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Introduction

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Despite the widespread adoption of policies aimed at securing economic growth and development, the economies of South-East Asia were to struggle in the immediate post-Second World War period (Talilng 1966: 238–45). Except for Singapore, South-East Asian countries continued to be characterised by primary commodity production—the vast majority of people engaged in agricultural production, much of it for subsistence. Industry was generally rudimentary, small-scale and often craft-oriented. However, over the past three decades the economies of the region have undergone remarkable transformations. Rates of economic growth have increased exponentially, and the region is now a significant exporter of industrial goods. Such developments have been accompanied by urban conglomeration and the rise of significant middle and working classes. South-East Asia is no longer an economic backwater but an influential economic region, with increasing internal cooperation in trade and production.

Again with the exception of Singapore, this shift to industrialism in South-East Asia took place two decades after the dramatic industrialisation of the newly industrialising countries (NICs) of North-East Asia, namely Taiwan, South Korea and Hong Kong. Consequently, there is a discernible difference in emphasis in much of the literature examining North-East and South-East Asia, the former having a greater preoccupation with the question of how industrialisation was achieved. In North-East Asia powerful states instigated national development strategies based on export-oriented industrialisation (EOI), involving various collective arrangements with corporate capital. Where successful economic growth had been so firmly associated with market systems in orthodox liberal thought, it is not surprising that the focus of research was upon the role of the state; either to propose state-led markets as an alternative to the liberal model, or to explain the significance of the state in these cases.

In explanations of economic growth in South-East Asia, the role of the state has not been given the same prominence. To some extent this reflects an ideological bias in favour of the market among writers who tend to see
the North-East Asian experience as an aberration and wish to propose South-East Asia as a different route to growth, one without substantial state involvement. But it also reflects the extraordinary diversity and complexity of state involvement in economic life in South-East Asia which often masks the extent of this role, frequently embedding it in a diverse range of relationships with social forces. For example, in the Philippines, political and economic power is often seen to revolve around powerful oligarchies, while in Indonesia the power of the state resembles a form of command capitalism, even though the market is less constrained than it was in past decades. Vietnam, of course, has the added challenge of moving from an economy dominated by state enterprises to one where the private sector takes a leading role. In Singapore, state officials have had a crucial role in directing development in a society where the domestic capitalist class has embarked on increasing cooperation, rather than competition, with state capital. In Thailand, the state has facilitated the emergence of one of the most vigorous capitalist classes in the region.

In all South-East Asian economies there has been a continued opening to the world economy and a retreat from the nationalist and state-led economic regimes of the immediate postwar period. In recent years, privatisation has accompanied programs of market deregulation, while domestic capital has become increasingly internationalised, entering international financial markets, investing overseas and extending links with foreign corporate groups. Private banking systems and capital markets have developed and expanded significantly. These moves have been encouraged by a range of international institutions, including the World Bank, International Monetary Fund, Asian Development Bank, Asia-Pacific Economic Cooperation, General Agreement on Tariffs and Trade and World Trade Organisation.

However, while the institutions of liberal capitalism are apparently being reproduced in the region, their emergence is not without problems. Despite all the changes, states continue to play a critical economic role. To varying degrees, they continue to maintain systems of trade protection, develop and implement strategic industry policies, and public sector investment remains significant. In addition, legal-rational systems of authority have not yet established a clear distinction between public authority and private power.

Such observations have seen a number of questions emerge, both in academic circles and the policy arena. First: what are the dynamics at work? Is there an inexorable advance of the market system, driven by a functional superiority of such systems in generating growth and prosperity? Is change being driven by a rational process of institution building in which new collective rules, legal systems, property rights and regulatory frameworks are incrementally established as a functional response to new problems in the organisation of political and economic life? Is change driven by the interests of new social forces through political contests for power and control of the policy agenda?

Second: where are the economies of the region heading? Towards various liberal models of economic and social organisation characterised by deregulated markets and legal frameworks protecting the individual from the state? Or towards systems of 'collective capitalism' in which the state plays a leading and coordinating role, and strategic industry and trade policies? Or perhaps towards systems of unconstrained capitalism in which public power becomes the possession of contending oligarchies or groups of state bureaucrats, and markets are dominated by the exercise of political authority rather than formal and enforceable rules. Can such systems coexist with industrial capitalism in the long term? Or are these economies reproducing many of the same problems and issues which arose in the earlier industrialisations in Western Europe, North America and Japan, but in a 'pressure-cooker' environment of exceptionally swift social and economic change? Or, more simply, is there an 'Asian model' of capitalism?

Third: what are the social and political consequences of the rapid emergence of capitalism in South-East Asia? What friction and conflicts are associated with the transformation? What are the likely political responses to these? How do patterns of social and political domination change? Does rapid economic development mean that parliamentary political forms are inevitable? What role or roles can we expect rapidly expanding middle classes to play in political development in the region? Will this mirror the experience of earlier industrialisations? Will rapid industrialisation open the way for sizeable working classes to emerge, capable of organised, independent social and political action? Is there to be a development of a welfare state? Or will South-East Asian states seek other means of dealing with the inequalities often resulting from capitalism?

In this chapter, we set out some of the theoretical divisions shaping the political economy literature that attempts to answer such questions. We will also introduce the chapters that comprise this volume, highlighting the central political economy arguments embodied in each.

Explaining Development

The first concerted attempts to explain the problems of transformation in South-East Asia drew heavily on a body of theory, conveniently categorised as the 'modernisation approach'. Many believed that it was possible for the
former colonies to replicate the ‘original transition’ of Western Europe, from traditional to modern society (see Roxburgh 1979: chs 1–2). Modernisation theories begin by establishing a dichotomy between tradition and modernity, and seeing an evolutionary movement from the former to the latter. A variety of modernisation approaches emerge from the different emphases placed on sociological, psychological and economic factors in the transition (see Larrain, 1989: 87–98; Hoogvelt 1982: chs 3–4). Traditional societies were seen as ‘pre-state, pre-rational and pre-industrial’ (Higgott et al. 1985: 17–18). In order to modernise, traditional societies needed to adopt the same organisational structures and social and political values of the West. Significantly, this included the adoption of liberal-democratic political arrangements.

However, this optimism had begun to wane by the mid-1960s as economic growth languished. It became clear that many of the assumptions about the conditions required for development were not emerging, and young democracies were being replaced by authoritarian regimes. While others preceded him (for example, Olson 1963), it was Samuel Huntington (1968) who made the strongest case that modernisation was threatened by political instability. For him, strong government and political order were required if growth and development were to succeed.

Many of the governments of South-East Asia struggled against political instability and Huntington’s ideas provided a rationale for the suppression of opposition. This was complemented by policies for economic development, fostered by international agencies, which emphasised the need to maximise growth so that its benefits would eventually ‘trickle down’ to all levels of society. Growth was to be enhanced through policies attractive to foreign investment, thereby alleviating any shortage of domestic capital (Higgott et al. 1985: 24–7).

At the same time that modernisation theory was being revised to account for the apparent failure of development, what became known as ‘dependency theory’ challenged modernisation approaches in a quite fundamental way. Dependency theory had its origins in Latin America, where economists contested the notion that modernisation could be diffused to poor countries (see Larrain 1989: 102–10). This was developed into a radical critique of modernisation theory by A. G. Frank (1967, 1969).

Frank’s approach was radical in that he referred to the ‘development of underdevelopment’, turning modernisation theory on its head, arguing that the development of the already developed countries depended on the underdevelopment of poor countries. Caught in a web of international political and economic relationships, Frank argued that poor countries stayed poor because of the exploitative relationship established between them and the already developed countries.

In explaining how this occurred, Frank argued that the economic surplus of poor countries is lost precisely because the structures considered important by modernisation theorists—foreign investment through transnational corporations, foreign aid, international loans, and international trade regimes—are the structures which extract the surplus from the underdeveloped countries. Local capitalists and the state act as compradors, providing the links between the developed and underdeveloped economies necessary for surplus extraction.

Frank’s position was considered by some—including theorists sympathetic to his position—to be too simplistic. Samir Amin (1974, 1976), for example, argued that the mechanism of surplus extraction is far more complex. For him, exploitation was embedded in unequal trade, where the value of labour congealed in commodities from the First World and Third World is quite different. Others, such as Fernando Cardoso and Enzo Faletto (1979) and Peter Evans (1979), attributed a greater degree of importance to local class developments than did Frank, even if they ultimately concluded that the political capacity of the local state was substantially compromised by the power of international capital. Writers, such as Gary Gereffi (1982) and Douglas Bennett and Kenneth Sharpe (1985), also examined specific cases of local state intervention to promote certain industries which achieved some success. In each of these studies, though, multinational corporations were seen as having considerable bargaining power to the detriment of Third World states. Despite the greater sophistication of these works they maintained the primary theoretical proposition of dependency theory—that stunted or incomplete development in the Third World resulted from decisions taken at the headquarters of multinationals in the advanced capitalist centres.

Asian Economic ‘Miracles’

Dependency theory made an important contribution in turning critical attention to the international factors complicating development prospects in the Third World. Notwithstanding this, it was unable to answer a host of theoretical challenges posed by critics, emphasising the importance of social and economic developments within countries rather than international patterns of exploitation as the factors of development and underdevelopment (Brenner 1977; Kay 1975; Warren 1973). However, it was the emergence of countries like South Korea, Taiwan, Hong Kong and Singapore as important industrial exporters in the late 1970s that delivered a mortal blow to the claims of dependency theorists. Rather than being
consigned to perpetual underdevelopment in a global system of exploitation dominated by the traditional industrial centres, these so-called peripheral economies were to become the victors in savage global contests of trade in manufactured goods. Their move into higher technology production and sophisticated services sectors, together with the development of substantial, well-educated middle classes, suggested a development pattern similar to that in the industrialised countries. Did the East Asian experience introduce a new model of managed capitalism to challenge the ideal of liberal capitalism in which growth was produced by the free operation of individual self-interest?

In explaining this, neo-classical economists were quick to claim victory. The success of the East Asian industrial superstars, they argued, reflected the adoption of policies that embraced global market forces. Export orientation was seen as crucial in rapid industrialisation, regarded as a force for greater competitive discipline and, in turn, a more efficient manufacturing sector. This was contrasted with production primarily for domestic markets, which was often heavily protected and seen as inefficient (see Krueger 1981). Importantly, the basis of export success was considered to be the exploitation of ‘comparative advantage’—concentrating production in areas of relative endowment abundance in either land, labour or capital. Initially, in those economies that were labour rich and capital scarce, this meant low-cost, labour-intensive production (Little 1981). Seen in this way, policy-makers in East Asia had simply chosen technically correct policies and the lesson was there for others to emulate. This perspective exerted considerable influence on the World Bank, which, in its 1981 World Development Report, called on developing countries to follow the South Korean example. Subsequently, loans to countries were often conditional on the acceptance of an EOF strategy, trade liberalisation and similar free market policies.

However, some writers, conveniently labeled as ‘statist’ theorists, took a different view. They argued that the remarkable feature of industrialisation in these countries was not the ‘freeing’ of the market, but the role played by the state in orchestrating public and private capital in achieving strategic national economic goals. Development in East Asia was achieved by the ‘management’ of markets and by ‘getting the prices wrong’ within the framework of complex trade and industry regimes, export strategies and systems of state-business cooperation (Wade 1990; Amsden 1989; Rodan 1989; Weiss and Hobson 1995; Matthews and Ravenhill 1996). The importance of developmental elites building powerful institutions to coordinate markets was added to this explanation by Chalmers Johnson, Laura Tyson and John Zysman (1989). On the back foot, neo-classical economists were to initially deny the importance of the state’s role but were then to redefine it as ‘market facilitating’—assisting decisions that would have been made by the market in any case. State intervention in itself was no longer the critical point, but rather, whether such intervention impeded decision-making in the private sector.

This was essentially the argument adopted by the World Bank (1993) in an influential study, The East Asian Miracle. The miracle is defined as an achievement of high growth with equity. Significantly, this serious consideration of the role of the state followed Japanese pressure regarding the Bank’s consistent free market prescriptions for all developing countries (Awanohara 1993: 79). In summary, the East Asian Miracle team concluded that the East Asian economies were successful because they got the basics right: (i) private domestic investment and growing human capital were the engines of growth; (ii) agriculture declined in relative importance, but continued to grow; and (iii) population growth was reduced (World Bank 1993: 5). The team also acknowledged the significance of ‘sound development policy’.

It was argued that the governments of these countries have been important in establishing: (i) good macroeconomic management and stable economic performance, providing a framework for private investment; (ii) policies for the banking system which enhanced its integrity and raised national savings; (iii) emphasis on primary and secondary education; (iv) policies which enhanced agricultural productivity; (v) fiscal regimes where price distortions were kept to a minimum; and (vi) a society open to foreign ideas and technology (World Bank 1993: 5). The conclusion was that, in most of the economies studied, the government intervened, systemically and through multiple channels, to foster development, including development of specific industries. At least some of these interventions were seen to violate the dictum of establishing a neutral incentives regime for private investment (World Bank 1993: 5–6). Interestingly, the report argued that South-East Asian governments had played a much less prominent and often less constructive role in economic success than had their East Asian counterparts.

While it is significant that the World Bank’s theoretical inclinations have been scrutinised, this has essentially been an exercise in revising the growth theory which had always been influential within the Bank, rather than challenging it. The ‘new’ growth theory sees government as important, keeping inflation low, maintaining political and macroeconomic stability, establishing the rule of law, encouraging education, keeping taxes low, promoting trade, and encouraging investment, both foreign and local (see Economist 25 May 1996: 23–5). The policy lesson is that governments should ensure that they have measures in place which support the growth of private investment.
A significant problem with this approach is the tendency for government to be conceived in neutral terms. The theoretical outcome is that ‘good’ public policy is relatively insulated from political influences. This is an interesting perspective, for it suggests that democratic or representative politics may be an impediment to good policy development. The Thailand study associated with the World Bank’s Miracles document makes this clear when the legislature is described as having been relatively unproductive ‘in making laws, especially when members of parliament are elected …’. Hence, the military coup is seen to ‘perform an important function’. The junta ‘assumes broad legislative powers, and … break[s] the legislative logjam developed in previous elected parliaments’ (Christensen et al. 1993: 19–20).

Almost as an afterthought it is added that bureaucrats are not immune to extra-bureaucratic demands.

There were a number of partial endorsements of an economic role for the state from a somewhat different angle, although still within the mainstream of neo-classical economics. Alwyn Young (1995), for example, argued that state intervention may be useful at certain early stages in the industrialisation process where the capacity to apply vast amounts of capital and labour is decisive. However, when innovation and technology become critical factors then it is argued that a transition away from state intervention to a freer operation of the market is essential (Krugman 1994).

While the conclusion by the World Bank that the state in South-East Asia had been generally less significant to industrialisation than its counterpart in East Asia is contestable, the Miracles report did draw attention to the fact that the state in South-East Asia has been less cohesive in its control and marshaling of economic organisation and strategy than in South Korea, Taiwan or Japan. Protective trade and investment policies and state ownership were seldom tied into strategic, highly disciplined national programs for building export competitiveness. They were often devices for giving preferential access or bolstering the interests of the state and its officials. Unlike the states of East Asia, they were, in neo-classical political economy, more likely to be predatory states with rent-seeking bureaucrats, rather than the far-sighted bureaucrats idealised in the East Asian models.

Consequently, the neo-classical debate over South-East Asia has tended to be concerned with the question of transition from predatory and statist economic systems to markets. A central question has been to understand how to construct markets and regulatory frameworks in environments of chronic government failure, predatory states, rent-seeking and economic nationalist ideology. As was the case in the East Asian debate, however, an important theoretical divide has emerged between neo-classical political economy and varieties of political economy based broadly in theories of society. While the high public policy ground has been taken by variations on the neo-classical theme, there is a long tradition of alternative political economy approaches which place a greater emphasis on societal or class influences on the state. In other words, the state is not seen as independent of the social formation in which it arises. These political economy approaches explain state policy in the context of how power is organised in society as systems of social, political and economic domination.

Essentially there are three major political economy approaches relevant to South-East Asia. As with all attempts to categorise, these cannot be rigidly applied as there will always be writers who draw selectively from one or more approach. But the categories do serve as a useful guide to the most significant points of theoretical departure between the majority of authors. As will be demonstrated, these theoretical divides have their resonances in major international policy circles, where the sorts of ideas which have been influential have changed over time.

1 Neo-classical economics and political economy: emphasises the importance of market forces and prescribes further deregulation to ensure current economic development is consolidated and extended.

2 New institutional political economy: maintains that market development is contingent upon the establishment of institutional structures. These must provide the neutral regulatory framework necessary for the operation of free markets.

3 Pluralist and Marxist-derived political economy: employs social and political theories of markets in which markets and market institutions are seen as the products of social and political interest and conflict. This conflict inevitably shapes the course of development, not necessarily to the detriment of a market economy.

**Neo-Classical Economics and Political Economy**

In the neo-classical view, it is the individual pursuit of self-interest that results in the most efficient allocation of resources and, in the long run, the greatest wealth for society as a whole. Hence, social welfare and wealth are best achieved by allowing the free operation of the market as a natural and neutral, self-correcting and regulating mechanism separate from the dynamics of social and political power. Viewing government failure produced by intervention in markets as the primary cause of poor economic performance, neo-classical economists urge the withdrawal of the state from economic activity (Little, Scitovsky and Scott 1970; Bauer 1970; Balassa
vested interests, could provide an answer in developing countries (Lal 1983; Srinivasan 1985).

New Institutional Political Economy

Neo-classical political economy was to come under attack from what has been termed the new institutional political economy. Emerging from within the ranks of liberal reformers, critics were to argue that the focus on the individual as the explanatory factor in analysis of state, market and economy was misguided. In the process of development and economic growth it was argued that the solution of collective problems through general systems of rules, regulation and property rights was the central issue. This required the building of a complex institutional capacity. Contrary to the position of public choice theory, these theorists were not convinced of the inherent rationality of the market and argued that unconstrained markets could lead to chaos, collusion, gangsterism and widespread market failure. Rather than dismantling states, it was only the state which could do that which individuals could not: by avoiding the free-rider problem and addressing long-term collective interests. The efficient operation of markets, in this view, required highly developed institutional frameworks for the regulation of economic activity, including rules for the use of common property and the private ownership of property, regulations for banking and exchange, mechanisms for the effective collection of taxes and the operation of welfare programs (Doner 1992; Haggard and Kaufman 1992).

In policy terms, the new institutionalist propositions forced those on the neo-classical side to argue that deregulation had to be complemented by the creation of 'institutional capacity' if markets were to be successful. In practice, the new institutional political economy was to be applied to the problem of uncovering impediments to reform and creating institutional capacity to facilitate deregulation in the marketplace.

Part of the policy impact of the new institutionalist approach was seen in the World Bank's (1991a) *World Development Report*, which added a concern for institution building, public sector reform, and regulatory frameworks for ensuring competition and legal and property rights to its market-friendly agenda (World Bank 1991a: 7, 9, 128–48). The Bank (1991b: 3) also noted in its report, *Managing Development: The Governance Dimension*, that: 'without the institutions and supportive framework of the state to create and enforce the rules [to make markets work more effectively], to establish law and order, and to ensure property rights, production and investment will be deterred and development hindered'.

1971; Krueger 1974). Given that the choice, in the neo-classical view, is a rational one between the efficiency and prosperity markets can deliver and the inefficiency and poverty produced by state intervention, it is no surprise that many of these theorists have been perplexed by the refusal of governments to seize with enthusiasm policies that allow markets to determine prices by deregulating trade, investment and financial regimes.

An explanation for this failure was to be provided by neo-classical political economy, which emerged in the 1970s as 'public choice theory'. The pluralist conception of the benign state committed to the common good was replaced with the neo-classical idea of the state as predator and its officials and elected representatives as self-seeking rentiers. Politics was conceived as a marketplace of transactions between individual politicians, officials and contending interest lobbies, its product logically being the virtual appropriation and sale of public policy and public goods in return for political support. At another level, the state itself was seen to have its own interests in accumulating ever-increasing revenues (Lal 1983; Krueger 1974; Buchanan and Tullock 1962).

Mancur Olson (1982) saw economic growth in democratic political systems strangled by vested interests seeking to share the spoils of growth (distributional coalitions), preventing good policy in the public interest and diverting scarce resources from productive investment. The predatory interests of political leaders frequently locked them into a pattern of rule aimed at keeping contending interests satisfied, ruining the economy in the process (see Bates 1981). Such perspectives reinforced the neo-classical theme that the essential struggle was between economics and politics, between the assumed rationality in markets and that embodied in politics. Approaches influenced by neo-classical political economy, juxtaposing rational economic technocrats seeking market reforms with self-seeking officials and politicians dealing in rents, corruption and grandiose schemes, were applied widely to government in South-East Asia (Liddle 1992; Soesastro 1989; Christensen and Anmar 1993).

What, then, are the neo-classical/public choice answers? For the industrial economies, they advocated the restriction of the state's economic role by imposing deregulation, removing the structural opportunities for senior bureaucrats to profit from their positions (rent-seeking) and for others to derive benefits from the market without having to pay for them (free-riding). In addition, the incentive and ability to raise taxes and run deficit budgets was reduced (Olson 1982). This proposition, however, presumes a substantial and politically organised middle class and business sector ideologically committed to freedom from state control. Ironically, the absence of this in much of Asia and Latin America led some neo-classical economists to propose that only benign authoritarian leadership, able to enforce free markets in the face of
The impact of its approach is also evident in the *Miracles* report, and especially in some of the background papers to the final report. The emphasis is on 'getting policies right'—this is the state's critical role, and these concerns are seen in a country's policies. In Indonesia and Vietnam, the Bank has become interested in questions of governance. For example, the Bank of Indonesia has complained of the 'lack of transparent, predictable and enforceable rules for business', and has cited malpractices in state procurement, the allocation of licenses and tendering processes for infrastructure contracts (World Bank 1993: 135–64; World Bank 1995: xv–xvii). It has initiated a range of projects to improve economic legislation and government procedures and systems.

There is a substantial element of voluntarism in the World Bank's approach and a belief among many of its staff and consultants that institutional building is essentially a technical matter. However, there is another view where the process is seen to have a social and political component. In one report, the Bank insists that: 'While donors and outsiders can contribute resources and ideas to improve governance, for change to be effective, it must be rooted firmly in the societies concerned, and cannot be imposed from outside'.

It recognises the social underpinnings of corrupt or weak institutional frameworks, including the capture of governments by vested interests, distributional coalitions and military groups. It is, however, less sure about how to go about the political processes of reform, observing, rather lamely, that citizens 'need to demand good governance' and, governments 'need to prove responsive to these demands' (World Bank, 1991b: 6–7).

How, then, were factors of social power and interest to be incorporated into what was a technical concept of markets and market institutions? In explaining why some countries proved better at constructing efficient institutions it is not surprising to observe a return to the cultural explanations of modernisation theory. Douglass North (1994: 366–7) relied heavily on culture as the factor seen to be driving both resistance and innovation, arguing that it was the 'mental models of the actors that will shape choices'. For new institutionalists who emerged out of the statist school of political economy, the choices made by developmental elites are seen as taking place in a context of constraints imposed by various coalitions of social and political interest. Building effective institutions depends on restraining self-interested behaviour and by establishing institutional designs intended to provide greater insulation from distributional pressures as well as increasing the efficiency of revenue collection and regulatory frameworks (see Haggard and Chung-in Moon 1990).

Rational policy choices emerge, in this view, when elites are autonomous of the squabbling associated with distributional coalitions. The examples cited are usually of bureaucratic developmental elites in Japan, South Korea and Taiwan, or the People's Action Party apparatchiks-cum-bureaucrats in Singapore. There has been some revision to this approach, recognising that appropriate market institutions can be successfully developed by policymakers and others. This occurs where the social power of a capitalist class has advanced to the stage where profit-making is secured through general rules rather than in the pursuit of political favour and monopolies. This is best achieved through the formation of a dominant coalition of social interests, of which the state is a part. In the case of North-East Asia, state autonomy from vested interest must give way to support from, and cooperation with, the private sector if these economies are to successfully negotiate a new era of deregulation and market reform (Evans 1992). Markets, in this view, are regarded more as deliberate political constructs involving the conflict of contending interests than rational and technical, self-regulating mechanisms (see Chaudrey 1994). Interestingly, the institutional approach has evolved from a neo-classical emphasis on individual rational choice and the consequent importance of institutional building as a technical problem. There is now greater emphasis on the structural constraints on individual actions.

**Pluralist and Marxist-Derived Political Economy**

Because neo-liberal theories are based on a concept of markets as technically superior mechanisms of economic organisation, they necessarily see the political struggles over their introduction as contests between rationality and vested interest, between selfishness and the common good of the system as a whole. Opposition to markets, in this view, came from those who sought to achieve an advantage by using political power to establish monopoly or privileged positions.

This contrasts with the position taken by various pluralist writers who have focused on the importance of social groups, civil societies and political cultures in the emergence of appropriate institutions (see Diamond, Linz and Lipset 1989, especially the Introduction; and Diamond 1993). Their point is that there are definite social and political preconditions for institutions to emerge and work effectively. These pluralists see the possibility of a range of competing social interests exerting influence over the form of institutions—the exact importance of each being primarily an empirical
question. Nevertheless, they require the prior emergence of professional and entrepreneurial middle classes for whom systems of political tutelage and control are obstacles to opportunities and careers based on expertise, credentials or investment. Such approaches give theoretical priority to the emergence of organised interest groups in society. These groups are seen to provide a challenge to state power and entrenched interests. Such extra-bureaucratic influences force the state to establish systems of interest mediation and consultation (see Anek 1992). Exactly how the state makes policy decisions remains a weakness of pluralist theory. It tends to draw on earlier approaches—which see a neutral state working for a society's best interest—or views interests as being organised within systems of mediation operating inside the apparatus of the state, privileging particular interests.

Like the liberal theorists he criticised, Karl Marx regarded market institutions as the natural institutional framework for the organisation of economic life and production in capitalist society. He argued that the capitalist state must emerge to provide 'substance to the will of private property', guaranteeing the common interests of all capital and managing the conflict between classes that is the inevitable product of capitalist society. In this process, the state and its officials are subordinated to the requirements of business relations. This involved establishing the accountability of the public officials and public expenditure, transparency of procedures within both the public and private spheres and the guarantee of private property. Rule of law and equality before the law ensured, in Marx's view: 'a public system that is not faced with any privileged exclusivity' (cited in Miliband 1989: 89).

Interestingly, and in contrast to the previously mentioned approaches, Marxist-derived political economy emphasises the historical specificity of capitalist markets and underlines that markets per se are not the creation of the capitalist system. Thus, the focus is on the emergence of new and unique systems of production and circulation, and the specific social or class relations inherent in them. These generate particular institutions in property, government, legal, business and cultural affairs. The capitalist market is seen to be but one part of these arrangements and therefore has a different theoretical meaning and significance compared with other approaches.

Marxist political economists argue that class relations are the significant factor in determining the distribution and use of power in society. The nature of domination is seen to be structured by these relations and the relationship between elements in the economy, state and society. From this perspective, state policy cannot be neutral, nor can it be the outcome of a process of professional decision-making based on an analysis of interest group inputs. Policy is a reflection of the nature of domination in society.

The issue is not to identify 'good' and 'bad' policy choices, but to understand why it is that particular policy agendas emerge and hold sway under particular political and economic regimes. Thus, the questions and issues Marxist political economists find important relate to the nature of economic power and control, the character and power of the state and its political regime, and the development of civil society. Central also are the struggles and competition which these involve between capitalists and labour, between capitalists and the peasantry, within the capitalist class and between state and society.

Even though state bureaucracies may achieve well-defined interests of their own and relative autonomy from direct control by capitalists—who are, in any case, regarded by Marx as congenitally unable to organise themselves—in the long run, they must provide the conditions for capital accumulation and mediate the conflicts within capitalist society. This task is in the collective interest of the whole capitalist class, even though it may involve a contradiction of the short-term interests of individual capitalists and firms (Draper 1977: 189–93, 484–9).

**Arguments of the Book**

In this volume the issues, concepts and debates that separate the contending political economy approaches will be considered in the context of six country studies and three chapters which deal separately with labour in South-East Asia, regional economic institution-building and the emergence of subregional economic growth zones. The positions taken by the various authors here lie outside the neo-classical political economy approach but instead draw on approaches which emphasise the social and political dimensions of economic development. Thus, elements of the new institutionalist, pluralist and Marxist-derived approaches are to be found in this collection. However, the conflictual nature of economic development and the importance of the state as an arena for this are central analytical features of all chapters.

In chapter 2, Richard Robison analyses Indonesia where, since the mid-1980s, a range of significant deregulatory reforms has been introduced in trade, investment and financial sectors. However, for Robison, this does not represent the shift towards a more rational policy process and the beginnings of an inevitable institutionalisation of neutral market-supportive institutions. What is unfolding is a selective reorganisation of the economic role of the state which involves a change in the complexion and alliances of interests, rather than a repudiation of political influence in the market. Four
economic agendas, and attached political and social interests, that have emerged in post-colonial history are observed: economic nationalism, economic populism, predatory bureaucratism and liberalism.

As Robison sees it: 'the complex coalition of bureaucratic, family and corporate interests nurtured within the economic nationalist and rent-seeking regimes’ is confronted with the need to accommodate other interests—notably the more internationalised and competitive interests supporting a liberal economic agenda. Structural factors behind this include the demise of oil prices, which has meant fiscal pressures on the state and the need for new export sources of revenue. The response has been effective to date, with a significant increase in non-oil exports and revenues, increases in private sector investment and greater integration with the international economy.

However, according to Robison, it still remains that: “In strategic instances, political power is drafted to override decisions based in law and formal procedure by state managers”. Furthermore, and against the predictions of neo-classical and new institutional political economy, the absence of transparent and predictable rules for business have not prevented a continued influx of foreign investment. Investors have either adjusted to these conditions or, in the case of Taiwanese and Korean capitalists, have adeptly exploited the political-business networks within Indonesia. Neither do frictions between different elements of domestic capital appear likely to be resolved through the agitation for market institutions and regulatory frameworks based in law.

It is not structural economic pressure which Robison sees as the most compelling force behind new institutional frameworks. Rather, in the post-Suharto era there is a strong likelihood of an authority vacuum and a jockeying of powerful social and economic interests attempting to fill this. Yet, even in this scenario Robison does not necessarily envisage a move towards liberal democracy or some sort of ‘highly structured legal-rational state apparatus’. He sees the continued development of the market being compatible with non-liberal political and social structures.

The Philippines stands in contrast with most of its South-East Asian neighbours that have embarked on, or achieved, dramatic economic growth over recent decades. As Jane Hutchison points out in chapter 3, after a period of comparatively positive import-substitution industrialisation in the 1950s, the last thirty years have brought low levels of economic growth and declining living standards for the bulk of the population. The structural dependence on the export of primary products, such as sugar and coconuts, has yielded diminished returns. Although a shift towards export-oriented, labour-intensive manufacturing production, notably of garments and electronics products, has taken place and economic growth and investment levels have improved since the early 1990s, fundamental problems remain.

In particular, Hutchison contends that political reforms devolving authority to local administrative levels in the post-Marcos period only further weaken the Philippines state and militate against the harnessing of economic growth to broad social gains. Fiscal problems associated with foreign debt continue to exert the major force on the state for structural economic change. Meanwhile, privatisation and other market-oriented economic reforms are seen by Hutchison to open up new opportunities for capital accumulation in manufacturing, construction, telecommunications, real estate and other services. Consequently, while the traditional oligarchies may continue to enjoy prominence, often in conjunction with surviving business cronies of former President Marcos, the bourgeoisie has certainly become more diversified. It includes sections geared to global manufacturing production that are largely removed from political patronage. In all of the changes, though, the political and economic positions of peasants and rural and urban workers have not altered.

The likelihood of any redress of this situation is contingent not just on political will, but a strengthening of the capacity of the state to effect social reform and economic redistribution. However, the prevailing orthodoxy, which derives in large part from neo-classical economic thinking, emphasises the importance of economic liberalisation and the curbing of rent-seeking. Lingering resentment of patrimonialism also fuels domestic support for the dismantling of the state. Yet Hutchison argues ‘government processes are still widely subject to particularism and patronage’ and without institutional changes to strengthen the state this cannot be arrested. The force behind pressure to deregulate the economy is essentially external and fiscal-related, she maintains, and is not indicative of any systematic assault on rent-seeking. In the absence of a strong state, Hutchison concludes, there is no guarantee that ‘the market will redistribute wealth and power to the Philippine majority.

In chapter 4, Kevin Hewison takes issue with work for the World Bank which depicts Thailand as a case where ‘the market has compensated for government failures’. This tends to portray economic development in technical terms, and reduces it to questions of ‘good’ versus ‘bad’ policy choices. Instead, Hewison argues that the state has been centrally important to development, but that its role has varied according to the particular accumulation regime which prevails. This, in turn, is depicted by Hewison as the product of such factors as class relations and the changing international context of development.

Hewison identifies the period from 1932 to 1957 as one characterised by an accumulation regime with an uncertain investment climate generated by 'haphazard and increasingly personalised arrangements'. The state and its
enterprises dominated, with heavy involvement by military leaders and those with political connections. Policy was populist and ostensibly meant to promote the non-agricultural employment and investment of ethnic Thais. Following the twin coups of 1957–58, the incoming authoritarian government brought with it a commitment to import substitution industrialisation (ISI). While this was encouraged by international agencies, the role for the state in infrastructure development that was being prescribed happened also to create positions for ‘a rising group of young civilian officials ... in newly-created economic agencies’. According to Hewison, though, the ‘big ISI winners were industrial conglomerates and their financial partners, and most notably the fifteen to twenty families who dominated the highly protected domestic commercial banks’.

As in the case of Indonesia, structural economic pressures contributed to a shift towards export-oriented industrialisation, in this case beginning in the late 1970s: the steady rise of the baht which undermined the export competitiveness of primary commodities; the changing pattern of international investment, notably the relocation of East Asian firms offshore; and the fall in international prices for agricultural commodities. This gave rise to a radical devaluation of the baht and a concerted push into EOI. An investment boom followed, particularly from the mid-1980s, and this involved increasing investment from abroad as well as from the domestic capitalist class. The surge of foreign investment included the search for local partners, extending well beyond the established bank-dominated clique. The position of local banks was also challenged by the development of the Securities Exchange of Thailand (SET), which enabled various new companies and groups to emerge and broaden the economic base to include telecommunications, real estate, tourism and various services. This new accumulation regime necessarily upset the cosy relationships between politicians and technocrats of the ISI phase.

While the EOI strategy has instigated economic growth, Hewison draws attention to income and wealth disparities as an increasing political problem—especially as it involves striking disparities between rural and urban incomes. The government response to date has centred around further expansion of EOI in provincial areas, rather than embarking on targeted welfare. Although this has reaped little so far, Hewison contends that the current EOI regime ‘is unlikely to allow movement beyond the adoption of increased emphasis on increasing the productive capacity of the population’.

Rajah Raisiah’s chapter 5 on Malaysia examines the changing role of the state in economic and social development and the interests attached to this. Attention is paid to the way in which ethnicity and class have intersected to shape the activities and rationale of the state’s role. Raisiah begins with an historical analysis of this intersection, pointing out how colonialism produced a division of labour which separated the ethnic Chinese, Indians and Malays in socio-economic terms. This was essentially reinforced in the 1960s after Malaysia’s independence. The economic marginalisation of the Malays in particular remained striking. The failure of the economic strategy, due in no small part to the ill-conceived and inadequately supported ISI program, culminated in acute inter-ethnic rivalry towards the end of the 1960s. Class antagonisms and inter-ethnic tensions fed off each other to produce a social and political crisis in Malaysia.

The political response to this was the New Economic Policy (NEP), launched with the Second Malaysia Plan (1971–75). This was characterised by affirmative action to promote the social and economic development of Malays, including a target of 30 per cent Malay corporate equity by 1990, and vigorous state promotion of EOI to generate employment. The public sector became especially important, both for general employment and managerial opportunities for Malays. As manufacturing gathered momentum the Malay peasant class declined in favour of an enlarged proletariat. Indians and Chinese business people were also drawn to the cities. State attempts to encourage a broader industrial base in the 1980s were linked to the objective of creating a strong Malay bourgeoisie, as was privatisation. The NEP, Raisiah contends, produced a number of achievements, including greater inter-ethnic collaboration, but the industrial sector was beset with structural limitations.

According to Raisiah, the advent of Prime Minister Mahathir Mohamad’s political supremacy within the ruling coalition, together with a recession-induced reliance on greater foreign investment as the state-sponsored heavy industries program faltered, precipitated a major redirection. Such circumstances strengthened the hand of policy-makers and capitalists geared towards competitive, higher technology production. This meant a more inclusive set of investment incentives and state supports for business, with the promotion of an ethnic Malay, or Bumiputra, class a less critical consideration. This has been accompanied by wider and more institutionalised state-capital consultations. The more general question of the social distribution of wealth has also lessened in priority in the 1990s. Raisiah argues that the political feasibility of this new direction in public policy rests, in part, on the extent to which the more powerful elements of recently emerged Bumiputra interests are serviced by the current economic strategy.

Garry Rodan’s chapter 6 on Singapore deals with South-East Asia’s most developed economy, and where policy-makers’ attention is focused on the promotion of economic diversification in the wake of successful EOI. As Rodan explains, the state continues to play a pervasive role in Singapore’s
development, even if the forms and emphases are changing in this new phase of the city state's political economy. In particular, Rodan details the centrality of the state in effecting regional economic integration opening up opportunities for a range of service industries involving Singapore-based companies. Indeed, much of this economic activity is shaped by new international accumulation strategies by state-owned or state-linked companies. At the same time, new forms of cooperation and commercial alliance are being formed with sections of the domestic bourgeoisie capable of contributing to the development of an 'external economy'; that is, offshore investment which more fully integrates Singapore-based enterprises with the region's expanding economies.

Alongside changing relations between the state and business, Rodan also sees Singapore's latest phase of economic development involving widening domestic material disparities. Among other factors, the growth in demand and remuneration for the highly skilled sections of the workforce has been accompanied by a relative decline in the opportunities and rewards for other sections of the workforce. The political challenge the ruling People's Action Party (PAP) has set itself is to address mounting public concerns about inequality without compromising institutionalised elite values and structures, or embarking on redistributive policies akin to those adopted in industrialised liberal democracies. This has involved substantial general outlays on social development. However, as Rodan demonstrates, so far this approach is proving somewhat problematic.

In chapter 7 on Vietnam, Melanie Beresford examines a society that has undergone a major social, political and economic transformation since the unification of North and South in 1976 leading to the demise of the planned economy. The roots of conflict and struggle embodied in this transformation, argues Beresford, can actually be traced to the structures that pre-date unification. Before 1976, production incentive problems and conflicts of interest inherent to the planned economy had been manifested in attempts to operate on the black market. After 1976 though, the interests of relatively independent capital accumulation began to gather momentum—a process aided by serious economic crises in 1979–80 and the mid-1980s and the essentially pragmatic nature of Communist Party leadership. However, the transition is not simply driven out of technical imperative, as moves to a market system are often depicted by neo-classical economists and some writers from the new institutionalist school, but rather a shift in the balance and make-up of interests involved.

Indeed, Beresford emphasises that the planned economy in Vietnam was not simply a 'top-down' system but one 'in which the plan emerged as the outcome of a process of negotiation between groups with differing, often conflicting, interests'. These included central authorities, local authorities and enterprise managers within the state system and collectives, and those who did not derive benefits from the planning system owing to limited access to established networks. In the ensuing contention between competing factions and interests in the late 1970s and early 1980s, Vietnamese leaders formed coalitions with interests that were seen to be most facilitative of the consolidation of their political positions. This was the background to the 1986 Congress which committed the Communist Party to the building of a market economy through a process of Doi Moi (Renovation).

Thereafter, the embryonic market economy has been actively promoted by the state. Sweeping structural and institutional change has taken place, including decollectivisation and the welcoming of foreign investment and aid. Foreign companies and aid donors now constitute a significant interest group agitating for further market-oriented reforms. Meanwhile, high growth rates, the arrest of inflation and significant improvements in the efficiency of resource utilisation have occurred. Attention now focuses on the limitations of the financial sector on the sustained development of the market economy. Accompanying this is a range of social issues arising out of the market economy, notably environmental and equity considerations affecting poor peasants and displaced and underemployed workers. As Beresford sees it, however, the trajectory of the Vietnamese political economy is not likely to see a wholesale shift towards a conventional capitalist economy. Rather, state business interests will remain a powerful brake against the establishment of an economy comprehensively based on private property; with equitisation (involving cooperating with other interests) rather than privatisation a likely model of ownership reform of the state sector. Moreover, there remains sufficient political sensitivity within the Party and bureaucracy to the interests of the poor 'to block the rise of opposition parties based on interests associated with private capital'.

Frederic Deyo's focus in chapter 8 is on the implications of recent industrial development in South-East Asia for labour. As he sees it, two global transformations are heavily shaping the political economy of South-East Asia: the growing influence of neo-liberalism which emphasises market forces, and the adoption of more flexible post-Fordist production systems. The net effect of these has been to limit the capacity of enlarged working classes in South-East Asia to significantly enhance their political and organisational strength. Instead, elite strategies of industrial management are being consolidated. No more clearly is this evidenced than in the inability of workers to take advantage of opportunities arising from democratic reforms, notably in Thailand and the Philippines. Labour's political

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influence has generally been restricted to small-scale, spontaneous action, often via ‘community groups protesting government policies or inaction in matters of local concern’.

Deyo points out that economic strategies adopted in South-East Asia include light EOI programs, economic liberalisation and structural adjustment, industrial deepening under ‘second-stage’ EOI, and, most recently, post-Fordist flexible production systems in manufacturing. However, none of these have favoured increased bargaining power or organisational strength for labour. Indeed, the predominant response to intensified international economic pressure by managers has been cost-cutting measures directed at reducing labour costs, reflecting and compounding the political weakness of labour. Yet, in the few instances of dynamic flexibility strategies involving the pursuit of product niches based on quality, innovation and improvements in process and product technologies, as in Singapore, the position of labour has also remained constrained, even if the coopting of labour has become more extensive. According to Deyo: ‘In general, flexibility-enhancing organisational reforms are overwhelmingly attentive to managerial agendas driven by competitive economic pressures, to the exclusion of the social agendas of workers and unions’.

This is not to suggest there are not significant changes afoot in relations between state and labour in South-East Asia. On the contrary, ‘as employers have increasingly gained the upper hand in their dealings with workers, labour market “deregulation”, the counterpart of economic liberalisation and marketisation, has proven a more effective policy, than continued repression’. Moreover, with militant, independent labour structurally excluded from the political process, Deyo suggests dominant elites may have a greater measure of tolerance for parliamentary institutions. However, the continued exclusion of the popular sector from politics is likely to promote ‘inequities and alienation among large sections of the population, thus eroding this essential base and in the long term bring increased resistance even to the democratic institutions increasingly favoured by the elites’.

In chapter 9, Andrew MacIntyre examines the reasons behind the establishment of the Asia-Pacific Economic Cooperation (APEC) and the interests embodied in this institution. MacIntyre points out that even before APEC’s initiation in 1989 there had been regional economic cooperation under the aegis of the Pacific Economic Cooperation Council (PECC) but this was informal and involved tripartite teams of academic economists, business people and government officials participating in an unofficial capacity. The advent of APEC formalised and elevated this as an exclusively inter-governmental institution. Unlike other economic groupings such as the European Union (EU), the North American Free Trade Agreement (NAFTA) or the ASEAN Free Trade Agreement (AFTA), APEC has not involved the negotiation of industry-specific trade deals. In fact, as a political process it has been largely remote from all but government ministers, officials and an elite of policy-oriented economists.

MacIntyre maintains that, as a group, the economic bargaining power of South-East Asian governments appears to have been enhanced by this subregional association, but differences within the region are nevertheless real and a sense of community yet to be firmly established. The most conspicuous expression of this has been Malaysian Prime Minister Mahathir’s attempt to foster an alternative Asian-only institution while this has been flatly rejected by the governments of Indonesia, Singapore and South Korea. Mahathir’s position, argues MacIntyre, derives not just from anti-Western sentiment but domestic political considerations. In any case, MacIntyre points out that the preconditions for the sort of vision Mahathir holds are lacking, notably the preparedness for Japan to assume the leadership role that would be required. Nevertheless, Mahathir’s rhetoric does tap an important emerging sentiment of pan-Asian pride and self-confidence ensuing from the region’s remarkable economic achievements. Furthermore, to the extent that Mahathir’s objective has been to limit Western domination, the 1996 ASEAN-sponsored Asia–Europe Meeting (ASEM) in Bangkok did, by excluding the USA, signal a growing awareness of the potential political capacity of South-East Asian governments as a collective force.

On close inspection of the institution itself, MacIntyre emphasises that APEC is held together by a characteristically loose, voluntary and consensual set of principles, rather than being tightly rule-bound and involving reciprocal benefits and obligations for members. In evaluating the different accounts of what explains APEC, MacIntyre draws attention to the domestic political ramifications of anything more than the current arrangement. In particular, the South-East Asian economists and policy-makers who have dominated the process ‘are not oblivious to the fact that their countries would bear some of the highest adjustment burdens if APEC were to have a rules-based regime featuring genuine reciprocity’. APEC’s most vital function is seen by MacIntyre to be as a ‘confidence-building’ institution in the Pacific. It is, first and foremost, a foreign policy exercise which ‘brings together nearly all of the countries in what is widely recognised to be a diverse, volatile, and fast-changing region’. The problem over the medium to long term is that, without the benefits normally associated with a rules-based regime emphasising reciprocity, it may be difficult to maintain the interest of the USA.
The final chapter by James Parsonage addresses an interesting and increasingly-prominent phenomenon in the region—attempts to creatively organise economic activity that break from the concept of the national economy or the integration of national economies. Instead, 'subregional growth zones' (SGZs) are intended to integrate distinct geographic areas of different nation states into a coherent economic unit based on complementary production specialisations. The most advanced of these to date is the so-called 'Growth Triangle' involving Singapore, the neighbouring Malaysian state of Johor and the Indonesian province of Riau. However, whereas neo-classical economists herald such developments as testimony to the inexorable diminution of the state in the face of economic globalisation, Parsonage emphasises the pivotal economic, social and political roles played by the state in providing the pre-conditions for SGZs and managing their consolidation.

In substantiating his claim that the state is paramount to the development of these SGZs, Parsonage not only emphasises the infrastructural needs of capital, but the political insurance state involvement provides for ventures, and the need for effective management of legal, social and ethnic frictions deriving from new economic relationships across state borders. His message is, paradoxically: no trans-state development without the state.

In accounting for the current spate of SGZ initiatives, Parsonage makes the point that throughout South-East Asia there is a new, more positive mood among policy-makers favouring economic regionalism. This he attributes to the end of the Cold War, which has ensured political legitimacy is even more closely tied to economic performance, and the salutary effects of the mid-1980s recession which has generated greater commitment to the attraction of foreign investment. This has, according to Parsonage, become a joint exercise involving new forms of cooperation between the different states of South-East Asia. The absence of a 'globally competitive domestic manufacturing class in South-East Asia and a reliance upon external capital for technology and global market access' has thus induced efforts to create new, more attractive investment environments. Much of this is directed at East Asian-based capital, not just from Japan but the Asian newly industrialised countries such as Taiwan and South Korea. However, rather than threatening the positions of domestic-based capital in the region, Parsonage argues that the formation of SGZs is opening up investment opportunities for both state-linked companies and powerful elements of the private sectors in South-East Asia to constitute broad state-capital alliances. Indeed, he maintains that SGZs give expression to converging interests between states and local and external elements of capital which might be understood as a variant of Leslie Sklair's (1991) concept of a 'transnational capitalist class'. Mutually reinforcing economic interests among regional political and economic elites are seen by Parsonage as a major force behind these SGZs.

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Politics and Markets in Indonesia’s Post-oil Era

Richard Robison

In the half century of Indonesia’s post-colonial economic history its economic structures and policy frameworks have been shaped by four major agendas, each with specific sets of political and social interests. These are: economic nationalism, economic populism, predatory bureaucratism and liberalism.

Economic Nationalism. A central theme in Indonesian policy-making has been the desire to transform the economy from one focused on low value-added commodity or industrial production to a technologically advanced industrial economy with a capacity for the production of capital and intermediate goods and with a sophisticated services sector. Hence, much of Indonesia’s economic history has been characterised by state-led strategic industry policies, protective trade regimes and high levels of state investment. This has not been solely an ideological vision but a policy that has enhanced the authority and power of the state and its officials over access and allocation. Intensive regulation and control of economic activity has been necessarily exercised through various state institutions, including the strategic ministries of Trade, Forestry and Industry, the Capital Investment Board (BKPM), the state oil company (Pertamina), the state electricity authority (PLN), state banks and the strategic Industries Board (BPIS).

Economic Populism. A strong theme in the anti-colonial struggle was a form of economic nationalism which focused on agricultural and small business cooperatives heavily influenced by anti-Chinese xenophobia. This tradition has continued as the basis of opposition to economic conglomeration as small-scale traditional economic activity is progressively swallowed by industrial growth. Ironically, populism has also reinforced the priorities placed on political stability and social order by the political and military hierarchies. Hence, contrary to liberal market agendas, Indonesian policy has contained populist objectives, including subsidised pricing of basic commodities, provision of targeted development funding and credit for regional and local projects and programs. These have not only pre-empted social unrest by alleviating rising prices but generated considerable popular legitimacy for the regime.