Chapter 1
Emerging Challenges for Emerging States

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The purpose of this volume is to clarify the complex (economic, political, and social) problems that emerging states face in the process of their rapid economic development. An "emerging state" is a country (or economy) that has experienced economic growth that is much higher than that of high-income countries for an extended period of time. Thanks to the increasing importance of such states in the world economy, they have come to influence global governance, both in the economic field and in many other areas, as has been exemplified by G20 activities. Such international prominence notwithstanding, many difficulties have developed at home, which emerging states need to overcome to attain a high level development without seriously jeopardizing internal and external stability.

Actually, intensive discussion on various issues that (economic) latecomers face started more than half a century ago when the protagonists of the modernization theorem and their critiques debated the economic and political prospects of "developing countries." This chapter will clarify the nature of contemporary challenges for emerging states—in comparison with those in the earlier period—by taking notice of how the material, technological, and ideational environments have changed. The discussion below will be organized into three spheres (economic, social, and political), but this division is only for convenience's sake. As seen in our discussion, these three spheres are intimately related and need to be grasped as one comprehensive whole that must be attended to by emerging states.

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1.1 Middle-Income Trap?

1.1.1 Early Debate Concerning Development and Underdevelopment

Until the 1970s, the main issue regarding economic prospects of developing countries was the feasibility of capitalist economic development of those countries. Modernization theorists who were optimistic about such development debated its potential with Marxism-leaning dependency theorists who insisted that the developing countries would continue to be underdeveloped as long as they stayed in the capitalist world economy.

As one of the most influential modernization theorists, W. W. Rostow presented the "stages of economic growth" framework as early as 1960. According to this framework, every developing country would progress economically step by step from the pre-modern primary-economy stage, to the take-off stage, and finally to the stage of high mass consumption. The "product cycle" as theorized by Vernon (1966) would supposedly help this transformation by allowing a gradual transfer of manufacturing industries to the developing countries. According to the product cycle model, an industrial firm shifts its activity from domestic production (in the innovator country) to exportation to other countries, and, finally, to importation from less-developed countries as the domestic market is saturated and as the firm's product is standardized and faces competition at home and in the export market.

Rostow's and Vernon's views were rather optimistic with respect to the possibility of industrialization in developing countries. In contrast, dependency theorists, such as Frank (1967) and Chilcote and Edelstein (1974), took a radical stance that developing countries would fail to escape their underdeveloped status unless they left the capitalist world and adopted socialism. This is because developing countries would continue to exist under a permanent system of exploitation imposed by the advanced capitalist countries.

Such an extreme view, however, was contradicted by the successful industrialization that several developing countries (or economies) experienced by the 1970s. At the end of the decade, the OECD started to call them newly industrializing countries (NICs) (OECD 1979).[1]

Some radical theorists adjusted their views according to the new situation. For instance, Wallerstein (1979) accepted the possibility that some developing countries can move up the ladder from their peripheral position to a semi-peripheral one and from a semi-peripheral position to a core position, although he insisted that the three-layered hierarchy of the capitalist world economy would not change.

[1]Given the non-state status of Taiwan, NICs were renamed "newly industrializing economies" (NIEs) in the late 1980s.

Other authors started to explore why certain developing countries could grow very rapidly and even catch up with the advanced countries. The concept of the "developmental state" (Johnson 1982) emerged from that exploration. Johnson's study of the Japanese case was soon followed by studies of South Korea (Amsden 1989) and Taiwan (Wade 1990). These works share the earlier argument of Gerschenkron (1962) that latecomer industrializers can take advantage of their "backwardness" by importing the latest technologies from advanced countries. Rather than developing step by step or undergoing product cycle-based gradual growth, latecomers can quicken the speed of industrial upgrading if they can count on special institutions such as investment banks or effective pilot agencies within their governments.

However, the development-oriented interventionist states were not successful everywhere. Brazil and Mexico, which had been treated as NICs by the OECD in 1979, fell into a deep debt crisis during the 1980s. Even for East Asia, where industrialization looked to be advancing more smoothly, the research team of the World Bank found that the performance-based industrial policy did not work well except in very few countries (World Bank 1993). Several important works (Komiya et al. 1984; Samuels 1987; Friedman 1988; Calder 1993) even called into question the effectiveness of Japan's developmental state.

Throughout the debate over the role of the state in economic development, the early image of a highly interventionist state was gradually replaced by the image of a more market-conforming state. By the middle of the 1990s, authors who still endorsed the idea of a "developmental state" seemed to have reached a minimum agreement that "embedded autonomy" is crucial for a developmental state to successfully lead industrialization (Evans 1995). To be effective in its effort for industrial promotion, a government must be autonomous of private economic interests (to avoid private capture and plundering), but at the same time, it must be embedded in the economy through close contacts with the private sector. The close connections with the private sector will allow the government to gather accurate information on the market conditions and to implement policies smoothly.

1.1.2 Globalization and Issues Concerning Emerging States

However, by the time Peter Evans' work was published in the mid-1990s, drastic transformations had been occurring in the world economy. All the changes began in the 1970s or even earlier, but the full effects of these changes became clear for everybody only toward the end of the 1990s. For one thing, the international transaction of goods, services, and financial resources expanded much faster than world production. For example, the global trade of goods and services expanded from 33.3% of total world GDP (1975) to 51.6% (2000). The transaction of services alone expanded from 6.0% (1975) to 9.3% (2000). Financial transactions expanded even faster. The net inflow of foreign direct investment (FDI) in the world increased from 0.5 to 4.3%

of total GDP between 1975 and 2000. The net inflow of portfolio equity expanded from 0.1 to 2.0%.[2] As another indicator of financial transactions, the external debt stock of all developing countries increased from 2.6 to 5.2% of world GDP during the same period.[3] It is clear that the world economy came to be integrated very closely through the enormous expansion of trade and financial transactions.

Market forces were the main drivers of globalization, but they were supplemented by international negotiations for free trade and investment regimes. The "end of the Cold War" strengthened the position of the United States, as it could now demand free trade and free financial flows without worrying about ideological and actual competition from the communist bloc. The excellent analysis of the Indian pharmaceutical and textile industries conducted by Sinha (2016) demonstrates how the Indian government and private sectors strived to realign their organizations and practices with the new requirements imposed by the WTO. The industries in developing countries must now secure their competitiveness in a highly competitive global market.

After the 1990s, the main issue concerning economic development is not the feasibility of capitalist development but the effectiveness of integration with the global economy. By that time, not only NIEs but also many other developing countries (especially in East Asia) were experiencing very high economic growth. NIEs such as Singapore, Taiwan, and South Korea had even attained the status of high-income countries. According to Yeung (2016), this success stems from "strategic coupling" with the lead global firms, a strategy pursued by large local firms such as Hon Hai Precision Industry of Taiwan and Samsung Electronics of South Korea. The opportunities for that kind of global integration in advanced technology segments were enhanced by the spread of organizationally fragmented and spatially dispersed production networks, which in turn were precipitated by the standardization and modularization of a wide range of products. Needless to say, the development of communication and transportation technologies contributed to simultaneously fragmenting and reintegrating global value chains.

The fragmentation of a production process was pointed out by Folker, Heinrichs, and Kreye as early as 1980. They analyzed the behavior of West German manufacturing industries (mainly the textile and garment industry) and observed the transfer of increasing portions of production processes to developing countries and the subsequent expansion of intra-industry and intra-firm trades. However, at that time, the developing countries were regarded as locations where lower value-added, cheap labor segments of the process were situated. Yeung, in contrast, argued that some of the Korean, Taiwanese, and Singaporean firms successfully entered relatively high technology segments and even grew to be lead firms themselves in some productive sectors. Suehiro (2014, pp. 81–83) explained this phenomenon by pointing out

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[2]Portfolio equity is defined as "securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors." All these figures are calculated from the data extracted from the World Bank's World Development Indicators database.

[3]External debt is "the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt." These figures are calculated from the data extracted from the World Bank International Debt Statistics database.

that the lead firms that produce IT products (such as Intel, Genesis Microchips, and Texas Instruments) keep their core technologies within the chipsets protected by intellectual property rights, but standardize and open up the interfaces connecting the core technologies with related products. This practice has facilitated latecomer assembly firms to get into more advanced technological sections of the value chain much quicker than before.

However, to be chosen as a production site by the leading global firms, a county must have developed technological capabilities to combine core technologies with high-quality components/parts supplied locally or by imports. In addition, the growth of individual firms, in order to contribute to broader national economic growth, must be supplemented by deeper upstream and downstream linkages, the enhancement of business supporting services, and the improvement of local logistics infrastructure. Each of these requirements needs more advanced technological capabilities of local firms and the labor force. South Korea, Taiwan, and Singapore are success cases in these respects.

Today, the challenge of technologically upgrading the national economy is regarded as an imminent problem for many middle-income emerging states. They fear that failure in technological upgrading could cause them to fall into the "middle-income trap." This situation is defined as a phenomenon in which a country (or an economy), after experiencing years of high growth, faces long-term stagnation at the middle-income stage. Such a country is regarded as being sandwiched by countries whose growth still depends on the enhancement of factor inputs and countries whose growth stems from technological upgrading (Gill and Kharas 2007, p. 5).

We can certainly discern divergent growth performances among the (former and current) developing countries. If their performance is measured by the speed at which they catch up with the reference country (the United States, in this chapter), then South Korea, Taiwan, Singapore, China, and India have shown spectacular achievement. As indicated in Table 1.1, the rates of catching up between 1979 and 1995 were 300% for South Korea, 224% for China, and 169% for Singapore. They continued to grow rapidly in the following twenty years during which India and Vietnam also joined the high-growth club.

In contrast, the performance of Latin American countries, South Africa, and Turkey was much poorer. Although Peru, Chile, and Turkey succeeded in growing faster than Singapore in the 1995–2014 period, they could not narrow the gap that had widened during the 1970–1995 period.

Southeast Asian countries are somewhere in between these two groups. They are certainly catching up with the United States in spite of the temporal retreat by the Asian Financial Crisis (AFC) of 1997–98. Nevertheless, their performance is not as good as the first group of countries. The middle-income trap is an ongoing problem for the second group of countries (Khoo et al. 2017), but even for the first and third groups of countries, there is concern that their catching-up speed may slow down and force them to remain at the middle-income level for an extended period of time.

As pointed out above, the factor that is frequently posed as the main culprit of the middle-income trap is the slowing-down of technological upgrading of industries. For instance, Suehiro argues in this volume (Chap. 2) that the middle-income trap

Table 1.1 Growth rate of the relative size of GDP per capita (%)

	1970–1995	1995–2014
China	224.0	279.0
India	2.7	101.5
Vietnam	n.a.	100.3
South Korea	300.3	53.2
Singapore	168.7	36.2
Taiwan	n.a.	24.8
Peru	–44.0	41.2
Chile	4.2	39.1
Brazil	9.5	5.7
Argentina	–34.8	3.0
Mexico	–15.5	−1.1
Turkey	4.4	38.6
South Africa	–44.7	3.4
Malaysia	89.7	26.2
Philippines	–27.8	26.7
Indonesia	73.3	26.7
Thailand	129.0	20.6

Note The relative size of the GDP per capita was calculated with the United States as the reference country (US = 1). Then, the growth rates for 1970–95 and for 1995–2014 were calculated on the basis of the relative size of each country

Sources Calculated from the GDP data (constant 2010 U.S. dollars) extracted from the WDI database; data on Taiwan (at 2006 market prices for 1995 and at 2011 chain prices for 2014) come from ADB (2016)

emerges as a result of the limitation of input-driven growth, which can be measured by a high rate of wage increase, stagnation of labor productivity, and a low level of R&D expenditure. In Chap. 3, Kumagai defines the middle-income trap as the stagnation stemming from the lack of transformation of industrial structure toward higher value-added sectors and attempts to measure it by looking at changes in the net export ratios of various merchandise categories. Shimamoto and Todo (Chap. 5) emphasize the importance of trade and FDI as sources of innovative knowledge for economic development. A lack of knowledge diffusion from abroad will result in the middle-income trap.

As the inadequacy of technological upgrading is regarded as the main cause of the middle-income trap, the measure most frequently prescribed for overcoming or avoiding it is naturally to enhance high-tech industries and services. As discussed above, if South Korea, Taiwan, and Singapore have been successful, it is because they have been locating higher-skilled, knowledge-intensive, and/or technologically advanced segments of the global value chains in their borders. Varying performances of catching up are, therefore, partly explained by different capabilities of absorbing, improving, and innovating technologies. Table 1.2 shows the total factor productivity

Table 1.2 TFP growth rate (annual average, %)

	1991–2000	2001–2014
China	1.6	3.4
India	1.4	1.7
Vietnam	0.2	−1.1
South Korea	3.1	2.1
Singapore	0.8	1.4
Taiwan	1.9	1.7
Peru	0.8	0.7
Chile	1.4	−0.8
Turkey	−1.8	−0.9
Brazil	0.8	−0.3
Argentina	1.9	−0.4
Mexico	0.1	−1.4
South Africa	−0.8	−0.9
Malaysia	0.1	1.0
Philippines	0.2	1.3
Indonesia	−0.6	0.9
Thailand	−0.8	1.0

Source Calculated from the data extracted from the Conference Board Total Economy database

(TFP) growth rate, which is treated here as a proxy index for improvement in an economy's technological capability. As this table demonstrates, the performance of the first group (rapidly catching-up countries) is much better than that of the other two groups, except for Vietnam, whereas the performance of the second group (slowly catching-up countries) is much worse than that of the third group in recent years (2001–2014).

1.1.3 How to Cope with the Middle-Income Trap?

If technological upgrading of a national economy is indispensable for middle-income countries to continue their current catch-up pace, then one of the challenges for these countries, especially low-performing emerging states, is to raise the technological capabilities of their firms and labor force to locate higher value-added, higher skilled portions of global value chains in their countries and to utilize them to develop local industries and services. For this purpose, technological education and R&D activities must be enhanced; upstream firms and downstream firms will require closer cooperation for technological improvement and investment coordination; employers and employees will also need to cooperate to improve productivity in their facilities. Since close linkages with global production networks are also important for future

growth of the middle-income countries, as shown by the "strategic coupling" of South Korean, Taiwanese, and Singaporean firms, they also need to persuade foreign firms to cooperate in local-level efforts for technological upgrading.

The problem is that the improvement of technological sophistication of a work force and firms cannot be managed by the state as easily as the mobilization of labor and capital in the earlier phase of industrialization. The state can provide some R&D funds and expand technological education. However, due to uncertainty of successful technological development, financial burdens are too heavy for the state to bear. Coordination of market players' interests is even more difficult. The private sector is fragmented. There are still many firms that benefit from traditional labor-intensive activities or from performing as simple OEM producers for foreign customers. It will not be easy to make them share the costs of improving the technological capabilities of the nation as a whole. Labor-management relations are also a contentious issue in many emerging states.

Still, many governments have attempted to foster R&D investments and/or intermediate joint efforts for technological upgrading by private firms. For instance, Chap. 6, written by Intarakumnerd and Liu, examines such promotion policies—taxes, grants, loans, and equity financing—in Taiwan and Thailand and concludes that Taiwan has been economically more successful than Thailand exactly because the government policies were much more effective. In Taiwan, the government assistance for private R&D was much more robust, better focused, and well integrated (with other policy initiatives). Intarakumnerd and Liu attribute the difference to both institutional settings (such as the degree of bureaucratic cohesiveness) and ideational inclinations (concerning entrepreneurship and the role of the public sector).

On the other hand, Kumagai (Chap. 3) sees a source of difficulty of technological upgrading in Southeast Asia, not in the government policies or public-private relations, but in the nature of the private sector. Different from their Northeast Asian counterparts, the Southeast Asian countries lack multinational corporations originating from their homelands; consequently, the private firms of the Southeast Asian countries cannot use FDI to extend production networks beyond their borders and concomitantly upgrade the industrial structure at home.

Although Intarakumnerd/Liu and Kumagai do not explicitly mention it, their argument is mostly concerned with machinery industries whose production chains are long and extend to continuously innovating high technology sectors.

In contrast to Intarakumnerd/Liu and Kumagai, several authors in this volume regard resource-processing industries (covering both midstream and downstream segments) as the main promoters of economic advancement of middle-income countries. Suehiro, for instance, observes that the Thai private firms, indifferent to the excessively ambitious government plan based on digital economy industries, focus on domestic services and resource-based industries such as food processing. They are even regionalizing their production networks in Southeast Asia, frequently in collaboration with Chinese firms.

As another resource-processing industry, Kawano (Chap. 7) examines the rubber industry in Malaysia and Thailand and finds that it has succeeded in the whole production chain (from raw material production to the downstream production) in

Malaysia whereas Thailand has seen a rapid expansion of the upstream sectors. In Chap. 8, Suzuki and Nam compare the development of pineapple production in Ghana and Thailand and shrimp production in Vietnam and Thailand. They determine that Thailand has been more successful in the both sectors mostly because it has better resource-processing industries that use pineapples and shrimp as raw materials. As these products are perishable, the upstream production (by small producers) cannot grow unless the market is assured by midstream and downstream sectors. Tsunekawa (Chap. 4) examines economic development in Latin America and points out that Chile is the best performer in the region, thanks to the development of divergent processing industries.

Resource-processing industries can certainly provide comparative advantages to resource-rich countries for many reasons. First, the transportation cost of raw materials is naturally low. Second, it is easier for the government and processing firms to exercise quality control of the raw materials they use. In addition to the cost and quality of raw materials, resource-rich countries have an advantage in their knowledge about production and marketing of resources, not only in the upstream segments, but also in some of the downstream segments due to their long-term experience of utilizing the resource. As Kawano's chapter shows, if astute entrepreneurship and appropriate government assistance are added to these natural and historical advantages, then resource-processing industries can, to a great extent, develop the whole production chain.

To develop the processing industries, public policies and public-private cooperation are as important as they are for the machinery industries. Kawano draws our attention to the process in which public research institutes have transferred technologies to the private sector in the Malaysian and Thai rubber industry (as they did in Taiwan's electronic industry). Suzuki and Nam vividly describe how the Thai—but not the Vietnamese—government facilitated the development of shrimp farming by regulating, certificating, and monitoring commodity quality. However, Shimamoto and Todo warn that public-private connections that are too close may hinder economic development. Analyzing an interview survey of managers of 276 manufacturing firms in Indonesia, they found that the Indonesian firms tend to have less trust in foreigners while having closer business relations with domestic partners when they have strong connections with the government. Their attitude is protectionist and impedes the positive learning of foreign knowledge.

Facilitation by the government is not the only available means. The voluntary associations of market players or existing social networks (both formal and informal) can help to mediate between various interests, as seen in the roles that the Thailand Shrimp Association, the Thailand Frozen Foods Association, and local "shrimp clubs" have played in information sharing and disease prevention (Chap. 8, this volume).

In spite of the many advantages that resource-processing industries have, we must be mindful of their limitations. Their production chains are not as long as those in machinery industries, which means that the possibility of adding value via technological upgrading is lower. In resource-processing industries, such as latex gloves, oleo-chemicals, and canned pineapple, the possibility of developing ICT-integrated

products is also lower than in the industries such as machine tools, automobiles, and electric/electronic products. Another drawback is competition. As the technological requirement is relatively low and product differentiation is difficult, resource-processing industries tend to face easy competition from emulators. When the emulators have the same raw materials at hand, they can enter the market quickly, as we have observed in the development of the rubber industry in Thailand and the palm oil industry in Indonesia, as formidable competitors against Malaysia.

Nevertheless, resource-processing industries will be able to provide short- and mid-term advantages to resource-rich countries by raising national income, earning foreign currency, and improving the capacity of technological adaptation/innovation of national firms, the labor force, and research institutions. Over time, such resource-rich countries may be able to develop the capability to enter high-tech manufacturing and service sectors on the basis of the expanded domestic market and enhanced technological capabilities.

1.2 How to Cope with Social Disparity

1.2.1 Early Views on Social Disparity in the Developing Countries

In addition to the issue of continuous economic growth, determining the ways in which to distribute the fruits of growth has always been an important issue for scholars and policymakers/practitioners working in the area of development. The issue was especially acute in the regions or countries where social inequality is deeply rooted in history.

For instance, Mine's chapter in this volume shows that the deprivation of native people's lands by white settlers in South Africa in the early twentieth century created a huge segment of the population who were fully dependent on out-of-village employment. This social dislocation brought about high and chronic unemployment, even after the African National Congress (ANC) came to power in 1994.

Latin America shares a similar colonial legacy in which large landowners and mine owners dominated native and African labor forces. Some Latin American countries, such as Mexico and Peru, implemented land reform in the twentieth century, but it only contributed to creating a large number of poor unproductive peasants. Urban workers who were employed in the public utilities or the manufacturing firms were more fortunate than peasants because they could take advantage of the political competition between the traditional elites and the emerging middle-class people. Middle-class politicians needed the support of organized labor to implement import substitution industrialization (ISI) against the free trade-oriented landed elites and therefore supported labor's demand for higher wages and better social benefits. As a result, the social security system developed relatively well in Latin America although the coverage was limited to the formal sector workers. Informal sector workers did

Table 1.3 Ratio of household income of the highest 20% to the lowest 20%

	Around 1992/94 (1)	Around 2009/12 (2)	Decrease in income disparity (1) – (2)
Brazil	27.3	16.9	10.5
Chile	17.8	12.6	5.2
Peru	10.3	11.9	−1.6
Mexico	13.8	11.1	2.7
Argentina	11.2	10.6	0.6
Malaysia	11.4	11.3	0.1
China	5.9	10.1	−4.2
Philippines	8.3	8.4	−0.1
Thailand	8.2	6.9	1.3
Vietnam	5.6	6.1	−0.5
Indonesia	4.1	5.7	−1.6
India	4.4	5.0	−0.6
South Africa	21.8	28.5	−6.7
Turkey	8.2	8.0	0.2

Source Calculated from data extracted from World Bank WDI database

not benefit from specific welfare programs but only from general price subsidies for food and energy.

The historically determined acute social inequality was not overcome by the ISI. Table 1.3 demonstrates that, as late as 1992–94, Latin American countries (and South Africa) were characterized by much more unequal societies than the Asian countries and Turkey.

In contrast with Latin America and South Africa, high-performance Asian economies were generally praised by the World Bank for having realized high growth with greater equity (World Bank 1993). However, it is said that people's welfare in East Asia was guaranteed not by the welfare state as it was in other regions of the world (including Latin America), but by the increase in employment opportunities that the government helped to create by promoting labor-intensive manufacturing industries and by investing in education. Social policy was subordinate to economic policy. Scholars called the scheme "productive welfare capitalism" (Holliday 2000), the "developmental welfare state" (Kwon 2002), or the "Listian workfare national state" (Jessop 2016).

Social security schemes for pensions and medical care did exist first for civil servants and soldiers and were later extended to formal sector employees in many Asian countries. However, the universalization of the coverage was delayed. Moreover, social security schemes, such as the Central Provident Fund of Singapore and the Employee Provident Fund of Malaysia, were based more on self-help principles than on collective security principles. These funds managed contributions from employers and employees in the form of individual participants' saving accounts usable for their own expenses (including pensions and medical care). Only in coun-

tries such as South Korea and Taiwan, where democratic pressures started to mount early, did the Western-style welfare state also start to emerge early (before the Asian Financial Crisis).[4]

1.2.2 Financial Crisis and Reformulation of Welfare Mechanisms

Although the nature of the welfare-guaranteeing mechanisms may have been different in Latin America and East Asia, both faced a grave threat when monetary and financial crises hit the regions. Since the 1970s, financial globalization had brought serious challenges to developing countries. On the one hand, it became easier for the governments and private firms in these countries to borrow from foreign banks or raise capital from foreign investors. On the other hand, they became more vulnerable to changes in international interest rates or in the international flow of financial resources.

Latin American countries became the first victims of the financial globalization. Their governments borrowed from abroad so heavily that many of them fell into default when international interest rates went up and international reserves earned from the export of natural resources declined due to the drop in commodity prices. The debt crisis as well as the inadvertent responses by the Latin American governments caused inflation of the magnitude of three or four digits during the 1980s and the first half of the 1990s. The fiscal bankruptcy and the deep economic recession shattered the viability of the existing social security system and general subsidy schemes. In addition, the Latin American governments were forced to accept structural adjustment programs in exchange for financial assistance from the IMF and the American government. All in all, they had to implement a drastic overhaul of their social welfare schemes.

A similar mishap happened in East Asia fifteen years later. The massive outflow of foreign capital that started in Thailand in May–July 1997 rapidly spread to the surrounding countries and suddenly brought several so-far prosperous economies to the brink of collapse.[5] As unemployment expanded and threatened the well-being of many people, Asia's "developmental welfare states" were forced to implement or expand social programs. South Korea achieved universal pension coverage in 1999. Thailand saw the establishment of a virtual universal medical care service in 2001 when the Thaksin administration decided to distribute 30-baht medical care cards to the entire population, including those who had never before had any benefits. Even Indonesia, with a much lower per capita income, enacted the National Social Welfare System Act in 2004, aiming to establish an integrated universal social welfare system

[4]For instance, universal medical insurance was introduced in South Korea in 1989 and in Taiwan in 1995 (Kabumoto 2010; Kamimura 2010).

[5]Net capital inflows to Indonesia, South Korea, Malaysia, the Philippines, and Thailand turned from $93.0 billion in 1996 to negative $12.1 billion in 1997 (Radelet and Sachs 1998, p. 3).

(Masuhara 2014). The implementation, however, was delayed and the introduction of a universal medical care system started only in 2014.

Despite these efforts by the Asian governments, Table 1.3 demonstrates that social inequality deteriorated in Asia between the first half of the 1990s and around 2010. The deterioration was especially conspicuous in China and Indonesia although the situation in the latter country is not yet noticeably bad.

However, this deterioration does not necessarily mean that people's well-being was permanently destroyed by the AFC. The crisis-hit countries in East Asia actually realized a V-shaped recovery in one or two years. Although their annual average growth rate dropped after the AFC, they still grew faster than most of the developing and developed countries in the world. The failure to narrow the income gap has been most probably caused by the rapidity of the growth itself. Everybody somewhat benefited from the high growth but the rapid growth has widened the gap between those who most benefited from economic growth and those who were left behind. In this regard, Henry Yeung's warning is noteworthy. He illustrates how the spread of global production networks precipitated by the "strategic coupling" of firms beyond borders has contributed to the high growth of the Asian countries; simultaneously, he warns that the "strategic coupling" may bring negative consequences by debilitating existing cultural, social, and economic networks and systems in individual countries (Yeung 2016, p. 215).

In comparison with Asia, most of the Latin American countries listed in Table 1.3 experienced the narrowing of social inequality. The improvement in Brazil, Chile, and Mexico is especially noticeable. This phenomenon may seem contradictory to the fact that these countries were forced to dismantle many of the social security schemes during the crisis period. In practice, the new social schemes such as private pensions and conditional cash transfer replaced traditional social security programs and the latter helped mitigate adverse effects of welfare reforms in Latin America.

Chile took the lead in introducing a private pension system in 1981. With this reform, the old defined-benefit pay-as-you-go system was replaced by a defined-contribution individual account system. The scheme is similar to the provident funds in Southeast Asia, but the Latin American system is more radically privatized in the sense that individuals are allowed to transfer their accounts from one company to another. After the 1990s, other Latin American countries including Mexico, Argentina, and Peru adopted a similar scheme (Kritzer et al. 2011).

Another reform was the introduction of a social assistance program relying upon conditional cash transfer (CCT). With this reform, benefits are not generally distributed among the population, but are targeted at the poor population. The first national CCT program was introduced in Mexico in 1997, but spread to other parts of Latin America during the 2000s. As of 2010, beneficiaries reached 29% (Argentina), 27% (Brazil), and 24% (Mexico) of the total population.[6]

After all these budget-saving reforms were implemented, the level of governmental social spending was still much higher in Latin America than in Asia, as shown in

[6]The equivalent figures for Chile and Peru, however, were low: 0.08 and 0.09%, respectively (Stampini and Tornarolli 2012, p. 10).

Chap. 4. Notwithstanding, it is not clear to what extent new social programs have contributed to the shrinkage of social inequality in Latin America. The private pension system is not redistributive because it mostly benefits the formal sector population with sufficient income to pay a premium. Furthermore, the proportion of contributors as a percentage of the labor force was 62.2% in Chile, but was much lower in other countries: 31.7% in Mexico, 19.8% in Argentina, and 13.6% in Peru, all in 2008 (Kritzer et al. 2011, p. 39). The great majority of the population is not covered by the private pension scheme.

The CCT is more redistributive. However, a study of Goñi et al. (2011, p. 1560) showed that the difference between the GINI index calculated on the basis of market income and one based on disposable income (after transfer and direct tax) is minimal in Latin America, which means that the redistributive function of Latin America's fiscal system is still very low.

Stampini and Tornarolli (2012, p. 12) pointed out that it was economic growth and the general income improvement (more than the redistributive schemes) that explain the sharp decline of the number of poor households. The income improvement can, in turn, be explained by several factors. One is the huge commodity boom in the 2000s, which contributed to stimulating domestic economies and allowed the governments of resource-rich countries in Latin America to expand social expenditures. The second factor is a sharp drop in the inflation rate. For one example, the annual average of consumer price increases in Brazil was 979% for 1986–1990, but it dropped to 8.6% for 2001–2005.[7] The sharp decline in the inflation rate helped lower-income people who have few assets and live on current income. Third, most of the Latin American countries have been under full democracies since the 1980s; they are continuously subject to strong electoral pressures to enhance (or avoid reducing) social expenditures. As a consequence of all these factors, the income disparity between the highest-income households and the lowest-income households generally declined in Latin America.

1.2.3 Sustainability of the New Social Welfare Schemes

Such improvement in Latin America, however, was accompanied by serious deterioration of governments' fiscal positions after the commodity boom ended and the global recession deepened in the first half of the 2010s. In addition to the fiscal constraints, we need to recall that Latin American countries belong to the group of countries whose catching-up speed in terms of both GDP per capita and TFP has been much lower than Asian countries. Investment in higher technology sectors is an urgent challenge for Latin American countries if they are to escape the middle-income trap in the long run. Consequently, balancing economic development and

[7]Calculated from data provided in United Nations Economic Commission for Latin America and the Caribbean reports (various years).

social protection will be a daunting challenge for the region (and also for South Africa as discussed in Chap. 9).

Although the catching-up speed is much faster, social challenges are no less serious in Asia. After having experienced the post-AFC devastation and subsequent expansion of social programs, people in Asian countries will continue to demand greater social welfare. The rapid aging of society, partly brought about by the development of medical sciences, will also put pressure on governments to enhance pension and care programs for the elderly. The universal pension and medical care systems (such as the ones adopted by South Korea), once matured, will lead to the fiscal viability problem that Latin American countries have faced for some time.

In addition, the enhancement of social insurance and protection is not the only challenge for the emerging states in the social issue field. As technological upgrading advances and national income goes up, a new social issue can emerge and pose a new challenge. Isozaki's chapter on South Korea illustrates the serious social problem stemming from the high and chronic unemployment among young university graduates. In South Korea, an increasing number of households desire to have their children receive higher education for a quantitatively and qualitatively better life. The government responded by enhancing the admission quota for each university. Isozaki shows that the mere increase of the number of university enrollments cannot be a solution. Such numerical expansion must be accompanied by the improvement of educational quality that fits the human resource requirements not only of the big *chaebol* companies but also of small and medium-sized enterprises that are major creators of employment. She also insists that a new type of incentive policies should be developed to help highly educated youth venture into new businesses.

1.3 Pressures for Political Opening

1.3.1 Early Debate Concerning Democratization in the Developing Countries

The economic and social issues discussed above are closely associated with political transformation. During the first few decades after WWII, political scientists debated the prospect of democratization in the developing countries. In the early literature, the issue was frequently analyzed in connection with economic and social transformation.

For instance, Lipset (1959, 1960) argued that economic development generally contributes to the growth of the middle class and subsequent enhancement of democracy. Here the nature of political regime is explained by the degree of economic development. His argument was mostly based on the experiences of modernizers in the nineteenth century and the first half of the twentieth century (in Western Europe, the United States, and Latin America). His view, however, was contradicted by the view of authors who focused on the historical and contemporary experiences of the

post-WWII developing countries. Huntington (1968) observed many cases of political instability and the lack of a stable democracy in the economically developing countries and argued that instability would result if the expectation for greater participation was not met by the development of absorptive institutions. O'Donnell (1973) examined the experiences of Argentina and Brazil during the 1960s and concluded that economic development could lead to the breakdown of democracy because the middle class could turn reactionary when it met an upsurge of demands from the masses.

Many quantitative analyses were attempted, thereafter, to probe the relationship between economic development and the nature of political regimes. Larry Diamond (1992, p. 108) reviewed these studies and concluded that there is "a strong positive relationship between democracy and socioeconomic development (as indicated by both per capita income and measures of physical well-being)." However, he admitted that the path of democratization is not linear, but takes an N-curve in which a country, once democratized, may experience the breakdown of democracy at the middle-income level before turning to democracy again. He also introduced many intervening variables, such as political culture, class structure, state-society relations, and civil society (Diamond 1992, pp. 126–27). By doing so, he eventually annulled his argument for a close association between economic development and political regimes.

Przeworski and his associates offered a highly sophisticated analysis on this theme by examining the four-decade experiences of 141 countries. Their conclusion was that a higher per capita income does not necessarily bring democracy. However, the chance of an (already) existing democracy being broken down declines as the income goes up beyond $4,000 (at 1985 PPP) (Przeworski et al. 2000, p. 98). Similarly, Mainwaring and Pérez-Liñán (2005) analyzed the experience of nineteen Latin American countries. They could find little correlations between the level of economic development (measured either by GDP per capita or growth rate) and the nature of political regime.

1.3.2 The Third Wave and Its Demise

As the decade of the 1980s saw the spread of democracy in Latin America, Eastern Europe, and a part of East Asia, many observers endorsed Huntington's view of the "third wave" of democratization. Military governments and one-party regimes were replaced by democracy one after another. Many believed that the "end of the Cold War" was accompanied by a clear victory of liberal democracy in the world.

This belief was shattered in a decade. The demise of the democracy euphoria was as rapid as its advent. By the beginning of the 2000s, scholars started to write that the dominant pattern of political transformation is not democratization but the emergence and consolidation of a hybrid regime characterized partially by democracy and partially by authoritarianism. They call these regimes by various names—competitive authoritarianism (Levitsky and Way 2002, 2010), semi-authoritarianism (Ottaway

2003), and electoral authoritarianism (Schedler 2013)—but they all agree that these regimes are not short-term transitory ones, but long-lasting ones.

All these transformations seem unrelated to the degree of economic development. Table 1.4 shows the Freedom House scores together with GDP per capita for some of the most important emerging states. The Freedom House index is a composite index of political rights and civil liberties that are supposedly protected in each country. The smaller the figure is, the more democratic the regime is. As far as the countries listed in Table 1.4 are concerned, few correlations are observed between GDP per capita and transformation of the political regime. Comparison of Tables 1.1 and 1.4 also disproves the link between the speed of catching up and the nature of a political regime. Among the rapidly catching up countries, only two (South Korea and Taiwan) experienced a clear trend of democratization. Singapore, China, and Vietnam did not change the authoritarian nature of their regimes. A similar discrepancy is observed among the third group to which the medium-speed catching-up countries, such as Malaysia, Thailand, Indonesia, and the Philippines, belong. Only in the second group, which is mostly comprised of Latin American countries and whose catching-up speed is generally slower than the countries of the first and the third groups, is the tendency of democratization most clearly discerned.

Notwithstanding the lack of clear-cut relations between economic development and political regime, an outright retreat to the authoritarian past seems to be unlikely. After the "end of the Cold War," the ideational influence of democratic principles was strengthened. The authors writing about the competitive or semi-authoritarian regimes mentioned above recognize that it is hard for the leaders of these regimes to wipe out or neglect the democratic rules of the game, even if they frequently violate them. Semi-authoritarian regimes constantly face the possibility of being challenged electorally by oppositions.

Furthermore, the rapid development of communication technologies has helped democratic forces rather than authoritarian conservatives. As shown repeatedly in the democracy movements, such as the Arab Spring and the Umbrella Revolution, technologies (both hard and soft) that include international TV news networks, mobile devices, and SNS helped rebels to mobilize unorganized masses in confrontation with repressive governments. These technologies can also be utilized by authoritarian leaders to control the people. However, given the previous weaknesses of the non-government forces in the authoritarian regimes, the new technologies seem to be giving greater advantages to otherwise powerless oppositions. Consequently, the emerging states, including ones still ruled by authoritarian regimes, will be most possibly placed under continuous pressure to liberalize their political regimes.

1.3.3 Toward a Greater Political Uncertainty

This political prospect means that the governments of emerging states will need to negotiate with a greater number of participants to make and implement policies for technological upgrading of their economies and for correction of social disparity.

Table 1.4 Freedom house ratings

	Average of Freedom House evaluation of political rights and civil liberties (annual average)[a]		GDP per capita at constant 2010 US$
	1981–85	2011–14	2014
China	6.0	6.5	6,108
Vietnam	6.6	6.0	1,596
Singapore	4.5	4.0	51,866
India	2.5	2.5	1,647
South Korea	5.0	1.8	24,324
Taiwan	5.0	1.5	21,811
Mexico	3.6	3.0	9,493
Peru	2.5	2.5	5,824
Brazil	3.0	2.0	11,866
Argentina	3.1	2.0	10,323
Chile	5.5	1.0	14,702
Turkey	4.4	3.4	13,312
South Africa	5.5	2.0	7,628
Thailand	3.5	4.4	5,590
Malaysia	3.8	4.0	10,399
Philippines	4.3	3.0	2,506
Indonesia	5.3	2.8	3,693

Note [a]The closer the figure is to 1.0, the more democratic the regime is
Sources Freedom House database and World Bank WDI database; GDP per capita data on Taiwan (at 2011 chain prices) comes from ADB (2016)

They have to persuade entrepreneurs to cooperate with the governmental efforts to build greater technological capacity and to transfer their resources from the familiar sectors based on factor inputs to more risky, skills-based, higher technology sectors. Entrepreneurs also need to be encouraged to deepen coordination between upstream and downstream sectors and between their companies and other relevant players, such as labor unions and local research institutes, for the same purpose of technological upgrading.

Political opening will also strengthen the pressures for social welfare improvement from below. If a government easily succumbs to these pressures, then fiscal burdens may become so heavy that the economic environment for growth is jeopardized as we observed in Brazil in recent years (Chap. 4). Mine writes in Chap. 9 that social spending for the poor African population has expanded in South Africa under the African National Congress governments without any long-term solution in sight. The Korean experience with higher education demonstrates that the government's easy submission to the strong parental demand for the enhancement of university enrollment has led to the deterioration of social conditions among the young university

graduates because such enrollment expansion was not accompanied by appropriate policies to improve the quality of education and help venture businesses.

In contrast with these cases of excessive democracy (or the mismanagement of democracy), some of the chapters in this volume reveal a gloomy prospect concerning actual functions of democratic institutions in the emerging states. As seen above, Mine's chapter demonstrates that the democracy in South Africa that was once praised as it fostered conciliation between the white and African populations has been found to be dysfunctional in improving the living conditions of the great mass of the people. Chapter 11, which was written by Kawamura, examines social policy and its result in Indonesia; it reveals that democratization in that country has not led to the enhancement of budget allocation for social assistance and welfare because political parties cannot effectively articulate the poor people's interests and only work for the maintenance of the highly regressive fuel-subsidizing system.

What is more alarming is that elections provide increasing opportunities for xenophobic populist forces in Indonesia. Honna's chapter (Chapter 12) shows that such political movement is increasingly connected with the military. After the downfall of Soeharto, the Indonesian military looked as if it had been retreating from the political and economic scene of the country. In actuality, it has maintained political and economic influence through the strengthening of the regional command system and by taking advantage of the spread of international norms (such as anti-terrorism) and nationalist sentiment against foreign values including LGBT rights, human rights, and environmental protection. The Thai case analyzed by Tamada (Chap. 13) is even gloomier. The mass-oriented policies of the Thaksin administration broke the balance among the monarchy, conservative elites, lower-class masses, and elected politicians, resulting in the military coup d'état in 2006 and 2014. As a result, a seemingly strong autocracy led by the military and supported by the monarchy and upper/middle classes was created, although it involves seeds of instability both in the monarchy (due to the death of former King Phumiphon) and in the military (due to fluctuations of the intra-military promotion pattern).

1.4 Can Politics Manage Economic and Social Difficulties?

The economic, political, and social problems that the emerging states face today share several features with issues debated or discussed a half-century ago with regard to economic development and political transformation in developing countries. Both are concerned with the prospect of continuous economic development for the latecomer countries, the relationship between economic development and political regimes, and the effect of economic development on social equity.

Contemporary challenges, however, contain many elements that are qualitatively different from the old problems. This is because the nature of economic development and political coordination has largely changed due to enormous advances in communication/transportation technologies and the unprecedented expansion of the global transaction of goods, services, and financial resources. In order to maintain the catch-

up speed, the emerging states today need to compete to locate higher value-added, high-skill, and technology-intensive segments of value chains within their borders. Some of the emerging states, especially those endowed with rich natural resources, may be able to rely on the resource-processing industries to continue catching up for the short run. However, given the limitations of value addition in the resource-processing industries and the high possibility of the emergence of emulators, the emerging states will need to get into higher technology sectors for the long run. In addition, they need to connect the vitality of the leading firms/sectors with related local industries and services. To do so, they must strengthen the technological capabilities of local firms and labor forces, a complex task that requires the coordination of many market players' interests.

The room for a government to play a role is narrower than before in the face of the complexity of the problem and the increasingly liberal international trade and investment regimes. Still, it may be able to provide public goods such as the enhancement of technological education and assistance for R&D activities. It can also help intermediate employers and employees, upstream and downstream firms, firms and local research institutes, and even domestic and foreign firms, thus eventually helping the technological upgrading of the nation.

This kind of intermediation can also be shouldered by non-public institutions such as business associations and more broadly by social networks. However, since the social equity problem is increasing in importance in the emerging states, the role of a government in coordinating various social and economic interests seems to be growing. If it can successfully build a satisfactory and sustainable social welfare/assistance system for its population, it will have greater political stability, which in turn will enhance predictability and facilitate negotiation and consensus-building among market players. However, since the world seems to be moving toward a more (rather than less) politically open environment, the governments of emerging states are required to play a coordinator's role by persuading, not suppressing, the increasing number of participants.

Certainly, a greater number of the emerging states have experienced democratization of their political regime in recent years. In some cases, however, greater demands for distribution and redistribution were precipitated by democracy and made prudent policymaking and interest coordination for technological upgrading difficult. In still another cases, democracy has not functioned as it was expected to correct social disparity. In the worst cases, democracy is in danger of degenerating into a xenophobic populist regime or an outright autocracy.

The economic, political, and social challenges for emerging states combine to form a complex whole that requires simultaneous attention. An extraordinarily challenging task is ahead.

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