be a contributing factor to recent bank behaviour in many economies in Asia.

Figure 1: Loan-Deposit Ratio, percent



Source: Latest Information from various regulators' websites; where banking system numbers are not available, proxy from a large domestic bank with significant presence in the country is used.

Ample investment opportunities in the region: On the supply side, healthy growth this past decade and decent returns on regional investments may have tempered the appetite for "juiced up" foreign products. This strikes us as plausible as well, considering that low official interest rates in the United States in particular resulted in a search for yield, including a move out of the credit curve. Reinforcing this tendency may have been a "home bias" for the region, favouring the purchase of claims with better known underlying assets.³

³ In this context, one could make an argument that based on a number of factors, the "distance" between Asia and the United States is greater than the distance between Europe and the United States.

Financial sector supervision: Were Asian banks simply better regulated than those in the United States and Europe? We find this argument to be less persuasive than the others. While supervision has certainly improved since the crisis on both the structural and human capital levels, supervisors worldwide have played a reactive role for the most part. With the private sector driving a considerable pace of product innovation and complexity, regulators were often preoccupied with trying to keep pace with market developments. Moreover, under Basel II and on a more ideological level, banks were seen as being able to manage their own risks better than supervisors, and the role of supervisors was thus limited to validating banks' internal risk models rather than slow the expansion of the balance sheet in certain areas.

Luck: While all of the above candidate reasons seem plausible, do they fully explain the favourable outcome for Asia's banks? This is difficult to quantify, but nonetheless would lend itself to empirical analysis. Without doing that work ourselves, we would argue that any residual explanation for Asian banks' low exposure to toxic assets should be assigned to luck.

Lessons and the Future

So what are the lessons for Asia? First and foremost should be the need for a comprehensive analysis of what allowed the region's banks to avoid purchasing the assets that have devastated banks in the United States and Europe. That should help to identify where progress has been

made since the crisis and what areas might need further strengthening. This could be done at both the national and regional level. It could also lead to the articulation of a banking model that might differ in certain ways from the Western model.

That being said, we should not declare Asian banks to be in the clear. While the excesses of the sub-prime and related models were largely avoided, the region's banks still need to deal with a sharp economic slowdown, particularly in the Newly Industrialised Economies of Hong Kong, Korea, Singapore and Taiwan. Moreover, newly developed banking systems (such as Vietnam) are particularly vulnerable to the downturn in the credit cycle, having experienced tremendous asset growth in recent years. Credit quality has surely deteriorated in line with macroeconomic difficulties and how the banks and supervisors deal with the inevitable rise in non-performing loans will be important. It remains to be seen whether losses will eat through earnings and into capital. But lessons were learned during the Asian financial crisis and how the region manages its way through another round of rising NPLs will be a key determinant in positioning for the (eventual) recovery of both foreign and, in many cases, domestic demand.

Finally, we think the urge to gloat—and not examine why Asian banks have fared well during the credit crisis—should be strenuously avoided. There is a view that the Western banks are “paying for their sins” and

that Asian banks have managed to weather the crisis because they did not fully adopt the model they see as being imposed upon them one decade ago. This presupposes that all crises are the same and that Asia is somehow predisposed to handle the next crisis (whatever that might be!) relatively well. That would be a dangerous path to follow.

If recent history has taught us anything about financial crises, it is that they are all different and that no country or region is immune. The Latin sovereign debt crises of the 1980s and early 1990s were different from the Asian twin banking and balance of payments crises of the late 1990s which, in turn, were different from the current crisis. And advanced countries are clearly not immune either with the current crisis being centred on the United States and having devastated financial systems across Western Europe.

COOPERATION, MULTIPOLARITY AND EAST ASIAN REGIONALISM: AN ASEAN PERSPECTIVE

Oleg Korovin

The paper proposes a framework for the analysis of ASEAN's current and future policies in East Asia and their possible effects. This framework, termed here the "cooperation strategy", is an extension of ASEAN's approach to East Asian regionalism which, it is argued, can create a near-optimal environment for the development of ASEAN itself and the whole East Asian region. The key elements of this environment are 1) the absence of a regional hegemon capable of imposing its views on others, and 2) the preference of actors to see cooperation as the default mode of interaction with one another. The central problem for achieving these goals is the uncertainty of China's intentions with regard to its role in the region. This uncertainty can be resolved by engaging China in ASEAN-led multi-lateral arrangements, which is already being done. The prolonged experience of constructive, mutually beneficial interaction with other actors in East Asia – socialisation in the regional context – is expected to have a transformative effect on China's identity and interests, thus, gradually removing the notion of the "China threat" from the international agenda. With China becoming less threatening and more integration-minded, the stance of the US and Japan in the region (the other two key players) is expected to change considerably with both of them being more willing to cooperate with other Asian actors instead of focusing on competition with China. Ultimately, the cooperation between ASEAN, China and Japan – with the US as an actively engaged external party – should result in the emergence of a region characterised by much greater stability and self-reliance, while at the same time being open to interaction with external actors.

Introduction

In 1993 Aaron Friedberg argued in his well-known article on security in Asia in the post-Cold War era that "bipolarity [was] giving way, not to unipolarity... nor yet to simple multipolarity (with a group of roughly equal, globally engaged "great powers"), but to a set of regional subsystems in which clusters of contiguous states interact mainly with one another". (Friedberg 1996, 3) He called this structure "multi-multipolarity". Friedberg concluded that "all other things being equal, multipolar systems are intrinsically unstable,"

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(Friedberg 1996, 7) and that the almost inevitable move towards multipolarity in Asia meant great power conflicts were likely to develop in the region.

Fifteen years down the road we see that in many respects multipolarity is indeed the name of the game, although its nature is slightly different than that predicted by Friedberg. Even though the American hegemony in Asia is being challenged – with China’s rise, economic tensions between the US and Japan, North Korea’s nuclear programme, etc. – multipolar Asia has produced more, not less, cooperation between most involved actors. And even though there is much scepticism as to the long-term prospects, there are more signs suggesting the continuance of the tendency than those indicating its possible reversal.

This paper analyses the prospects of cooperation in East Asia¹ in the context of multipolarity and “open regionalism”. The central argument is that not only cooperation is possible in a multipolar Asia, but can in fact be promoted by such structure. The paper identifies the major challenges to stability and peaceful development in East Asia and argues that the strategy of cooperation between the main actors addresses them all, creating a sustainable pattern of constructive interaction. We maintain that the past two decades have demonstrated the validity of the constructivist analysis of the situation in East Asia (which emphasises the power of normative forces to shape international structure) and predictions as to its further development. Basing our argument on the constructivist approach, but also borrowing some elements from the liberal and neo-realist logic, we argue that cooperation fostering open East Asian regionalism is in the interest of all the major actors involved and that resources are there to implement this strategy.

We examine the issue from the Association of Southeast Asian Nations (ASEAN) point of view to narrow the focus of the study, at the same time suggesting an approach that can be applied to other actors involved. More importantly, however, it seems reasonable to begin such analysis with ASEAN as it is naturally predisposed to promoting multipolarity in East Asia and multilateral relations between the countries in the region. Furthermore, ASEAN has demonstrated it can work successfully to achieve these goals and can secure cooperation of other actors, (like in the case of China) even those who had been considered unlikely to go along with such a strategy.

The first section of this paper focuses on examining the present situation in East Asia and analyses what resources are available to actors; it also outlines the challenges faced by actors. The second part describes what we term “cooperation strategy” as a possible framework of interaction for East Asian states. We argue that the proposed approach is the optimal way for ASEAN (given the constraints it faces) which it has already begun to explore. Also, the proposed strategy, if implemented by ASEAN, should create conditions for

¹ For the purposes of this paper, East Asia is understood as a region consisting of Northeast and Southeast Asia.

other actors to accept or at least not oppose it, thus making cooperation the preferred mode of interaction between the major actors in the East Asian region.

Regional Context

Actors and their Framework of Interaction

Two concepts are central to the argument developed in this paper: multipolarity and open regionalism in East Asia. Therefore, it is worth describing these concepts as they are understood here.

When speaking of multipolarity in the region, we do not deny the leading role of the US. However, “leading” does not mean “dominating in every major area”, or even “defining the region’s course of development”. The US is obviously the single most significant force in East Asia and should be considered as such for the purposes of analysis. (Katzenstein 2006) Its intention to try to maintain a global hegemonic role means that it has significant long-term interests in East Asia (among other regions) and is committed to maintaining its presence there in some capacity. Most notably, the US considers military security issues in the region to be of utmost importance to American global strategy. The US domination in terms of military power is undeniable. As Katzenstein (2006, 3) notes, China (to take one obvious example) could pose regional military threats, but is not a global rival for the US and will not be for a very long time. However, military influence is but one variable describing the interaction of actors in East Asia and, as this paper suggests later, not the most important of them. In other areas (such as economic or cultural development) the American preponderance is by far less obvious or conspicuously absent (notably, in the regional institution-building process). A significant degree of independence (from the US and from each other) of East Asian countries in crucial areas of regional interaction is what allows us to speak of “regional multipolarity” – as an element of Friedberg’s multi-multipolarity.

In this context we identify four major focuses of regional influence that are in a position to shape the region by engaging one another and other minor actors in various ways: three main regional powers – China, Japan and ASEAN – plus the US which is located outside the region and, therefore, put in a special position in the proposed analytical framework. In our analysis China is viewed as the key point preventing cooperation – because of other actors’ fear of it, justified or otherwise, and their attempts to compete against China. ASEAN’s role is that of a facilitator of constructive interaction. Japan is the region’s largest economy which makes any policies it adopts towards the rest of East Asia have profound region-wide influence. Having a player of such influence contribute to the region-building rather than be forced to work against it (owing to Japan’s wariness of China) is crucial to the success of East Asian integration. Furthermore, given the undeniable American influence in

the region, Japan often acts as the US' proxy in the region. All of this makes Japan essential to the proposed strategy.

This paper aims to demonstrate that the configuration of the region is such that cooperation between the four above-mentioned players can create a pattern of sustainable constructive interaction. Since the US features prominently in this configuration, the concept described here is what is often referred to as open regionalism, that is, creation by governments of semi-permanent structures of regional interaction (Pempel 2005, 19), but one that is aimed at supporting, not substituting, global arrangements. Therefore, the goal of such regionalism is not isolationism or any partial withdrawal from interactions on a global scale, but the strategic use of available regional resources to create a stable structure open for cooperation with external actors.

ASEAN Context and Perspective

ASEAN was created in 1967 when the five countries that became members of the Association at that time (Indonesia, Malaysia, the Philippines, Singapore and Thailand) realised their vulnerability to the larger regional and global powers. Essentially it was a "non-communist arrangement to promote security among its members". (Pempel 2005, 10) However, despite security having been the primary reason for creating ASEAN in the first place, the Association never developed enough military power to have significant weight in terms of military capabilities in East Asia. Therefore, from the power-politics perspective, ASEAN was bound to remain a minor regional actor. This clearly has not been the case. Furthermore, ASEAN's relative weakness in terms of material capabilities made it the most likely actor in East Asia to rely on normative and institutional forces (that is, on the power of ideas in the broad sense of the term and multilateral arrangements) if it were to actively pursue its own development strategy rather than bandwagon with greater powers. ASEAN's policies have been explicitly aimed at the development of common norms (Unger 2002, 197) – the approach that proved quite successful in many respects. This reliance on normative (and institutional) forces not only makes ASEAN the most likely of the three actors to implement the cooperation strategy proposed in this paper, but also puts it in a position where its intentions for constructive engagement of other actors are most likely to be considered genuine, as they have been so far. Without having significant military power to rely on, peaceful cooperation is the natural weapon of choice for ASEAN; furthermore, it is in no position to force other actors to accept its vision and strategy which considerably alleviates their possible distrust.

On the other hand, a realist analysis of ASEAN's situation – one that emphasises the importance of "hard power" – indicates that, being unable to guarantee its own security in the face of more powerful neighbours, it needs a strong ally – in this case, the US. Despite the relative success of promoting peaceful interaction in the region, ASEAN is not yet ready to exist without the protec-

tion of the US (Khong 2004, 203), and, therefore, is interested in the US maintaining its military presence in the region.

Khong (2004, 193) maintains that ASEAN uses “soft balancing” against China by encouraging and endorsing the American military presence but without establishing formal military alliances. On the other hand, some sort of “economic balancing” against the US on the part of ASEAN is taking place to promote economic independence of Southeast Asia. (Khong 2004, 206) These arguments show that, despite ASEAN’s predisposition to the reliance on normative and institutional power, the realist logic concerned with the distribution of material capabilities still applies to ASEAN’s strategy, although to a limited extent.

Challenges to Regional Stability

Immediately after the end of the Cold War, inter-state relations in East Asia became characterised by much greater uncertainty. The collapse of the Soviet Union complicated the relations between the US and China considerably and introduced an element of unpredictability due to the lack of a common threat. Japan, being the US’ main military ally in the region, thus, also became less predictable, as its strategy would have to significantly depend on the US’ approach to the post-Cold War situation. ASEAN, being the weakest of the main regional powers, was caught in the middle.

There are a great number of factors that stand in the way of East Asia becoming a stable region with predictable (and preferably constructive) patterns of interaction between the actors involved. Not only are these factors numerous, they can also be identified and approached in different ways. One often cited problem is weak institutionalisation. (Kato 2000, 37-38) This may lead to problems with establishing common rules in terms of security and economic policies and complicates the development of common norms. Another obvious difficulty is the lack of history of regional cooperation and, hence, the countries’ natural inclination to perceive each other as rivals.

Given the focus of this study on regional multipolarity, we formulate the main challenges to stability in East Asia in terms of interaction between the region’s main powers and their expectations from one another. In this framework three problems appear to be of greatest importance:

1. China’s view and intentions as to its regional role remain largely unpredictable and, therefore, cause concern and a significant measure of distrust on the part of other regional powers. Ultimately, China has to choose one of two ways (with not so much ground in the middle): it can either decide to be a peaceful regional power willing to participate in the processes of East Asian and global integration and institutionalisation, or attempt to become the regional hegemon, thus directly challenging the US and taking the initiative as to the development of the region into its own hands.

2. The US, although largely behaving as a benign power, is uncomfortable with, and sometimes explicitly opposed to, East Asian regionalism as it sees this process as slowly weakening the American influence in the region, or excluding it from the East Asian agenda (in certain areas) altogether. (Tsunekawa 2005, 142) The US is interested in stability in East Asia as much as anyone but is unwilling to give up its position as the regional hegemon and, therefore, resents the idea of letting the local powers take the initiative. As this paper argues, American hegemony per se (the way it is exercised now) is not a threat to stability. But US standing in the way of workable regional initiatives because of its distrust of the Asian actors' intentions is a potential problem.

3. There is significant distrust of Japan on the part of China, ASEAN and Korea owing to the history of interactions between these countries. (Tsunekawa 2005, 142) Most notably, this results in initiatives coming from Japan being taken cautiously; as a result, Japan restrains itself in proposing a vision of the region's future so as not to be perceived as wanting to dominate. Such perception of Japan also means that other regional powers are less willing to include Japan in the regional integration processes since uncertainty as to Japan's intentions still remains.

Below we analyse how the strategy of regional cooperation can address these issues. Furthermore, we argue that resolving these three problems means removing a host of other difficulties: the proposed conception includes a wide range of problems, including balance-of-power issues, institution-building and development of identities.

Cooperation Strategy

Overview of the Regional Arrangement

What this paper proposes as "cooperation strategy" is an approach to the development of relations between East Asian powers that emphasizes their engaging one another in a peaceful and constructive way. Whereas we do offer an overview of some specific policies facilitating this kind of interaction, the emphasis of this paper is on the possibility of achieving sustainable peaceful regional development through cooperation – as opposed to open rivalry or more subtle "competition". Ultimately such possibility is explained by the constructivist argument that interstate interactions can transform identities and interests of states (Adler and Barnett 1998a, 34), and that interactions generate reciprocity. (Adler and Barnett 1998b, 14) However, in explaining the proposed strategy we do not solely rely on constructivism and employ arguments from other international relations theories as well.

Those who do not dismiss ASEAN as a minor and ultimately insignificant power in East Asia emphasise that its role and influence are not defined in

terms of material capabilities. (Leheny 2005, 237-238) Being a non-threatening power to its neighbours and having a vested interest in promoting regional stability by means other than military power, ASEAN is uniquely positioned to engage other regional actors in a peaceful way. Despite its close cooperation with the US on issues of security, direct military confrontation with regional greater powers is hardly a realistic option for ASEAN to have as a last resort (hence, the best it can do in the “realist world” is soft balancing). Therefore, even though uncertainty as to other actors’ behaviour and motivations exists, betting on the effectiveness of peaceful cooperation (while not entirely abandoning some measures of precaution, as ASEAN indeed has not) could be ASEAN’s best strategy. Furthermore, evidence already exists that such cooperation is largely successful.

According to our analysis, the following (realistically achievable) conditions would create a near-optimal environment for ASEAN:

1. No power is in position to impose its view of East Asian region’s development on other players. This goal is not entirely inconsistent with the American preponderance in the military area, provided that this preponderance does not translate into domination in other areas.
2. Cooperation is the default mode of inter-state interaction. What it means here is that states, self-interested as they are, pursue their goals by constructively engaging others, and, where there is any conflict of interests, attempt to work with other actors rather than against them. It also suggests that some implicit rivalry remains (especially in the economic sphere), but no power seriously considers the strategy of regional domination and accepts the right of other states to develop freely.

Interestingly enough, the principles underlying these proposed goals are at the core of ASEAN’s diplomatic and security culture which, inter alia, is comprised of the following norms: sovereign equality, non-recourse to the use of force and the peaceful settlement of conflict, non-interference and non-intervention. (Haacke 2003, 7) The practical implementation of these norms has become widely known as the “ASEAN way”.

One of the key characteristics of the ASEAN way is its non-coercive, consensus-seeking approach to solving problems. This resulted in the ASEAN norms being weakly institutionalised even within ASEAN itself which has attracted much criticism. However, it is not institutionalisation itself that is ASEAN’s goal but the promotion of certain normative forces. Institutions are required to a certain extent to facilitate the process, but are not an end in themselves. Alastair Johnston (1999, 289) upholds this notion saying that “extremely under-institutionalised arrangements may in some cases be effective in constraining highly opportunistic behaviour”: an actor prone to be opportunistic is far more likely to agree to be part of a weak, non-intrusive institutional ar-

rangement with mild (if any) penalties for failure to comply with the rules. Once part of it, however, socialisation within the institution will gradually change the actor's identity, thus, achieving voluntary – not enforced – compliance.

Another goal of institution-building for ASEAN, however weak those institutions are, is soft balancing. This is explained not so much by ASEAN's distrust of the other actors (primarily, China and US), but rather their commitment to power-politics. ASEAN carefully positions itself between the US and China – being cooperative with both without strongly allying itself with or against either. More importantly, however, through this kind of balancing the Association demonstrates to both China and the US that they can simultaneously be part of the same regional arrangement where none of them has to perceive the other as an immediate threat – if for no other reason than because cooperation facilitated by ASEAN brings greater benefits than competition. It is in this environment that managing security issues through “shared regional norms, rising economic interdependence and growing institutional linkages” (Acharya 2003-04, 150) will become possible; such an approach, in turn, should lead to the transformation of identities of actors and make cooperation as the default mode of inter-state interaction possible.

Engaging China

As was mentioned above, the central problem with regard to China is its potential inclination to develop the ambitions of a regional hegemon and begin acting accordingly which would mean confrontation with the US, as well as Japan and other Asian actors. The escalation of hostility and increased uncertainty are a significant threat to the development of the ASEAN member-states. Therefore, making sure that China remains a peaceful power that at least does not oppose (if not readily accepts) the idea of the regional integration has been one of ASEAN's central strategic objectives. This was one of the main initial goals for the creation of the ASEAN Regional Forum (ARF) in the early 1990s. (Johnston 1999, 292) Furthermore, the ARF was designed in such a way as to make China's participation in it less costly than remaining outside the Forum. (Johnston 1999, 295)

Interestingly, both China and ASEAN prefer that the latter lead the way in the integration process in East Asia. (Sheng 2008, 261-262) There are several reasons for that. First, China has realised that ASEAN will not try to force the integration process and, therefore, is unlikely to present a threat to China's autonomy. Second, ASEAN, being a Southeast Asian institution, will not interfere with sensitive issues in Northeast Asia, like those concerning Taiwan or Korea. (Johnston 1999, 300) Third, China understands that its attempt to be the formal leader in the process of regional integration could be seen as potentially threatening behaviour aimed at ensuring China's domination. This could antagonise other actors, which is precisely what China is eager to avoid at this point. Some experts argue that China seems to be deliberately increas-

ing levels of regional interdependence rather than avoiding deeper ties. (Moore 2008, 38) This is partly explained by the benefits of greater economic cooperation where, as far as partnership with ASEAN is concerned, China is arguably in the position to benefit more significantly than the other party. However, more importantly, by cooperating with ASEAN China helps to create an image of itself as a non-threatening power and can gain access to much needed international space which was otherwise closed to it. (Zheng and Tok 2008, 176) This may be seen as a purely rational calculation on China's part; however, "what may begin as instrumental participation (adaptation) often leads to enmeshment (adaptive learning) as national interests are transformed over time through experience of participating in multilateral cooperation". (Moore 2008, 47)

Two questions arise with regard to this discourse: is China likely to change its behaviour and back out of multilateral regional arrangements if this becomes instrumentally preferable? And is there any evidence that the transformation of national interests and the state's identity is indeed taking place as predicted by constructivist arguments?

The first question is largely speculative. Johnston (1999, 306) offers a number of reasons why participation in a multilateral institutional framework is likely to change the actor's preference in favour of staying rather than backing out:

1. As a result of participation the actor may receive convincing information that fears of institutionalisation had been exaggerated.
2. Costs of backing out and sabotaging the institution rise with time as other actors recognise the institution's legitimacy.
3. The level of identification with other institutional partners increases leading to the desire to emulate 'activists' (those promoting the institution).
4. The actor may come to understand institutionalisation as 'good' in and of itself.

Speaking of costs of backing out in the context of ARF, Johnston further adds that "social disgrace" is an effective coercive power that the Forum could potentially employ (1999, 310).

With regard to the question of transformation of the national interests and identity, a number of studies conclude that it is indeed taking place. Johnston (1999, 315) argues that participation in the ARF has resulted in the rising of China's level of comfort with the Forum which allowed the ARF to become more formally institutionalized and to make its agenda somewhat more intrusive— none of which is the result of coercion or pressure, but represents a natural process of the institution's evolution as its members more strongly

recognize its legitimacy and effectiveness. David Shambaugh (2004-05, 79) goes as far as to say that "China's efforts to improve its ties with ASEAN are not merely a part of a larger 'charm-offensive'. They represent, in some cases, fundamental compromises that China has chosen to make in limiting its own sovereign interests for the sake of engagement in multilateral frameworks and pursuit of greater regional interdependence."

Whereas the evidence available at this point cannot conclusively prove that China will not reverse its foreign policy towards greater autonomy (instead of integration) and unilateralism, it does show that ASEAN's policy of engaging China in peaceful cooperation has been effective and suggest it may very well continue to be so. We have briefly examined some of the advantages this gives to China in the China-ASEAN context. However, the influence of other actors reacting to this change in China's interests and identity may create mechanisms to further promote this kind of cooperation.

US and open regionalism

In the context of direct interaction with the US, ASEAN faces three major problems. First, ASEAN needs the US to maintain its military presence in East Asia (and in Southeast Asia in particular). In recent years, given domestic and international difficulties, the maintaining of this presence is not entirely unquestionable, despite the US significant strategic interest in the region. The US military is still more likely to stay rather than leave, but ASEAN is not in the position to take chances and, therefore, adjusts its policies in such a way as to ensure continued American military presence. It is desirable not only because of the direct impact on the ASEAN security, but also because the stabilising effect of the American presence helps to prevent a major arms build-up by China and Japan. (Katzenstein 2006, 3)

Second, ASEAN cannot become too close to the US (in terms of security arrangements or otherwise) so as not to antagonize China as well as some of the more US-wary members of the Association itself. Some scholars (Haacke 2003) argue that China sees ASEAN-led institutions as a platform to promote ideas aimed at undermining the American domination in East Asia. This is important not only because ASEAN wants China to participate in multilateral arrangements, but because the Association itself wants to avoid furthering the American preponderance which would threaten the regional multipolarity.

Third, ASEAN needs to overcome the US' resistance to East Asian regionalism. Since any pressure in this area would only lead to confrontation, this goal should be achieved by demonstrating that the regional integration is not intended to be a power-balancing instrument. Since military security is the primary area of concern for the US in East Asia, the local actors should make it clear that the integration does not move in the direction of an anti-American alliance of any sort.

There are also a number of problems that ASEAN faces with regard to the US' interactions with other regional actors, most importantly China. Depending on China's behaviour and its perception by the US, the stance taken by the latter could change considerably, either helping ASEAN to get closer to the goals outlined above or making it nearly impossible. Michael Green (2002, 36-37) argues that the US, although preferring bilateralism, is not entirely opposed to multilateralism, its preference being essentially pragmatic. Therefore, if China were to move towards greater regional interdependence and openness, inclusive multilateralism (with the American participation) would be possible. If, on the other hand, China's worldview became more hegemonic and confrontational, the US would feel forced to contain China's power, thus turning away from regional cooperation. It is precisely for this reason that engaging China and socialising it in multilateral frameworks is vital for ASEAN and essential for the cooperation strategy proposed in this paper.

ASEAN's role in East Asia is to change the outlook of the region in such a way that the US stops perceiving China as a global or even regional rival and, therefore, stops basing its regional policies on the necessity to contain China – directly or through other regional powers. Seeing China's interests transform as described in the previous section, the perception of China by the US is likely to change, too. Great powers, such as the US, are not only context makers but also context takers. (Unger 2002, 201) The US is a member of the ARF, which is the only broad-based inter-governmental mechanism to promote security cooperation in the Asia-Pacific region; therefore, the transformative power of normative and institutional forces developed by multilateral arrangements is applied to the US as well. The US stands to benefit from ASEAN-led arrangements as much as anyone else: among other things, institutions provide information about identities of their participants which permits a re-evaluation of one's own definition of interests. As Robert Keohane (quoted in Johnston 1999, 320) put it, institutions allow actors to "know their partners, not merely know about them". In other words, seeing first-hand how China and other actors involved in change and move towards genuine cooperation can convince even as stubborn and suspicious a player as the US that working with, and not against, these actors may be worth attempting.

What is interesting is that despite the obvious gap in terms of capabilities, the US implicitly recognises ASEAN's "right" to pursue its own vision of East Asian regionalism, even though the US does not necessarily endorse it. (Haacke, 2003, 164) For one thing, ASEAN's closer interaction with China does not seem to be a cause for significant concern for the US. Whether it is because the US believes that ASEAN is too dependent on the American military support to change loyalties or because it genuinely believes that engaging China is a successful policy for the transformation of the region is of secondary importance. What is most important is that ASEAN's multilateral arrangements work. And even if the process of transforming the actors' identi-

ties to ensure their cooperation with one another takes a long time, the costs of backing out (primarily from the ARF) for the US are constantly rising as the legitimacy of the institutions increases. Another interesting example of ASEAN's increasing ability to shape East Asian arrangements in ways it sees fit was the acceptance of Burma to the ARF without consulting the US (Haacke 2003, 144) – which, again, did not lead to any notable antagonism between the US and ASEAN, even though the former was obviously greatly displeased by this move.

With ASEAN's ever rising recognition (if mostly implicit) as a significant regional power, it is in position to make its policies have long-lasting transformative effect. The process of China's socialisation could ultimately result in the removal of the "China threat" nation from the international agenda, since the goal of this process is for China itself to become convinced it should drop its hegemonic ambitions. Although this ultimate goal may still take a while to be reached, the gradual move to it should make the US reconsider its view of the vector of East Asian regionalism and seeing it as a non-threatening (if not necessarily desirable) process. Faced with a situation where the US no longer tries to constrain it, while having all the advantages of regional cooperation, China will have little reason to feel intensely insecure and confrontational and, thus, will be likely to remain part of multilateral arrangements.

Japan's role

Japan has been left out of this paper's discourse until now. One reason for this is that its interactions with ASEAN are much less intensive and have less far-reaching consequences. Another is that Japan, being a close ally of the US, can hardly be considered on its own in the context of multilateral arrangements. In many respects (especially with regard to security), Japan's interests and approaches will be similar to or closely connected with those of the US. Most notably, this applies to the perception of China. Japan is as much interested in China sincerely abandoning any hegemonic ambitions – as disrupting regional stability – as is the US. Therefore, Japan is just as likely to support (or at least not oppose) ASEAN's policy of engaging China.

What makes Japan's position similar to that of ASEAN is its preference for the US to maintain its military presence in East Asia. Furthermore, from ASEAN's perspective, it is preferable that Japan remain a great economic power without this power translating into increased military capabilities. (Khong 2004, 184-185) Taking the rising economic tensions between Japan and the US into account, it is understandable why Japan wants to become more self-reliant in terms of military security and, thus, continues to slowly build up its military capabilities. However, given that the major source of uncertainty in the region is China, the tension that Japan feels should decrease greatly if ASEAN's security policies in the region are to be successful.

One area where Japan could feature prominently in the regional cooperation strategy is economic security. On one hand, there is ASEAN experiencing pressure from the US to further open its markets. It is this pressure that ASEAN wants to be able to successfully resist. Which is why, for example, China has been quite successful in encouraging the Southeast Asian leaders to resist American hegemonic economic policies after the 1997 crisis. (Unger 2002, 182) On the other hand, Japan does not want to see China to have too strong economic positions in the region. Therefore, one measure it has employed is to encourage Japanese investment in Southeast Asia (where China has also invested considerably). (Sheng 2008, 270) Even though China and Japan see this kind of economic balancing as somewhat imposed on them by circumstances rather than chosen freely, it does promote regional economic interdependence. ASEAN ends up being economically supported by both Japan – to offset China, and China – to offer ASEAN incentives to move further away from the US (granted, a fair share of competition between China and ASEAN for access to external markets also exists).

Japanese corporations have long been involved in East Asia through production networks. Even though the benefits from cooperation with Japan are typically distributed unevenly, East Asian economies are still interested in the inflow of capital from and promotion of trade with Japan. For Japan greater economic involvement in East Asia makes sense not only to counterbalance China, but to further diversify its economic ties. This is especially relevant in light of the current economic crisis in the US.

From the ASEAN perspective, interaction with Japan in the context of the cooperation strategy includes exploring two directions. First, indirect interaction involves creation of an environment in which Japan will see East Asian regionalism as non-threatening to its interests and, being a part of the region, as an arrangement that can be beneficial to Japan. Second, by positioning itself between China on one hand and the Japan-US alliance on the other and cooperating with both, ASEAN creates incentives for Japan to support Southeast Asian economies. By doing this, Japan will promote regional economic interdependence which should ultimately make East Asia more self-reliant and less vulnerable to outside pressure – a goal widely supported by Asian leaders after the 1997 crisis – while remaining open to cooperation with external actors.

Conclusion

Having little in common in terms of identities and a lot of history of confrontation, East Asia may indeed seem to be “ripe for rivalry”. However, the resources to make cooperation the strategy of choice are there. What is required is the understanding of this fact and the motivation to implement the cooperative approach. ASEAN has both – if for no other reason than the absence of

material capabilities to compete with other regional powers on their own terms.

ASEAN has already made cooperation with other actors its goal and institutionalised its intent to promote such cooperation through non-coercive means. It has been largely successful in tackling the most difficult task it faces – engaging China in such a way as to make participation in the regional integration a desirable goal for it. What this paper proposes is to extend this approach and incorporate it into a strategy that aims to make cooperation the default mode of interaction between the regional actors. Removing the notion of “China threat” from the agenda by transforming China’s identity through socialisation in multilateral frameworks could have profound effects on the US and Japan. Their strategies in the region have largely been based on dealing with China as a rival and a potential threat. However, if China ends up being none of these things in the strong sense of these terms both the US and Japan can approach the region quite differently. Japan, as the most economically advanced power in East Asia, can significantly promote regional development and stability through greater economic interdependence. The US will be able to stop seeing East Asian regionalism as an immediate threat to its national interests and will stop standing in the way of closer interaction between East Asian powers.

Such an environment does not mean that states do not consider confrontation as a possibility, but it creates a framework in which resolving disputes through cooperation becomes preferable owing to normative forces and also in terms of costs. Some elements of power-balancing in areas of military and economic security will be likely to persist. However, with ASEAN as the mediator (and often an element of the balancing game), seen as a largely neutral and non-threatening power, these elements can be handled in a way that does not disrupt stability and that does not put significant obstacles to cooperation.

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LIFELONG LEARNING AND THAILAND'S HIGHER EDUCATION: CHALLENGES AND OPTIONS

Rattana Lao

Drawing from the literature on lifelong learning and a qualitative case study in Thailand, this article argues that there is a “glocalisation of lifelong learning policy”. Currently, the lifelong learning concept is a compelling policy discourse in Thailand’s higher education sector. It is a unique blend between the economic-centric perspective of the human capital approach and the humanistic aspiration of the “self-sufficiency” development paradigm. As Thailand seeks to become a knowledge-based economy, it is the economic-centric argument that dominates the discourse, which has been treated as a panacea to upgrade the skills of the workforce and to increase Thailand’s economic competitiveness. Despite being an eminent policy discourse, this research argues that Thailand lacks a clear policy direction, financial resources, and institutional integration, which all are conducive to the successful development of this policy. Thailand needs to develop a comprehensive and systematic lifelong learning policy strategy, which encourages institutional integration, mobilisation of resources and credit accreditation. Furthermore, a successful learning society also depends on motivated individuals to seek knowledge and learn throughout their lives.

Introduction

The emergence of globalisation and the knowledge-based economy discourse have pertinent effects on the formulation of education policy across the globe. While globalisation refers to “the rapid acceleration of cross-border movements of capital, labour, goods, knowledge and ideas” (Green et al 2007), the knowledge-based economy rests on the premise that knowledge constitutes the most essential resource for economic production. (Guile 2007) These two main discourses accentuate the role of knowledge, skills and insights as the most essential assets for individuals and nations to remain relevant and maintain their competitiveness in the global market. A successful education policy becomes a pivotal mean for individuals and countries to engage and catch-up in globalisation. At the same time, it helps to promote social cohesion within the society. (Green et al 2007) Amartya Sen succinctly argues that education empowers individuals to realise their full potentials, enables them to partake in democratic processes, and nurtures sustainable development (1999).

It is argued that the conventional form of education, which ends at particular stages, is no longer adequate to equip individuals to keep up with globalisa-

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tion and rapid technological transformation. Within the past three decades international institutions such as UNESCO, OECD, the European Union and the World Bank have published a myriad of policy papers to encourage the creation of lifelong learning systems. Despite the global discourse on lifelong learning, the translation and interpretation of this concept remains “context-specific”. (Boshier 1998) The existing resources as well as political ideology and financial capacity of each country play decisive roles in mediating the global discourse at the local context. Hence, one cannot talk of the lifelong learning system in the singular case. (Singh 2002) To borrow Robertson’s terminology, I argue that there is a “glocalisation of lifelong learning policy”. As the development of a lifelong learning concept presents a complex interaction between the global discourse and the local characteristics, it poses immense challenges to policy analysis on this issue. Green (2002) argues it is essential to unpack the global discourse and scrutinise local policy development.

The research questions are as following:

How has the global discourse of lifelong learning been translated in Thailand?

What are the characteristics of lifelong learning policy in Thai Higher Education?¹

What are the challenges and options for the country to develop this policy?

This research is a qualitative case study, which uses semi-structured interviews and documentary analyses as its main methodologies. These studies show that the lifelong learning concept has become an eminent policy discourse in Thailand. The policy contains an idiosyncratic blend of human capital theory and the self-sufficiency principle. While an economic-centric perspective of human capital, globalisation and a knowledge-based economy drives the lifelong learning discourse, it is also influenced by the “self-sufficiency” development principle. However, Thailand’s lifelong learning policy faces numerous challenges such as rigid infrastructure, inadequate financial resources and the lack of policy-makers’ understanding. The unique characteristics of Thailand’s lifelong learning policy reinforce that there is a “glocalisation of lifelong learning” at the national level.

Framework and methodology

Lifelong learning concept: A brief introduction

The term “lifelong education” has been coined by Yeaxlee in 1919. However, it was only in the 1970s that the concept began to gain global attention. Recent developments of the lifelong learning concept have been shaped by the divergent principles on education of the two leading international organisations in the field: the United Nations Educational Scientific and Cultural Organisation

¹ Higher education in Thailand refers to the attainment of diploma, associate, and degree levels, which are provided in universities, institutes, colleges and other types of institutions (Commission on Higher Education, 2007).

(UNESCO), and the Organisation of Economic Corporation and Development (OECD).

Since its inception, UNESCO promotes lifelong learning in line with its educational philosophy of utopian humanism. According to UNESCO, lifelong learning is meant to enhance *human development* and the *fulfilment of man*. (UNESCO 1972) The famous report *Learning to Be* argues:

Education from now on can no longer be defined in relation to a fixed content which has to be assimilated, but must be conceived of as a process in the human being, who thereby learns to express himself, to communicate and to question the world, through his various experiences, and increasingly – all the time – to fulfil himself. (UNESCO 1972, 143)

The OECD, on the other hand, develops lifelong learning from a human capital perspective. This builds on the OECD's recurrent education policy. Lifelong learning is seen as the means to upgrade individuals' skills to be compatible with technological development and the changing world of work. (OECD, 1996) In *Lifelong Learning for all*, the OECD argues:

Success in realising lifelong learning ... will be an important factor in promoting employment, economic development, democracy and social cohesion in the years ahead. (OCED 1996, 13)

It is argued that the OECD's human capital perspective has been the driving principle of the concurrent discussion on lifelong learning. Since the 1990s, the economic-centric approach on lifelong learning has gained new momentum across the globe. While Field (2006) acclaims lifelong learning as a "*new education order*", Rubenson (2006) calls it a "*new Jerusalem*". The human capital perspective has promoted lifelong learning because it fits the prominent economic-centric discourses of globalisation, neo-liberalism and consumerism. At the macro-level, globalisation has intensified economic competition between countries and the proliferation of technological transformation. Lifelong learning has been treated as a panacea for individuals and countries to attain "*high skills*" for international competitiveness. These relationships have been evident in all of the eminent international documents on lifelong learning policy. (OECD 1996, World Bank 2003) Papadopoulos (2002, 39) argues "economic-cum-technology imperatives and the needs of increasingly knowledge- and information-based economies" are the main driving forces of lifelong learning policy. At the meso-level, policy-makers enabling neo-liberal economic and political approaches have hijacked lifelong learning to promote "more learning at less cost". (Boshier 1998, Collins 1998, Hirsch 2000, Field, 2006, Rubenson 2004, 2006) In the name of "efficiency" and "more learning opportunities", lifelong learning has been promoted in tandem with privatization and decentralization of education. (World Bank 2003) At the micro-

level, lifelong learning sits comfortably with the discourses of individualism and consumerism. This presents the paradox of this concept; it is questionable whether promoting lifelong learning in this direction is beneficial to the creation of skills and knowledge.

Although the discussion on globalisation and the knowledge economy has focused on the industrialised countries, the argument also applies to developing countries. In developed countries, education helps by improving the labour skills' profile, enhancing innovation and differentiating their economy from low-skilled labour from developing countries. (Reich 1991) In developing countries, a high educational profile helps to attract more foreign capital to catch up more quickly with the global economy. (Carnoy 1999) The economic success of the East Asian countries has been linked to its rapid expansion in primary education and government's priority in education policy. (World Bank 1993) The fact that the lifelong learning concept is being treated as part of education policy justifies why it has become a prevailing concept in developing countries. The World Bank Report *Lifelong Learning in the Global Knowledge Economy: Challenges for Developing Countries* (2003, 3) argues "equipping people to deal with these demands requires a new model of education and training, a model of lifelong learning".

Lifelong learning and Thailand's higher education

Globalisation and Thailand: from crisis to opportunity

The lifelong learning concept in Thailand has been tied to the discussion on globalisation. In Thailand, globalisation can be characterised both as a "crisis" and an "opportunity". Globalisation is perceived as a "crisis" to national development because its meaning is still shaped and defined by the Asian Economic Crisis of 1997. After a decade of unprecedented economic growth of more than 8 percent per annum, Thailand experienced an acute financial crisis in 1997. (Punyaratabandhu, 1998) Major causes were immature financial liberalisation, a maturity mismatch of short-term debt, and unproductive investment projects, in particular in the real-estate sector. The crisis was precipitated by a lack of confidence of foreign investors. Consequently, the economy contracted; the Bank of Thailand reported a real GDP growth of only 0.7 percent. External debt grew to 58.6 percent of GDP and non-performance loans rose to 46% of the entire debt. (Punyaratabandhu, 1998) The social costs of the economic crisis also proliferated. In 1998, there were nearly 800,000 school and college students who were forced to drop out because of financial reasons. (Punyaratabandhu, 1999) It is argued that the social consequences such as the dropout rate will continue to hamper Thailand's long-term development. Accordingly, globalisation, and especially financial liberalisation, was perceived as a threat to Thailand's socio-economic development. In the course of the 8th to the 10th National Economic and Social Development Plan, Thailand aimed to move away from the economic-centric development towards a *human-development* paradigm. Thailand embraced concepts such as self-

sufficiency, rural development and sustainable development as solutions to the crises that globalisation brings. Policy papers encouraged individuals and societies to become self-reliant and sustainable rather than concentrating on economic productivity and income. Grindle and Thomas (1991) argue that the *perceived crisis environment* was a crucial factor in influencing the decisions for reform. The crisis of 1997 urged policy-makers to look inward, stressing the importance of human development and encouraging sustainable development rather than rapid economic growth.

Soon after the crisis, globalisation moved out from the discourse of *crisis* into one of *opportunity*. Thai policy-makers embraced the increasing role of multinational corporations (MNCs), foreign direct investment (FDI) and global markets as economic opportunities. Thai policy-makers realised that Thailand began to lose its comparative advantage on low-cost labour to its neighbours. The Asian Survey reported that by 1996, Thailand's labour pool was no longer comparatively low-priced with its minimum wage of USD 6 per day. (King 1997) Hence, policy-makers began to call for the transformation of the Thai economy from labour intensive towards skilled and knowledge intensive sectors. Thailand aimed to use *knowledge* to *catch up* with its neighbours such as Japan, South Korea, Taiwan, Singapore and Malaysia. The World Bank report *Towards the Knowledge-based Economy in Thailand* from 2007 reflects on Thailand's development aspiration:

Sustaining strong economic performance by enhancing productivity through innovation, buttressed by higher rates of private investment is an objective for the Thai economy and is reflected in the country's Tenth Economic and Social Development Plan. (World Bank 2007, 1)

The impact of globalisation, which accentuates the role of education, knowledge and skills, are at the crux of Thailand's sustainable development and economic prosperity. They also serve as the main justification for the emergence of lifelong learning in Thailand.

Thailand's skills deficits: the need for reform

Although the World Bank (1993) praised Thailand's human resources as a means to boost its economic competitiveness throughout the 1980s and 1990s, the existing educational and human resource infrastructure is no longer adequate for Thailand to become a knowledge-based economy. Montesano (2001) argues that Thailand inadequate investment in its human capital dates back to time of economic boom. Despite rapid expansion in primary education, there remains a gradual increase in the percentage of the workforce who attends secondary school. (King 1997) A low level of Thailand's workforce achieves secondary schooling and only 13.9 percent attains higher education. King (1997) argues that the new government programme has been able to effectively improve the quality of Thailand's workforce. There is an array of com-

plex factors that discourage Thai labourers to pursue higher education including a lack of financial resources, low levels of secondary education and inadequate availability of flexible higher education institutions. Although the higher education sector has undergone rapid expansion in the past 50 years, growing from a small number of public universities and institutions in Bangkok to nearly 170 across the country. (Commission on Higher Education, 2007) These universities target regular rather than mature students or the Thai workforce. Seventy-six out of 78 public universities are considered a "Limited Admission University", where students are required to pass a national entrance examination. There are only two Open Admission Universities: Sukhothai Thammathirat and Ramkhamhaeng University, which do not require entrance exams and exercise more flexible class schedules. The requirements of these two universities are conducive for the workforces to upgrade their skills. It is argued that these two universities are the pioneers in the emergence of the lifelong learning concept in Thailand's higher education. (Commission on Higher Education 2007)

Thailand's higher education is also challenged by its lack of quality. Firstly, none of Thailand's tertiary institutions are ranked among the leading universities in Asia. (World Bank 2007) Secondly, Thailand's higher education does not have an adequate science and technology programme to boost its competitiveness. King (1999) notes, "Thailand's dearth of highly trained engineers, chemists, and scientists is well known." Thailand is behind other Asian countries such as Malaysia, South Korea and Taiwan in terms of highly skilled labour. To embrace the opportunities of globalisation, it is essential that Thailand strengthens its human resources, reforms its education systems and upgrades its labours' skills-deficits. The skills-deficit problem embedded within Thailand's human resource profile acts as the driving force to encourage policy-makers to promote the economic-centric lifelong learning policy. The World Bank (2003) argues: "Lifelong learning is crucial to preparing workers to compete in the global economy." This statement is further analysed in the subsequent section.

The emergence of lifelong learning: the texts and the discourse

After the economic crisis policy-makers began to discuss the need for educational reform to respond to global forces. Consequently, Thailand promulgated the Thailand National Education Act of 1999. The main features of the Act were: 12 years of compulsory education, and decentralization of curricular and budgetary authority. (Montesano 2001) The lifelong learning concept became central to the Act. In Section 8, it states:

Educational provision shall be based on ... (1) lifelong education for all, (2) all segments of society participating in the provision of education: (3) continuous development of the bodies of knowledge and learning processes...

In interviews, various policy-makers inferred that UNESCO greatly influenced Thailand's lifelong learning policy. While the policy-makers refer to the influence of UNESCO, lifelong learning in Thailand is also influenced by the *self-sufficiency* development paradigm. Lifelong learning and a *self-sufficiency* philosophy encourage individuals to seek knowledge and prepare themselves to guard against harmful globalisation. The report from the Commission of Higher Education from 2007 illustrates the humanistic influence of Thailand's lifelong learning policy:

The National Education Act of 1999 aims at the full development of Thai people based on a life-long and continuous process as well as a student-centred learning approach.

Policy-makers argue that the incorporation of local knowledge in Thailand's development is the distinctive characteristic of lifelong learning in Thailand. In 2001, the establishment of 19 Community Colleges across Thailand was an example of how the concept translates into the local level. (Commission on Higher Education 2007) However, lifelong learning becomes more influential in higher education because of the emphasis on economic competitiveness. It has been linked with globalisation, the knowledge-based economy discourses and the close relationship between education and work. A similar view is expressed by *Framework of the Second 15-Year Long Range Plan on Higher Education of Thailand* (The Higher Education Plan hereafter).

The Plan aims to upgrade Thailand's Higher education sector and increase the quality of its human resources in order to be equipped with *lifelong* job opportunities. The increasing quality of Thai's higher education will help in knowledge and innovation creation, which will increase Thailand's economic competitiveness and enhance Thailand sustainable development. (C.H.E 2007, 3)

There are various dimensions to lifelong learning in Thailand's higher education policy. Firstly, it encourages individuals to continue to learn after their graduation in order to keep up with the changing global environment. The knowledge and skills gained by formal education are no longer sufficient in the fast-paced world. This fact addresses the significance of continuing education and exemplifies the need for additional learning after graduating from formal tertiary education.

Secondly, lifelong learning offers a "*second chance*" to those who "*missed out*" to return to formal education. Given that only 13.9 percent of the Thai labour force has attained tertiary education it is argued that this aspect of lifelong learning is very valuable to Thailand. In this scenario lifelong learning is seen as the integration of informal and formal institutions. It enables those that did not have a formal education degree to take an equivalent educational route, returning to formal education. The Office of Informal and Non-Formal Educa-

tion provides informal classes and accredits those who take classes, providing them with equivalent certificates so they can continue on to higher education. However, this opportunity is currently limited to the two open universities in Thailand.

Thirdly, lifelong learning is discussed in relation to adult education, especially for the elderly. Although it is argued that the elderly gain more skills for their pleasure and for economic productivity, it is the economic benefits that appeal to policy-makers. If the elderly become more productive, the state can extend the retirement age for those elderly who are able to continue working. That would lessen the state's responsibility for providing welfare benefits, which currently begin at the age of 60. This reflects Thai policy-makers' concerns with budgetary and state financial responsibility. As in other countries, lifelong learning is discussed in relation to "cash registering". The Higher Education Plan (2007) argues that lifelong learning policy must address various groups of the population such as retired citizens, those changing jobs and creating new jobs. It is anticipated that lifelong learning policy increases both economic and social productivity.

Challenges to the implementation of lifelong learning system

Despite lifelong learning being a compelling discourse, its development as policy effect is limited. In practice, Thailand has not yet developed a lifelong learning system. The causes for this lack of programs are complex. Firstly, Thailand lacks clear guidance to develop a lifelong learning system. Each institution promotes their own *definition* and often enough, lifelong learning is treated as a panacea for lofty policy goals such as national competitiveness and sustainable development. When policy goals and objectives are vague, it is difficult to translate them into practical mechanism or effects. During discussions on the topic, policy-makers illustrated their confusion on what a lifelong learning concept is. The lack of clear direction is detrimental to developing any lifelong learning policy.

Secondly, Thai institutions are rigid; they do not promote integration across institutions. A lifelong learning system requires greater integration between differing educational institutions: between formal and informal education, between the centre of administration and the local learning centres, between vocational and other forms of education. The integration of these institutions can facilitate *credit transfers* to encourage more learning opportunities. This problem is also acknowledged in the Higher Education Plan, which discusses the creation of a *Credit Bank* to promote flexibility in learning for students to take courses and accumulate learning credits. The Plan acknowledges that there are vast gaps between Thai universities in terms of their academic development, financial resources and quality of students. Not only is there the structural barrier, but additionally, social prejudice hinders this integration. A senior policy-maker in the Ministry of Education reports that formal institutions often disregard students who have been educated within the non-formal

education system as “poor, marginalised or intellectually incapable” (2008). These are barriers to fostering any sustainable and standardised accreditation system, which is essential to a lifelong learning policy.

The fourth challenge Thailand faces is a lack of adequate financial resources to restructure its existing education system in order to transform to a lifelong learning system. Currently, Thailand spends a relatively large amount of its national budget on education. The total public expenditure on higher education accounts for 16.5 percent of the total educational budget. The majority of the budget is attributed to recurrent costs such as salaries of professionals and infrastructure. The financial resources are already inadequate for sustaining the existing infrastructure. The Thai government encourages privatisation of Thai higher education institutions to lessen the budget burden. (Suwanavela 2008) There is a financial constraint to revamp the system and promote lifelong learning system in Thailand.

Despite the lack of resources, lifelong learning is an influential discourse in the budgetary system. In the spreadsheet of the National Budget for Higher Education Institutions for 2007 is a budget item called *lifelong learning and education reform*. Although Thailand does not have an adequate budget to develop a lifelong learning policy, policy-makers are optimistic about the future of this policy. However, an important challenge must be recognised: there is a potential for the lifelong learning concept to be hijacked by differing political interests and simply becoming a policy discourse without ever being implemented. (Papadopoulos, 2002)

Overcoming challenges to implementation

Lifelong learning in Thailand faces various obstacles and challenges in terms of structural, budgetary and comprehension deficits. This section will discuss plausible ways to improve Thailand's lifelong learning policy on the institutional, budgetary and individual level. Greater integration between policy-makers and practitioners at the administrative level of higher education institutions for a lifelong learning concept is essential. Policy-makers have expressed concern that a successful lifelong learning system requires “everyone to be involved”. This concept shifts the emphasis away from the Ministry of Education bearing the sole responsibility to encouraging other institutions to be a part of the process. Grindle and Thomas (1991) have argued that the nature of education policy often involves more players in the decision making process, which makes it more difficult to deliver reform. This also holds true for more players and institutions fostering lifelong learning. Therefore, it is essential to develop a central planning department and establish an organisational mechanism that fosters this education policy in Thailand.

Thailand also needs to install a mechanism to integrate differing higher education institutions. The problem of fragmentation between Thai higher education institutions is recognised in the Long-Term Education Plan (2008-2023).

The Plan aims to differentiate all higher education institutions into four differing categories - Community College, 4-year University/Liberal Arts University, Specialised University/Comprehensive University, and Research University. Subsequently, the Plan aims to consolidate the institutions within each track to enhance greater integration and cooperation. Through greater integration students will be able to transfer their credits across institutions more flexibly. Integrating the learning process from different educational institutions will also help create more learning opportunities.

More resources are needed to support the lifelong learning system. There is a strong message from policy-makers that *everyone must get involved*: the government, the private sector and the local community. Greater integration in terms of financial resources between differing sectors will also help to create diversity of learning opportunities. The lifelong learning policy has been discussed as an opportunity for greater public-private partnership in education. The private sector plays a crucial role in promoting linkage between universities and industries and providing workshops on various topics, which are beneficial to Thailand economic competitiveness. As decentralisation is a prevailing theme in Thailand's National Education Act (1999), it has been promoted as a way forward for a lifelong learning system as well. It is argued that to increase local involvement, budgetary resources must be increased and local governments empowered to take charge of providing educational opportunities. More importantly, they argue that the role of government will recede into setting standards and providing quality assurance. This implies a clear division of labour between national and local governments: the central government would be responsible for planning and standardisation while the local governments would take control of their resources. While this recommendation looks promising in terms of mobilising funding, there are potential pitfalls in this new decentralised mechanism. Thailand is already experiencing an urban-rural divide in education quality. Most top higher education institutions remain in Bangkok and other metropolitan areas. If Thailand aims to pursue this policy without any proper planning strategy to empower the local governments or improve the local institutions, this will be seen as just another government policy set to aggravate the education divide in the country. While the government promotes greater university-industry linkages, public-private partnerships and privatisation, it is important to consider the rising costs of education. This might discourage large sections of students or workers to take part in the learning process and hamper effective implementation of the lifelong learning policy.

Barnett (2007) argues that the learners' motivation is essential in the pursuit of higher education; this is the key to a successful lifelong learning system. There is consensus among policy papers and policy-makers that the crux of a successful lifelong learning policy is motivated individuals seeking knowledge throughout their lifetime. The accreditation *system and knowledge transfer concepts* are meant to implement a mechanism to create more flexibility, more

learning opportunities and more motivation for individuals to take part in the learning process. Additionally, given the proliferation of information technology, knowledge becomes more accessible. At present, concerns prevail regarding self-motivation to learn amongst the Thai citizenry. This poses serious challenges for creating a lifelong learning system, which depends on the motivation of individuals. As the motivation of the individual plays a crucial role in nurturing a successful lifelong learning system, policy-makers and education providers must take this into consideration. The design of a policy or learning courses must reflect their diverse learning needs and demands. A systematic lifelong learning system will take time to develop; hence, it is important that individuals maximise their concurrent learning opportunities to upgrade their skills. This reinforces the consensus that a successful lifelong learning system in Thailand requires *everyone to be involved*.

The glocalisation of Thailand's lifelong learning policy

In Thailand, the lifelong learning concept presents a specific blend of ideas between the realms of human capital and humanism. On the one hand, lifelong learning is meant to upgrade the skill profiles of Thai's workforces in order to boost Thailand's economic competitiveness and prosperity in the era of globalisation. On the other hand, it has been promoted in tandem with the humanist perception of *self-sufficiency* and *sustainable development*. It is the economic-centric perspective, which has dominated the lifelong learning discourse in Thailand's higher education policy. This presents an auspicious opportunity for Thai education reformers, economic policy-makers and industrialists to foster greater co-operation and ameliorate Thailand's skills deficits. Yet, the *cash-driven* and *economic-centric* perspective ultimately hinder the humanistic objectives of nurturing local wisdom and promoting sustainable development, which the 10th National Development Plan claims to be the new development paradigm in Thailand. These contradictions reflect compromises between various policy discourses in Thailand.

In spite of being a compelling policy discourse, there are numerous challenges hindering the development of a lifelong learning policy. At the national administrative level, Thailand lacks a clear definition and shared understanding amongst policy-makers of what lifelong learning is. This is detrimental to the budgetary process, whereby "lifelong learning" can be hijacked by various interests. The lack of financial resources makes this scenario even worse. The result is the creation of a lifelong learning *discourse*, but without any lifelong learning *projects*. At the institutional level, there is no central mechanism or standardised procedure to integrate differing learning institutions into one common framework. Currently, each higher education institution sets different entry criteria, which is a barrier to encourage cross-accreditation or credit transfers. Grindle and Thomas (1991) argue that policy-makers realise their own capacity to carry out reforms. Lofty policy objectives are mediated by the national capacity in terms of structure, financial resources and circumstances. This helps to explain the ongoing debate over mobilisation of resources to

promote lifelong learning system in Thailand. Policy-makers are aware of their limitations and attempt to look for other possible options to achieve reforms. Hence the lifelong learning concept remains a lofty rhetoric and lacks a practical and systematic implementation mechanism.

Thailand has several options to foster the lifelong learning system in the higher education sector. Firstly, it is essential to develop a central planning mechanism to promote a shared understanding and common definition of the lifelong learning concept. Thailand needs a comprehensive working plan that guides differing stakeholders, organizations and institutions towards a common goal and better cooperation. Secondly, Thailand needs to institute a standardised accreditation system to integrate higher education institutions into a common framework. A standardised and thus more flexible accreditation procedure is conducive to nurture a lifelong learning system. More importantly, Thailand needs to mobilise more financial resources to create more learning opportunities. To translate the lifelong learning discourse into effective policy, everyone must be involved. These combinations between the global and local discourses, the unique characteristics and challenges of lifelong learning policy substantiate the argument that there is a *glocalisation of lifelong learning* in Thailand.

While Thailand needs to translate the lifelong learning policy from the *policy text and discourse to policy effects* at the institutional as well as individual levels, future research in this area needs to explore other levels of the education structure. It needs to investigate how the lifelong learning concept can be transferred to the higher education institutions and listen to individual perspectives. This will provide a comprehensive understanding of lifelong learning policy in Thailand and will help to bridge the macro- and micro-divide in the studies of sociology of education policy. (Hargreaves 1984) From this research, it is evident that not only is there a need for *glocalisation of lifelong learning policy*, but there is also the *glocalisation of education research*.

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STRUCTURAL ADJUSTMENT PROGRAMME (SAP) AND THE ORGANISED SECTOR EMPLOYMENT IN INDIA

Awanish Kumar and Aditi Dixit

The paper is an attempt to analyse the fall in organised sector employment in India during the reform period. It highlights, particularly, the methodological fallacy in the usage of the term 'organised' as compared to 'formal' and its vital implications for the debate on employment in India. The other argument developed in the paper concerns the systemic link of capital accumulation and unemployment through the works of Marx, Keynes and Kalecki. The analysis concludes that unemployment, as a category, remains underemphasised in the mainstream neoclassical theory due to its inherent ideological orthodoxy. The paper also discusses various trends and patterns associated with organised as well as unorganised employment in India from 1961 onwards with special focus on the impact of the Structural Adjustment Programme (SAP) initiated in the year 1991. The broad results and arguments following from this exercise are as follows. Firstly, there has been an absolute decline in the total organised sector employment in India post-1991. The major source of this decline has been the loss of jobs in the public and the manufacturing sector. Secondly, there is strong evidence to suggest a growing tendency towards informalisation in the Indian economy. Strangely, this tendency is not only confined to the unorganised sector but extends into the supposedly organised sectors of the economy. The SAP has adversely impacted employment both within the organised as well as the unorganised sectors. The organised sector has been witnessing retrenchment and casualisation or informalisation of employment whereas the unorganised sector has been forced to accommodate labour force released by the organised sector, and in the process, employment opportunities as well as work conditions for unskilled and semi-skilled labour have deteriorated. Even the most recent trends have not shown any improvements as far as this secular fall in organised sector employment is concerned. This situation urgently demands a policy reversal to a more progressive and labour-oriented development paradigm in the country.

Introduction

The process of economic liberalisation in India which started in the 1980s (though at a much slower pace) culminated in the implementation of the comprehensive Structural Adjustment Programme (SAP) under the aegis of

the World Bank and the International Monetary Fund (IMF) in the year 1991. The immediate impetus for this policy was the balance of payment crisis that emerged during the latter years of the 1980s. This comprehensive Structural Adjustment Programme (SAP), hence ostensibly intended to help India effectively tide over the monetary crisis. It involved, at a very fundamental level, gradual integration with the world economy through opening up foreign trade and internal deregulation in different spheres of the economy. The programme formed part of the larger project of financial liberalization undertaken by the government since then. The core of this financial liberalisation lies in the de-regularisation of the banking structure in the domestic economy in order to curtail governmental intervention in the allocation of credit (the best scenario being an independent central bank controlling at the helm) and dismantling of the public sector while simultaneously opening up for international finance (Patnaik 2005; Chandrashekhar and Ghosh 2002).

The typical reform programme under structural adjustment includes the following elements: macro-economic stabilization; domestic deregulation of investment, production and prices; liberalisation of foreign trade; privatisation of the public sector; financial sector reforms; tax policy reforms and labour market reforms (Ahluwalia 1994). We take a brief look at some prominent features of the SAP, in terms of different sectors of the economy, for the purpose of this paper. The industrial sector reforms included primarily *abolition of industrial licensing, elimination of price and other forms of control over private enterprise and delisting of industrial items for production in public as well as small-scale sector*. The external sector reforms were constituted mainly by *elimination of quantity as well as price barriers to imports and adoption of a flexible exchange rate regime*. On the other hand, the objective of financial sector liberalisation in India was to enhance the efficiency and profitability of the financial sector. Major instruments for enabling this transition were positive changes in the incentive regime, providing operational flexibility and functional autonomy to the banks, increasing competition in the sector, introducing international prudential norms¹ and finally restructuring and recapitalising of major banks with urgent focus on Regional Rural Banks and cooperative banks. *The most important part of the SAP was the fiscal reforms initiated during the 1990s. These reforms specifically aimed at reducing the role of state in economic activities. The strategies adopted to achieve this included controlling the fiscal deficit of the central and state governments, tax reforms, disinvestment of public sector enterprises and a larger thrust on the private sector.*

¹ Regulations on income recognition, asset classification, provisioning norms and Capital Risk Weighted Assets Ratio (CRAR) etc. come under prudential norms requirements.

For the purpose of this paper, we also note certain evident features of the employment structure in India. Firstly, Indian economy has historically been characterised by the existence of high rates of population increase and consequently the growth of labour force. Table 1 lists the trend in population and labour force growth rates in India for the period 1978-2007. Secondly, there has been a clear lack of correspondence between trends in contribution to total income of the main sectors of the economy and their shares in employment. For instance, while the share of the agriculture in GDP has been falling for quite some time now, stagnation remains as far as the proportion of people dependent on agriculture for survival is concerned. In other words, the employment elasticity of organised manufacturing/industrial growth has been historically low. In recent years, this has also given rise to a new debate on the role of the 'rural non-farm employment' serving as the intermediate stage between urban-based industry and rural agriculture. Thirdly, the incidence of informal or unorganised labour has been consistently very high in the economy. As per the 2001 census, the total work force in India is 402 million, of which 313 million are main workers and 89 million are marginal workers. Out of the 313 million main workers, about 285 million are in the unorganised sector, accounting for almost 91 percent². According to the National Sample Survey Organisation, in the year 2004-05, the total employment in both organized and unorganised sector in the country was around 459 million. Out of this, about 26 million were in the organised sector and the rest 433 million (i.e. 94.3 per cent) in the unorganised sector. Further, within the 433 million workers in the unorganised sector, 269 million workers were employed in agriculture; 26 million in construction, and remaining were in manufacturing activities, trade and transport, communication & services³. Fourthly, given this background, a definite shift in trends associated with employment in 1990s can be discerned. Finally, the change which is generally associated with the process of capitalist development i.e. the occupational movement of majority of population from agriculture to non-agricultural activities has not occurred in India. It is a well argued proposition that agriculture cannot absorb the rapidly rising labour force and even when it does, it cannot do so productively. As Kuznets (1957) notes in his analysis of the evidence pertaining to economic growth in history, the total percentage of agricultural labour force did fall drastically for all presently industrially advanced nations. It fell from 23 per cent in 1841 to 5 per cent in 1951 for Britain and 50 per cent in 1870 to 12 per cent in 1950 for the United States. Even in Japan, it went down from 83 per cent in 1882 to 48 per cent in 1950 during the process of economic modernization. In stark contrast, the share of labour force employed in agriculture for India actually increased from 51 per cent in 1881 to

² Source: Economic Survey 2006.

³ Source: Chapter 4, Annual Report 2007-08, Ministry of Labour and Employment, Government of India.

64 per cent in 1931 during the colonial period (p. 28-30). Such a movement is yet to occur in India.

Table 1: Labour force and population growth in India, 1978-2007, in millions

Year	Population	% Growth	Labour Force	% Growth
1978	637.6	-	255.8	-
1983	718.2	2.2	286.6	2.1
1994	895	2.1	368.5	2.4
1997	951.2	1.9	397.2	2.3
2002	1028.9	1.6	449.6	2.5
2007	1112.9	1.6	507.9	2.4

Source: www.indiastat.com

Unorganised sector in India, refers to “an enterprise owned by individuals or self-employed workers and engaged in the production or sale of goods or providing service of any kind whatsoever, and where the enterprise employs workers, the number of such workers is less than ten”⁴. Consequently, an unorganised sector worker means “a home based worker, self-employed worker or a wage worker in the unorganised sector”. The Ministry of Labour, Government of India; classifies unorganised workers primarily in terms of their occupation. However, other categories are also used like the nature of employment and employment concerning the backward sections of the society. In terms of occupation, it includes small and marginal farmers, landless agricultural labourers, and other informal workers in rural as well as urban areas. In terms of nature of employment, there are attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers. Apart from this principal classification, there also are specially distressed categories like the scavengers, drivers of animal driven vehicles, loaders and unloaders, and the service category like midwives, domestic workers, fishermen and women, barbers, vegetable and fruit vendors, newspaper vendors etc, which are observed to be large in numbers, The unorganised sector workers suffer from cycles of excessive seasonality of employment, no formal employer-employee relationship, lack of social security protection, scattered and fragmented work place and poor working conditions (GoI 2008).

The debate on formal versus informal economies, in fact, goes much beyond the dichotomy between organised versus unorganised sectors elaborated above. This aspect will be covered in the next section. As far as the economic definition of the informal sector is concerned, it can be defined as: units engaged in the production of goods and services with the primary objective of generating employment and income to the entrepreneurs concerned. The informal sector is, generally, identified with low levels of organisation and divi-

⁴ Source: Chapter 1, The Unorganised Sector Workers’ Social Security Bill, 2007.

sion of labour. Labour relations are mostly based on casual employment, kinship, and family labour⁵. In the legal sense, however, the distinction between organised/unorganised sectors mostly relates to the registered and unregistered sectors of industry. Finally, it is important to remember that in India, the terminology of formal and informal is often replaced with organised and unorganised.

The National Commission on Enterprises in Unorganised Sector (NCEUS), probably for the first time, provides a precise definition of unorganised workers as “consisting of those working in the unorganised sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers” (as cited in Srivastava 2007). This definitional shift is extremely important because the distinction between informal workers within the organised sector and informal workers within the unorganised sector is often blurred by most commentators to produce an employment scenario which seems entirely unproblematic. As we argue later in the paper, the growth in the proportion of informal workers in the organised sector has been the main propellant of whatever little growth the Indian economy has witnessed in organised sector employment in recent years.

The Context: Capitalism, Accumulation and Employment

In this section, we briefly note some fundamental features of the process of capitalist accumulation and its impact on employment generation in such an economic context. Since dealing with this problem in its totality is beyond the scope of this paper, we would only concern ourselves with the basic tendencies of capitalist accumulation as outlined by some major theorists like Marx, Keynes, and Kalecki.

In the typical Marxian schema, the mode of accumulation under capitalism is a consistent increase in the rate of surplus value through exploitation of labour power. The rate of surplus value depends, inter alia, upon the a) length of the working day, b) real wages paid to labour, and c) labour productivity. Labourers, when hired, work for a specified time in the factory. The labour, here, should be paid according to the value it creates. However, the labour time in the factory consists of two distinct parts a) necessary labour, which is also called the socially necessary labour time and b) surplus labour. It is this surplus labour, which through appropriation by the capitalist forms the source of accumulation in the system. The primary method through which

⁵ Source: NSSO, 55th round, Report No. 459/55/2/2.

this rate of surplus value is progressively increased is lengthening of the working day which leads to enhancement of the absolute surplus value accruing to the capitalist. However, due to physical as well as political constraints, this increase in the absolute surplus value cannot be sustained infinitely. The movement from reliance on absolute surplus value to the enhancement of relative surplus value constitutes the inevitable basis of crisis in the system. It is only through consistent increase in the relative surplus value that the capitalist engine can keep moving. In the production phase, the capitalist has to keep the real wages down to extract maximum relative surplus value. In the distribution phase of the accumulation process, the capitalist also needs to compete with other capitalists to sell their products and hence they need to keep the unit cost of production as low as possible. These two imperatives force the capitalist to mechanise production which ostensibly keeps the outlay on labour low as well as makes the production of goods cheaper. However, this process of mechanisation also signals an increase in the organic composition of capital which, in turn, reduces the rate of profit. This falling rate of profit constitutes the hallmark of capitalist production and ensures periodic stagnation and crises through its impact on total volume of profits on the existing capital in the economy as well as a disincentive to accumulation of future profit.

As we have seen in the preceding paragraph, the rate and total volume of accumulation in capitalism depends on the systemic ability to progressively reduce the socially necessary labour time through increases in the relative surplus value appropriated by the capitalist. One of the most important mechanism through which it can be done is what Marx calls the sustaining of a 'reserve army of labour'. The concept of 'reserve army of labour' is the reflection of the basic contradiction in capitalism between the social character of production and the private character of accumulation. Even when it is true that "profits would be higher under a regime of full employment than they are on the average under *laissez-faire*" (Kalecki 1943), unemployment is accepted by the business interests as "an integral part of the 'normal' capitalist system" (Kalecki 1943). The classical economists also had this in mind when they set out to analyse the capitalist system. When there is an advancing process of accumulation, there is a positive impact on the real wages due to increased demand of labour. However, they believed that this increase in the real wage rate tends to increase the population of the labour class and hence the system regains its balance. According to Marx, on the other hand, it is through an endogenous mechanism of the reserve army of labour that the upward pressure on real wages is controlled in capitalism. This army may be achieved through a consistent increase in the organic composition of capital, firing of existing workers, reducing the rate of absorption or keeping the rate of mechanisation higher than the rate of absorption of labour etc.

Although, there remains much more to explore in this scheme of accumulation in capitalism, two general points can be made regarding employment from the Marxian scheme. Firstly, in the theoretical scheme, the general level of employment in the economy remains an exogenous variable in the process of accumulation. More specifically, the reserve army of labour may see some fluctuations during economic booms and slumps but its constant existence ensures that the capitalist does not need to bother about the level of employment and real wages in the economy⁶. Secondly, a movement towards 'full employment', as we also see in Kalecki, always remains a potentially harmful situation for an individual capitalist even if it does well for the system in general in a purely theoretical sense.

Kalecki (1943), in his path-breaking analysis provides another aspect of the link between capitalist accumulation and employment. The basic question that Kalecki sets out to answer is 'why would the business community be against the government intervention in the economy to ensure full employment'. He argues that this might flow from three basic factors: a) dislike of government intervention per se, b) problem with the direction of government intervention, or c) the fear of social and economic fallouts of maintaining full employment. In his analysis, Kalecki conclusively establishes that it is the third reason which is the most dominant in a capitalist democracy which explains the continued existence of large unemployment and underemployment in many of these economies. For instance, even if government intervention belongs to a fiscally sustainable policy, the instincts of the capitalist class would not allow a full employment policy to run in the economy. Further, even if the form of government investment does not impact private investment in any way possible (for instance, a policy which subsidises mass consumption), the same class would object to it for a more fundamental moral principle of 'a person must earn his own bread' etc. Kalecki also dismisses the possibility of private investment tackling the problem of full employment because that would force the state to make fiscal instruments, like the rate of interest and income tax, follow the trade cycles of boom and slumps which, in turn, would eventually lead to a situation of negative rate of interest and income tax. This explanation stands apart from the improbability of the response of the capitalist class to any such state intervention. In actual fact, most of the capitalist democracies follow a kind of political business cycles in economic policy which never achieves full employment.

⁶ It is one of the reasons that, according to Marx, Capitalism remains a perpetually crisis-prone and demand constrained system. (See Patnaik 2007)

The Keynesian scheme, on the other hand, views employment in the short run as a function of aggregate demand. The level of aggregate demand itself, in turn, depends upon autonomous expenditures such as government spending and private investment. Public investment has its own multiplier effect on the aggregate demand as well as positive impact on private investment.⁷ So, one important determinant of employment comes to be the level of public expenditure in the economy. However, this scheme loses its analytical precision, the moment we introduce free trade as a variable in the economy. Public investment, here, becomes a function of export-import policies, level of competitiveness and monetary policy in particular. Furthermore, levels of several macroeconomic aggregate variables become relatively independent of the control of the state in an open economy.

The argument forwarded by Kalecki, if viewed in relation with the Keynesian scheme (in the overall background of Marxian theory) produces an interesting result for policy in a labour-abundant economy like India. Public investment can definitely play a role in pushing aggregate demand to arrive at a more efficient solution to mass unemployment, but at the same time the liberalising tendencies within the polity as well as the issues raised by Kalecki would hinder any movement towards more and more state intervention in the matters belonging to the economy like prices, wages and employment. The neoliberal orthodoxy that reigns supreme in the liberalisation phase, as expected, has created a situation where labour market flexibility is touted as the panacea for the chronic and deep-rooted structural problems of unemployment in India. Though it is outside the scope of the present paper to discuss the issues regarding labour market rigidities and their implications on employment in India, we can certainly make some observations on the implementation of the neoliberal policies in general. Post-liberalisation macroeconomic policy direction, along with the slow but steady labour market reforms, has conclusively led to a high-productivity and low-employment situation in the developing economies (Patnaik 2007; Chandrashekhara and Ghosh 2008). There are authors who contest even the existence of labour market rigidities in the Indian economy, or at least, in the same magnitude with similar implications for employment growth as is often claimed.⁸ Further, the open external sector allows for many vital parameters of the economy to be 'exogenously driven' resulting in increasing divergence between output and employment growth. We should keep in mind that the movement towards what has been referred to as jobless growth occurs in the larger setting of other supporting institutions and policies which form the edifice of the liberalisation paradigm.

⁷ This is particularly true of an excess capacity system like India which, at the same time, faces huge supply side bottlenecks.

⁸ On this particular aspect, See Sharma (2006).

It would also be worthwhile to discuss the idea of informality within the framework that we have developed till now. In the literature, a lot of issues remain, both definitional as well as theoretical, with the usage of terms like the informal sector and informality itself. There are writings which analyse the idea of informality from the lens of the diverse processes and tendencies of capitalist accumulation and conclude that though the formal-informal continuum could be a plausible approach, the real issue lies in understanding the linkages between the informal sectors and capitalist accumulation on the one hand and consideration of larger political economy system on the other.⁹ It is within this extended framework of determination of policies of employment post-reforms that we analyse the post-1991 employment problem in India.

Trends in Organised Employment in India

Pre-1991 period

Indian policy followed the Lewis model of dualistic development from the Second Five-Year Plan onwards which resulted in an extraordinary emphasis on production of production goods. The question of employment was treated as a residual problem since the impact of high growth was supposed to trickle down through absorption of surplus labour into the modern sector from the backward agricultural sector. The dualism in the economy, hence, was understood to be only a transient phenomenon with the organised sector taking over the inefficient and traditional informal rural sector with the policy of heavy industrialisation. However, due to obvious structural weaknesses within the economy, the policy of heavy industrialisation did not succeed in reducing the dependence of vast amounts of labour force on agriculture. The modern organised sector still constitutes merely around 6-7 percent, varying between different estimates. As discussed later in the paper, the post-1991 economic policy has led to a situation of unprecedented informalisation of the Indian labour force, to the extent that noted social scientist Jan Breman¹⁰, commenting on the loss of around 100,000 jobs in Ahmedabad textile mills, wonders whether this situation signals the end of the 'labour market dualism' in India (2001).

The discussion on the impact of SAP on employment in general and organised employment in particular must begin with the preceding decade of the 1980s, if only to bring in some interesting contrasts. The 'recovery of the 1980s', as it is often called, occurred because of intensive state intervention in the economy, particularly in the rural sector through various programmes of employment generation, poverty alleviation and other broader rural devel-

⁹ See, for instance, the study by Bhattacharya (2007).

¹⁰ See Breman 2002.

opment goals. The latter half of the 1980s witnessed improved economic performance in the areas of employment and reduction of poverty. Table 2 presents some trends in organised and unorganised sector employment in India from 1961-1991. It clearly establishes the trend of decreasing informality in the Indian economy until 1991. More particularly, it concretely shows the importance of the 1980s as the decade of high organised sector employment growth in the country. In both absolute as well as relative terms, the total addition to organised sector employment in the 1980s remains impressive. Even in terms of actual rates of growth of employment in the country, as Table 3 shows, the 1980s remain an exceptional decade.

Table 2: Trends in organised and unorganised employment in India, 1961-1991, in millions

Year	Organised	Unorganised	Total	% Unorganised
1961	14.6	174.1	188.7	92.26
1971	20.2	206.7	226.9	91.1
1981	22.9	214	236.9	90.33
1991	26.7	259.38	286.08	90.66

Source: Parthasarthy (1996)

Table 3: Trends in growth rates of employment, percent per annum

Period	Rural	Urban
1983 to 1987-88	1.36	2.77
1987-88 to 1993-94	2.03	3.39
1993-94 to 1999-2000	0.66	2.27

Source: Chandrashekhar and Ghosh (2002)

Post-1991 Period

The year 1991, on the other hand, witnessed the implementation of a comprehensive economic reforms programme which claimed to follow a different philosophy of development. The proponents of this programme argued that the inward-looking import substitution policy framework followed during the pre-reforms period was to blame for most of the ills afflicting the economy. They argued further that this framework with an excessive state presence in spheres of economic activity (the proverbial license-quota raj) discouraged private investment and hence created a non-favourable atmosphere for sustainable growth.

Some distinct claims of the reform programme in terms of its impact on employment must be specified at this stage. Foremost, of course, remains the claim of efficiency in resource allocation (owing to getting the prices right) and hence production which would get rid of the distortion set in the market structure of the economy due to wrong policy choices made till the introduction of the SAP. This would also lead to a higher rate of economic growth which, along with external trade liberalisation, would restructure production

in the manufacturing sector (and other sectors as well) to more labour-intensive avenues. This, in turn, would enable rapid expansion in employment in India. Secondly, labour market reforms would help overcoming rigidities in the Indian labour market which constrained adjustments in labour requirement of firms. The understanding behind labour market reforms was that the job security and other benefits associated with formal (organised) labour inhibited expansion in aggregate employment due to restrictions on choice of firms to 'hire and fire' in accordance with the supply and demand configurations in the economy. Thirdly, though agriculture was not the focal point of the reforms programme, it was argued that an export-led growth in agriculture through diversification in production would also lead to an increase in employment. Finally, other concomitant policies in industrial and agriculture sector were also expected to increase total incidence of employment in the country.

We analyse these propositions with some data for employment related to the 1990s. Table 4 presents trends in organised sector employment in India from 1961 to 2005. As the data in Table 4 suggests, between 1991 and 2005, instead of any growth in total organised sector workers, there has been an absolute decline in the number of workers in the organised sector.

Table 4: Employment in organised sector in India

Year	Employment (in millions)		
	Public	Private	Total
1961	7.05	5.04	12.09
1971	10.73	6.74	17.48
1981	15.48	7.39	22.88
1991	19.06	7.68	26.73
1996	19.43	8.51	27.94
1999	19.41	8.7	28.11
2000	19.31	8.65	27.96
2001	19.14	8.65	27.8
2002	18.77	8.43	27.21
2003	18.45	8.53	26.98
2004	18.2	8.25	26.44
2005	18	8.45	26.46

Source: *www.indiastat.com*; and *Economic Survey, 2008*

The latter half of 1990s has witnessed a dramatic downfall in total organised sector employment. For instance, in 1999 total organised sector employment was 28.11 million whereas the same figure came down drastically to 26.46 million in 2005. This fall signifies a major decline in manufacturing sector employment in India which ironically held the most important promise of the reform process.

In order to understand the gravity of the massive job losses in the Indian manufacturing sector during this period, we take the estimate provided by Nagaraj (2004). According to this estimate, between 1995-96 and 2000-01, about 1.1 million workers or 15 percent of workers in the organised manufacturing sector lost their jobs. This job loss was a direct result of the new economic policy launched in 1991 which set up a precedent by establishing a National Renewal Fund (NRF) for funding voluntary retirement schemes in the public sector. For the first half of 1990s, the economic booms camouflaged the decreasing trend in manufacturing employment but during the second half and beyond the trends are conclusive (Table 5). Ironically, at the same time when the aggregate organised manufacturing employment was declining across all industries and sectors, according to Nagaraj (*ibid*), the employment at the supervisor level rose steadily with an increasing trend in their remuneration also.

Table 5: Employment in the organised manufacturing sector in India

Year	Employment	% Change
	<i>(in millions of Rupees)</i>	
1980	5.86	0.2
1981	6.11	3.1
1986	6.26	1.3
1989	6.24	-0.3
1990	6.33	1.3
1991	6.33	0.1
1998	6.85	-3.9
1999	6.74	-1.6
2000	6.61	-1.9
2001	6.44	-2.6

Source: www.indiastat.com

Undoubtedly the main impetus of this decline in organised sector employment came from the public sector. In terms of absolute numbers of employees losing their jobs, the data contained in Table 6 and 7 would be enough to conclude that public sector contribution towards this job loss is much higher than that of the private sector. However, two qualifications need to be made here. Firstly, the public sector trends in labour retrenchment as well as various policy signals devised during this period, through the public sector's profound impact on other sectors of the economy, has given a push to the whole process of informalisation of the economy. Secondly, it appears that the claim of the SAP that labour market flexibility would entail job creation in the private sector has not materialised. In fact, the emerging trends only show more jobs being lost as well as most of the few new jobs being created in the informal sector. Table 6 and Table 7 present trends in industry division-wise organised employment in public sector and private sector respectively for the period 1961-2005. Some major trends can instantly be noted from analysing the data.

Firstly, as far as the public sector is concerned, there is a universal decline in absolute terms in organised employment across industry divisions for the period post-1991. Secondly, the only industry division in the public sector which has seen an unambiguous improvement in organised employment remains the finance, insurance and real estate sectors. And finally, even in the private sector, as pointed out earlier, the promise of extensive manufacturing sector employment growth (at least in the organised sector) has been belied. The post-1999 correction within the SAP framework has, in fact, led to an absolute decline in total organised manufacturing employment in the economy. Again, as in the case of the public sector, the only consistent increase has been in the service sectors whose structural inability to generate and sustain substantial rates of employment growth has been pointed out by many authors on this subject.¹¹

Table 6: Employment in organised public sector by industry division in India, in millions

Industry Division	1961	1971	1981	1991	1995	1999	2002	2005
Agriculture and allied activities	0.18	0.28	0.46	0.56	0.54	0.51	0.48	0.49
Mining and Quarrying	0.13	0.18	0.82	0.99	1.02	0.93	0.86	1.01
Manufacturing	0.37	0.81	1.50	1.85	1.76	1.57	1.35	1.13
Electricity, Gas and Water	0.22	0.43	0.68	0.90	0.93	0.96	0.92	0.86
Construction	0.62	0.88	1.09	1.15	1.16	1.11	1.03	0.91
Trade, restaurants and Hotels	0.094	0.33	0.12	0.15	0.16	0.16	0.16	0.18
Transport and Communications etc.	1.72	2.22	2.71	3.03	3.11	3.08	3.01	2.75
Finance, Insurance, Real Estate	-	-	0.75	1.19	1.28	1.29	1.23	1.41
Community and Personal Services	3.73	5.61	7.35	9.23	9.50	9.79	9.73	9.25
Total	7.05	10.73	15.48	19.06	19.46	19.42	18.77	18.01

Source: *www.indiastat.com* and *Economic Survey 2008* for figures pertaining to 2004 onwards

Table 7: Employment in organised private sector by industry division in India, in millions

Industry Division	1961	1971	1981	1991	1995	1999	2002	2005
Agriculture and allied activities	0.67	0.8	0.86	0.89	0.89	0.87	0.85	0.98
Mining and Quarrying	0.55	0.40	0.13	0.1	0.10	0.09	0.07	0.08
Manufacturing	3.02	3.96	4.55	4.48	4.71	5.18	4.87	4.49
Electricity, Gas and Water	0.03	0.04	0.03	0.04	0.04	0.04	0.04	0.05
Construction	0.24	0.14	0.07	0.07	0.05	0.07	0.05	0.05
Trade, restaurants and Hotels	0.16	0.30	0.27	0.3	0.31	0.32	0.33	0.37
Transport and Communications etc.	0.08	0.09	0.06	0.05	0.06	0.07	0.07	0.08
Finance, Insurance, Real Estate	-	-	0.19	0.25	0.29	0.36	0.39	0.52
Community and Personal Services	0.28	1.0	1.22	1.48	1.6	1.7	1.74	1.82
Total	5.04	6.74	7.7	7.67	8.06	8.69	8.43	8.45

Source: *www.indiastat.com* and *Economic Survey 2008* for figures pertaining to 2004 onwards

Before concluding, two further aspects need to be discussed here to comprehend the impact of the new economic policies of 1991 on the Indian labour

¹¹ For this see, in particular, Chandrashekhar and Ghosh (1999)

situation in general. Table 8 presents data on the share of the unorganised sector in total employment and its contribution to aggregate value added in the economy for the period 1977 to 2003. It clearly shows that whereas the share of the unorganised sector in total employment has been on a consistent increase, the percent contribution to gross value added has shown a decreasing trend. Similarly, whereas the rise in unorganised sector employment has been only marginal, the corresponding decline in GDP share comes out to be rather substantial. These findings imply, among other things, that the unorganised sector workers have undergone an absolute impoverisation in the said period.

Table 8: Share of unorganised sector in employment and GDP, in percent

Year	Employment	GDP
1977-78	92.2	68.1
1982-83	92	66.4
1987-88	92.2	63
1990-91	92.2	63.8
1993-94	92.7	62.3
1999-2000	93	59.2
2002-03	-	56.7

Source: Srivastava (2007)

Further, and as pointed out in the first section of the paper, there has been a marked tendency towards informalisation in the employment structure of India after 1991. However, this informalisation is not confined merely to the unorganised sector. There has been an unmistakable increase in workers being hired on jobs with informal characteristics in the organised sector. Table 9 provides some trends for this ironic development which is the major source of policy excuses in post-reforms discourse on the organised-unorganised debate. It unambiguously establishes that almost the entire growth in organised sector employment during the 1999-2005 period has come from the informalisation of labour itself. In fact, during this period, there has been negative growth in the real formal (or as the Indian mainstream academia calls it, organised) sector labour absorption in the economy.

Conclusion

The paper attempted to summarise the trends in organised sector employment in India from 1961 onwards with special focus on the impact of the structural adjustment programme initiated in the year 1991. It also tried to contextualise the whole discussion in the broader Marxian-Kaleckian-Keynesian framework on employment and capitalist accumulation. One significant section on this framework was required to explain the paramount importance of treating capitalism, in analytical terms, as a comprehensive regime of sorts, as well as understanding the logic behind capitalist accumula-

tion in order to make systemic judgements. We also attempted to summarise major features of the Indian economy with respect to the economic reforms initiated in 1991 and the prevalent employment structure. The broad results and arguments following from this exercise are as follows. Firstly, there has been an absolute decline in the total organised sector employment in India post-1991. The major sources of this decline have been the loss of jobs in the public sector and the manufacturing sector. Secondly, there is strong evidence suggesting a growing tendency towards informalisation in the Indian economy.

Table 9: Growth rate of informal workers within organised sector, 1999-2005, in percent

Industry Group	Informal worker	Formal worker	Total
Agriculture	2.46	1.89	2.2
Manufacturing	9.98	-2.68	4.11
Electricity	5.53	2.82	3.16
Construction	7.15	2.47	6.58
Trade	1.57	-10.98	-3.68
Hotels	12.96	1.64	8.44
Transport	4.96	-0.22	1.26
Finance	21.75	3.07	5.49
Real estate	17.5	14.97	15.94
Education	16.66	3.22	6.22
Health	15.66	1.69	4.89
Non-agriculture	8.05	-0.32	3.02
Total	7.33	-0.15	2.94

Source: Srivastava (2007)

Strangely, this tendency is not only confined to the unorganised sector but extends into the supposedly organised sectors of the economy. In this respect, the prophecy of many non-conformist commentators has come true with the emerging scenario drifting towards an absolute domination of capital over labour. The structural adjustments programme has adversely impacted employment both within the organised as well as unorganised sectors. The organised sector has been witnessing retrenchment and casualisation-informalisation of employment whereas the unorganised sector has been forced to accommodate the labour force released by the organised sector and in the process employment opportunities as well as work conditions for unskilled and semi-skilled labour has deteriorated. Even the most recent trends have not shown any improvements as far as this secular fall in organised sector employment is concerned. This situation urgently demands a policy reversal to a more progressive and labour oriented development paradigm in the country. Without going into much detail, we can enumerate some pointers towards a possible policy framework which may revive the labour situation not only in India but also other developing economies. Undoubtedly, em-

ployment generation should be given a top priority at the macroeconomic policy level. Acts and legislations like the National Rural Employment Guarantee Act (NREGA) would have to be pushed sincerely from highest policy levels to make them, at the least, acts for overcoming chronic distress, through their multiplier effects, in the rural sector. Here, one interesting comparison may turn quite helpful to comprehend the peculiarity of the Indian economy and the likes standing in stark contrast with China. The two emerging and competing economies have had completely distinct historical social, political as well as economic trajectories leading to entirely different contemporary outcomes. The success and importance of Town and Village Enterprises (TVEs) in China for securing minimal requirements of employment cannot be understated. Even the recent convergences between China and India in terms of output growth cannot as easily be found with respect to employment trends. Additionally, India urgently needs a comprehensive system of state-sponsored social security for the majority of its population to achieve even the bare survival level of living. In this specific context, it is required that certain concomitant changes in other spheres of policy like public expenditure (especially capital formation in rural areas) and credit are also made. However, as mentioned earlier, the larger political economy system disallows for such a transformation of policy unless a complete overhaul of the overtly anti-labour regime happens. In fact, the neoliberal orthodoxy has to move even beyond the post-Washington Consensus to explore an alternative framework of economic and social development which might incorporate, in particular, the insights regarding the functioning of capitalism from the writings of Marx as well as Keynes.

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TORTURE IN THE UNITED STATES AND CHINA: COMPARING AMERICAN AND CHINESE EXCEPTIONAL- ISM WITH RESPECT TO THE UNITED NATIONS CONVEN- TION AGAINST TORTURE

Ivan Rasmussen

The United States and China (PRC) share a common behaviour of non-compliance with the United Nations Convention Against Torture. Both states rest their claims of noncompliance on the explanation of exceptionalism. Despite the broad similarity of noncompliance, there is contrast in both the exceptionalism espoused to and the behaviour observed in China and the US. The following article examines these forms of exceptionalism in a comparative case study. Within the context of the UN Convention Against Torture, American exceptionalism has been a double-edged sword as the US-led efforts to draft and construct the treaty were based on its exceptional position as a hegemonic leader. But then the US has committed strong reservations hamstringing the treaty while ratifying it and also limited compliance after ratification due to security concerns. On the other hand, Chinese exceptionalism can be linked to a weak level of participation in the early drafting of the treaty due to its explicit and stated position of being outside the Western construction of international order. Despite nonparticipation in the drafting of the Convention, China did ratify the treaty due to an overwhelming perceived need to pursue an image of good international behaviour, opening the study to a hypothesis that sociological elements can deter or otherwise contain tendency towards exceptionalism. Ultimately, China has shown limited compliance with the Convention Against Torture in a large part due to limits of capacity arising out of its exceptional status. Whether, for both states, exceptionalism is a reality or an excuse does not alter the linkages drawn and issues discussed in the cases.

Introduction

The study of exceptionalism in international treaty behaviour includes a variety of issues but focuses on the prominent debate over compliance. Exceptionalism can lead to noncompliance. In a moment of noncompliance arising out of exceptionalism, a state does not adhere to a treaty due to the fact that it considers itself outside the group of complying countries because of exceptional or extraordinary circumstances unique to that country. Exceptionalism and noncompliance often go hand-in-hand; it is the role of the international

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relations and international law scholar to unpack the nature of exceptionalism with its linkages to noncompliance.

American exceptionalism and noncompliance is at the centre of the overall discussion of exceptionalism and compliance. Perspectives on American exceptionalism range from scholars who believe that the United States (US) is exceptional in its treaty behaviour and those who do not, to commentators who are highly critical of American exceptionalism and those who find positives in its “double-edged sword”.¹ While this study rests on the commonly held assumption that American exceptionalism is a reality, the author hopes to consider the qualities of American exceptionalism in a different light through the lens of comparison. With the goal of using the tool of contrasting exceptionalism case studies, the following article will examine American exceptionalism in comparison with Chinese exceptionalism in treaty behaviour with regards to the United Nation Convention Against Torture (UNCAT).

Both American and Chinese exceptionalism have led to noncompliance with the UNCAT (Wright 2008, Sklar 1998); however, the different forms of exceptionalism have led to different types of noncompliance. The broad similarity of noncompliance due to exceptionalism overshadows significant differences. American exceptionalism, as a true double-edged sword, leaves open the potential for leadership and constructive engagement in treaty regimes as the single great world power, much more so than Chinese exceptionalism which lends itself to absenteeism and hesitant integration. On the other hand, American exceptionalism and noncompliance are difficult to remedy in contrast to Chinese noncompliance as a lack of capacity that could be resolved through a managerial approach to compliance. In the end, the comparison of differing forms of exceptionalism illuminates specific qualities of American and Chinese exceptionalism in reference to the UNCAT and within the broad theme of compliance with international treaties.

The paper will commence with a broad examination of the scholarship on exceptionalism and compliance in international treaty behaviour. While this section of the article does not offer a comprehensive understanding of either concept or the scholarly debate thereof, it does point to specific issues concerning exceptionalism that deserve attention in the context of the study. Following the section on exceptionalism and compliance, the different forms of exceptionalism, American and Chinese, will be discussed. Next, there will be a brief synopsis of the history and content of the CAT. The study will delve into a discussion of the impact of American and Chinese exceptionalism on the life of the treaty, beginning with negotiation, then ratification, and, finally, compliance. For each of these three stages, there will be two sections dealing with the US and Chinese involvement in the UNCAT. For example, the first section

¹ Consider the ongoing debates between Jack Goldsmith and Antonia Chayes or the negative and positive perspectives on American exceptionalism as a dialogue between Michael Ignatieff, Harold Koh, and Seymour Martin Lipset.

on negotiation and US involvement discusses the potential for US leadership due to its exceptional qualities as the world hegemon and international leader. Finally, the author will summarise the involvement of the US and China in the UNCAT with the goal of limiting noncompliance due to exceptionalism. The article will conclude by looking at ways to mitigate noncompliance arising out of exceptionalism.

American and Chinese Exceptionalism

With respects to international treaty behaviour, exceptionalism can lead to noncompliance. The notion of exceptionalism as an excuse for noncompliance is beyond the scope of this study and would be a difficult yet intriguing thesis to test. What is central to the current study is the concept of differing forms of exceptionalism. A comparison of American and Chinese exceptionalism with respects to a specific body of international treaty law, the UNCAT, allows for a deeper understanding of not only the specific forms of exceptionalism but also the linkages between compliance and exceptionalism.

The seminal definition of American exceptionalism depends on three major elements or characteristics:

“American exceptionalism has at least three separate elements. First, the United States signs on to international treaties and then exempts itself from their provisions by explicit reservation, nonratification or noncompliance. Second, the United States maintains double standards: judging itself and its friends by more permissive criteria than it does its enemies. Third, the United States denies jurisdiction to human rights law within its own domestic law, insisting on the self-contained authority of its own domestic rights tradition”. (Ignatieff 2005, 3)

American exceptionalism exists in several stages: The US ratifies treaties with heavy reservations (assuming it does ratify the treaty). Then the US does not comply with the said treaty typically deferring to the superiority of domestic law and national protection of human rights. Also, the US sets criteria that downplay it and its allies’ noncompliance.

There are potential positive elements in American exceptionalism. The greatest potential positive of American exceptionalism is leadership in developing treaties:

“The United States, historically, has been exceptional in its international leadership and activism. And it alone holds the power to forge solutions to global problems....When [the US] refuses to ratify or fully implement certain provisions, the United States is at least being candid with the world, unlike other na-

tions that join treaty regimes and fail to comply.” (Koh 2003, 1483)

This is the double-edged sword of American exceptionalism (Lipset 1996, Chayes 2007). On the one hand, the US can be an exceptional leader in the international treaty; on the other hand, the US considers its exceptional position as superior to that of the rest of the world to the point where the US either undermines or does not comply with international law. American exceptionalism has many names including à la carte multilateralism, extreme unilateralism, and benevolent hegemony, but regardless of the name, the character of American exceptionalism falls into either on extreme of strong leadership or destructive noncompliance. (Gerson 2000)

Chinese exceptionalism is a less explored subject than American exceptionalism; however, with the growing importance and role of China on the global level, Chinese exceptionalism requires serious attention. The basic premise behind Chinese exceptionalism is the concept that China is a large country with an overwhelming and unique need to develop along with a huge population that requires a different approach to domestic governance. Also, China considers itself unique amongst nations as a thriving communist country with a long civilisational history that contrasts that of the West and democratic states.

Chinese noncompliance due to its position on exceptionalism is based on both a priority of economic development over human rights protection and a disagreement or divergence from Western, democratic values and the “Western system of law”. (Chan 2006) While many consider this functional and “moral” exceptionalism as an excuse by China to avoid compliance with legitimate international laws, there is a certain truth to the idea that China is exceptional in being such a large, non-Western, communist country. It is interesting also to look at moments of Chinese noncompliance arising out of exceptionalism as the Chinese Government espouses a doctrine of rationalism and national interest in foreign policy decisions. With such a priority on national interest and *Realpolitik*, it is difficult to pinpoint Chinese exceptionalism influencing compliance with international law.

When considering international human rights law, Chinese exceptionalism comes into focus. The Chinese leader of the 1980s, Deng Xiaoping, questioned the origins of an international human rights treaty regime: “What are human rights? Are they the human rights of the majority? Are they the human rights of a minority? Or are they the human rights of the entire citizenry? The meaning of human rights as spoken of by the Western world and as spoken of by us are two different things”. (quoted in Chan 2006, 173; Chang 1998, 4) In this way, China has an exceptional and explicitly non-Western concept of human rights. The exceptional Chinese concept of human rights depends on the

promotion of rights by the state, these rights not being natural in origin. As one commentator describes it:

“Under China’s political structure and culture, human rights are granted by the state and can easily be taken away by the state. If individual human rights run against state interests, the latter will usually prevail. The Chinese Government’s defence of its human rights record rests on the doctrine of exclusivity and cultural relativism based on concepts which promote subsistence, development, and collective over individual rights”. (Chan 2006, 177)

China has continually stated its need to develop economically and peacefully through the power of the state and that it will not submit to Western values or the Western definitions of human rights as inalienable. Chinese exceptionalism is evident in the belief that China is unique in the demands placed on it due to the need to feed and care for its large population despite low availability of arable land. Chinese exceptionalism leads to both nonparticipation, due to differences with the majority, Western-constructed international system, and a divergent domestic approach when there is involvement in treaties.

Chinese exceptionalism has both functional and moral aspects. (Chan 2006) It is also doubtful that Chinese exceptionalism will fade even with recent exponential increases in participation in the global scene. One scholar finds that “although China’s increasing compliance with the rules of the existing international treaty system has helped to move the world as a whole towards greater convergence in values and identities, divergence will no doubt continue to exist in the foreseeable future”. (Chan 2006, 218) That having been said, Chinese exceptionalism, like American exceptionalism, can be seen as a double-edged sword, with the negative consequence of noncompliance or non-involvement contrasting the positive prospective of leadership in the non-Western, developing world.

The United Nations Convention Against Torture – UNCAT

Before examining relevant American and Chinese actions with respect to the UNCAT, the origins and substance of the Convention deserves attention. The UNCAT, often described as the Torture Convention, exists within the body of international human rights law supported by the United Nations (UN). The text of the UNCAT was adopted by the UN General Assembly in December of 1984.² It came into force in 1987 after the twentieth state signed the treaty. Currently, there are 142 nations that are party to the UNCAT with nine nations that have signed it but have not yet ratified the treaty. The UNCAT must

² All information on the UNCAT and the articles of the UNCAT were accessed online from www.unchr.ch. Text of the Convention against Torture from: [www.unhchr.ch/tbs/doc.nsf/0/1b299ed549b81872c1257096004ba3da/\\$FILE/G0543204.pdf](http://www.unhchr.ch/tbs/doc.nsf/0/1b299ed549b81872c1257096004ba3da/$FILE/G0543204.pdf).

also be understood in conjunction with the Geneva Conventions on the treatment of prisoners of war as both treaties work to limit torture, particularly torture during periods of conflict.

The UNCAT specifically defines and outlaws torture. According to Article 1.1, torture is understood as: “Any act by which severe pain or suffering, whether physical or mental, is intentionally inflicted on a person for such purposes as obtaining from him or a third person information or a confession, punishing him for an act he or a third person has committed or is suspected of having committed, or intimidating or coercing him or a third person, or for any reason based on discrimination of any kind, when such pain or suffering is inflicted by or at the instigation of or with the consent or acquiescence of a public official or other person acting in an official capacity”. (Convention Against Torture, Article 1) Notably, the definition of torture includes intentional physical or mental pain or suffering enacted by a public official or with the consent of a public official. Torture as a government activity in the form of inappropriate investigation is completely illegal under international law.

In the examination of exceptionalism, Article 2 of the UNCAT is extremely important. Not only is there a negative right whereby torture cannot be a pursuit of states party to the treaty, but also the signatories have a duty to prevent torture that may occur in that state: “Each State Party shall take effective legislative, administrative, judicial or other measures to prevent acts of torture in any territory under its jurisdiction.” Article 4 of the UNCAT finds that torture is an offense under domestic criminal law. Additionally, Article 2.2 requires that states take action to deal with torture domestically, stating that there are “no exceptional circumstances” that would allow torture to be permitted. While there are no exceptional circumstances limiting state-authorized torture, reservations to the treaty are permissible.

The UNCAT requires that each state report on internal progress on outlawing or dealing with torture and the UNCAT sets up a Committee Against Torture (CAT) to monitor compliance. The specific details of the country self-reportage are as follows: “Under Article 19 state parties must report to the CAT within a year of ratification and then once every four years. The initial report should extensively describe the way in which the state part meets the requirements of the Convention and subsequent reports should inter alia describe any changes that have occurred since the earlier report”. (Burns 2005, 5) These reports are given to the CAT. The CAT is composed of independent human rights experts to monitor the implementation of the Convention by signatories to the treaty. The CAT can even examine complaints from individuals according to Article 22.1 complement to Article 13, assuming the state has agreed with the relevant article.³ The CAT offers the only form of recourse in instances of noncompliance and violation of the UNCAT through its

³ Here it should be noted that it is a rare case that individual complaints or cases are examined by the Committee.

reportage function. Noncompliance with the UNCAT includes the “punishment” of publishing information on a state’s illicit activities or allowing torture to occur within its territory.

Exceptionalism as Leadership in U.S. Efforts to Negotiate the Convention Against Torture

The development of international law and international treaties occurs through the Putnam two-level game complicated by the additional role of non-governmental organisations. Government officials negotiate a treaty at the international level limited by the domestic preferences of a state, thereby seeking a treaty that will work in both international and domestic “win sets” for the parties involved. (Putnam 1988) The UNCAT was negotiated through several deliberations by the UN Commission on Human Rights Working Group. (Burgers and Danelius 1988) In the nascent development of the UNCAT, it was the efforts of the United States, an exceptional leader amongst states, in active support of the treaty that helped bring the UNCAT into existence.

The US participated in all the meetings of the Working Group in the drafting history of the UNCAT. Meeting annually from 1977 to 1984, the Working Group was a combination of Western and non-Western states. (Burgers and Danelius 1988, viii) The Working Group was composed of a variety of states but only a small number made a consistent commitment to the process:

The Working Group’s meetings were mostly attended by only some twenty to thirty delegations of members and observers. Often half of them came from Western Countries. Sweden always participated, together with Australia, France, the United Kingdom and the United States.... On the non-Western side, Argentina and Brazil as well as the Soviet Union always participated, whereas India, Senegal, Uruguay and Yugoslavia as well as Byelorussia, the German Democratic Republic and the Ukraine played an active role in several sessions. (Burgers and Danelius 1988, 32)

It is obvious that American efforts were prominent in the drafting of the treaty text particularly in the small, Western-oriented group of states involved. At moments, the US even sought compromise with its geopolitical rival, the Soviet Union, on sensitive issues. (Burgers and Danelius 1988, 87) The US became a leader in the negotiation of UNCAT; leading the Working Group, and abating the concerns of many states: “The United States delegate showed himself a highly articulate advocate of the inclusion of universal jurisdiction in the Convention”. (Burgers and Danelius 1988, 78) Within the Working Group, the US took on the role as leader whose efforts held sway

due to its exceptional position as the world's leading democracy and powerful hegemon.

American support was a significant driving force particularly in crucial moments towards the end of the negotiations. However, American support in the negotiation of the UNCAT was active but it did not match the level of activity of the Swedish delegation. The US delegation often questioned the text of the treaty with constructive criticisms. In assuming the role of a challenger to the original Swedish treaty text, the US was able to play a constructive role in the development of many of the pertinent definitions in the UNCAT such as the definition of torture and the reference to public activities concerning torture with alternative text proposals for Article 1.1 and 1.2. (Burgers and Danelius 1988, 41-42) In fact, the US pushed hard for a specific elaboration of the definition of torture to be an act that is "deliberate and malicious" during the early formative meetings of the Working Group. (Burgers and Danelius 1988, 46) Symbolic of the US using its exceptional level of power and influence in the negotiation of the UNCAT, the delegation from the US led other states in support of the creation of the treaty by "express[ing] no reservations with regard to the newly adopted *Convention Against Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment*" at the end of the negotiation of the treaty. (Burgers and Danelius 1988, 106)

In the negotiation of the UNCAT text, the positive elements in the double-edged sword of US exceptionalism came to the forefront. This is the ability of the US in being an exceptionally powerful state with a strong democratic and human rights tradition to lead the call for greater protection from torture in the negotiation of the UNCAT. The US State Department, although not an unbiased source, describes the US performance on international human rights and torture treaties as an exceptional leader:

The United States has long been a vigorous supporter of the international fight against torture. United States representatives participated actively in the formulation of the United Nations Declaration on the Protection of All Persons from Being Subjected to Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, adopted in 1975, and in the negotiation of the Convention Against Torture. The United States continues to be the largest donor to the United Nations Voluntary Fund for Victims of Torture, having contributed over USD 12.6 million. (United States of America Comment 2000)

Not only does the US support and lead the drafting and negotiation of the torture treaties, but it also offers voluntary financial support for the UN fund to aid victims of torture. American exceptionalism in treaty negotiation can be seen as a positive of leadership and initiative due to the unique position of the US in world affairs.

Exceptionalism as Absenteeism in Chinese Negotiation of the CAT

Positives of American exceptionalism were on display in the examination of US efforts to lead the negotiation of the UNCAT. In contrast, Chinese exceptionalism can be linked to a lack of involvement in treaty negotiations, specifically the negotiation of the UNCAT. Chinese exceptionalism leads to absenteeism during the treaty negotiation stage in the development of international law. In fact, Chinese exceptionalism as divergence from the rest of the international community can be seen as absenteeism in a variety of treaties, international organisations, and even UN Security Council votes.

Chinese official statements exalt Chinese participation in the negotiation of the UNCAT; China “[claims] to have taken a leading role in helping to draft” the UNCAT. (Kent 1999, 91) However, China did participate but only in the final development of the treaty. China joined the negotiations of the UNCAT in 1984, coming in late to the creation of the treaty text and in the context of the imminent emergence of the treaty. (Burgers and Danelius 1988, 94) It should be noted that China only joined the UN Human Rights Commission in 1981 (Kent 1999, 5), meaning that prior to 1981 China would not have been able to send a delegation to the Working Group. This does not serve as an excuse for Chinese absenteeism; rather, it is another prominent corollary example showing Chinese non-involvement in the international organisation and treaty regime based on exceptionalism.

When it did join in the negotiation of the UNCAT, the Chinese delegation immediately expressed its exceptional quality of being apart from the majority of democratic international actors involved in Western-style treaty regime building: “At the end of the pre-sessional meetings all delegations except the Chinese delegation were prepared to accept the current text”. (Burgers and Danelius 1988, 95) After this point, Chinese activity in drafting the UNCAT decreased even more and the Chinese were not involved in the large final debate on the treaty text. (Burgers and Danelius 1988, 101) The lack of Chinese involvement in creating the UNCAT contrasts the exponential increase of Chinese involvement in international treaties and law.

Chinese absenteeism in treaty negotiations, specifically in the drafting of the UNCAT, can be seen as directly emerging out of Chinese exceptionalism as divergence from the international community and Western, democratic views of individual human rights. Perhaps Chinese lack of engagement with the UNCAT would not be considered a unique position as few other developing and non-Western nations, much less the very limited number of communist states, were involved in the negotiations. However, when examining the non-Western states that were involved in the treaty negotiations—such as India, Brazil, Argentina, Senegal, and the USSR, Chinese absence is conspicuous.

Furthermore, China maintains that its approach to human rights runs counter that of the US and the majority of states leading the drafting of the UNCAT. In taking this exceptional stance, Chinese officials could only negotiate on a limited set of principles. The Chinese divergent approach and vision of human rights are fundamentally inconsistent with those of the major creators of the UNCAT text including “Western” concepts of individual human rights and the protection of rights. With regard to the issue of torture, this is a particularly salient difference in viewpoints, as the Chinese vision of human rights finds that human rights come from liberties granted by the government and that individual rights can be subverted for the sake of the state and the collective. Therefore, it is not hard to infer the linkages between Chinese absenteeism in the negotiation of the CAT and Chinese exceptionalism.

Exceptionalism and US Reservations to the Ratification of the CAT

Despite American leadership in developing the Convention, US ratification took a turn towards negative exceptionalism through US reservations to the UNCAT. Upon ratification President Ronald Reagan exalted the US effort in the negotiation of the UNCAT:

The United States participated actively and effectively in the negotiation of the Convention [Against Torture]. It marks a significant step in the development during this century of international measures against torture and other inhuman treatment or punishment. Ratification of the Convention by the United States will clearly express United States opposition to torture, an abhorrent practice unfortunately still prevalent in the world today. (Reagan 1988)

President Reagan’s statement of support disguises the approach of the US to the UNCAT as an “expressive” Convention that will display already exceptional level of protection of human rights and opposition to torture. The UNCAT is seen then not as a treaty with little functional purpose but of significant symbolic value for the US in exalting existing American exceptional human rights practices. Furthermore, the US may have played an exceptional role in leading the drafting of the UNCAT but upon ratification, the US attached significant and weakening reservations to the treaty.

American exceptionalism with respect to treaty behaviour has typically centred on not signing onto a treaty or, if ratifying the treaty, creating a damaging collection of RUDs while signing onto a treaty so that it has had an integral role in negotiating. Many commentators cite the hypocrisy of supporting the negotiation of the treaty as an exceptional leader in the international community and the undermining of international law as negatives of the US

exceptional treaty behaviour. Other commentators find that the US is not particularly exceptional in its use of reservations as other countries do so as well.

The US RUDs are directly linked to American exceptionalism as a form of exemption. (Chayes 2007) In the case of the UNCAT, the RUDs were put in place by the US for reasons beyond national interest. The US reservations towards the UNCAT were created due to the fact that the US considered itself exceptional in its high level of democracy and already strong ability to protect human rights domestically. As with many other human rights treaties, US reservations to the CAT state that the US will prevent torture as enshrined by the protection of human rights in the constitution and US domestic law; this is a moment of exceptionalism as hubris. The pride of the US in its own system—as being exceptional or above and beyond the rest of the international community—leads the US to limited participation in international human rights treaties. In the case of UNCAT, the effects of exceptionalism are greater than limited participation as the US reservations run contrary to the very treaty that the US itself helped to draft. At the moment of ratification of the UNCAT, there is observable American exceptionalism as domestic constitutional superiority, which overwhelms the strength of the treaty.

The reservations to the UNCAT reveal the nature of US reservations as American exceptionalism. Unique to the US list of reservations is the quantity of reservations. While many states issues reservations to the UNCAT, the US collection of reservations was by far the longest. (United Nations Secretary General Comments 2007) The US was certainly not the only country that made significant reservations to the UNCAT—at least 35 countries made reservations, but it did make the largest number of reservations despite being one of the most proactive states in creating the treaty text. Furthermore, the US reservations contrast those of other states in that none of the other reserving states are in the exceptional position of power as the US.

Beyond the sheer quantity of US reservations to the UNCAT, the substance of these reservations expresses US exceptional treaty behaviour. No other country made reservations of the same quality as that of the US. The key to the substantial reservations by the US is the primacy of domestic constitutional law over international law. For example, the US Senate finds that “the United States considers itself bound by the obligation under Article 16 to prevent ‘cruel, inhuman or degrading treatment or punishment’, only insofar as the term ‘cruel, inhuman or degrading treatment or punishment’ means the cruel, unusual and inhumane treatment or punishment prohibited by the Fifth, Eighth, and/or Fourteenth Amendments to the Constitution of the United States”. (UN SG 2007) Ignoring the suggestion that the US will only consider torture to be defined by the same word in another documents, the obvious priority on domestic law over international law is a moment of American exceptionalism based on the belief that the US domestically protects human rights better than any other state or even international law. This major reser-

vation appears grossly counter-intuitive to the notion that international law should have some impact on the behaviour of states. In placing primacy on domestic law, the US appears to argue that international law has no meaning or function. The US goes further by saying that any new law made by the UNCAT does not have the power of direct effect, thereby insulating American domestic law against international law.⁴ In the end, these reservations are so intense that: "in ratifying the Torture Convention, the United States, in effect, reserved the right to inflict inhuman or degrading treatment (when it is not punishment for a crime), and criminal punishment when it is inhuman and degrading (but not 'cruel and unusual')". (Henkin 1999, 342) The exceptional reservations to the UNCAT defeat the purpose of the very Convention the US had a leading role in helping develop.

Interestingly, treaty ratification presents a complicated moment in the emergence of an international agreement through the Putnam two-level game. At the moment of ratification, a state must return to the domestic level with the treaty that its officials have negotiated for scrutiny by domestic actors. At the complex moment of the ratification of the UNCAT by the US with significant reservations, we see the origins of American exceptionalism as a domestic condition whereby the strong voice of the domestic conservative minority and the federal structure of the US tend towards the support of exceptional international treaty behaviour. (Moravcsik 2005) The use of extreme reservations as an element in US exceptionalism can be somewhat explained in this brief examination of the origins of exceptionalism. Despite the domestic origins of American exceptionalism, the reservations to the CAT reveal negative aspects of exceptionalism as domestic bias, constitutional superiority, and disdain for international law.

Exceptionalism and Image as China Ratifies the CAT

Like the US, China created reservations to the UNCAT when it ratified the treaty; however, these reservations do not have the same overwhelming negative consequence in part due to the structural situation where China is not the world's single superpower. The Chinese reservations can be directly linked to Chinese exceptionalism, but Chinese ratification of the UNCAT is an interesting tug and pull story between exceptionalism and image. The Chinese ratification of the UNCAT was a moment where exceptionalism could have caused

⁴ From "Multilateral treaties deposited with the Secretary General: The Convention Against Torture": "On 3 June 1994, the Secretary-General received a communication from the Government of the US requesting, in compliance with a condition set forth by the Senate of the United States of America, in giving advice and consent to the ratification of the Convention, and in contemplation of the deposit of an instrument of ratification of the Convention by the Government of the United States of America, that a notification should be made to all present and prospective ratifying Parties to the Convention to the effect that: ... nothing in this Convention requires or authorises legislation, or other action, by the United States of America prohibited by the Constitution of the United States as interpreted by the United States."

non-ratification but the desire to improve its international image took precedent and moved China towards signature and ratification.

China came late into the dialogue and negotiation of the CAT. In light of Chinese absenteeism during the drafting of the treaty, China was fairly quick to ratify the UNCAT, signing it in 1986 and ratifying the treaty by 1988. China did issue two reservations to the UNCAT:

- (1) The Chinese Government does not recognise the competence of the Committee against Torture as provided for in Article 20 of the Convention.
- (2) The Chinese Government does not consider itself bound by Paragraph 1 of Article 30 of the Convention. (UN SG 2007)

The key element in these reservations is the priority on national sovereignty. There is an obvious linkage between Chinese exceptionalism as being uniquely separate from the international community and the desire to not allow internal investigations. The reservations effectively require that China make the commitment of periodic reports on progress towards dealing with torture issues: "having refused to recognise the competence of the Committee with respect to Article 20 and remained silent for Articles 21 and 22, China is only subject to the Convention's reporting requirements". (Kwong 2005) China is willing to be a part of the international community but deems itself exceptional in being a non-Western, non-democratic power and would be not only suspicious of outside parties investigating issues within its territory. Chinese exceptionalism links directly with a reservation that would limit "interference" particularly for a state that explicitly finds its own values to be contrasting those of the international treaty regime.

The majority of reservations by states acceding to the UNCAT were in respect to the competences of the Committee described by Article 20. Chinese reservations with their roots in exceptionalism became a moment of inclusion. It is important to explain why China would make similar reservations to the UNCAT as other countries but for reasons based on its exceptional nature. Here we see a battle between Chinese exceptionalism, as the belief that China is separate from the international community due to its extreme, unique differences, and the desire by Chinese for a good "image" at the international level. Chinese exceptionalism in the case of ratifying the UNCAT did not lead to absenteeism or non-involvement as it did during its negotiations. This suggests that there is another element in play influencing the decision making of Chinese officials, the element of image and social pressure to sign onto a prominent human rights treaty and join the international community in its condemnation of torture.

The idea that image matters to China even to the degree where it would limit concerns from the exceptional trend in Chinese treaty behaviour is grounded

in novel scholarship on Chinese foreign policy. The recent scholarship of Johnston (2007) on the impact of image and social constraints on Chinese treaty behaviour offers an innovative explanation of Chinese ratification of the UNCAT. Johnston observes Chinese treaty behaviour with regards to the Comprehensive Nuclear-Test Ban Treaty (CTBT), finding that China acted outside rational self-interest in ratifying the CTBT due to social pressures. While this study does not presume to have made the same level of inquiry as Johnston, it is reasonable to suggest that China ratified the UNCAT with the goal of improving its international image despite pressures against ratification due to Chinese exceptionalism. The power of social pressures is exemplified by the fact that Chinese reservations mimic those of many other states.

In concluding the discussion of Chinese ratification of the CAT, there must be a discussion of Putnam's two-level game, which dictates the structure for treaty ratification where a state's international officials return to the domestic level with a negotiated treaty for ratification. In China, the domestic actors do not have the same vocal power than that of the US. In further contrast to the US, we see difference in the "origins" of exceptionalism in that American exceptionalism arises out of a constraining domestic situation combined with great international power, while Chinese exceptionalism tends to be a product of official stance and state rhetoric, a product of more centralised control opposite the decentralised power in American exceptionalism. Necessarily, for America it was the domestic constraints that weakened commitment to the UNCAT during ratification with the creation of extreme reservations. On the other hand, Chinese ratification of the UNCAT was not affected by the same level of bottom-up influence or pressure as treaty ratification in China depends more on high level official decision making. Despite China's exceptional position, the state ratified the UNCAT and made reservations of great similarity to the rest of the international community. One would have to note the influence here of image, particularly since Chinese treaty ratification depends less on domestic pressures. It can be hypothesised that Chinese ratification of the CAT by high-level officials was highly influenced by external pressures from NGOs such as Amnesty International and other diplomats, building on the increasing importance to Chinese officials of the desire for better image and the susceptibility to social pressures.

Extreme Exceptionalism in US Noncompliance with the UNCAT

Moving from the negotiation and ratifying of the UNCAT to compliance with the treaty moves the study from the impacts of exceptionalism in the formative stages of treaty behaviour to the impact of exceptionalism on compliance. American exceptionalism leads to extreme levels of noncompliance with respect to the UNCAT. Not only does the US violate the treaty by practicing torture both domestically and abroad, but the US has also tried to supplant international and domestic law outlawing torture. The key moment in the US violation of the UNCAT emerges from interrogations of terrorist subjects during which torture was practiced or supervised by US officials. (Heymann and

Scott 2006) The US found that, in a moment of extraordinary exceptionalism, it was unique in its hegemonic position under attack by terrorist groups such that the situation required the use of torture to extract information that could pre-empt terrorist acts. The US noncompliance with the UNCAT arises out of the American exceptional belief that it is superior to both international law and the international community; therefore, it follows a different set of rules. The US noncompliance with the UNCAT has been well documented in a series of Kennedy School of Government (KSG) case studies on “Defining torture in the war on terror”. (Heymann and Scott 2006) Central to the US non-compliance with the UNCAT and Geneva Conventions was the treatment of prisoners of war and the use of torture, specifically water boarding. What was particularly exceptional about the treatment of the prisoners of war was the fact that the US had upheld its priority on domestic law superseding international law by avoiding international legal adjudication of the claims of the terrorist suspects.⁵ The extreme element in American exceptionalism as non-compliance with the UNCAT goes beyond the actual breaking of the law and the priority on domestic protective legislation over international law. The US did not comply with the UNCAT and even went to the point of avoiding, re-defining, and subverting international, and, in the process, domestic law.

Officials from the US sought to develop “possible defence that would negate any claim that certain interrogation methods violate” international law. (Bybee 2001, 1) In a memo from the Offices of Legal Counsel (OLC) for the US Government and the President, Bybee (2001) provided a series of “defences” as to why the President can authorise torture of terrorist suspects. The flagrant disrespect for international law is obvious whether it is expanding the definition of torture from the UNCAT to the “most extreme” forms of torture—the very definition the US had an integral role in shaping and drafting—or perverting rule of law by avoiding both international and domestic legal courts or institutions. (Bybee 2002, 2) The efforts by the OLC can be explained only by the extreme belief that the US is so exceptional and so unique in its position as the world’s superpower under attack by terrorists that it must be judged by different standards.

In fact, the US has not tried to limit the scope of international law as was seen in the instance of US reservations to the UNCAT; rather, the US has sought to redefine or subvert international law. This situation comes out of and feeds into the extreme exceptionalism of behaviour with regards to avoiding domestic legislation in order to conduct torture interrogations of suspected terrorists. Some commentators would suggest this divergence is due more to the current political administration in power; however, it is impossible to ignore the influence of American exceptionalism in the case of noncompliance and violation of the CAT through torturing terrorist subjects.

⁵ In a landmark decision, the US Supreme Court actually ruled against the US in *Hamdan v. Rumsfeld*, 126 S. Ct. 2749 (2006). Whether this has or will decrease *de facto* violation of the UNCAT remains to be seen.

Capacity and Exceptionalism in the Case of Chinese Violation of the UNCAT

Chinese compliance with the UNCAT has focused on attaining *de jure* requirements of the treaty. China has been quick to place important safeguards against torture in its legal system. This has been no small task, requiring significant levels of increased legislation, reforming the code of laws, and even changing the Chinese Constitution. The major mechanisms for monitoring compliance in the UNCAT include the Committee site visits and country self-reporting. China issues a human rights white paper as its first signal of compliance with the UNCAT; however, China's focus on dealing with torture has been mostly *de jure* with weak levels of *de facto* or on-the-ground compliance. (Kent 1999) China's torture record as noncompliance with the UNCAT due to *de facto* violations emerges out of Chinese exceptionalism as having a unique, explicitly non-Western concept of collective rights over individual rights along with the nature of China as being exceptionally populous, the largest country in the world.

De jure compliance, however, does not equate to *de facto* compliance. The Chinese human rights record is continually criticised by observers. Specifically, the area of torture remains a point of limited on-the-ground protection in China. China is even willing to admit torture as can be seen from its white paper from December 1989 to the UNCAT: "[a]s with other criminal offences, so torture, an act which endangers society, has yet to be eliminated completely in China". (Kent 1999, 93) Torture continues to exist, an obvious violation of the UNCAT, but the noncompliance of China in allowing torture comes out of the "weak sense of legal system", "rather low professional among some State functionaries", and, in general, inability to control all issues related to torture in such an exceptionally large country.

One commentator describes Chinese *de facto* noncompliance with the UNCAT as emerging out of its exceptional circumstance as the largest country in the world that is still developing:

In a country like China, which is vast in size but has a centralised government system, it means the Beijing must by clear direction advise all national and provincial institutions of its commitment to the Torture Convention [including] the PLA command, and the Executives of the police, prison. Conduct in breach of the Torture Convention's obligations must be swiftly and effectively dealt with. Administrative detention is still reported to occur in China, and few detainees get access to counsel within 48 hours, notwithstanding the profound Criminal Procedure Reforms of 1997. Torture still occurs, but the most

heartening feature is that some prosecutions may take place as a result of more vigorous procuratorial policy. (Burns 2005, 11)

There are huge logistical concerns unique to China, which limit compliance and allow for continued violations. Despite noncompliance with the UNCAT, there was optimism that many of the Chinese criminal reforms from the 1990s would increase the rights of detainees and people who seek legal recompense. Chinese compliance to the UNCAT has failed due to its exceptionally complex and vast domestic situation, but there is some hope for the future as *de facto* compliance could fall into line with the revamped Chinese legal system, as the capacity to comply increases.

Conclusion: Inducing Compliance in the Face of Exceptionalism

American exceptionalism contrasts Chinese exceptionalism in several salient ways that are revealed by the behaviour of both states with respects to the Convention Against Torture. American exceptionalism led to a positive leadership role in the drafting and negotiation of the CAT, while Chinese exceptionalism caused absenteeism in the development of the treaty text. American exceptionalism as exemptionalism supported damaging reservations during its ratification of the UNCAT, while Chinese exceptionalism met head-to-head with Chinese image consciousness to allow for ratification and a moment of cohesion with the international community. Finally, American exceptionalism as extreme noncompliance with the UNCAT in the government practice of torturing terrorist subjects and desire to avoid both international and domestic law constraining the practice of torture contrasts Chinese *de jure* compliance but *de facto* noncompliance with the UNCAT due to logistical, capacity issues arising from China's exceptional position of the world's most populous country. In the end, both China and the US have violated the UNCAT due to being exceptional states. What is truly interesting is not the end product of exceptionalism – that of noncompliance, but the differences in treaty behaviour related to the differences in exceptionalism.

It is only fitting to conclude by examining the ways to deal with or mitigate noncompliance by both states arising out of exceptionalism. In a twist of conventional knowledge, this study finds that Chinese noncompliance due to exceptionalism may be easier to limit than US noncompliance arising out of exceptionalism. To begin, from the discussion of Chinese ratification of the UNCAT it appears that image matters more to China than ever before and even more so than for the US. In other words, if a treaty can be structured to place social or image pressures on China then it will be likely to induce compliance despite Chinese exceptionalism. The UNCAT does have significant reportage capacities that have already caused China to send in several reports and even has played a part in causing a change of Chinese domestic law. Furthermore, Chinese *de facto* noncompliance with the UNCAT appears to be an issue of capacity. Treaty compliance as dependent on capacity has its roots in the

managerial school of compliance. (Chayes and Chayes 1995) Chinese compliance with the UNCAT, and, potentially other important international treaties, can be induced through an attention to improving capacity in the face of Chinese exceptionalism.

American exceptionalism and noncompliance does not offer the same high level of possibility for remedy as with the potential improvement of capacity of Chinese compliance. To begin with, American noncompliance has a much more hypocritical dimension due to the American propensity to be an exceptional leader in the drafting of international treaties but failing to comply with the very treaty it has helped develop. Even US exceptionalism emerging out of extreme American international power as the world's sole hegemon works against the possibility of inducing compliance through either capacity or enforcement mechanisms; the US could just ignore a treaty or law with little repercussion. The true question in seeking to induce compliance through mechanisms of reportage or shaming, typical of human rights treaties, is to what degree the US is susceptible to international opinions and image. One would hope that image does matter and that, in this case, the US can learn something from the "bending" of Chinese officials to some social pressures.

There is a second possibility of mitigating American exceptionalism through international pressure beyond the power of opinions and image. For example, the US had to change its exceptional and protectionist leanings after rulings against it by the World Trade Organisation (WTO). In fact, the European Union has placed the tariffs during WTO dispute resolution on goods that would pressure the conservative government in the US, hoping to loosen the conservative power hold, indirectly limiting exceptional action. It is significantly more difficult to develop this kind of reciprocity to limit American exceptional treaty behaviour with respect to human rights treaties. The negative forces of American exceptionalism will only come to an end either when the US loses its hegemonic power position or when the US realises that "current American treaty behaviour is not in the national interest; it is unbecoming to a world leader and is anachronistic in an era of globalisation and interdependence". (Chayes 2007, 1) It will take either a structural or an ideational change to deal with American exceptionalism and fully reap the benefits from positive exceptionalism.

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MERCHANDISE TRADE PERFORMANCE AFTER ECONOMIC REFORMS IN INDIA: AN EXPLORATIVE ANALYSIS

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After four decades of independence, India's economy implemented an open economy policy so as to improve performance in the merchandise trade sector, focusing on both exports and imports. The aim of this paper is to analyse the changes in the merchandise trade sector after adoption of liberalisation policies in 1991. The fact that the fruits of globalisation have been enjoyed during the course of the last couple of years makes this an interesting study. First, this paper analyses the performance trend of the trade variables such as export, import, balance of trade (BOT), and volume of trade (VOT). Then it explains the impact of the Indian merchandise trade sector on the overall economic performance through a simple econometric model. And it also analyses how liberalisation has influenced the trade structure of the country. It then relates these variables with the macroeconomic indicators such as GDP, NNP, and NDP at both market price and factor cost at their current as well as constant prices. The important objectives of this paper are to show the impacts of exports, imports, BOT, and VOT on the macroeconomic indicators and their growth rate over the previous years. It is ascertained that the growth rate of imports has been more than that of exports in absolute as well as relative terms in the later periods of liberalisation. However, the econometric analysis has shown that exports have had a more positive impact than imports. Finally, this article shows that there is an import-led export growth, and thus imports are expected to trigger growth of exports and the economy in the coming years of the 21st century.

Introduction: The Shift to Liberalised International Trade

In the last two decades, there has been a significant change in the macroeconomic perspective of the world economy due to the shift in economic policy adopted by developing nations like India, China, and other East Asian nations. Most of the developing nations have adopted liberal trade policies, under the auspices of the World Trade Organisation (formerly the General Agreement on Tariffs and Trade, GATT), the International Monetary Fund (IMF), and the World Bank. Consequently, world trade has grown nearly five times faster than world output and, as a result, some developing countries have achieved unprecedented rates of growth – and have been called a “mira-

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cle" in economic history. (Santos-Paulino and Thirlwall 2004) Also, a growing body of literature emphasises the advantages of globalisation, embodied particularly in the examples of developing nations like India and China, as both nations have gauged high rates of growth due to their integration into the world economy.

Trade liberalisation policies have created many benefits in the last couple of decades (for example, see Krueger 1998), especially in developing nations (for example, India with respect to East Asia; see Asher 2007). Since embarking on a policy of openness in 1991, India has shown a dramatic change in its economic profile relative to other countries. This article discusses the performance of India's merchandise trade after globalisation and raises the question: how far has India's policy of embracing economic globalisation supported growth, and how far should India open up further? More specifically, it empirically examines: (1) the performance of exports, imports, balance of trade (BOT) and volume of trade (VOT), explains their compound annual growth rate (CAGR) after globalisation; and (2) the impact of trade variables, namely, exports, imports, BOT, and VOT on India's Gross Domestic Product (GDP), Net National Product (NNP), Net Domestic Product (NDP) at market price as well as factor cost both at current and constant price. Since these macroeconomic indicators (i.e. GDP, NNP, NDP) are comprehensive measures of economic activity and national income of the nation, it is felt desirable to consider each one of them as a dependent variable across all feasible indicators of India's trade performance.

The paper is divided into five sections. The introduction is followed by a brief account of the theoretical gains from trade liberalisation in the second section. The third section introduces India's growth experience of trade liberalisation, focusing first on performance and secondly on the direction of merchandise trade of India with the rest of the world after liberalisation. The econometric analysis of the independent variables such as exports, imports, BOT and VOT and the dependent variables GDP, NDP, NNP at market price as well as factor cost both at current and constant prices are explored separately in the fourth section. Finally, the fifth section presents the concluding remarks.

Gains from Trade Liberalisation: Insights from Theory

According to modern trade theory, trade liberalisation provides a number of economic benefits to a country through the restructuring of its economy in favour of the growth process. For example, it makes the country focus on its specialisations to achieve a high productive growth rate; provides more opportunities to buy cheaper goods from the world market; and enhances the bilateral trade relationships among these countries. Apart from the above advantages, it is also beneficial to consumers, partly because of more favourable terms of trade and partly because of greater specialisation in the use of the country's economic resources. (Sodersten 1980) This concept (i.e. gains from

trade liberalisation) emerged during the eighteenth century expounded by Smith and Ricardo (1817) with reference to the division and specialisation of labour. (Sodersten 1980) Likewise, John Stuart Mill (1848) – in his famous book ‘Principles of Political Economy’ – discussed the gains that result from ‘foreign commerce’. In addition, there are other types of gains, such as dynamic and static gains. (Friedrich 1974) This theoretical insight has led most states to support free trade and open economy models that developing nations (for example, East Asian nations; and also India from 1991 and China from 1978) have been following after the Second World War.

Developing countries face problems of investments and savings as they cross the boom stage of the economic growth. The ‘supply propelled growth’ model is implemented in a closed economy by removing all trade barriers. This thereby enhances specialisation and also industrial production, stimulating the demand and ultimately raising the economic growth of the nation. (Friedrich 1974) It has also enhanced the trade of merchandise goods (which is the aim of this paper to be shown empirically); mobility of capital goods at cheaper cost; immigration of specialised labour; and change in the wage structure of the nation. (Rodrik 1998) In addition, it has an impact on both the instruments of government policy, i.e. monetary as well as fiscal, because a government cannot independently fix the market exchange rate and the tax rate. (Rodrik 1998) In sum, the review of the recent history of trade policy reforms suggests that three things matter: a shift from quota restrictions to tariffs (i.e. linking domestic prices to foreign prices), reduction of the variation in rates of protection alongside reduction in its overall level, and direct promotion of exports to offset the bias arising from import tariffs. (World Development Report 1987, 9)

Apart from studies on the advantages of liberalisation policy, the research community has also been motivated to examine the issues of inequality, and distribution of gains from trade. (Basu 2008) Fischer (2003) studies the challenges of globalisation, while Bhaduri (2008) analyses the particular context of the Indian economy, which the author marks as ‘predatory growth’. Studying a sample of 65 developing countries, recent pioneering work by Meschi and Vivarelli (2008) empirically outlined that trade with the developed nations had worsened their income distribution through both exports and imports. Following this, the recently published commentary article (Jomo and Arnim 2008, 11) has cited a wide range of empirical models – developed mainly by the World Bank – which show large gains for developing nations through trade liberalisation. But these gains are not free from fundamental flaws, such as risks of displacement, economic downturns, and rising debt. However, the aim of this paper is not to analyse these aspects.

Moreover, classical economists have also argued that ‘foreign trade [is] an engine of economic growth’, which would trigger the economic performance of a nation. However, Winters (1998) argues that trade liberalisation by itself is

unlikely to boost economic growth unless it reduces corruption and is accompanied by improved macro-economic policy-making. This highlights the potential difficulties in interpreting econometric studies that aims to find a strong causal link between trade liberalisation and growth or total factor productivity. Similarly, there is ongoing debate about which of the two, institutions or openness, is more important for growth. Dollar and Kraay (2002 and 2004) run a horse race between institutions and trade. Results from the former suggest that institutions matter more for growth in the very long run, while results from the latter imply that trade is important for medium-term growth. In addition, Frankel and Romer (1999) have argued that geography is the important factor for enhancing the bilateral trade relationship between the nations through the gravity model.

Empirical Evidence of Gains

In reference to the theoretical underpinnings above, we hold that trade liberalisation, mainly export promotion, is an important contributor to the economic growth of a nation, especially in developing nations. Sinha and Sinha (1996) paid more attention to cross-section and time-series studies of trade balance [exports (X) - imports (M)], to illustrate trade-led growth. They found a positive relationship between the degree of openness and the growth rate of selected Asian countries between 1951 and 1990. Likewise, the World Development Report (1987) asserts that better economic performance is possible in both developing as well as industrialised nations, provided that commitment to economic policy reforms is maintained and reinforced. It outlines a study of 41 economies, which shows that outward oriented economies tend to perform better than inward-oriented economies. (World Development Report 1987, 8)

Since imports are also an important contributor to growth, more recent research studies have focused more on import growth. Jong-Whalee (1995) presented a new theoretical model with empirical evidence, which shows that by providing relatively cheaper foreign capital goods, international trade increases efficiency of capital accumulation and the growth rates of income in less developed countries. However, Balassa (1979 and 1989) argued that the favourable effects of trade, especially exports, on economic growth would be higher if countries employ a strategy of outward-looking industrialisation. Such a strategy is considered more likely to result in trade leading to more efficient utilisation of productive resources.

Santos-Paulino and Thirlwall (2004) examine the impact of trade liberalisation on export growth, import growth, the BOT and BOP using panel data from 22 developing countries that began liberalisation in the mid-1970s. The results found that while exports grew at 2 percent per annum, import growth has been more than 6 percent per annum, leading to a deterioration of the trade balance of at least 2 percent of GDP. And it has shown the remarkably better performance of liberalising nations during the last three decades as compared

to non-liberalising nations: the growth rate of liberalising nations has increased from 2.9 percent in the 1970s to 3.1 percent in the 1980s up to 5 percent in the 1990s; however, the growth rate of non-liberalising nations has decreased from 3.3 percent in the 1970s to 0.8 percent in the 1980s and only slightly risen to 1.4 percent in the 1990s. In a similar manner, Lee (1995) examined the role of capital imports on economic growth and found that these had a much higher productive capacity than domestically produced capital goods.

The review above clearly indicates that foreign trade has played an important role in the economic growth of the developing nations, and it has also helped to enhance the performance of the economic profile. Under this backdrop, we explain the perspective of the Indian economy in this paper. The main advantage has been to provide opportunities for importing sophisticated techniques and exporting finished products – instead of raw materials, which has inelastic demand in the international market and creates an adverse balance of payment situation – as it deteriorates the macro-economic performance of the nation; India has faced this type of situation in the late 1980s and early 1990s. In addition, India earns foreign exchange for the nation through enhancing exports; increases the investment capacity of the country and simultaneously imports new sophisticated technology; reduces corruption (i.e. through increasing the efficiency of the government mechanism; for example, the likelihood of days required for the approval of any document by the government authority has been declining significantly which attracts large number of multi-national companies) and increases employment opportunities in the country; enhances the standard of living of the rural regions through the trickledown effect; and also raises the growth rate of the macro-economic parameters such as GDP, NNP, and NDP.

India's Growth Experience through Trade Liberalisation: Post-1991

Since independence, India enjoyed the fruits of its self-reliant economy and inward-looking growth model for four decades until the 1990s. In addition, it planned to maintain macro-economic stability by keeping its economy closed. This implied establishment of barriers on merchandise trade as well as overall foreign trade. However, overall foreign trade, in particular the merchandise trade, did not show high growth in the initial period, and, as a result, India faced problems in maintaining its share in the world's foreign trade: in 1950, India's share in total foreign trade of the world was 1.76 percent, and it came down to 0.50 and 0.60 percent in 1990 and 1995 respectively; but in 2002, 2003 and 2004, it was 0.80, 0.86 and 0.90 percent respectively – which shows an improvement in aftermath of the adoption of the globalisation policy (Government of India, GOI 2004-05 and 2006-07) as well as the current account of the BOP. By the late 1980s and early 1990s, India had passed through serious economic crisis, which disrupted the backbone of its economy and caused high inflation and also a shortage of foreign exchange reserves (FOREX). (Dhingra

2001) For instance, in 1980-81, it was US\$ 5,850 million; however in 1990-91, it sharply declined to US\$ 2,236 million. (GOI 2004-05, S-1) It forced the Indian economy to adopt a policy of liberalisation and 'look-East policy'. Thus, India introduced the new economic paradigm of reforms, which started the process of integration of Indian economy with the world economy.

India's liberalisation in 1991 marked a watershed in the country's economic history. During the last one and a half decades, the Indian economy has been enjoying the advantage of its liberalisation policy, which can be seen by the dynamic shift visible in its foreign trade sector and macro-economic parameters such as GDP, NNP, etc. For example, India's GDP grew by an average 1 percent annually between 1890 and 1950; at a marginal 3.5 percent in the 1950s and 1960s, and it suddenly rose in the late 1970s. (Basu 2008, 53) However, after liberalisation policy, GDP has been growing in an astonishing manner; it accelerated to 5.4 percent annually in 1990-2000, and surged to 8.1 percent annually in between 2000-06. (Basu 2008, 53) Moreover, it has been growing at about 9 percent during the last four years (Basu 2008, 53), and is hoped to reach double-digit growth in the coming years as well as decades to come. (Zainulbhai 2007)

After the liberalisation policy, the Indian economy has been performing really well with respect to the Asian economy, particularly the East-Asian economy (Asher 2007), and the world economy. In addition, its share in world trade, Foreign Direct Investment (FDI), FOREX (US\$ 145 billion in the year 2005-06; GOI 2006-07), and the tertiary sector¹ of the Indian economy has been surging in a significant manner, establishing India as the second largest nation in terms of economic growth after China, and also reaching the landmark of a trillion dollar economy in terms of GDP. India's bilateral trade relation with the East Asian countries (for example, see Asher 2007) and also the non-Asian countries (i.e. US, EU) has become stronger as compared to the earlier period (i.e. before its liberalisation period). And India has sustained high economic growth since the introduction of the liberalisation policy without much impact on income inequality.² (Asher, 2007, 20) Besides this empirical evidence, this paper also reviews some of the articles, which empirically test the performance of the Indian economy after the adoption of the liberalisation policy. We cite some of them below.

Nandi and Biswas (1991) investigate the empirical relation between Indian export and economic growth, using data for the period 1960-85. The study proves that exports can promote economic growth by increasing aggregate demand. In the Indian context, econometric results show that export growth causes growth of national income and also overall economic development.

¹ In 2002-03, the share of manufactured goods was 76.6 percent. (Government of India 2004-05)

² India's Gini coefficient is 0.33 (based on expenditure) compared with that of China at 0.45 and US at 0.38 in 2000. (WDR, 2006; quoted in Asher, 2007, 20)

Moreover, Ahulwalia (2002) points out that there were three major building blocks of India's trade policy until 1991: self-reliance, export pessimism, and import substitution. He concludes that trade policy and investment liberalisation had a crucial role to play in providing outward orientation, which imposed external audit on domestic cost structure. Moreover, the government generated an environment in which the positive energies of the people of India could be harnessed and "Made in India" could become a label to be proud of. In addition, Mallick (1996) investigated empirical evidence with reference to India to establish the causation between exports and economic growth over the period 1950-51 to 91-92 using co-integration based on an error-correction model. The study explains that the expansion of productive capacity through income growth can raise exports, and increased probability of exports can induce increased saving and thereby capital accumulation, which gives rise to high economic growth. Likewise, Nidugula (2000) examines empirically the relation between exports and economic growth during the period 1960-61 to 1979-80, and highlights that among exports, the growth of manufactured exports has a significantly positive relationship with GDP growth, while the growth of primary exports have little influence. Following this, it concludes that the emphasis of ongoing reform that began in 1991 led the country to a growth path, and the economy has responded by moving from an import substitution strategy to promoting exports. Similarly, Kaushik and Paras (2000) statistically analysed the relationship between trade liberalisation and export performance in India. Their study examines growth, variability of exports, sources of export variability and the impact of export instability on economic growth and environment. They estimate exponential growth rates, instability and variability in logarithms to assess the relative importance of price and quantity fluctuations for the period 1984-85 to 1997-98. The study reveals the following facts: (a) exports of Indian agriculture and allied products, and manufactured goods have increased significantly since the initiation of trade liberalisation; (b) instability in export earnings is mainly due to volume instability rather than price variability; and (c) export instability showed a negative and statistically significant impact on economic performance of the economy.

Performance of the Merchandise Trade after Liberalisation

There was a significant change in the structure of the merchandise trade sector post-liberalisation. It has not only provided benefits for the merchandise trade sector but also for the Indian economy as a whole. Its trend, composition, and direction have been changed (Table 1). Exports gradually rose from Rs. 32,558 crore (US\$ 18.145 billion) in 1990-91 to Rs. 2,03,571 crore (US\$ 44.560 billion) and Rs. 4,56,418 crore (US\$ 103,091 billion) in 2000-01 and 2005-06 respectively. Similarly, Compound Annual Growth Rate (CAGR) has risen significantly, from 21.6 percent in 2005-06 over the previous year (see Table 1 for more description of the CAGR of different years since 1991). In addition, imports were rising in a drastic manner, from Rs. 43,193 crore (US\$ 24.073 billion) in 1990-91 to Rs. 2,30,873 crore (US\$ 50.537 billion) and Rs. 6, 60,409 crore

(US\$ 149.166 billion) in 2000-01 and 2005-06 respectively. Besides, CAGR was increasing in a significant manner: from 10.8 percent in 1991-92, and 21.2 percent in 2002-03 to 31.8 percent in 2005-06. As a consequence, the growth rate of exports was more than of imports in the initial period (up to 1993-94) of its liberalisation, whereas in the later period (since 2002-03) the growth rate has risen in a reverse manner. This clarifies that the magnitude of imports has had more influence than exports in the later period of liberalisation in both absolute as well as relative terms. Thus, it raises the gap in the BOT, which reached Rs. 2,03,991 crore (US\$ 46.075 billion) in 2005-06. Similarly, the absolute as well as the relative growth rate of VOT is also high, which can clearly be observed from the mentioned table and figures below. Table 1 shows the trend of foreign trade in India after liberalisation, i.e. exports, imports, BOT and VOT. Similarly, Table 2 highlights CAGR of foreign trade after liberalisation.

Table 1: Trend of merchandise trade in India after liberalisation
Rs. in Crores, (US\$ million)

Year	Exports	CAGR	Imports	CAGR	BOT	VOT	CAGR
1990-91	32,558 (18,145)	-	43,193 (24,073)	-	-10,635 (-5,927)	75,751	-
1991-92	44,042 (17,865)	35.3	47,851 (19,411)	10.8	-3,809 (-1,545)	91,893	21.3
1992-93	53,688 (18,537)	21.9	63,375 (21,882)	32.4	-9,687 (-3,344)	117,063	27.3
1993-94	69,751 (22,238)	29.9	73,101 (23,306)	15.3	-3,350 (-1,068)	142,852	22.03
1994-95	82,674 (26,331)	18.5	89,971 (28,654)	23.1	-7,297 (-2,324)	172,645	20.85
1995-96	106,353 (31,795)	28.6	122,678 (36,675)	36.4	-16,325 (-4,880)	229,031	32.66
1996-97	118,817 (33,470)	11.7	138,920 (39,132)	13.2	-20,103 (-5,663)	257,737	12.53
1997-98	130,101 (35,006)	9.5	154,176 (41,485)	11	-24,075 (-6,478)	284,277	10.29
1998-99	139,753 (33,219)	7.4	178,332 (42,389)	15.7	-38,579 (-9,170)	318,085	11.89
1999-00	159,561 (36,822)	14.2	215,236 (49,671)	20.7	-55,675 (-12,848)	374,797	17.82
2000-01	203,571 (44,560)	27.6	230,873 (50,537)	7.3	-27,302 (-5,976)	434,444	15.91
2001-02	209,018 (43,827)	2.68	245,200 (51,413)	6.21	-36,182 (-7,587)	454,218	4.55
2002-03	255,137 (52,719)	22.1	297,206 (61,412)	21.21	-42,069 (-8,693)	552,343	21.6
2003-04	293,367 (63,843)	15	359,108 (78,149)	20.83	-65,741 (-14,307)	652,475	18.12
2004-05	375,340 (83,536)	27.9	501,065 (111,517)	39.5	-125,725 (-27,982)	876,405	34.32
2005-06	456,418 (103,091)	21.6	660,409 (149,166)	31.8	-203,991 (-46,075)	1,116,827	27.43

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India (RBI, 2007-08, 197-98)

Note: CAGR → Compound Annual Growth Rate (Calculated in terms of rupees only)

Direction of the Merchandise Trade Sector of India with the Rest of the World after Liberalisation

From the discussion above it is clear that the merchandise trade sector of the Indian economy has been growing significantly. This section looks into the direction of the merchandise trade sector with the rest of the world (ROW), particularly group- (for example, OECD, OPEC, SAARC, EU, and OADC)³ and nation wise (for example, USA). It clearly highlights the bilateral trade relationship of India with the ROW (both group- and nation-wise) and addresses the issue as to whether the direction has shown any significant im-

³ OADC → Other Asian Developing Countries including China, Hong Kong, South Korea, Malaysia, Singapore and Thailand.

provement or not. To sum up, it shows how the direction of the merchandise trade sector has been shifting with respect to the ROW. Table 2 explains the direction of the merchandise trade sector of India with the ROW for the period 1991-92 to 2005-06. The figure clearly explains that the direction of the merchandise trade sector has been increasing after the implementation of the liberalisation policy. Moreover, the bilateral trade relationship with the OECD nations is highest among all other groups and individual nations (Table 2).

Table 2: Direction of merchandise trade (exports plus imports) of India with the Rest of the World (ROW), Rs. in Crores

Year	OECD Countries	EU	USA	OPEC	SAARC	OADC
1991-92	51,421.6	25,865.3	12,118.1	13,269.8	1,857.9	12,658.8
1992-93	68,001.4	34,320.1	16,402.5	19,014.1	2,646	16,716.1
1993-94	80,709.2	40,144.4	21,125.2	23,849.3	3,174	23,379.5
1994-95	94,746.8	44,414	24,887.9	26,622	4,370	29,538
1995-96	123,477.5	63,593	31,381.8	35,869.2	6,613.3	39,325.7
1996-97	135,105.3	68,444.1	36,356.6	47,468.4	6,898.4	45,312.6
1997-98	151,709.1	73,679.9	39,096.6	48,059.5	6,857.7	49,749.2
1998-99	173,009.9	82,754.6	45,603.9	47,607.7	9,023.2	55,680
1999-00	184,037.7	88,182.9	51,822.5	72,567.3	7,766.4	70,872.4
2000-01	199,328.1	95,576.3	56,283.8	34,440.5	10,938.4	73,565.9
2001-02	201,558.8	96,730.8	55,622.9	39,060.9	12,388.1	81,075.7
2002-03	240,445.6	116,459.3	74,235.2	501,56.7	15,661.2	106,705.1
2003-04	272,039.7	131,453.7	75,934.3	69,633	22,134.2	137,301.7
2004-05	343,657.1	162,888	93,309.7	104,375.1	24,222	189,425.7
2005-06	432,258.3	210,459.6	118,687.6	116,941.1	29,928.3	242,051.6

Source: Handbook of Statistics on Indian Economy, RBI (2007-08)

Econometric Analysis: 1991-2005

The paper draws upon secondary time-series data from various GOI publications. Aggregate exports and imports, both in current and constant prices were collected from 'Handbook of Statistics on the Indian Economy' published by the Reserve Bank of India (RBI, 2007-08). The data on other trade variables (i.e. BOT and VOT), and the macro-economic indicators were also collected from the same Handbook and various other official reports of the GOI.

Methods

In order to estimate the functional relationships separately between GDP, NNP, and NDP, as well as imports and exports, the method of Ordinary Least Square (OLS) was used. The relationships can be written as (Gujarati 1988; Koutosoyiannis 1996):

$$GDP_t = \beta_1 + \beta_2 X_{2t} + u_t \dots\dots\dots(1)$$

$$GDP_t = \beta_1 + \beta_2 X_{2t} + \beta_3 M_{3t} + u_t \dots\dots\dots(2)$$

Where

$t = 1, 2, 3, \dots, N$;

β = the intercept term;

X = export;

M = import;

u = stochastic disturbance term;

t = t - th observations; and

N = size of the sample

Similarly, this model has been applied for other independent variables such as import (M), balance of trade (BOT), and volume of trade (VOT), and also could be extended to other dependent variables as NDP and NNP.

The method of OLS obeys the Best Linear Unbiased Estimator (BLUE)⁴ property for regression coefficients. In order to test the significance of individual regression coefficients, one should use the t-test and also examine the "fit" of the data, which can be denoted as \bar{R}^2 .

An important assumption of the Ordinary Least Square (OLS) model presented above is that there is no autocorrelation among the disturbances (u_t) entering into the regression model. However, the problem of autocorrelation generally arises in the analysis of time series data. A commonly used procedure for testing autocorrelation is the Durbin-Watson (DW) test. If the OLS estimators are indeed auto correlated, then they are no longer efficient. As a result, the usual t- and F-tests of significance cannot be applied; and so they have to be corrected. Consequently, the remedial measures adopted are the Cochrane-Orcutt (C-O) or first order Auto-Regressive (AR) and higher order Auto-Regressive (AR) methods.

Current Price

Tables 3, 4, 5 and 6 show the regression output of the current price models of macro-economic parameters such as GDPMP (Gross Domestic Product at Market Price), GDPFC (Gross Domestic Product at Factor Cost), NNPFC (Net National Product at Factor Cost), and NDPFC (Net Domestic Product at Factor Cost) respectively. The coefficients of the intercepts are highly positive in each model. Generally, the slope coefficient of export is greater than of import in each model, when it takes the variables separately including correction for auto-correlation. This means, export has a higher impact on economic growth than import during this period (i.e. 1991-2005). In contrast, in the general regression model (i.e. both variables together), the slope coefficient of export is negative, except in the NNPFC model under the C-O method, which does not go well with the objectives of this paper. In addition, it is also negative in the higher AR model (GDPMP, GDPFC); and sometimes its value is more than the former method in particular models. Moreover, in the first three models, it

⁴ BLUE means expected value of u is zero ($E(u) = 0$), variance, $E(u^2) = \text{constant}$, absence of the auto correlation among disturbance terms $\{E(u_i, u_j) = 0\}$, (i not equal to j) and absence of the multicollinearity among the explanatory variables. (Gujurati, 1988)

is positive with the presence of autocorrelation in the OLS model. Hence, the correction of the autocorrelation model cannot be acceptable in this analysis because it has dissension with the theoretical observations. As such, it accepts the OLS model due to its positive sign. On the other hand, in the last model, i.e. NNPFCC, the coefficient of export is positive in the C-O method and does not create any theoretical dissension like the other three models. In addition, VOT has the positive sign and also the goodness-of-fit is high in each of these models.

Table 3: Regression outputs of GDPMPCU model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X	1	3.8473e+006 (4.708)	3.4223 (3.825)	2.063	-.120	0.994
M	1,2,4	1.3212e+006 (13.499)	1.4104 (17.130)	2.117	-.165	0.999
BOT	1,2,3	4.8682e+006 (3.698)	-2.0348 (-4.473)	2.278	-.197	0.998
VOT	1,2,4	1.5762e+006 (8.009)	1.6317 (9.049)	1.812	-.042	0.997
X	1	3.8366e+006 (6.835)	-0.1162 (-0.094)	1.545	.062	0.997
M			2.4903 (3.394)			
X	1,2,3	2.39e+006 (7.667)	-0.7201 (-1.216)	2.867	-.648	0.999
M			2.4379 (7.551)			
X	OLS	392002 (4.643)	8.9258 (2.576)	0.794	.591	0.968
M			-0.5932 (-0.226)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Table 4: Regression outputs of GDPFCCU model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X	1,2,3	2.821e+006 (4.773)	2.7774 (3.118)	2.005	-.251	0.993
M	1,2,4	1.5425e+006 (8.267)	1.8533 (8.916)	1.902	-.075	0.998
BOT	1,2,4	2.6861e+006 (5.498)	-2.2589 (-8.259)	1.961	-.262	0.999
VOT	1,2,4	1.8057e+006 (6.521)	1.2507 (6.138)	1.790	-.040	0.996
X	1,2,4	2.0706e+006 (8.670)	-1.3640 (-2.891)	2.257	-.232	0.999
M			2.2351 (9.394)			
X	OLS	348660 (4.398)	8.3574 (2.569)	0.806	.586	0.967
M			-0.6797 (-0.275)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Table 5: Regression outputs of NDPFCCU model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X	1,2,3	2.26e+006 (4.624)	2.9666 (3.789)	2.013	-.272	0.992
M	1,2,4	1.3678e+006 (7.327)	1.7595 (8.654)	1.805	-.092	0.998
BOT	1,2,4	2.3673e+006 (5.029)	-2.1931 (-9.645)	2.236	-.348	0.999
VOT	1,2,3	2.2201e+006 (6.146)	1.1928 (5.425)	2.320	-.376	0.996
X	1	3.2452e+006 (6.320)	-0.1567 (-0.142)	1.638	.022	0.997
M			2.0657 (3.146)			
X	OLS	304724 (4.354)	7.3535 (2.560)	0.819	0.579	0.968
M			-0.4612 (-0.212)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Table 6: Regression outputs of NNPFCCU model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X	1	3.326e+006 (4.606)	2.6759 (3.479)	2.077	-.114	0.994
M	1	3.4577e+006(6.960)	1.8300(5.006)	1.872	.086	0.996
BOT	1,2,3	4.4857e+006(3.462)	-1.4199 (-2.917)	2.555	-.317	0.996
VOT	1,2	2.5604e+006(6.862)	1.2925 (6.011)	2.017	-.278	0.995
X	1	3.2794e+006(5.632)	0.2143 (0.172)	1.911	.100	0.995
M			1.7393 (2.352)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Constant Price

Tables 7 through 10 show the influence of trade variables on GDPMP, GDPFC, NDPFC, and NNPF respectively. In each case, the coefficients of the intercepts are positive and have shown positive effects on the economic growth of the nation. The slope coefficient of export is less than of import in each case except in the NNPF model. It clearly shows that export has less impact on economic growth in the constant price model in comparison to import. However, the result is reversed in the NNPF model, i.e. the slope coefficient of export is greater than import and has a positive impact on the economic growth of the nation.⁵ When the models take the trade variables together (i.e. the general regression model) with the correction of autocorrelation, the results show that the coefficient of export has a negative sign with respect to import, except in the NNPF model. However, all the results are positive in the OLS model (except NNPF) and have no dissension with theoretical judgements. As a consequence, the first three models should accept the OLS model to show the positive impact on economic growth. Moreover, the last model, i.e. NNPF, shows the positive effect of export with the correction of autocorrelation and so it can be concluded that it has a positive impact on the economic growth of the nation. In each model, VOT has a positive effect, and the goodness-of-fit is also high.

Table 7: Regression outputs of GDPMPCO model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X CO	1,2,3	2.0429e+006 (5.459)	1.3632 (1.658)	1.839	-.011	0.989
M CO	1,2,4	962707 (25.935)	1.9410 (18.579)	2.254	-.322	0.999
BOT CO	1,2,3	2.5778e+006 (7.710)	-1.3700 (-2.592)	2.220	-.123	0.993
VOT CO	1,2,4	991432 (18.039)	1.3627 (12.426)	1.707	.021	0.997
X CO	1	2.1799e+006 (7.535)	-0.5106 (-0.562)	2.006	-.155	0.995
M CO			1.8231 (3.286)			
X CO	OLS	473011 (8.594)	4.7406 (1.836)	0.831	.595	0.955
M CO			1.4859 (0.787)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

⁵ Since imports are mostly inputs into the production processes, it is quite natural that their contribution to economic growth is positive. However, the higher impact of export in this model could be the result of rise in income and employment in the export sector. It is also a less consistent result, as other models do not support this finding.

Table 8: Regression outputs of GDPFCCO model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X CO	1	2.3727e+006 (6.227)	1.2856 (1.688)	1.814	-.024	0.993
M CO	1,2,4	1.0953e+006 (12.109)	1.3038 (9.037)	2.003	-.166	0.998
BOT CO	1,2,4	2.8548e+006 (2.692)	-1.1889 (-3.350)	1.965	-.262	0.995
VOT CO	1,2,3	1.4462e+006 (9.867)	0.9455 (5.231)	2.418	-.565	0.995
X CO	1,2,4	1.1528e+006 (11.086)	-0.0249 (-0.073)	2.039	-.186	0.998
M CO			1.3112 (6.581)			
X CO	OLS	418402 (8.028)	4.6136 (1.887)	0.862	.575	0.952
M CO			1.2023 (0.672)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Table 9: Regression outputs of NDPFCCO model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X CO	1	2.0945e+006 (5.783)	1.1950 (1.675)	1.884	-.054	0.992
M CO	1,2,4	979774 (10.107)	1.2027 (9.442)	2.005	-.196	0.998
BOT CO	1,2,3	2.8447e+006 (3.830)	-0.8767 (-2.329)	2.260	-.200	0.994
VOT CO	1,2,3	1.2684e+006 (9.383)	0.9254 (5.538)	2.359	-.584	0.995
X CO	1,2,4	1.0329e+006 (9.101)	-0.0528 (-0.179)	2.053	-.220	0.998
M CO			1.2169 (7.022)			
X CO	OLS	375218 (8.478)	3.9672 (1.911)	0.931	.533	0.956
M CO			1.1603 (0.764)			

Source: Author's calculations Note: Figures in the bracket are t-ratios

Table 10: Regression outputs of NNPFCCO model

Name of Variable	Lags	Coefficients		DW	ρ	\bar{R}^2
		Intercept	Explanatory Variable			
X CO	1,2,3	203884 (2.369)	6.0596 (12.796)	2.165	-.187	0.947
M CO	1,2	413712 (2.503)	3.9219 (5.920)	2.075	-.100	0.890
BOT CO	1,2	1.2878e+006 (1.426)	8.2268 (3.683)	1.453	.074	0.918
VOT CO	1,2	320606 (2.359)	2.4032 (7.705)	2.104	-.141	0.917
X CO	1,2,3	74671.0667 (0.987)	15.0653 (6.007)	2.037	-.116	0.973
M CO			-6.7929 (-3.637)			
X CO	1	116540 (1.110)	14.3639 (5.956)	1.949	-.025	0.973
M CO			-6.4247 (-3.696)			

Source: Author's Calculations Note: Figures in the bracket are t-ratios

Conclusion

Foreign trade has been an important factor in promoting economic growth in India, though its impact can be disaggregated to show both positive and negative effects. (Jomo and Arnim 2008) After four decades of independence, India began its policy of liberalisation in 1991, which introduced dramatic changes to the merchandise trade sector. As a result, both exports and imports have grown significantly in absolute as well as relative terms. However, during the current decade, the growth rate of imports has had a greater impact vis-à-vis exports in both absolute and relative terms. The insights from the works of classical economists (for example, Adam Smith, David Ricardo, and J. S Mill) however reveal that import-led export growth would have a

positive impact on the economic growth of a nation in the forthcoming decades. Initially, developing nations have no capacity to invest more funds in the development sector and their industrial organisation is structurally weak. For this reason, they bring in more imports in comparison to exports in the initial period of the liberalisation.

However, it is expected that this trend will be reversed in the decades to come and that India will attain the status of a superpower as the fourth largest economy in the world by 2020. Besides this, the direction of the merchandise trade sector of India with the ROW has been increasing and has passed the message that liberalisation is having a positive impact on India's economic growth, which can undoubtedly be observed from the empirical discussion above. The findings in this paper support the argument in favour of the liberalisation policy and positively respond to the issue that India should open up at faster pace.

As per the econometric analysis, both exports and imports have positive impact on the economic growth of the country. In addition, export has a larger impact than import on the economic growth, i.e. GDP, NDP, and NNP with the estimated coefficients at 3.42 (GDPMPCU), 2.78 (GDPFCCU), 2.97 (NDPFCCU), 2.68 (NNPFCCU), 1.36 (GDPMPCO), 1.29 (GDPFCCO), 1.20 (NDFCCO), and 6.06 (NNPFCCO) after correction of autocorrelation. So, the famous economic postulate that 'foreign trade is an engine of economic growth' is being reiterated in the case of the Indian economy. It enhances the merchandise trade sector in a significant manner and directs the economy to a higher growth path; as a result, India has been capturing the world's attention. As a consequence, the performance of the merchandise trade sector has been showing a sea of change after the implementation of the liberalisation policy.

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A REVIEW OF AMITENDU PALIT AND SUBHOMOY
BHATTACHARJEE'S
*SPECIAL ECONOMIC ZONES IN INDIA- MYTHS AND
REALITIES*

Krishanu Rakshit

Palit & Bhattacharjee's contribution comes as a welcome relief towards sanity in the midst of the chaos triggered by the Special Economic Zone (SEZ) mania in India for the last two years. The book is an excellent read, replete with updated information on economic zones and their impact worldwide. It is true that the global recession has taken its toll on the optimists' buoyant stand on SEZ at this point; further, financial scandals of tremendous impact have also rocked the country in the same period. It is quite ironical that one of the major investors in SEZs in Andhra Pradesh, Maytas Developers, the real-estate arm of the IT giant Satyam Computer Services, has been embroiled in a heated debate over allocation of funds from the parent company. The sector was further jolted by the 'confession' from the CEO of Satyam Computer Services that he along with other influential board members had managed to deceive the shareholders and overstated cash reserves worth USD 1.4 billion. All these and more have ensured that not many are talking about SEZs in the same passionate voice today as they were in 2007. Most observers in India would remember 2007 as the "Year of the SEZs". While temper and passion

ran high across the nation over the rationale for building SEZs, nowhere was it more pronounced than in Eastern India, in Nandigram, West Bengal. The ruling communist party and the local farmers backed by the Trinamool Congress, another political party, locked horns, which resulted in deaths and large number of villagers rendered homeless. Therefore, it is extremely difficult to treat this topic dispassionately in the Indian context, and the contribution of this book in this milieu, should be appreciated.

One of the book's major highlights is the clinical approach taken to tackle this contentious issue. Since 2004, SEZ had become the buzzword among industry circles, touted as the vehicle of rapid industrial growth. As the authors point out in Chapter 4 (The Political Yatra), not many spoke out against the ideology and viability of such an ambitious plan.

The authors begin with a rationalisation of the concept of the SEZs, and the beginning chapter provides a detailed background on other developed and developing nations' experiments with "zones of excellence" in their backyards. Their experiences reveal that the SEZ experience has

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been at best a mixed bag. However, some of the salient benefits of the SEZs are: (1) they contribute a significant portion to the host's export basket and (2) are a key measure for employment generation in developing nations, especially among women (e.g. Bangladesh, Sri Lanka). This has major implications for India, which even after sixty years of independence is trying to cope with large scale unemployment and gender equity issues.

The authors have also highlighted some of the interesting facts about the location of future SEZs; out of the 464 proposed locations, an astounding 75 percent of them are located in just 7 states and Union Territories, which indicates significant regional bias. Bihar, one of the most backward states in eastern India, has received no share of the SEZ pie. Questions might arise why some states are moving madly towards this SEZ rush? Experiences abroad (e.g. Jebel Ali Free Zone in Dubai) have indicated that even the innovative SEZ plans have not achieved financial viability. In other countries, the experiences have been mixed; China's experiments have "gifted" the banks with high proportions of non-performing assets. Financial wrongdoings and speculative investments (especially in real estate) have also plagued this sector. In India too, the first phase of SEZ experience has not yielded satisfactory results, which many attribute to the lack of a competitive environment and rigid labour laws. The government has clearly indicated its reluctance to engage beyond the land acquirer's role. Absence of large lend-

ers and controls on foreign investment in this sector (SEZs belong to real estate sector) and lack of financial muscle of domestic banks (plus the additional risk associated with SEZ) have made SEZ development difficult. While larger (greater than 5,000 hectares), multi-product SEZ definitely look a distant dream (the impact of liquidity crunch in the current market), even smaller ones face an uncertain future. The authors mention the absence of viable economic linkages, which haunts growth, while one could possibly attribute this absence to lack of coordinated thinking in the centre and a paralysis of politico-economic thought process in the country. This also shows that blind replication of a success story (China's experience with economic zones), does not always bring success.

The authors have highlighted the *realities* well for the discerning reader; however, they have not focussed on the *myths* as they set out to do. In the political economy of SEZs, it is often critical that one reveals the myths, rather than the realities, as former can be artificially constructed. A critical analysis would reveal that the SEZs will need a lot of support and a viable *ecosystem* to become a potent force; and even then their contribution to economic growth and employment will be minor. Many question the very rationale of having SEZ, given the fiscal implications of such a move; as SEZs are attractive due to their 'tax-free' status. Employment generated in SEZ is also through mainly real estate labour and job mobility is low,

due to the low-skill level of the workers.

While even the most daring economist would not hazard a guess about the prospect of SEZs in India, it is true that as days go by, the government will face many of the uncomfortable questions that have been adequately redressed in the book.

Allocation of SEZs has by and large silenced political opposition in the parliament given that regional benefits are noteworthy and politically a positive factor. The book also represents opposing voices and their concerns in a lucid way, thereby making it a good read for a holistic perspective on ground realities of taking the Indian reform agenda forward.

A REVIEW OF TONY CLEAVER'S *GOVERNANCE, POLITICS AND ENVIRONMENT*

Chen Hui Jie Jacqueline

Governance, Politics and the Environment provides chronological in-depth analysis in understanding the evolvement of Singapore's civil society relationship with the state against the backdrop of leadership changes at the helm. An excellent introductory read for political science students, the initial chapters of the book succinctly reconciles theoretical concepts narrated in the first two chapters with developments in Singapore's socio-economic and political sphere. It aptly addresses the notion of disciplined governance, the state as a perennial protagonist in the policy process and the tension between freedom, empowerment, and governance of the NGOs. For experienced readers on the subject, the book appears to be treading a cautious path in being comprehensive in the matter rather than sound excessive to a new-eye in the subject under consideration. It is only in the fourth chapter that the book begins to address its third and the central pillar, Environment.

In the fourth chapter the author sets the context, actors, and related case studies of NGOs pushing social frontiers in conserving Singapore's heritage. The first of the three cases depicts a shift in the structure of cooperation through the power of persuasion of Nature Society of Sin-

gapore's (NSS) advocacy work within the sphere of nature conservation; the author argues that successful campaigning of conserving Sungei Buloh was indicative of a change in the government's traditional way of style approach of control, co-optation and contestation to collaboration and softer rules of engagement. In fact, it is a catalyst for driving change within the internal dynamics of the organisation in the lead up to the post-Lee patriarch era. But the government still remains the agenda setter, implementer and regulator in land allocation which plays a crucial role in conservation.

The Power of Implementation (Chapter 5) is particularly fascinating in understanding the politics of engagement between "government trusted brokers" and public institutions which are supposedly the appointed guardians of nature. NSS's early intervention in the conceptualisation of turning Lower Seletar into a golf course and the ability to amass public support with scientific evidence, were crucial elements in delivering a favourable social outcome.

It raised pertinent issues related to the lack of a formal mechanism in inviting views from external stakeholders in the decision making

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process and even if given such a platform, popular perception reckoned that minimal policy adjustments would be made. Trust between the people and government agencies could be seriously damaged due to increasing cynicism about public consultation being a tool to justify the stated position of the government.

The final case cited – dealing with progress towards ASEAN Transboundary Haze Pollution – resonates with the author's suggestion of greater mutual dependence and NGO's inclusion in the delivery of policies.

Despite the initial theoretical underpinnings, *Governance, Politics and the Environment* is a comfortable read, and it is very informative for further research on governance. It provides very detailed analysis of the three case studies and how it has shaped the role of civil society and environment in Singapore. However, more could have been elaborated on the OB markers and the omnipresence of the Internal Security Act, the role of "trusted-brokers," and the positive societal spill-over from the successful battles for Environment.

A REVIEW OF GREG FEALY AND SALLY WHITE'S *EXPRESSING ISLAM: RELIGIOUS LIFE AND POLITICS IN INDONESIA*

Ira Martina Drupady

Expressing Islam: Religious Life and Politics in Indonesia, edited by Greg Fealy and Sally White, arises from the premise that viewing Indonesian Islam solely through the prisms of security and terrorism concerns is seriously misleading. Indeed, since the September 11 attacks on the World Trade Centre in the United States, Western countries have become increasingly pre-occupied with what they perceive to be the "clash of civilisations" between Islam and the West, brought about by the menacing rise of radical Islam worldwide.

Indonesia – with 200 million Muslims, the largest Muslim population in the world – draws special attention. Particularly so, since the country has had its fair share of encounters with rising radical and sectarian tendencies – the most prominent being the 2002 Bali bombings that killed 202 people (mostly Westerners). As such, any new development in Indonesian Islam has unfortunately only been analysed in the context of whether it poses a threat to the Western way of life.

The book reminds us that this apparent siege mentality has overshadowed the complexity and diversity of Indonesia's "indigenised Islam"

which developed its richly distinctive variants over centuries of interaction between Muslim traders from the Middle East and India with the local population. It continues to evolve today, shaped by the complex challenges and uncertainties of globalisation and modernity.

Considering that adherents of radical Islam constitute only a very small minority amongst Indonesia's moderate Muslims even today, such an imbalance in the way the West views contemporary Indonesian Islam is clearly inimical to their understanding of it.

Thus, the book convincingly argues for the need to take a broader view of what is happening with an increasingly modernising and urbanising Islam in Indonesia. By dividing the selection of articles into three main themes, namely, "Expressing Personal Piety", "Political, Social and Legal Expressions of Islam", and "The Islamic Economy", the book is able to draw on a wide range of relevant examples regarding the many ways in which modernisation and contemporary phenomena have reached into and shapes the daily lives of Muslims in Indonesia. The focus on "views and lived experiences [of Indonesians]... rather

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than the security pre-occupations of non-Indonesians”¹ results in a well-rounded perspective regarding these new political, cultural, social and religious expressions of Islam.

Certainly one example that the book could not avoid using was the phenomenon of Indonesia’s most popular celebrity preacher and televangelist, Abdullah Gymnastiar or Aa Gym – including one article by James B. Hoesterey in Chapter 6 devoted exclusively to him. In the past, Indonesian Muslims, earned praise for their moderation and toleration in their practice of Islam, which contrasted their Middle Eastern counterparts. Javanese Muslims, in particular, were noted for being lax in their devotions and adherence to Islamic law. However, over the past decade or so, Indonesian Muslims have increasingly turned toward religious piety, which coincided with the rise of radical elements in the Muslim community, a source of great concern in the Western world.

However, as the book rightly concludes, the thirst for religious knowledge among Indonesian Muslims as manifested through the meteoric rise of celebrity preachers like Aa Gym, has as much to do with his marketing and branding savvy as with his appeal to Muslim sensibilities on how to practically apply Islamic principles as an important aspect of Muslim life. It is not – as some experts suspect – feeding into radical tendencies.

The book also explains this phenomenon to be a subset of a larger phenomenon of “commodifying Islam” which is explained as “Muslims selectively consum[ing] Islamic products from an expanding spiritual marketplace rather than following the settled patterns of behaviour of their parents and grandparents.”² Examples of this include using the services of Islamic banks, subscribing to Islamic newspapers, engaging in Islamic tourism activities and multi-level marketing of Islamic consumer products.

Again, the book argues that this is a manifestation of the desire of Indonesian Muslims to incorporate Islam in their daily lives, specifically through cultural and spiritual spheres. For despite its rapid growth, Islamic economic activity actually still constitutes only a small part of overall economic activities of Indonesian Muslims. Moreover, as a political phenomenon, the impact of “commodifying Islam” is also still limited. This is certainly corroborated by the fact that in reality, support for Islamic political parties remain small and that Islamic issues rarely dominate political discourse.

While most of the book focuses on patterns and trends amongst urban Muslims, there are also some interesting discussions regarding the majority lower-income rural population. In Chapter 5, Julian Millie analyses proselytism methods through

¹ Greg Fealy and Sally White, *Expressing Islam: Religious life and politics in Indonesia* (Singapore: ISEAS, 2008):3.

² Greg Fealy and Sally White, *Expressing Islam: Religious life and politics in Indonesia* (Singapore: ISEAS, 2008): 16.

*dakwah*³ which still has wide appeal in rural Indonesia and is therefore a very effective tool for religious propaganda. Certainly, opinions on a wide-range of topics – from the consumption of pork and alcohol, attitudes toward pornography, interactions between men and women to the political situation in the Middle East – can be influenced through *dakwah*. However, the book highlights that interestingly, not all preachers harness the potential of their *dakwah* to put forward a cause. In fact, most preachers choose to restrict their *dakwah* to a simple oratory on how religion relates to every day village life, which is why this form of preaching remains very popular among villagers. This certainly goes against the widespread assumption that radical Islam takes root in the impoverished rural areas.

A topic that certainly could have been discussed in much greater detail is the relationship between Women and Islam that Sally White and Maria Ulfah Anshor initiate in Chapter 8. It is certainly refreshing to read on the topic largely in the context of the progress that Muslim women have made since *Reformasi*, rather than what problems still persist. The chapter touches on developments made on many important issues such as gender-biased teachings, domestic violence, reproductive rights, and women and leadership. It also discusses the controversy of the 2008 Anti-Pornographic Bill (which at the time of publication, had not passed through parliament)

³ Commonly extended to mean any kind of preaching, predication or Islamic outreach activity.

highlighting the possible infringements of women's rights. However, the chapter tries to cover too much ground and as a result, many of the issues are not discussed in depth. Considering the many changes that have impacted the role of Muslim women in Indonesia over the last decade, perhaps another chapter could have been devoted to the topic.

The book also dedicated three chapters on the interesting but esoteric topic of Islamic financial institutions and the various actors and mechanisms involved. In Chapter 13, Umar Juoro discusses the slow recovery of the Islamic banking sector post the 1997 Asian Financial Crisis. Islamic banking, which in its heyday was considered by Indonesian Muslims as a viable alternative to the Western banking system, still represents the largest portion of Islamic economic activity. Yet, as the chapter points out, Islamic economic activity actually only constitutes a small part of overall economic activity of Indonesian Muslims. The chapter clearly identifies the main problems with Islamic banking today, underscoring the need for Islamic banks to sophisticate their products to meet the needs of their prospective clients as well as improve their institutional and regulatory frameworks.

Chapters 14 and 15 are devoted to discuss the potential of Islamic micro-financing, in particular, for community development for the poor. The chapter points out that while Islamic micro-financing has yet to effectively facilitate the business activities of small and medium-

sized enterprises, it has made significant progress in alleviating poverty. As mentioned above, this is another indication of the strong desire of Indonesian Muslims (particularly those in the middle-income bracket and above) to incorporate Islamic principles in their everyday lives – in this context, giving alms to the poor. Unfortunately, for all two chapters, while in some parts the explanations were rather extensive and dry, in others, they were not nearly enough. This section was therefore rather unsatisfying if not frustrating.

Clearly *Expressing Islam: Religious Life and Politics in Indonesia* tries to focus on a wide range of aspects in Indonesian Islam other than terrorism and developments in radical Islam. At the same time, however, the book does acknowledge the rise of increasingly radical forms of Islam in Indonesia as a grave concern. In Chapter 11, Ian Douglas Wilson discusses the grim reality faced by residents of Jakarta amidst the growing number of Islamic *preman* or vigilantes who do not hesitate to exert pressure and even violence on individuals and businesses in the name of Islamic morality. Wilson correctly argues that such groups take advantage of gaps in state power (where the police cannot or do not want to intervene) and manipulate altruistic sentiments and ideals found in Islamic discourse to gain political and economic concessions.

In Chapter 12, Ken Ward makes a prediction regarding the future fate of the jihadi movement in Indonesia, focusing mostly on Jemaah Islamiyah (JI), a regional terrorist group

known to operate in Indonesia, Malaysia and Singapore. While the organisation continues to exist, the scope for its activities have significantly shrunk with an increasingly vigilant security force, both in Indonesia and its neighbouring countries. As many of its leaders have been executed or are still in prison, Ward concludes that the organisation has lost much of its regional influence and many of its members have been relegated to peaceful preaching rather than active recruiting for terrorist activities. While this may be so, it is important for Southeast Asian governments to continue to be on alert. For as Ward has also pointed out, the weakening of JI will not stop smaller independent cells from carrying out violent activities.

As a general comment, while the book does not carry a lot of empirical data, each chapter does contain thorough observations of scholars and practitioners regarding “aspects of Islamic life [in Indonesia] seldom brought before a general [Indonesian] studies audience”. It is unclear, however, whether this book only targets the Indonesian studies audience in Australia or whether it was intended for a larger international audience. This is because that there are very few contributions from non-Australian authors, including Indonesian authors. The profiles of the contributors are not included in book making it very difficult to ascertain their background and expertise unless one is familiar with the Indonesian studies community in Australia. Moreover, the three Indonesian authors that did contribute only represent the views and opi-

nions of practitioners. As important and interesting as this may be, it still does not hide the fact that there is a dearth of intellectual input from Indonesian academics in this otherwise good quality publication. In hindsight, the commissioning of the three additional articles for the book could have perhaps been a good opportunity to bring in contributions from Indonesian academics.

However, *Expressing Islam: Religious Life and Politics in Indonesia* is a genuine attempt to provide a full picture of the complexity of Indonesian Islam in modern times. It serves as a good starting point for academics who wish to better understand the patterns and trend that shape the evolution of Islam in Indonesia as well as the attitudes and perceptions of Indonesian Muslims. Furthermore, it provides valuable insight into frameworks and sources for further research, including empirical research to be carried out. At the same time, it also makes for a useful read for those who would like to satisfy their curiosity regarding contemporary Islam and Muslims in Indonesia.

Editor's Note

The Asian Journal of Public Affairs annotates all books sent to us for review. Currently, we are able to do so only for books published in the English language.

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VASU, NORMAN. (Ed). *Social Resilience in Singapore: Reflections from the London Bombings*. Singapore: Select Publishing Pte. 2007. Pp. 109. US\$ 15.22. Paper. ISBN: 9789814022354.

Taking the 2002 London bombings as the impetus for reflection, seven scholars and practitioners consider the concept of social resilience in a time where terrorist actions are calculated not just to inflict injury and cause material damage, but also to unsettle the social balance of pluralistic societies. The first part focuses on lessons learned from the UK to forge social cohesion in the wake on the London bombings; an analysis of the findings of a study of social resilience in Singapore and the government's policy towards the management of difference in the island-state. The second part reviews the management of pluralism in Singapore. The final essay takes a look at multiculturalism in Canada.

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II

SOON, TAN YONG with LEE TUNG JEAN AND KAREN TAN. *Clean, Green and Blue: Singapore's Journey towards Environmental and Water Sustainability*. Singapore: Institute of Southeast Asian Studies. 2005. Pp. 387. US\$ 28.50. Paper. ISBN: 9789812308603.

The book aims at explaining how and why Singapore chose the environmental path it did, with a focus on how calculations were made and decisions reached. The five parts of the book focus on the processes responsible for achieving a clean environment, closing the water loop, the application of economics and working with the Community. The final part considers future challenges and what steps the government is taking to confront them.

Tan Yong Soon is the Permanent Secretary at the Ministry of Environment and Water Resources, Singapore.

III

KUMAR, SREE and SHARON SIDDIQUE. *Southeast Asia: The Diversity Dilemma*. Singapore: Select Publishing Pte LTD, 2008. Pp. 286. US\$ 39. Paper. ISBN: 9789814022378.

Diversity in Asia is a critical asset for any policymakers. Part One of this book examines intra-regional concerns, covering issues of identity, efforts at developing common economic growth areas and the evolving nature of ASEAN and Southeast Asian-style institutions of governance. Part Two traces the impact of external forces on integral regional dynamics, analyzing Southeast Asia's relationship to the rising powers- India and China, the continuing influences of the former colonial powers and the region's complex chemistry with Japan and the Middle East. The book concludes with a summary of the various tactics perfected by Southeast Asians to survive, drive and thrive in the competitive and global world of politics, ideology and economics. Sree Kumar and Sharon Siddique are Directors of Sreekumar Siddique and Co., a regional research consulting firm established in 1993.

IV

PHILLIPS, RUTH. (Ed). *Generational Change and new policy challenges Australia and South Korea*. Sydney University Press, 2007. Pp. 238. US\$ 34. Paper. ISBN: 9781920898649.

Ten papers present an attempt to understand social and demographic changes, social impacts of new technologies, ageing population, and other policy implications within Australian and Korean Society. Such focus on number of disciplines, this edited collection draws together critical concerns of two countries that are experiencing extraordinary generational change. This book has been produced as an important resource of anyone who has been produced as an important resource for anyone interested in how Australia's responses to generational change compare to Korea's engagement with similar problems.

Dr. Ruth Phillips is a Senior Lecturer at the Social Work and Policy Studies Program in the Faculty of Education and Social Work at the University of Sydney, Australia.