



Asia and Oceania

Struggle for leadership

Economies in Asia and Oceania continue to grow, but conflicts in the region are also intensifying. As in other parts of the world, populists and strongmen in Asia and Oceania are increasingly taking power. Moreover, regional and global claims to leadership are colliding. Nonetheless, to date, the regional peace has been preserved.

In recent years, three trends have shaped the context of transformation in the countries of Asia and Oceania: robust economic growth despite uncertain global prospects; the rise of populism and the centralization of political power in the hands of strong political leaders; and the preservation of regional peace despite conflicting aspirations to leadership.

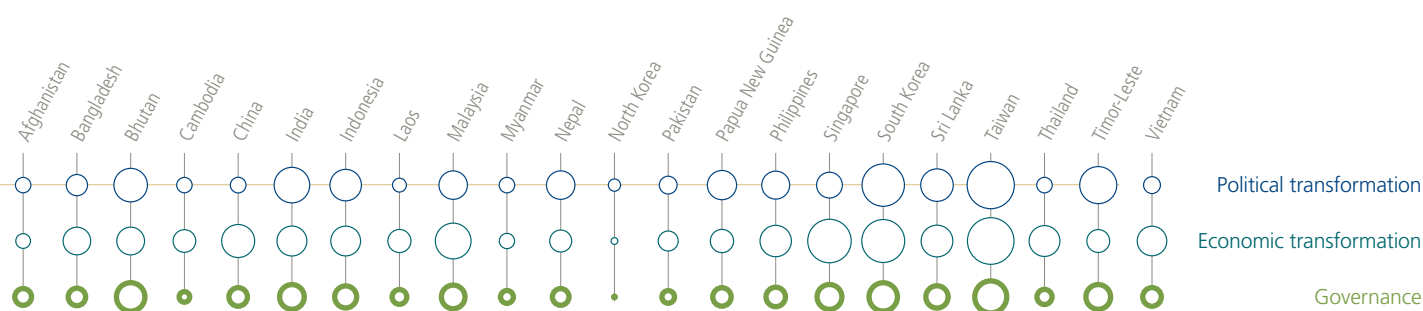
Economically speaking, the region of Asia and Oceania continues to be the world's most dynamic. In 2017 and 2018, Bangladesh, Bhutan, Cambodia, India, Laos and Myanmar each posted growth rates of 7% or higher. Growth was also robust in China, Malaysia, Singapore, South Korea and Taiwan, although Taiwan in particular has had to contend with economic prospects clouded both by the U.S.-China trade dispute and the fact that its supply chains are oriented strongly toward the mainland. In China it-

self, the slowdown in growth that has been evident since 2010 continued. However, the trade conflict with the United States had only a weak effect during the review period.

With regard to political transformation, Malaysia re-entered the ranks as a new democracy during the review period. As a result, and thanks to the inclusion of Timor-Leste (also known as East Timor) in this year's BTI edition, the region of Asia and Oceania features two more democracies than in the BTI 2018. Unlike in previous years, no democracy in the region has collapsed or slipped into autocracy. Nevertheless, this is not to suggest that the trend toward an erosion of democracies in Asia and Oceania has reversed itself. Rather, the welcome events – the positive developments in Malaysia, where the multiparty coalition that had governed since the state's formation in

1957 was voted out of office in May 2018, as well as the new addition of Timor-Leste with its fairly well-developed democracy – risk obscuring the regression or stagnation evident in many other locations. This latter trend is largely due to a yearning for traditional political values as well as the ethno-religious mobilization taking place in some Muslim-majority countries (Bangladesh, Indonesia and Malaysia), a number of primarily Buddhist countries (Laos, Myanmar and Thailand), and India. In these countries, practitioners of an ethno-nationalist identity politics, tolerated by local governments, have stirred up anti-minority sentiments and exerted a growing influence on national policy.

A second trend that has spread across the entire region is the return of strongmen – that is, strong leaders who serve as a focal point for the entire political system,



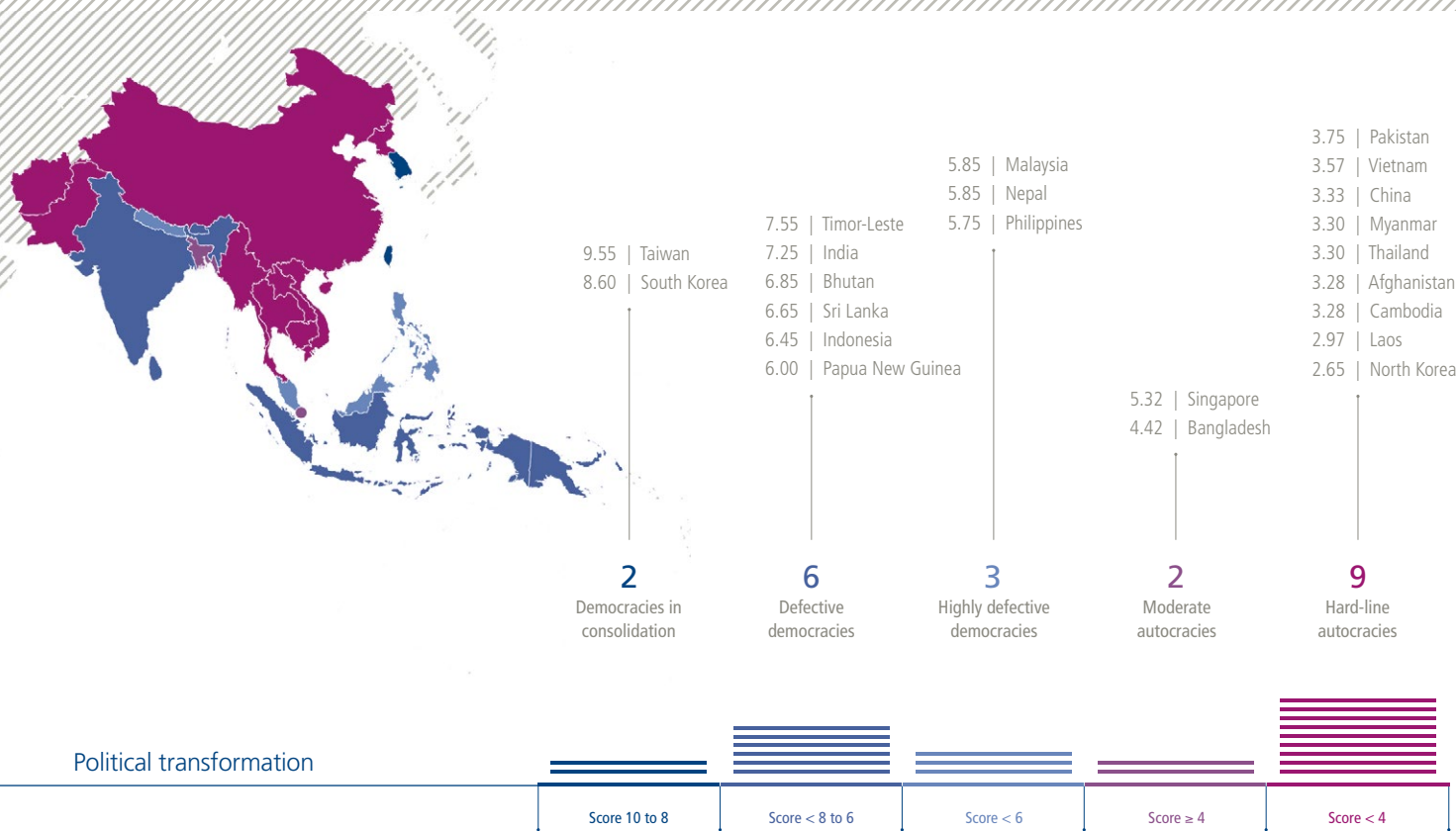
who sit at the center of a patronage network, and whose power is inseparable from their own person. Within such a context, strongmen are often seen by the public and by themselves as being superior to institutions and effectively above the law. A particularly striking example is the People's Republic of China, where efforts to centralize and strengthen party leadership under President Xi Jinping reached successive new heights at the 19th Party Congress in October 2017 and the 13th National People's Congress in March 2018. A similar trend has been evident in Cambodia and Papua New Guinea.

As a result, there is also little good news to report in the area of governance. Only Malaysia and Nepal have shown substantial improvements since February 2017. These derive from the change in regime in Kuala Lumpur and the significantly improved

willingness among Nepalese politicians to engage in conflict management. Each of these shifts had effects that rippled through other aspects of governance. However, there is some doubt as to the sustainability of these developments. In the past, political elites in Kathmandu have too often resorted to confrontational tactics and zero-sum games. In Malaysia, Mahathir Mohamad, who led the country's government from 1981 through 2003, again took the reins of power in May 2018. His metamorphosis from an autocrat to a democratic icon certainly figures among the nation's most startling political developments within the past few decades. By contrast, Myanmar's experiences serve as a caution against too much euphoria. Since 2015, this country's government has been de facto led by Nobel Peace Prize laureate Aung San Suu Kyi. Neverthe-

less, in the current Transformation Index, Myanmar showed the most significant drop in governance performance of any of the region's 22 countries.

The region's overall record is further tarnished by the fact that numerous heads of government have acted to stoke conflict in regional and global hot spots. To be sure, while the conflict over North Korea's nuclear weapons program has temporarily eased, China's great-power aspirations and assertions of territorial claims have provoked sometimes-fierce counterreactions in neighboring countries. At the very least, they have deepened concerns. Taiwan finds itself in a particularly vulnerable position here. Finally, the conflict between Pakistan and India has also intensified, and the fact that both countries are now governed by populists has done little to calm the situation.



Strongmen and identity politics threaten democracies

For the first time, fully half of the countries of Asia and Oceania assessed by the BTI are governed democratically. However, Taiwan and South Korea are the only democracies without serious defects. Moreover, the growing mobilization of ethnic and religious identities as well as the rise of populism have already brought about significant setbacks in several countries.

During the BTI 2020 review period, eight countries held national elections that were of high enough quality to receive at least six points under the BTI system – one of several minimal conditions for a political system to be classified as a democracy. Notably, regime changes were peaceful everywhere, with the single exception of Papua New Guinea. In this regard, the biggest surprise was the first-ever loss of the Barisan Nasional (BN) coalition in Malaysia, which had governed the country since its independence in 1957. The victor in this election was the newly formed Pakatan Harapan (PH) coalition, led by the improbable duo of Mahathir Mohamad and his former deputy prime minister Anwar Ibrahim, both former members of the BN.

In Pakistan, the Nawaz Sharif government was defeated by the Pakistan Tehreek-e-Insaf coalition led by cricket legend Imran Khan, whose populist promise of a “golden era” for his country will be difficult to fulfill given the enormous burden of debt. In Bhutan, too, elections led to a change in government for the second time in succession. In Nepal, the Congress Party and the Maoists formed a coalition government following elections, with their leaders agreeing to alternate as head of government. In Timor-Leste, by contrast, parliamentary elections in 2017 led to a political deadlock that was ultimately only resolved through a constitutionally controversial dissolution of parliament, with new elections held the following year. Voters in South Korea stuck to the pattern shown

since democratization in 1988, voting a center-left candidate into the president’s office following two conservative, corruption-besmirched governments. In Papua New Guinea, Prime Minister Peter O’Neill won another term in office despite criticism of his autocratic leadership style. However, rapidly dwindling support within his own party coalition forced him to withdraw on May 29, 2019.

These might be seen as positive signs, as is the slight increase in the average political-transformation score, from 5.08 in the BTI 2018 to its current level of 5.14 points. However, such short-term developments serve to obscure a rather less favorable medium-term trend. An examination of the 20 countries that appear in both the BTI 2006 and BTI 2020 surveys shows the regional level of de-

mocracy to have declined over this period. On the plus side, a detailed analysis shows a clear improvement in states' monopoly on the use of force, in large part due to the relative easing of the domestic conflicts in Cambodia, Indonesia, Nepal and Sri Lanka. Interest-group strength and election integrity also improved over the same period.

However, the influence of religious dogmas on legal systems and political institutions has grown – a sign of the trend toward the re-traditionalization of politics and of ethno-religious mobilization by practitioners of identity politics. Indonesia, for example, which has long served as a model country with regard to multiculturalism and a tolerant, syncretic Islam, has today become one of the most religious countries in the world, according to surveys on the issue. Many Muslim groups are strategically exploiting this religious sensibility for political purposes. Two striking examples during the review period can be cited. In one, Sino-Christian Jakarta Governor Basuki Tjahaja Purnama was sentenced to two years in prison on grounds of blasphemy; in the other, a guilty verdict carrying a sentence of 18 months in prison

was imposed on a Sino-Indonesian Buddhist who had complained to neighbors about the frequent Islamic calls to prayer.

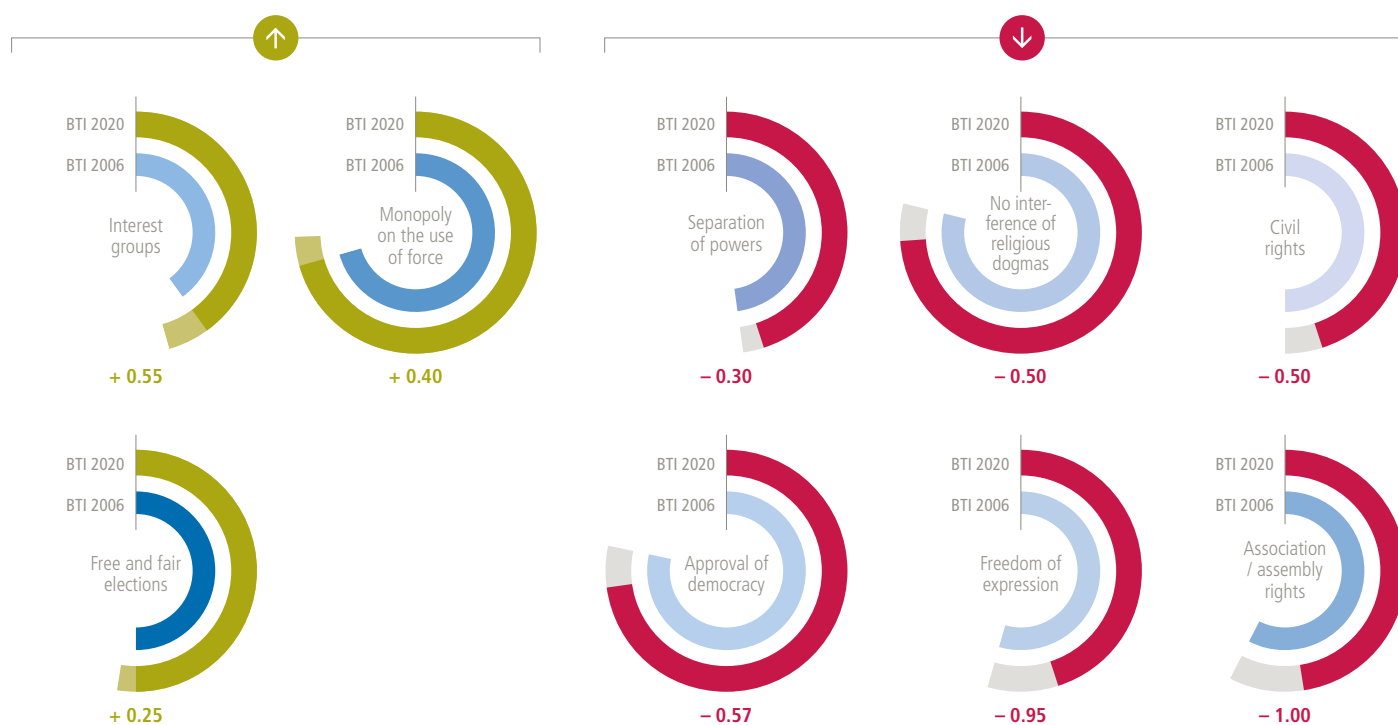
In Sri Lanka and Myanmar, it is Buddhist-nationalist extremists who are targeting Muslim minorities. The international criticism of the recent wave of ethnic cleansing against Myanmar's Rohingya has only boosted the Buddhist population's support for the government, and particularly for the military. In Sri Lanka, the focus of ethno-religious violence has shifted since the 2009 end of the civil war with the Tamil rebels of the LTTE. While many Buddhist Sinhalese previously perceived the Tamil minority as a threat, militant political organizations of Sinhalese-Buddhist nationalists, such as the Buddhist Power Force (BBS) and the National Bikku Front, now campaign primarily against Sri Lanka's Muslim minority.

Issues related to political participation have also suffered significantly since the BTI 2006. This is above all true of association and assembly rights, the freedom of expression, and civil rights. In democracies, this democratic backsliding has dovetailed with the rise of populist movements and

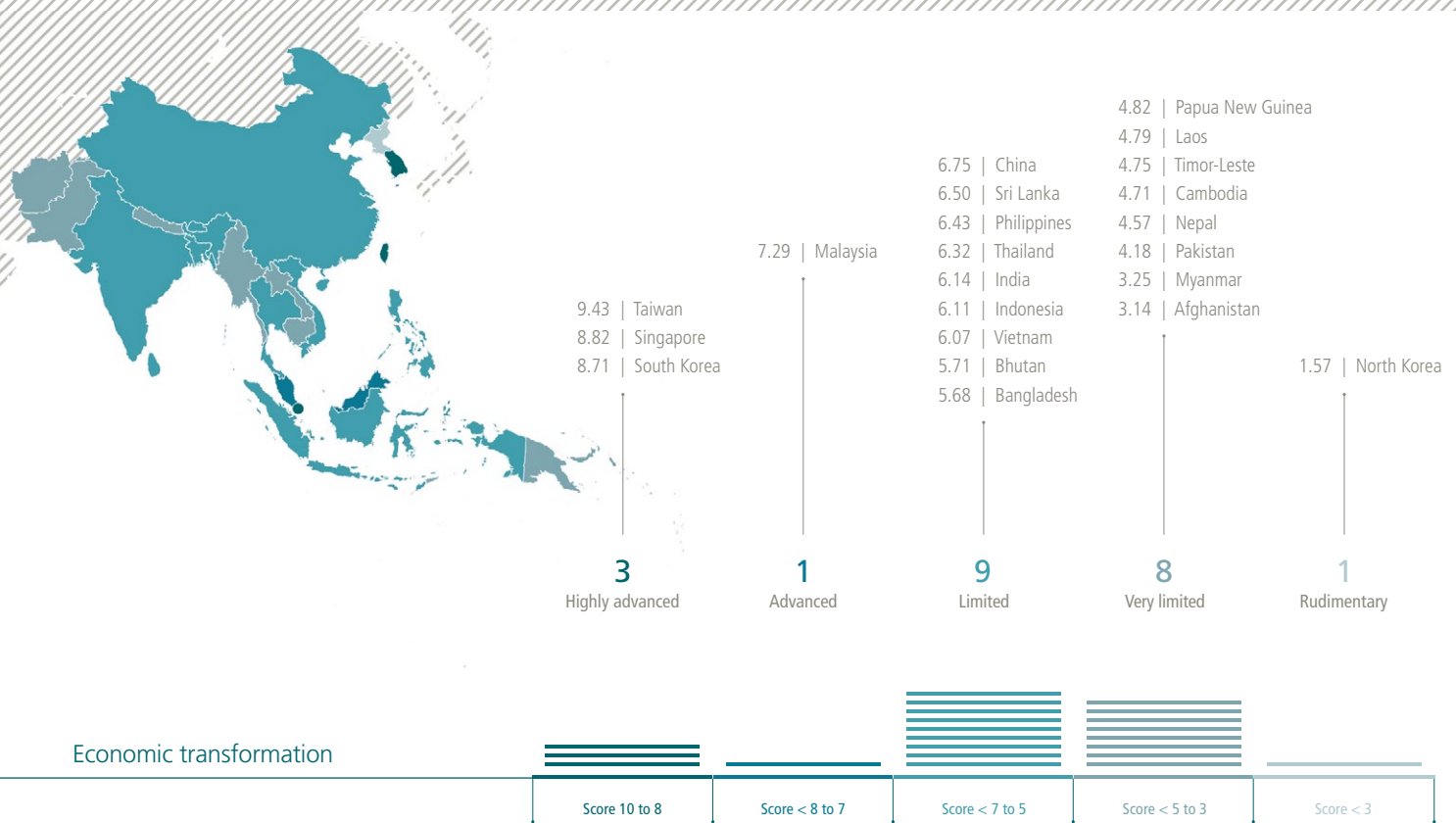
leaders. Currently, at least four countries are governed by populists: India and Indonesia (each since 2014), the Philippines (since 2016), and Pakistan (since July 2018). The loss in terms of the quality of democracy has been significant.

Strongmen have also gained ground in the region's autocracies, led by China's president, Xi Jinping. Following the enshrinement of "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" in the Communist Party's constitution, along with the abolishment of presidential term limits, the idea of "collective leadership" and regular rotation within the Chinese state's top decision-making positions appears to have been laid aside. In Cambodia, Prime Minister Hun Sen summarily dissolved the largest opposition party. Unsurprisingly, his party won every parliamentary seat in the following elections. A similar result was seen in Bangladesh; while the largest opposition party was not banned here, its leader was imprisoned, and thus excluded from participation in the election. The governing multiparty alliance was consequently victorious in 96% of all electoral constituencies.

More interest groups, fewer freedoms and less rule of law



Displayed are the nine out of 18 political-transformation indicators that show a change of at least 0.25 points compared to the BTI 2006. Sample size: 20 countries continuously covered since the BTI 2006 (i.e., excluding Bhutan and Timor-Leste). The sample size for the "approval of democracy" indicator is limited to seven democracies (India, Indonesia, Papua New Guinea, Philippines, Sri Lanka, South Korea, Taiwan) because ratings are not applicable for autocracies.



Unsustainable performance

The continued growth of the economies of Asia and Oceania has brought about sweeping structural change with many beneficial outcomes. However, the costs brought on by industrialization and globalization are increasingly apparent: Inequality is growing, and the scramble to solve the challenges of climate change seems increasingly desperate.

Though the speed and intensity of regional economic development has varied widely, the structural change experienced by the countries of Asia and Oceania over the last several decades has been remarkable. Market opening, globalization and export-driven industrialization have served as catchwords for a dynamic with unmistakable positive effects – particularly with regard to the decline in poverty. At the same time, the previously moderate level of income inequality that prevailed in most countries has risen significantly, increasingly raising questions related to social inclusivity.

Both tendencies are reflected in the BTI 2020. As in previous years, the average transformation level is highest with regard to economic performance, followed by the criterion of monetary and fiscal stability. The region performs most poorly with regard to the level of socioeconomic

development as well as the areas of welfare regime and sustainability policy. In many countries, for example, low-income groups and the poor do not participate sufficiently in the benefits deriving from economic growth. In addition, most states lack a developed and robust system of social security. Thus, it can in no way be taken for granted that the Chinese government, as it seeks to create a “harmonious society,” will successfully be able to manage and deal with the unintended consequences of its intended modernization of the country’s political system, economy and society.

The region continues to perform poorly with regard to environmentally sustainable development, for example in terms of CO2 emissions. Large economies, such as China, India and Indonesia, naturally account for the majority of these. However, South Korea, whose government has publicly committed

itself to “green growth,” also generates a particularly high level of per capita CO2 emissions.

Climate change is already having dramatic consequences for the region’s populations and economies. For example, according to a special report produced by the Asian Development Bank, natural disasters and increasingly extreme weather events (storms, floods and droughts) in Asian transformation countries produced an average of nearly 38,000 catastrophe victims per year in the period between 2000 and 2018. That corresponds to about 55% of annual catastrophe deaths worldwide. Of the 206 million people globally that were on average affected by catastrophes each year in this period, 84% lived in Asia.

Vietnam showed the most significant improvement of all Asian countries in terms of overall economic transformation during

the current review period. The reasons for this include the adoption of a new competition law in June 2018, the continued recovery of the banking sector, and the fourth-highest per capita economic-growth rate in Asia and Oceania. In addition, Vietnam benefited from the diversion of Chinese direct investment and of investment that had previously been destined for China.

Furthermore, some countries within the lowest quartile of the regional rankings that had previously suffered from long-term negative trends showed at least partially positive progress this time. In Afghanistan, the national unity government led by President Ashraf Ghani and de facto cabinet head Abdullah Abdullah was able to effect improvements in the organization of the country's market and competition regime while stabilizing the currency and the banking sector. Cambodia benefited during the review period from strong economic growth, a massive increase in foreign and particularly Chinese direct investment, and improved monetary and fiscal stability. Nepal showed successes in combating problems of poverty and inequality, as well as strong growth. Nevertheless, the country remains one of the poorest in the world.

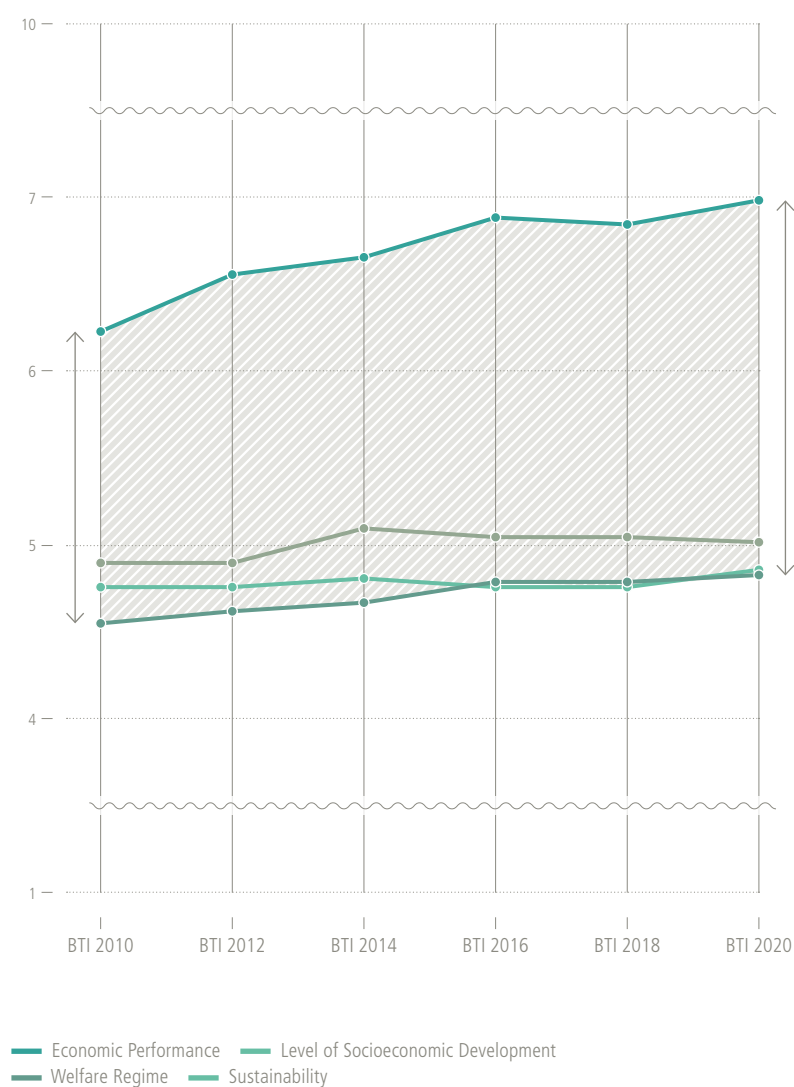
In the medium-term comparison with the BTI 2006, Nepal, Pakistan, Sri Lanka and Thailand number among the countries that have experienced economic-transformation declines. While the first two of these countries have registered absolute declines from a point already well below the regional average, the second two appear to be caught in the "middle-income trap." Political instability, violent domestic conflicts and a (temporary) drift toward autocracy have additionally hampered development.

Among those showing transformation gains were Laos and Myanmar, whose absolute level of economic transformation remains severely limited, as well as China and Vietnam. The difference in performance and innovation capacity between the Chinese model of authoritarian capitalism and India's developmental model is particularly striking. The strengthening of the state-capitalistic elements in China is likely to dim prospects of a transition to

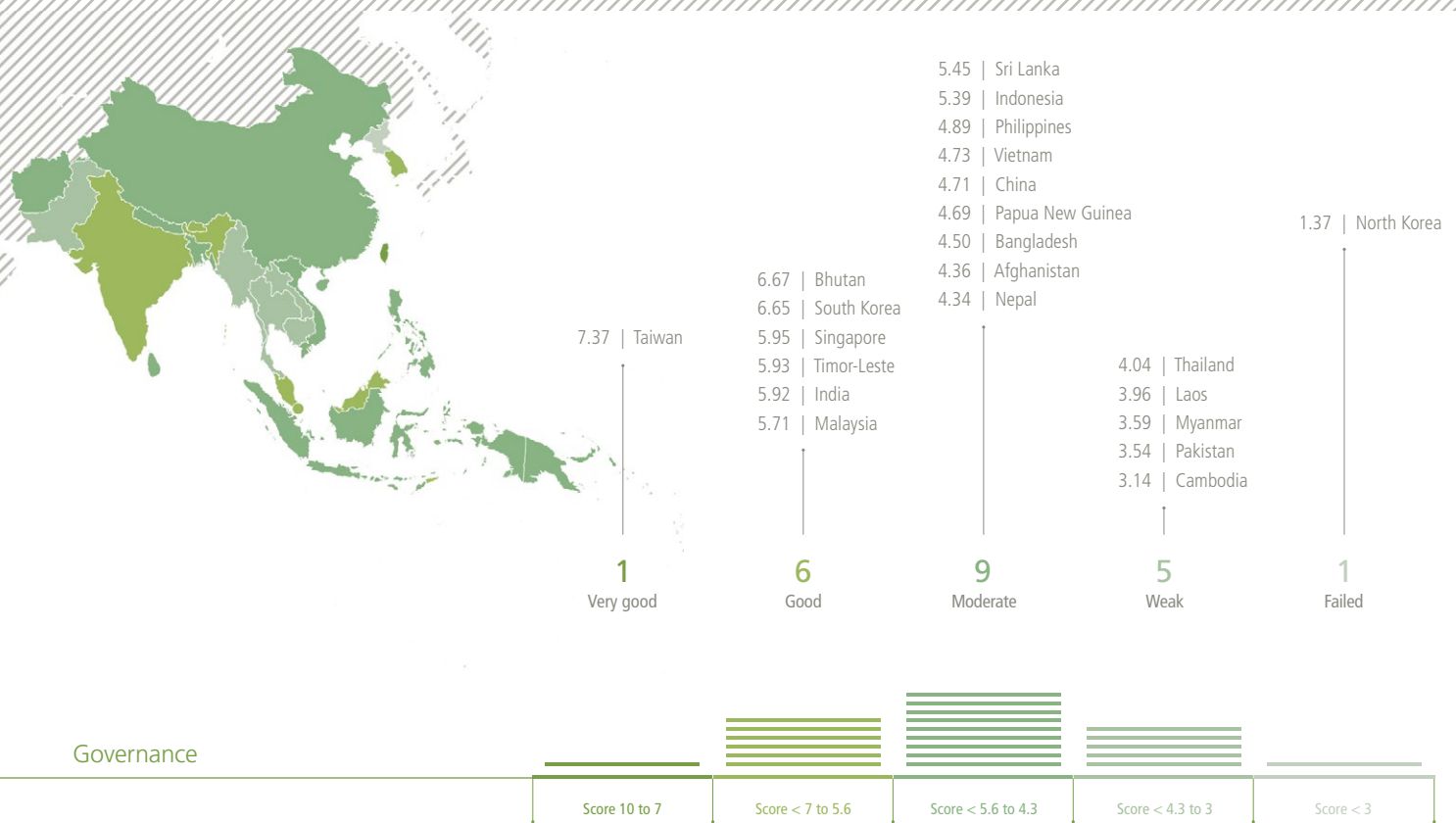
a functioning market economy. The state-owned enterprises are the primary beneficiaries of the "China in 2025" 10-year plan, which is designed to catapult the country into a position of global technological leadership. Similarly, these companies along with the state banks are the chief beneficiaries of the "Belt and Road Initiative" announced in 2013, also known as the "New Silk Road." The state is also increasingly taking the opportunity to buy shares in private companies and form party committees within them (a so-called mixed ownership reform). Party committees have today been integrated into about 70% of the country's private and foreign-owned companies, blurring the distinction between

public and private property. With regard to external trade, the Belt and Road Initiative is experiencing increasing headwinds. In Malaysia, Myanmar and Pakistan, fears of a Chinese debt trap are growing. Sri Lanka figures as a cautionary example in this regard. Here, the government felt compelled to provide China with a 99-year lease to the country's largest deepwater port, located south of Colombo in Hambantota, as a means of servicing its own liabilities. Both the Afghan and Indian governments, the latter of which has interpreted the initiative as an attempt at strategic encirclement on the part of Beijing, have declared that they do not wish to take part in the project.

Rising tide lifted many boats, slightly



Average scores of the 21 countries continuously reviewed since the BTI 2010 (excluding Timor-Leste)



Era of strongmen

A slightly higher average score does little to hide the fact that a large part of the region continues to make no progress with regard to improving governance. Authoritarian men holding the reins of power have exacerbated the potential for conflict. However, even a female icon of democracy has proved disappointing as head of state.

Asian governments' slightly increased average Governance Index score as compared to the BTI 2018 cannot obscure a sobering reality: Overall quality remains low. Even the strongest positive short-term gains are nothing more than mediocre. However, countries categorized as featuring weak transformation management no longer constitute the largest group. This is largely due to improvements observed in the three South Asian countries of Afghanistan, Bangladesh and Nepal. In 2016, Afghanistan saw the continuation of a long-running counterinsurgency campaign against the Taliban, which was complicated by friction between Prime Minister Ashraf Ghani and Chief Executive Abdullah Abdullah. The government has managed to retain control of the major urban centers.

Moreover, a controversial peace agreement with one of the most notorious butchers of the civil war, Gulbuddin Hekmatyar, and his armed band marks a success for the policy of reconciliation, even if its long-term sustainability may still be questionable.

Malaysia's strong improvement in the overall ranking, from 50th place (BTI 2018) to 40th place, reflects the changes in government policy made since the shift from the Barisan Nasional coalition to the Pakatan Harapan coalition. Improvements were particularly notable in terms of policy learning, policy coordination and anti-corruption policy as well as for the entire consensus-building criterion policy and the entire area of societal consensus-building. At the same time, the changes relative to the BTI 2006 are small. This comparison looks back to

the period before recently defeated Prime Minister Najib Razak (2009–2018) entered office and indicates that the new regime is still busy cleaning up the damage of the recent past.

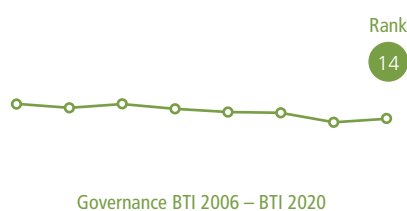
By contrast, populist-governed India, Indonesia and the Philippines have suffered losses. Unsurprisingly, the area of consensus-building was particularly affected here, though anti-corruption policy and policy learning are also rarely strengths exhibited by populist leaders. However, not all such figures make such a populist impression as Philippine President Rodrigo Duterte, who has no problem insulting the European Union, the pope or his overseas counterparts in the strongest possible terms; threatening China with military force; or making a display of his own acts of violence. However,



Population: 51.6 mn

Life expectancy: 82.6 years

GDP p.c. PPP: \$ 40,112



what the populists leading the democracies have in common with the strongmen in autocracies is a low tolerance for dissent both within and outside their ruling coalitions as well as a tendency to demonize their political opponents.

The group of countries with weak governance scores includes five autocratically governed countries. In Cambodia, Prime Minister Hun Sen, who has held his office since 1985, has crushed the opposition and overwhelmed political opponents and critics with tactics of repression. At the same time, Hun Sen has shown that he knows how to use the support of the People's Republic of China for his own benefit. In the multiethnic state of Myanmar, which is dominated by Buddhist Burmese, 2017 and 2018 were marked by fighting and severe crimes against humanity in the conflict-torn regions of Rakhine, Shan and Kachin. Aung San Suu Kyi and the National League for Democracy, which have been in government since the 2015 elections, have shown little interest in this issue. The Nobel Peace Prize laureate, who heads the government as state counselor, has failed dramatically in dealing with the violence against the Muslim minority. In other policy areas, too, a growing number of voices are questioning the fundamental reform capacity of the previously undisputed icon of democracy and her party.

Structural conditions in Thailand are more favorable than those in its Southeast Asian neighbors. However, the kingdom has been governed since 2014 by one of the world's few remaining military regimes. Both the constitution signed by the new king, Rama X, in April 2017 and the implementation acts passed by a military-convened assembly are intended in part to prevent former head of government Thaksin Shinawatra from ever returning to power. Moreover, their overall logic is aimed at allowing the military to retain power even af-

ter the promised return to elections. In the elections held in March 2019, Prime Minister Prayuth Chan-ocha's military-allied Phalang Pracharat Party (PPRP) was victorious.

North Korea remains at the bottom of the region's rankings. However, this does not mean that North Korean policymakers did not also engage in skillful political activity during the review period. On the contrary, by engaging in deft summit diplomacy with Beijing, Moscow, Seoul and Washington, dictator Kim Jong-un has managed to break his country's nearly complete foreign-policy isolation without being forced to make substantial concessions on his nuclear-weapons and missile programs.

In addition, China's ambitions are having a negative effect on international cooperation in the region. The emergent great power is confidently offering its own "Chinese solutions" to global challenges. However, the potential for conflict is growing. Taiwan, which has led the region in the Governance rankings since 2012, is facing the greatest pressure. President Tsai Ing-wen was elected in 2016 at the head of a Democratic Progressive Party (DPP), which calls in its bylaws for the island's independence. In her first two years in office alone, five of the 21 United Nations member states that had previously recognized the Republic of China as Taiwan is officially known withdrew their diplomatic recognition.

South Korea: A new political start with an "anti-strongman"

Strongmen have taken the reins in many East Asian countries as well as in their primary ally, the United States. By contrast, South Koreans' 2017 choice for president, the left-liberal Moon Jae-in, is a man who long preferred to work as a human rights lawyer than to practice politics. Moon followed the conservative Park Geun-hye, who in 2016 became embroiled in an unprecedented corruption scandal that ultimately cost her the office and paralyzed the country politically for months. The current government has broken with the hierarchical governance style of its predecessors, placing a high priority on transparency, communication with citizens, and civil society participation. In doing so, President Moon has helped restore much of the population's lost trust in politics. According to surveys by the Gallup Korea polling institute, 83% of the population – an unusually high share for democracies – regarded the president's administration favorably at the peak of his approval ratings, in early 2018.

However, the governing Democratic Party lacks an absolute majority in the single-chamber parliament, which follows its own electoral calendar, and cross-party cooperation has proven difficult. These circumstances do not bode well for President Moon's ability to implement far-reaching, genuinely necessary institutional reforms in areas such as the constitution, the electoral laws, the justice system and the educational system. On the contrary, he must be careful to avoid being regarded as a lame duck after the 2020 parliamentary election, especially since his popularity has declined to more normal levels due to weakening economic prospects, trade conflicts and rising youth-unemployment rates.



The full country report is available at
www.bti-project.org/kor



In China's shadow

Democracy is under pressure, the influence of autocratic leaders is growing, and conflicts are intensifying. Despite individual transformation successes, developments in Asia and Oceania are on the whole a cause for concern. The past 15 or so years, corresponding with the assessment period beginning with the BTI 2006 and stretching to the BTI 2020, were a period of economic dynamism in Asia, but also of an initially barely palpable – but now accelerated – erosion of democracy. It is to be feared that the latter trend will continue. The global wave of populism has also clearly arrived in the region. Unsurprisingly, according to BTI data, this has been associated with a decline in the quality of democracy, but without any of the gains in economic transformation or improved governance performance promised by the populists. Moreover, the Easter attacks on Christian churches in Sri Lanka, which took place after the end of the BTI 2020 review period, are one indication that religion has begun playing a stronger role in fanning domestic conflict.

Half of the societies in the region are governed autocratically. China's influence cannot be denied – both in the projection of its own economic, political and increasingly military power as well as in the sense of providing a 21st-century authoritarian-capitalist development model that appears to outsiders both desirable and worthy of imitation. In some places, this is reinforcing political alliances that bolster local leaders; in other countries, the fear of Chinese dominance is leading to nationalistic backlash. In con-

junction with the Trump administration's occasionally short-sighted policy shifts and at best limited advocacy for democracy and human rights in the region, as well as a certain gap in U.S. policy in Indo-Pacific Asia, this weakens prospects for transformation in the region.

Policymakers in nearly all states, with the exception of North Korea, favor capitalistic models of development. However, market-economic reform strategies in the sense employed by the BTI exist in only a limited number of countries, and the circle of states in which these are successful is even smaller. The core states of the East Asian "economic miracle," as the World Bank termed it in 1993, are far along on the path to economic transformation; however, it is quite clear that the region is not pursuing a uniform social market economy model. State-capitalist elements are significantly stronger and, in China's case, are even resurgent. In South Asia, particularly in India and Bangladesh, significant development successes have been achieved or expanded upon in recent years. Yet, given the structural constraints in place, it is unlikely that this region will be able to (or want to) follow the development path previously taken by East Asian and some Southeast Asian countries.

The primary short-term risks to regional development include the ongoing trade dispute between the United States and China, the associated weakening of foreign trade, and the current dip in investment in mainland China. To be sure, the manifest effects of these factors were hardly perceptible dur-

ing the BTI 2020 review period. However, the further escalation of the trade conflict in the first half of 2019, with Washington and Beijing each imposing punitive tariffs on one another, has since had effects within the still strongly export-oriented Chinese economy. While the trend in the first part of the year was still quite positive, in large part due to seasonal influences, China's exports to the United States (as well imports from the U.S.) have in fact fallen surprisingly strongly. Increases in exports to other regions have been unable to compensate for the drop. This, in turn, makes it more difficult for China's policymakers to stimulate their own economy, and makes a swift recovery appear increasingly unlikely.

Although this creates new opportunities for individual economies in export markets previously dominated by China, and offers them the opportunity to benefit from the diversion of direct investment, the conflict ultimately increases trade-policy uncertainty. This is not good for any of the region's generally highly trade-dependent economies. Moreover, should the policy of punitive tariffs erected by both sides persist, investment and production activities would be harmed across the entire region. Unfortunately, it goes without saying that this would make the urgently needed policy shift toward sustainability more difficult.



This summary is based on the Asia and Oceania regional report by Aurel Croissant. Together with the full reports for each country in the region, it is available at www.bti-project.org/aso





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