How Assaults on Capitalism Threaten Democracy: Evidence from Asia

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THEORY

- Less competitive markets
- Less private production
- Less limited state

Less Capitalism

- Anti-democratic social ideas and norms
- Anti-democratic social structures

Less Democratic Society

- Less popular control of political power
- Less civil and political freedoms

Less Democracy
MACRO EVIDENCE

- Polynomial fit is appropriate for “multi-stage” causal processes, here before and after rapid capitalist growth
- $r=0.62$
- Thailand is the only significant outlier using quadrant analysis
- China has not achieved “capitalism without democracy”
- Philippines has not achieved “democracy without capitalism”
CASE ANALYSIS

CONSOLIDATED AUTHORITARIAN REGIMES
- China
- North Korea
- Laos
- Vietnam
- Brunei

HYBRID REGIMES
- Singapore
- Myanmar
- Cambodia

AUTHORITARIAN BREAKDOWN
- Malaysia
- Hong Kong

DEMOCRATIC BREAKDOWN
- Thailand

DEMOCRATIC CONSOLIDATION/DEEPENING
- Indonesia
- Philippines
- Japan
- South Korea
- Taiwan
THANK YOU!

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Abstract

Stable democracies depend on a robust capitalism that prevents rulers from controlling the freedoms of a market society. There is no successful democracy that is not based on capitalism. There is thus a direct link between assaults on capitalism and democratic backsliding. In Asia, the transition from state-directed economic organization to capitalism led predictably to a transition from authoritarianism to democracy. Recent authoritarian ruptures in Malaysia and Myanmar reflect this long-standing dynamic in which democratic advance followed capitalist reforms needed for continued growth and legitimacy. Less well studied is the ways that assaults on capitalism are a reflection of struggles against democracy – as shown by the democratic failure in Thailand, the electoral authoritarianism in Cambodia, and the authoritarian deepening in China. By contrast, the protection of capitalism from assault in places like Taiwan and Indonesia supports their democratic resilience.
“Only let the material interests once get a firm footing, and they are bound to impose the conditions on which alone they can continue to exist. That’s how your money-making is justified here in the face of lawlessness and disorder. It is justified because the security it demands must be shared with an oppressed people. A better justice will come afterwards. That’s your ray of hope.”1

Introduction

Charles Gould’s belief that the reopening of the private silver mine in a fictional Latin American republic would create the conditions to prevent another democratic breakdown reflected Joseph Conrad’s travels in Southeast Asia. There, trading and capitalism flourished, government was moderate and justice was blind. Where capitalism suffered assaults from leaders proclaiming their commitment to great political goals – liberty, nationalism, secularism, equality, social justice, republicanism – democracy failed. When the silver mine in Nostromo (1904) had flourished, democracy had flourished. State assaults on the silver mine – the defense of which had driven Gould’s father and the country’s democracy to an early death -- were the prelude to democratic collapse. The private material interests are the “god” of the story because they allow the province in which the mine is located to protect itself from rapacious politicians and to develop social forces independent of them.2

It may be that the importance of capitalism to democracy is one of those established truths that has become so uninspiring to generations of scholars that it inspires only boredom, if not attempts at refutation. I follow Crick in asserting that “boredom with established truths is a great enemy of free men.”3 The boring truth is that capitalism was and remains the single most important source of democracy, and today’s democratic malaise is in many ways a capitalist malaise. Asia is a good region to make this point because it is the place where capitalism and democracy link has been most obvious.

Theory/Deduction

Capitalism refers to a system of economic organization in which the means of production is protected from state control; free and competitive markets allocate labor, capital, and information; the rule of law is exercised in a non-discriminatory fashion; and income and wealth are protected from arbitrary state plunder. The role of the state as an economic actor is confined to the provision of public goods (i.e. goods that are produced sub-optimally under market conditions and whose production by the state is less sub-optimal and does not produce unintended consequences). Schumpeter, in his infamous prediction that socialism would replace capitalism, defined the former as “an institutional pattern in which control over the means of production and over production itself is vested with a central authority" and "in which, as a matter of principle, the economic affairs of society belong to the public and not the private sphere."4

Logically, a flourishing capitalism (x) will regularly exert causal influences over the creation and maintenance of a robust democracy (y). The mechanisms linking these two structures are both ideational

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and material. Ideationally, capitalism encourages social principles such as equality ("market prices"), accountability ("customer service"), and self-rule ("free labor"). It also assumes a freely organizing society is the best judge of its own economic needs, an ontological assumption closely relating to the self-governing ideal of democracy. In a more prosaic argument, Mueller pointed out that democracy and capitalism share an essential non-utopian approach to questions of social and political life ("If you can’t find it at Ralph’s Grocery, you probably don’t need it.") and as such they reinforce one another.\(^5\) Novak made the same ideational point but in explicitly theological terms: the empowerment of individuals, not the state, to provide for the basic needs of society would encourage a caring, humane, and loving community that would protect individuals from the devilish promises of omnipotent power under the banner of "social justice".\(^6\) By empowering and requiring this basic human decency, Kirk also argued, capitalism alone was up to the task of creating a moral social order that was in turn the foundation of democracy.\(^7\)

In terms of material mechanisms, capitalism disperses power away from traditional ruling elites through property rights and wealth accumulation. Since governments must therefore rely on broad taxation, the need for broad legitimation through "rule by the people" arises. The self-organizing economy also creates a flourishing civil society that mediates and modifies the use of state power. As the democracy promotion group IDEA noted, the material mechanisms involve both structure (increasing social development and thus broad demands and resources for change) as well as agency (the role of business leaders in supporting or leading democratic change).\(^8\) From this standpoint, the relationship between oil and authoritarianism is not about oil per se but the economic organization and regulation of oil production. A country that maintains a competitive, capitalist oil sector and which stewards oil revenues in an off-budget wealth fund will be subject to the same democratic pressures as any non-oil economy.

Tocqueville observed that the importance of local capitalist economic activity on the quality of democracy in the United States, a contrast to the European regimes of the time. Weber was skeptical that American capitalism could yield robust democracy, but admitted that some form of capitalist organization was necessary in order for a political culture to sustain elections and democracy, pointing to the negative example of Russia in "On the situation of bourgeois democracy in Russia" of 1906. Lipset’s modernization thesis contains a brief reference to Weber’s conclusion that "capitalist economic development (facilitated and most developed in Protestant areas) created the burgher class whose existence was both a catalyst and a necessary condition for democracy."\(^9\) Lipset allowed that “it is possible that Max Weber was right,” and included it was one of six initial conditions for democracy in the paper’s appendix.

The Russian Revolution and its aftermath are the archetype of the close relationship between assaults on capitalism and the breakdown of democracy. Modern anti-capitalist revolutions that led to the formation of predatory dictatorships such as those in Iran, Ethiopia, Angola, and Venezuela have continued in this pattern. Iversen argues in Democracy and Prosperity that the reason no rich market economy has ever seen a democratic relapse is that capitalist prosperity both supports democracy (middle class benefits, education, etc.) and that in turn democracy supports capitalist prosperity (markets, firms that stay put because they

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like rule of law and property security and stability). As Kuo has shown, it was capitalist development that helped to deepen democracy in Britain and the United States as capitalist expansion made clientelism inefficient, forcing political parties to become programmatic and political systems to be open access rather than closed access.

The only serious questions that remain concern which set of regulations and market governance arrangements – which “variety of capitalism” – form the basis for the most robust democracy. The question often centers on what de Lundert calls the “fragile alliance” between capitalism’s virtues and vices with respect to promoting democracy.

In terms of the democratic transition paradigm, the capitalism hypothesis can be stated as follows: consolidated authoritarian regimes exist because of a lack of capitalism; the growth of capitalism causes authoritarian regimes to breakdown and democratic transitions to become more likely; democracies can become and remain consolidated as long as capitalist organization remains robust; a breakdown of capitalism, usually in the form of assaults on capitalists, makes democratic breakdown and transitions to authoritarianism more likely. In terms of necessary/sufficient analysis, capitalism would be a core feature of a cluster of critical factors that are both necessary and sufficient for democracy – thus it is “insufficient but necessary for a cluster which is necessary and sufficient” (INNS). Putting it in these strong terms is appropriate: that importance of capitalism to democracy is as close to an iron law of the social sciences as we have.

Such broad claims invite challenge, as they should. Marx believed capitalism would destroy democracy (making the mistaken assumption that inequality matters to democracy which it does not) while Hayek believed that democracy would destroy capitalism (making the mistaken assumption that government size matters to capitalism which it does not). Anti-capitalist theories of democracy have been around at least since Schumpeter and were a staple of university teaching during the Cold War using such standard works as Democracy and Capitalism. Even after global socialism collapsed amidst the poverty and tyranny it had encouraged, Diamond and Plattner felt it necessary in convening a symposium for the Journal of Democracy to bring in a “balance” of scholars on the question and to suggest that it remained “unresolved.” Today, anti-capitalism has become fashionable again within the academy and among millennials. Recent popular titles include Can Democracy Survive Global Capitalism? and Global Capitalism and the Crisis of Democracy. This revival of anti-capitalist discussions after a 30-year post-Cold War hiatus is an obvious threat to historical and contemporary understanding.

17 Jerry Harris, Global Capitalism and the Crisis of Democracy (Atlanta, GA: Clarity Press, Inc., 2016).
Correlation/Induction

In addition to the organizational variations of capitalism and their relationships to democracy, there may be some regional variations in the linkage between capitalism and democracy. In Asia, the most common theory has been that the causal effects of capitalism on democracy have been delayed because the authoritarian state, rather than society, was the initiator of capitalist transformation and thus did not suffer such a rapid degradation of legitimacy. As Kim explained in the 1992 *Journal of Democracy* symposium:

> It is in the nature of capitalism that it secretly nurtures and eventually unleashes democratic forces. When capitalism itself is a product of historical conditions in which the industrial bourgeoisie makes its appearance as the foe of the feudal-aristocratic state, democracy is the immediate outcome of the capitalist revolution. In a late-industrializing society, however, the state tends to adopt industrialization as its own program. In the absence of an autonomous bourgeoisie, the immediate consequence of state-directed industrialization is usually authoritarianism. But even an authoritarian industrializing state—unless it opts for an absolute command economy, as Leninist regimes did—will eventually find itself contending with democratic forces unleashed by an assertive middle class that the state itself has indirectly fostered.\(^\text{18}\)

We should thus expect to see at a minimum that contemporary empirical evidence from Asia does not conflict with the capitalism/democracy proposition. Inductive empiricism provides one way to test a deductive law. We would expect that the law is generally well-confirmed by the evidence, both through cases that confirm the operation of the law and those where the law does not operate because of violations of its *ceteris paribus* conditions. Taking just the 16 East Asian cases, the relationship between economic and political freedom generally confirmed – the correlation on the data here being \(r=0.62\).

I would hesitate to say there are *any* outliers in this data, even considering the violation of the *ceteris paribus* condition of political autonomy that Hong Kong lacks. The law is well-confirmed by the data in Asia. As capitalism expands, so do democratic freedoms. The polynomial fit, appropriate when one can assume a “multi-stage” process, suggests that the relationship has two distinct stages, that leading up the rapid capitalist growth and that after. What is notable is that, aside from Brunei which is a micro-state and an oil economy in which oil production is state-owned, there is only a single outlier in the data, Thailand. The oft-cited Singapore and Hong Kong are more democratic than people recognize, and the equally-oft-cited China and Vietnam are less capitalistic.

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Consolidated Authoritarian Regimes: China, North Korea, Laos, Vietnam, Brunei

Asia is central to reminding policy-makers of the boring truth of capitalism’s central role in supporting democracy because it is the last home of the most virulently anti-capitalist regime type and thus the place where the most glaring examples of the anti-democratic implications of assaults on capitalism can be seen. With the exception of Cuba, communist regimes are now found only in North Korea, Laos, China, and Vietnam. From the standpoint of the capitalist theory of democracy, the explanation lies in the fact that none of these four countries has allowed the emergence of a significant degree of capitalism freedoms. All four were founded on an explicitly anti-capitalist program, which could be restated as an explicitly anti-democratic program. Communist party rule, because it insists on control of the means and distribution of production, must in the end always be authoritarian rule.

Certainly, the latter three have expanded the role of markets greatly in recent decades. But what the data show is that these bottom four-ranked in terms of democracy are the nearly the bottom four ranked in terms of capitalism. Only Cambodia and Myanmar have the same low levels of economic freedom. In other words, while scholars of China have endeavored to understand how it has achieved “capitalism without democracy”\(^1\) or “red capitalism”\(^2\) the simple fact is that it has not. It is undemocratic because it is not

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capitalist. As Zhang argued, it was the defeat of the capitalist development model of Wenzhou in favor of the state-led development model of Southern Jiangsu after Tiananmen that marked the real impact of that event. In Wenzhou “the entrepreneurial class …exemplified its potential as an autonomous social force pushing for government reform” while in Southern Jiangsu “local governments monopolized opportunities to establish industrial enterprises” and “discouraged or prevented private enterprises” which in turn made it easier to control elections and independent business associations.21

To put it another way, it is the continued assaults on the emergence of capitalism in these four countries that represents the single most important obstacle to a breakdown of these authoritarian regimes. While almost all foreign commentary is centered on political dissidents and ruling party oppression, a far more salient fact of life from the standpoint of democratization is the repression of capitalism and of capitalists.

Hybrid Regimes: Singapore, Myanmar, and Cambodia

The hybrid electoral authoritarian regimes of Asia – Singapore, Myanmar, and Cambodia – are key points of analysis because they illustrate most carefully the ways in which such regimes have emerged in the post-Cold War period due in large part to explicit “crafting” of their market institutions to prevent a capitalism that undermines dominant party control.

As Chua has noted, Singapore is interesting because of how capitalism has been disrupted just enough to allow a hybrid, illiberal elected regime to survive.22 Most analysis of Singapore’s democracy centers on the realm of the political – ruling party, electoral institutions, limits on civil rights, legal repression – without paying attention to why such tactics succeed (or are tolerated by Singapore’s people). Singapore’s democracy deficit relative to its highly capitalist society makes it an example of an outlier – in the Lipset sense of a country where unusual historical circumstances made the normal relationship between capitalism and democracy breakdown. Chua’s notion of “state capitalism” in Singapore alongside open access market institutions for foreign entrants makes it a rare instance. Public housing, huge spending on public infrastructure like transport, parks, cultural facilities, and schools, state-owned (“government-linked”) enterprises, and would-be private wealth held by a sovereign wealth fund and a mandatory social provident fund without state or employer contributions. What is sui generis about the Singapore case is simple: the efficiency and lack of corruption on the state’s part, and the social homogeneity and deference to an older model of oriental despotism on society’s part.

By contrast, Myanmar and Cambodia’s hybrid regimes are fully explained by their hybrid economies. Marketization in Burma in the 1990s and 2000s led to shifts in business elites from regime cronies to independent oligarchs. By December 2002, some 166 SOEs formerly under the control of eight government ministries had been privatized. The largest numbers of these were cinema halls and the remainder comprised factories, rice mills, saw mills and government buildings, while a small number of mills linked to the Ministry of Forestry were leased to private businesses rather than sold outright. Then came a rapid acceleration, including fuel stations, appliance and textile factories. This sell-off explains the 2011 regime transition, culminating in elections in 2015 won by the opposition NLD. “the second phase of privatization from 2008 onwards was much broader in scope and in the number of enterprises transferred to private control and featured the prominent participation of military-linked companies and


leading conglomerates in acquiring prized assets and concessions.”\textsuperscript{23} The market reforms however were
ingcomplete and went to regime-backed companies and oligarchs who controlled the military and the
bureaucracy so that “following such substantial wealth transfers through privatization and other means, the
prospect of the emergence of a level playing field where conglomerates established under the military
regime may have to play a diminished role is very unlikely,”\textsuperscript{24} and “None of this is to suggest that
Myanmar’s business elites are genuinely committed to democracy and/or enhanced capacity for political
expression in civil society, nor that they do not continue to maintain – and prosper from – various personal
affiliations with governing elites. Rather, the manoeuvers described above support Winters’ description of
oligarchy as wealth defense in a variety of state formations and regime types. Thus while these individuals
are widely referred to in popular discourse as “cronies,” they are in fact now best described as nascent
oligarchs, since they are clearly no longer reliant on a sole patron–client relationship.”\textsuperscript{25} The removal of the
national capital away from capitalist Yangon to the isolated Nay Pyi Taw (Naypyidaw) in 2006 was
emblematic of this.

Cambodia is an even richer illustration of how electoral authoritarianism survives through continued
assaults on capitalism. Since the conclusion of UN administration in 1993, Cambodia has existed under an
explicit form of patron-client relationships in matters economic. Licenses and freedoms are granted with
explicit promises to support the ruling Cambodian People’s Party (CPP), whose origins are with state
socialism ideology in Vietnam. Major projects like the Nagaworld Resort & Casino have been run within
this framework, bolstering CPP legitimacy and support.\textsuperscript{26} Business leaders are given the mystical Khmer
title of “Oknha” or “Neak Oknha” when they rally around the ruling party with large donations,
cementing the elite pact between regime oligarchs and the regime. The title is “a tool for the CPP to retain
control over and reap the benefits from economic diversification and foreign investment without losing its
grip on the private sector.”\textsuperscript{27} Cambodia’s special status within the international garment trade from both
the EU and U.S. legitimated the state’s role in both preserving the special status and serving as overseer of
ILO and human rights group labor investigations, all of which made capitalists deeply dependent on
continuous good relations with the ruling party. In the end, as with other attempts globally by international
organization and NGOs to protect certain jobs though cartels and price supports in the name of “fair
trade”, interventions in the free market end up bolstering authoritarian regimes and harming the interests of
individual producers by making them dependent on the offices of the state.\textsuperscript{28} Cambodia then is wholly
consistent with the capitalist theory of democracy, and its democratization would be expected to result
from the same breakdown of the efficacy of patronage that resulted in economic transformation in the
West.

\textsuperscript{23} Michele Ford, Michael Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy? Privatisation and Business Elites in
\textsuperscript{24} Ibd., 33.
\textsuperscript{25} Id., 37.
\textsuperscript{27} Michiel Verver and Heidi Dahles, "The Institutionalisation of Oknha : Cambodian Entrepreneurship at the Interface of
\textsuperscript{28} Julian Boys, "Jobs, Votes and Legitimacy: The Political Economy of the Mozambican Cashew Processing Industry's Revival,
Authoritarian Breakdown and Democratic Transition: Malaysia, Hong Kong

I argued in *The Nature of Asian Politics* that the relationship between capitalist growth and democratic advance was natural in Asia, going back to Conrad’s insights.29 “Capitalism tends to drive democracy in the predicted ways,” in Asia.30 The robust capitalist ethos of the region meant that marketization preceded democratization in all cases such that “markets created pressures for democracy but were never implicated in its problems.”

Hong Kong’s long-delayed democracy movement is a highly capitalist society demanding its democratic deserts. Hong Kong is not a sovereign state and thus its democratic deficit is precisely the sort of violation of *ceteris paribus* conditions of the law linking capitalism and democracy that tends to confirm the law itself. We would expect simply a strong movement to protect and advance civil liberties that no amount of threat or coercion can contain and a steady worsening of relations with Beijing.

Malaysia provides a good recent test case for the proposition that transitions to democracy are primarily a result of transitions to capitalism. As a country that lies below the norm for Asia, Malaysia has had a “democracy gap.” The Asian Financial Crisis of 1997-98 resulted in a decline in its capitalism (related to government controls over capital markets and takeovers of firms as well as reassertion of anti-Chinese discrimination laws in economic policy) and a resultant resurgence of the authoritarian BN coalition just as it had seemed to be on the brink of defeat. However, even as its soft authoritarianism continued, its capitalism rebounded such that by 2010, its level of capitalism according to the Index of Economic Freedom, had surpassed the level at which the typical Asian country would have experienced an increase in democracy. Indeed, unnoticed by political scientists who studied Malaysia, the country between 2004 and the opposition election victory in 2018 experienced one of the most rapid increases in economic freedom in the world, rising from 71st to 22nd place overall in the Index of Economic Freedom rankings.

If the scandal over the state investment arm 1Malaysia Development Berhad (1MDB) was the immediate cause of the electoral defeat, we still need to explain why “normal politics” in which this would have been overlooked because of enduring cleavages and institutions in Malaysia broke down. As is often the case in academic research, those who examine the relationship between capitalism and regime-type are generally anti-capitalist in their sympathies.31 Yet we can examine this literature without its normative bent to see how the re-emergence of capitalism in Malaysia after the Asian Financial Crisis contributed critically to the opposition electoral victory of 2018.

If one follows only official statements and policies, then Malaysia’s capitalist expansion began only in 2008 because prior to that under prime minister Abdullah Badawi, it had since the thumping BN victory in 2004 pursued an Islamist economic policy doctrine. In other words, 2004 seems anything but a likely beginning of capitalist deepening. Yet that is what happened. In part the story is external, China’s outward investment was reshaping economies in Southeast Asia in a more open manner. Abdullah in 2005 declared that “Malaysia is now an open trading economy participating in an extremely competitive and fast-moving

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30 Ibid., 108.
global marketplace.” 

Juego argues that despite (or because of the cover provided by) his Islamist rhetoric, Abdullah ushered in a profound capitalist deepening in Malaysia by moving into deregulation and competition in areas like labor markets and corporate regulation. His successor, Najib Razak, continued this drive for deregulation, opening of markets, and competition without the Islamist skein. Specific reforms included removing 30% bumiputera equity requirement for listed companies; liberalizing capital markets; deregulating foreign investment; and separating government-linked companies. His pro-business platform made Malaysia's inward investment surge.

The key mechanism therefore lies in how these micro-economic changes delinked UMNO’s traditional business and middle class allies from the coalition and allowed or encouraged them to defect to the cause of the opposition. In effect, the reforms signaled to the middle class and private sector that they could thrive without patron-client ties to UMNO because UMNO had deregulated the system of that dependency (much in line with the story Kuo has told about Britain and the U.S.). The fiscal changes – eliminating most subsidies as well as adding a sales tax “represented a fundamentally different relationship between the Malaysian state and its citizenry” since, along with business, the middle class citizen now paid tax and was not dependent on government subsidies. Among prominent capitalists who backed the opposition was Syed Mokhtar, listed as the 12th richest man in the country, who is a major player in Malaysia's media, rice, sugar, ports, postal and power production sectors, who provided an officer to Mahathir during his run for office and has steadily expanded his empire during the deregulation since 2004. In turn, the new government is less dependent on specific business allies. As an finance ministry official explained about mass rapid transit projects: “In the past, when the government wanted to build the MRT, they would get someone to propose the project and then give the contract to the developers to manage it. This time around, we want to get the consultants in, measure the most optimal alignment, where it would cost the least for the government, then only pass it out for developers to do the system.”

Democratic Breakdown and Authoritarian Transition: Thailand

The most important, and surprising, democratic collapse in Asia in the last two decades took place in Thailand, a middle income country with a vibrant civil society and an effective state. At the heart of the democratic collapse in Thailand was an assault on capitalism, as embodied in the “network monarchy’s” assault on the businessman Thaksin Shinawatra, elected prime minister in 2001 and overthrown in 2006. This was a classic example of the “hegemonic preservation” of power held by traditional social elites in the face of new economic elites. It is the story of democracy that goes back to King John’s promises to refrain from plundering the forests and lands of his subjects, to allow towns to hold their market weeks, and that merchants could engage in trade “free from all illegal exactions”, a promise made good by putting ultimate power into the hands of a majority vote of 25 barons. Without recounting the entire process of democratic failure in Thailand, a wide scholarly consensus holds that the event that transformed the grumbling of Bangkok elites into a monarchic overthrow of his elected government was the sale of his Shin Corporation to Singapore’s state firm Temasek Holdings in 2005. There followed the filing of multiple criminal

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charges against Shinawatra businesses: CTX bomb scanner, Ratchadapisek land deal, satellite communications deal and EXIM bank loans.

What is important is that no one doubts that Thaksin was, and remains as shown by every election since then, the democratic choice of the Thai people. And no one doubts that the Shin Corporation sale caused the coup not because of disputes about its financial legality but because it symbolized — especially in the sale of assets to a foreign buyer — the ways that traditional elites would lose dominance over the economy. King Bhumipol’s bizarre and anti-modern talk of economic “localism” was a retrograde as its was reactionary. That a Thai entrepreneur had built up a company worth US$3.9 billion that a foreign company wanted to buy a controlling stake in was not celebrated but decried. “I want my assets back,” declared General Sonthi Boonyarataglin who led the 2006 coup. This is General Montero coming over the hills to seize the silver mine in *Nostromo*. This is King John trying to shut down market weeks in English towns. King John’s economic hegemony was defeated at Runnymede, but King Bhumipol’s was victorious at Bangkok.

**Democratic Consolidation: Indonesia and the Philippines**

Asia has had two precocious democratizations: in the Philippines in 1986, and Indonesia in 1998. As with India’s democracy, both of these democracies have been subject to widespread predictions of their collapse. Yet the likelihood of collapse now seems quite small in both places, and thus I would classify them both as consolidated.

The capitalist basis of democratization in both countries has been largely ignored by scholars in favor of analysis of political choices, electoral crises, and ruling party fragmentation. To be sure, these factors were manifest as the proximate links in the causal chains that brought democracy to both places. Yet such voluntarist accounts violate what has become the turn back to structural conditions in explaining both the emergence and persistence (or breakdown) of democracy. Since both countries remain relatively poor, and thus outliers in the Lipset thesis, there must be other structural factors that outweigh the low levels of development. It was the emergence of a robust and independent capitalist sector in both places, and its consolidation and protection from political assaults since their transitions that explains democratic consolidation in both places.

The economic transformation of the Philippines during the first (democratic) term of President Ferdinand Marcos from 1966 to 1969 created a widening of his capitalist support in rice farming, infrastructure, health and education services, and manufacturing, according to a 1985 study by Doronila.37 His declaration of martial law in 1972 ushered in an even more rapid capitalist transformation, such that business elites multiplied far beyond what his regime could control. Indeed, the Philippines is perhaps an example in which capitalists had *too much* power to sway a weak state, which is why the concentration of wealth in a dozen or so land-based families — Ayala, Zobel, Soriano, Cojuangco, Elizalde, Jacinto, Madrigal, Araneta, Ortigas, Rufino, Aboitiz, Luzuriaga, Tuason, Yulo, de Leon, and Escalerwas — became the dominant concern of economists in the 1980s. These families kept the Philippines more regulated and closed, urging import substitution and protection rather than export-led industrialization. The “new capitalist class” was the old landed elite. Marcos after 1972 tried to shift the Philippines to a traditional East Asian model, with export orientation, a technocratic and concentrated economic planning system, and market

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deregulation. He created a state-led development model and boosted state spending. But his attempted emulation of East Asian tigers failed because of the imbalance of power. Marxist critics of the Philippines, who dominate scholarship on the country, are correct that Marcos was impeded by the capitalists. But the problem was too little capitalism not too much.

Fortunately, capitalism operates through many mechanisms and in the case of the Philippines, it generated nationalist (the ideational mechanism, driven by a sense of “the customer is always right”) and worker movements (the material mechanism, driven by bargaining for economic rents) in the predicted ways. Crony capitalists abandoned Marcos and they felt more confident of their ability to influence democratic leaders, like the “housewife” Cory Aquino. As usual, the Philippines is an unusual case in the Asian context.

Indonesia’s democratization is more obviously linked to capitalist transformation under Suharto. The liberalization of the economy between 1981 and 1998 spawned not just a vibrant civil society but also a pluralization of the ruling party GOLKAR as well as within the military. Suharto’s rapid market-based reforms between 1983 and 1988 were the cause of democratic transition there in 1998. The number of NGOs rose from 200 in 1981 to 3,200 by 1989, and 8,000 by 1996. Media expanded, judges became more assertive, and business cronies became oppositional. The Asian Financial Crisis merely pushed Indonesia’s polity over the edge, and it rapidly and unexpectedly moved towards a full democratic transition. Capitalist deepening since 1998 without any serious assaults from politicians has secured the foundations of democracy in Indonesia.

It is because the Philippines and Indonesia democratized at low development levels that their democracies became more and more secure with time. Assaults on capitalism in both countries are not common. President Rodrigo Duterte’s war on drugs since 2016 and his war on Islamic militants in the southern Philippines challenge but do not threaten democracy in the country. The same is true of Indonesian president Joko Widodo (“Jokowi”)’s pandering to Islamic theocrats in the application of blasphemy and other illiberal laws. In both cases, it is not just the low levels of development but the still developing nature of their capitalist systems that makes their levels of democracy surprisingly high and robust. Again, in both cases, what democrats should be watching is capitalist deepening, or assaults on capitalism, rather than only the more common focus of elections, law, and freedoms. Jokowi has since 2016 been engaged in a thorough market-oriented reform in areas like taxation, foreign investment, regulation, labor laws, and budgeting – reflected in a strong currency and strong foreign demand for Indonesian public debt. There is no assault on capitalism in Indonesia and thus one can say with relatively high confidence that democracy in secure. Duterte has been less prominent in market reforms, allowing technocrats, Senators, and international organizations to set the pace. Nonetheless, the direction of “Dutertenomics” is pro-market and pro-capitalist. There is none of the residue of Latin American economic left-populism, and in this sense the Philippines continues its long historical transition from a Spanish to an Asian country. That is good news for democracy.

Democratic Deepening: Japan, South Korea, and Taiwan

A deepening of democracy should, on this theory, be causally related to a deepening of capitalism. Policy reforms which increase competition, reduce unnecessary government control and regulation, and spread capitalist ownership through financial and regulatory reforms should in turn prompt an improvement in the quality of democracy. Japan, South Korea, and Taiwan, the three democracies in Asia

whose democratic consolidation is longest standing, have experienced democratic deepening in the past decade as a result of capitalist reforms.

In Japan, the period of state-led economic development finally ended in 1991, ushering in more than a decade of slow or negative growth than finally ended in 2002. This “lost decade” prompted the ruling Liberal Democratic Party, which had ruled with only one interruption since World War II, to launch extensive capitalist deepening. Most of this involved a shift in corporate dependence away from MITI (and its successors) in favor of global supply chains, local governments, and foreign investors. Most of this took place in the early 2000s, although the impetus for the shift goes much further back to the Maekawa Report of 1986. The result was a breakdown in the close relationship between MITI-dependent zaibatsu, rice farmers, and the LDP. With a society more free from state planners at MITI, pluralism flourished and with it democracy. The LDP lost power to a single opposition party, the Democratic Party, for the first time in 2009, before returning to power as a more dynamic and pluralist political party in 2012. As in Taiwan, electoral reforms designed to create a more representative government were spurred by capitalist demands — the very “Asian” dynamic of politics anticipating economic needs that Conrad had observed. Capitalist deepening in Japan laid the foundations for a more competitive and open democratic system. Taiwan and South Korea, which have been in an intense competition to rise up the value-added chain as other Asian countries have replaced them as manufacturing centers, have likewise as a result been experiencing capitalist deepening which has further improved the quality of democracy.

Jayasuriya – who as usual is brilliant, comparative, readable in his treatment of Asian politics - argues that the capitalist deepening in South Korea and Japan which unmoored the stable governing parties of the development state era has led not to democratic gains but to democratic setbacks, what he calls confusingly “an increasing authoritarian shift in the political regime, albeit one which is managed within constraints of democratic institutions.” In Japan, there has been “an intensification of authoritarian practices with renewed initiatives to deepen programmes of market reform that have been underway for at least two decades.” He links these cases in Asia to allegedly similar decline in democracy in the West as a result of capitalist deepening. The key reference is Crouch, who argues that “post-democracy” is, in Jayasuriya’s words, “essentially the decline of social democratic politics.” In other words, left-wing policy positions equal democracy and conservative ones equal authoritarianism. The “evidence” that Jayasuriya provides for Japan and South Korea includes a decline in union power, attempts to allow non-left wing perspectives to be present in school textbooks, an emphasis on public security, labor market reforms, and “the mobilization of civic organizations.” The “conservative capitalist democracies” of Japan and South Korea (to which one assumes he would add Taiwan) are not really democracies at all because of those first two adjectives.

In effect, one can simply turn these arguments on their head. Everything he cites is evidence of democratic advance, not retreat: the freedom of workers from mandatory representation by unions, an increase in civil society activism from a broader cross-section of society, an invigoration of debate on historical issues away from the standard intellectual monoculture of the academy, and a renewed

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43 Ibid., 586.
commitment to the stability and order on which democracy depends. In all these respects, the three most
democratic countries in Asia continue to lead the way both in capitalism and democracy, just as theory
would predict.

Lessons and Policy

The protection and expansion of a robust capitalism is essential to the protection and expansion of
democracy. Assaults on capitalism in Asia have always been associated with declines in democracy, and the
expansion of capitalist flourishing in the region remains the single most important means of expanding
democracy.

Appendix

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Freedom</th>
<th>Political Freedom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>89.4</td>
<td>52</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>90.2</td>
<td>59</td>
</tr>
<tr>
<td>Taiwan</td>
<td>77.3</td>
<td>93</td>
</tr>
<tr>
<td>Malaysia</td>
<td>74.0</td>
<td>45</td>
</tr>
<tr>
<td>South Korea</td>
<td>72.3</td>
<td>84</td>
</tr>
<tr>
<td>Japan</td>
<td>72.1</td>
<td>96</td>
</tr>
<tr>
<td>Thailand</td>
<td>68.3</td>
<td>31</td>
</tr>
<tr>
<td>Indonesia</td>
<td>65.8</td>
<td>64</td>
</tr>
<tr>
<td>Brunei</td>
<td>65.1</td>
<td>28</td>
</tr>
<tr>
<td>Philippines</td>
<td>63.8</td>
<td>62</td>
</tr>
<tr>
<td>China</td>
<td>58.4</td>
<td>14</td>
</tr>
<tr>
<td>Cambodia</td>
<td>57.8</td>
<td>30</td>
</tr>
<tr>
<td>Vietnam</td>
<td>55.3</td>
<td>20</td>
</tr>
<tr>
<td>Myanmar</td>
<td>53.6</td>
<td>31</td>
</tr>
<tr>
<td>North Korea</td>
<td>5.9</td>
<td>3</td>
</tr>
<tr>
<td>Laos</td>
<td>57.4</td>
<td>12</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>64</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

Heritage Foundation, Index of Economic Freedom, 2019; Freedom House, Combined Score, 2018