The Political Economy of South-East Asia
Conflicts, Crises, and Change

SECOND EDITION

Edited by Garry Rodan, Kevin Hewison, and Richard Robison

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The social, political, and economic landscape of South-East Asia is ever-changing. In 1996, as we completed *The Political Economy of South-East Asia: An Introduction*, many of the countries of the region were undergoing remarkable transformations, spurred by a decade-long economic boom. Enthusiasm for an ‘Asian’ development approach was at its peak, and the region was hailed as a model for other developing countries.

How rapidly things change. In 2001 the region is beset with political troubles as it attempts to shake off the economic crisis. Recent events say much about South-East Asia’s political economy.

The overthrow of President Soeharto and his New Order regime after more than three decades coincided with the economic crisis. Soeharto had forged a framework of economic and corporate power that was bound in institutional structures and relationships dominated by the oligarchies around the president, his family, and his cronies. Authoritarianism had been harnessed to the needs of burgeoning corporate conglomerates. With the collapse of this edifice, competing forces now struggle to establish new economic and political regimes.

The breakdown means that the Indonesian state can no longer guarantee the systems of social control or centralised organisation of corruption that previously sustained it. Many more organisations, interests, and coalitions are competing with the state and among themselves to establish new sets of institutions. None has yet been able to establish its ascendancy. At times the competition is violent. In part this is because the repression of the past has been released. It is also because the establishment of political and economic dominance is a struggle of immense significance.

The 2001 election in Thailand, based on the reformist 1997 constitution, saw one of Thailand’s richest men lead the aptly named Thai Rak Thai (Thais Love Thais) party to a landslide victory. Labelled nationalist and populist, Thaksin Shinawatra built his electoral triumph on promises to the rural poor, the disaffected middle class, and domestic capitalists: the first electoral victory by a ‘modern’ businessman appealing to a broad base. His recently formed party represents an attempt by domestic business to regain
control of the political agenda from a Democrat Party-led coalition government that was resented for having ‘humiliated’ Thailand.

Domestic capitalists resented the ‘sell-off’ of Thai businesses and resources to foreign interests. Many felt the government had ‘sold out’. They felt humiliated at Thailand’s bowing before the International Monetary Fund (IMF) and Western interests. The government’s neo-liberal policies were unable to reflate the economy or ‘save’ local businesses. Thaksin was supported as the saviour of the poor and of the remains of the domestic business class. Thaksin’s electoral strategy was forged in struggle. The costs and impact of the economic crisis and recovery meant enhanced competition over Thailand’s economic policies and institutions. Thaksin’s victory is thus a part of wider struggles over political and economic power.

In the Philippines, which came through the Asian crisis in reasonable shape, we see another popular uprising against a ruler many came to see as corrupt. Joseph Estrada was not a political dictator in the manner of Ferdinand Marcos, but was seen to be engaged in ‘creeping authoritarianism’. He was accused of engaging in collusion and corruption that was re-establishing money politics. Business, the middle class, and non-governmental organisations and intellectuals grew weary of this. They also reacted strongly against the way Estrada’s cronyism limited opportunities. When the military and police abandoned the president, his fate was sealed, even if the poor, working class, and peasants remained ambivalent. The struggle against Estrada also embodied a restructuring of political and economic alliances and coalitions to ensure a transition. Whereas Soeharto was a dictator spurned, Estrada was an elected president scorned. Apparently, the military and police abandoned the president, his fate was sealed, even if the poor, working class, and peasants remained ambivalent. The struggle against Estrada also embodied a restructuring of political and economic alliances and coalitions to ensure a transition. Whereas Soeharto was a dictator spurned, Estrada was an elected president scorned. Apparently, the post-Marcos rules and institutions were unable to control Estrada, and nor did they permit an easy exit.

In these events, seemingly critical to the future of the region, we see nationalism, money politics, and constitutions playing roles. So do international organisations, big business, foreign investors, small farmers, workers, and a range of intellectuals and non-governmental organisations. The vocabularies of openness, rules, good governance, and transparency compete with the language of money, influence, collusion, corruption, and nepotism. These discourses reflect wider political and economic competition. Perhaps some things don’t change as fast as we think. Even so, the crisis has caused a reassessment of the nature of these struggles.

The Political Economy of South-East Asia was published in 1997, reflecting on remarkable development and change, and the struggles these entailed. That volume was concerned with explaining development in the region. Many of the chapters focused on the successes of the capitalist economies of the region. The processes associated with industrial development had resulted in fundamental social and political change, and it seemed that the institutions of liberal capitalism were being reproduced in the region. Although some of the chapters in the earlier volume pointed to ‘dark clouds’ and raised questions regarding the assumed convergence among South-East Asian capitalisms and liberal ‘models’, the focus was on capitalist successes.

Few accurately predicted a crisis as deep and as sustained as that which afflicted the region from mid 1997. The crisis and its continuing impact necessarily directed the attention of many analysts to a reconsideration of approaches to South-East Asian development. The editors of The Political Economy of South-East Asia saw the need for a new volume to address the crisis and the way in which political economists have interpreted boom, crisis, and recovery.

Some of these questions and issues were considered in the earlier volume. Important among these is the nature of the convergence posited in some approaches; the idea that Asian capitalisms will inevitably come to resemble Anglo-American capitalisms. The contrary view was that a distinctively Asian variety of capitalism was emerging. The crisis challenged analysts to re-examine this issue. Likewise, and related, the nature of institutions needed to be re-evaluated as many South-East Asian institutions proved incapable of coping with the crisis.

Analysts were required to consider how a number of issues and reforms might ‘fit’ South-East Asia. The push for increased neo-liberal reform, transparency, and good governance became especially strong during the crisis, as did resistance to them by vested interests. Calls for democracy and the development of civil society became stronger as the crisis led to political instability. But such calls also coincided with neo-liberal strategies for reform and development. This saw a revival of neo-dependency approaches, often related to populist and nationalist political strategies. Domestic political coalitions were shaken by the crisis and, in many arenas, new domestic forces arose as there was a weakening of old elements. Internationally, the criticisms of the IMF’s approach to reform saw calls for a new international financial architecture that extended beyond South-East Asia. The response of the international financial institutions and Anglo-American capitalisms saw the development of a ‘Post Washington Consensus’, bolstering the alliance of the bastions of capitalism in the West. The political implications of many of these issues have been especially noticeable in Indonesia and Thailand, but have not been insignificant in the other countries of the region.
The importance of these issues and the reassessment they have caused mean that the present collection has undergone such extensive revisions as to be essentially new. Chapters that appeared in the previous volume have been rewritten. The introductory chapter (chapter 1) is predominantly new, and a number of chapters have been added. In the course of addressing the various issues raised above, this collection emphasises a distinctive theoretical approach which is outlined in chapter 1 and systematically pursued thereafter.

Garry Rodan  
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Theorising South-East Asia's Boom, Bust, and Recovery

Garry Rodan, Kevin Hewison, and Richard Robison

Introduction

Explanations of South-East Asia's recent development vary widely. This is especially the case for accounts of boom, bust, and recovery since the mid-1980s. In this chapter we outline the ways in which different varieties of political economy explain South-East Asia's development. As we show, these approaches acknowledge some sort of relationship between the political and the economic; they all posit a relationship between politics and development. However, assumptions vary considerably about the nature and significance of politics, as well as the underlying dynamics of society, and how this shapes the organisation of economic activity. This has profound implications for analysis and leads to dramatic contrasts in their respective assessments and policy prescriptions.

These approaches are, broadly, neo-classical political economy, historical institutional theory, and social conflict theory. Although they are unequally represented in the literature on South-East Asia, each is influential in similar debates on East Asia, Latin America, or Europe. We have been selective in developing these approaches for discussion. The point of this exercise, however, is to show how political economy can be brought to bear on the study of South-East Asian development. In the process of this survey, we will argue that social conflict theory is the most illuminating. In the substantive accounts of development in South-East Asia provided in the subsequent chapters, readers will also observe that social conflict theory is a central theoretical influence.

After clarifying their essential features, we will systematically examine how these approaches explain the formative periods of development in South-East Asia, the subsequent economic booms in the region and, ultimately, the 1997-98 Asian crises and their aftermath. The relative influence in academic and policy circles of each of these different approaches has waxed and waned over time. This can be explained partly by the way in which the course of development appeared to validate or challenge...
prevailing theory. The degree to which these approaches have resonated or clashed with other powerful ideas and interests is no less important in explaining their impact. These approaches, however, have not always dominated. Modernisation theory and, in turn, dependency theory, were at different times ascendant in the literature on South-East Asia before the mid 1970s. They have resurfaced periodically, plugging into the very debates of concern to political economists. We introduce them below when the economic boom is discussed and thereafter integrate them, where relevant, into the systematic survey of the different ways of accounting for South-East Asian development.

Finally, it should be appreciated that these approaches represent ideal type categories that are convenient and indicative for setting out important theoretical fault lines in political economy debates. Some writers will draw on aspects across these different approaches—not always in a coherent fashion. The value of these categories, however, is in setting out the essential choices for students adopting a political economy approach to the study of the region.

**Outlining the approaches**

**Neo-classical political economy**

In neo-classical economic theory the principal preoccupation is with the functioning of ‘markets’. The concept of the ‘market’ is an abstracted notion that is not concerned with the social relationships that it embodies. The assumption is that markets are naturally and universally efficient mechanisms, driven by their own internal laws and the rational choices of individuals who seek to maximise their gains. This results in the most efficient allocation of resources and, in the long run, the greatest wealth for society as a whole. Good public policy is therefore that which gives full expression to the free operation of markets. Where this happens, development occurs; where it is obstructed, notably by state intervention, development suffers. It has been on this basis that international organisations such as the World Bank and International Monetary Fund (IMF) emphasised development strategies based on economic deregulation, privatisation, and fiscal austerity—the so-called ‘Washington consensus’ that operated until the crisis (Williamson 1994).

When market principles are extended as policy prescriptions for the general conduct of social life, neo-classical theory translates into neo-liberal ideology. Quite often advocacy for free market reforms consistent with neo-classical economic theory is driven by this general ideological disposition. At such points, the debate goes beyond functional or technical considerations. Neo-liberal ideologues have a normative preference for market relations, which means that they think that these relations should be the basis of social activity. This is a statement about a preferred set of power relations and institutional forms.

Many neo-classical theorists are perplexed by the refusal of governments to choose the ‘right’ market-enhancing policies. To the extent that they have an explanation for this, it rests on a particular notion of ‘politics’. Politics in this view is seen as a set of external factors hampering the natural functioning of markets. In particular, groups seeking to gain special advantages through the state, so-called ‘rent-seekers’, represent a political threat to efficient markets. Good public policy can therefore take one of two forms. First, this involves eliminating the interventions of the state in economic life, or minimising these interventions to a regulatory role. Second, and this is a recent concession made by such theorists in the face of apparent market failure, it means enhancing the capacity of the state to manage markets to modulate rent-seekers and distributional coalitions from a position of influence. In either case, the task of reform is to sweep away politics and entrench a state that provides sufficient regulation to allow the efficient operation of the market. Ironically, then, this approach recognises that a political process, however much otherwise eschewed, is required to remove obstacles to market efficiency. The assumption here is that effecting change is a matter of technical and policy choice. This view has profound implications. In effect, it suggests that democratic or representative politics can be an impediment to good policy development—a position that has, on occasions, been quite explicit from adherents to the neo-classical position, as we will see below.

Two important influences within the neo-classical camp are new institutional economics and public choice theory. New institutional economists argue that individuals create institutions to overcome transaction costs. Development, they maintain, requires solutions to collective problems through general systems of rules and regulation; that is, institutions (North 1981; 1994; 1995). However, expectations that this would take place as rational individuals spontaneously aggregated to solve collective-action dilemmas were not to be realised. Instead, individuals generally preferred to seek their interests in rents. Public choice theorists understood this. They saw the roots of the problem lying in the state. In public choice theory, the political sphere was conceptualised as a marketplace of transactions among
individual politicians, officials, and contending interest lobbies. Its product was the appropriation and sale of public policy and public goods in return for political support. The predatory interests of political leaders were seen to lock them frequently into a pattern of rule aimed at keeping contending interests satisfied, ruining the economy in the process (see Bates 1981). At another level, the state itself was seen to have interests in accumulating ever-increasing revenues (Lal 1983; Krueger 1974; Buchanan and Tullock 1962). Such perspectives reinforced the neo-classical theme that there was a struggle between economics and politics. But it also identified the solution as one of constraining the state if predatory behaviour was to be restricted.

However, the weakness of the public choice argument was demonstrated by what followed the collapse of the state in Russia in the late 1980s: chaos, collusion, gangsterism, and widespread market failure. From this point new institutionalist economists began to look increasingly to the state to enforce rules and regulations to safeguard the operations of the market.

What all neo-classical theorists share, however, is an abstract notion of markets and a belief that they are inherently efficient. Differences centre around the precise way this is best realised. Importantly, there is general agreement that marginalising politics from the policy process will help liberate markets. In that sense, all neo-classical theorists understand development as a technical question of how best to unleash the positive forces of markets. As we will see below, historical institutionalist and social conflict theorists in particular have, in their different ways, challenged this understanding of markets and politics.

**Historical institutionalism**

New institutionalism emerged as a reaction against both behaviouralist and pluralist approaches. In turn, historical institutionalism is distinguished from rational choice economic institutionalism by its interpretations of rationality and preferences which produce different approaches to markets and politics. Whereas rational choice theorists see constraints on rational political actors and values individual agency, historical institutionalists prefer to see actors’ choices, interests, and preferences shaped by collective organisations and institutions that carry their own histories and rules, laws, norms, and ideas. Rather than viewing actors as rational, historical institutionalists tend to see them as self-reflective. Much of their theoretical heritage is in the works of Max Weber (Immergut 1998; Thelen and Steinmo 1992).

For the purposes of this chapter, two broad trends in historical institutionalism—an application that is state-centred and one that is more society-centred—can be identified. Rapid growth in East Asia prompted statist historical institutionalists to emphasise the significance of state capacity for development—public institutions with an organisational form that enabled the making and implementation of effective policy. As we have seen, the importance of institutions was also taken up within the neo-classical camp, but historical institutionalists emphasised that institutional forms derived from historically evolved pathways. The form of the state resulting from such contrasting histories could generate varied forms of capitalism. In other words, the state-centred historical institutionalists’ view is that capitalism can advance within various institutional frameworks, of which liberal capitalism is but one. This contrasts with the neo-classical prescriptions for institution-building, cautioning against both the desirability and feasibility of attempts to impose liberal arrangements against the historical grain.

These theorists emphasise that the state (and its institutions) played a pivotal role among late-industrialising countries. This perspective is based on an appreciation of a common structural predicament facing late-industrialising economies, namely the need to amass large concentrations of investment capital and to make strategic inroads into established global markets (Zysman 1994; Johnson 1982; Amsden 1989). Such experiences have involved state officials in crucial, positive roles as developmental elites. In this account, markets are not abstract entities but are largely constructed by developmental elites. They make their calculations, however, within specific historical pathways defined by previous layers of institutions embedded in structures of social power and culture (Zysman 1994; Johnson, Tyson and Zysman 1989).

After earlier emphasis on insulation from vested interests as necessary for development, state-centred historical institutionalists argued that developmental elites needed to forge coalitions with dominant forces in business (Evans 1993; 1992). This was an implicit endorsement of politics. However, they shared the neo-classical theorists’ concern about influences that could subvert the institutional rationality of the state. Such influences are best excluded through an ‘embedding’ of institutional autonomy. Development thus requires that the state adopt a distinctive organisational logic, one that contrasts with the logic of the unfettered market. In this way, national—rather than private, market-oriented—developmental goals can be pursued. So, although markets might be seen as constructions of politics, there are very definitely preferred state forms. This often sees the introduction of Weberian notions regarding the potential for elites to transform society and economy, together with a view of the policy processes of ‘developmental’
states in terms of rational action rather than as reflective of broader and deeper political processes.

Society-centred historical institutionalists agreed, but argued that a focus on the role of one or two institutions in development—state and market—drew attention away from an ensemble of non-state and non-market institutions that played important roles in economic success. These included banks, commercial networks, and business associations (Doner and Ramsey 1997). According to Doner and Hawes (1995:168–9), in South-East Asian economies dynamic private sectors were more significant than states. The state was still important but, whereas East Asia displayed relatively strong developmental states, in South-East Asia private institutions have been strong, with states having been relatively weaker. The more constructivist approach taken by historical institutionalists has been useful. The notion of ‘historical pathways’ and the abiding interests of the state appear helpful in providing explanations for continuity. By focusing on institutions, historical institutionalists identify a concept that allows for a powerful examination of an intersection where structure and agency meet past and present (Katznelson 1998:196). It is also noticeable that society-centred historical institutionalists have, in attempting to address change, given considerable attention to the political and conflictual construction of interests (Immergut 1998:20–2). State-centred analysts tended to miss or down play the complexity of interests involved in state-led development strategies, and of the relations between and within state and society that sustain state-led strategies. Society-centred analysts recognise that these are significant, and tend to define institutions as sites that mediate system-level structures (Thelen and Steinmo 1992:10–12).

Despite these advances, historical institutionalism exhibits a number of shortcomings. First, its concentration on intermediate ‘variables’ means that system-level structures are left unexplained (Katznelson 1998:196). For all of the competition, complexity, and historical contingency involved in the development and progress of institutions, it must be recognised that the interplay of social relations, power, and politics necessarily goes beyond institutions and the positions held in them by particular actors (Immergut 1998:28). Second, historical institutionalism, in focusing on constraints on institutional change (‘stickiness’), emphasises order rather than change (see Peters 1999:68–71). When change is examined, these analysts are concerned principally with addressing change within and as a result of institutions. Third, and related, these analysts tend to engage in institutional determinism (Thelen and Steinmo 1992:16). This is clearest in statist approaches, where developmental states are presented as being insulated from interests and political conflict. Further, for all of their emphasis on interests, historical institutionalists seldom address the ‘interests’ at work in the development of capitalism.

**Social conflict theory**

According to social conflict theorists, markets and the institutions that define them are forged within wider and system-level processes of social and political conflict (Hewison, Robison and Rodan 1993; Chaudhry 1994; Chaudhry 1997). This approach is thus concerned to delineate the patterns of power that produce particular institutional, political, and social outcomes. It rejects abstract notions of markets, which are seen to mask the power relations that define the economic and political regimes within which they operate, and the social conflicts associated with their establishment and reproduction. Institutions, then, are not just about efficiency. Markets cannot be understood apart from the power relationships and institutions in which they are located. They are not natural. This applies to liberal markets, no less than to state-led or any other market systems.

The point of the analytical exercise, therefore, is not to uncover the magic responsible for market growth. Instead, it is to explain the particular structure of power and the politics accounting for the form and extent of Asian development. So social conflict theorists focus analytical attention on the different but competing interests that structure the development, spread, and enforcement of capitalist markets (see Panitch and Leys 1999). This assists in understanding how policy and institutional transformation take place within broader patterns of social and political power. These analysts thus look to system-level conflict when explaining how it is that particular institutions are arranged, maintained, and changed.

Existing regimes therefore cannot be dismantled at will because they embody a specific arrangement of economic, social, and political power. Institutions that might appear ‘dysfunctional’ for growth and investment often persist because elites are prepared to sacrifice efficiency where their social and political ascendancy is threatened (see Badhan 1989). Equally, however, these dominant forces might embrace ‘reforms’ that further their control or weaken their opponents in broad struggles over social, political, and economic ascendancy. The point is that these responses relate to wider struggles and alliances. This contrasts with the historical institutional approach in that it seeks to explain change (and resistance to it) and the configuration of power at the system level.

In this approach, institutions might persist, not because of any simple historical momentum, but because they are integral to a specific set of power relations. Elites struggle to preserve existing institutional frameworks even
in the face of what neo-classical theorists would regard as increasingly outmoded and inefficient systems or where the economy is collapsing around them. For example, in Malaysia and Indonesia there has been resistance to the idea that institutions need to be reformed in the face of economic crisis. This is precisely because of the implications this has for the existing mechanisms for allocating power and dispensing patronage. In other words, the question of power must be placed at the centre of analysis. The more normative, functional, and technical approaches of neo-classical theory and historical institutionalism evaluate institutions in terms of their efficiency in promoting development.

Attention to the forces that structure society and its ensemble of institutions. Obstacles to a naturally efficient market. Nor is it forged in global conflicts among contending models of economic organisation. Rather, structural changes such as new technologies, dynamic systems of production, the globalisation of markets, urbanisation, and environmental degradation—all products of an evolving capitalist epoch—represent the focal points of conflict. Struggles and competition over production and economic power, as well as over land, property rights, and civil rights, involve various coalitions of class and state interest across and within national borders.

It is not surprising that South-East Asia's official development strategies have supported markets. Market-friendly policies were adopted not necessarily because politicians, bureaucrats, and technocrats were listening to capitalists or including them in policy-making—sometimes they did—but because structural imperatives required that the state support private enterprise. Policy outcomes are not a measure of the abilities of institutions (state or private) or of the relative insulation of decision-makers. Rather, policy results from competition and conflict over production, profits, wealth, and power. These conflicts are intimately bound to the trajectory of various classes and class factions. This has seen competition within domestic capital, and between domestic and international capital. The crisis highlights that these struggles or conflicts are sharpest when competitive capitalist interests are restructuring. Only by understanding the nature of globalised corporate battles can policy outcomes be understood adequately.

As we will see in more detail below, this idea of conflict also differs from that within dependency theory which focuses on core-periphery, or North-South, divisions in the global system. Dependency approaches treat conflict associated with capitalism as a problem of national dependency rather than of domestic and international power relations. For social conflict theorists, exploitation and questions and issues related to the nature of economic power and control (see Brenner 1977; Kay 1975), the character and power of the state and its relationship to society, must instead be understood as both a domestic and external matter (see Miliband 1989).

**Before the boom**

The approaches mentioned above did not become prominent until the 1970s when many of the East and South-East Asian economies entered a period of rapid growth. Before this, the main theoretical concern was to explain why these economies were seemingly caught in poverty traps. Nevertheless, the antecedents of these contemporary theories can be traced to earlier traditions of intellectual thought. New institutional economics, for example, has affinities with the structural functionalism of Talcott Parsons (1951) and the political order theory of Samuel Huntington (1968). Similarly, many current notions of the global clash between a neo-liberal model of Western capitalism and a more interventionist East Asian model owe something to dependency approaches that emerged in the late 1960s.

**Modernisation theory**

The first major attempt to explain development in South-East Asia drew heavily on an approach labelled 'modernisation theory'. Theorists asserted that the former colonies could replicate the 'original transition' of Western Europe (see Roxburgh 1979:chs 1–2). A variety of modernisation approaches emerged from the different emphases placed on sociological, psychological, and economic factors in the transition (see Larrain 1989:87–98; Hoogvelt 1982:chs 3–4). Modernisation approaches begin by establishing a dichotomy between tradition and modernity, and see an evolutionary movement from the former to the latter. Traditional societies were seen as 'pre-state, pre-rational and pre-industrial' (Higgott et al. 1988:17–18). 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, seen as a natural accompaniment to economic development.

However, the optimism inherent in modernisation theory soon waned as growth languished. It became clear that many of the assumptions about the conditions required for development were not emerging, and young democracies were not maturing but being replaced by authoritarianism. It was Huntington (1968) who made the strongest case that modernisation was threatened by political instability. For him, it was not democracy that mattered, but order. While middle classes remained weak, strong government
and political order were required if development was to proceed; democracy could come later, when the middle class assumed centre stage.

For many South-East Asian governments, struggling against political instability, Huntington’s ideas provided a handy rationale for the suppression of opposition. This was complemented by policies for economic development, fostered by international agencies, that 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). One of the legacies of Huntington’s approach was the recognition of institutions and the state as central actors in transforming dysfunctional systems. These elements were revived in the late 1990s as theorists attempted to explain economic crisis.

**Dependency theory**

At the time that modernisation theory was being revised to account for the apparent failure of development, dependency theory emerged to challenge it in fundamental ways. Dependency approaches had their origins in Latin America, where economists contested the notion that modernisation could be diffused to poor countries (see Larrain 1989:102–10; Frank 1967; 1969). André Gunder Frank radically shifted the focus of analysis to various global factors that conditioned development and the nature of political and economic regimes in developing countries. Frank turned modernisation theory on its head, arguing that the development of the already developed countries depended on the underdevelopment of poor countries. He contended that poor countries, caught in a web of international political and economic relationships, stayed poor because of the exploitative relationship established between them and the already developed countries.

In explaining this, Frank argued that the economic surplus of poor countries was lost precisely because the structures considered important by modernisation theorists—foreign investment through transnational corporations, foreign aid, international loans, and international trade regimes—were the structures responsible for sucking the surplus from underdeveloped countries. Local capitalists and the state act as compradors, providing the links between the developed and underdeveloped economies necessary for surplus extraction. Although Frank’s position was refined by a range of theorists (Amin 1974; 1976; Cardoso and Faletto 1979; Evans 1979; Gereffi 1982; Bennett and Sharpe 1985), his primary proposition remained—stunted or incomplete development resulted from decisions taken at corporate headquarters in the advanced capitalist centres.

When it became obvious that many of the economies of South-East Asia were experiencing sustained growth, both the dependency and modernisation approaches were challenged. The facts that authoritarian regimes tended to oversee this growth, and that controlled rather than free markets were involved, were inconsistent with early modernisation theory. But Huntington was not vindicated. Rapid development under authoritarian rule took place with a vibrant middle class. Indeed, as growth consolidated, some Asian leaders even asserted the functional superiority of these arrangements over Western liberalism—a claim that was eventually accompanied by notions of ‘Asian values’ underpinning such a model. The emergence of countries such as South Korea, Taiwan, Hong Kong, and Singapore as important industrial exporters in the late 1970s delivered a mortal blow to dependency theory. Rather than being consigned to perpetual underdevelopment in a global system of exploitation dominated by the advanced industrial centres, these ‘peripheral economies’ increasingly appeared to be clawing their way back to prosperity via substantial export manufacturing. Dependency theorists dismissed this progress unconvincingly as ‘dependent’ or ‘semi-peripheral’ development, on the grounds that it lacked the same integrity as earlier industrialisation processes. However, the fact that growth among the ‘Asian Tigers’ saw significant gains in material life, health, and welfare was a further defiance of dependency predictions.

As the old approaches faded, the three categories of analysis outlined at the beginning of this chapter began to exert increased influence.

**Explaining the boom**

**Neo-classical accounts**

Although dependency theorists could not explain the development of East and South-East Asian capitalism, theorists and policy-makers influenced by neo-classical economics were quick to fill the breach and claim superiority. The success of the Asian Tigers, they argued, reflected the adoption of policies that embraced global market forces. Export orientation was seen as crucial to rapid industrialisation—being regarded as a force for greater competitive discipline and 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 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 the Asian Tiger economies had simply chosen technically correct economic policies and the lesson was there for others to emulate. This perspective exerted considerable influence on the World Bank, which exhorted developing countries to follow, for example, the South Korean model. Subsequently, loans—especially for structural adjustment—were often conditional on recipient countries accepting an export-oriented industrialisation (EOI) strategy.

Although neo-classical economists urged the withdrawal of the state from economic activity in Asia to consolidate economic gains (Little, Scitovsky and Scott 1970; Bauer 1970; Balassa 1971; Krueger 1974), it became difficult to ignore the fact that Asian industrialisation had often been accompanied by state intervention. Neo-classical economists were initially to deny the importance of the state's role, but later redefined it as a 'market-facilitating' role—assisting decisions that would have been made by the market in any case. However, recognition of the importance of the state in economic development did extract concessions from the influential The East Asian Miracle study (World Bank 1993). Significantly, the serious consideration given to the role of the state had followed Japanese pressure regarding the Bank's free-market prescriptions for all developing countries (Awanohara 1993:79).

The Bank's concessions on the importance of the state were extended in the World Development Report 1997: The State in a Changing World. This report made a general case for acknowledging and supporting the role of the state in facilitating globalisation. As the report observed, 'Globalization is a threat to weak or capriciously governed states. But it also opens the way for effective, disciplined states to foster development and economic well-being, and it sharpens the need for efficient international cooperation in pursuit of global collective action' (World Bank 1997:11). It seemed that within the Bank it was realised that a deeper internationalisation of capital was reliant upon the effective regulatory and coordinating capacities of states.

Important as this critical World Bank reflection on its theoretical approach was, we should not exaggerate its significance. It conceded the importance of the state in keeping inflation low, maintaining political and macroeconomic stability, establishing the rule of law, encouraging education, keeping taxes low, promoting trade, and encouraging foreign and local investment. The policy lesson was that governments should ensure that they had policies and institutions in place to support the growth of private investment.

Furthermore, states were acknowledged only to the extent that they were able to rise above politics. Politics remained a dirty word. For example, the Thailand study associated with the Miracles report explains that the military coup did 'perform an important function'. The military junta 'assumes broad legislative powers, and . . . break[s] the legislative logjam developed in previous elected parliaments' (Christensen et al. 1993:19-20). The former legislature was seen as relatively unproductive 'in making laws, especially when members of parliament are elected'. Almost as an afterthought it is also noted that bureaucrats are not immune to extra-bureaucratic demands.

The Miracles report drew attention to the fact that the state in South-East Asia had been less cohesive in its control and marshalling of economic organisation and strategy than in South Korea, Taiwan, or Japan. Protective trade and investment policies and state ownership were not usually tied into strategic, disciplined national programs for building export competitiveness. They were often devices for allocating preferential access or bolstering the interests of the state and its officials. Unlike the developmental states of South-East Asia, they were, in the language of neo-classical political economy, more likely to be predatory states with rent-seeking bureaucrats, rather than the far-sighted bureaucrats. Consequently, the neo-classical debate over South-East Asia has tended to be concerned with the transition from predatory and statist economic systems to 'markets'. As we will show, this concern was to be substantially extended with the advent of the Asian crisis.

Apart from opening up competing interpretations over the roles of states and markets, the Asian economic boom witnessed a remarkable comeback by modernisation theory. The argument that economic development set in train dynamics exerting pressures for democratisation was aggressively reasserted. This time the literature was more sophisticated, with greater attention to the factors mediating the influence of economic development on politics—including culture and leadership. Two influential books, by Huntington (1991) and Fukuyama (1992), did much to reignite the idea that the triumph of capitalism paved the way for democracy (see Diamond, Lipset and Lipset 1989; Diamond 1993). According to this argument, authoritarian leaders might resist democratisation, but complex social changes accompanying capitalist development render such efforts problematic. The social pluralism resulting from capitalist transformations was exerting mounting and, in many cases, irresistible pressures for political pluralism.
The burgeoning middle classes were viewed as the strategic agents of political change. The downfall of authoritarian regimes in South Korea and Taiwan gave rise to a confidence that similar changes could be anticipated in South-East Asia.

**Historical institutionalist accounts**

There was increased interest in historical institutionalist approaches during the boom, especially as the South-East Asian economic performance was compared with that of East Asia. According to state-centred historical institutionalists, the remarkable feature of Asian industrialisation was the role of the state in orchestrating public and private capital to achieve strategic national economic goals—not, as neo-classical economists conceded, in facilitating markets. Within a framework of complex trade and industry regimes, export strategies and systems of state-business cooperation states could organise corporate juggernauts able to successfully assault global markets (Wade 1990; Amsden 1989; Weiss and Hobson 1995; Matthews and Ravenhill 1996; Johnson 1982; Johnson 1987). But this was dependent on ‘state capacity’ (Weiss 1998). Predictions of an impending ‘Asian Century’ were accepted within this camp of theorists who depicted these highly organised systems of East Asia as functionally well suited to export-oriented industrialisation.9

The idea that authoritarian states could play a positive development role became attractive within the West at a time when growth rates lagged behind some Asian rates. But this was not because of any perception that state-led industry policies were more efficient means of organising resources and global strategies. Within Western business circles many looked approvingly at the state’s role in sweeping aside ‘distributional coalitions’ (labour, welfare, and environmental groups) and instituting low tax regimes. These were the aspects of the Asian experience they believed provided broader economic lessons (see FEER 1994a; FEER 1994b).

State-centred explanations often assumed that the developmental state was the backbone of economic dynamism in Asia. The problem was that, in South-East Asia, it was only Singapore that seriously fitted this model (Haggard 2000a:136). Despite this, rapid industrialisation certainly did occur in Thailand, Indonesia, Malaysia, and, to a lesser extent, the Philippines. As noted above, society-centred historical institutionalists argued that the focus on state and market neglected non-state and non-market institutions. They argued that it was these institutions that had determined much economic success. Focusing on private sector institutions, these analysts argue that such organisations were required to play critical directing roles within the economy (Doner and Ramsey 1997:273). The relationship between business and state was far more problematic in much of South East Asia under the impact of patronage and cronyism, but business developed its own dynamic institutional arrangements to drive industrialisation. In examining the boom, then, these analyses devoted considerable attention to the development of collective private sector institutions (Hutchcroft 1991; Doner 1992; Anek 1992). The implication was that states and their institutions were important, but that the private sector and its institutions could compensate for relatively weak states.

**Social conflict accounts**

Within the social conflict perspective, rapid industrialisation was not to be understood in terms of the triumph of ‘good’ policy or of competent technocrats, developmental elites over self-interested rent-seekers, or necessarily in the ability of business to develop its own institutions. Instead, institutions, elites, and technocrats are seen to operate within a broader power structure where the influence of vested economic and political interests is definitive. Growth in South-East Asia occurred across a range of countries, each with different resource endowments and exhibiting a variety of political regimes. But what was common was a compatibility between political regimes and associated interests on the one hand and the prevailing structures of capital accumulation on the other.

In particular, the boom decade from the mid 1980s was facilitated by the emergence of regimes that altered the nature of their engagement with global markets. From exporters of primary commodities, the major South-East Asian economies became export manufacturers. This different engagement with global markets did not necessarily reflect a neo-liberal political or policy ascendancy. At one level the boom was made possible by structural shifts in the global economy and the attendant mobility of international capital. For example, the 1985 Plaza Accord released a flood of manufacturing investment to the region as Japanese companies sought a new base for low-wage manufacturing. At another level, the engagement was mediated by changes taking place within these countries. In each case, the old hierarchies of power that had been constructed to further commodity trade were reconstituted in the transition to manufacturing and market development.

Hence, a range of social, political and institutional outcomes accompanied the shift from commodity trade to import-substitution industrialisation (ISI) and, in turn, to EOI, and the progressive deregulation of economic life across the region in the 1980s. For example, in Thailand,
EOI and deregulation went hand in hand with the transformation of class power as conglomerates in banking and industry were consolidated while the old trading business groups declined. State officials played a significant role in facilitating this process (Hewison 1989). Importantly, however, these transformations were accompanied by political reform that saw the power of state officials harnessed increasingly to private interests. By contrast, deregulation and EOI in Indonesia in the 1980s, partly enforced by the collapse in oil prices, took place in an economy dominated by coalitions of state and private corporate oligarchies. What transpired was a transfer of public monopoly into the hands of private interest. Unlike Thailand, economic deregulation was not accompanied by political reform. The system of authoritarian state capitalism was simply harnessed to the needs of burgeoning corporate conglomerates. Short-term international bank credit replaced oil as the driving force in the economy (Robison 1986:387-8). New oligarchies and coalitions were liberated from centralised systems of state capitalism and given free reign to borrow short-term to set up enterprises and banks, without regulatory scrutiny. 10

Of course, these alignments of power and interest in the region were 'doomed'. In a post-Cold War world, Western governments and international financial institutions were less constrained by strategic political considerations to prop up conservative and anti-communist forces with aid and loans. At the same time, increased international competition and the need for financial liberalisation to drive further industrialisation required reconstitution of economic and political power for continued expansion of these economies. Relationships that enabled massive state favours to private projects and huge private debt were likely to be challenged from both domestic and international sources. However, the nature of that challenge was necessarily different in each of the countries of South-East Asia. The economic crisis has been a significant element in this challenge.

**Miracles go ‘bust’**

The optimism regarding South-East Asian development evaporated when the region’s economies stalled in 1997. With the exception of Singapore, those economies that had opened their financial sectors to global markets—specifically, Thailand, Malaysia, Indonesia, and, to a lesser extent, the Philippines—experienced significant financial and economic collapse. These downturns resulted in social and political pressure. This chapter is not the place to recount the events of the crisis, especially as there are numerous accounts of the onset, contagion, and economic collapse that followed Thailand’s devaluation in July 1997 (see Robison, et al. 2000; Roubini, Gujarati and Pesenti 1998; Aruld and Hill 1999). Furthermore, much of this will be taken up for each country in the subsequent chapters of the present volume. Our concern will be with the debate about the nature and causes of the crisis. However, there are some points we wish to highlight as background.

The initial impact of the crisis was evidenced in the financial sector, where the collapse of currencies caused havoc as borrowers found they had overextended. Investment dried up and insolvency mushroomed. Some of this translated into social unrest as unemployment rose and inflation soared. Not surprisingly, these economic and social problems soon had their effects in the political sphere. To different degrees, fiscal crisis and growing opposition besieged governments. Their inability to stem the tide of economic decay undermined what had been a central pillar of their political legitimacy.

Intra-elite friction was precipitated or intensified by these economic pressures. In Thailand, Prime Minister Chavalit Yongchaiyudh was forced to resign in the face of his government’s failure to come to grips with the economy’s downward spiral and its inability to deal with the IMF. 11 In Malaysia, the economic crisis brought leadership questions to a head, as Deputy Prime Minister Anwar Ibrahim’s policy prescriptions contrasted with those of Prime Minister Mahathir. More than differences over the extent of state intervention in the economy, the rhetoric of Anwar and his allies declaring the need to unravel ‘crony capitalism’ was an attack on Mahathir’s power base. Anwar’s sacking and arrest ensured that the economic crisis became a full-scale political crisis. Most stunning of all developments, however, was that the crisis precipitated the fall of President Soeharto who had reigned supreme in Indonesia for over three decades.

Turning now to debates regarding the crisis, there are two questions in these debates that will be pursued. First, why did a crisis occur? How was it that such apparently buoyant and vigorous economies as Malaysia, Thailand, and Indonesia suddenly unravelled and, in the latter two cases, found themselves in the hands of the IMF? Second, has the crisis been a fundamental historical watershed, making liberal market systems the model for all economies and, in any case, what is going to determine the future directions of these economies?

**Neo-classical accounts**

Mainstream neo-classical theorists, particularly those within the IMF, seized on the crisis as validation of their primary arguments concerning
the perils of obstructing free markets and the need for governments to embrace markets if development was to be sustained. For IMF head Michel Camdessus (quoted in AWS) 1997) the crisis was a 'blessing in disguise'. The influence and power of international organisations such as the IMF, Asian Development Bank, and World Bank ensured that these views prevailed in policy circles (see Jayasuriya 2000). For beleaguered governments in countries such as Thailand and Indonesia these institutions represented the only viable source of funds to mitigate the crisis. This gave the institutions unprecedented leverage in domestic policy agenda.

With the crisis, collusive state-business relations became the objects of intense critical attention. Whereas the Miracles report grudgingly acknowledged that the state had played a significant development role, the crisis allowed neo-classical analysts to assert aggressively that state involvement distorted markets. They argued that cosy political arrangements, and the absence of 'adequate' accounting standards and transparency, distorted 'price signals', and led to a misallocation of resources. This created 'moral hazard' in which borrowers and lenders of money (especially borrowers) operated in the expectation of government rescue should things go awry (Roubini, Corsetti and Pesenti 1998; Frankel 1998; Arndt and Hill 1999; Wolff 1998). Market discipline, they argued, was simply not strong enough in these economies, and the task of recovery had to centre on establishing this discipline.12

Yet the crisis also led to several challenges to the 'Washington Consensus' that had dominated neo-classical policy strategies for well over two decades—not least from within the neo-classical school itself. It had become clear that where market deregulation was embraced there were often negative consequences. This forced neo-classical theorists to become more interested in the political dimensions of markets, and they focused on questions associated with the rise of rent-seekers and how to dispose of them. Successful deregulation required particular sorts of institutions.

The Asian crisis necessarily reinforced the need for far more attention to be given to state capacity—if for no other reason than the need to enforce deregulation and break the power of cronies (see Camdessus 1998). But institution-building is conceived here in elitist terms, for the ideal remains that a band of rational technocrats are able to operate above the constraints of vested interests (Schamis 1999:236). Interestingly, however, differences surfaced between the IMF and the World Bank over the question of regulation and the role of the state. In particular, the Bank's then senior vice-president and chief economist, Joseph Stiglitz (1998; 1999), advocated a role for the state that went beyond refining the capacity to implement deregulation and insulating policy-makers from vested interests. In effect, Stiglitz asked, on behalf of the Bank, why institutions could not be successfully transplanted in some instances but not others—an issue of concern to new institutional economists in the 1990s, but which had not been convincingly accounted for.13

The World Bank had recognised the importance of social and political processes even before the crisis,14 motivated by development failures and setbacks in Africa and Eastern Europe. Thus the Bank began a somewhat vague advocacy of 'good governance', acknowledging the social underpinnings of corrupt or weak institutional frameworks (World Bank 1994:6 7). Now, however, Stiglitz and the Bank became more expansive about what this entailed and the reform agenda attached to it. The language of participation, civil society, social capital, and community organisation became prominent as the social basis of sustainable markets was emphasised (see World Bank 1998). It was asserted that the state needed to work in concert with a range of social organisations to cement the social structures, values, and norms supportive of markets.15 According to Stiglitz (1998:12): 'The hard part of capacity building is the development of organisational/social capital, including the institutions that enable society to function well'. On these grounds, the Bank distinguished itself from the IMF on the question of fiscal austerity. It began to emphasise social safety nets for those who fell through the cracks in liberalising market systems.16 Of course, this also reflected a concern about the kinds of destabilising events seen in Indonesia and criticisms that Bank and IMF policies were deepening the crisis there and in Thailand. There was a related worry that such resentment threatened the hegemony of neo-liberal ideas.

The direction taken within the Bank situated it squarely within the so-called 'Post-Washington Consensus'. This embraces the idea of institution-building and sees it as a primary objective in the development of sustainable market systems in South-East Asia. The above theoretical refinements notwithstanding, this position still has some fundamental problems. First, it retains a functional understanding of social institutions, with the emphasis on the way in which social structures and processes can be harnessed to support market systems by producing social cohesion and a sense of community. Implicit in this is a view that the inherently unequal and conflictual power relations and material outcomes of the market require management. The market is thus not analysed as an expression or outcome of competing interests and differential power, but rather as a system with functional requirements essential to its effective operation—and that includes the containment of conflict. This perpetuates the conception of the market in abstract and apolitical terms, and suggests sanitised notions of civil society. State sponsored consultation processes in
authoritarian states, such as Singapore for example, could be seen as part of the institutions and social capital that enhance the market.

Second, the building of institutions remains one that is conceived in voluntarist terms. Who builds institutions, states, and social capital? How are values and norms institutionalised throughout society? It is one thing to recognise the importance of these things; quite another to theorise how they come into being. Because markets continue to be understood by neoclassical analysts as abstract entities defined in terms of functional efficiency, the assumption of a universally applicable and technically correct set of arrangements still pervaded their thinking. There is no recognition, therefore, of how power structures and social interests might complicate or facilitate the introduction of the requisite structures and values to which they now refer. It is as if these things can simply be supplied and will thereafter take root and generate the desired outcome.

In short, for all their emphasis on institutions, the idea of politics and conflict as something dysfunctional and threatening to markets survives. At the level of political analysis, this approach remains naïve.

Crisis as global conflict: historical institutionalists

Whereas neo-classical analysts concentrated on domestic weakness in explaining the crisis, historical institutionalists have, not unexpectedly, directed their attention to institutional problems.

State-centred historical institutionalists have seen the crisis as a conflict between competing models of capitalism. Indeed, the neo-classical account is seen as an apologia for the liberal, Anglo-American variant of capitalism and an unjustified dismissal of the East Asian developmental state model. Far from conceding that the crisis invalidated arguments about state capacity, statist attributed Asia’s economic problems to compromised state capacity due to liberalisation. Furthermore, the question of the functional superiority of the respective models is far from settled, despite the triumphant mood prevalent in the neo-classical camp.

The work of Robert Wade, extrapolating from the South Korea case, has been central to this argument (Wade 1998a; Wade 1998b; Wade and Veneroso 1998). He characterised Asian industrial capitalism as a ‘high debt model’, in which domestic banks were able to mobilise high levels of domestic savings that supported productive investments by private firms. This process was often reinforced and harnessed through government incentives. Although this led to high debt-equity ratios, it worked to ‘propel the region’s fast economic development over several decades’ (Wade 1998a:362). However, liberalisation altered the logic of the system. Banks and private companies found that they could borrow cheaply from abroad and, often, then on-lend profitably. Foreign banks and finance companies also entered local markets in search of higher returns. Consequently, narrow and short-term interests of shifting coalitions replaced the government–bank–firm productive investment nexus (Wade 1998a:364). Opening the capital account is also seen to have been instrumental in exposing domestic financial structures to new forces and pressures that were not always so productively oriented—especially given the under-developed nature of corporate supervision and governance in the region. According to Wade (1998a:373), fuller integration into international finance markets and the superimposition of a regulatory regime based on Anglo-American prudential norms would exacerbate the problem. From this perspective, recovery necessitated rebuilding institutions consistent with the historical pathways that have accompanied these hitherto successful state-led systems.

Linda Weiss, who locates the cause of the crisis in the vulnerability associated with limited or weakened state capacity, develops a similar theme. The worst hit crisis economies, she argues, were those where ‘the common denominator is weak or decomposing institutional capacities’ (Weiss 1999:119). For Thailand and Indonesia this was reflected in their institutional inability to direct investment into productive sectors and to accelerate the pace of skills and technology upgrading. In South Korea, it was reflected in a decline in both institutional capacity and a reduced ideological consistency for state direction. The result in these countries was declining exports, rising current account deficits, excessive productive capacity, increased private foreign indebtedness, and a field day for speculators (Weiss 1999:321–3, 326; Weiss and Hobson 2000).

The vulnerability of economies with limited or diminished regulatory capacity contrasted with the strength of US international state power, referred to by state-centred institutionalists as the ‘US Treasury–Wall Street–IMF complex’. According to Weiss (1999:332), the USA has used the crisis to open markets further, and has played a role in making an ‘ordinary crisis’ into a ‘deep crisis’. The problem is not just that there are external interests involved, but that the prescriptions coming from these quarters are grounded in assumptions about the universal applicability of a liberal market model.

Far from the crisis signalling ‘the death throes of Asian state capitalism’, Wade and other statist believe the jury is still out (Wade 1998b:1536). They point out that liberal capitalism in the advanced capitalist countries has its own unresolved and potential critical problems, not the least being the rising social inequalities that accompany neo-liberal globalisation. Its long-term political sustainability remains problematic. Moreover, the
structural power of international capital notwithstanding, the crisis has engendered an apprehension and reaction on the part of some Asian leaders about the neo-liberal model. Wade (1998b:1551) predicts that the Asian model has considerable staying power and might still be influential in setting norms for international economic and financial regimes. Weiss’s (1999) conclusion is that the crisis shows that strong states are essential to a temporal detour in the longer historical evolution. From this perspective, coalitions have impaired its effective functioning, and the insulation of the state has been breached.

These state-centred historical institutionalists argue that attempts to establish liberal economic institutional change in the region have failed to generate positive results because of their mismatch with historical pathways. In effect, liberal institutions do not fit established ‘Asian’ institutional pathways. Although this appears to account for post-crisis resistance to change, it does not allow for a disaggregation of the elements of resistance or change. Nor does it direct attention to the forces structuring these elements and sculpting their responses. Change taking place is not a choice between ‘models’—whether Asian developmentalist or Anglo-American neo-liberal. Rather, change involves complex questions of power, including the structure and capacities of domestic business, its various linkages with the state and other interests and classes, and the relationships between these structures and the changing international economy.

Those historical institutionalists with a greater focus on society make more of the decline of institutional arrangements. For example, Hutchcroft (1999:474) argues that, in Thailand, the boom saw business gradually establish its collective interests over the state. Market liberalisation, with little attention to building appropriate institutions, together with an increasing tendency for politicians to enhance patronage through access to state coffers and policy, set the stage for crisis.

This theme is taken up by Doner and Ramsey (1999) and Haggard (2000a). Interestingly, their argument is similar to that of the statists, faulting the region’s institutions. However, they extend their critique beyond state capacity to include weak political structures or systems, policy mistakes, lack of transparency, and moral hazard. The basic argument is that the institutional arrangements that created the boom were inappropriate for these economies as they internationalised and opened. Indeed, the crisis has revealed previously hidden weaknesses in these arrangements. Whereas Thailand’s commercial banks were once at the forefront of private sector dynamism, resolving collective action problems, they are now identified as too powerful (Doner and Ramsey 1999:175, 183). Haggard (2000a:137) argues that it was through government inaction that these same banks became collusive.

These institutionalists favour technocratic solutions to such problems. Clearly they see that institutional failures must be put right. Hutchcroft (1999:488) argues that reform in Thailand requires the political ascendancy of conservative urban elites who must capture the state and parliament from unsophisticated and patronial ‘country bumpkins’ (elected politicians). Haggard (2000a:131-2) also identifies Thailand’s party system as encouraging patronialism, further noting the instability of multi-party coalitions. This patronial and non-transparent pattern was also seen in Indonesia and Malaysia. It is noticeable that this society-focused approach tends to emphasise order. For example, reform is often seen to involve establishing order, stability, and accountability (Hutchcroft 1999:486-8), similarly, when discussing private-sector actors there is a tendency to downplay the competition and conflict among them. Where conflict is discussed, it tends to be in the context of the state and its officials versus the private sector. Among others things, the crisis laid bare the contradictory relationships among the various fractions of capital, and indicated that, although the state was responsible for the interests of capital in general, state actors were also cognisant of the relative power and significance of domestic and international capital.

**Crisis as global conflict: neo-dependency**

In spite of the theoretical attacks discussed above, some versions of dependency theory had remained influential—especially with non-government organisations (NGOs)—and the Asian crisis prompted its re-emergence. The elements of dependency theory that attracted NGO interest, and which were incorporated into explanations of the crisis, included: (i) strong, sometimes moral, critiques of the negative impacts of development; (ii) the power of rich countries (or the North) to exploit, impoverish, and dominate poor countries (the South); and (iii) the need for a radical economic program that emphasises national development (Bello and Rosenfeld 1990; Hart Landeberg 1991). Some continued to argue that the wealth of the rich countries was extracted from poor countries, with financial domination
being a new colonialism (Lummis n.d.; Khor 2000). When the crisis struck, it seemed to vindicate longstanding criticisms of the dependent nature of South-East Asian development (see Bello, Cunningham and Li 1998).

For these analysts, the crisis was a demonstration of the power of rich countries and the weakness of the South-East Asian nations. The IMF was condemned for deepening the crisis through its blind push for neo-liberal reforms. These radicals joined with others in attacking the IMF and the USA for taking advantage of the crisis to reassert their influence in the region through reforms demanding a more thorough-going liberalisation (see Bello 1998a:15; Bullard, Bello and Malhotra 1998:124). Like historical institutionalists, they made much of the so-called 'Washington conspiracy'. This collusion was to enforce policies that reduced damage to developed country banks and gave firms from the North significant advantages in doing business in the region. These advantages were to be derived from neo-liberal reform reproducing institutions and markets that were in 'the image of the US economy' (Bello 1998a:16; Bello 1998b). The triumphalism of various US commentators when the crisis struck apparently confirmed the conspiracy (Bello 2000a).

IMF 'reforms' were thus seen as enhancing policies that were identified as having caused the crisis in the first place. In response, some radicals argued for a more nationalist approach to development, including reorienting production to domestic markets (Bello, Cunningham and Li 1998:249). This was considered the only way to avoid domination by the North (see Raghaven n.d). They also asserted that there must be capital controls to prevent the damage caused by the free flow of finance. Such positions were supported by a number of South-East Asian NGOs (see, for example, Hewison 2000a). Malaysia's adoption of capital controls and Mahathir's attacks on globalisation as a Western conspiracy and a new form of colonialism were eagerly taken up by radical analysts and NGOs (Chossudovsky 1998; see also Nesadurai 2000). Vietnam, yet to engage in the same levels of financial liberalisation, was also used to illustrate that an economy that was not so open did better when the crisis struck (Bello and Mittal 2000).

This approach necessarily directed attention to national responses to the perceived negative impacts of globalisation, and saw curious political alliances emerge as radicals and NGOs lined up with NGO-unfriendly governments such as Malaysia and a range of US conservatives in opposing free trade agenda. For example, Bello (2000b) endorsed Mahathir as an 'eloquent ... critic of the [West's] development paradigm'. However, Mahathir (1999) was, in fact, extending the idea that economic liberalism—no less than political liberalism—was antithetical to the 'Asian way'.19 Bello (2000a) also supported attacks by US conservatives on the IMF and World Bank.

There is a certain resonance between neo-dependency and historical institutionalist accounts, particularly in the way that they both laid much of the blame for the crisis at the door of externally promoted deregulation. However, the former did not conceptualise the clash as one between competing models of capitalism, nor was it in adulation of the developmental states championed by historical institutionalists. Rather, they saw South-East Asian economies as having long been in the adverse grip of a system of global capitalism. The crisis was a manifestation of a new phase of that process. Like those that preceded it, this sacrificed the interests of integrated national economies in South-East Asia on the altar of global capitalist exploitation.

**Crisis as social conflict**

For many social conflict theorists, the Asian crisis represented a specific manifestation of the normal boom-bust nature of capitalism (Hewison 2000a). On this particular occasion, over-capacity in a number of industrial sectors led to a rapid erosion of rates of return; after all, markets for products embodying low-cost labour were not inexhaustible (Gill 1999; McNally 1999; Bernard 1999). The crisis represented an impasse in export-oriented capitalism, necessitating a restructuring of power and state-society relations throughout the region as new accumulation strategies are developed (Bernard 1999:184-90).20 Competition among capitalists, and competition between labour and capital, were part of this process, reflected in the impacts of financial liberalisation and globalisation on the region (Tabb 1999:1; see also Tabb 1998). The deregulation of the finance sector, for instance, was seen to serve the interests of various fractions of local and transnational capital in different ways (Bernard 1999:191).

From this perspective, the crisis also exposed the suspect political grounds on which some historical institutionalists have been attracted to the so-called East Asian model—the challenge to free-market forces that it represents (Bernard 1999:201). The class-biased nature of developmental state regimes overlooked during the boom years by enthusiasts for the model were harder to ignore once discriminatory measures to stem the crisis were introduced by these states.21

One of the puzzles of the economic crisis has been the widely diverging nature of its consequences for the region's political and economic regimes. Despite the trauma and magnitude of IMF enforced reforms, many of the
institutions regarded by neo-classical analysts as sources of the crisis have been resilient. The crisis, then, is critical precisely to the extent that it makes it possible for entrenched elites to be weakened as a result of the threat to the existing institutional arrangements that previously benefitted those elites. It is also important to the extent that it creates opportunities for reformist coalitions to exert greater influence.

In this context, then, crises might well be decisive events, not because of the lessons they bring in terms of the economic costs of intervention, or because of the benefits of reform, but for focusing attention on contestation within society. At one level this might be between, on the one hand, entrenched regimes attempting to hold together a political and economic fabric that sustains their interests and, on the other hand, those who would alter these arrangements. A crisis might also demonstrate the contradictions of capitalism and the cyclical nature of its production. Crises are one way in which these contradictions are ‘worked out’, and will require economic, political, and institutional restructuring. But even where an economic crisis delivers fatal wounds to existing authoritarian or predatory regimes, their collapse does not guarantee a shift to liberal markets or democratic politics. It might, but it also opens the door to a fresh round of struggles that could lead elsewhere too.

The social conflicts that are shaping institutional change cannot be understood as efforts to improve functional efficiency in governance, or as the strengthening of civil society. They are about how power is distributed in the processes of production, work, and the accumulation of capital and wealth. These are not simply conflicts between enlightened technocrats and rent-seekers, or between a progressive bourgeoisie and reactionary predators. Instead, fluid alliances are constructed around a vast array of issues that arise as capitalism spreads and is transformed—over property rights, land title, labour rights, corporate law, environmental protection, and trade and financial regulation. In these conflicts, the bourgeoisie is not a necessary force for political liberalism and democracy within these coalitions; indeed, elements of it might well be profoundly illiberal and antidemocratic if this serves their interests.

The importance of the crisis is that it has shifted the structural balance of social, state, and transnational power within which these conflicts operate. In Indonesia, for example, the state is no longer able to enforce the highly efficient systems of social control that previously sustained it. Nor can it guarantee the centralised organisation of corruption. There has been a flowering of competing organisations, interests, and coalitions. But in the ensuing power deflation, none has yet been able to establish its ascendancy.

Corruption and human rights abuses, for example, can no longer be hidden but neither can they be stopped (Robinson and Rosser 2000).

It is important to re-examine the way in which social interest is translated into political power, policy agenda, and institutional change? As we have seen, the relationship between the state and social interest has been a constant problem for both neo-classical and historical institutional theorists. It is no less a problem for theorists who emphasise the importance of social conflict as the primary driver of institutional change.

It is true, as historical institutionalists recognise, that social interest exerts influence in the form of structural constraints on the choices of state managers. For example, even the most authoritarian regimes must ensure that food prices remain under control, not for reasons of social justice but for concerns about stability. Nevertheless, one of the defining features of the political economy of South-East Asia, with the exception of Singapore, is the highly instrumental nature of capitalist control of state power. The money politics of Thailand and the politics of capitalist oligarchy in the Philippines provide mechanisms by which powerful corporate interests directly capture and appropriate state power. In Malaysia, the distinction between the state and the interests of a tight oligarchy is difficult to draw in cases where the latter is constructed upon state contracts, credit, and economic concessions (Gomez and Jomo 1999). Perhaps this instrumentalism has been most dramatically illustrated in Indonesia. Despite claims from neo-classical supporters of Indonesia’s economic technocrats that the Indonesian government was insulated from vested interests (Nott, Dwyer, and Pangestu 1993; Liddle 1991), this autonomy did not extend much beyond macro-economic policy. Nowhere was the crude exercise of state power for private interest more blatant than in the construction of patronage networks and corporate interests for the family of President Soeharto. As Soeharto’s children plundered the state it was difficult to distinguish public and private interest, or to understand the state except in terms of the possession of powerful private oligarchies.

As capitalists renegotiate their competitive arrangements among themselves, locally and internationally, and with labour and other classes, this has necessarily involved the state and its officials. It is both a domestic conflict and a competition between international and national capitals. Hence, the ‘international state’—in the form of the international financial institutions has also been heavily involved, at times mediating and at other times mentoring. This brings together some strange bedfellows. For example, the IMF seeks to impose a common institutional regime that will remove
exclusive arrangements favouring local investors. Middle class reformers often support these moves because they breakdown local concentrations of power. Local investors, on the other hand, often attempt to link with nationalists to 'save the nation' from foreign predators, and are joined in this call by leftist NGOs. The fundamental point is, however, that the crisis is about reshaping class relations, and social conflict theorists seek to understand this.

**Arguments of the book**

In the subsequent chapters of this volume, we begin with a series of country studies to examine processes of development in detail. This is followed by more thematic and comparative studies examining such issues as economic liberalisation in the wake of the Asian crisis, labour–state relations, and the role of Japan in South-East Asia. Careful readers will detect that the contributions to this book evidence a degree of theoretical heterodoxy. Although all reject the orthodox economic approach, it is notable that they all take seriously the insights of the historical institutionalists. However, there is also a generalised critique of this approach, along lines set out above. Each of the contributors looks to place considerable emphasis on the social, political, and economic forces at work in explaining boom, bust, and recovery.

Jane Hutchison argues in chapter 2 that it is not the recent Asian crisis, but the mid 1980s crisis that has been most significant for the Philippines' contemporary political economy. An end to authoritarian rule, the reintroduction of electoral democracy, a move towards economic liberalisation, and the emergence of new social forces, all followed the earlier economic collapse. Yet institutional reforms lacked depth so that the political system remained open to patronage, enabling powerful oligarchs and their interests to survive change. Indeed, if anything, the 1997–98 crisis has been accompanied by an intensification ofcronyism attempting to shore up the power of the oligarchs. Hutchison's analysis thus acknowledges the point of historical institutionalists about the importance of state capacity. However, her explanation for the durability of oligarchic power is sought in the way that these interests intersect with neo-liberal capitalist restructuring agenda and is sustained by class relations beyond state institutions.

In chapter 3 Kevin Hewison also underlines the periodic nature of crisis. He argues that Thailand's capitalist development has been punctuated by crises that herald the emergence of new accumulation regimes. The crisis of 1997–98 has been another cause for accelerated competition among different fractions of capital. In this recent process, foreign capital exerts greater influence, particularly in the finance sector, than it has previously. Power within the domestic capitalist class is also being transferred increasingly towards export oriented and internationalised capital. In conjunction with these changes, there is, however, significant institutional development as more rules based systems are introduced into business and political life. But the dynamics behind these policy developments reside in the conflicts among competing capitalists' interests, and the associated struggles involving those affected by these conflicts—which is the story, in effect, of the current period of Thailand's capitalist development.

Richard Robison's analysis of Indonesia also draws attention to the particular nature of contemporary conflict associated with capitalism. Although precipitated by panic and speculation in global capital markets, the dramatic unravelling of Indonesia's economic and political regimes after 1997, he argues, is rooted in a specific pathology of power and interest. The predatory arrangements that made possible rapid economic growth, and constituted the cement of a seemingly invulnerable power structure, were also the seeds of its destruction, producing huge private-sector debt and over-investment. The crisis is a watershed because it has fractured the alliances underpinning the regime. In the struggle to carve out new economic regimes, a cohesive coalition is yet to take shape that will drive a coherent reform agenda. In the meantime, old politico-business alliances are attempting to reorganise their ascendancy within new institutional frameworks and in the context of wider social alliances.

Against the background of rising expectations of a reduced economic role for the state in Singapore, in chapter 5 Garry Rodan submits a different view. He emphasises the continuing centrality of the state in Singapore's economic development, but argues that the precise form of this role is very definitely in transition. This is tied to a new phase in capital accumulation that entails a fuller official embrace of internationalisation and promotion of the so-called 'knowledge economy' — a direction that has gathered momentum since the Asian crisis struck. In the process, the state is instituting corporate governance reforms, opening up more of the domestic economy to foreign competition, and selectively promoting the domestic bourgeoisie. Attempts are also being made to forge new alliances between state-owned companies and international capital. Crucially, Rodan locates the economic and political interests of the People's Action Party (PAP) as integral to this direction. He also draws out the various conflicts arising from the economic restructuring process—most notably, rising inequalities—and their political implications.

Khoo Boo Teik's analysis of Malaysia in chapter 6 demonstrates how extensive state economic intervention has been intricately related to 'a political agenda of social engineering', and one that has given expression at
various times to open conflict. Khoo rejects the popular portrayal of conflict as fundamentally ethnic and argues, instead, that such tensions 'encompass class conflicts, the emergence of Malay capital, rise and decline of bureaucratic interests, politicisation of business, aggrandisement of powerful conglomerates, and promotion of economic nationalism'. Yet if the contemporary Malaysian political economy is essentially characterised by a continuing power structure divided among the interests of the state, foreign capital, and domestic capital, Khoo nevertheless discerns important changes afoot. The freedom of manoeuvre by the state is being curtailed to some extent as the importance of foreign direct investment declines relative to that of mobile global finance and speculative capital. Bumiputera commercial and industrial conglomerates have also emerged alongside the traditional ethnic-Chinese capital. The dynamic relations among these three centres of power will chart Malaysia's future.

In chapter 7, Melanie Beresford's focus is on Vietnam—a case of transition from a planned to a market economy, which formally began with Doi Moi (Renovation) in 1986. This is a transition born out of coalitions between the political leaders and interests standing to benefit from the reforms. However, the trajectory of the Vietnamese political economy is unlikely to see a wholesale shift towards a conventional capitalist economy. Rather, state business interests will remain a powerful brake on the establishment of an economy that is founded primarily on private property. Concern within the party and bureaucracy about the potential for private capital interests to develop a power base for opposition parties acts as another moderating influence.

Kanishka Jayasuriya and Andrew Rosser begin the set of comparative and thematic chapters with a look at the differential progress towards economic liberalisation after the Asian crisis in Malaysia, Singapore, Thailand, and Indonesia. In chapter 8, they argue that these variances are a function of contrasting domestic political and social variables, institutional capacities, and the extent to which the crisis has shifted the balance of power among coalitions of interest. The strong resonances across these countries' development strategies during the boom years, characterised by interventionist states, are diminishing after the crisis. Whereas economic liberalisation reform is under way in Thailand, little is to be found in Indonesia. Meanwhile, an official nationalist backlash is evident in Malaysia and a policy of 'offensive adjustment', rather than wholesale winding-back of state intervention, is occurring in Singapore. Similarly, the crisis appears to have delivered a severe blow to oligarchic and crony capitalism centring around the Soeharto family in Indonesia, but has had much less such impact in neighbouring Malaysia.

In chapter 9, Frederic Delyo investigates the implications for labour of economic liberalisation in South-East Asia. He identifies the growing global influence of neo-liberal ideas and the adoption of more flexible post-Fordist production systems as crucial dynamics. The net effect of these has been to limit the capacity of enlarged working classes to significantly enhance their political and organisational strength. Instead, elite strategies of industrial management are being consolidated—a pattern not fundamentally altered by the effects of the Asian economic crisis. Delyo argues that this is precisely the continued exclusion of the popular sector from policies that foster a measure of tolerance by elites for parliamentary institutions. The price of this is, however, potential political instability in the long term, which might even include hostility from within the masses toward democratic institutions that are perceived as mechanisms of exclusion by the elites.

Mark Beeson's description of Japan as a 'quasi-hegemon' in South-East Asia arises out of an analysis of that country's considerable influence in the region, which is ultimately constrained from realising its full potential by a comparatively timid foreign policy. In chapter 10, he argues that economic influence is not matched by political influence, resulting in a neo-conservatist character to Japan's relations with the region. Huge investments and trading significance, as well as the historical role as exemplar of the developmental state, have been accompanied by a reluctance to adopt an independent and comprehensive foreign policy. This is, in part, due to dependence on the United States for security, argues Beeson. Most recently, however, domestic conflicts of interest over the restructuring of the Japanese economy serve to impair the capacity and inclination of a Japanese leadership role in the region.

Notes

1 We gratefully acknowledge the invaluable constructive criticisms on an earlier draft from Mark Beeson, Jane Hutchison, and Kanishka Jayasuriya.

2 Marcus Olson (1982) saw economic growth in democratic political systems as a result of 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.

3 Approaches influenced by this version of political economy, juxtaposing neoclassical 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 Ammar 1994).
10 Indeed, the Initial IMF interventions drove these economies into deeper recession.

11 In one report, the World Bank (1991:6-7) 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'.

12 Immergut (1998:26) contends that historical institutionalists account for change by arguing that institutions are never in equilibrium. However, the literature suggests that there is more attention to explaining persistence rather than change. In any case, pointing to constant change does not amount to an explanation of that change. It is noteworthy that the Asian crisis was a surprise to analysts (Haggard 2000a:130) who focused on institutional stability rather than change. They also failed to assess the changed global and regional context in which institutions operated.

13 A term coined to designate the rapidly growing and industrialising economies of East and South-East Asia.

14 Of course, markets had long existed. In this context, neo-classical theorists were concerned with the development of 'free markets'.

15 Some South-East Asian leaders portrayed 'culture' as an ingredient of the 'Asian model' and pronounced it a political asset. They argued the need for preserving authoritarian political arrangements because, as parts of 'Asian culture', they were essential for economic success (see Robison 1996; Rodan 1996).

16 financiers, Douglass North (1994:366-7) relied heavily on culture as the factor driving both resistance and innovation, arguing that it was the 'mental models of the actors that will shape choices'.

17 In explaining why some countries proved better at constructing efficient institutions, Mark Malloch Brown (1999) thus asserted that: 'it was impossible to sustain economic growth, commerce, and trade without investing in the poor. If the world's economic leaders design a new international financial architecture that does not provide for the poor, they will be building on sand.' It is worth noting that the bank was a latecomer to social safety nets, in the criticism of agencies such as Unicef and UNDP, and bitter experiences in Eastern Europe (see Deacon et al. 1997).

18 But does not, however, explain how it is that these same conditions existed for most of the period of the boom after 1985. This example indicates a tendency in historical institutionalist analysis to identify the same institutions with both successes and failures in economic policy and implementation.

19 In this vein, Haggard (2000b:220) contends: 'Reducing East Asia's vulnerability requires not simply a question of changing policies, but of reconsidering the privileged position domestic business has enjoyed during the high growth period, and subjecting business to greater regulatory restraint and accountability'.

20 The idea that democracy posed a threat to the East Asian model of development, long expressed by authoritarian leaders in the region, had academic adherents (see Wu 1996).

21 Call (1999) maintains that the problems of over-production were compounded by the unprecedented availability of credit associated with the market liberalisations of the 1990s. High-risk investments in construction and real estate made possible by overseas borrowings added to the vulnerability of these economies.

22 Bernard was taking particular exception to the work of Weiss (1997).

23 Malaysia provided a dramatic model in defying the IMF by imposing capital controls and priming its banks with state funds. Despite the corporate and banking meltdown in Indonesia and the rapid unravelling of the seemingly indestructible Soeharto regime, old interests and power have also proven resilient. Corporate restructuring and bank recapitalisation is bitterly contested. Even in Thailand, where the IMF and further liberalisation were initially welcomed, the upsurge of opposition has been surprising.

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