‘Understanding the changing institutions in the ‘Asian century’: A comparative analysis of ‘hollowing out state’ in China, Indonesia and Vietnam.’

Diep Tran
School of Government, Victoria University of Wellington
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DIEP TRAN

School of Government, Victoria University of Wellington

ABSTRACT. ‘Hollowing out’ state is a concept firstly coined by Rhodes (1994) to describe the process that ‘state is being eroded or eaten away’ through the process of hollowing out downward, hollowing out outward and hollowing out upward. This research is aimed at exploring the application of the ‘hollowing out’ process in developing and transitional economies in Asia namely China, Indonesia and Vietnam.

The paper argues that ‘hollowing out’ state is an applicable and useful concept in Asian countries. It is to explore the process that nation-state is giving up a part of its power to non-state actors through process (i) decentralization, (ii) privatization and (iii) trading off nation-state power to regional associations when appropriate. The motivation behind the ‘hollowing out’ state is economic growth and democratization. Given limited resources, governments have to liberate and mobilize social resources, depend on local governments and non-state actors to produce public goods and create public values. Economic growth goes hand in hand with democracy. The level and degree of democratizing society is heavily dependent on government agenda in party-states as Vietnam and China while it is the goal of Indonesia society. As such, the understanding of ‘hollowing out’ state in Asia is different from that in Western context. In Asia, ‘hollowing out’ state may be understood as state deliberately gives up some power for other actors to take up when appropriate. Changes in institutions occur in accordance to government ‘hollowing out’ agenda.

As a result, the ‘hollowing out’ process has not yet led to a ‘hollow state’ (Guys 1994). In fact, state remains as a strong key actor that decides how much power they are willing to give up to non-state actors and international actors as well. However, it is witnessing the dynamics of state-society relation is occurring. Private sector and civil society have

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1 This version is a preliminary draft. Suggestions are welcome and should be sent to Diep Tran at dieptran014@gmail.com. Please email me to be updated on the final version.
becoming more active in working with the government. However, Vietnam and China have stronger state domination than Indonesia and simultaneously, the process of democratization in Indonesia produces stronger civil society.

INTRODUCTION

Such phenomena as globalization and application of new public management (NPM) with focus on business-oriented management and democratization have critically undermined capacities of modern states’ bureaucracies to directly control social outcomes. It is even more challenging given the increasing participation of non-state actors with their diverse interests. As a result, modern states have gone through significant changes to steer society towards their preferred policy outcomes. Institutions are set up to help make process of governance able to function with the least possible unpredictability. Once new forms of governance are introduced, institutions will accordingly go through profound re-design and reforms.

Hollowing out state is a result of New Public Management (NPM). This concept is heard frequently in NPM pioneers especially Britain, Australia and New Zealand. Some papers have employed this phrase to describe the process of decentralization in some Asian countries. I however argue that the process of ‘hollowing out’ in Asian countries is more than that. The paper thus is devoted to understanding changes in institutions in three Asian countries: China, Vietnam and Indonesia in the process of ‘hollowing out state’. China is rising as a super economic power that is only second to the United States in economic size based on purchasing power, therefore it is too important to be neglected when we talk about key player in the ‘Asian century’. Vietnam is a rising economy that has an important geographical location in Southeast Asia (SEA). Indonesia is the most populous country in Southeast and a member of G-20. It is expected to play a vital role in leading the balancing out of the SEA region in the rise of China.

The paper is comprised of three parts. It starts with definition about ‘hollowing out state’ in Western countries followed by viewpoints about ‘hollowing out state’ in Asian countries. The phenomena will then be examined at three aspects namely downward, outward and upward. Finally, the paper will conclude on the applicability of the concept ‘hollowing out’ states in Asian countries. It answers the meanings that this phenomenon interprets in Asian context which is different from that in Western countries. Also, it points out the drivers of ‘hollowing out’ process in three countries China, Vietnam and Indonesia.

It argues that the concept of ‘hollowing out’ state can be applied in Asia to examine significant changes in institutions that occurred in this area recently. The drivers of a ‘hollowing out’ state include resources liberation for economic growth and democratization
in the case of Indonesia. In strong party-states, Vietnam and China, government still can control the level and degree of democracy which comes as a product of resources liberation. As such, the understanding of ‘hollowing out’ state in Asia is different from that in Western context. ‘Hollowing out’ state, in Asia, is likely to be understood as state deliberately gives up some power for other actors to take up when appropriate. Therefore, ‘hollowing out’ process in there has not yet led to a ‘hollow state’. In fact, state still plays its role as the agenda maker who decides how much power they are willing to give up to non-state actors and international actors as well. Since the drivers of ‘hollowing out’ state is domestically driven, the level of ‘hollowing out’ upward to regional power that Asian countries are taking is considerable less than that of Western countries, for instance, British towards the European Union. However, the dynamics that institutions are changing is undeniable leading to changing in the way that state relates to society.

**LITERATURE REVIEW**

In 1994, Peters firstly used the term ‘hollow state’ to describe British state structure and functions after Britain applied New Public Management. He argues that NPM’s business-oriented administration has broken down government structure and decentralized government functions. Particularly, state is losing its legitimacy due to erosion of trust from citizens to the government’s operation. The demand for smaller and more effective state leads to decentralization and privatization of service delivery. Civil servants are also losing their discretion towards citizens-customers due to customers-oriented approach of NPM.

The term drew attention of Rhodes. In the same year, he wrote in a seminar paper about hollowing out’ state (Rhodes 1994) in which he identifies three dimensions along which states are hollowing out. They are hollowing out downward, hollowing out outward and hollowing out upward through (i) privatization, (ii) contracting out, (iii) conceding power to supranational entities and (iv) limited discretion of public servants. Saward (1997, as cited in Kjær 2004) consolidates and summarizes the understanding of the term, hollow state, as the dismantling of national governments due to losing or conceding capacities to non-state actors, societal actors and/or supra-national entities.

The literature examining the hollow state process in developed countries is expansive. The changes occurring in Britain, Australia, and New Zealand, where profound reforms in public sector have occurred in the last few decades, are well documented (Hoye 2013; Kjær 2004; Peters 1994; Pierre and Peters 2000; Rhodes 1994, 2000). Such changes imply that ‘hollowing out’ state in developed countries is the product of a deliberate state restructuring in pursuit of a smaller and more effective government (Peters 1994; Rhodes 1994).
Quite a few scholars have used this term 'hollowing out' to describe the process of decentralization and/or democratization in developing and transition economies (see Painter 2008; World Bank 2005; United Cities and Local Governments and the World Bank 2008). These scholars have pointed out either explicitly or implicitly an important characteristic of the hollowing out process of Asian countries is to liberate resources and increase autonomy for the sake of economic development. The effect coming along with this liberating process is democracy regardless of government’s will. This is an important viewpoint but has not reflected the whole picture of what has been changing in Asia. This paper is to fill in the gap by providing a more holistic understanding of ‘hollowing out’ state in the context of three Asian countries China, Vietnam and Indonesia.

**METHODOLOGY**

The paper will apply three methodologies namely hollowing out process’s aspects, political economy approach and history legacy.

*Three aspects of hollowing out process*

The paper will examine the process of 'hollowing out' of the public sector in three countries China, Vietnam and Indonesia in three dimensions: hollowing out downward (decentralization), hollowing out outward (privatization) and hollowing out upward (conceding power to supra-national entities), as shown in figure 1.

*FIGURE 1 Three aspects of hollowing out*

(Rhodes 1994)
Political economy approach analytical approach

The paper also adopts an analytical framework of drivers of this ‘hollowing out’ process involving structural factors, institutional factors and actor/stakeholders factor. This framework is based on the problem-based governance and political economy approach by the World Bank (Fritz et al. 2009).

Three key types of factors or variable are commonly considered in PGPE analysis: structures, institutional and actors. As shown in Figure 2, the three types of variables can interact in numerous ways. Structural factors can be understood as deeper features that affect the political economy in each country. These tend to change only slowly over time and are beyond the direct control of (local) stakeholders (Fritz et al. 2009).

Institutional variables are those related to ‘the rules of the game’ that govern society to predetermined norms of behaviours. Institutional variables may be of overarching importance in the political economy of a setting. Institutions can be examined at different level with various focuses from country level to sector level. At the country level, the constitutional set-up and regime type are key institutional variables (Fritz et al. 2009). Formal rules and informal regulations governing the policy process also help explain incentives to which groups of interests are motivated to exert influence.

Actors or stakeholders comprise individuals as well as organized groups such as political parties, the military (and, in some cases, powerful secret services), business associations, civil society or NGOs. They also include external stakeholders, such as donors, foreign policy actors, or foreign investors. In the world of interdependence today, such foreign stakeholders play increasing important role in negotiations over policies and rules on both domestic and international issues.

FIGURE 2 Drivers of development process
**Historical legacy**

History plays a critical role in shaping a country’s institutions and governance. As such, the analysis will reflect and take into account important historical events and values. In addition, as this is a comparative analysis, such consideration is even more necessary.

Both Vietnam and Indonesia went through centuries of colonization by French, the USA, and the Dutch respectively. China was not colonized even though for a long period, it was controlled by England following the collapse of Qing dynasty. After reunifying the country, Vietnam has developed a remarkably similar political system to China. They are both one-party countries with the dominance of the communist party.
Meanwhile, Indonesia went through decades under the regime of the authoritarian President Soekarno, followed by dictatorship of President Suharto before being able to restore its democracy and parliament system in 1998. In contrast with Vietnam and China, Indonesia under the regime of President Soekarno eliminated all communism leaders and followers. Currently, it is making huge efforts to democratize the country.

**HOLLOWING OUT DOWNWARD: DECENTRALIZATION**

China had the earliest policy of decentralization among three countries which happened in fiscal decentralization in 1949. Decentralization gives more autonomy to local governments, and encourages them to compete for foreign investment. They will be awarded with political power when they achieve well. Many localities are able to implement initiatives that attract so many FDI and increase growth, which is more than expectation of the authorities (World Bank 2013).

Vietnam started its decentralisation, in Vietnam, considerably later in 1992. Decentralization in Vietnam is understood as de-concentration (phân cấp quản lý), devolution (phân quyền), and autonomy (tự quản địa phương). However, ‘de-concentration’ is the mostly used term in legal documents and regulations. In Vietnam, emphases of decentralization are placed on administration and fiscal reforms (World Bank 2005). Detailed description of decentralization however, goes beyond the essay’s scope of discussion. They can be referred to Fforde 2003; Nguyen 2011; Painter 2008; Vu 2003 and World Bank 2005.

China and Vietnam share three main characters of decentralization namely: (i) a thorough introduction and review of legal documents and regulations to introduce the concept into public administration; (ii) larger autonomy for local governments; and (iii) marketization and privatization (Painter 2008; Suna and Tong 2003; World Bank 2005). The World Bank (2005, p. 18) assesses the process of decentralization in Vietnam and China as ‘incremental’ even though the countries have approached it in an institutional fashion.

In Indonesia, various reform programmes and activities were undertaken by a number of post-Suharto administrations including those led by Presidents B.J. Habibie (1998-1998), Abdurrahman Wahid (1999-2001), and Megawati Sukarnoputri (2001-2004) under the supervision of donor and also because of public pressure. Three main reforms that highlight this era were ‘decentralization’, the separation of public servant to politics, and the implementation of an accrual accounting system. The reform has continued with the application of the concept of traditional public administration and the early adoption of New Public Management.
One of the most crucial stepping stones in public management reform was the policy of decentralization. During the "Reformasi" Era, decentralization was considered a large-scale experiment in public sector reform. It was implemented across Indonesia’s system of regional government administration, which has been considered among the most centralized government in the world. The decentralization of the public sector became something of a political imperative in the late 1990s and was directed under the strict Law 22 on Regional Autonomy, and Law 25 on Fiscal Balance between central and local government.

At that time, decentralization came to be seen as a way of holding the country together after the end of the Suharto regime and East Timor’s separation from Indonesia. As a result of Indonesia’s decentralization programme, local governments gained significantly more responsibility for several administration functions such as service delivery, considerably larger fiscal resources, and much greater authority over the use of those resources (Wicaksono 2008).

The process of decentralization in Vietnam and China is regarded as the by-product in all means of the transition from a command economy to socialist market economy (Painter 2008). As such, the process is conducted gradually, coming along with the process of bargaining and negotiating among high-profile politicians. At the same time, due to the increased autonomy of local government, local public officials have to deal with the conflicts between priorities of national government and those of local governments. This makes the policy implementation more of than not pretty tricky than easy as it is expected (Bao et al. 2012). On the other hand, it seems like Indonesia has the most thorough and systematic decentralization process among three countries. In Indonesia, decentralization happens even in human resources management because it opens vacancies in public sector to non-political personnel as long as they are capable enough (Wicaksono 2008). Last but not least, decentralization has brought about local champions to rise. Such names as Joko Widodo, Bo Xilai and Thanh Ba Nguyen in Indonesia, China and Vietnam respectively have become well-known nationwide and internationally for their success development story in local governments they are in charge of.

**HOLLOWING OUT OUTWARD: PRIVITIZATION**

Going hand in hand with decentralization is privatization contributing to the emergence of alternative service delivery systems due to the participation of various non-state actors (Saito 2011). Privatization is occurring in all three countries, but the speed of privatization and the level of reform in SOEs vary. I identify four determinants that are driving this process: government agenda, public values/ democratic accountability, market openness
and economic affordability. These four quadrants interact with the other to produce the result of privatization.

**TABLE 1** Determinants of privatization policy

<table>
<thead>
<tr>
<th>Government agenda</th>
<th>Public values/ Democratic accountability</th>
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<tbody>
<tr>
<td>Market openness</td>
<td>Economic affordability</td>
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</table>

**Government agenda:** Government agenda plays a key role in deciding the trend of privatization policy. The International Monetary Fund (IMF) evaluated that Vietnam’s economic reform is relatively slower than its communist neighbour China and other Eastern Bloc countries (IMF 2001). The most critical reason is privatization, or SOE reform in particular, touches the core political ideology, power and interests of multi-political players in Vietnam. As Vietnam still holds Maxist-Leninist and the political system of communism, the ruling party insists on the leading role of the state, represented by SOEs in the economy (Mekong Economics 2002). In other words, the Party has to maintain SOEs for the sake of the Party’s legitimacy. Therefore, the two fundamental roles of SOE reform is (i) to improve SOEs’ efficiency by giving them more autonomy and gradually exposing them to market competition and (ii) to restructure SOEs sector as a whole through equitization and liquidation (Abonyi 2005)

Meanwhile in China the massive privatization showed a more mature political consensus in restructuring the SOEs leading to a significant reduction in public ownership, bringing down the SOE share in China’s gross domestic product from 77.6% to less than 30% during twenty years of economic reform (Sjoholm 2006; Suna and Tong 2003). 4,000 large- and medium-sized SOEs have been restructured. Yet, SOEs still provide about 40% of urban employment and over 30% of the SOEs are still losing money. In the era of marketisation, the central government in China gave some provinces a large amount of autonomy to experiment and use their initiative in stimulating local enterprise and attracting foreign investment (Suna and Tong 2003). The form of ownership is partial privatization or ‘share issue privatization’ (SIP).

In Indonesia, privatization started under the regime of President Suharto in 1997. Due to the Asian financial crisis the government experienced fiscal difficulties and owed a huge amount of debts. Therefore the Indonesian government has largely consolidated its financial system; out of 237 banks in 1997, 69 insolvent banks have been closed, 22 weak and small banks were merged with larger banks and 17 other were taken over. The total
number of commercial banks from 237 banks in 1997 fell to 151 banks at end 2002 (IMF 1997).

*Public values/ democratic accountability:* Privatization is an important policy partly because the level of impacts is pervasive. In Indonesia, privatization does not exactly receive warm welcome from the people. Indonesian public considers SOEs as ‘state asset’ thus should not be on sale for foreigners. This is a distinguished feature between China and Vietnam and Indonesia (Wicaksono 2008). In the case of the two previous countries however, foreign investment is more than welcome since they implemented their open economy policy in 1986 and 1978 in Vietnam and China respectively.

In Vietnam, public opinion is also considered as a hindrance against privatization (Abonyi 2005). In particularly, it is people’s fear of losing employment together with social benefits such as health insurance and maternal leave if SOEs are privatized.

*Market openness:* The effect of privatization also depends on the openness of a market. The following figure showed how privatization revenues changed in the period of 1990-1997. China, under the regime of Deng Xiaoping had a wide open economy policy to attract foreign direct investment during this period as well as relatively liberal policy to privatize SOEs (World Bank 2013). This policy happened at the same time with the Asian financial crisis when foreign investors withdrew money from the countries in crisis including Indonesia and were looking for a new destination to invest. As a result, the revenues that China received in 1997 skyrocketed, as shown in figure 3. On the other hand, Indonesia had a high number of SOEs especially in banking sector during 1990-1997. The economy was emerging and doing steadily and therefore opportunities for privatization were not as many as they were after the financial crisis.

FIGURE 3 *Privatization revenues in East Asia and Pacific during 1990-1997*
**Economic affordability**: Indonesia is a useful example to explain this factor. Before the Asian financial crisis, the country was doing well enough for the government to maintain huge investment in SOEs. After the crisis, however, the fiscal difficulties forced the Indonesian government to sell out many public assets to schedule their debts and reduce the crowding-out effect. In the case of Vietnam and China, transforming to an open economy from a command economy requires a large amount of res to restructure the economy and society. The governments’ traditional way of investment and spending could no longer afford new demands for such restructure.

In the following, we can see how these four actors interacting with each other to produce the outcome of privatization in Vietnam. The interaction of four determinants occurs in the form of institutions and agents.

**FIGURE 4 Interaction between institutions and agents in relation to the process of privatization in Vietnam**
Main political actors

- The Politburo
- The national government
- SOEs controlling agencies (line ministries, local govt)
- SOE managers
- SOEs workers, their families, and unions

Other social actors

- Private sectors, investors (national and foreign)

Other business actors

- International donors (ADB, IMF, WB, DANIDA, etc)

Other external actors

- Little political power in this context, but serve as important financial supplements for govt budget for reform
- Can cease financial support if not satisfied with reform results, their concerns are likely to influence over investment decisions of foreign investors to privatized/commercialized SOEs

What are the implications for selected policy options?

- SOEs reform is crucial to improve performance of SOEs-the face of CPV, thus enforce its role and legitimacy. At the same time, Politburo afraid of massive unemployment if SOEs conducted in massive scale
- It’s an alternative financing for SOEs and one further step to realize Doi Môi goals, but the govt also worried about social impacts of unemployment
- Fear of losing power and control over SOEs, leading to losing private interest that may be earned by political power
- Fear of losing power and associated benefits when being managers at SOEs
- Threats of being released from SOEs and loss of other social benefits for themselves and families; insecure because don’t understand what reform is happening
- Human resources coming from SOEs may involve cumbersome regulations on transferring social benefits from SOEs to private firms. To investors, the process is slow and cumbersome despite increasing commitment from govt. Thus it is unlikely to rush in for investment in the first place.

Why do they matter? (degree and kind of power, political power)

- The Politburo has supreme power in any strategic decision. Without consensus reached in the politburo, no further actions can be made
- Receive political tasks from Politburo, provide direction, manage and responsible for SOEs reform process
- Direct supervisor of SOEs, appoint SOEs managers under administration and provide instruction/command to SOEs managers
- Members of CPV, and have close relationship with controlling agencies
- They do not have political power but their support is important for CPV’s legitimacy and sustained existence

How do they matter? (interests, influence on policy decisions, interdependencies and interactions)

- The Politburo power and interests closely attached to ideology and legitimacy of Communist party of Vietnam (CPV). It has decisive voice in whether or not and if yes, to what extent reform should be done
- Responsible for socio-economic development including financing SOEs and SOEs performance, thus they are ambitious about reforms. Pressure from international donors also makes them accelerate reform
- Their motivations can foster or hinder or even block reform as they have closest relationships with SOEs managers
- Directly implement reform at firm level. They play critical role in reform at restructuring, org. behaviour, efficiency, etc. Their motivations/policies can foster or block reform
- SOE reform closely relates to workers as they may lose their jobs and social benefits. So they are likely to follow the option that gives them security, and thus resist changes especially when they are not well informed

Who matters?

- The Politburo
- The national government
- SOEs controlling agencies (line ministries, local govt)
- SOE managers
- SOEs workers, their families, and unions

(Tran 2013)
After more than decades of privatization in three countries, SOEs in China, Vietnam and Indonesia have gone through considerable to significant changes. Table 2 summarizes some key features of SOEs in three countries.

### TABLE 2

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>China</th>
<th>Vietnam</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional restructuring at macro level</td>
<td>‘crossing river touching stones’ approach, significant reduction in number but expanding in scale (World Bank 2013)</td>
<td>‘incrementalist’ approach, significant reduction in number but expanding in scale (Abonyi 2005)</td>
<td>Significant reduction in number and ownership</td>
</tr>
<tr>
<td>Institutional restructuring at micro level</td>
<td>Efficiency and profit-making issues remain unsolved</td>
<td>Not much have changed despite of some success story</td>
<td>Efficiency remains unsolved</td>
</tr>
</tbody>
</table>

| % total assets of SOEs in GDP (as of 2012) | 30% | 34% | 53.5% |


### HOLLOWING OUT UPWARD TO SUPRA-NATIONAL ORGANIZATIONS

To begin with, it would be helpful to agree that all three Asian countries have strong nationalism and their governments are not willing to give up their power to other actors or other groups of actors. Therefore, when national government lets other actors, herein transnational to have greater control and autonomy, I believe it is a conscious strategy of the state. The reason for this is there have been more and more global issues that one country is hardly address by its own, and there have been more issues that many countries share the same interest in. As such, the demand for voluntary cooperation, network and partnership for the sake of national interests and regional security is increasing. Such international organizations as the World Trade Organization, European Union or ASEAN are less likely to gain its significance without substantial support from their country members. In this paper, I will particularly address the role of ASEAN and how Vietnam, China and Indonesia have...
allowed their nation-state power to be suppressed by ASEAN via the process of resolving territorial conflicts between some ASEAN countries and China.

Since its establishment, ASEAN is thus expected to create a prosperous and peaceful community through free trade and cultural exchange. However, many are suspicious about its role and sustainability due to several reported cases of conflict among country members such as the conflict between Thailand and Cambodia over the Preah Vihear Temple in 2008, Vietnam and Cambodia over territory, or Indonesia and Malaysia conflict in claims over territorial and cultural heritage. Such conflicts are believed to be attributed to damage the solidarity of the association. In addition, ASEAN is also dubbed as an association that speaks louder than its action.

These mentioned issues are not unreal. However, it has to be admitted that concerted efforts are being made to build up a stronger ASEAN possibly fostered by the threat of a rising China. Many rely on ASEAN in balancing out the terms of trade and economic power between China and Southeast Asian countries. In addition to economic interests, ASEAN members seem to expect more from this association when they managed to reach an agreement to develop the pillar of security in ASEAN towards 2015. With such a vision, ASEAN is acting proactively in resolving territorial conflicts between some ASEAN countries and China. In order to make these goals happen, each country member may have to sacrifice its individual approach, when necessary, to act collectively as one ASEAN community.

In fact, the world, and particularly China is witnessing a more unified and solid ASEAN that is sharply different from an ASEAN of conflict in 2012. The 46th ASEAN Foreign Ministers’ Meeting (AMM) in Brunei is a big success when ASEAN countries are able to reach a consensus about Declaration on the Conduct of Parties for the South China Sea (DOC) and a 6-point consensus on South China Sea or East Sea issue. This has made to disappointment about failure to deliver the Joint Communiqué in the 45th AMM and the 11th ASEAN Summit in Cambodia fade away. It is written in the Joint Communiqué declaration in the 46th ASEAN’s AMM (ASEAN 2013, p.18) that

We [ASEAN countries] looked forward to continued engagement with China in the full and effective implementation of the DOC in all its aspects. We would continue carrying out mutually agreed joint cooperative activities and projects in accordance with the Guidelines for the Implementation of the DOC. We stressed the need to maintain the positive momentum on dialogue and consultations following the 19th ASEAN-China Senior Officials Consultations [SOM] and 8th ASEAN-China Joint Working Group on the Implementation of the DOC. Taking into account the importance of the 10th anniversary of the ASEAN-China Strategic Partnership in 2013, we look forward to the formal consultations between ASEAN and China at the SOM level on the COC [Code of Conduct] with an aim to reach an early conclusion of a Code of Conduct in the South China Sea, which will serve to enhance peace, stability and prosperity in the region.
Indonesia, the biggest country in ASEAN in terms of population and also a member of G-20 is credited to making this success happen. Indonesia's Minister of Foreign Affairs, Mr. Marty Natalegawa has played an active foreign policy by proactively meeting his counterparts in five countries in ASEAN to discuss and negotiate about reaching the two abovementioned consensuses (Thayer 2012). Such efforts in foreign affairs policy from Indonesia have been fully supported by Vietnam, Malaysia, Singapore and the Philippines. Besides the Philippines, Vietnam, the country that also has deep conflict with China over the territorial dispute has taken a relatively peaceful approach. Within its nation-state power, the government has limited itself from addressing conflict directly with its neighbour. Rather, the government tends to act in collaboration with ASEAN as a community, with ASEAN country members, and with international community of scholars and historians to tackle this problem.

Such changes have made China change its strategy. Last year, China acted on its own terms by implementing bilateral negotiation with each individual ASEAN country member such as Malaysia and Cambodia, and avoiding multi-lateral negotiations. This year, China expressed its wish to conduct consultation about implementation of COC with ASEAN countries. The country, however, stated that China-ASEAN meetings are on consultation rather than negotiation (Thayer 2012). It is forecast that China is challenging the solidarity and determination of ASEAN. Historically it has shown that China can resort to reaction of an individual ASEAN country to act against China individually rather than collectively to put the consultation and/or negotiation with ASEAN on hold. For instance, the recent reaction of the Philippines in taking their dispute with China to UNCLOS may be a good reason for China to do so.

This example has shown that China, Vietnam and Indonesia have adjusted its national foreign policy and acted accordingly to changes in geopolitical environment in the region created by changes in ASEAN setting. Instead of acting to its own terms, these countries have to, to some extent, concede the power to make agenda and lead the game to the supra-national entity, which is ASEAN in this case. The drivers for a government to do so is either when the problem faced goes beyond its capacity to address (Indonesia and Vietnam) or when the government is forced by international pressure and effective intervention of supra-national entities (China). However, the degree of 'hollowing out' upward in Asian countries is not as strong and solid as it is in Western countries. The supranational entity, ASEAN is not as binding as it is in the European Union.

**IMPACT OF HOLLOWING OUT STATE: FROM STATE-GOVERNMENT TO SOCIETY-GOVERNANCE**

The combination of three aspects of ‘hollowing out’ state has contributed to a trend in governance in these Asian countries. It is a trend of transformation in the state-society relation moving from state-government to society-governance and network governance. The distinguished characteristic of network governance is relationship based on partnership and
exchange of experience (Pierre and Peters 2000). The transformation happens not only in central government with local government but also across sectors. Let take an example in the education sector to illustrate this trend. When Vietnam implemented its Doi Moi reform, the demand for education considerably increases in both quantity and quality. The government can hardly provide this service on its own due to limited capacities and financial viability. As a result, it has to mobilize the participation and contribution of non-state sectors to share the roles and the cost. From that basis of cost-sharing, further restructure in functions happened leading to new forms of governance in this sector.

Figure 5 below summarizes a transformation from state-government to society-governance through an overview of the roles of multi-service providers in education sector in Vietnam.

FIGURE 5 From state-government to society-governance and network-governance

<table>
<thead>
<tr>
<th>Providers</th>
<th>Focus</th>
<th>Interaction areas</th>
<th>Technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>National government</td>
<td>Delivery of policies addressing social problems</td>
<td>Unilateral interventions with lower levels governments</td>
<td>Rigid dependence on bureaucracy</td>
</tr>
<tr>
<td>Local governments</td>
<td>Delivery of services (public schools) meeting national standards and addressing inequality issues in education; Delivery of policies at local levels in line with national policies</td>
<td>Multi-lateral interventions with agencies, private actors and civil society</td>
<td>Rigid dependence on bureaucratic hierarchy, quasi-market mechanisms and agencies</td>
</tr>
<tr>
<td>Private investors</td>
<td>Delivery of supplementary services which are under-supplied by public services</td>
<td>Private-public partnerships may involve</td>
<td>Flexible market-led</td>
</tr>
<tr>
<td>NGOs</td>
<td>Managing grassroots level problems related but not limited to education,</td>
<td>Multi-lateral interventions with local governments, national government,</td>
<td>Holistic approach, market-led approach, development approach, with</td>
</tr>
</tbody>
</table>
such as left-behind children leading to inequality of opportunities

Building capacities for community in delivering services among their communities

Advocating sound practices, if any, to local and national governments and up-scaling if possible

Networking domestically and internationally, vertically (national to local) and horizontally (sectoral)

Community-based organizations
Voluntary delivery of services for the needy
Community-based interventions and interactions
Local initiatives with cooperation with societal actors

(Tran 2013)

This model of network-governance shows that governments have to rely on a partnership and exchange relationship with local governments and non-state actors to deliver services and implement policies.

Despite different speed and scale of hollowing out in three countries, they all share a common trend in shifting the form of governance from central state-government to more decentralized society-governance. This indicates that the way society is being governed is the result of interaction among multi-stakeholders in private sector and civil society sector rather than just within the public sector even though the government in party-state (Vietnam and China) remains as a strong key player. As such, more values and interests are brought into discussion during the policy making process, challenging the government to effectively handle the issue of conflicts of interest (Bao et al. 2012). Notably, such conflicts of interest come not only from within the nation but also from abroad.

CONCLUSION

The essay has examined the trend of ‘hollowing out’ state in China, Vietnam and Indonesia in three aspects: (i) hollowing out downward - decentralization, (ii) hollowing out outward - privatization and (iii) hollowing out upward - conceding power to supra-national entities. It has proven that the concept of ‘hollowing out’ state is applicable and useful to examine changes in institutions happening in three Asian countries.
Economic growth and democratization in the case of Indonesia are the main drivers of the ‘hollowing out’ process. Economic growth goes hand in hand with democracy regardless of government’s wish. However, government can still control the level and degree of democratizing society. As such, the understanding of ‘hollowing out’ state in Asia is different from that in Western context. In Asia, ‘hollowing out’ state may be understood as state deliberately gives up some power for other actors to take up when appropriate.

The ‘hollowing out’ process in Asia has not yet led to a ‘hollow state’. In fact, state still plays its role as the agenda maker who decides how much power they are willing to give up to non-state actors and international actors as well. However, it is witnessing the dynamics of state-society relation is occurring. Private sector and civil society have becoming more active in working with the government.

The dismantling of functions and power delegation seems to be strongest in Indonesia where efforts to develop democracy in the country are underway. In Vietnam and China, it is not strong enough to conclude on a reduced state sector size and state power. These trends however, have led to substantial changes in the country’s institutions and shift the state-society relations to a more balanced position. More stakeholders are getting involved in the process of policy-making and governing society.

It also argues that the state in Vietnam and China have a tendency to concede its economic power more because of poor economic affordability in the medium and long term as well as political pressure to gain economic growth and social development. In Indonesia, the driving force of pulling state power apart is attributed to democratization.

Three countries are also inclined to concede a certain power of nation-state government to the regional entity, the ASEAN. This is a conscious strategy for the sake of national interest rather than a passive pathway. The drivers of this conceding process are the interdependence of nation-country to each other, the demand for regional security as well as international code of conduct that individual country has to obey in the neo-liberal world.
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