‘NOT LIKE THE REST’:

PRACTICAL AND THEORETICAL IMPLICATIONS

FROM SOUTHEAST ASIA’S

ECONOMIC DEVELOPMENT.

JASON ABBOTT

A thesis submitted in partial fulfilment of the

requirements of The Nottingham Trent University

for the degree of Doctor of Philosophy

December 1998

This thesis is dedicated to the memory of my Grandfather James Leslie Abbott. I hope that I can be as much of an academic as he was an inspiration to a small boy.

<u>Table of Contents</u>

Abstract

This study seeks to demonstrate that existing theories of the economic development of Southeast Asia, be they liberal (modernisation theories), Marxist (Dependency and Underdevelopment theories) or statist (the Capitalist Developmental State or Japanese model) are meta-narratives that attempt to provide an abstract and totalising concept of development in which there is little account of historical specificity. This tendency towards 'over-generalisation' and model-building is typical of positivist approaches to social science. Drawing inspiration from scholars in International Political Economy and other disciplines that reject positivism, this study proposes that Southeast Asia's economic development is not, as Alice Amsden has suggested, 'Like the Rest', but rather reveals sufficient dissimilarities to invalidate such claims. In doing so, this study argues for the increased recognition of the need to be sensitive to historical-specificity in such studies, in order to fully understand the complexities of both economic development and the relationship between the domestic economy on the one hand, and the regional and global political economy on the other.

Furthermore this thesis advances a second proposition; that while Dependency theories were equally guilty of such abstraction, and exhibited serious logical and theoretical flaws, *situations of dependency* are nonetheless evident in the political economies of Indonesia, Malaysia and Thailand. Such situations of dependency are most visible in the dependence within specific economic sectors upon foreign technology and foreign skills and know-

how. In order to demonstrate this a detailed cross country study of the automotive sector is presented in chapter six. Revealing such situations of dependency demonstrates that rather than reject Dependency theories entirely, retaining a sub-generalised conception of dependency for the study of economic development and industrialisation provides a useful tool to the social scientist.

Acknowledgements.

Completing this thesis has left me indebted to a large number of people. Principal among them are my supervisors at the Nottingham Trent University, Dr Neil Renwick and Chris Farrands. I am also extremely grateful to the Nottingham Trent University for the financial support that enabled me to make the two fieldwork trips that were vital for the empirical data in this work. Special thanks must also be extended to Dr Ronen Palan, my former supervisor while I was still a postgraduate at the University of Newcastle, for presenting me with many opportunities including co-authoring a book from which this thesis ultimately emerged and Professor Tim Gray for his encouragement during the formative stages of my PhD programme. A word of gratitude must also go to the Department of Politics at The University of Newcastle, for the material support and part-time teaching without which the financial burden of the thesis would have proved to great to endure

Many people have advised, helped, encouraged, supported and criticised my work over the past five years these include: Dr Shaun Breslin, Melissa Curley, Ian Douglas, Frank Faulkner, Dr Randall Germain, Dr Barry Gills, Chris May, Dr Roy Smith, and Professor Susan Strange. In particular I would like to acknowledge the support, and comradeliness of my fellow protagonists and drinking companions for the best part of this thesis, Dr Brook Blair and Dr Phil Deans, without whom postgraduate life would have been infinitely duller, if less troublesome. I would also like to give a special word of thanks to my mother for her patient encouragement and financial support, and to Jan for her love and comfort during the past difficult few months.

Librarians at the University of Newcastle, The Nottingham Trent University, SOAS and The British Library provided appreciated assistance, as did secretarial support at both Newcastle and Nottingham. Similarly the assistance of the information services of the Export Marketing Information Centre at the Department of Trade and Industry should be acknowledged along with The British Embassies in Kuala Lumpur and Jakarta. For Malaysia, MIDA, MITI, and PROTON (Malaysia); for Thailand, the Office of the Board of Investment, Ministry of Industry and the Office of Industrial Economics (Thailand) and for Indonesia, the Embassy of the Republic of Indonesia and BKPM (Indonesia).

This type of study could not be undertaken without the cooperation and support of all those who assisted me during my fieldwork. Consequently I would like to thank Mansour Abdullah, Director of the Malaysian Industrial Development Authority in London for his help in identifying suitable contacts within the Malaysian Civil Service and private sector; Saakarin Niyomsilpa (Royal Thai Commission to the European Union); Kim Ong (Australian National University); Professor Jomo at the University of Malaya; Sarah Bewley (British High Commission, Kuala Lumpur); Ms Rohanna Mahmood (Malaysian Strategic

Research Council), and the numerous interviewees from across the public and private sectors who wished to remain anonymous.

Naturally the responsibility for errors and omissions lies entirely with the author.

Jason Abbott

April 1998

INTRODUCTION.

International Political Economy, Development Theory and the Originality of the thesis.

This thesis explores the process of economic development in Indonesia, Malaysia and Thailand over the past three decades in order to advance two principal propositions. Firstly to demonstrate that significant dissimilarities exist in the developmental experiences of Indonesia, Malaysia and Thailand to devalue generalised explanations for their economic success. Existing analyses of economic development, typical of positivist social science, display such a tendency for over generalisation in order to construct universal or region-wide models.

Secondly, that while Dependency Theories per se were guilty of such generalisation, and had been criticised for being seriously flawed both logically and theoretically, dependent relationships nonetheless continue to be observed between domestic and foreign capital in the developing world. Furthermore recent studies (e.g. Bernard and Ravenhill, 1995) revealed that such *situations* of dependency exist even in the most dynamic areas of the developing world. Consequently the second proposition advanced in this thesis is that if situations of dependency exist in specific sectors of the economies of developing world states, then analysis of those situations of dependency provides a valuable tool for an investigation of economic development.

A number of articles and books inspired this investigation into the economic development of Indonesia, Malaysia, and Thailand. Much of the literature and indeed the author's theoretical background falls within the study of International Political Economy. However in pursuing this thesis it was necessary to move outside the broad parameters of this field of enquiry into a series of other disciplines of which Development Studies was the most significant. Nonetheless this thesis examines Southeast Asia's economic development from an IPE perspective, using this perspective to criticise some of the conclusions drawn about the region within Development Studies and within more area-specific studies.

The development of this thesis emerged from a previous investigation into the way in which the capitalist state is responding to the growing globalisation of production. Contrary to debates about the withering away of the state (Cerny, 1993, 1994, Strange, 1995) and the triumph of a neo-liberal hegemonic ideology (e.g. Gill, 1990), I argued with Palan in *State Strategies in the Global Political Economy* (1996) that changes in the global political economy were both driven by and resulted in changes in the political economy of individual states. By adopting a more specific study of how state-society relations vary it was possible to identify a number of different responses, strategies, to globalisation. These included: size (economies of scale and scope); the East Asian capitalist developmental state; social democracy (as a strategy of supporting accumulation and moderating its negative effects); hegemony; downward mobility (the use of tax and other non-fiscal incentives to attract transnational capital and investment); tax havens; and a group of states that were 'Not in the Game' because of exogenous and endogenous structural constraints.

The study of 'Downward Mobility' revealed the strategies adopted by a number of developing world economies, including Malaysia, that attempted to *manage* a dependent relationship with foreign capital through the use of export processing zones and local content requirements in specific industries -- and in the case of Malaysia the automobile sector in particular. The study demonstrated that development in such economies conformed neither to the projections and prescriptions of neo-classical economists nor the pessimism of some dependency and World System analyses. In contrast to the former, there was clear and demonstrable evidence that elites in both government and business believed and supported an activist interventionary role for the state, which did contribute positively to social and economic development. In contrast to the assumptions of the latter, the export composition of the developing world has inexorably shifted from raw materials to manufacturing goods[1] despite a reliance on the North for finance and technology, and despite growing protectionism among core developed economies.

Nonetheless, questions about the asymmetries of power and wealth between the North and the South have had a profound impact upon the development of International Political Economy (e.g. Cox, 1979, 1981) and in particular in the development of a Marxist/historical materialist tradition (including here the influence of Antonio Gramsci) that in part is responsible for shifting the ontology and agenda of IPE in the last decade in a more radical and critical direction and away from more behavioural or positivist political science (see Chapter One, pp. 5-6). Despite the inadequacies of Dependency analyses (again discussed in further detail in Chapter One, pp. 11-16), an emergent literature examining the growing structural power of international capital (e.g. Cox, 1992; Gill, 1988, 1991 Stopford and Strange, 1991; Strange, 1995, 1996) identified the central question in contemporary IPE as one that explored how in shaping state, market and societal interactions, globalisation has profound effects in changing the nature and practice of the state. (e.g. see Palan and Abbott, ibid.). For Stopford and Strange (ibid.) this meant that firms were becoming ever more important in the pursuit of national welfare and that bargaining between states and firms was perhaps as critical in the study of IPE as bargaining between states. Clearly asymmetries of power and wealth would exist in state-firm bargaining, with developing world economies weaker in such bargaining diplomacy than their more developed counterparts. In such situations we have to ask whether such asymmetrical bargaining is not dependency by another name?

In 1995 an article appeared in the journal *World Politics*, that proved influential in the development of this thesis and in the debate on the significance of these asymmetries of power and wealth in IPE. In this publication, Mitchell Bernard and John Ravenhill argued that rather than replicating the developmental experience of Japan, the diffusion of manufacturing in the Asian Pacific was characterised by hierarchical networks of production linked to Japan for technology and to the United States for markets for finished goods. As they comment,

> Regional state elites are increasingly concerned about the extent of technological dependence on Japanese corporations and are eager to diversify their sources of technology.. [and] continued dependence on American markets for manufactured exports (op. cit., p.172).

This trend they acknowledged both presented and diminished opportunities for some states and firms in the region. However while even the most advanced economies of the region continued to depend upon imported technologies, the existence of such dependencies and hierarchies of production should not deny that they may be mutually beneficial. In making such an argument Bernard and Ravenhill were echoing some of the ideas first postulated by Cards and Faletto (1979) when they formulated their conception of Associated Dependent Development, in that both sets of authors are arguing that dependency is a process in a particular context rather than a generalised theory.

Although' dependency' has been used in a generalised context, taken as a process it becomes necessary to examine the *specific* form that dependency takes in each specific case. Indeed Bernard and Ravenhill implicitly suggest that any 'new' approach to dependency must be understood in terms of "the relationship between changes in the global political economy, changes in the political economy of individual states, and changes in the organisation of production" (op. cit., p.205). In particular they stressed that the development process in Korea and Taiwan had been dramatically different from that pursued in Japan. Similarly the current industrialisation process taking place in Southeast Asia's export-oriented economies was seen as substantially different in terms of both geopolitics and industrial organisation. Consequently any study of the international political economy of East Asia has to examine the specific relationship between the state, society and the economy and be placed in a historical context.

This concern with historicism emerged within IPE in particular as a result of the growing influence of the work of Gramsci applied by the so-called neo-Gramscians or 'Italian School' in International Relations. As will be discussed in greater detail in Chapter One, commentators such as Stephen Gill argued that Gramsci's historicism provides a "systematic historical materialist conception of world order capable of avoiding the pitfalls of rival modes of structural analysis... in conjunction with a flexible and ultimately historicist understanding of social class, institutions and the power of ideas" (Germain and Kenny, 1998, pp.4-6).

A further influential text in the evolution of the thinking of this thesis appeared in a special issue of the *Journal of International Development* on 'The New Tigers of Southeast Asia'. In this special issue Alice Amsden (1995) explicitly argued that the region's economic success was a result of the emulation of the East Asian (Japanese) Capitalist Developmental State (for a more detailed discussion see chapter one, pp. 26-37). While such conclusions often appear in the popular regional and global economic/business journals, more detailed analysis of the region by commentators such as Hewison, Higgott, Robison, Rodan et al. suggest that this conclusion is over deterministic and reductionist. Nonetheless, in order to demonstrate this, the thesis engages with the literature on the Capitalist Developmental State and in the country-specific chapters analyses each for evidence upon which Amsden and others draw such a conclusion.

Finally, other academics have begun to reject "ahistoric interpretations of convergence" (Gills and Philip, 1996, p.585) calling instead for the research into historic specificity, culture, and the institutionalisation of the intersection of global capital with local capital discussed above. Indeed a collection of articles on this very question appeared in a special issue of the journal *Third World Quarterly* in 1996 entitled "The Developmental State?". In its editorial the authors commented that,

> we wish to query the extent to which there is any one coherent model of the developmental state, and secondly to query the extent to which any such model would either be transferable or replicable in different historical conditions, and different historical time... By pursuing these related questions we wish to highlight the existence and significance of very different types of national institutional and cultural ensembles or matrices. (Gills and Philip, 1996)

As implied above and demonstrated with more force in subsequent chapters it is precisely towards the tendency for ahistoricism that this thesis is addressed. In particular the thesis rejects conclusions that suggest that Southeast Asia's economic development conforms to a 'model' of development provided by Japan, South Korea and Taiwan. In the special issue, Mitchell Bernard similarly challenges the idea of a region-wide model, arguing that for example "[t]he construction of myths of a region-wide commonality are grounded in the predilections of orthodox social science but also myriad of national hegemonies within the region's various social formations" (1996, p. 649).

The Originality of the Thesis.

However if the authors of the various articles in the special issue of *Third World Quarterly* and in particular Bernard challenge the ahistoricism of development theory, where does this thesis' claim to originality rest? The answer lies in the distinctive analysis of the way in which, to cite the editors, "social, political, cultural and economic institutions, underpinning economic policy, are deeply embedded both socially and historically" (1996, p.586) or as Bernard comments in reference to Eastern Asia,

> local political economy is constituted both in its relationship to local dynamics such as a particular policy orientation, a particular set of institutions and intellectual traditions or the balance of class forces, and in relation to the contours of world order and in certain historical periods, to macro-regions which sit at the intersection of the local and global (ibid., p.650)

Consequently, this thesis aims to develop an understanding of dependency as a process that is grounded in precisely the specific case-study based examination of individual countries that the authors of the special issue believe are fundamental if as scholars we are to avoid the ahistoric metatheorisation that has all too often characterised development studies and specifically development economics. In doing so the thesis contends that one of the explanations for the particularity of development in the economies that are examined lies in a sub-generalised conception of dependency of the kind suggested by Bernard and Ravenhill.

Why examine the economic development of Southeast Asia?

Until the onset of the Asian financial crisis the Southeast Asian states of Indonesia, Malaysia and Thailand were among the fastest growing economies in the world over the past three decades. Although an average growth rate of 6.9 per cent during the 1980s was marginally below the lofty standards set by the irrepressible 'four tigers' such performance can scarcely be dismissed as lacklustre. Indeed the performance of the region's economies in the 1990s was more impressive still with average growth rates approaching double figures.

Table 1: Economic Indicators for selected Southeast Asian case studies

	Population	% av. GDP growth 1960-70	1971-80	1981-89	1990-96
Indonesia	178.2 m	3.9	7.9	5.2	7.3
Malaysia	17.4 m	6.5	8.0	5.4	8.8
Thailand	55.4 m	8.4	9.9	7.5	8.3

Sources: World Bank, EIU, DTI

In International Political Economy, and indeed in Development Studies, discussions on Southeast Asia's late industrialisation are less well-known than that discussing the fortunes of its neighbours in Northeast Asia[2]. However in recent years it has become increasingly common to find comparisons being made between the developmental paths of both groups of states (e.g. Lubeck, in Applebaum and Henderson, 1992; Oniz, 1991; Rock, 1995). Amsden (1994, 1995) in particular argues that the experience of industrialisation in Southeast Asia is "part of a general late-industrialising paradigm" (1995, p.791) which emphasises that "the governments of late-industrialising countries have played a much more active role in development than in the past" (ibid.). Indeed such arguments have inspired policy-making communities in Indonesia, Malaysia, and Thailand to seek to emulate the perceived model demonstrated by the rapid late development of Japan, South Korea and Taiwan. Such emulation ranges from the announcement of detailed developmental strategies and plans[3], to the creation of specialised government agencies to promote and co-ordinate industrial development[4] and even the unashamed announcement of copying Japan as espoused in Dr Mahathir's 'Look East' Policy in 1981.

What emerges from the announcements and proclamations of such policy communities and of certain academics is the notion of an 'Asian' model of capitalism, a regional if not universal set of 'guidelines' for rapid late industrialisation that if applied will, as if invocating a spell, guarantee superior economic performance. This thesis contends in light of the theoretical developments discussed earlier and supported by empirical evidence in chapters three, four, and five, such 'statist' interpretations of East Asia's economic development are little more than an exercise in reductionism. Rather than avoid the determinism and meta-narrative of earlier development theories such as modernisation and the vulgar neo-Marxist dependency theories that inspired much of their critique, 'statist' interpretations of East Asian development have simply replaced it with their own deterministic meta-narrative -- namely that economic development can only be successfully achieved if the developing state is sufficiently autonomous from recalcitrant social forces. Such exercises in model-building and reductionism are one of the quintessential aspects of modernity (Escobar, 1995, p.56) reducing complex and diverse historical moments, with varied national genealogies and different institutional practices, into a single idea of progress or development -- a single picture "so that the whole can be grasped in some orderly fashion" (ibid.).

Consequently to avoid such reductionism the thesis draws from the neo-Gramscian school of International Relations and the 'Australian School' of IPE of East Asia to make visible a discourse of development that reintroduces *historical-specificity*, including cultural factors, in order to demonstrate the manner in which external forces, such as global capital and modernity, "are processed, expressed, and refashioned by local communities" (Escobar, ibid., p.98.)

A discussion of the importance and contribution of development theory for this thesis follows in Chapter One, however, what I intend to demonstrate here, is that despite often vehement differences between development theorists each of the variants is rooted in a hegemonic narrative -- the notion of a natural logic of human progression, scientifically, industrially and materially (Renwick, 1997 p.4). Such a narrative was/is

> encapsulated in industrialisation, a centralised and increasingly bureaucratised institutional state, qualified political emancipation.. nationalism, Western-derived education, Western languages, and an identification of the 'Modern' and 'The Progressive' with western forms of cultural representation (ibid., p.6).

Although much of this narrative is associated with the apex of imperialism, decolonisation after the Second World War merely incorporated formerly colonial states into a global system of states and a global economy that was and for the most part remains an expression of the hegemony of the West.

Modernisation Theory, for example, clearly attempted to demonstrate that there was a universal and linear process of transition that all traditional or industrialising societies were bound to go through. Nonetheless this transition was not automatic, all modernisation theorists stressed that to pass through this process such societies had to implement social, cultural, economic, institutional and political changes[5]. History was regarded as something to be repeated -- modernisation and industrialisation seen as inevitabilities, with perhaps the only difference being that today's developing countries may have even more advantages and opportunities to modernise. As Hoogvelt has put it, modernisation theorists such as Rostow effectively "turned the abstracted, generalised history of European development into logic" (1982, p.116). Growth and industrialisation "would pave the way for the modernisation of backward economies and for the spreading among the natives of the proper rationality" (Escobar, 1995, p.74).

Although much of the criticism of neo-Marxist dependency theories, that emerged as a critique of early modernisation theories, stemmed from the economic dynamism of parts of the developing world contrary to the stagnationist assumptions of early dependistas such as Frank (1967), many of the central tenets of dependency analyses have also been attacked for being logically flawed, deterministic and contradictory

(Larrain, 1989, pp. 188-195). However in accepting such critiques there is always a danger of throwing the baby out with the bath-water. In other words while this thesis accepts many of the flaws found in dependency analyses by its critics, the existence of economic and technological dependencies necessitates the continued relevance of *processes* of dependency.

One result of the theoretical inadequacies of neo-Marxism, during the 1980s and 1990s has been renewed interest in modernisation theory resulting in the so-called 'Washington Consensus' of neo-liberal economics. Emerging from the rejection of the perceived failure of interventionist Keynesian economics during the 1970s, neo-liberal economics became synonymous with the Thatcher and Reagan administrations in the United Kingdom and United States respectively. With their belief in the superiority of the market in allocating goods and services and in the priority of ensuring economic growth, both administrations begun a fundamental assault on state-owned industries, the welfare state, and on organised labour in order to ensure that market-distorting factors were minimised. Ultimately assisted by the increasing mobility of international capital and the ability to influence government policy through the often unrealised threat of capital flight (Palan and Abbott, 1996 (pp. 12-30), this ultra liberal economic philosophy gradually spread globally assisted by the direction of the World Bank and International Monetary Fund which increasingly attached neo-liberal reform packages to the allocation of funds[6].

Throughout this period the only exception to the Washington consensus appeared to come from the developmental experiences of Japan, South Korea, Taiwan and to a lesser extent Singapore and Hong Kong. Here superior economic growth was being delivered by governments that openly acknowledged an interventionist stance towards economic policy including subsidised loans, tariff and non-tariff protection, and detailed strategic economic plans. Inspired by the successes of these experiences policy makers and academics across Southeast Asia and the developing world called for the replication of the so-called 'Asian model of capitalism' resulting in the publication of a special World Bank report into the East Asian Miracle (1993). The report itself was a highly politicised affair, with the original first draft of the document being rejected by the Japanese because it practically ignored the role of government policy in East Asia and seemed to suggest that the region's rapid economic growth had resulted as a consequence of rather than because of a rejection of the Washington Consensus. The eventual publication reflected an unsatisfactory compromise that neither supported nor rejected either approach to economic development.

Contrary to the advocates of economic liberalism many commentators particularly in radical/Marxist development theory and cultural studies (e.g. Escobar, 1995, Sachs, 1992) regard it as effectively an ideology (Roberts, 1984, p.7). They argue that rather than being value free, economic liberalism is a subjective interpretation of relation between man and his material and non-material environment that is rooted in an enlightenment tradition of progress and evolution (teleological time). Furthermore, in the tradition of early modernisation theorists such as Rostow, economic liberalism is conducted within a notion of a linear progression of history from barbarism to civilisation and beyond.

Within modernisation theories and indeed *current* institutional analyses of development (World Bank, 1993, 1994) there is both an explicit and implicit notion that development is synonymous with economic growth as measured by the annual growth of Gross National Product and/or Gross National Product per capita. While this has its uses particularly in providing cross-country comparisons we need to move beyond this narrow definition of development.

Although we have witnessed fifty years of development policies and economic growth the international economic system remains characterised by extreme inequality and an inequality that has become greater not lesser in the last few decades. Nonetheless development has become synonymous with economic growth within an international economy and economic growth is seen as a necessity for combating poverty as defined in monetary terms.

This thesis, while acknowledging the significance of the critical literature on development that appears in cultural studies/ 'post' development theory, adopts a more conventional and limited materialist conception of development. This does not entail a rejection of such literature but that for the purposes of this thesis, that literature has a limited relevance. However, for the purposes of this study development is more than simply economic growth, *development* entails how the social apparatus surrounding the state interacts and contributes to economic growth. While social development is important, the thesis focuses specifically on factors such as institutional sophistication, and the capacity that the economies in question possess to become more autonomous. In other words on their ability or inability to develop domestic capital and indigenous technology thereby reducing their 'dependency' upon both goods and skills from exogenous sources.

To reiterate, the thesis develops a more sophisticated but nonetheless *material* account of development that is grounded in the historical-specific conditions of the economies under investigation.. From the survey of Indonesia, Malaysia and Thailand that follows, it is clear that while these three countries have undergone rapid economic development over the past three decades they remain *ambiguously* developed. The process of development has been uneven leaving some sectors of the economy more developed while others are less so.

In order to demonstrate the ambiguous nature of development in Southeast Asia the thesis examines the specific case of the automotive industry with special emphasis on the Malaysian National Car projects, Proton and Perouda. The justification for choosing this industry is presented in detail in Chapter Six (pp. 238-248), but to summarise it stems from: the immense spin-off effects that the automotive industry generates through its linkages with upstream and downstream industries; the socio-economic impact of the automotive industry, which has transformed the nature of manufacturing production twice this century with the adoption of Fordism/Taylorism from the 1920s until the early 1960s, and since then with the impact of Japanese Just-in-Time practices often dubbed Toyota-ism or Post-Fordism; and the association of the automotive industry with modernity.

Before providing detailed case studies into the developmental experiences of Indonesia, Malaysia and Thailand the thesis will first provide the theoretical background within which this thesis is grounded. To this end Chapter One demonstrates that in order to understand questions of power and wealth in International Political Economy the importance of Development Theory must be recognised. Furthermore the chapter goes on to examine the role of the state in development, and more specifically the concept of the East Asian Capitalist Development State (Johnson, 1982). To do this the chapter examines the theoretical understanding of the state in western social science through Marx and Weber. Emphasis on these political philosophers stems from the profound influence that they have had upon modern debates on the question of the autonomy of the state, whether absolute or relative from society as a whole. Chapter Two demonstrates that any specific analysis of political and economic development must be examined within the wider context of the regional and global political economies in order to understand that specific state/social formations are themselves a product of a dynamic interaction between the local and the regional/global. The thesis then proceeds in chapters three, four and five to both demonstrate this and to test whether the political economies of Indonesia, Malaysia and Thailand conform or deviate from the East Asian Capitalist Developmental State. Chapter Six provides a cross-country comparison of the automotive industry in order to determine whether situations of dependency exist within the political economies of the countries under investigation and to analyse specific government policy responses, if any, to such situations. The thesis culminates in Chapter Seven with the conclusion in which the main arguments in the thesis are summarised with a discussion of the contribution of this research to the academy.

A final word on the interviews conducted during my fieldwork. The nature of the politics in Southeast Asia as well as the culture of cronyism and respect for authority ensures that few interviewees are willing to be directly attributed to material particularly if it is of a critical nature. Consequently transcripts of the interviews I conducted are not available, however a list of interviewees was presented to the examiners.

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[1] Whereas in the 1950s manufactured goods accounted for less than 5% of the total exports of the South, today such goods account for between 60 and 70%, constituting nearly a fifth of total world exports of manufactures (Wood, 1994, p.1).

[2] For a discussion of the latter see for example, Amsden (1989), Applebaum and Henderson (1992), Deyo (1987) Johnson (1982), Wade (1990), White (1988), Williams (1994)

[3]e.g. Malaysia's New Economic Policy (NEP) and New Development Policy; the Industrial Master Plan and Mahathir's 'Look East' and Vision 2020 policies; Thailand's National Economic and Social Development Plans; and Indonesia's Repletia (5 Year Plans)

[4]MIDA, HICOM, and MITI in Malaysia; and The Board of Investment in Thailand, for example.

[5] Although Modernisation theory is generally associated with development economics and neo-classical economics equally as significant is modernisation theory's sociological heritage. Modernisation theory arguably has its roots in rationalistic and evolutionary social theory (Darwin, Spencer, Durkheim). One of the principal features of such theory was the construction of a dichotomy between ideal types, a feature reflected in the distinctions made between the 'traditional', 'rural' or 'backward' society contrasted with its 'modern', 'urban' or 'developed' counterpart that is a common feature of modernisation theory.

[6] This also has relevance to the 1997/98 financial crisis in the region, which although is not the subject of this thesis, receives brief comment in the foreword to the thesis.

Chapter One:
International Political Economy, Development and the State: Implications for the Study of Southeast Asia.

This chapter provides a theoretical framework within which to place the analysis of the economic development of Southeast Asia. As mentioned in the introduction, the genesis of this study emerged from a concern with inequalities of power and wealth within the international political economy and with the complex interaction between domestic social forces, domestic capital, the state apparatus and the international economic environment. Clearly the nature of such interest necessitates an interdisciplinary literature review of materials in International Relations and International Political Economy, political theory, historical sociology, and Development Theory among others. This is a mammoth task and one that requires a logic in order to make such a review feasible. Consequently this chapter firstly examines the evolution of international political economy tracing the development of a critical IPE that arguably opened up a discursive space within which interdisciplinary work could take place (the initial part of this section is largely taken from Higgott, 1994). In particular critical IPE has 'rediscovered' historical materialism and with it a concern for socio-economic factors grounded in a historical context. Having opened up the discursive space for interdisciplinary work, the thesis then moves on to discuss Development Theory, both generally, drawing on the work of Modernisation Theorists and Marxist/Neomarxist approaches, and specifically in the context of East and Southeast Asia.

1.1. The development of 'critical' International Political Economy

For many years International Political Economy (IPE) was considered largely as a sub-discipline of International Relations that concerned itself with the study of 'low politics' (economic and social welfare issues), as opposed to the principal agenda of 'high politics' (the study of peace, diplomacy, traditional security, alliance formation etc.). However during the 1980s and 1990s, IPE became both a major growth area in the study of International Relations, and with the development of a much more normative, and critical 'wing', a broader field of enquiry that has facilitated a large amount of interdisciplinary work from disciplines including business and management, cultural studies, economics, history, political geography, sociology and of special importance to this thesis, development studies.

Among the principal texts representing various conceptions of IPE are: Cerny (e.g. 1993), Cox, (1987), Gilpin (1981, 1987), Gill (1991, 1993) Gill and Law (1988), Strange (1988, 1991, 1997), Spero (1990), and edited collections such as: Frieden and Lake (1991) , Gills and Palan (1994), Murphy and Tooze (1991), Pettman (1996) and Stubbs and Underhill (1994). Journals of particular note include, International Organisation, which has tended to reflect a more American inspired discourse of International Political Economy, The Review of International Political Economy, which has become a major outlet for both a more critical IPE and interdisciplinary material, and to a lesser extent journals such as Global Society, New Political Economy, Millennium, Pacifica Review, The Pacific Review and the Review of International Studies.

Clearly International Political Economy has moved on from early definitons offered by the likes of Gilpin (ibid.) and Keohane (e.g. 1977) that saw IPE as little more than the study of the relationship between power and wealth in international relations. However given the vast array of literature and influences in contemporary IPE there is no accepted definition or explanation of what constitutes the (sub)discipline, instead there is as Higgott notes,

> merely the recognition of IPE as an important series of practices (of considerable historical stature) and a now identifiable 'field of inquiry',

'area of investigation', or 'set of questions' constantly undergoing redefinition and reconceptualization (Higgott, R, 1994, p.156)

The dominant orthodoxies in the study of international political economy until the 1980s were realist and liberal, and to a greater extent both of these remain dominant in the study of the discipline in the United States. However these orthodoxies have been increasingly undermined both as a result of substantive changes taking place in the structure of the global economy, and ontologically through the development of a critical international political economy, that constitutes what Higgott (1994) refers to as a 'counter hegemonic' international political economy. Nonetheless despite the fact that there is no consensus on what constitutes International Political Economy, because IPE rejects the dichotomy between power and wealth, it rejects the dichotomy that has prevailed for much of the 20th century between the study of IR and politics on the one hand and economics on the other. In this sense IPE is the modern successor to the eighteenth and nineteenth century discipline of political economy[1]; although it grows out of an IR agenda more than a political-economy one.

International Political Economy arguably has it roots in the late 1960s and the early 1970s. The collapse of the post-war Bretton Woods System and the onset of the Oil Crisis in 1973 seriously challenged the distinction made in International Relations at that time between the realm of ‘high politics’ ‘low’ politics, with the latter for the most part identified as nonsecurity issues. One of the first intellectual challenges to this dichotomy was made by Susan Strange. In, ‘International Economics and International Relations: A Case of Mutual Neglect’ (1970) Strange observed that the mutual neglect of economics and political science within IR had left significant lacunae in aspects of international policy that fell outside the focus of ‘traditional’ security.

However it is important to note, that "IPE was not simply a critique of the disciplines of International Relations and International Economics disciplines nor was it an attempt to combine various traditions within these disciplines" (Higgott, ibid., p.158). Equally as important were the ontological and epistemological contrasts[2].

As noted above, the development of IPE was affected by major historical and structural changes. As well as the collapse of the post-war Bretton Wood System and the end of the long boom, other major changes include: the expansion of international commercial activities exemplified in the growth of the number and size of Transnational Corporations, the recovery and economic 'miracles' of Japan and the Northeast Asian Newly Industrialising Economies, the Debt Crisis and the growing divide between the developed world and the developing world.

The collapse of the American-led Bretton Wood System and the latter problem of Third World imiseration visibly demonstrated that contrary to dominant orthodoxies in International Relations the stability and preservation of the world economy was not simply a technical question but a political one (ibid.). Furthermore, following decolonization in the 1950s and 1960s, issues of redistribution between rich and poor emerged onto the international scene with the establishment of the Non-aligned Movement, the Group of 77 and the United Nations Commission on Trade and Development. Growing dissatisfaction with the liberal international economic order combined with the structuralist critique provided by the work of Raul Prebisch and the Economic Commission for Latin America effectively politicised the 'development question'. After the first oil crisis of 1973 North-South relations were radicalised and demand for a New International Economic Order became increasingly vociferous in international organisations. Such developments gave a further impetus to the development of IPE particularly on the emergence of a more critical enquiry that drew upon the work of development theorists such as Samir Amin, Andre Gunder Frank and Immanuel Wallerstein (Cox, R., 1979)

However such considerations were largely overshadowed by the intellectual dominance of the discipline by American political scientists. For much of the later 1970s and early 1980s IPE was dominated by debates on interdependence3 and international regimes. From the work of scholars such as Joan Spero and Robert Keohane came important studies into transnational relations and interdependence in world politics. Unsurprisingly perhaps, the first major international work on IPE, Joan Spero's, *The Politics of International Economic Relations*, focused on OECD interdependence, East-West relations and the dependence of the South on the North (ibid.).

As this work demonstrated, IPE was dominated by what essentially was a realist perception of international relations, in the sense that in recognising interdependence and the rise of international regimes, the state still remained the principal unit of analysis. Given the dominance and numerical superiority of American scholarship it was perhaps no surprise that interdependence effectively relegated concerns about the relationship between the developed core industrial states and the developing peripheral states to the margins of IR and IPE.

The ontological basis of this dominant American IR/IPE agenda stems from the dominance of social scientific enquiry by positivism[4], behaviourism and rational-driven theory[5]. As a result, principal among the debates within IPE during the 1980s were, firstly the study of international regimes and institutions and the provision of so-called international public goods, and secondly the extent to which the provision of such goods since was facilitated by the preponderance of military and economic power in the hands of a single state[6]. As Higgott notes however, rationally ordained, egoistic or self-regarding behaviour is a major inducement to international economic co-operation, but it is not the only one.. [t]he distinction between subject-object and fact/value that has underwritten the development of 20th-century social science.. is now contested in the more critical reaches of recent IR theory (ibid., pp.160-1).

Seminal in the development of a critical IPE has been the Canadian scholar Robert Cox. Cox (1986) argued that theory as two broad purposes, problem-solving and critical theory. The former presupposes that the principal components of a system do not fundamentally change. Consequently it is the action of the component parts that forms the analytical focus of problem solving. Such theories Cox argues tend to be ahistoric because, "[h]istory becomes but a mine of data illustrating the permutations and combinations that are possible within an essentially unchanging human story" (ibid., p.224). Critical theory on the other hand, "steps outside the confines of the existing set of relationships to identify the origins and developmental potential of these phenomenon" (Sinclair, T, 1996, p.6). Furthermore, critical theory, also allows for a normative approach to IR/IPE since it signifies a possible change of social and political order (e.g. Smith, S.,1992).

Cox's approach emphasises much more the structures of power and accumulation at work on both a local and global level. It also challenges the rationalist methodology of positivist social science since Cox argues that institutions such as government and markets are human institutions. In other words they are social constructs, created by collective responses to "the physical and material context in which human aggregates find themselves" (Cox, Ibid., p.244) rather than the result of "rational interactions between economic agents" (Higgott, Ibid., p. 162). There is in this perspective therefore an identification of both subject and object. Gill, for example, confidently asserts that such critical IPE overcomes the subject-object dualism at the heart of positivist social science (Germain, R & Kenny, M, 1998, p. 5).

Rupert (1996), suggests that one result of the re-emergence of concern for normative IR/IPE is that the discipline is in a state of crisis. IPE he maintains is torn between the concern for a world of atomistic sovereign states and concern for the social organisation of production (ibid., p.14). This 'crisis' he continues, has 'opened up' a discursive space for a whole series of creative and alternative views of international relations. In particular he stresses the growing influence of Gramscian-inspired IPE particularly in its novel study of "the post-war hegemony of a transnational capitalist historic bloc" (ibid.) synonymous with US leadership and Anglo-American neo-classical economics. Although Cox's work again is regarded as being pioneering in this development, the refinement and evolution of a neo-Gramscian school (or Italian school) in IR/IPE is closely associated with the work of Stephen Gill (1988, 1992, 1993), and Craig Murphy (e.g. Augelli, E and Murphy, C, 1988)

The significance of the work of Cox, Gill and Murphy, is that it has for use of a better phrase, 'brought historical materialism back in' to the study of IR/IPE. As mentioned earlier, IR/IPE has largely ignored Marxist and neo-Marxist scholarship. This is because, "Marx and Engels wrote much less on international relations than on domestic issues, and partly due to the heritage of Cold War antagonism towards Marxist theorizing" (Smith, H., 1996, p.201), with the result that the discipline of IR, "has been devoid not just of radical critiques, but also of alternative historical materialist explanations of international relations" (ibid.).

This is not to say that there has been no trace of historical materialism or Marxism within IR/IPE as clearly this is inaccurate. Rather that historical materialism and Marxism have been couched in the so-called structuralist paradigm of IR.

Structuralism, as Halliday notes, is a concept derived not from Marxism but rather from the disciplines of linguistics and anthropology (Halliday, F., 1994). Furthermore in the context in which it is used in the study of International Relations and International Political Economy, "it suggests a multiplicity of influences and determinants as diverse as class, nation, gender, place, culture and historic context.. [and] stresses the primacy of one of the levels of determination" (ibid., p.53). Furthermore, as a survey of texts on International Relations and International Political Economy reveals, the structuralist paradigm is limited in scope to a consideration of specific topics, most commonly North-South relations. By concentrating on this aspect of historical materialism IR/IPE is arguably ignoring another strand. Marx and indeed Lenin's work on capitalism and imperialism did not just stress the exploitative character of the world economy. As the discussion of Marxist writings on Imperialism below demonstrates Marx equally stressed the necessity of capitalism and its revolutionary nature, capitalism not only destroyed but it also created, "both disrupting established forms of economic and social activity and forging new ones" (ibid., p.54). Halliday continues by stressing that historical materialism has four constitutive themes which together offer an alternative paradigm for International Relations, these are: material determination, historical determination, centrality of classes, and the importance of revolution, the emancipatory element in Marx's work. Similar arguments are posited by Smith who stresses that despite the work of Cox, Gill and the so-called neo-Gramscians, the encounter between IR/IPE and historical materialism is relatively recent. In particular she highlights the significance of the work of Justin Rosenberg and Simon Bromley who stress the importance of historical materialism and Marxism as emancipatory projects.

I will not dwell on this debate, or as to whether neo-Gramscian IPE represents in Pete Burnham's words, "little more than a version of Weberian pluralism oriented to the study of international order" (Burnham, P., 1991, p.77). What is significant about this literature from the point of view of this thesis is that both accept the importance for the study of IR/IPE of socio-economic factors and the importance of placing such factors into a historic context. In other words to examine how historical factors influenced and shaped the current situation. It should also be noted that such works draw on an established and growing body of work on social history and in particular historical sociology. Within the first discipline the work of social historians such as E.P. Thompson (1963), and Eric Hobsbawm (e.g. 1962) deserve noting as does the French Annales school best exemplified in the work of Fernand Braudel (1980). Among the latter group the work of Michael Mann (1978, 1992), William McNeil (1976), Theda Skcopol (1978), Charles Tilly (1990) and Perry Anderson (1974) have had a particular impact. Thompson, Mann and Tilly explore the development of classes and nation-states, Hobsbawm and Mann the nature and legacy of imperialism, Braudel and to a lesser extent McNeil the determinant role of structural forces (spatial, geographical, temporal and environmental) on capital and state-society formation while Skocpol and Anderson examine the relationship between states, international systems and revolutions (Rengger, N.J, 1996, p. 215).

This thesis emerges from the historicism associated with the critical turn in International Political Economy, but equally stresses the importance of the material foundations of everyday life. Any analysis of Southeast Asia as a developing region in the global economy must be grounded in the wider context of North-South relations and in particular development studies/theory. Consequently a review of some of the principal approaches to development follows. What is clear from such a review of the literature however is a strong tendency towards *ahistoricism* of the kind that dominated IR/IPE until recently. Therefore one of the principal concerns of this thesis is to adopt the the historical-materialist approach in order to examine the specific development patterns of Indonesia, Malaysia and Thailand. Only by doing so can we avoid generalist conclusions whether they be of the kind that support the prevailing neo-liberal economic hegemony or the literature that asserts a counter hegemonic East Asian model of capitalism. Similarly while the thesis contends that a 'return' to dependency may provide a useful tool for understanding the nature of the insertion of these dynamic economies into the global capitalist systemic is important to stress that this will only work if dependency is understood as a sub-generalised conception. In other words this thesis ultimately concerns itself with an analysis of dependencies rather than propound a generalised theory of dependency.

1.2 Development theory I: Rostow and Modernisation theory.

Although the idea of a transition between two kinds of society emerged during the nineteenth century modernisation theory only first emerges in practice with the retreat of European empires in the aftermath of World War Two. Modernisation Theory attempted to demonstrate that there was a universal and linear process of transition that all traditional or industrialising societies were bound to go through. Nonetheless this transition was not automatic, all modernisation theorists stressed that to pass through this process such societies had to implement social, cultural, economic, institutional and political changes[7]. The three main strands of modernisation theory were: *The Ideal Typical Index Approach*[8], *The Diffusionist Approach*[9] and *The Psychological Approach* of which the first strand and in particular the work of Walt Rostow are most well known[10]. The index approach attempted to attack the problem of economic development through the comparative statics of ideal types (Frank, 1967, p.5) which for Rostow were historical stages of economic development.

In his work *The Stages of Economic Growth*, Rostow identified five stages through which developing countries would pass to become a mature developed economy. These were: *Traditional Society; Preconditions for Takeoff; Take-off;*

The Drive to Maturity; and the Age of High Mass Consumption. Although Rostow does allow for historical differences between those societies that have reached the age of high mass-consumption and those that are preparing for the take-off, his point is merely to argue that while some difference may hinder development the most important facilitate it. History is regarded as something to be repeated -- modernisation and industrialisation are seen as inevitable, with perhaps the only difference being that today's developing countries may have even more advantages and opportunities to modernise. As Hoogvelt has put it Rostow effectively "turned the abstracted, generalised history of European development into logic" (1982, p.116). Growth and industrialisation "would pave the way for the modernisation of backward economies and for the spreading among the natives of the proper rationality" (Escobar, 1995, p.74).

1.3 Development theory II: Dependency theories

Dependency analyses have for some time now been subject to considerable criticism and scepticism (e.g. Warren, 1980). For many academics the whole concept of dependency is no longer regarded as valid in an era of globalisation and in light of structural transformations in the international division of labour [11]. While the source of much of this criticism has stemmed from the economic dynamism of parts of the developing world contrary to the stagnationist assumptions of early dependistas such as Frank (1967), many of the central tenets of dependency analyses have also been attacked for being logically flawed, deterministic and contradictory (Larrain, 1989, pp. 188-195). Such attacks have come not only from liberal/pluralists but also from within the structuralist paradigm itself (again, c.f. Warren, 1973, 1980). In addition some writers asserted, contrary to Frank, that real development can occur within the capitalist world system even with the existence of dependent relations (e.g. Cardoso and Faletto, 1979).

While the origins of dependency analyses can be traced to the post 1948 ECLA (Economic Commission for Latin America) critique of the conventional theory of trade and development, much of the literature draws inspiration from Marx's writings on the development of capitalism in backward nations, particularly Russia and Ireland, and from Lenin (1968, 1974) and other Marxist accounts of imperialism (Bukharin, 1972; Luxemburg, 1951; Hilferding, 1981[12]).

Dependency theory is often assumed, primarily by its critics, to represent a universalistic neo-Marxist account of the failure of an overwhelming number of developing countries to achieve levels of economic development that would at the least lift the majority of their peoples out of indigence. The defining characteristics of this theory are the structural division of the world into a core industrialised (developed) world and a peripheral, developing world. The core is deemed to be developed because it has exploited and expropriated economic surplus from the peripheral countries which, rather than being developing countries, are actually underdeveloped by their insertion into the capitalist world economy. The theory firmly places the source of the underdeveloped world's ills on the developed world stressing detrimental exogenous factors such as falling prices for raw material exports, protectionism in the core markets, the conditionality of aid and loans, and (neo)-colonial political ties that ensure the acquiescence of minority elites who invariably exercise political power through repressive force.

While such summaries do portray many of the salient features of the literature on dependency it ignores significant diversities within the approach. Palma (1978) for example distinguishes three major variants within what he refers to as Dependency analyses: dependency as the theory of Latin American underdevelopment; dependency as a reformulation of the ECLA analysis of Latin American development and dependency as a methodology for the analysis of concrete situations of dependency (ibid. pp. 899-906).

The first of these begins with the work of Frank (1966, 1967, 1969, 1970) and continues in the work of Dos Santos (1970) and Hinkelammert (1972). Its essential characteristic is that it attempts to construct a theory of Latin American underdevelopment in which the dependent character of those economies forms the basis upon which the whole analysis of underdevelopment is based. The second variant, represented by the work of Sunkel (e.g. 1966) and Furtado (1966. 1973), seeks to locate and emphasise the obstacles to national development that arise from exogenous factors. However Palma claims it does so without presenting either a theory of underdevelopment or any generalisation that might suggest that development within the present capitalist system was unlikely (Larrain, 1989, p.112). Palma's final variant, and the one with which he eventually associates his work with, is an attempt to avoid the construction of a mechanico-formal theory of dependency by instead concentrating on 'concrete situations of dependency'. This approach is mostly associated with the work of Cardoso, Faletto and Evans in his account of 'associated dependent development' in Brazil.

Cardoso and Faletto's approach escapes many of the criticisms levied against dependency analyses, and in particular the work of Frank. For many commentators (Brewer, 1990, Larrain, 1989, Palma, 1978) Associated Dependent Development combines the new categories expressing the novelty or particularity of dependency with the traditional concepts associated with orthodox Marxism. This is important because much of the neo-Marxist approach, by treating dependence as an external phenomenon, neglects the crucial role of the internal relations of production. Indeed Cardoso and Faletto reject dependency as an external cause, as a static phenomenon. Rather they argue that dependency is a general condition which only expresses itself through conflict, social movements and class struggles. Hence changes in the capitalist world economy will not produce automatic and correspondent changes across the periphery, but rather find a concrete expression through the interplay of *local* interests, state policies and class relations, both domestically and externally (1979, pp. 10-11, 12).

Indeed what is most notable about Cardoso and Faletto's work is that they are very careful to avoid the totalising concept of an abstract theory of dependency. Instead they prefer to talk about *concrete situations* of dependency. One can have a theory of capitalism and class relations but not a theory of dependency they argue. Because dependency cannot be thought of without the concepts of surplus value, expropriation, accumulation, modes of production and so forth, dependency as a concept must be defined within the theoretical framework of a Marxist theory of capitalism.

Cardoso and Faletto seek to differentiate their work from other theories of dependency by accepting many of the criticisms levied against it. However the real value of their work lies in a detailed *historical* analysis of the changing manifestation of dependent class relations as changes occur within the world economy and between it and Latin America[13]. The specific details of this analysis are not necessary to demonstrate the uniqueness of their analysis within the dependency paradigm, suffice to say that each of the historical periods they describe are characterised by different internal class relations, and that while Latin America as a whole has experienced these historical periods, the strength or weaknesses of various classes or class fractions has ensured that the history of the 'situations of dependency' has been different[14] in the different societies of the region.

Nonetheless Cardoso and Faletto ultimately maintain that development cannot be sustained by internal forces, and in particular that peripheral countries cannot move into the production of capital goods, the production of the means of production since these are concentrated in the core. However they maintain that development can be sustained by foreign investment, it is this that they refer to as Associated

Dependent Development. Although Associated Dependent Development allows the process of development to continue it will inevitably lead to sharp income inequality and marginalisation. The middle classes will prosper from the relationship with foreign capital while the urban proletariat will suffer as the fruits of populism (trade unions, welfare etc.) are withdrawn in order to provide an attractive business climate for investors (Ibid., p.158).

Neo-Marxist interpretations of development and underdevelopment have received much academic criticism from Marxists (e.g. Warren, 1980) and non-Marxists alike. The specifics of such criticism are not of concern for this thesis. However among the principal criticisms it is important to note that with the exception of the work of scholars such as Cardoso and Faletto, most neo-Marxist theories of development have ironically replicated many of the problems they themselves associated with modernisation theory.

As noted earlier a number of the dependency and underdevelopment theorists were stark critics of modernisation theory. Nonetheless by presenting a deterministic conception of development, dependency theorists have ironically replicated many of the problems of modernisation theory. Frank for example has argued that "the characteristics Hoselitz and others attribute to developed and underdeveloped countries present a distorted and inadequate conception of social reality" (1971, p.12) because social theorists have been "blinded by a hand-me-down ideal typical perspective" (Ibid.). And yet he and the other 'founding fathers' of dependency merely construct in its place another ideal type model which, "[j]ust as modernisation theory assures the development of the periphery by a historical repetition of the processes undergone by the model developed countries... assures the impossibility of peripheral development within the capitalist world system" (Larrain, Ibid., p.189). Consequently the terminology of dependency and underdevelopment theories parallel the generalised polar positions of modernisation theory. In other words Frank, Amin, Emmanuel, Wallerstein etc., are equally guilty of constructing a deterministic, universal meta-theory of development.

1.4 Dependency analyses and Asia

One of the major criticisms of dependency analyses and in particular Frank's thesis of the development of underdevelopment is that empirical evidence from a number of developing countries appears to directly refute many of the central tenets of these theses. Among such states the economic miracles of the Newly Industrialising Economies of both East and South-east Asia are particularly evident[15]. Nonetheless Frank (1984) maintains that such states are little more than the exceptions that prove the rule of his thesis. This success occurs not because of autonomous industrialisation but because of developments occurring *within* the world system.

Frank's argument neglects the impact of changes in the way in which capitalist development was founded. It is precisely the differences in the way in which capitalism evolves in developing economies that this thesis argues to be of principal importance. There is a role for domestic capitalist authority and capital formation but that this will vary from one country to another, as will the interaction between the country in question and the external international or regional capitalist environment. Such arguments are developed and illustrated in the case study chapters, three to five.

Principal among the external developments that Frank argues make the case for exceptionalism are the economic crises of the capitalist system since the 1970s. These he maintains relocated some agricultural, mining and manufacturing processes in the periphery in order to reduce the costs of production. While this creates a new international division of labour the main reason for industrial relocation is that the peripheral countries in question offer cheap labour. To ensure that labour costs are low such states invariably resort to force to repress the labour force.

Furthermore in the case of the original four NIEs (Hong Kong, Singapore, South Korea and Taiwan) there were particular exceptional factors in their economic success. As Frank states,

> South Korea and Taiwan clearly were created as 'independent' entities as a result of the Cold War against China and the Soviet Union and have been politically supported and economically subsidised as strategic pawns against them. Hong Kong emerged from history to a similarly peculiar position, and Singapore became a state because of the preponderance of overseas Chinese population on the Malay peninsular (Frank, 1984, p.217)

In addition Frank argues that the actual consequences of export oriented industrialisation are highly questionable: it leads to authoritarianism and repression to ensure low labour costs, high levels of international borrowing, and balance of payments crises. In addition any technology transferred to the periphery is usually "the least remunerative and technologically obsolete [leading to] ..meagre benefits" (Ibid. p.219).

Others, such as Chase-Dunn, are equally unconvinced that the economic growth of the NIEs has changed the role of the periphery in the international division of labour. Shannon for example argues that,

> [t]raditional exports still compromise the largest percentage of the periphery's production, and the limited amount of manufactured goods produced for export are in labour-intensive (that is, low-wage) industries. Hence peripheral industrialisation is just a continuation of its role in low-wage production (1990, p.89).

Indeed the manufactured goods of the semi-periphery are for world system theorists the old declining industries of the core. By relying on the transfer of obsolete, invariably Fordist, technology states such as the NIEs can use their low-wage base to capture a segment of the world market (Ibid. p.103). Consequently some mobility within the world system should not be regarded as refuting the theoretical premises of Wallerstein's approach, since this is the ascribed role of the semi-periphery. Furthermore Emmanuel and Drangel (1986) maintain that most semi-peripheral states will not achieve the economic growth rates necessary for such states to 'catch-up' with the core.

Comparatively little has been written on Southeast Asia from such a viewpoint, since the majority of the literature has either sung the praises of a form of state led development, or argued that the region's economic success is attributable to the pursuit of free market economic policies. There have been a number of radical interpretations that closely pursued the dependency approach, of these perhaps the most famous would be Yoshihara's *The Rise of Ersatz Capitalism in South-East Asia* (1988) and various works by Suthee (1980, 1991). Both viewed local capital as insignificant, or subservient to international capital principally because of its slight bargaining power and dependence on foreign capital and technology. As the later country specific chapters and Chapter Six in particular demonstrate, the problem of technology transfer is a very real and serious one in Southeast Asia (see for example Jomo, 1983). Yoshihara (ibid.) argues that under the present system, "it would be impossible for them (Southeast Asian capitalists) to become technologically independent... Their technological dependency is not temporary but, being structural, semi-permanent" (p.,112). A view that was confirmed in many of the interviews conducted during the fieldwork undertaken for this thesis.

Other Marxian variants of contemporary radical writings apply class analysis to study the local bourgeois class following the visible emergence of large independent business groups. Such scholars include Hewison with his accounts of emergent capitalist class in Thailand (1989) and Robison for Indonesia (1986). Hewison for example stressed the role of domestic industrial and banking capital in pressing for an ISI policy during the 1960s and the role of corporate groups or big capital in demanding an export orientation from 1969 onwards. From such perspectives government economic policies in Southeast Asia were seen as essentially designed to serve the interests of the large capitalist class and its allies.

It is also possible to adopt an exceptional thesis to these states. Stubbs (1989), for example, has shown the extent to which Southeast Asia similarly received massive economic and military aid from the United States. While not comparable to the levels enjoyed by Taiwan and South Korea he nevertheless maintains that they made important contributions to the economic take-off of Southeast Asian industrialisation[16]. Similarly as the empirical data in this thesis reveals the question of technological dependence is perhaps more marked than in East Asia.

The continued economic dynamism of the Newly Industrialising Economies coupled with the developmental success of their Southeast Asian neighbours has made Frank's conclusions seem difficult to sustain as a universal thesis. Rather than suffer from growing indebtedness all these states (prior to the recent economic contagion) have reduced their total national debts since Frank's response to his critics in 1984[17], furthermore their unemployment figures are below the average for western Europe, and all run healthy balance of payments with the United States and most European states although all, with the exception of Indonesia, do run considerable deficits with Japan. In addition export oriented industrialisation (EOI) in these states predates the crises of the 1970s, Taiwan and Korea's EOI can be dated to 1960 and 1961 respectively (Cumings, 1987, p.68) while both economic and political aid ceased to a major factor for these states from the 1970s onwards. Similarly in stressing the exceptional exogenous factors Frank overlooks the *specific* historic factors that differentiate these states from each other and from Latin America. More will be said of this in succeeding chapters but in Northeast Asia in particular one can sight the egalitarian economic structures that resulted from major land reforms that removed a distinct landed aristocratic class. Similarly the existence of authoritarian political structures is an irrelevancy since it is not inconsistent with capitalist development. To take a traditional Marxist analysis, the authoritarian nature of these states and their repressive labour laws are the *particular* expression of the contradictions that are inherent in capitalism.

Likewise the empirical evidence also appears to refute many of the responses of world-system theorists to their critics. Contrary to the pessimistic prospects of Emmanuel and Drangel (1986), Chase-Dunn (1983) and Shannon (1990), the economic dynamism of both semi-peripheral and peripheral states in Asia both continued and spread. In the wake of the original four tiger economies (Hong Kong, Singapore, South Korea and Taiwan) followed not only Malaysia and Thailand (who Shannon incidentally believed were on the border between semi-periphery and periphery, ibid., p.101) but Indonesia, Vietnam, Cambodia and most dramatically of all China -- surely there is a limit to how far you can argue that such growth is exceptional? Furthermore Taiwan and Korea have become major sources of foreign investment, both within other semi-peripheral Asian states (as world-system theorists predict) and more importantly also in core developed economies such as the United Kingdom[18], while their range of exports is similarly moving beyond cheap mass produced obsolete manufactured goods[19].

As to the issue of unequal exchange raised by the work of Emmanuel (1972) and Amin (1974), one of the main complaints against the NIEs has been their achievement of *both* low wages and high productivity -- the consequence of which has been cries of unfair practices by their core competitors. As Brewer notes "[g]iven the free mobility of capital between countries why should any investment go to the high-wage countries at all?" (1990, p277). While it is important to note that a large number of developing world countries have made little progress in their economic development since the 1960s, the list of NIEs and NNIEs (Nearly Newly Industrialising Economies) continues to grow and a number of peripheral countries now make important contributions to world output[20].

1.4.1 Japan and the creation of a *regional* division of labour

A variation on the world-system notion of a threefold structural division of the world economy has emerged in the work of a number of scholars on East Asia. This variation stresses the creation of *regional* divisions of labour centred around regional hegemonic states. Cumings (1987) and Bernard and Ravenhill (1995) for example argue that the continued dynamism of East and Southeast Asia is testimony to the creation by Japan of a regional hierarchy of production.

This proposition claims that following the 'reverse course'[21] the United States regarded it as imperative that Japan have access to an economic hinterland to assist her in the economic and military recovery necessary to provide a bulwark against communism in the region. Historically this hinterland had been in Manchuria and Northern Korea, but with both these now under communist control the logical alternative was Southeast Asia. Rich in resources and raw materials Southeast Asia would provide resource deficient Japan with the goods she would need for her economic recovery while also providing a market for Japanese exports (Cumings, 1987, p.61). With preferential access to the continental consumer market of the United States, Japan 'returned' to the core and in her wake dragged much of East/Southeast Asia out of the periphery. This was primarily achieved by massive investment and the relocation of Japanese firms in the Newly Industrialising Economies as rising Japanese labour-costs and the appreciation of the Yen made it too expensive for goods to be produced domestically (especially low labour cost consumer goods).

Bernard and Ravenhill take Cumings' argument a step further by stating that as Japanese manufactured goods reached the maturity of their product life cycle, rather than simply allowing the production of these goods to be transferred to the industrialising states of East Asia, Japanese capital created a complex network of production that allows semi-peripheral production to take place while crucial aspects of the product's technology are jealously guarded by the Japanese. Therefore Bernard and Ravenhill conclude by stating that,

> [a]lthough Korea and Taiwan and more recently Malaysia and Thailand may be exporting products in the same industries in which Japan enjoyed success a few years ago, the context in which they are doing so is substantially different, in terms of both industrial organisation and geopolitics... Contrary to ..predictions ..the industrial exports of those countries remain heavily dependent on capital goods and technologies imported primarily from Japan ..[t]his *dependence* on Japanese technology, coupled with the dependence of Japanese corporations on other locations in the region for lower cost for assembly operations, has produced a new *regional division of labour* that is based not on national economies but on regionalised networks of production (1995, p.207, my emphasis)

Consequently, despite much criticism both from within the Marxist tradition and from outside it, dependency analyses continue to argue that the economic development of East and Southeast Asia is not inconsistent with its central tenets. Moreover the recent work by Bernard and Ravenhill reveals that such analyses can incorporate very real socio-economic changes and comprehensive empirical data while remaining theoretically sound. In particular such analyses examine the *specific* nature of development, class relations and state formation.

1.5 Statist Perspectives on Economic Development

The principal work on East Asian development came from renewed interest in the state in the social sciences during the 1970s which emerged partly as a critique of dependency analyses (e.g. Amsden, 1979 and Evans, 1979). In addition the economic success of the Newly Industrialising Economies raised important questions as to the role the state had played in facilitating this success (Amsden, 1979; Trimberger, 1978). As a result of this renewed interest, the *Joint Committees on Latin American Studies* and on *Western Europe* of the *Social Sciences Research Council* set up the *Committee on States and Social Structures* to carry out research into the role of states. Among the scholars involved in this enterprise were Peter Evans, Dietrich Rueschemeyer, Theda Skocpol, Albert Hirschman, Charles Tilly, Stephen Krasner, Ira Katznelson and Peter Katzenstein. The influential publication *Bringing the State Back In* (1985) grew directly out of the work of this committee and laid the basis for the emergence of what became known as the neo-Weberian paradigm.

Although this paradigm draws inspiration from Weber[22], in particular his concept of the state as an autonomous structure, many of those who have subsequently been categorised as being within it do not deny the importance of economic factors, class relations or many other facets of the (orthodox) Marxist tradition[23]. Nevertheless the *common* element among such scholars is the concept that the state must be viewed as an *autonomous* actor whose functioning is an important independent factor for historical change and variations in the social structures of different societies. Consequently the state cannot be simply characterised by the nature of the mode of production or by class relations.

This sociological paradigm had a major impact in the social sciences and in particular on scholars concerned with the economic development of East Asia[24].

The result has been a plethora of literature concerned with the specific role of the state in the development of East Asia[25]. It must be noted here that although many of these studies, while equally focusing on institutions and the role of the state in national development, cannot accurately be described as neo-Weberian. In fact equally as significant is the tradition of mercantilism and neo-mercantilism, the source of inspiration for which lies less with Weber and more with the work of the German political economist Frederich List (1841)[26].

The mercantilist tradition initially inspired a whole host of works on the Japanese state (Johnson, 1982; Sheridan, 1993; Williams, 1994), which in turn generated other country-specific studies of which Wade's study of Taiwan (1990) and Amsden's work on South Korea and Taiwan (1989; 1979, 1985) are notable. Amsden's work is of particular importance for this chapter because she was one of the original contributors to *Bringing the State Back In*, and can therefore be legitimately classified as a neo-Weberian. Furthermore in her recent discussions of the World Bank report on East Asia (1994), and the industrial performance of Southeast Asia (1995), Amsden reifies the role of the state in development to such an extent that she renders much that is noteworthy in the neo-Weberian paradigm superfluous.

1.6 State Autonomy

Probably the most important concept in the Neo-Weberian paradigm is the idea of state autonomy. The state conceived of, is a compulsory association claiming control over territories and the peoples within them, with "administrative, legal, extractive, and coercive organisations" (Evans et al. 1985, p.7) at its core. However to enjoy *autonomy*, the state must be able to formulate policy and pursue goals that "are *not* simply reflective of the demands or interests of social groups, classes, or society" (ibid. p.9, my emphasis)[27].

For neo-Weberians such autonomy is not a fixed, static feature, but something that can ebb and flow. *Crises* provide an example of moments when the state can exercise autonomy. At such times, state officials may be able to exert sufficient potential to formulate transformative strategies or policies that overcome vested interests or competing bureaucratic rivalries[28]. Therefore, the organisational coherence of state officials (usually non-elected unaccountable bureaucrats), their origins, and whether they share a common ideological position, are considered to be important for the exercise of autonomy. For example, Skocpol cites the example of Trimberger, who in *Revolution from Above*, stresses the importance of "the formation through prior career interests and socialisation of a coherent official elite with a statist and nationalist ideological orientation" (ibid. p.10). Although Trimberger's interest is in the revolutionary forces behind the Meiji restoration, the revolutions led by Attaturk and Nasser, and the 1968 coup in Peru, the Kuomintang 'take-over' of Taiwan in 1949 also provides a good illustration of this.

In addition to crises other factors are identified as determining state autonomy including state capacities and the relationship between the state and its socio-economic setting. To exercise autonomy a state needs more than just a disciplined bureaucracy with a nationalist oriented goal. Without territorial integrity or financial means, the power of the state to set and achieve its goals will be constrained. The existence of territorial integrity and political stability are deemed necessary preconditions for the ability of any state to implement policies and are arguably even more vital to attract foreign investment (Evans et al. p.16).

State formation and state autonomy is also influenced by the financial resources available to states. Some states in the developing world for example are heavily dependent on export taxes derived from resources or products that are particularly dependent on foreign demand and consequently subject to marked fluctuations[29].

Others reap the "state-building benefits of military aid" (Evans et al. 1985, p.17)[30]; while state control over the flow of credit enables others to ensure private capital follows state policies[31]

While the neo-Weberian paradigm reintroduced agency into the debate on development in the social sciences, it has also been subject to criticism, much of it strikingly similar to critiques of realism in the discipline of International Relations. Some of these criticisms, and alternative conceptions of the state that are perhaps more appropriate for examining Southeast Asia's economic development, will be discussed later. For now this Chapter will examine the literature on East Asian development mentioned earlier. The purpose of this is to support my notion that much of this literature, while often drawing inspiration from sources other than Weber, broadly conforms to the state as conceptualised by the neo-Weberian paradigm.

1.7 The Capitalist Developmental State in East Asia

The similarities between the literature on East Asian development and the neo-Weberian school is most clearly demonstrated by examining the defining characteristics of the East Asian Capitalist Developmental State. As Deans notes, "[t]he term developmental state is a recent one, but it is often associated with the tradition of mercantilism and neo-mercantilism" (1996, p80.) and in particular with the developmental pattern of the Japanese state, particularly, but not exclusively since the Second World War. According to Johnson in his defining work, *MITI and the Japanese Miracle* (1982), "the issue is not one of state intervention in the economy. All states intervene in their economies for various reasons... [t]he question is how the government intervenes and for what purposes" (pp. 17-18).

To illustrate this point Johnson, and also Henderson (1992, 1993), distinguish four different forms of government interventionism: market-ideological, market-rational, plan-ideological and plan-rational. Although similar classifications are made by Dahrendorf and Dore[32], the original inspiration for such categorisation can be traced, perhaps unsurprisingly, to Weber. For example, Johnson himself comments that, "[i]n modern times Weber began the practice with his distinction between a 'market economy' (*Verkehrwirtschaft*) and a 'planned economy' (*Planwirtschaft*)" (1982, p.18).

A *market-ideological* political economy is one in which the state, "merely allocates those resources and responsibilities that have been traditionally under its control" (Henderson, 1993, p.88) namely: national defence, internal security and the provision of the necessary legal structure within which market relations can safely operate. Policy is driven by ideological dogma usually expressed by neo-classical economic think-tanks and is "relatively impermeable to argument and empirical evidence which contradicts its basic values" (ibid., p.89).

Johnson argues that *market-rational* political economies are a product of early industrialising nations[33]. The functions that the state performs in such economies is mainly, "in the interest of maintaining competition, consumer protection and so forth" (1982, p.19). The market-rational state will have no industrial policy and the most important evaluative standard will be 'efficiency' rather than 'effectiveness' (p.21). Essentially then the role of the state is to set "the parameters in which private companies operate.. [while] investment, production and distributional decisions are the preserve of [those] companies and their actions" (Henderson, 1993, p.87).

In a *plan-ideological* economy the state owns most of the means of production. Resource allocations are made on the basis of state planning rather than market operations. In addition the state will perform a redistribute function and be guided by ideological dogma rather than by empirical evidence or scientific analysis.

Plan-rational political economies are usually states that are late industrialisers. In such economies "the state itself led the industrialisation drive, that is, it took on developmental functions" (Johnson, 1982, p.19). Unlike in market-rational political economies the state,

> has as its dominant feature.. the setting of.. substantive social and economic goals.. [consequently] the government will give greatest precedence to.. a concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness.. [this] implies a strategic, or goal-oriented approach to the economy (ibid.).

Nonetheless unlike in the plan-ideological political economy, the economy remains largely in the hands of *private corporations* which engage in competitive relations with each other in a *market disciplined environment*. However rather than simply ensure that the rules are adhered to as in the market-rational political economy, here the state "intervenes to discipline companies, where necessary, in order to achieve national goals" (Henderson, 1993, p.88). As Castell states,

> A state is *developmental* when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship with the international economy... ultimately for the developmental state, economic development is not an end but a means (1992, pp. 56-7, *my emphasis*).

Both Johnson and Henderson are keen to stress that these definitional constructs are ideal types and that actual existing political economies will be combinations of these. Nonetheless the political economies of East Asia are regarded as closer to the plan-rational model than their western counterparts who generally resemble the market-rational and market-ideological types. For example, Koo notes that,

> [t]he South Korean economy is one of the Capitalist World's most tightly supervised economies, with the government initiating almost every major investment by the private sector.. the government regulates the flow of foreign capital through its control of the banks; it controls the level and use of foreign loans, and it has the power to screen and monitor the activities of MNCs and other foreign investors (Koo, Hagen, 1993, p.241)

The instrument through which this control is invariably exercised is, echoing the sentiments of the neo-Weberian conception of state autonomy, a highly efficient, although not always particularly large, *economic technocracy*. The use of the term technocracy instead of bureaucracy here is taken from Deans' (1996) study of the Developmental State. He argues that the term technocracy should be employed because, "although the technocrats will also be bureaucrats, this is not a necessary factor. The interpenetration of political and bureaucratic elites in political systems dominated by one party or one group has meant that technocrats have become important political figures. This is particularly true in Taiwan since the late 1980s where the leadership of the KMT has been almost entirely taken over by highly educated former bureaucrats.. [this] technocratic elite.. is staffed by the most able and educationally qualified groups in the country.. [and is] able to function technocratically because they are insulated from direct political influence" (p.93).

The model for this technocracy was provided by the Japanese Ministry of International Trade and Industry (Johnson, 1982)[34] although the importance of the Ministry of Finance and the Bank of Japan have also been recognised of late (Sheridan, 1993). In Taiwan and South Korea analogous institutions were modelled on MITI that performed similar roles (Amsden, 1979, Wade, 1990). In the former this role was performed by the Central Planning Department, and in the latter by the Economic Planning Board. As Wade argues, "[g]overning the market requires a small number of powerful policy-making agencies to maintain the priorities expressed in the routine accumulation of particular negotiations and policies in line with a notion of the national interest" (1990, p.195).

These institutions in East Asia are invariably staffed by the most *educationally qualified groups* in the country. Wade for example in his study of the Taiwanese bureaucracy notes that most of the officials responsible for economic planning in Taiwan have are graduates of "the same two or three elite universities, led by Taiwan National University in Taipei" (1990, p.217). Moreover during the 1970s a greater number of masters and doctoral graduates went into government than into the private sector in Taiwan (ibid. p.218)[35]. This common educational background creates an *espirit de corps* which ensures, as Deans notes, a "commitment to national goals rather than self-aggrandisement" (1996, p.93).

These bureaucrats are able to function autonomously because they are protected from powerful interest groups and can therefore set and achieve long-term economic policies (Wade, 1990, p.256). Furthermore unlike in the United States where thousands of positions in the bureaucracy change with the election of a new president, in East Asia it is common for the bureaucracy to be insulated from political control. As a result these bureaucracies "are loyal to the state and their status and advancement depends upon it" (Deans, 1996, pp. 93-4). In Japan and Taiwan it is usual for senior figures in the bureaucracy to only achieve seniority after a long career often in different government agencies. During this time close working relations are forged with other colleagues that, in addition to facilitating the espirit de corps mentioned earlier, creates consensus and facilitates communication across ministries (Wade, 1990, p.225)[36]. Yet how does this economic technocracy come to enjoy this autonomous role?

Nearly all commentators on the Capitalist Developmental State cite specific historical factors for the emergence of state autonomy (for more detail see Chapter Three). Wade (1990), for example, argues that Japan, South Korea and Taiwan are 'hard' states; in his words, "they are able to not only resist private demands but actively to shape the economy and society" (p.337). 'Soft' states by contrast "do little more than register the demands of social groups.. [and] while they have the capacity to produce effects in the economy, they lack the capacity to control the direction of those effects in line with intentions" (1990, p.337).

In South Korea and Taiwan the 'hard' state emerged due to: a) the massive social dislocation caused by the Korean War[37] and the retreat from the mainland[38]; b) the existence of a rival irredentist regime which posed "to the rulers the prospect of their political - and physical - demise if they failed to mobilise resources and assert the state's ordering of society" (ibid. p.338); c) military, economic and political support from the support from the United States for a "concentration of social control in the hands of the states" (ibid. p.337) because of the strategic importance of these states as a bulwark to communism during the Cold War; d) the existence of social groupings independent of existing bases of social control -- Amsden (1979) for example argues that because the fleeing Kuomintang leadership was 'displaced' from the native Taiwanese land-owning class they were able to undertake a comprehensive land reform that broke the latter's political power (p.352)[39]; and finally e) "skilful leaders whose ideology favours strong state control" (ibid.)[40].

Deans (1996) expresses similar sentiments to Wade, arguing that the threat from foreign domination played a crucial role in the formation of a strong nationalist ideology that enabled the respective elites to establish autonomy. In Japan this took place following Perry's landing in 1856 and helped precipitate the Meiji restoration[41]; while in Taiwan and Korea, state elites were able to utilise the fear of take-over by their communist rivals to legitimise their rule and in particular to repress labour and opposition movements. If we compare such explanations for state autonomy with those proposed by neo-Weberian scholars, as discussed earlier in this Chapter, then clear similarities are evident.

Arguably one of the more interesting observations made about the Capitalist Developmental State is the notion of a relationship between public and private that is distinct from that encountered in the west. For Johnson (1981, 1982) this takes the form of an unprecedented degree of co-operation between state planners and the managers of private enterprise that is achieved through, "numerous unusual institutions" (1982, p.312). These include:

> official "deliberation councils"..; MITI's vertical bureaus and the corresponding officially sanctioned trade associations for each industry; the temporary exchange of officials between the state and private enterprise.. formal discussion groups.. and the practice of administrative guidance, in which government officials and representatives of industry can co-ordinate their activities unconstrained by lawyers (ibid.)

Such co-operation is further facilitated by the Japanese practice of *amakudari*[42] , 'old boy' networks, usually of university graduates or government departments, and the provision, by the state, of governmental assistance[43].

In addition this distinction takes the form of the relationship between the state and private enterprise over the question of ownership. In Japan state ownership of industry has been uncommon. Instead the government has implemented different solutions to the problem of the relationship between privately owned business and the state. One of these solutions, what Johnson refers to as *self control* , involves the licensing of private businesses by the state to achieve developmental goals. Typically in post-war Japan the state licensed cartels in industries that it determined were strategic, but then left the operation of the cartel to the private sector itself

(Johnson, 1982, p.310). Another solution involves the close co-operation between state officials and private business discussed earlier.

However, Deans (1996) argues that the 'blurring' of the public-private distinction in East Asia reflects much more than institutional differences. Instead, "[i]t is the vital theoretical issue underpinning the developmental state" (p. 81). Deans claims that this 'blurring' derives from two sources; the first, from the indistinct meaning that the words, 'public' and 'private' have in East Asia; and the second, from the way in which the relationship between the economy and the public realm were institutionalised.

To summarise his arguments, Deans maintains that in pre-Meiji Japan, there was no distinction between political and economic (p.82). The Japanese word for economy, *keizai*, reflects this because, during the Tokugawa period, the same word meant 'governing the empire and assisting the people' (see Bellah, 1957, p.105). Furthermore the creation of a 'separate' economic realm took place largely as a result of the Meiji restoration (1865) -- that is due to reforms carried out by the state -- and consequently Japanese political economy has distinct features to the west where such separation occurred earlier and under different circumstances (see Polanyi, K 1957). Although Deans' argument principally refers to Japan, he nonetheless suggests that this feature is not unique noting a similar lack of distinction between public and private in China, and the influence of German economic thought on Taiwan (p.83).

These arguments made concerning the institutionalisation of public and private and Asia are considerably distinct from those concerning state autonomy and the role of the bureaucracy. Such arguments however are less prevalent in the literature on the Capitalist Developmental State. Nonetheless by suggesting that important elements in the economic development of East Asian states derive from societal and cultural factors, such explanations present an alternative theoretical terrain to that advocated by the neo-Weberian paradigm as well as to the structural dependency analysis.

The discussion above of the central features of the Capitalist Developmental State has largely focused on the political economy of Northeast Asia; primarily Japan, South Korea and Taiwan. This begs the question as to whether such features are distinguishable in Southeast Asia; and if so whether the conception of the Capitalist Developmental State provides the most erudite explanation for the economic success of Indonesia, Malaysia and Thailand. Obviously to answer this question requires an examination of the particular political economies of these states; and indeed this follows in Chapters Three, Four, and Five. However although cautious to avoid repetition, some indication of the arguments that will be advanced is necessary in order to demonstrate that the previous discussion of the CDS, and indeed the neo-Weberian paradigm, is justifiable.

Discussions on South East Asia's late industrialisation are less well-known than that discussing the fortunes of its neighbours in North East Asia. However in recent years it has become increasingly common to find comparisons being made between the developmental paths of both groups of states (for example, Amsden, 1994, 1995; Lall, 1996, Rowen, 1998, Wade, 1992). Amsden in particular argues that the experience of industrialisation in South East Asia is "part of a general late-industrialising paradigm" (1995, p.791) which emphasises that "the governments of late-industrializing countries have played a much more active role in development than in the past" (ibid..).

For Amsden and the other contributors to the special issue of World Development on *'The New Tigers' of Southeast Asia*[44], success has come about principally due to the emulation of the Capitalist Developmental State. For example, Michael Rock, discussing Thai industrial policy, expresses this general sentiment, "[w]hen combined with an ability to avoid serious economic policy mistakes and the adoption of a statist transition to export-led industrialisation.. the Thai government appears more, rather than less, like its counterparts in Northeast Asia" (ibid., p.756). Again emphasis is placed on the role of a "well educated and capable bureaucracy" (Amsden, ibid. p.797; also Rock, p.752); external factors (e.g. Lall, ibid. p.771[45]); the relative autonomy of the state elite from domestic social forces[46]; and the effect of *crises* on the making and implementation of industrial policy[47].

To test whether Indonesia, Malaysia and Thailand conform to a general paradigm of late industrialisation, this thesis will test the extent to which the state in these countries corresponds to the Capitalist Developmental State (CDS) described above. In order to do this Deans' fivefold definition of the CDS is used to identify those elements considered integral to the so-called model. As indicated below in figure one these elements are: the public-private distinction; state ideology and paternalist capitalism; developmental legitimacy; plan rationality; and the existence of an autonomous economic technocracy (Deans, 1996, pp.81-95).

Table 1: Deans' Fivefold definition of the Capitalist Developmental State in East Asia.

The Public-Private Distinction	In CDS the separation of the public and private realms is far from apparent and is often blurred or indistinct.
State ideology and paternalist capitalism	The mobilisation of nationalism and the use and manipulation of culture.
Developmental legitimacy	Development forms the most important legitimising principle of the state.
Plan rationality	The role of the state in the market and the way in which this is institutionalised.
Autonomous economic technocracy	The existence of a technocratic elite, committed to economic reform and autonomous from specific interest groups.

Without pre-empting the conclusions derived from the country specific case studies while it is clear from the work of Amsden et al (ibid.) that similarities can be drawn with the developmental experiences of North East Asia there are also marked differences. Indeed the work of the so-called *Australian school*[48] on Southeast Asia, and the work of Jomo on Malaysia (1993, 1994), are much more explicit in their treatment of the distinctiveness of the developmental experience of these states. Hewison in particular adopts a much more Marxist approach to the discussion of Thailand's economic fortunes, arguing that,

> [s]ince 1960 capitalist development has been advanced markedly through the adoption of an ISI strategy which furthered the interests of *industrial and banking capitalists*. In more recent times, the emergence of the EOI strategy has further enhanced the position of big manufacturers and their financial backers (1989, p.76 my emphasis),

consequently in Thailand the capitalist class has emerged as the dominant social force with substantial political power. Robison, in a similar vein, questions the role of the bureaucracy in Indonesia. Both in his seminal piece *Indonesia: The Rise of Capital* (1986) and in his contribution to *Southeast Asia: Essays in Political Economy of Structural Change* (1985), Robison highlights the struggle by the beneficiaries of the patronage and economic nationalism of the Soeharto regime against the free market ideology of technocrats within the Indonesian government and of the World Bank and international capital. He remarks, that for the former group to capitulate, "to deregulate, to simplify the labyrinth of import and export licenses, exploitation concessions.. would remove a set of strictures and mechanisms through which *politico*-bureaucrats exercise their economic and political domination" (ibid. p.43, my emphasis).

More recently, Winters (1996) has argued that successful economic development in Indonesia ultimately depends upon maintaining a conducive investment climate that will continue to attract increasingly mobile capital investors. Moreover, he maintains that Indonesia's economic history is one of a constant struggle between the nationalist and patrimonal tendencies of the state elite and investment capital in which oil revenues weakened the structural leverage of the latter between 1974 and 1982. The decline of such revenues since 1982 has unsurprisingly for Winters been accompanied by a concomitant 'rolling back' of the Indonesian state.

What emerges from this brief discussion of these authors is that the universality suggested by Amsden and other 'statist' interpretations of East Asia's economic development may be an overgeneralisation. To avoid such reductionism the role of the state needs to be assessed in relation to both the sources of its social power, which will reintroduce a notion of *historical-specificity*, and in relation to the international economic environment, that is the capitalist mode of production as currently instituted in the international economy. However to dwell any further on this latter concept is to pre-empt the conclusions of this thesis as derived from both theoretical and empirical investigation.

1.8 Conclusion

As noted both in Chapter One and at the beginning of this Chapter, the theoretical weakness of dependency analyses particularly, when confronted with the economic dynamism of East Asia, contributed to a reassessment of the role of the state in development. Principal among such reassessments was the so-called neo-Weberian paradigm associated with the work of the American political sociologist Theda Skocpol. Drawing historical inspiration from Weber and Hintze, the Neo-Weberians sort to re-emphasise the role of agency in the social sciences, and in particular the role of autonomous states. In attempt to avoid reiterating realist and neo-realist conceptualisations of the state, Skocpol et al sought to stress the role of state elites within an insulated bureau(techno)cracy, particularly in times of socio-economic or political crisis, in formulating transformative strategies.

Such a conceptualisation of the state appeared to encapsulate many of the features of the Capitalist Developmental State in East Asia. Indeed nearly all of the scholars stressing the role played by the state in East Asian development allude either directly to Weber and the neo-Weberian paradigm (e.g. Amsden) or indirectly through emphasising the role played in particular by the bureaucracy in the formulation and implementation of long-term economic goals.

However this thesis contends that the application of such explanations for rapid late-industrialisation to South East Asia tend to de-emphasise the role of social forces and the existence of distinct *historically-specific* factors. While there may be commonalties between the economic development of Southeast Asia and Northeast Asia, there are equally, if not more significant, dissimilarities between the two regions. What follows in chapters three, four and five is an analysis of the extent to which Indonesia, Malaysia and Thailand conform to the CDS model when historically specific factors are given equal consideration.

In the next Chapter Southeast Asia's economic development is considered in the context of both the dynamics of the *regional* and *global* political economy. While this thesis stresses the importance of historical specificity it is important not to neglect systemic and structural changes in the wider regional and global political economies that Southeast Asia is integrated with. (For example, of particular importance when considering Southeast Asian economic development in the past three decades is the relationship with Japan and Japanese capital). Nonetheless any changes in the regional and global political economy will manifest themselves *differently* in each of the economies under investigation because of the historically-specific nature of state-society relations, class structures, political systems and so forth.

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[1] Indeed the work of early political economists such as Adam Smith, David Ricardo, Thomas Malthus, and of course Karl Marx have been of enormous influence and importance to IPE. Equally one must note the influence of the cultural/political work of the American Thomas Veblen, and the institutional economists of whom the most significant has been Karl Polanyi.

[2] The broad nature of IPE allows for a whole series of different ontological and epistemological approaches. Whether we take the simple dichotomy of early IPE such as Robert Gilpin who argued that any understanding of human nature necessitated a study of the relationship between state and market, or the much later critical approaches that question the whole conception of power, security, poverty, culture and so forth (for example see, Cox, R, (1996), or Der Derian, J and Shapiro, M, (1989), *Internationa/Intertextual Relations* , Lexington, or the more normative as opposed to positivist approaches that have re-emerged within IR and IPE.

[3] Interdependence takes as its starting point the fact that members of the international system (states) are interconnected -- through trade, aid, tariffs, treaties etc. However through these interactions states create challenges for other members of the system. What then becomes paramount is to maximise the benefits of interconnectedness while minimising the costs. As costs and benefits are not distributed equally there is asymmetry in the international system. The literature on Interdependence identified two types of cost: Sensitivity Costs and Vulnerability Costs. Sensitivity Costs were defined as how quickly changes in one country result in changes in another; vulnerability costs as the disadvantages suffered by a state even after a change in policy. The result of all this is that the greater the degree of interdependence the less self-sufficient a state can be. For interdependence theorists, traditional security concerns such as defence, alliances etc. were declining in importance vis-à-vis considerations of national welfare, and except in a very few cases national welfare cannot be increased without co-operation. To deal with the asymmetrical nature of interdependence international institutions or regimes have evolved in order to provide for states to settle conflicts of interests that arise from interconnectedness.

[4] Positivism involves a positing a separation of subject and object. Drawing from the physical sciences, positivist social science assumes that the data of politics is externally produced by events that are brought about by actors interacting in a field or system. In other words, positivism argues that only facts can provide a reliable foundation of knowledge, values are irrational. See for example, Held, D, (1980), *An Introduction to Critical Theory: Horkheimer to Habermas*, Berkeley. For a discussion of the dominance of IR by positivist social science see, Der Derian, J and Shapiro, M, (1989).

[5] The latter having a particular impact in the study of neo-classical economics.

[6] For the most part the literature on Hegemonic Stability Theory, concentrates on the role played by the United States since World War Two. See for instance: Goldstein (1988), Gilpin (1981), Kennedy, P (1987, 1992, 1993), Kindelberger (1973), Nye, (1990)

[7] Although Modernisation theory is generally associated with development economics and neo-classical economics equally as significant is modernisation theory's sociological heritage. Modernisation theory arguably has its roots in rationalistic and evolutionary social theory (Darwin, Spencer, Durkheim). One of the principal features of such theory was the construction of a dichotomy between ideal types, a feature reflected in the distinctions made between the 'traditional', 'rural' or 'backward' society contrasted with it's 'modern', 'urban' or 'developed' counterpart that is a common feature of modernisation theory.

[8] The proponents of psychological/cultural versions of modernisation theory (Nash, 1963; Chin, 1963; McClelland, 1961, 1964) stress the importance of values, motives and other psychological forces determining the rate of economic and social development.

[9] The diffusionist approach argues that economic development occurs through the diffusion of cultural and economic values and technology from the developed to the developing world. Also known as *acculturation*, such diffusion is seen to spread from the metropolis of the advanced capitalist countries out to the national capitals of the underdeveloped ones, and from these in turn to their provincial capitals and finally the peripheral hinterland (Frank, 1971, p.27). The most well known concept in this approach is the notion of a **dual** economy or society, that characterises developing countries by the existence of both a modern, invariably urban, capitalist sector, and a

backward pre-capitalist hinterland. The former achieved a relative level of development because it was intimately connected with the external capitalist world, while the latter's backwardness is a direct result of its isolation. This notion of *dualism* gives rise to prescriptions for change that call for the diffusion of western capital, technology and values, principally economic and political liberalism, to developing countries.

10 Others include Parsons, 1951, 1966, and Hostelitz, 1965

11 The export composition of the developing world has, for example, changed fundamentally during the past two decades. Whereas in the 1950s, when the ECLA critique of the nature of international trade was formulated, manufactured goods accounted for less than 5% of the total exports of the developing world, today such goods account for between 60-70%. I give a more detailed account of the changing nature of the international division of labour in "Downward Mobility: repression and exploitation as a strategy of development" in Palan, R and Abbot, J (1996) *State Strategies in the Global Political Economy.* In particular see pages 143-5.

12 Bukharin first published in Russian in 1917; Luxemburg and Hilferding in German in 1913 and 1910 respectively.

13 Cardoso and Faletto distinguish five historical stages of situations of dependency common to Latin America corresponding to: 1) the Spanish colonial period; 2) 1825-1900; 3)1900-1930s; 4) 1930s-1950s; 5) 1950s to present each of which were characterised by different economic 'strategies': enclave capitalism (in different forms for the first three periods), import substitution (period 4) and associated dependent development (present period) (1979, ref).

14 For example whereas the political exclusion of the middle class in Mexico had forced an alliance with the peasantry that had resulted in the revolution of 1910, their gradual incorporation into the political system during the depression years in Brazil and Argentina, the relative success of ISI, and the emergence of an urban proletariat, gave rise to the populist regimes of Vargas and Peron (ref).

15 Economic statistics, demonstrating the extent of this 'miracle' for these states, can be found in Chapter Three.

16 For more details of Stubbs account see also Chapter Three, *A historiography of Southeast Asia's industrialism.*

17 Prior to the onset of the current economic malaise that struck the region during the summer of 1997.

18 In 1995, for example, the Korean *Chaebol* Samsung chose Teeside in the Northeast of England to be its European headquarters. Since then other Korean and Taiwanese (Lucky Goldstar) investments have followed.

19 Taiwan, South Korea and Malaysia for example are all exporters of electronic goods, semiconductors and in the case of the latter two automobiles.

20 Taking new weights for GNP in Purchasing Power Parities instead of market exchange rates the IMF has estimated that the rich industrialised economies of the core today only account for 56% of global production, down from a pre-revised ratio of 73%. Furthermore Gereffi notes that "between 1980 and 1986 the number of Third World countries ..that exported goods worth $1billion or more increased from 27 to 49" (1992, p.86). I provide a more detailed discussion of this is in "Downward Mobility: repression and exploitation as a strategy of development" in Palan, R and Abbot, J (1996).

21 The reverse course refers to the reversal of the more liberal policies pursued by the American administration in Japan between 1945-7 that took place following the deterioration of US-Soviet relations and the fall of Nationalist China to the Communists in 1948.

22 In fact the importance of the work of Max Weber is emphasised because it reflects an alternative theoretical tradition for which the centrality of the state was paramount. This tradition originates in the nineteenth century Continental European social sciences and among the works of influential German scholars such as Weber and Otto Hintze. Beginning with the Romantics (for example, Scleirmacher and Muller) and Hegel's vision of the state as the guardian of 'universal interests', German scholars have always expressed more interest in the state than their Anglo-Saxon counterparts (Aris, 1965). Anglo-Saxon liberalism was deemed to be so fundamentally flawed in Germany because Britain was spared the enormous upheavals of political disorder that reigned on the continent, as Aris notes, "The revolutionary onslaught on Germany brought home to the people the fact that they were inextricably bound up with the fate of the state" (p.292).

Consequently such interest created an entire field of enquiry base upon the role of the state that called itself *Staatswissenschaften* (ibid. p.363).

[23] It is arguable that Marx himself allows for the state as an autonomous structure in his essay "The Eighteenth Brumaire of Louis Napoleon" (1852).

[24] See for example, Amsden, A , (1979), Johnson, C (1982), White, R (1983).

[25] It must be noted that the 'rediscovery of the state' largely took place outside the discipline of International Relations. The reason for this is obvious, namely that for a large number of theorists in International relations the state had never disappeared far from their field of inquiry. Consequently, "Bringing the State Back In" merely confirmed what they had maintained all along. Scholars once accused of reification and obscurantism now found pluralists and Marxists conceiving of the state in terms that were close to their own, particularly with the renewal of interest in works of Weber and Hintze.

[26] Deans (1996) describes the influence that German economic thought had on Japanese political economy (pp. 80-81). See also Morris-Suzuki (1989) and Sheridan (1993).

[27] The similarity with Weber's position here is clearly evident.

[28] Deans (1996) makes a similar argument about the existence of rival irredentist regimes with regard the autonomy of the state in Taiwan and South Korea (pp. 89-90).

[29] Indonesia, for example, derived over 62% of state revenues from the oil sector during the second OPEC price hike of 1979-81. In contrast, by 1990 this had fallen to just over 20%, reflecting less an increase in revenues collected from other sources than a decline in world prices. Winters (1996) and Hill (1995) argue that this decline fundamentally altered the balance of power in Indonesian politics. During the Oil boom economic policy became more nationalistic, patrimonalism flourished and the influence of the economic bureaucracy was diminished. With the collapse in oil revenues during the 1980s, the latter group was able to reassert control over Indonesian policy-making and usher in greater openness and liberalisation.

[30] For example, see the work of Cumings (1987) for a discussion of the impact of US economic and military aid on the economic development of Taiwan and South Korea; and Stubbs (1992) for a similar study of the impact of the Cold War on Southeast Asia. Both these works are discussed in the next Chapter.

[31] The Bank of Thailand provided agricultural exporters with interest subsidies of between 2.5% and 3% until 1986. Thereafter these subsidies were extended to exporter of manufactured goods (Rock, 1995, p.754).

[32] Dahrendorf distinguishes between market rationality and plan rationality, while Dore between market-oriented systems and organisation-oriented systems (Johnson, 1982, p.18)

[33] This is the position that Frederich List took with regard to free trade and protectionism. Free trade he maintained was the ideology of the first arrival because it was "an attractive design for confining the later contenders to their earlier stages of development" (Galbraith, 1987, p.94). Accordingly Adam Smith and his followers were "not affirming a universal truth; they were simply affirming what was indubitably advantageous for the special case of Britain" (ibid.).

[34] Johnson, however, when discussing the Meiji restoration (1868), again notes the influence of German political thought. He remarks, for example, that the Japanese adopted "a version of what Weber called 'monarchical constitutionalism'.. [this] system is described by Weber's editors as follows *"The prime minister remained responsible to the King, not to the parliament, and the army also remained under the king's control. In practice this. this arrangement gave extraordinary power first to Bismarck, then to the Prussian an Imperial bureaucracy, both vis-à-vis the monarch and the parliament"* Japan had some reasons for its own, in addition to Bismarck's personal influence on a few key Meiji leaders, for finding this agreement preferable" (1982, p.36).

[35] Similarly, by 1986, almost 40% of the top 400 civil servants in Thailand had Masters or PhD degrees from western universities (Rock, 1995, p.753).

[36] The similarity with the position put forward by neo-Weberians is noted (see page 44 , above).

[37] Three to four million Koreans, from a population of twenty-five million, fled South with the outbreak of war in 1950.

[38] The population of Taiwan rose by a third with the influx of refugees between 1945-9.

[39] In addition, Amsden stresses the importance of the legacy of Japanese colonialism for the future 'etatisme' of the KMT regime (1979, pp 343-352).

[40] Here Wade notes the common tradition of Confucianism.

[41] In post 1945 Japan this state ideology continued to be adopted although its content became more subtle an complex.

[42] This refers to the practice in Japan known as the 'descent from heaven' whereby senior bureaucrats are retired from the ministries into senior management positions in private enterprises (Johnson, 1982, p.11).

[43] The principal forms of assistance include, "government-guaranteed financing, targeted tax breaks, government supervised investment co-ordination.. government assistance in the commercialization and sale of products, and governmental assistance when an industry as a whole begins to decline" (Johnson, 1982, p.311).

[44] Michael Rock, "Thai Industrial Policy: How Irrelevant Was it to Export Success?"; Sanjaya Lall, "Malaysia: Industrial Success and the Role of Government" and Hal Hill, "Indonesia: From 'Chronic Dropout' to 'Miracle'?" *Journal of International Development*, Volume 7 No 5, September-October 1995) pp. 741-799.

[45] Lall comments that "Malaysia is reaping the benefits of industrial policy undertaken earlier by other countries in the region, in particular Japan, Taiwan, Singapore and Korea".

[46] Although in the three studies in the special issue the complexity and changing nature of the relationship between the state elite and societal forces is noted. Rock for example stresses the importance of the fiscal crisis of the 1980s in the restructuring of state-society relations away from its traditional identification as a bureaucratic polity in which the military in particular was an important actor, towards a more 'brokered' polity, in which government - private business relations are more akin to those in Japan (p.753). Similarly Hall discusses the effects of the rise and decline in oil revenues affected the fortunes of various competing social forces and their relationship to the Indonesian state elite (p.783).

[47] In the case of Southeast Asia these crises were primarily fiscal ones caused by the economic downturn of the 1980s and the increasing burden of debt servicing. In Indonesia the collapse of oil prices after the second price hike of the early 1980s is of particular importance.

[48] This includes the work of Hewison (e.g. 1989), Higgott et al. (1987) and Robison (e.g. 1986) all of whom were at one time based at Australian Universities.

Chapter Two:

Southeast Asia's economic development in the Global and Regional Political Economy

> *So marked is the diversity of Southeast Asia, that even the recent history of each country... invites examination as a more or less autonomous entity. Nonetheless these separate territories.. do have sufficient shared experiences to allow a level of generalization for the area as a whole. [T]he outstanding landmarks are also features of the broader terrain of world history.. (Stockwell, 1992, p.329)*

2.1 Introduction

Prior to the recent economic crisis, the Southeast Asian states of Indonesia, Malaysia and Thailand were among the fastest growing economies in the world. While there are many dissimilarities between the social, political and economic histories of these states, they are also linked together by common experiences and structures. Although the common experience of late industrialisation cannot be understood without reference to the accelerated process of the internationalisation and globalisation of production and finance since the Second World War, the colonial and pre-colonial experiences of these states is also significant. For example, the integration of Southeast Asia into the world economy arguably predates the spread of European colonialism to the region as the modern territories that constitute Southeast Asia have a long history of social, political and economic interaction with imperial China (Seagrave, 1995).

Consequently in order to fully understand the complexities of the developmental experiences of Southeast Asia it is necessary to place these countries in their regional and global context, since relatively open trade and investment have been indispensable to their economic development. Emerging from colonialism and colonial trading arrangements, Indonesia, Malaysia and Thailand developed world-wide commercial ties, and in particular significant linkages with the economy of the wider Asia-Pacific region.

What is noticeable about such linkages is that they were achieved without elaborate institutional frameworks or common security frameworks. Furthermore, such linkages did not produce any sense of regional 'communal' consciousness or claims to political leadership comparable to the European Union or North America (Bergsten and Noland, 1993). Indeed the Asia-Pacific region is almost unique in having no obvious explicit regional leader (e.g. see Palan and Abbott, 1996, pp. 55-77).

Nonetheless, some analysts (e.g. Cronin, 1992) view Southeast Asia as an extension of the Japanese economy. Undoubtedly Japanese investment in the region has played a vital role in the development of Indonesia, Malaysia and Thailand, particularly since the Plaza Accord of 1985 which precipitated a marked increase in such investments. While such investments are integral to the developmental strategies of the three countries, they have resulted in Japan assuming a large place in their commercial and industrial activities. Such realities are demonstrated by government policies to lessen or 'manage' the subsequent *dependency* that has developed on Japanese capital, technology and know-how and are the subject of further discussion in chapters three, four, five and six.

This chapter examines the development of Southeast Asia in the wider regional political economy as well as in relation to world-scale commercial ties. While there are numerous examples that could be drawn to illustrate this, the chapter concentrates on three major conjunctural moments: the impact of Japanese colonialism on Southeast Asia; the incorporation of the region into the strategic framework of the Cold War; and the impact of the Plaza Accord. The first of these 'moments' is significant because it marks the death knell for European colonialism in Southeast Asia and the emergence of both the post-colonial leaderships initially under Japanese tutelage.

The Cold War continues the reorientation of the region's economies away from former colonial trade that had begun after World War Two, and marks the genesis of a regional hierarchy of production centred on Japan (Cumings, 1987; Bernard and Ravenhill, 1995). Furthermore, as noted in chapter one (pp. 20-23) some analyses of Japanese and Northeast Asian industrialisation stress the exceptionalism of the region's development, highlighting in particular the importance of the Cold War in the development of these states (e.g. Frank, 1984). Such arguments maintain that Japan, South Korea, Taiwan (and to a lesser extent

Thailand) were front-line states in the United States containment strategy of the Soviet Union and China. As a result these states received a disproportionate amount of economic and military aid and preferential treatment (particularly in trade) that provided the stimulus for rapid industrialisation.

Finally, the chapter examines the period that immediately follows the Plaza agreement between the finance ministers and central bankers of the Group of Five in 1985. This agreement precipitated a sharp appreciation of the Japanese Yen against the dollar ostensibly to reduce the United States' growing trade deficit with Japan. The Plaza accord marked the beginning of an unprecedented surge in investments to Southeast Asia from Japan, and to a lesser extent South Korea and Taiwan, as a result of post-Plaza currency realignments and the offshorisation of production. Such investments 'kick-started' the economies of Indonesia, Malaysia and Thailand from an economic slowdown in the mid 1980s but also vividly illustrate the dependence of the region on foreign, particularly Japanese, capital. In addition the chapter examines the shift in policy orientation within these states from import substitution to export-led growth, particularly following the commodity and oil boom of the early 1970s, in order to demonstrate that changes in *local* political economies were also significant in the economic development of Indonesia, Malaysia and Thailand.

2.2 The Japanese Interregnum (1941-45).

Spared the fate of colonisation predominately because of the interest of the major European powers in China, Japan was given the 'breathing space' to undergo a series of significant constitutional, industrial and social reforms from which she emerged largely self-reliant[1]. From this position Japan was to emerge as a great power in her own right, symbolised vividly by the victory over the Imperial Russian navy in the Russo-Japanese War of 1905. From this moment onwards Japan's designs began to focus on her East and Southeast Asian neighbours, and by 1910 Japan had annexed both Taiwan and Korea.

Japan's imperialism differed greatly from her European counterparts in a number of key ways. While conscious that it had been spared undue western interference because of the interest in China, Japan nonetheless, felt disadvantaged vis-à-vis the West. This perception directly affected Japan's imperial enterprise in that it sought to increase its economic and military strength through its colonies. Unlike the European imperial powers therefore, Japanese imperialism involved a location of industry, infrastructure and communications in the colonies. As Cumings notes, this imperial role entailed, "bringing industry to the labour and the raw materials rather than vice-versa" (1987, p.51). For the Japanese expansion was always viewed as defensive, as a response to a hostile, barbarian dominated world, and their colonies were valued as "resources to be deployed in a global struggle" (ibid. p.52).

As a latecomer to imperialism Japan had to maximise the advantages it possessed by colonising territory in close proximity. Again this was a feature unlike European colonialism but it ensured a close and strong integration of the colony with the colonial power because of Japan's proximity and need for resources. Such contiguity also had other advantages since it,

> facilitated the settling of colonial migrants.. and could raise the potential of extraordinarily rapid exchange-time in market relations [a potential] Japan quickly enhanced ..through laying railroads, opening ports and making heavy investments in communications (ibid. p.53).

Furthermore, by expanding contiguously, Japan was able to utilise its military as its coercive force in the colonies as opposed to a naval force, backed by colonial ministers, as was the case among British overseas possessions.

Observers of Japanese imperialism draw similarities in the administrative experience of the colonies with Japan's post-war state-led industrialisation (e.g. Amsden, 1985). Whereas the common colonial model was of extraction, in Japanese occupied territories the Japanese constructed the physical and administrative infrastructure from which industrialisation began to take place. By the 1940s Japan had located steel, petrochemical and manufacturing industries in both Korea and Taiwan and for a time situated automobile production in Manchuria[2] (Hobsbawm, 1995, p.206). The industrial growth rates achieved by these colonies were impressive but in laying down such infrastructures Japan provided its colonies with "an industrial superstructure to provide a strong foundation for future industrialisation" (Ho, 1984, p.70). Indeed although the economies of Korea, Manchuria, and Taiwan were skewed in favour of Japan, they were nonetheless among the most developed in the colonial world with Korea particularly transformed by Japanese occupation. As Cumings again observes, "[t]he period from 1935 to 1945 was when Korea's industrial revolution began" (1987, p.57).

Japan's occupation of Manchuria formed the first part of an attempt to create between Japan, her colonies, and the European colonial possessions in Southeast Asia, an area of economic control that would become known as the *Greater East Asia Co-Prosperity Sphere*. While securing Manchuria had opened up vast reserves of coal and iron ore to the resource-starved Japanese, further expansion northwards, following Hitler's invasion of the Soviet Union, was rejected because of Japan's desperate shortage of oil. While oil accounted for a very small proportion of Japan's energy mix, it was crucially important to the military and navy. By the late 1930s, for example, Japan produced only 7% of the oil it consumed, of the rest, 80% was imported from the United States and 10% from the Dutch East Indies (Yergin, 1994, p.307)[3]. This dependency on oil imports from the United States was a source of national concern because it placed both the military and economy in a vulnerable position and it also meant that Japan had to divert hard currency to the United States in order to meet payments of such imports.

The alternative was to divert oil and other raw material imports to Southeast Asia. However, since the reserves of these territories were at the disposal of their respective colonial powers, any concerted attempt to divert this output risked international confrontation, particularly from the United States. Furthermore, the risks of such confrontation carried with it the threat of an oil embargo that would have a deleterious effect upon Japan's military and industrial strength. Nonetheless from 1931 onwards Japan made tentative steps towards achieving its policy aims in Southeast Asia[4].

In particular the Japanese welcomed the overt nationalism that accompanied the premiership of Phibun in Siam[5]. By depicting Siam as a state for the Tai race[6], Phibun not only pursued a policy of open discrimination against the Malay-Muslims of the southern states[7] he also "envisioned the political and cultural unification of peoples living in at least five distinct political units [into] ..a greater Thai state based upon somewhat idealised historical precedents" (Kratoska & Batson, 1992, p.308). In anticipation of the eventual military invasion of Southeast Asia, Tokyo held out to Phibun the prospect that Siam could regain control of the entire Tai linguistic area[8] (Seagrave, 1995, p.154). While perhaps not the direct result of this encouragement alone, Phibun changed the name of Siam to Thailand "in expectation of that great day, and to emphasise its traditional claim" (ibid.), and in 1940 declared war on the French regime in Indochina to recover the former Tai territories in western and northern Cambodia and trans-Mekong Laos.

When France fell to the Germans in June 1940, the Japanese seized on the opportunity this presented in Southeast Asia. Firstly, they signed an agreement with Phibun, and then demanded special privileges from the Vichy regime to allow Japanese troops to land in French Indochina and to use its ports. The following year Japan stepped in as the 'mediator' between Thailand and France to reward Phibun with the territory on the west bank of the Mekong river that Siam had lost to France in 1893. As a result of these steps, towards the end of 1941 Japan had gained supplies of rice, rubber, coal and other minerals, and effectively occupied Indochina without invoking military hostilities.

The greater prize for the Japanese were the oil fields of the Dutch East Indies and for a while Tokyo hoped to acquire these territories in a manner similar to that achieved in Indochina. However, despite the incorporation of Holland into the German Reich, the Dutch administration in the Indies refused to acquiesce and attempted with the British and Americans to try and block Japan's advances by a combination of negotiations and embargoes. The diplomatic attempt to achieve the goal of the Co-Prosperity Sphere ended in October 1940 when Prince Fumimaro Konoye was replaced as Premier by General Tojo, the Minister of War. Tojo calculated that the United States would be more than likely to assist the

British and Dutch should any attempt be made to seize the British and Dutch colonies in Southeast Asia by force. Therefore, prior to such a campaign the threat from the United states must be eradicated. Having reached this conclusion Japan launched the infamous attack on the US Pacific fleet at Pearl Harbour on 7 December 1941. The following day the strike south was made, Malaya, the Philippines and Hong Kong were attacked and Japanese troops entered Thailand to prepare for an assault on Burma. Three days after Pearl Harbor, British naval power in Asia was wiped out when the Prince of Wales and Repulse were sunk off Penang trying to repel the Japanese invasion of the Malay peninsula. By the end of December the Thai prime minister Phibun revised his relationship with Tokyo, signing a ten year alliance and soon after also declared war on the allies[9].

The Japanese attack went ahead with stunning speed and by February 15th 1942 Singapore had fallen. From this point on success in the rest of Southeast Asia was a formality because as Stockwell argues, "[s]ecure in the air, at sea and on land, controlling the major strategic point in the region, divested of effective enemies, Japan could now proceed to mop residual colonial resistance" (1992, p.331). In fact less than three months after Singapore fell, the Japanese completed their conquest of the Dutch East Indies[10] and the Philippines[11] and drove the allied forces into northern Burma after seizing Mandalay on May 2nd. The strike south had been completed within five months of Pearl Harbor.

Japan's avowed objective in its pursuit of the Greater East Asia Co-Prosperity Sphere was to eradicate Western influence and bring freedom and prosperity for all races living in the Sphere. The rallying cry 'Asia for the Asians' was intended by the Japanese military to both inspire their troops[12] and win local support; indeed initially many in Southeast Asia did regard the Japanese forces as liberators from the yoke of colonialism. In reality Japanese occupation meant subjection not only to its military and material requirements[13] but also to all manner of things Japanese, including the veneration of the Emperor and compulsory language classes. For opponents of the occupation, and in particular the Chinese communities of Southeast Asia, Japanese rule meant gruesome mass killings, terror, rape, and appalling atrocities[14].

Nonetheless Japan lacked the manpower to establish direct rule over all of her new territories despite the fact that they were placed under the control of the military. Consequently the Japanese elevated many *local* officials who had held junior posts in the European administrations to the higher echelons of power. In addition opponents of colonialism and nationalist leaders were similarly courted to allow Japan to establish a more secure if indirect control over Southeast Asia. For example, the future President of post-war independent Indonesia, Sukarno, and the Malay radical Ibrahim Yaacob were released from prison and became active in mobilising mass support for the Co-Prosperity Sphere, while in Burma the Marxist Aung San returned from exile and placed the Burma Independence Army at Japan's disposal. Locals were also trained at *Kunrensho* colleges in Melaka and

Singapore, paramilitary groups established, and a select few sent to Japan itself for further education (see, Akashi, 1980)[15]

Japan's decision to invade Southeast Asia had been primarily for economic reasons. However her exploitation of the region's strategic assets depended upon control of the air and sea which was soon balked following the US victory at the battle of Midway in June 1942. Within a year the continued advance of allied forces in the Pacific and the failure to end the conflict in Burma meant that Japan faced a war on several fronts. The resulting strain this imposed upon both Japan's economy and on its military convinced Prime Minister Tojo to allow the establishment of civil administrations in Southeast Asia to ease some of the burden. Consequently the period from 1943 until the end of the war saw the emergence of the first nominally *independent* states in Southeast Asia since the first arrival of the Europeans[16].

The first of these 'independent' administrations was established in Burma on August 1st 1943 under *Adipadi* (Fuehrer) Ba Maw. This was subsequently followed in September by the Central Advisory Council in Indonesia under Sukarno, a Malaysian Consultative Council in Singapore, and a month later the 'independent' regime of Jose P. Laurel in the Philippines. At the same time Thailand was rewarded for her allegiance to Japan with the four northern Malay states of Perlis, Kedah, Kelantan and Terengganu. Similarly, as the tide of war turned against the Japanese, they also toned down those aspects of their policies in Southeast Asia that had caused most affront, namely their insistence on emperor-worship, while at the same time recognising the importance of Islam in both Indonesia and Malaysia[17].

Such decisions obviously reflected more the immediate needs of the Japanese than any sympathy with the aspirations of the nationalist and religious leaders of theses states. As Japan's fortunes in the Pacific worsened, "the Japanese accepted that they risked damaging their own position by the alienation of communities upon whose co-operation day-to-day rule depended" (Stockwell, ibid., p.335). Nonetheless the psychological impact of this brief flowering of independence upon the peoples of Southeast Asia was to prove extremely significant.

Although nationalist and, even some communist, forces had broadly welcomed the Japanese occupation and co-operated in these administrations, this similarly reflected pragmatism. Nowhere in Southeast Asia were any of these groups strong enough to seize power alone and so their actions were dictated by the fortunes of war. When the allies were driven so swiftly from power many naturally looked to take advantage of Japanese rule. As Japan's fortunes deteriorated between 1942-4 and the gesture of political independence was undermined by the reality of economic subservience to the Japanese war machine many began to switch allegiance to the allies. Aung San for example completed a volte-face by forming an Anti-Fascist People's Freedom League (AFPL) in 1944 whose services he promptly offered to Mountbatten. Similarly as Japan retreated from Indonesia and Vietnam neither Ibrahim Yacoob nor Bao Dai were able to hold onto the reins of power. In the former Sukarno, who had collaborated with the Japanese but had been abandoned by them on their departure, was returned to power by the youth organisation *Pemuda*, while in the latter it was the communist forces of Ho Chi Minh that seized power.

The economic impact of Japanese colonialism in Southeast Asia was very different to that experienced in Northeast Asia. The military campaign and the scorched-earth tactics of the allied forces fleeing Southeast Asia in 1941/42 left much economic destruction. In addition, Southeast Asia was subordinated to the demands of the Japanese war economy. Consequently, very little development capital could be provided by Tokyo, instead this had to come either from the local population or from loot and extortion. Furthermore, traditional industries were ran down in favour of those industries Japan dictated. The effect of this in Malaya was the neglect of the rubber and tin industries in favour of coal, and iron. The occupied territories were also expected to be self-sufficient in consumer goods and accordingly zaibatsu firms moved in to replace the Europeans and locals often establishing local monopolies and driving up prices (Seagrave, pp. 140-1, Stockwell, pp. 334-6).

The defeat at Midway meant that Japan effectively lost control of the sea and air, and trade between Japan and Southeast Asia suffered accordingly. Submarine activity decimated trade by sea leading to a dearth of vitally required strategic goods for export[18] and shortages of vital imports including food. Rationing was introduced, inflation spiralled out of control, and racketeering became rampant. For the vast majority of Southeast Asians therefore, the economic consequences of occupation were poverty and unemployment. However as Owen argues it must be noted that,

> in wartime the Greater East Asia Co-Prosperity Sphere could not operate as it was designed to. The sphere was to be based on the exchange of Southeast Asian raw materials for Japanese manufactured goods.. From 1942 to 1945, however, Japan's industrial capacity was devoted to the war effort and its shipping devastated by American submarines. Thus it was unable to supply Southeast Asia with consumer goods in return for the primary produce it demanded, and what had been envisaged as a relationship of exchange (albeit unequal) turned out to be sheer exploitation (1992, p. 469).

It is clear then that Japanese occupation and war did more harm than good to the economies of Southeast Asia. Indeed, perhaps the only positive economic aspect of this period was that the "lack of trade helped to *break the imperial nexus* and push local economies towards greater self-reliance" (ibid. p.468, my emphasis). Nonetheless the attempt to create a regional economy in which consumer and capital goods were provided by the Japanese in return for the raw materials and markets of Southeast Asia was to be repeated in peacetime under the direction of the United States (Cumings, 1987), and provided the framework for the post-war prosperity of Indonesia, Malaysia and Thailand (Stubbs, 1989).

2.3 The post-war era I: Dependency analyses and the Cold War in Asia.

> Analyses of the development of the economies of South Korea and Taiwan have shown that there is good reason to believe that the economies of all the countries of the Asia-Pacific rimland, including those of Southeast Asia, have been greatly influenced by events which stemmed from the conflicting security interests of the United States and it allies, on the one hand, and of China the Soviet Union, and their allies on the other. Similarly, it may be argued that Japan's explosive economic development has been rooted in its links to Southeast Asia's markets and abundance of raw materials. These links, in turn, have greatly influenced the economic development of the Southeast Asian countries (Stubbs, 1989, p.519).

As the above quote from Richard Stubbs demonstrates, arguably the most important period in Southeast Asia's economic development is the Cold War era. This section of the chapter provides an insight into the strategic importance of Southeast Asia to the United States in its containment strategy against communist expansion and discusses the effects of US policies on the development fortunes of Indonesia, Malaysia and Thailand.

It has long been argued by commentators on the left, particularly among dependency and world-system theorists, that the economic miracles of East Asia have been unique and untypical events (Frank, 1984; Gills, 1994; Gold, 1986; Wallerstein, 1979, see also chapter one, pp. 16-18). Such events reflect a series of favourable political and economic conjunctures which by their very nature can not be transferred to other developing economies. While much of the historiography of this period does seem to support this hypothesis it is this author's opinion that while the strategic considerations of the United States containment policy did undoubtedly assist the recipient economies in Southeast Asia there have been other contributory factors equally as significant. Later in this chapter, one of these will mentioned in more detail, namely the appreciation of the Yen in 1985. Furthermore while Indonesia, Malaysia and Thailand recorded impressive growth rates throughout the 1960s and 1970s, growth rates accelerated during the latter half of the 1980s and 1990s -- a period in which both the Cold War came to a end and US military ties with Southeast Asia were significantly loosened. Consequently the role of the United States, while important, can only be a contributory factor in explaining the economic successes of Indonesia, Malaysia and Thailand.

2.3.1 The 'reverse course' and the Japan Crowd

It was almost inevitable following the conclusion of the Second World War that US and Soviet interests would clash in East Asia. Although the bulk of the Soviet Union's energies had been utilised to deal with Nazi Germany, there was never any doubt that traditional 'Russian' claims to vital national interests in Asia would be sustained as was made plain in August 1945 when Soviet troops invaded and overran Japanese occupied Manchuria. Perhaps more important still was that the devastation of the war had caused immense political and social upheavals from

Europe across the Middle East to Asia. Even in those states such as India, Egypt and Thailand that had not been overrun by invading and retreating armies the mobilisation of resources and ideas had profoundly altered the traditional orders. In particular colonialism had been discredited and national liberation movements had flourished in opposition to Fascist, Japanese and occupied colonial rule. Such forces unleashed and championed during the war remained committed to establishing a new order and were inevitably targeted as pawns in the battle for superpower interests (Kennedy, 1989, p.490).

In Europe the continuing civil war in Greece and Stalin's consolidation of power in eastern Germany, Poland and the Balkans were perceived by hawkish elements in the Truman administration as marking the beginnings of the global advance of communism. The key turning point in Asia however was not the continued hostilities in Indochina between the French and Ho Chi Minh, nor the communist insurgency against the British in Malaya. It was events in China that were most to influence US policies towards the region.

The loss of nationalist China to the communists in 1949 dealt the United States a psychological blow and played into the hands of the hawks in Truman's administration such as George Kennan, Dean Acheson, John Foster Dulles and Dean Rusk. The most immediate policy ramification of this was to be the *reverse course* in Japan. Instead of pushing ahead with the demilitarisation and social transformation of Japan that had begun following the occupation, a group of bankers, free traders and hawks, dubbed the *Japan crowd*, had since as early as 1947 championed the reconstruction of the Japanese economy as well as its remilitarisation. In addition to the individuals mentioned above, the Japan Crowd also included a powerful lobby of American companies and industrialists who had had large investments in pre-war Japan such as General Electric and Owens-Libby. A revived Japan they argued would be both a bulwark against further communist expansion and a crucial element in the creation of a revived, open world economy.

The most immediate concern of the Japan Crowd was the logistics of such reconstruction given that the pre-war Japanese economy had relied on a Northeast Asian hinterland that was now under communist control. As Kennan noted, "You have the terrific problem of how the Japanese are going to get along unless they reopen some sort of empire to the south" (Cumings, 1987, p.61). The original option had been that communist forces should be rolled back from northern China but following the consolidation of the communist forces under Mao this option was changed to an alternative -- *Southeast Asia.* The abundant raw materials of the region would provide resource deficient Japan with its inputs while also providing a market for Japanese products. The US also perceived that the construction of Southeast Asia as an economic hinterland for the Japanese was a useful tool in reducing British influence in the area. Because the US would require Japan to earn dollars this would make inroads into Britain's desire to retain the region in its sterling bloc and reorientate Southeast Asia's economy towards Japan and the United States. The outlines of America's relationship with Japan and Southeast

Asia were laid down in NSC 48/1 which “argued the virtues of a *'triangular'* trade between the United States, Japan, and Southeast Asia” (Cumings, ibid., p62, my emphasis). In addition NSC 48/1 called for the containment and where possible the rollback of Soviet influence in the region.

2.3.2 The Korean War and the 'rescue of Taiwan'.

Following Chiang Kai-Shek's humiliating defeat at the hands of the Communists, the remnants of his nationalist forces retreated to Taiwan, where they were viewed from Washington with antipathy by the Truman administration. Indeed, for a while the administration came close to following Britain in recognising the legitimacy of Mao's communist regime on the mainland. However events intervened to secure Chiang Kai-Shek American tutelage once again.

In June 1950 North Korean Communist forces crossed the 38th parallel dividing the Korean peninsular. This action was immediately condemned by the United States and regarded as an aggressive act orchestrated by the Soviet Union. Communism appeared on the march, requiring concerted action by the United States and its allies to halt its advance through the now familiar policy of containment. Suddenly Chiang Kai-Shek’s defeated forces took on a new role as a staunch ally in the anti-Communist free world alliance. Accordingly the US seventh fleet was despatched to the Taiwan Straits between Taiwan and mainland China to support and protect Chiang Kai-Shek's regime from communist attack, while Taiwan also became the first recipient of US foreign aid. In addition the US also established formal military ties with Japan, South Korea, Taiwan, the Philippines, Thailand and South Vietnam. As Hsiung comments, "[f]rom the early 1960s to 1975 there was no higher issue on the United States' global agenda than the struggle in Southeast Asia" (1993, p.141). On the Korean peninsular early US air and naval support was reinforced by marine divisions which landed behind enemy lines at Inchon, and began to roll back the communist forces beyond the 38th parallel until their advance was met by Chinese intervention in October/November of the same year. During the three years of warfare (1950-53) the US sent 2 million US troops to Korea, and spent over $50 billion on its military campaign (Kennedy, 1989, p.493).

Across Southeast Asia the outbreak of hostilities in Korea spread a wave of fear that communism would sweep down through Indochina, across Malaya through Indonesia and on to the Philippines. Such fears were not solely based upon US propaganda reports about the so-called 'Domino' theory but also on the very real experiences of the relative ease the Japanese had found in achieving a similar conquest less than a decade earlier. In response to such fears the US provided the newly independent Indonesian government with aid with which to counter communist insurgent activity and encouraged the British to follow suit[19].

2.3.3 The Economic Impacts of the Korean War in Southeast Asia

Many commentators on the Cold War in East Asia have remarked that the Korean War had an important stimulative effect on the Japanese economy[20]. Similarly South Korea is regarded as having ironically benefited from its short occupation by the North because in several provinces revolutionary land reform was undertaken eradicating as a political force the major landlords who had shown no interest in developing the economy of South Korea between 1946 and 1950. In addition the war had also induced many Koreans living in the north to flee to the south including disproportionate numbers of the professional and educated classes. However the Korean War also had a number of important effects upon the economies of Southeast Asia.

Following the outbreak of hostilities there was a dramatic rise in the price of commodities world-wide as both sides in the Cold War built up their stockpiles of strategic commodities. The economic effects of the rise in commodity prices provided a particular stimulus to the economies of Southeast Asia, since among the most significant price increases were tin and rubber, two of the regions main exports.[21] Indonesia and Malaysia[22] were the main regional beneficiaries of these price hikes although the smaller producers such as Thailand and Vietnam also experienced beneficial effects. While not a producer of commodities, Singapore nevertheless was similarly a major beneficiary because it was the principal trader and entrepôt for rubber and tin (Stubbs, 1989, p.521).

Coinciding with the stockpiling of commodities during the Korean War, were a series of economic crises in the United Kingdom. Among the direct consequences of these crises was the drastic restriction of imports from Singapore and Malaya[23] on the one hand and the insistence that the colonial administrations become self-financing. The impact of the first of these measures was to encourage British companies to invest a larger share of their profits into the local economies than normally would have been the case. As for the result of the second of these measures the colonial administrations in both Singapore and Malaya increased taxation. In the former of these colonial administrations income tax was introduced[24] whereas in the latter corporate taxation was raised as the profits from the rubber and tin industries soared on the back of the higher world prices for commodities mentioned above[25]. As a consequence of the demands for self-financing, by the end of the Korean War government revenues in both Malaya and Singapore were higher as a proportion of Gross Domestic Product than for any other country in the region. The ramifications of this were important for the later economic take-off of both the successor states. Firstly, because domestic tax systems were introduced to meet the demands of self-financing both successor states were less reliant on using prohibitive tariffs than other countries in the region, and secondly because these increased revenues were used to raise expenditure considerably on economic and social infrastructure.

In Malaya such infrastructural programmes were adopted primarily as a strategy of winning the support of the rural Malayan Chinese away from the guerrilla army of the Malayan Communist Party, with which the administration was effectively at war - the period known as *The Emergency*. Resettlement centres, now known as the *New Villages*, were constructed and developed to which the Chinese were removed (Stubbs, 1974). In addition, rail links were expanded to facilitate the expansion and strengthening of central government control over the country; port facilities improved; new power stations constructed; and spending on health doubled between 1950 and 1958. However it would be the growth of the administrative capacity of the state that was to have the most important impact with regard to the future economic success of Malaysia. As spending on health, education and transport increased so with it came a corresponding increase in the government bureaucracy. Furthermore the expansion of administrative control across the country was regarded as being crucial to ensuring the success of the counter-insurgency strategy mentioned above.[26]

Elsewhere in Southeast Asia the Korean War had little impact. In Indonesia few were employed in the commodities that experienced the boom, while the lack of a developed tax structure prevented the government from utilising the windfalls of regional prosperity for economic construction. Similar situations also prevailed in Thailand and the Philippines. As a consequence then "[t]he main beneficiaries of the Korean war were therefore Malaya and Singapore.. the general level of prosperity which engulfed..[both] encouraged their economies to grow at a relatively high rate and provided the capital for *future* development" (Stubbs, ibid. pp. 525-6, my emphasis).

2.3.4 The Vietnam War.

Dean Acheson is reported to have commentated in 1954 that, "Korea came along and saved us". The *us* referred not only to himself and the other hawks in the US administration but also to the Japanese economy. As mentioned earlier it is widely accepted that the Korean War marked the beginning of the reverse course in US policy towards Japan. The fear of communist expansion led to the decision that Japan must resume its place as a regional economic, and even military, power and that US policy must be redirected towards this end. The Korean War in providing the justification for the reverse course was also to provide the first demands upon Japan's industrial base as the key supply centre for US forces. In a similar vein then it can be argued that the Vietnam war provided a comparable industrial stimulus to a number of economies in East Asia[27], principally though not exclusively, Thailand, South Korea and Taiwan[28].

US strategic interest in Southeast Asia can be dated from the formal recognition of the legitimacy of the Communist controlled North Vietnam at the 1954 Geneva Conference. With the government of Ho Chi Minh now legitimised the containment policy's front-line now stretched from Japan through South Korea into South Vietnam and Thailand. The importance subsequently placed upon

Thailand by the United States was to prove enormously beneficial to the country's long-term economic fortunes. Although US aid to Thailand was at its greatest during the peak of hostilities in the Vietnam War between 1964 and 1968, it began as early as 1950. To indicate the importance of these commitments consider the following figures. Overall economic aid between 1950 and 1975 totalled $650 million; a further $940 million was provided in military assistance during these years[29]; $750 million to pay for the acquisition of military equipment and to finance the Thai forces sent to assist the American forces in Vietnam; $250 million was spent in the construction of US military bases; and $850 million attributable to the expenditure of US servicemen in the local economy[30]. Overall then, between 1950 and 1975 the US pumped approximately $3.44 billion into the Thai economy[31].

Aid by itself is no guarantor of sustained economic growth. To achieve this resources have to be invested in a country's economic and social infrastructure in order to increase what is referred to as its *absorptive capacity*. Aid will have few long term consequences if it is simply used to fuel immediate consumption or is used to purchase foreign raw materials and/or consumer goods. US aid to Thailand is significant with regard to Thailand's future high growth rates because a high proportion of US aid funds to Thailand were utilised to improve the economy's absorptive capacity. For example "[b]y the mid 1960s Thailand had developed a national road system where none had existed before and as an indirect consequence had acquired a relatively capable civil engineering sector" (Stubbs, 1989, p.527).

Similarly aid was targeted to reform and improve Thailand's bureaucracy. Financial and accounting procedures were modernised and a school created to train senior civil servants. In addition a number of key strategic departments were set up that were to play important roles in supervising the aid process and later formulating industrial policy generally -- the *National Economic Development Board* and *the Foreign Loans Supervisory Committee*. As the assistant for counter-insurgency to the US ambassador to Thailand stated to the Fulbright committee, "in Thailand we have put greater stress on trying to help strengthen the local Thai government to do the job themselves, not to try to do it for them" (cited in Stubbs, ibid.). During the 1970s such commitments were reflected by the fact that one fifth of top-level officials in the Thai bureaucracy had earned degrees from American universities (Rock, 1995, p.753).

Much of these investments in Thailand's economic infrastructure were in place prior to the escalation of the Vietnam War in 1964. Between 1964 and 1968 when hostilities reached their greatest intensity, US aid on an annual basis had increased significantly. Furthermore as war devastated South Vietnam's manufacturing industry, Thailand received an additional industrial stimulus as South Vietnam was forced to use US aid to purchase goods from its neighbours.

The nature of US aid to Thailand therefore meant that once the US withdrew from Vietnam and scaled down it military commitments in the region the Thai economy did not suffer any serious economic repercussions. With a trim and efficient bureaucracy and a well developed economic infrastructure Thailand became increasingly attractive to foreign and, especially during the late 1980s, Japanese investors.

The Vietnam War had little impact on the economies of Indonesia or Malaysia. Under Sukarno relations between Indonesia and the United States had turned sour. Sukarno refused American aid[32], welcomed the Indonesian communist party (the PKI) into his Guided Democracy and stood firm by non-alignment promulgated in 1955 at the Bandung Conference. In 1965 however an aborted coup, alleged to have been orchestrated by the PKI, led to a power struggle with the military that resulted in Sukarno being deposed and replaced by General Soeharto. Relations between Soeharto's Indonesia and the United States improved considerably and aid was restored and greatly increased in the following years. In addition approximately a fifth of the general officers in the Indonesian army during the 1970s received training in US service schools (Evans, 1989). As for Malaysia, the closeness of Anglo-Malayan relations in the aftermath of independence in 1957 meant that Malaya effectively followed Britain's lead in foreign policy until the late 1960s by which time the US was seeking to extricate itself from the Vietnam conflict. Britain for example retained Sabah, Sarawak and Singapore[33] for a further six years finally relinquishing them in 1963, while Malaysia relied on Britain to come to her defence during the *Konfrontasi* with Indonesia between 1963-7.

Finally there is one other aspect of US policy that provided an economic stimulus to the economies of East and Southeast Asia. Because strategic considerations clearly took priority over economic considerations, and in order to strengthen these states against both the external threat of communist invasion as well as the internal threat of local communist insurrections, the US provided preferential access to its domestic market for exports originating in these economies[34]. Consequently between 1960 and 1990 Japan and other East Asian states more than doubled their share of US imports from 17.3% to 37% (Petri, 1994, p.304). This penetration[35] proceeded even further in those industrial sectors associated with the industrial success of East Asia's growth economies. Moreover the US tolerated, and in some cases actually encouraged reciprocal protectionism in the domestic markets of these states. Consequently the economies of East and Southeast Asia were well placed to be able to take advantage of the open *world* trading system that was largely instigated by the United States at the Bretton Woods conference in 1944. In addition, the US also provided these regimes with support in international political and economic forums.

2.4 The post-war period II: From Import Substitution to Export Orientation.

In the immediate decades following independence, Southeast Asia, like the majority of developing world countries, followed the example of the larger Latin American countries such as Brazil and Mexico in the pursuit of a policy of *Import*

Substituting Industrialisation (ISI) that they had begun during the Depression years. In the 1950s and early 1960s this policy received official sanction when economists in the Economic Commission for Latin America (ECLA), and specifically the first secretary-general of the United Nations Conference on Trade and Development (UNCTAD) Raul Prebisch, advocated rapid industrialisation by adopting ISI in order to enable the developing countries to break free from their peripheral position in the world economy. The rationale for such action was that Latin America had experienced a spurt in economic growth during the Depression years because it had been cut off from the west (Frank, 1967). Thus economic protectionism and national planning should be used to reduce the dependency of the less developed countries on the world economy. Economic protectionism would be used to protect a nation's infant industries so that a diversified industrial structure could be nurtured and developed while reducing the dependency on foreign capital. By pricing out of the market foreign goods it was hoped that domestic production would be encouraged. Indeed tariff levels on imported consumer goods in Brazil in the 1960s averaged over 300% (Dicken, 1992, p.178). The problem however was that ISI soon faltered. While such protection encouraged domestic production, dependence on imported *capital* goods increased to feed industrialisation. Outside of the larger economies such as Brazil and Mexico, the small size of the domestic economy meant that economies of scale could not be reaped and thus prices for domestically produced goods remained high.

Ironically around the same time ISI was receiving official sanction, Taiwan and South Korea began to shift policy towards export-orientated industrialisation (EOI) - initially in the post war period both countries had pursued similar ISI programmes in textiles, cement flat glass etc. However the small size of the domestic market in these states meant that ISI faltered as early as 1958-9 in Taiwan and 1960-2 in South Korea (Cumings, 1987, p.68) and led to an early realisation that import substitution alone could not lead to rapid industrialisation. Moreover the switch to EOI was not fraught with the political and social consequences that such moves later created elsewhere in the developing world. The ISI period in Taiwan and South Korea was much shorter than in Latin America and did not led to the creation of a strong industrial working class movement as was characteristic of Argentina and Brazil under Peron and Vargaz. Furthermore labour had been excluded by the military governments in Taiwan and South Korea in the 1950s with the result that "[t]he political sequence of inclusion followed by exclusion, as the 'easy' phase ended and export-led development began, was absent" (Cumings, 1987, p.70).

EOI began in 1960 and 1961 respectively when both Taiwan and South Korea implemented a comprehensive economic reform package. This involved: the devaluation of their currencies in order to lower the price of their exports on the world market; the lowering of tariff barriers that had protected nascent industries; tax holidays, exemptions and incentives to encourage firms to export; monopoly rights; transportation subsidies and the creation of export processing zones

(Kaosiung in Taiwan in 1965 and Masan in South Korea in 1969). As Cumings, Wade and others note, such reforms enhanced these states comparative advantage in cheap, semi-skilled labour so that, "Taiwan and the ROK became suppliers of labour to an increasingly far-flung division of production"(ibid., p.71). In addition this shift in policy to EOI was facilitated by favourable external developments. The liberalisation of world trade during the 1960s following the Dillon and Kennedy rounds of GATT; the compression of space and time through new technologies in communication and transport; and the global spread of transnational corporations[36].

Economic and industrial policy across Southeast Asia broadly corresponds to the pattern described above. Initially Indonesia, Malaysia and Thailand all opted for the ISI strategies advocated by a variety of domestic and international institutions including the World Bank (IBRD Report, 1959); the Bank of Thailand (1960); and the Commission for Asia and the Far East (1964). However unlike in their Northeast Asian neighbours, support for ISI continued throughout most of the 1960s. In Thailand and Indonesia[37] this was facilitated by a large domestic market, while in Malaysia it was arguably the product of relatively late independence (1957) and the inheritance of a strongly trade oriented economy in which foreign investors played an important role (Lall, 1995, p.764).

However by the late 1960s and early 1970s the domestic markets of Southeast Asia were beginning to become saturated and excess capacity was a major problem[38]. Accordingly as in many developing countries, policy makers across Southeast Asia called for the "switch to an EOI strategy.. to give fresh impetus to industrial decline" (Jomo, 1987, p.116). The result was a series of initiatives to promote exports and a more liberal investment climate. In Malaysia this switch was embodied in the New Economic Plan (1969) and the Second Malaysia Plan (1971-5); in Thailand with the revision of the Investment Promotion Act (1972), although the more significant reforms take place during the 1980s, and Indonesia when the liberal reforms of the new Soeharto regime are rewarded with financial help from the IGGI (Intergovernmental Groups on Indonesia) in 1969.

Elsewhere in the developing world the switch to EOI was met with limited success in comparison with the NIEs. One of the principal factors suggested for this is that the economic climate of the 1970s was less favourable than the previous decade. Whereas the world economy had experienced an unparalleled growth in world trade[39] in the period up to about 1973, thereafter this growth slows substantially[40] and with it demand for the export goods central to the EOI strategy. In addition economic growth in the developed and developing world is hit by the unprecedented rise in oil prices initiated by the OPEC countries[41] and subsequently inflation and unemployment rise sharply[42].

For many developing countries the pain of immediate economic restructuring in the wake of the Oil Crisis was avoided due to the availability of recycled petrodollars in the form of private lending from financial organisations in the developed world. Due to the persistence of high inflation, interest rates on these loans, which commonly had variable interest rates attached, remained low and in some cases were actually negative in real terms. Nonetheless such fortuitous circumstances did not prevail for long. The second OPEC-generated price hike in 1979[43] generated an entirely different response from the developed world economies. The stubborn persistence of high levels of inflation and unemployment (*stagflation*), coupled with growing government deficits had contributed towards the end of the intellectual hegemony of Keynesianism. It was to be succeeded by *monetarism*[44] which responded to the inflationary impact of rising energy prices by increasing interest rates to post war records[45]. The knock-on effect of these policies in the developing world was devastating. As the interest rates on the loans undertaken in the 1970s soared, so to did the repayments, plunging the most indebted countries into what became known as the 'Debt Crisis'. Furthermore, the impact of the Debt Crisis was compounded by low global commodity prices after 1980.

In Southeast Asia the oil price rises had a mixed effect. While Thailand and the Philippines, like the majority of developing world countries, struggled to cope with the costs of higher energy prices and reduced demand for exports, Malaysia and Indonesia, in contrast, enjoyed rich rewards as oil producers. In Malaysia the brief commodities boom of 1970-2 coincided with the adoption of EOI. Among the industries the Malaysian government had begun promoting were resource based industries that involved the processing of rubber and tin as well as the development of new commodities for export, such as palm oil and timber (Jomo, 1987, p.117). In addition, as mentioned above, the first Oil Crisis provided a fillip to Malaysia's petroleum industry, which by 1980 accounted for 23% of gross commodity exports (ibid. p.119). However it must be noted that between 1979 and 1981 the Malaysian government did increase its budget deficits and foreign borrowings in order to offset the depressive effects of the global economic slowdown[46].

In Indonesia the effect of the oil price rise on government revenue was enormous. As Winters (1996) notes, "in 1966 oil-related revenues accounted for a tiny fraction of the total. This figure climbed steadily to about one third of revenues in fiscal year 1973-1974, after which it shot up to half of all government receipts in 1974-1975, and peaked in 1981-1982 at 62 percent" (p.100). Furthermore the boom facilitated average annual growth rates throughout the 1970s of close to 8% (Hill, 1995, p.778) and resulted in a volte-face by the Soeharto regime in economic policy. More detail will be provided on the macro and micro economic policies of the Indonesian government in the next chapter, however between 1971-81 economic liberalisation was abandoned in favour of a return to a 'nationalist' and interventionist agenda in which foreign and domestic private capital was heavily regulated[47].

Although for most of the 1970s the Thai economy continued to enjoy strong economic growth as a result of strong international demand for agricultural crops[48], the Thai government, like much of the developing world, increased its foreign borrowing considerably (Niyomsilpa, 1995, p.8)[49]. Accordingly, the world-wide recession, sparked off by the monetarist reaction to the second OPEC price rise during 1979-80, posed serious financial difficulties for Thailand. As a result by 1985 Thailand's total external debt had risen to $13 billion, more than 36% of GDP, and its debt-service ratio to 21.9% of GDP (ibid. p.8, and Hewison, 1989, p.63). Thailand's financial crisis appeared to signal the end of Southeast Asia's rapid economic growth. As noted above in Malaysia debt also increased significantly after 1979, while the collapse of oil prices in 1982 had enormous ramifications for Indonesia. Accordingly, prospects for the region appeared increasingly pessimistic. However increasing US-Japanese trade friction was to result in a major exogenous stimulus to the Southeast Asia's economies -- the appreciation of the Japanese Yen and the resulting influx of Japanese Foreign Direct Investment.

2.5 The post-war period III: The Appreciation of the Yen

During the 1980s important changes were underway not just in the international political economy but, more significantly for Southeast Asia, in the political economy of the Asia-Pacific region. By far the most significant of these was the attempt to resolve American-Japanese trade relations. These had deteriorated sharply as a result of the burgeoning American trade deficit, and in particular its bilateral deficit with Japan which by 1985 stood at $39.5 billion. To resolve these fractions, a meeting was held on September 22nd 1985 at the Plaza Hotel, New York between the finance ministers and central bankers of the G5 countries[50] where it was decided to initiate an appreciation of the main non-dollar currencies against the United States dollar. It was expected that as non-US currencies rose vis-à-vis the dollar US exports would become more cost competitive, and foreign imports to the US more expensive, thereby reducing the US trade deficit. This agreement became known as the *Plaza Accord.*

The immediate result of the Accord was indeed a sharp decline in the dollar particularly against the yen. For example the Yen soared from a low of Y245 to the dollar in 1983 to Y128 by the end of 1986. However the dollar's decline was not met as expected by a corresponding decline in the US trade deficit. Instead the Accord "resulted in a shift towards imports from Taiwan and South Korea" (Bernard, 1991, p.359), so that "[t]he original tensions between Japan and the United States were extended to Korea and Taiwan" (Bernard and Ravenhill, 1995, p.179).

As Korean and Taiwanese exports became increasingly competitive in relation to their Japanese counterparts both countries witnessed a surge in their exports to the United States. Again this met with concern among the US Congress, and demands by the Reagan administration for the correspondent appreciation of the Taiwanese (NT) dollar[51] and Korean Won. Furthermore non-tariff barriers were erected against exports from both countries, restricting their access to the US domestic market, while at the same time pressure was exerted for the liberalisation of access to their markets[52]. Accordingly between 1986 and 1988 the Korean won appreciated by 17% against the US dollar (Bernard and Ravenhill, 1995, p.180) while the NT dollar appreciated from NT$40 to NT$26.9 by July 1991(Bernard, 1991, p.359). Finally in 1989 trade friction with the US culminated in the removal of both countries from the Generalised System of Preferences (GSP).

Across Southeast Asia the fall out from the Plaza accord proved extremely beneficial. While the yen, NT dollar and won were appreciating vis-à-vis the US dollar, all of Southeast Asia's currencies were depreciated, further enhancing their position as low-cost producers, and facilitating during the second half of the 1980s, a massive increase in foreign direct investment. The initial post-Plaza influx was led, unsurprisingly, by the Japanese. Between 1985 and 1989 Japanese FDI grew from $6.5 billion to approximately $48 billion, a figure that made Japan by the end of the decade the world's single largest source of FDI. The scale of this increase is formidable when one considers that Japan's investment in manufacturing in Asia between 1985-89 exceeded the cumulative total for the entire period from 1951 to 1985! Furthermore the composition of Japan's FDI changed during this period also. Whereas Japanese investment in Southeast Asia prior to the Plaza agreement had been primarily in resource based industries, after the Plaza accord Japanese manufacturing relocated its *production* for export to Southeast Asia away from its traditional Northeast Asian sites. This was not only the result of the appreciation of the Yen, but also because the subsequent appreciation of the Taiwanese and Korean currencies had resulted in these countries becoming less cost-competitive[53].

Faced with this relocation and increasing hostility from the US, Taiwanese and Korean manufacturers diversified their trade on the one hand[54] and also began to relocate production in Southeast Asia in order to maintain cost competitiveness for their manufactured goods. In fact the growth of FDI from these two countries after 1987 was more marked than the surge in Japanese investment. Consider these figures for example: in 1987 Taiwan's stock of FDI in Southeast Asia stood at $78 million, between 1987-90 in excess of $850 million was invested; similarly in 1985 the cumulative investment from Korea in Southeast Asia was $42 million, four years later this figure had reached $132 million (Bernard and Ravenhill, 1995, p.182). As a result "[b]y the end of the decade Taiwan had replaced the United States as the second most important investor in ASEAN and had overtaken Japan as the single largest investor in Malaysia" (ibid.). Prior to the economic crisis that began in 1997, the 1990s witnessed a continuation of the trend begun as a result of the Plaza accord. Between 1990 and 1994 for example total inflows of FDI to the developing world rose from $31 billion in 1990 to $84 billion in 1994, with $59 billion, or 70% of the 1994 figure invested in South, East and Southeast Asia (see table 1 below).[55]

Table 1. Recipients of foreign direct investment, ten largest, developing countries.

Country	1982-92, $bn
China	25.6
Singapore	21.7
Mexico	18.4
Malaysia	13.2
Argentina	10.6
Thailand	9.5
Hong Kong	7.9
Brazil	7.6
Taiwan	6.0
Indonesia	5.6

Source, *The Economist*, October 1st 1994, p.29

Clearly then, just as Indonesia, Malaysia and Thailand benefited from the commodities boom of the 1970s, they have also benefited disproportionately from the changing patterns of trade and production that emerged from the Plaza accord in 1985. Moreover the growth in foreign investment has arguably had a much more profound effect than the commodities boom since it has stimulated the manufacturing sectors of industry. In doing so it has led to a diversification of the economies of these states away from traditional extraction industries[56], and ensured that the impact that fluctuations in the prices of commodities once had on the economic fortunes of these states has been significantly reduced.

2.6 Conclusion

This chapter demonstrated that in order to fully understand the economic development of Indonesia, Malaysia and Thailand in the past three decades, such experiences must be placed in the wider context of the regional and global political economy. The political attempt by Japan to dominate trade and production during World War Two may have ultimately failed but it nonetheless provided an fillip to national independence movements and provided an alternative orientation of trade and economic activity to the dominant closed colonial regimes. Indeed during the Cold War the United States soon realised the importance of Indonesia, Malaysia and Thailand to the Japanese political economy. Rich in raw materials and with an abundance of cheap labour, Southeast Asia would provide the necessary hinterland for Japan's post-war reconstruction as a bulwark against communism.

Earlier in this chapter, as well as in the discussion of dependency analyses in chapter one (pp. 11-15), it was noted that some scholars attribute the economic successes of East Asia to exceptional factors. Indeed it was noted earlier that the strategic considerations of the Cold War did result in direct and indirect assistance to the economies of Southeast Asia that proved invaluable in their post war development. Similarly the contiguity of Southeast Asia ensured that it would be a direct beneficiary of changes in the political economy of the Asia-Pacific after the Plaza accord.

Nonetheless as both the discussion of the movement from ISI to EOI and of the impact of the commodities and oil boom revealed, for the outward-orientated strategies to succeed the endogenous economic preconditions must also be present. In other words what is significant is the way in which the *locally* constituted political economies of Indonesia, Malaysia and Thailand *responded to* developments in the wider regional and global political economies. As Bernard and Ravenhill argue, "these countries responded to.. difficult economic situations by adopting measures in the second half of the 1980s to increase their attractiveness to foreign investors... introducing packages of assistance measures such as tax holidays.." (1995, pp. 180-1). Such measures ultimately enhanced their economic competitiveness ensuring that they would be the principal beneficiaries of foreign direct investment in the wake of the Plaza accord and the appreciation of the Korean won and Taiwanese dollar. The chapters that follow will examine precisely those *endogenous* factors responsible for the economic 'miracles' of Southeast Asia in order to assess whether these states are "like the rest" (Amsden, 1995), namely Capitalist Developmental States, or whether the nature of the interactions between local, regional and global political economies ensures that the political economies of Indonesia, Malaysia and Thailand are *historically specific.*

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[1] This wave of reforms followed the Meiji restoration of 1868.

[2] Manchuria was occupied the Japanese in 1931 and subsequently became the nominally independent puppet state of Manchuko.

[3] In addition to oil, Southeast Asia was a major producer of other raw materials that were in demand by the Japanese, principal among these were rubber, tin, tungsten, chrome and nickel.

[4] The first of these steps began in 1932, the year after the occupation of Manchuria, when Japan occupied China north of the Great Wall, and landed troops in Shanghai (Hobsbawm, 1995, p.145).

[5] The absolute monarchy was replaced with a representative system of government in 1932.

[6] Although in some respects Tai nationalism had been revived by King Vajiravudh (1910-25). Vajiravudh's nationalism, however, was a response to fears about excessive borrowing from western cultures. Consequently, it was elitist, and based on a kind of romanticised cultural nationalism stressing Tai values and traditions. Phibun's nationalism, by contrast, was proto-fascist. Alongside Vajiravudh's cultural nationalism, Phibun promoted economic nationalism, militarism, and an aggressive promotion of the Buddhist religion. Fascist style state enterprises were set up, specific professions excluded from Chinese and Malays, and an intensively promoted cult of 'The Leader' introduced that downplayed the role of the monarch. Much of this Tai nationalism was the creation of the chief ideologue of the Phibun regime, Wichit Wathakan (Kratoska & Batson, 1992, p.293-9).

[7] For example the use of the Malay language, Malay-Arabic names, traditional Malay dress and Malay marriages were outlawed following Phibun's investiture in 1938.

[8] This included not just those areas where *Thai* was spoken but also those peoples that were linguistically related such as the Lao and the Shan in northern Burma (Kratoska & Batson, ibid. p.309).

[9] As Seagrave notes the strike south was intended to be quick and fighting limited because "[t]he United States had nearly twice the population, seventeen times the national income, and seven times the industrial potential. After ten years of economic crisis and crippling war costs, Tokyo did not even have the resources for a short war against America. Rather than admit failure, it would gamble on the strike south rescuing Japan" (1995, p.135).

[10] Batavia (Jakarta) was captured as early as March 6th.

[11] The campaign in the Philippines was completed when Corregidor surrendered on May 6th.

[12] The Colonel in charge of the Japanese forces in Southeast Asia was Tsuji Masanobu. Prior to the Malayan campaign he circulated 40,000 copies of pamphlet he had written, entitled *Read This Alone - And The War Can Be Won*, to motivate his forces. In this pamphlet Tsuji argued "that the countries of Southeast Asia had been seized by a 'handful of white men' and their millions of inhabitants had been exploited for centuries. These native people anxiously awaited Japanese help to achieve national independence and happiness" (Seagrave, 1995, p.136 and p.309)

[13] Including forced labour and prostitution. The most infamous of Japan's forced labour projects was the death railway in Burma.

[14] This campaign of terror was the mastermind of Tsuji and was codenamed Operation Sook Chung (ethnic cleansing). It difficult to estimate how many were slaughtered but the figure probably ran into hundreds of thousands. Among numerous atrocities, Japanese soldiers carried out mass beheadings, mass drowning and would fling Chinese babies into the air and catch them on their bayonets (see Cook, 1992).

[15] Not all nationalist forces in Southeast Asia supported the Japanese and some underground forces were set up (e.g. Sutan Sjhahir's movement in Malaya). Often the most ardent opponents of Japanese occupation were the Communists particularly following the Comintern directive of 1941 that followed Hitler's invasion of the Soviet Union (the directive called upon communist forces world-wide to ally with the forces of imperialism against fascism). These were strongest in Malaya, where the ranks of the communist led Malayan People's Anti-Japanese Army were swelled by Chinese refugees from the Japanese massacres, and in Vietnam. However even here there were splits for example Aung San argued that Burma's interests lay in joining forces with Britain's enemies (Stockwell, p.336-7).

[16] With the obvious exception of Siam (Thailand).

[17] For example, In 1943 in Java the Japanese sponsored a Consultative Council of Indonesian Muslims and the following year a convention of religious councils was held in Kuala Kangsa, Malaysia (Stockwell, A, 1992, p.335).

[18] The Japanese did eventually open a land route through Indochina and South China but this was not achieved until 1944 by which time Japanese forces were in retreat.

[19] The culmination of the 'revised' US strategy towards Southeast Asia came in 1954 with the formation of the Southeast Asian Treaty Organisation (SEATO), brainchild of John Foster Dulles, the US Secretary of State, that included Australia, Britain, France, New Zealand, Pakistan, The Philippines, and the United States.

[20] Bruce Cumings in his often cited article on Northeast Asian Political Economy (1987), has illustrated the considerable role of the United States in the post-war economic miracles of Taiwan and South Korea.

[21] The price of rubber increased fourfold, while for tin prices doubled (Stubbs, 1989, p.521).

[22] Over 1/3 of the working population of Malaysia was associated either directly or indirectly in the rubber industry.

[23] This was implemented in order to try and alleviate the exchange rate pressures on the pound by reducing the outflow of sterling.

[24] Revenues in Singapore rose as a result from M$70 million in 1948 to M$221 by 1953 (Stubbs, Ibid., p.523).
[25] In Malaya revenues rose from M$235.5 million in 1948 to M$734.5 million at the height of the Korean War (Stubbs, 1974, p.14).
[26] As a result the number of state and municipal employees increased from 48,000 in 1948 to 140,000 by 1959 (Stubbs, 1989, p.524).
[27] Cumings for example states, "The Vietnam War played for the ROK the role that the Korean War played for Japan; labelled 'Korea's El Dorado' it accounted for as much as 20% of foreign exchange earnings in the late 1960s" (1987, p.76).
[28] For the purpose of this thesis reference here will only be made to Thailand and to a lesser extent Indonesia and Malaysia. For details of the impact on South Korea see Cole, D., and Lyman, P., 1971, similarly for Taiwan see, Lin, C., 1973.
[29] Nearly 60% of the total Thai defence budget during this period (see Owen, 1992, p.479 and Stubbs, 1989, pp 528-9.).
[30] Thailand became a major destination for US troops as a Rest and Recreation centre. Indeed Thailand's notorious sex industry arguably originates during this period.
[31] To provide a comparison for these figures, Cumings (1987) estimates that Taiwan and South Korea received from the US during the Cold War $5.6 billion and $13 billion in military and economic aid respectively (p.67). During the 1950s this level of aid was of such magnitude that it accounted for five-sixths of South Korea's imports and dwarfed US commitments elsewhere in the 'Third World'. For example while between 1946-78 US economic aid to South Korea stood at nearly $6 billion, Africa **as a whole** received marginally greater, $6.89 billion, and Latin America just over double, $14.8 billion (ibid. p.67).
[32] Sukarno is reported to told the Americans, "To hell with your aid, we prefer to live in poverty, because at least we will be free" (Owen, 1992, p.475).
[33] British naval forces however retained a base at Singapore until the 1970s. Interestingly, reflecting the contribution of US aid to Southeast Asia, following Singapore's expulsion from Malaysia in 1965 the British bases contributed approximately 20% of GDP. In addition, when they were finally handed over Singapore inherited valuable defence installations, a skilled workforce and received a soft loan of £50 million (Turnbull, 1992, p.620).
[34] This was formalised under America's Generalised System Of Preferences which all the NIEs benefited from until 1989 and which Indonesia, Malaysia and Thailand still continue to enjoy.
[35] In light manufactures for example, East Asia's share of US imports rose from 14.3% in 1960 to 51.4% by 1990 (Petri, ibid., p.306).
[36] Lipietz (1987), Armstrong et al (1984) and Itoh (1990) have argued that this expansion of transnational capital was fundamental in the economic transformation of the developing world and that the principal reason for such a global shift lies at the heart of the crisis of Fordism in the advanced industrial countries. According to this thesis from the second half of the 1960s productivity gains began to fall off in most branches of industrial activity (Lipietz, 1992:14). Nevertheless wages continued to increase in real terms while the costs of fixed capital similarly continued to rise. Under such conditions the rate of profit began to fall. This slowdown in the rate of profit reflected a more general paradox at the heart of the Fordist labour process model. So long as young people and women as well as migrants from the countryside and the Third world were entering the workforce discipline was maintained. However as time passed by better education, greater self-awareness among workers and a widespread desire for work satisfaction and dignity led to increasingly open revolt against the denial of personality at the heart of the Taylorist division of the workforce into those who designed and those who performed tasks. Such revolts gave rise to a general left-wing upsurge culminating in the 1968 riots in France. However by the 1970s this radicalism had fizzled out as growing unemployment and the threat of redundancy restored worker discipline. Nevertheless productivity continued to be low with profits depressed. To recover their profitability, multinational corporations expanded their global operations. By forging links with certain countries in the developing world (particularly the NIEs) MNCs sought to both take advantage of lower wages in the developing world, and hence increase profits, but also to release themselves from this economic quandary.
[37] Following the coup in 1965, the Soeharto government moved away from the economic autarky of his predecessor and begins to liberalise the Indonesian economy, however this proved short-lived.
[38] For example, between 1970-72 growth in the Thai manufacturing sector fell 7.5% per year (Hewison, 1989, p.56).
[39] For example, between the early 1950s and the early 1970s world trade in manufactured goods increased tenfold (Hobsbawm, 1995, p.261).

[40] Indeed in the recession of 1973-75 that is universally regarded as marking the end of the post-war 'Golden Age', world trade slumped by 13% (ibid. 1995, p.405).
[41] Between 1950 and 1973 the price of a barrel of Saudi oil averaged less than $2 (ibid. p.262), by the end of 1973 the OPEC price hike (ostensibly to force the US to drop its support for Israel in the Yom Kippur War) had pushed prices to $17 a barrel (Yergin, 1991, p.615).
[42] During the 'oil crisis' generated recession of 1973-5, industrial production fell by 10% in the developed world (Hobsbawm, 1995, p.405). In addition unemployment rates in Western Europe rose from an average of 1.5% in the 1960s to 4.5% in the 1970s.
[43] Oil prices rose from approximately $10 a barrel in 1979 to peak at $40 a barrel in 1980 (Yergin , 1991, pp. 703-6, Hobsbawm, 1995, p.474).
[44] Reflected politically in the free market strategies of Reagan (1980-88) in the US and Thatcher (1979-89) in Great Britain.
[45] This reflected the idea that if the cost of borrowing was increased, demand in the economy would fall, and with it prices.
[46] The hike in world-wide interest rates, that had been deemed necessary to control the high rates of inflation generated by the second oil Crisis, resulted in severe recessions in the developed world economies. This had a deleterious effect on the developing world which, while struggling to cope with increasing repayments on their foreign loans, now found that demand for their exports was reduced.
[47] In addition some scholars (e.g. Winters, 1996) maintain that the growth of patrimonalism in the Indonesian state can be traced back to the surge in government revenues during the Oil Crises.
[48] During the 1960s Thailand had expanded its agricultural base diversifying from traditional products such as rice and rubber into kenaf, corn and tapioca.
[49] Much of the increase in government borrowing was a result of increased arms spending to meet perceived internal and external security threats.
[50] The G5 (Group of Five), comprises France, Germany, Japan, the United Kingdom and the United States.
[51] The New Taiwan (NT) Dollar had been fixed at NT$40 to one US dollar in 1961 where it had remained fixed ever since.
[52] In January 1988 faced with the spectre of US trade retaliation, the Taiwanese Yuan lowered tariffs by an average of 50% on over 3,500 items (Bernard, ibid.).
[53] Bernard and Ravenhill (1989), for example, note that "[b]y 1989 barely more than a third of Japanese investment in the Asian NICs was in manufacturing [whereas] in ASEAN the focus.. moved quickly from textiles and metals to the production of electrical machinery" (p.182).
[54] Primarily away from the United States towards the European Union. Consequently by 1991 the US share of Taiwan's exports had fallen to 36%, down from 49% in 1985, while Europe's share had risen from 6.25% to 14.59% (Bernard, 1991, p.363).
[55] Figures from World Investment Report 1995, cited in press statement by Dato Seri Rafidah Aziz, Minister of International Trade and Industry at the MIDI Annual Press Conference, January 22, 1996, p.11. See also 'The Global Economy, A Survey' *The Economist*, October 1st 1994, p.29
[56] For example, by 1993, manufacturing industry accounted for 30.1% of Malaysia's GDP and 74.3% of total exports (MIDA, 1995).

Chapter Three.

Indonesia: Soeharto and the neo-patrimonal state.

> Debt is not unusual in financing state budgets. But the problem is debt has become the basis for funding development... The nation has been pawned by Soeharto to secure the perpetuation of his power. Some of the debt goes into the pockets of Soeharto's children. Much of the debt is used by Soeharto and his family's companies to pull in departmental projects. And it is with this debt that Soeharto's repression and tyranny has persisted. (Bambang Baethor Suryadi, 1991, cited in Chalmers and Hadiz, 1997, pp. 199-200)

3.1 Introduction

During its first two decades of independence Indonesia was characterised by "war, revolution, brief economic recovery, mounting political turbulence and economic decline" (Hill, 1995, p.775). In 1965 Indonesia was a basket case, a decade of ever-increasing economic mismanagement had brought economic breakdown. As Gunnar Myrdal commented in 1966, "as things look in the beginning of 1966, there seems to be little prospect for economic growth in Indonesia". However, after three decades of economic growth in excess of 4% per year, Indonesia is now widely characterised as one of East Asia's Newly Industrialising Economies (for example see, *The East Asian Miracle,* World Bank, 1993).

Nonetheless, Indonesia's developmental experience probably differs the most from the 'norms' of the developmental state model. Like Malaysia, Indonesia emerged from European colonial rule, and similarly like Malaysia the natural wealth of raw materials served as a factor mitigating against the adoption of an export-oriented development strategy at an earlier stage in the country's development experience. Indeed Winters (1996) and Hill (1995) both maintain that the flood of oil wealth into Indonesia during the OPEC decade of the 1970s created an almost parastatal organisation with its own source of funds available for political purposes in the shape of the Pertamina corporation and Team X (Tim Keppres 10), "a body established by Presidential Decree...to control procurements by the...government" (Winters, ibid., p.123). Such funds enabled the President and those associated with Pertamina and other industries with exclusive import licenses to circumvent the more liberal oriented technocrats in the government bureaucracy.

Indeed it is the proliferation and prevalence of such personal linkages, particularly among Soeharto's own family and close associates, that contrasts Indonesia's development with the other countries focused on in this thesis. That is not to say that such personal linkages do not exist in Malaysia and Thailand, because clearly they do, rather that in Indonesia it is the sheer extent of these ties and their effective institutionalisation throughout the bureaucracy, government and the wider economy that warrants greater attention. This effective institutionalisation of patron-client relationships suggests that the Indonesian developmental experience is one that shares a number of commonalties with neo-patrimonial states in Africa on which I have commented elsewhere (Palan and Abbott, 1996 and Abbott, 1995; see also Bayart, 1993; Clapham, 1985, 1986)

As noted in chapter one (p.35), in order to assess whether or not the developmental experiences of Indonesia, Malaysia and Thailand conform to a state-led development paradigm Deans' (1996) five-fold definition of the ideal characteristics of the Capitalist Developmental State in East Asia will be used.

3.2 The Public-Private Distinction.

The historical experiences of colonialism and the subsequent violent anticolonial struggle that followed the end of World War II and the restoration of Dutch rule, established in Indonesia "a predilection for state domination of private-sector economic and political activities" (Bowie and Unger, 1997, p.44)[1]. In addition, "the quasi-socialist rhetoric of the Indonesian independence movement supported state management of the nationalized foreign (Dutch) firms" (ibid.). Consequently since independence the Indonesian state has been highly interventionist and broadly suspicious of the private sector. Following Soeharto's counter-coup in 1965, the New Order government committed itself to a trilogy of growth, equity and stability. The commitment to the latter two ensured an activist role in the development of social infrastructure and human capital even during times of economic retrenchment (Wardhana, 1998, p.138).

One result of this predilection for interventionism, has been that "[t]he middle classes and bourgeoisie have been heavily dependent upon the state for jobs, careers, contracts and monopolies and, more broadly , as the engine of growth" (Robison, 1996 in Robison and Goodman, p.81). This reliance has meant that business-state relations in Indonesia have been, and continue to be, characterised by clientelism, in which "[p]ersonal relationships between individual business people and senior political figures have been the dominant pattern of business interest representation.." (Bowie and Unger, ibid., p.48). In particular Chinese businessmen have "sought the protection and patronage of highly placed indigenous politicians and officials.. [offering] in return, cash and shares, seats on their boards of directors, or lucrative business opportunities" (ibid.) because of the nascent prejudice against the Chinese in Indonesia[2]. However, although state officials have provided protection to Chinese conglomerates, the unequal racial distribution of wealth and ownership in Indonesia provides a justification for state intervention in the economy to promote pribumi (indigenous) interests in a manner similar to the bumiputera first policy in Malaysia.

One of the reasons why clientelism has flourished to the extent that it has in Indonesia is, as Robison notes, that the bulk of

> investment capital has, until recently, been derived very largely from oil taxes and foreign loans channelled into Indonesia through the state. Consequently it has been the state managers and those who politically

> control the terminals of economic decision-making who have had the power to allocate these resources and determine priorities (Robison, Ibid., p.82).

The consequence of this has been a degree of clientelism that explains in many respects why Indonesia's developmental experience probably differs the most from the 'norms' of the developmental state model. Indeed it is this author's opinion that Indonesia's political economy closely approximates to the neo-patrimonalism more commonly associated with Sub-Saharan Africa (Palan and Abbott, 1996, pp. 184-200). Vatikiotis (1997), for example, described Soeharto's rule as "something resembling a throwback to the **patrimonial** rule of the Hindu-Buddhist kings of the pre-colonial period"(my emphasis).

Neo-Patrimonalism can be defined as a form of authority in which relationships of a broadly patrimonial and clientelist type pervade an administrative system formally constructed on rational-legal lines. The concept derives from Weber (1978) who characterised three distinct forms of political authority: rational-legality; charisma and patrimony. For Weber the organisation and the legitimacy of the modern [European] state rested on rational legal authority. That is an authority in which power is exercised in accordance with a legally defined structure directed towards a publicly acknowledged goal.

The element of `authority' is provided by goals that are themselves widely accepted, and structures that are likewise accepted as the means of achieving these goals. What is then necessary to make the structures work is a division between an individuals public role and a private role encapsulated in an `office'. When in office the individual acts simply as an official exercising the powers the office gives him treating others in an impersonal manner. When outside the office the individual is a private citizen with personal ambitions but unable to use his public position to achieve them. Thus the state is divorced from the interests of its constituents. Obviously this description is an ideal type and one that Weber accepted was nowhere fully achieved. However, the rational-legal idea remains fundamentally important, because one of the means of ensuring that the enormous powers of the modern state are used both efficiently and legitimately, without the fear of their abuse, is through the acceptance of this division of roles.

It is clear that successive regimes in a number of developing world countries, including Indonesia, have failed to approximate to a rational-legal idea. In Indonesia this is manifested by the lack of division between the public and private role of the state official who uses his public office to create clientelistic networks and extract `tribute'. As Vatikiotis notes,

> [pa]id a minimum basic salary, an Indonesian minister none the less has the potential to accumulate wealth through a plethora of allowances, donations, ***and the power of patronage***. The principle, if not the precise model, is almost identical to the parcelling and allotment of revenues and authority whereby the Sultans of Java controlled their feudal retainers (ibid., p.30, my emphasis).

In addition to the opportunities for personal enrichment the bureaucracy provides for its four million employees with rice, housing, transport to and from work and comprehensive medical care. Weber's concept of Patrimonalism offered the closest approximation of the exercise of authority in such manner. The distinct feature of patrimony is that authority is imputed to a person and not an office, but in contrast to charismatic authority that person is rooted in a broader social and political order. The concept is closely associated with feudalism with those lower down the political order not being subordinates but vassals or retainers whose position depends upon the person to whom they owe their allegiance. Power is ill defined and the whole system is held together by ties of kinship or loyalty.

Where **Neo**-Patrimonalism differs from Patrimonalism is that it grafts a broadly patrimonial system of relationships onto a political and administrative system. Although traces of feudalism and monarchical tradition survive in Indonesian culture, modern Indonesia is clearly not feudal in the recognised state-form with which we associate early modern Europe. Nevertheless it is argued that officials exercise powers that are formally defined but exercise them as a form of private property not for a public service. Hence the rational-legal division of office and individual is inverted. In addition relationships with others fall into the patrimonial pattern of lord and vassal rather than the rational-legal one of superior and subordinate. In such a system the superior will consider that they have the right to intervene personally into any matter within their jurisdiction and that any subordinate who makes a decision without first referring it upwards to his superior will be regarded as snubbing the authority of that superior (Clapham, 1987, p.49).

In all states power is to varying degrees corruptly exercised, principally because of the artificiality of the private/public division when applied to human behaviour in office. However in the neo-patrimonial state because the distinction between these roles itself is scarcely acknowledged, public office becomes accepted as a means to personal enrichment and social elevation. As Cruise O'Brien writes, "Political Office and the spoils of office are the very definition of success" (1975, cited in Palan and Abbott, 1996, p. 196) or as Vatikiotis remarks, in Indonesia, "[c]orruption is regarded as a prerogative of the elite (ibid., p.54).

In Indonesia neo-patrimonalism was inextricably linked with the former President himself and his immediate family. Soeharto's wife, Tien Soeharto (derogatorily nicknamed Mrs Tien Per Cent) oversaw many charities, including the national lottery; her brother, Bernard Ibnu Hardjojo, runs the Gununh Ngadeg Java Group, which has interests in timber extraction and import licensing. Furthermore Hardjojo is also known to be close to Bob Hasan (one of Soeharto's closest Chinese-Indonesian friends and a major Indonesian industrialist); while her foster brother Sudwikatmono, has a share of the billionaire industrialist Liem Sioe Liong's flour and cement monopolies. Soeharto's half-brother, Probosutedjo, runs the Mertju Buana Group (which holds supply contracts with the state oil and holding company, Pertamina); while each of his five children also has major business interests.

The youngest son, Hutomo Mandala Putra (Tomy) not only won the exclusive contract to make the national car (the TIMOR), but also controls the trading company PT Humpus, which as Clad comments, "received an exclusive right to market methanol and various acids produced by Pertamina... as a 'graduation present'" (1991, p.82). Soeharto's middle son, Bambang Trihatmodjo, with his brother-in-law Indra Rukmana Kowara created Bimantra, a large holding company that included over thirty firms involved in the production of chemicals, the transportation of liquid gas and other cargoes between Indonesia's many islands[3]; while his eldest son Sigid Harjojudanto, has a number of industrial links through Bob Hasan, is reputed to hold 10% of Liem Sioe Liong's Sinar Mas Inti Perkasa Group (ibid.) and is owner with Tomy of Utama Bank. Soeharto's eldest daughter, Siti Hariyanti Rukamana ('Tutut') has interests that include toll roads, real estate, elevated trains and highways and power stations, while his youngest daughter Siti Hadiati Harijadi ('Titik') owned a stake in the state-owned telecommunications corporation and was set to be involved in the construction of new power plants, although this is now unlikely in light of the recent IMF programme.

In addition to the former first family, there were a number of long-standing personal relationships between Soeharto and Chinese business associates. Of these the most famous, as illustrated briefly above, are Liem Sioe Liong and Bob Hasan.

In return for business opportunities for Soeharto and his family, Liem and Hasan have effectively purchased ‘protection’ from both the latent anti-Chinese sentiment of the populace and key figures in the military as well as protection from competition in the private sector. Such ties enrich both the patron and the client despite the Indonesian government’s commitment to promoting the interests of the pribumi or native Indonesian businessmen (Clad, 1991).

Soeharto’s acquaintance with both Liem Sioe Liong and Bob Hasan[4] predates his period as President. Indeed it was during Soeharto’s time in Central Java during the 1960s that Liem satisfied the quartermastering needs of Soeharto’s division in Central Java. The relationship blossomed to both men’s satisfaction, the political connection allowing Liem and his business empire the Salim group to grow behind monopoly privileges and tariff protection to become Indonesia’s largest industrial and financial conglomerate. By 1990 Liem Sioe Liong’s Salim Group accounted for roughly 5% of Indonesia’s GDP and included Metropolitan, Bogasari Mills (the flour monopoly), Indocement (the largest cement plant in Asia) and the textile maker Tarumatex. The group also controls First Pacific (a Hong Kong based financial holding company), Indosteel (the largest steel complex in Southeast Asia), Indmobil Utama (which assembles Suzuki cars), Sinar Mas Inti Perkesa (a food oil distributor) and the Bank of Central Asia (Indonesia’s biggest private bank). By 1990 the Salim group’s total turnover stood at around $US8 billion, equivalent to 25% of Unilever’s world-wide turnover. As for Liem personally, Clad (1991), estimates that he has become the “second richest man in Southeast

Asia, if not the world" (p.81). On the other side of the relationship, Robison estimates that by the mid 1980s the largest element of the Soeharto family's corporate investments were equity holdings in Liem group companies.

Although the familial links between the former first family and the wider state and private business sector were notorious another celebrated case of such personal ties in Indonesia was the privileged role enjoyed by the then Minister of Research and Technology, Professor Habibie. Dr Habibie, who succeeded Soeharto this year, knew Soeharto through a family connection established during a period of military service in Sulawesi and it was Soeharto who was instrumental in bringing Habibie back from Germany in 1974. He became Minister of State for Research and Technology in 1978 where he poured large amounts of state resources into his favoured 'high-tech' projects including establishing a costly aircraft manufacturing industry in Bandung which has yet to make a profit (Hill, 1995, p.785). Such personal ties resulted in growing unease and opposition within the military as manifested in the Petition of 50 in May 1980[5] and the, at first implicit and later explicit, support of factions of the army for opposition forces that ultimately led to Soeharto's reisgnation.

Nevertheless, as Robison (1996, ibid.) notes, there was an erosion of the state's absolute monopoly of political and economic power, particularly since the decline in oil prices after 1982 and 1986. With this decline there was a concomitant increase in the state's reliance on private sector investment, bringing with it a gradual shift of power and influence away from state officials and conglomerates towards private sector representative bodies such as Industry Associations. For example, between 1991 and 1996 the case of P.T. Chandra Asri and the protection of olefins demonstrated "that there were increasing obstacles to the traditional use of personal ties by businessmen to influence economic policymaking" (Bowie and Unger, ibid., p.65). In 1991 Chandra Asri announced its plans to build a petrochemicals plant in West Java specialising in the production of polypropylene. The company was controlled by Soeharto's second son, Bambang Trihatmodjo and two close personal friends of the former President. Using these personal connections Chandra Asri secured in 1996 a 20% tariff surcharge on the import of olefins, ethylene and propylene used in the manufacture of polypropylene, despite reassurances from the Minister of Trade and Industry to Chandra Asri a year earlier, that the company would receive no government help.

In protest against such privileged treatment a number of industry associations went public in their opposition, these included: the Plastic Industry of Indonesia, the Formaline and Thermosetting Association, the Association of Plastic Raw Material Producers and the Association of Basic Organic Chemical Producers of Indonesia. As Bowie and Unger comment,

> [t]hey did so arguing that the costs to a wide range of Indonesian exporters would far exceed the benefits in terms of savings in foreign exchange from producing olefins domestically.. The increasingly assertive public policy role of business associations in Indonesia suggested that there were

increasing obstacles to the traditional use of personal ties by businessmen to economic policymaking (ibid., p.65).

Both Walters (1996) and Hill (1995) suggest that with the decline of oil prices in the 1980s the 'slush' funds that were available to Pertamina and Soeharto declined thereby increasing the political leverage of the private sector and their allies in government, the liberal-oriented technocrats. This is given as the principal reason for the adoption of a more market-friendly export-oriented developmental strategy during the 1980s and 1990s. Nonetheless Hill is more cautious than Winters claiming that personal/patrimonial ties still form a part of the Indonesian political and economic culture. Indeed there are many examples of such ties still dominiating the decision making process in Indonesia, and while Soeharto is no longer President, opposition forces protest at the extent to which the former President and his cronies continue to enjoy the spoils of the nepotism that charcatersied his period in office.

3.3 State Ideology and Paternalist Capitalism

Indonesia is one of the most diverse nations in the world. Although dominated by Javanese, which constitute over half the population of 165 million, there are sizeable ethnic minorities scattered across the archipelago[6]. Nonetheless the idea of Indonesia is one which has largely been created rather than a nation that can trace a specific historical development (Smail, 1989, p.308). Indonesians are ethnically and linguistically extremely closely related to the Malays -- indeed the Malay 'nation' arguably comprises present day Malaysia, Brunei and much of Indonesia. Independence from the Dutch naturally brought greater indigenous control over culture-shaping ideas. Among these was the adoption and socialisation of Bhasa Indonesian into the national culture ostensibly through the education system. Although Bhasa Indonesian originated from Malay traders, and had long been the lingua franca of the Malay archipelago (Smail, 1989, p.84), it was not in 1945 the language of any sizeable traditional Indonesian ethnic group.

The dominant ethnic group in Indonesia is Javanese which itself is a hotch potch of Hindu, Buddhist, indigenous, animistic, Islamic and other beliefs and practices called ***Kebatinan*** (inner being-ness). The dominance of Javanese in the national culture and national political economy leads to an implicit view of Indonesia as Greater Java (e.g. see Liddle, 1988). Indeed, as I will demonstrate below, the post 1965 leadership under Soeharto drew upon an idealised rural Javanese culture (*abangan*) in order to legitimise an extremely personalised and authoritarian form of government (Jones, 1996, p.30).

'Indonesian' then in many ways defines itself by the hegemony of Javanese, which is perhaps best manifested by the refusal to allow any form of regional autonomy or recognition of minority difference by the central authorities (as best illustrated by the ongoing struggle between government and rebels in East Timor and Irian Jaya). Although Indonesia's guiding motto is 'Unity in diversity' (Bhineka tunggal ika) such unity is decisively enforced, as Vatikiotis remarks,

> Indonesia is captive to its definition as a unitary state; a framework which allows for no assertion of regional autonomy or incipient federalism. Abri's [the military] role as guardian of the state puts it at the forefront of the defence of unity, and therefore of a harsh, uncompromising approach (p.185).

The unity forged by the struggle for independence is hallowed with an intensity verging on fanaticism. Such attitudes reflect the fear at independence that the Dutch might persuade components in any federal set up to secede from the union - as much of Eastern Indonesia might well have done. Soeharto's 'New Order' similarly sold itself to the people as an instrument of harmony. The social, economic and political instability unleashed during the Sukarno period meant that many were ready by 1965 to accept order and authority in its starkest form.

Indeed under Soeharto's New Order the state ideology of Pancasila has taken on mystical and increasingly Javanese connotations. Although derived from a Sanskrit term, Pancasila is very much associated with Soeharto's New Order and indeed "Suharto has [effectively] reserved the monopoly right to determine what constitutes an acceptable expression of the state philosophy" (Leifer, 1996, pp. 194-5). Pancasila comprises five principles: a belief in one supreme god (though to counter Islamic forces the precise nature of that belief is one of personal choice), civilised humanitarianism, a united Indonesia, popular sovereignty and social justice (Legge, 1972, p.318, Leifer, ibid., Vatikiotis, 1996). Ultimately, Pancasila serves to *legitimate* authoritarianism as a mechanism that achieves a common will of society through consensus under the tutelage of a state in the possession of its own officials.

Despite being originally enunciated by President Sukarno as a "device to express the unity of such a diverse people" (Vatikiotis, 1996, p.95), Pancasila is an exclusive ideology by defining what are not considered legitimate political objectives and values: liberalism, laissez-faire capitalism[7], communism or any exclusive religious, racial or ethnic/regional position. Under President Soeharto this doctrine was elevated to the status of a state ideology. In 1978 he incorporated Pancasila into the country's constitution and introduced Pancasila guidance courses (P4) which although not compulsory are seen as a prerequisite for civil servants who wish to gain promotion or travel overseas (Vatikiotis, ibid., p.105). Later, in 1985, the Law on Mass Organisations insisted that all political parties and social organisations adopt Pancasila as their sole ideological principal, *asas tunggal* (ibid., p.95) including the Islamic United Development Party (PPP) which was consequently, "no longer able to campaign using the ka'ba, or holy shrine of Mecca, as its symbol, [and thus] lost all significance to the Muslim community" (ibid., p.122). Although adopted and accepted by Indonesia's three major political parties, Pancasila arguably serves as an extremely successful device for demobilising independent political forces, and defusing international criticism of Indonesia's political system because of its representation as an indigenous value-system. Indeed Soeharto's insistence that Pancasila was an indigenous product reflects a pervasive *abangan* stance toward national culture (Jones, 1996, p.30).

Arguably the most important idea 'borrowed' by the New Order from *abangan* Java is that of a benevolent ruler and an obedient populace. The death of the Sultan Hamengkubuwono IX of Jogykarta in 1988 provided an intriguing insight on modern Indonesian society since it visibly demonstrated the strength of tradition -- specifically Javanese tradition. Despite being a republic over 150,000 Indonesians visited the palace of ***raja kita*** (our king) when the body laid in state, while the President and most of the Cabinet attended the Sultan's funeral (ibid., p.99)

The island of Java, the most important component of Indonesia in cultural and demographic terms, possesses a tradition of kingship which survives to the present day in two cities of the province of Central Java, Solo and Jogyakarta. Soeharto grew up in the 1920s in the shadow of the divided remains of the medieval kingdom of Matram, the courts of the Sultans of Solo and Jogyakarta. Although the Sultanates wielded no effective political power under the Dutch, the strictly hierarchical court society was, and still is, considered the crucible of Javanese cultural refinement; a remnant of a glorious past that the colonial administration preserved in order to enhance control over their subjects (Vatikiotis, ibid., p. 29).

Despite having no official status,[8] the Sultan deliberately cultivated the sacred image of the wise king with all the feudal trappings, using the modern language of Indonesia and espousing western principles of democracy[9]. In particular the Sultan, although a rich man, purposefully lived in comparative modesty in order to convey the image of ***ratu adli*** -- a good and just king, and to contrast his lifestyle with the members of Soeharto's family and inner circle who were and still are considered shamelessly greedy (ibid., p.99).

What this demonstrates, as the sociologist Aswab Mahasin points out, is that "Indonesian society since independence has swung between two cultural extremes; a sense of being modernised in the western sense, and the search for values of the 'idealised East'" (cited in Vatikiotis, ibid., p.100). What was interesting about the death of the Sultan was that indirect but unfavourable comparisons were made between "a traditional feudal king.. [and] the modern republican president [Soeharto], because the latter's kingly qualities seemed wanting" (ibid.).

Although Soeharto always stressed his 'common' roots in order to project an image that he was close to his people, and to distance himself from the technocrat experts in order to avoid criticism should things go wrong, he nonetheless recognised the latent attachment of the populace to traditional Javanese culture. Accordingly his marriage to Siti Hartinah, the daughter of a minor noble from the Mangkungara royal house of Solo, was a calculated move to establish family links with the upper levels of Javanese society (Vatikiotis, ibid., pp. 9-10). Lucien Pye characterised Soeharto as a "Javanese mystic..[who has] come much closer to embodying the essence of Javanese culture" (Pye, 1985, p.115).

Because Java and the Javanese so dominate Indonesia demographically, and culturally, Soeharto's Central Java origins instilled in him the islands pre-eminence in Indonesia's past. Consequently while Sukarno was heavily influenced by European notions of nationalism, self-determination and socialism and attempted to champion the New Emerging Forces of the developing world against imperialism and the developed world, Soeharto fashioned a romantic image of himself originating from the culture, history and traditions of Central Java and particularly from its peasant mass (see for example, Crouch, 1978, and Liddle, 1988). The cultivation of such imagery and traditions served both a *legitimating* tool for Soeharto himself and with the ideology of Pancasila as a mechanism for institutionalising conservatism and authoritarianism.

Since Soeharto assumed the presidency as a general in the wake of a failed (some say staged) coup d'etat, the general impression outside Indonesia is that his government was effectively a military dictatorship. Despite the authoritarian nature of the 'New Order' to characterise Soeharto's administration in this way is a gross over-simplification. While the military does constitute, an important element in the socio-political structure of Indonesian society[10] its influence, particularly in recent years was diminished[11]. Furthermore Soeharto himself always tried to convey the, "illusion of having greatness thrust upon him rather than seeking position and power.." in order to project, "himself as remaining above the fray of the various political forces around him" (Vatikiotis, ibid., p.23). Indeed it is fair to say that specifically in the early years of the New Order, Soeharto survived and entrenched his position, because of "his ability to marry compromise to personal advancement, and an extraordinary gift for subterfuge" (ibid.).

Furthermore, the president was always elected under the New Order by the Peoples' Consultative Assembly (MPR) arriving at unanimous agreement on a single candidate. In practice, this decision was already achieved before the assembly met through a whole series of declarations of support by major social and political organisations. Unsurprisingly such declarations were usually engineered by Soeharto's close supporters in advance. The former President was not actually elected by the Indonesian people themselves but by the Assembly, only half of whose members were directly elected. The remainder was composed of ministers, senior government and regional officials, prominent figures and military appointees, most of whom owed their appointments to Soeharto himself. Nonetheless if this in itself was not sufficient to ensure that the assembly made the correct decision, all the members of the assembly were carefully screened beforehand.

Although all this seems reminiscent of the 'rubber stamp' assemblies of the former communist countries of Eastern Europe and the Soviet Union, what was important in the case of Indonesia was the *appearance* of democracy. As Vatikiotis remarks, “[i]n Javanese politics, appearances are everything. For Suharto, the mere fact that elections are held, and more importantly run smoothly with no significant show of dissent, is enough to prove the ideals of democracy are being served” (ibid., p.26), and despite all the limitations of Indonesian democratic freedoms, the fact that such elections, however contested, take place meant not only that Soeharto cannot be strictly characterised as a dictator but that such elections served an important *legitimating* role for the leadership[12].

In a similar vein to its Northeast Asian neighbours in South Korea and Taiwan, the Indonesian regime carefully manipulated the threat of Communism, principally from internal dissidents, to justify its levelling of society because it presented a useful atmosphere of fear and vigilance. It must be remembered that the so-called counter-coup that brought Soeharto to power was precipitated by the attempt of the Gerakan September Tiga Puluh (30th of September Movement) to seize power in 1965. Once Soeharto had overthrown the coup group the Communist Party of Indonesia was implicated in the aborted attempt and over 100,000 of its members were massacred by Muslim militants (Leifer, ibid., p.112). Following the restoration of order, all the political organisations of the ‘Old Order’ were dismembered and replaced from 1973 within three government controlled ‘functional groups’: *Golkar* representing the civil/military bureaucracy, Partai Persatuan Pembangunan (PPP) representing a coalition of Muslim interests; and the Partai Demokrasi Indonesia (PDI) condensing the remnants of Sukarno’s Nationalist Party with two Christian parties (Clad, 1991, p.103; and Leifer, ibid., pp. 197-8). Furthermore Soeharto's resistance to endowing Golkar with all the functions of a political party ensured it always remained institutionally weak.

Since 1973 the Communist threat was skilfully drawn out to maintain an extra-judicial hold over individual action. Indeed in 1988 the government updated screening procedures to include: military, civil service, teachers, political parties, the press, mayors, legal aid societies, the church and even shadow puppeteers (Clad, ibid., p.106). In many ways Indonesia under Soeharto displayed many of the characteristics of a Bureaucratic Authoritarian State (Blair, 1992,). Robison for example comments on the fact that in "Indonesia, the state and its officials constitute a coherent and identifiable political force of considerable autonomy and dominance" (Robison, 1990, p.462).

Similarly in true corporatist fashion the state has worked persistently to ensure that all social activity is ***co-opted*** . This is usually either by providing patrons (who were usually members of Soeharto's immediate family)or by granting an association a representational monopoly and enforcing compulsory membership for those engaged in the activity concerned (Clad, ibid., p.111). In 1985, for example, the federation of Indonesian trade unions became a unitary organisation -- Serikat Pekerja Seluruh Indonesia (SPSI). This made illegal the formation of independent trade unions because according to the government, which placed the manpower minister as head of the new union's advisory board, the consensus was for unity under one body.

3.4 Developmental Legitimacy

As noted in the preceding sections, Indonesia is characterised as an authoritarian state which through restricting power and political participation to an elite of clients drawn from the military, bureaucracy and crony Chinese and pribumi capitalists, has weak links with society. As a consequence development can be viewed as a tool for legitimating both this elite rule and the violent birth of the New Order government in 1966.

Although Sukarno had patently mismanaged the economy during the period of 'guided democracy' that had begun in 1959, and had alarmed the military by his close internal alignment with the Communist Party, he nonetheless was considered by many as 'the father of the nation'. Not only was he "the pre-eminent nationalist leader of his generation.. [but] he enjoyed remarkable oratorical skills and an extraordinary ability to communicate with and mobilise the Indonesian people" (Leifer, ibid., p.244). As a senior US diplomat reported in 1965, "Sukarno is still the symbol for Indonesian unity and independence... There is little question of his continued loyalty of the Indonesian people, who in large measure still look to him for leadership" (cited in Vatikiotis, ibid., p.19).

Consequently the New Order regime had both to ensure that their seizure of power appeared to be in the country's interest and that its legitimacy rested on something other than populist or nationalist credentials. The story of the first of these is highly controversial and detailed, requiring a thorough examination of the minute details of the weeks and months between October 1965 and March 1967. To summarise, Soeharto maintained an image of a reluctant general having greatness thrust upon him by events. As he himself comments,

> I was pushed in an atmosphere of political conflict to step forward. Some politicians were impatient about a change of leadership to the point of proposing that I take over power just like that. I responded to this proposal at one; "If that's the way things are , I'd better step down. Such a method is not good. Seizing power by military force will not bring lasting stability. I am not going to bequeath a history indicating that there was a seizure of power by military might". (cited in Ibid., p.23).

The official story is that in October 1965 there was an aborted coup by the Communist Party ostensibly with the President's support. Two days later General Soeharto as head of the Army's strategic reserve *kostrad* assumed command and overcame the coup. In March the following year Sukarno is alleged to have issued an order, Surat Perintah Sebelas Maret (Supremesar), to Soeharto ordering him to take all necessary action to restore order and guarantee security. This order marked the transfer of executive power from Sukarno to Soeharto. The acronym Supremesar was deliberately used "to provide a basis in legitimacy for the transfer through invoking the name of Semar, a clown-god of Hindu mythology with a reputation for invincible authority" (Leifer, ibid., p.246).

Others contest this official version of events, arguing that Soeharto probably sent himself the letter (Vatikiotis, ibid., p. 22), or that troops without insignia surrounded the palace that Sukarno and his allies had fled to, coercing the President to transfer executive power to Soeharto (see Leifer, ibid.). Whichever view of events you take the significance for the purpose of this thesis is that the seizure or transfer of power to the New Order government was justified as being required in order to restore political and economic stability. This concern for order and unity was subsequently a key feature of Soeharto's Presidency ever since, leading to an extreme intolerance of regionalism (as the whole East Timor episode demonstrates) despite the national motto *Bhineka tunggal ika* ('unity in diversity'). There was and remains a very real fear that any form of regionalism will lead to anarchy, a breakdown of political order and the inevitable break-up of Indonesia as a unitary state.

The chaos of the 'guided democracy' era enabled the New Order to sell itself to the people as the very instrument of harmony. Indeed the legacy of chaos meant that in 1965 many were ready to accept order and authority in its starkest form. It should be remembered that in 1965 the country's intelligentsia embraced the military because the only alternative, it seemed, was anarchy. Their support enabled the ruling elite to develop an authoritarian social and political system with impunity. As Marx commented on the emergence of the Bonapartist state in France, the bourgeoisie felt that its *economic* interests were threatened by the political chaos that had been engendered by its own political rule. Therefore to ensure the survival of these interests the state was forced to act autonomously against the *political* powers of the bourgeoisie: "*Rather an end with terror than a terror without end*" (Marx, 1977, cited in Chapter 2, p. 130). Consequently reversing Sukarno's 'politics as commander' dogma, *economic development* took precedence over political development. The new slogan was: 'economics first, politics last'.

As if to demonstrate this Soeharto from 1983 recast himself as *Bapak Pembangunan* - the 'father of development' (Jones, 1997, p.33). Economic development undoubtedly played an important role in legitimating the Soeharto era, consequently when the economy collapsed around him earlier this year the principal basis for his presidency was eroded. However economics alone was not the only foundation upon which Soeharto built his presidency. As I have demonstrated above besides development, political stability and national unity remained decisive. This led Soeharto at various points in his presidency to respond to populist challenges to his regime by seeking to co-opt various groups and/or distance himself from others when they became a liability.

During the 1980s for example, the emasculation of secular political alternatives to the New Order meant that Islam became an effective source of opposition to the Soeharto regime (Vatikiotis, ibid., p.132). In particular the Muslim community became vociferous opponents of the increasing nepotism among the first family and Soeharto's Chinese cronies. With the armed forces equally vocal in its criticism of the activities of several members of the Soeharto clan, Soeharto effectively abandoned the New Order's disdain for religion by making it clear his own partiality for Islam (ibid., and Leifer, ibid., p.124). As Vatikiotis observes,

> Suharto needed to enlist Muslim support in the run-up to elections. With opposition to his re-election to a sixth term in 1993 under threat from an increasingly disillusioned military camp, Soeharto appeared to be clutching at the only card left in his.. hand (ibid.).

He achieved this by offering his powers of patronage to the Muslim community, giving his blessing and support to the foundation of the Organisation of Indonesian Muslim intellectuals (ICMI). In particular the controversial former minister for Science and Technology Professor B.J. Habibie, one of the principal economic nationalists in the Cabinet, played a vital role in the formation of ICMI.

Clearly Soeharto's adroit handling of Indonesian politics ensured that he continued to play the leading role in the country politically and economically up until the onset of the economic crisis. In particular he proved extremely capable of distancing himself from the activities of his offspring and continued to draw on his humble origins and role as reluctant saviour to remain in office. The problem for Indonesia was that in so doing Soeharto created a situation in which there was no obvious successor to his rule. The only thing that prevented political chaos with Soeharto's resignation was the support of the military for Habibie, and the effective granting of a 'stay of execution' for the new President by the leaders of the student and islamic opposition groups. The reluctance of both to accept Habibie stems from the fact that when Soeharto tried to promote the minister as his successor in 1993 he was checked by the opposition of the armed forces. Furthermore in most eyes Habibie represents precisely the clientelism and economic nationalism that contributed to the collapse of the Indonesian economy.[13] This, perhaps more than anything else, explains why the former President decided to contest a seventh election this year in the wake of the crisis and despite concerns for his health and his advancing years. In many ways the legitimacy of the New Order came to rest in the figure of Soeharto himself. His deployment of traditional Javanese images and symbols of power and his reluctance to give up power suggest that Soeharto considered himself the only figure capable of maintaining the political stability that first ushered him into office (MacDonald, 1980, p.7).

3.5. Plan Rationality

When Soeharto assumed power in 1966 the Indonesian economy was in severe difficulties. Inflation had been in three figures since 1961 and in 1966 it averaged 306% briefly exceeding 1000% (Bowie and Unger, ibid., p.49). With prices changing often hourly it became almost impossible for the government to collect taxes. The effects of hyperinflation depressed exports, in turn reducing foreign currency earnings and hence imports. As a result trade revenues collapsed and with it government revenue, down from 13% of GDP in 1961 to 2% in 1966. Economic output unsurprisingly contracted sharply with manufacturing at 20% capacity and per capita income 9% less than its 1958 level (ibid.).

In response, Soeharto almost immediately announced a five year plan for stability and rehabilitation. The plan and the broad direction of the economy in its early years was principally orchestrated by liberal oriented economists drawn from the University of Indonesia (of which many had been trained in the United States) who assumed prominent positions in the important macroeconomic policymaking agencies of the government[14]. Initially Soeharto and his ministers invited economic teams from the IMF and World Bank and accepted their policy recommendations in order to reschedule the country's debt and provide much needed short-term liquidity. Among these most price controls were lifted, interest rates raised to control inflation, and government spending redirected towards infrastructure development.

Soeharto's decision to heed the advice of the technocrats was rewarded by a rapid recovery of the Indonesian economy and in many ways their successful management of the economy from 1966 until the mid 1970s has had a continuing influence upon Soeharto to this day. However, more in line with the pattern of her East Asian neighbours, Indonesia adopted from the beginning of the 1970s a broad directional thrust to its economic planning. The General Pattern of Long-Term Development covers a 25-30 year period which is split into medium term development planning, the REPELITA (five year plan), entrusted to the President/Mandatory of the People's Consultative Assembly.

The first five year plan *REPELITA I* (1969/70-1973/4), emphasised the rehabilitation of the economy after the crisis of the Sukarno era. Stress was laid on increasing agricultural produce and improving irrigation and transportation systems. The production of rice, central to the economy and the welfare of the people, was targeted to increase by 47%. Development expenditure was increased from 5% to 10% GDP, and the first liberalisation of foreign investment laws took place. Most production targets for the first plan were met and rice production exceeded the 47% growth by 25%. Development expenditure, however, had only risen to 7% (Embassy of the Republic of Indonesia, 1993, pp. 52-55).

The second plan, *REPELITA II* (1973/4-1978/79) focused on increasing the standard of living of the Indonesian people. Specific objectives were set to improve health and expand infrastructure. Although the overall objectives were largely met, although GDP growth at 6.8% and GDP per capita growth at 4.7% were below the projected 7.5% and 5.2% respectively. Development expenditures, however, exceeded the budget plan largely because of extra funds available as a result of oil price rises by OPEC. The rise in the price of crude oil from $3 a barrel to almost $12 a barrel had an important impact on total government revenues and in particular the development budget. While in 1966 oil revenues accounted for a tiny proportion of total government revenues by 1974 they had risen to a third.

The significance of this should not be underestimated, as one commentator remarked,

> The government's routine outlays are like a retainer paid to a lawyer...[t]hey get the civil servants to the office. But to have anyone actually do anything requires extra money. That's where the development budget comes in. It covers everything from buying office furniture.. to huge development projects costing billions of dollars (Galbraith, E, cited in Winters, ibid., p.102).

REPELITA III (1978/9-1983/4), referred to as the 'oil boom plan', aimed to achieve self-sufficiency in food production and promote the processing of basic materials into finished goods. During the plan the share of oil and gas exports rose by an average of 75% per year subsequently allowing government development expenditure to rise by 274% over the previous plan. Between 1980 and 1988 total discretionary government surplus for development spending came in at 43 trillion rupiah compared with 36.2 trillion rupiah in approved domestic investment, of which only 40% was actually invested (Winters, ibid., p.134.). As Winters comments, "[i]t is no wonder Indonesian officials could frequently be heard crowing proudly.. 'that the state was the engine of development'" (ibid.). One result of the massive increase in the development budget was that by the end of REPELITA III the proportion of people living in poverty had fallen from 40.1% of the population to 26% in 1981.

If REPELITA III was known as the 'oil boom plan', then REPELITA IV (1984/85-1988/89) was the 'oil hangover'. Although oil prices began to slide after 1982, they took a sharp decline in 1986 returning oil prices to the real cost of a barrel in 1973. Following the collapse of the price of oil in 1982, major economic reforms were necessitated in Indonesia if the government was to meet the plans it had laid out for itself. Over this period, however, "there was a discordance between macro and microeconomic policies, reflecting divided authority in the realm of economic and particular industrial policy" (Hill, 1995, p.778).

Although the liberal oriented 'technocrats' generally controlled the important macroeconomic policymaking levers, they were powerless to prevent the proliferation of much industry-specific intervention by the economic nationalists who dominated the line departments (Hill, ibid., p.778; Bowie and Unger, ibid., p.47). A good deal of such intervention took the form of non-tariff barriers (particularly import prohibitions, quotas, and exclusive import licenses) many of which were applied in a blatantly political manner in order to assist "the sons and daughters of the politically powerful, and to leading conglomerates such as the Salim Group" (Hill, ibid., p.779). In addition, despite fiscal austerity across the economy as a whole, large sums of state aid continued to pour into the high tech projects of the then Minister for Research and Technology , Professor Habibie.

However while the Plan had intended to promote the production of industrial machinery and the heavy industry sector generally, the collapse of oil prices coupled with world-wide recession forced the government to try and promote Indonesia's non-oil and gas exports and attract foreign investment to replace government investment. To cite Winters again,

> policymakers eager to prevent major social disruptions rooted in investment declines and crises found themselves paying much more attention to the effect of various policies on the locational and reinvestment strategies of those who privately disposed of crucial investment resources (ibid., p.142).

In other words rather than introduce economic and financial reforms because of their desirability, the technocrats were only able to convince Soeharto to back the reform process because of the necessity created by the impact of the decline in oil prices (Hill, ibid., p.779)[15]. As Robison and Rodan commented, "the sudden interest in free market forces and privatisation has been caused less by conversion to free market ideology than by plummeting oil prices, and hence tax revenues" (1986, p.14), a view supported by Bowie and Unger (ibid.) who comment that, "[w]hen times were lean, as was certainly the case in the period 1984-86, President Soeharto usually heeded the advice of the technocrats" (p.60).

Unlike in Malaysia and Thailand at similar junctures, the thrust of the reform process did not signal a marked shift from Import Substitution to the adoption of an explicitly export-oriented industrial policy. Instead the reforms were designed to simplify the economic policy environment by freeing businesses from many of the "complex, costly and often unenforceable business regulations" (Hill, ibid., p.779). The major features of these reforms were[16]:

- The devaluation of the rupiah in September 1986[17], which with low inflation, boosted Indonesia's competitiveness.
- The replacement of the corruption-ridden customs service in April 1985, with the Swiss based surveying company Societe General de Surveillance (Although this returned to the government in 1997).
- A renewed commitment to trade liberalisation that saw: the proportion of domestic production protected by import quotas fall from 41% in 1986 to 29% by 1988; the average import tariff decline from 29% to 19%; and the phased replacement of many of the NTBs introduced in the 1970s and 1980s, by tariffs, so that "the range of imports (by value) covered by Non Tariff Barriers fell from 43% in 1986 to 13% in 1991" (Hill, ibid., p.779).
- The introduction of a corruption-free customs rebate/drawback facility, PB4M, for exporting firms, that effectively put them on a free-trade footing.
- Much needed financial reforms were introduced towards the end of the plan in late 1988, that exposed for the first time Indonesia's cumbersome and inefficient banking sector to private sector competition and opened up the Stock Market.
- Finally a number of other measures designed to attract foreign investment

It is interesting to note that most of these reforms, particularly those related to the liberalisation of trade were not actually implemented into Indonesian law but rather were introduced by Presidential Instruction, INPRES No. 4 (Wardhana, 1998, p.130; Vatikiotis, ibid., p.176).While such reforms were welcome and did provide a positive fillip to the economy in the late 1980s, much industry-specific protection persisted among those conglomerates associated with the clients of the President.

REPELITA V (1989/90-1993/94) marked a decisive period of economic growth for the Indonesian economy in the wake of the 1986 devaluation of the Indonesian rupiah and the appreciation of the Japanese Yen after the Plaza Accord. The maintenance of the real 1986 value of the rupiah by flexible exchange rate management until 1990 coupled with a continuing economic reform programme spurred an influx of foreign investment. Between 1987 and 1992 foreign investment rose from \$0.4 billion to \$1.7 billion while approved foreign investment soared from \$8.1 billion in 1993 to \$23.7 billion by 1994. Manufacturing exports rose from 13% of GDP in 1988 to 22.2% and dependence on oil revenues dropped markedly[18]. For the technocrats, liberalisation continued, for example the proportion of manufacturing production protected by import quotas declined, from 68% in 1986 to 32% in 1991 and the weighted average tariff on imports also fell from 28% to 15% over the same period.

Nevertheless as Professor Suhadi Mankusuwondo, a key architect of trade policy, has indicated, the government policy on protectionism was generally *ad hoc* in nature, responding to specific business and other pressures. Consequently by the mid 1990s despite liberalisation there was a wide variation in effective rates of protection across different areas of the economy. In 1989 for example, Professor Habibie in particular was successful in corralling a number of industries of 'strategic' importance into a new secretariat under his command. These included steel, arms, shipbuilding and Indonesia's fledgling aircraft industry (see below for more detail). By the mid 1990s Indonesia's economy despite widespread liberalisation, "was *more protected* than those of the other countries of the ASEAN Four and the rate of reform in countries such as China, Vietnam and the Philippines outpaced those of Indonesia" (Bowie and Unger, ibid., p.62, my emphasis.).

The conclusion that one draws from this assessment of state planning in Indonesia is that the Soeharto regime at the macro-level has generally been a 'hard' state, but in its micro-economic interventions it has been decidedly less hard. Indeed it displays all the hallmarks of a 'soft' state in this arena -- corruption-prone and vulnerable to capture particularly by the former first family and their clients (Hill, ibid., p.786). In part as a consequence of this hard-soft dichotomy there has been ***no consistent*** and cohesive industrial policy in Indonesia under the New Order. Rather, policy has varied depending on the government's major policy preoccupations and on which policy group is in the ascendancy -- the technocrats or the economic nationalists. (ibid., p.787). Vatikiotis for example questions whether it was ever Soeharto's intention to liberalise the economy (ibid., p.174). His observation of the whole reform process since 1986 was that it was more contingency than a commitment to market ideology. As he comments,

> Suharto's generation was imbued with a fundamental belief in the state's role in the economy.. Crudely speaking, it is the best way to ensure that the state preserves its limitless power. Grant the economy autonomy and it is but a short step towards demands for the state to be accountable to those who own the means of production.. Suharto was not inclined to unleash the economy entirely. More plausibly he allowed his ministers to liberalise just enough to guarantee annual infusions of foreign aid and investment (ibid., p.174)

The current plan REPELITA VI (1994/5-1999/2000), while marking the beginning of the Second Long Term Development Period[19], will inevitably be overshadowed by attempts to alleviate the dire economic crisis that Indonesia slipped into during the second half of 1997. The cancellation of many of the infrastructure projects envisioned in the plan and the need to fulfil the economic criteria demanded by the multilateral lending agencies will almost ensure that the government will be able to meet any of the targets that it has set itself. Among the prices demanded by the International Monetary Fund for its $43 billion bailout of the economy, is the dismantling of the various protected industries and conglomerates occupied by the former President's family and close political and economic allies that will have the most significant ramifications.

3.6 Autonomous Economic Technocracy

In the literature on the Capitalist Developmental State it is this aspect that has drawn greatest attention. From Johnson's famous study of the role of MITI in Japan (1982), to Wade's analysis of the role of policy-making agencies in Korea, nearly all studies of the CDS in East Asia stress the importance of "a technocratic elite, typically an economic bureaucracy, that is both skilled and committed to the task of economic reform"(Deans, 1996, p.92). In addition, "[t]he key to success of this group is their commitment to national goals rather than self-aggrandisement and their relative autonomy from powerful interest groups within the state" (ibid., p.93).

The degree of 'guidance' from such a technocratic elite obviously varies depending upon the strength of corporate and other interest groups in the various states in question. Thus in Korea the technocracy has pursued strategies centred on the chaebol conglomerates while in Taiwan policies were directed toward family-centred firms (Deyo, 1987). However, while the 'form' and 'target' of such direction may vary somewhat, "the essential characteristic of the NIC model rests upon the negotiated relationship between privately accumulating capitalist firms and target-setting officials" (Lubeck, 1992, p.178).

While there does exist a cohesive group of economists committed to both economic reform and to the aggrandisement of the Indonesian economy, unlike in Japan and South Korea in Northeast Asia, or Malaysia in Southeast Asia, this group of bureaucrats does not share the commitment to directed state planning and intervention of their counterparts. On the contrary one of the unifying elements of this corps of bureaucrats is their commitment to economic and trade liberalisation more closely associated with multilateral institutions such as the International Monetary Fund or World Bank.

With the economy that Soeharto inherited from Sukarno in tatters, a group of economists, many of whom had previously studied in the United States at the University of California at Berkeley under a Ford Foundation scheme (Chalmers & Hadiz, 1997, p.18), took over at the key macroeconomic agencies such as The Ministry of Finance, Bank Indonesia and the National Development Planning Agency (BAPPENAS -- *Badan Perencanaan Pembangunan Nasional*)[20]. These economists while sharing an ideological commitment to market forces and liberalisation, initially embraced liberalisation in order to allay the concerns of aid donors and foreign investors after the economic crisis that the period of Guided Democracy had engendered.

The technocrats were effectively led by Professor Widjojo Nitisatro, Professor of Economics at Jakarta's University of Indonesia. Although Widjojo held no cabinet position after the early 1980s he continued to exert significant economic influence

(Vatikiotis, ibid. p.47). This is due in part to the fact that Soeharto was exposed to Widjojo's teaching while he received his formative training at the army' staff college in Bandung at the end of the 1950s, and that Widjojo along with Salim, Sadli, Wardhana and Subroto who formed the 'Presidential Advisory Team' in 1966. Without doubt the influence of Widjojo and the technocrats has ensured the uninterrupted flow of foreign assistance to Indonesia. As Vatikiotis comments, "A visiting risk analyst once remarked that the biggest blow to Indonesia's credit rating would be dealt by the demise of Ali Wardhana[21] -- at that time (1987) co-ordinating minister for Economic Financial and Industrial affairs" (ibid.) Indeed Vatikiotis argues that the faith entrusted to this handful of western-trained economists was great enough for western governments and foreign investors to turn a blind eye to the prevalence of corruption in the Soeharto regime until the present economic crisis (ibid., p.48).

Nonetheless these technocrats represent a very small minority who by their cohesiveness, and attractiveness to the foreign aid community, managed to wield influence over macroeconomic policy disproportionate to their numbers. However in contrast their ability to influence the daily administration of regulations, tariffs, licenses and operation of line ministries was extremely limited. As Bowie and Unger remark,

> [d]eep-seated economic nationalist ideas, such as suspicion of foreign investors and a commitment to maintaining a wide range of public enterprises persisted throughout the bureaucracy. Hence, the technocrats

were able to deliver relative macroeconomic stability, but not enhanced openness (ibid. p.54).

The principal problem for the technocrats is that since the late 1960s the state has facilitated the emergence of a powerful domestic corporate sector using the policies of subsidy and protection (Vatikiotis, ibid., p.40). Whether state-owned or private, such enterprises often served as vehicles for the clientelism of the Soeharto regime and many are unviable without the privileged treatment they received. In addition they undermined the autonomy of the technocrats to pursue rational economic planning. Only when the extra resources provided by petrodollars stopped flowing did the technocrats obtain leverage over such interests.

Such a viewpoint is not universally accepted. Most perspectives on Indonesia's development maintain that its recent economic history is one in which state agencies have implemented the plans of the leadership which themselves have been continually remoulded as the economy matured. Hill for example is one of the key exponents of such a viewpoint, arguing in *Indonesia's New Order* (1994) that "[t]the essential recipe is one in which the government has got its policies "right" more often than it has not, and that it has displayed political will to take tough and unpopular decisions when necessary" (p.55).

Hill's perspective is difficult to maintain given that there was never a consistent hegemonic development strategy under Soeharto. Since the beginning of the New

Order there was and continues to be a predilection towards sustaining elements of the statism and economic nationalism that had characterised the Sukarno regime. The 1945 constitution, for example, committed Indonesia to economic development based on economic democracy and assigned to the state the responsibility to ensure this through state ownership of "branches of production important for the country" (Soedjono, 1981). In addition economic nationalists such as Soedjono[22] and Moertopo[23], argued that the commitment to nationalism and social justice within the state ideology Pancasila both justified and necessitated state intervention in the economy.

Such arguments were championed by key figures close to Soeharto in both the political leadership of GOLKAR[24] and in the upper echelons of the armed forces, ABRI[25], and came to the fore following the world-wide rise in oil prices that followed the first oil crisis in 1973. The swelling of the state coffers by oil receipts during the period 1974-83 facilitated the phenomenal growth of the state sector. The size of the bureaucracy for example, grew over this period from 1.67 million civil servants to 2.63 million. In addition oil revenues were used to finance the growth of state enterprises which with the bureaucracy made the state the biggest single employer. As a result by 1983 these enterprises accounted for a quarter of GDP, and contributed nearly half of total corporate taxes (ibid., p.37).

The key institutional centres within the state that championed *etatisme* were the state enterprises, in particular the state-owned National Oil and Gas Corporation

(Perusahan Tambang Minyak dan Gas Bumi Nasional -- *Pertamina*) the Department of Industry[26], and after 1973 the Investment Co-ordination Board (BPKM)[27]. However, arguably the most significant champion of etatisme during the 1970s was the Centre for Strategic and International Studies (CSIS). Established in 1971 this private research institute, although never enjoying any formal political authority, developed close links with GOLKAR and the intelligence agency BAKIN and was closely associated with indigenous capitalists such as Ibnu Sutowo, head of Pertamina until 1976 (Chalmers & Hadiz, ibid., p.72). Consequently as Chalmers notes,

> CSIS was thus in a unique position in the Indonesian political and economic system, able to exert considerable influence in economic policy debates.. [and to develop] a distinctive form of economic nationalism which assigned to the state a key role in restructuring national capital (ibid., pp. 72-3).

The best examples of the way in which the vested interests of the state enterprises competed with those of the technocracy are the Pertamina scandal of 1974 and the rise of Professor Habibie to Science and Technology Minister. The former case is chronicled exhaustively by Winters, in *Power in Motion* (1996). However, by way of an illustration a summary of this scandal follows.

Among the first influential economic nationalists was Lt-General Ibnu Sutowo who was appointed head of Pertamina in 1967. Under Sutowo's direction

Pertamina developed into a parastatal organisation using government oil revenues to build a vast empire that encompassed, manufacturing, shipping, hotels, tourism and agriculture in addition to oil exploration and development. The personal connection with Soeharto allowed Sutowo to circumvent rigorous inspection of his activities by the liberal oriented technocrats, particularly at the Department of Finance and at the Bank of Indonesia. Consequently Sutowo was allowed to raise international loans independently of the state on the international markets, using the company's oil revenues as collateral. Sutowo was permitted to take such actions because the Indonesian government lacked resources that were not under some form of explicit or implicit multilateral supervision, as deputy assistant secretary at the bureau of East Asian and Pacific Affairs comments,

> since the Government did not have adequate funds, it was the tendency of the President to turn to General Ibnu.. and say, General, here is an important project, we would like you to get it done, and nobody discussed where the money was to come from (cited in Winters, ibid., p.83).

Sutowo then provided the resources for Soeharto to reward his supporters, as the General himself comments,

> I helped all the military people with their projects.. and you can't find a single road or school or hospital that wasn't at least partly funded by the money I borrowed through Pertamina.. I paid no attention to bureaucratic rules and procedures.. [but w]ithout the backing of the president I wouldn't have been able to pull it all together (ibid., pp. 84-5)

The technocrats backed by the IMF and World Bank, were determined to close down Pertamina's channel. Ultimately a combination of external pressure[28] and internal pressure from the Treasury, as the ultimate guarantor of Pertamina's debts, persuaded Soeharto to approve controls that reined in Pertamina's medium and long term borrowing[29]. However Sutowo faced with such incursions simply turned to more volatile short-term financing in an international market that was awash with petrodollars that needed recycling[30]. When oil demand slackened in 1975 and prices began to fall Pertamina found itself with insufficient collateral to sustain such borrowings.

In February Pertamina failed to repay a short-term loan of US$40 million to a group of American banks, precipitating a series of spectacular defaults on repayments. By May 1976 Mohamad Sadli[31], the minister for mines, confirmed that Pertamina had combined debts of over $10 billion, almost two-thirds of Indonesia's GNP at the time. Indeed at one stage the crisis prompted international lenders to demand repayments at such a rate that it nearly triggered the Indonesian government to default on its national debt (Bowie and Unger, ibid., p. 54; Leifer, ibid., p.203).

With Pertamina's debt raising serious questions about the economic viability of the Indonesian economy, the technocrats were able to convince Soeharto that unless he fired Sutowo and reined in the corporations borrowings, the New Order regime could be destabilised (Winters, ibid., p.88). Sadli himself explained that Soeharto was only willing to side with the technocrats once "we convinced him that what Sutowo was doing was dangerous for the country" (ibid.). Indeed Winters suggests that this strategy of convincing the President that without liberalisation international confidence in the regime will be undermined is one that was deployed quite often by the technocrats in their struggle with the clientelism at the heart of government. By way of illustration Winters cites a former minister for Industry, Soehoed[32],

> The technocrats are very good at scaring the old man [Soeharto]. They keep him on the razor's edge, and that's how they get their way. They tell him that if he doesn't follow their suggestions the people will go without food and clothes , or the economy won't grow (ibid. p.89).

Consequently Soeharto fired Sutowo in 1976 and appointed a cabinet committee dominated by technocrats that were able to renegotiate terms with foreign creditors and aid donors[33].

With the decline in oil revenues after 1983 and especially after 1986, the technocrats were able to gain the upper hand in their struggle for dominance within the bureaucracy, as the series of reforms chronicled in the previous section of this chapter bears testimony. However, this did not signal the death knell for etatisme within the Indonesian government, or the end of Presidential support for strategic industries. Within two years of Sutowo's removal from Pertamina, Soeharto appointed Dr Habibie his minister for State for Research and Technology and supported Habibie's drive to continue the large-scale industrial projects that Pertamina had previously nurtured. An doctoral graduate from the Technical University of Aachen, Germany, and former director for research and construction at Messerschmitt, Soeharto brought Habibie back from Germany in 1974, to initially work for Pertamina.

In 1978 Habibie established the Agency for Technological Research -- *Badan Pengkajian dan Penerapan Teknologi* (BPPT) which as Chalmers notes soon became "[a] second institutional base for statist nationalism" (ibid., p.163). Throughout the 1980s, despite the broad macroeconomic steps towards economic and trade liberalisation, Habibie took advantage of his personal connection with Soeharto to maintain privileged treatment for several industries of 'strategic' importance which also enjoyed trade protection through the extensive use of non-tariff barriers (Hill, ibid., p.779). Furthermore, in 1989 Habibie persuaded Soeharto to allow him to set up The Agency for Management of Strategic Industries (BPIS), effectively an umbrella organisation for his pet projects.

Habibie is best characterised as a technological determinist, believing that technological change is fundamentally necessary to transform Indonesia into an advanced nation. In 1986 he outlined nine "arenas for transformation" (Habibie, in Chalmers & Hadiz, ibid., p.178-180) that included: aircraft, shipping, motor vehicles and railways, electronics and telecommunications, the manufacture of turbines and generators for the energy industry, engineering, agricultural machinery, defence and physical and social infrastructure (roads, bridges, schools, hospitals). Habibie's most famous high-tech project is IPTN (PT Industri Pesawat Terbang Nusantara) Indonesia's state-owned aircraft manufacturer. In collaboration with CASA of Spain, MBB of Germany, Aerospatiale of France and General Dynamics, IPTN produced the CN-235 44 seater passenger commuter plane, although close to 60% of all materials used to build the planes are imported.

Liddle (1987) suggests that because there was no clear economic consensus among the bureaucracy in Indonesia, Soeharto's own preferences became critical. Soeharto in effect acted as the "primus inter pares determining broad policy directions and forging supportive political coalitions" (Chalmers, ibid., p.24). This meant that at certain times Soeharto built a political coalition around the technocrats, principally during times of economic crisis, while at others especially during the oil boom years, he supported economic nationalists within the cabinet and bureaucracy. However Liddle (1991) maintains that on the whole Soeharto generally calculated that "his political interests.. [were] best served by maintaining the outward-oriented and pro-market policies of the technocrats" (ibid.). Liddle's perspective is important because it demonstrates that neither the technocrats nor the nationalists enjoy sufficient autonomy to determine the direction of the economy over a sustained period of time. However, one has to raise serious questions about his conclusion that Soeharto generally favoured the technocrats. The Pertamina crisis, the continued influence of Habibie, and the enrichment of Soeharto and his family behind protected enterprises, suggests that Soeharto took a much more statist line only deviating to the liberal policies of the technocrats when necessity required him to (e.g. see Vatikiotis, ibid., p.174).

This Chapter has already alluded to the fact that the Indonesian government is one characterised by the existence of a particularly pernicious and rampant form of nepotism, often dubbed 'crony capitalism' by its critics, in which the former President's family staked claims to almost every part of the economy. As a recent article in The European remarked,

> [a] year ago the best way to break into the Indonesian market was to visit one of Suharto's four most influential children: Tutut, Titiek, Tommy or Bambang. Suharto has used his grip on power to create a huge business dynasty among his family and friends. One of his offspring or a "business associate" is present in almost every sector under state control. The children have [subsequently] built up individual empires worth an estimated $8.2 billion (Hawkins and Cameron).

The technocrats made enormous efforts to shape a new economic landscape -- but in private discussion they would admit that they were up against a bureaucracy unwilling to accept change, vested interests who demanded impossible quid pro quos, and ultimately an uncertain political future (Vatikiotis, ibid., p.176). Because of the competing political and economic interests in Indonesia there has been, and continues to be, widespread resistance to far reaching institutional reforms. As a consequence one can say that during the 1980s and 1990s, the Soeharto regime merely tinkered with the country's economic system in order to ensure the continued supply of foreign aid and investment (ibid.) As Vatikiotis comments,

> The most striking evidence of this remains the fact that the majority of reforms effected since 1983 have yet to be enshrined in law. Most were introduced, and continue to exist, as presidential decrees. Because they have yet to acquire a standing in law, they could be replaced just as easily with other presidential decrees reversing their effect (p.176).

Indeed prior to the recent economic turmoil, the World Bank began to become concerned at the regime's lack of attention to legal reform noting in its 1990 report that "the existing commercial laws are outdated and do not meet the requirements of a modern economy" (ibid., p.177). Vatikiotis suggests that the use of Presidential decree to introduce such measures rather than by enshrining them in law may be because of strength of opposition to economic liberalisation. "Legislation is a slow and cumbersome process in Indonesia" he remarks, "[b]ecause each department in the bureaucracy has to be consulted, the scope for deadlock over issues perceived as depriving the government of its power over resources or decision-making is endless" (p. 48).

In conclusion to this section, while a technocratic elite does exist in Indonesia, its autonomy has been undermined both by a rival elite, favouring protectionism which is equally as strong (Sadli, 1988, p.364) and because clientelism was not only crucial to the maintenance of Soeharto's personal rule, but was equally embedded in the New Order state.

3.7 Conclusions.

As I have demonstrated in this Chapter, there has been a strong predilection in Indonesia towards state management of the economy since independence, largely because of the exclusionary economic system that had operated under the Dutch. Such management of the economy by the state gave rise to an indigenous capitalist class, both pribumi and Chinese, that prospered largely due to preferential treatment, tariffs and subsidy. In addition the growth of the state provided a means by which the New Order government under Soeharto could shore up its legitimacy, as clientelism flourished along the lines of Weber's concept of patrimonial authority. Such clientelism also allowed Soeharto to enrich himself and his family, to such an extent that critics dubbed his style of economic management 'crony capitalism'.

As well as fostering patron-client linkages, Soeharto also carefully manipulated traditional cultural images in order to legitimise a very personal and authoritarian style of government. This was principally achieved through the elevation of the concept of Pancasila to state ideology, the manipulation of an internal communist threat to justify outlawing any social or political organisation that did not adopt Pancasila, and by the army's fanaticism for the unity of the Indonesian state.

What Soeharto and his supporters in ABRI wanted to ensure above all else, was that the violent excesses which the economic and political instability of the period of Guided Democracy under Sukarno had unleashed, were avoided.

Rapid economic development, coupled with an absolute decline in poverty, however ensured that the regime's legitimacy rested on something other than brute force and clientelism, though clearly such development increased the rewards that Soeharto was able to distribute. It also gave rise to the formation of two equally powerful groups within the bureaucracy divided over the broad nature of state management of the economy. One group, the western-educated liberal technocrats that Soeharto initially turned to in order to rescue the Indonesian economy from the chaos of Guided Democracy, continue to call for greater economic liberalisation and have been broadly supported by both foreign investors and multilateral lending agencies. The other group are dominated by the very corporate interests that emerged as a result of the clientelism Soeharto championed to legitimise his rule. These interests have resisted all attempts at liberalisation primarily because they have enjoyed the benefits of protectionism and have most to lose from a more deregulated economic system.

Clearly having examined the Indonesian state using Deans' fivefold definition the evidence presented in this Chapter points to a political economy markedly different from that associated with the Capitalist Developmental State model in Northeast Asia. While nationalism has been championed it has not been used simply to promote developmental ends. Rather nationalist and specifically Javanese cultural traditions were manipulated to ensure acquiescence to the personalised rule of General Soeharto. Equally while development has played an important role in legitimating the regime, economic success generated clientelism to such a degree that opposition to the regime became ever more vociferous and violent and ultimately led to the resignation of Soeharto.

The prevalence of clientelism and the strong support for both etatisme and liberalisation within the bureaucracy have ensured both that there has been no consistent rational economic planning and that the economic technocracy, characterised by the corps of liberal economists in the key macroeconomic agencies, has not enjoyed sufficient autonomy to manage the economy in the national interest. Instead the economy was consistently managed in *Soeharto's* interest, swinging between bouts of liberalisation and bouts of protectionism depending on the overall health of the economy and the availability of, or lack of, discretionary funds. Indeed many admired Soeharto's deft political management, balancing economic nationalists against liberal technocrats, military against civilian ambitions, and loyal retainers against free thinkers (Vatikiotis, ibid., p.150). Indeed the history of Southeast Asia's Hindu-Buddhist kingdoms is one in which both personal leadership is a potent element and one that is littered with conflicts born of succession crises. The problem for Indonesia is as Vatikiotis comments, that such personal rule "poses difficulties when it comes to the transfer of power, because the cultural pre-eminence of leadership allows little scope for the survival of a regime once its leader is no longer in power" (ibid., p.148). While Indonesia was enjoying prolonged rapid economic growth many were confident that with or without Soeharto Indonesia's future was buoyant. When the economy plunged into its worst crisis since Soeharto assumed power over thirty years ago, the country momentarily descended into violent scenes reminiscent of the end of Sukarno's rule. With Soeharto now gone one has to ask whether the New Order state that he constructed can survive.

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[1] In the sense that the Dutch created an economic system in which capital was kept out of the hands of the indigenous population, thus the early nationalists were distinctly anti-capitalist (Vatikiotis, 1997, p.53).

[2] Such racism was a reaction to the intermediary role the Chinese played under the Dutch colonial administration between the native Indonesians and the colonialists. While the Dutch had limited the indigenous population to the agricultural sector the Chinese were allowed to assume a dominant role in the non-european commercial sector. With independence anti-Chinese disturbances have become a frequent occurrence (Vatikiotis, Ibid., pp. 157-8).

[3] Bambang's business holdings are also responsible for the construction of Jakarta International airport, the Grand Hyatt hotel and the 170 store shopping mall Plaza Indonesia, home to Tifany, Gucci and Bulgari.

[4] Bob Hasan frequently demonstrated the enormous influence he holds in the presidential office by virtually writing government legislation favorable to his ratan and wood industries (Clad, 1991, p.81).

[5] 50 retired senior officers and former politicians signed a petition which was highly critical of the way in which Suharto had appropriated the national philosophy Pancasila to his own political purposes.

[6] These include: the Achenese, Bataks and Minangkabaus of Sumatra , the Sundanese of West Java and the Madurese of East Java and Madura, and the Balinese, Bugis and Makassar of Southern Sulawesi. In addition there are the more well known minorities of Catholic Timorese on East Timor and Melanesians on Irian Jaya.

[7] Although some Indonesians such as the economist within the research centre of the opposition party the PDI, Kwik Kian Gie, argue that Pancasila does not reject capitalism but rather what he terms *free-fight* capitalism, the tendency of capitalism to produce oligopoly, monopoly and exploitation (see Chalmers and Hadiz, 1997, p. 239-241).

[8] Although the Sultan served Indonesia's first government as Defense Minister between 1948-53, and Suharto as vice-president between 1973-8.

[9] The Sultan actually served as Vice President between 1973-78, and most people in Indonesia were aware that the Sultan had an unexpressed distaste for Suharto.

[10] This dual function, dwi fungsi, was recognised in legislation passed in 1982 and is acknowledged by the fact that 1/5 of parliamentary seats were reserved for the military until 1995 when this was reduced marginally (Lefier, Ibid., pp. 43-4).

[11] Although the armed forces played a pivotal role in forcing Soaeharto to resign from power this year. Nonetheless the end of Soeharto's presidency revealed deep slplits in the military.

[12] Hence the fear the regime has of political violence since it undermines this appearance of legitimacy, as witnessed during the parliamentary elections of 1996.

[13] For example, see Montagnon, P. "Hyperinflation looms in Indonesia", *Financial Times*, January 23rd 1998, p.4.

[14] This group are sometimes referred to in the literature on Indonesia as the 'Berkeley Group' or 'Berkeley Mafia', since many of these ministers received their doctorates at the University of California at Berkeley during the 950s and 1960s (Winters, Ibid., p.75).
[15] The tax system for example was given a complete overhaul as the proportion of oil revenues to total revenues fell sharply, thereby reducing funds available to the development budget.
[16] For example see Hill, Ibid., pp. 778-9; Bowie and Unger, Ibid., pp. 58-60; Rowen, 1998, pp. 126-135).
[17] The rupiah was devalued by 45% against the dollar.
[18] Between Fiscal Year 1984/85 and Fiscal Year 1992/93 government income form the oil sector fell from over 65% to approximately 30%. Conversely in response to taxation reforms, government income from taxation rose from 30%-62% over the same period.
[19] Which Suharto described as *Indonesia's Second National Awakening* (Embassy of the Republic of Indonesia, Ibid.).
[20] Although first created in 1963, it wasn't until 1967 with the launch of the economic policies of the New Order government that BAPPENAS came to be the preeminent centre for policy-formulation, and the closest equivalent Indonesia has to the Japanese Ministry of International Trade and Industry.
[21] Wardhana was replaced in 1988 by Radius Prawiro who was also a core member of the economic technocrats that became influential in the 1960s.
[22] Soedjono Hoemardani, one of the founding members of the Centre for Strategic and International Studies (for further details see below) and Suharto's personal economic advisor until his death in 1986. (Chalmers & Hadiz, ,Ibid., p.74; Vatikiotis, Ibid., p. 15).
[23] Major-General Ali Moertopo, another of Suharto's Presidential Advisors (ASPRI), played a decisive role in formulating the military and political strategies of the Suharto regime until his death in 1984. (Chalmers & Hadiz, Ibid., p.73; Vatikiotis, Ibid.). Both Soedjono and Moertopo were fellow officers with Suharto during his Central Java command in the 1950s, and both were involved in legal and illegal business activities to provide funds for the Central Java command in its campaign against the Communist Party of Indonesia (Vatikiotis, Ibid., p.15).
[24] Golongan Karya (Functional groups), serves as the political organisation employed to generate electoral support for the Suharto regime. Originally set up in 1964 to counter the growing support for Sukarno's National front in which the Communist Party were significant, the organisation was revived in 1971 to serve as the party machine representing Suharto following the New Order's commitment to constituionalism. However such a commitment only allows the existence of three broad functional groups, Golkar, the Indonesian Democratic Party (PDI) and the United Development Party (PPP) representing Muslim interests as discussed in greater detail earlier.
[25] ABRI, an acronym drawn from Angkatan Bersenjata Republik Indonesia (Armed Forces of the Republic of Indonesia).
[26] Until the 1980s, the Department of Industry supported close regulation of the economy, however since then it has gravitated towards the liberal-oriented policies championed by the technocrats.
[27] BPKM was set up in 1973 as a one stop service for processing foreign investment applications and had strong personal links with the Department of Industry.
[28] For example, in December 1972, the US suspended programme loan eligibility to Indonesia in support of efforts by the IMF to curtail Pertamina's borrowing excesses (Winters, Ibid., p.86).
[29] As a result of Presidential Decree 59, Pertamina was prevented from raising loans between 1-15 years maturity. Loans of less than a year were permitted to allow the company some flexibility for financing working capital, while it was felt that the international markets would be unlikely to provide Pertamina with loans of more than 15 years (Ibid., pp.87-8).
[30] Between 1972 and 1975 Pertamina's short-term debt (less than one year maturity) mushroomed from US$140 million to US$1 billion (Ibid., p.89).
[31] Sadli, an economics Professor, held a number of important ministerial positions in the 1960s and 1970s and had a reputation as a spokesperson for private business.
[32] Soehoed was Minister for Industry in Suharto's Third Development Cabinet (1978-83) and a former director of CSIS.
[33] Including the co-operation of the Inter-Governmental Group on Indonesia (IGGI).

Chapter Four.

Malaysia: Managing foreign capital.

4.1 Introduction

After Thailand, Malaysia was the most successful of the so-called second wave of Newly Industrialising Economies over the past twenty five years. Between 1971 and 1990 growth rates averaged 6.7% per year, a rate that has accelerated during the 1990s with the average growth rate between 1989 and 1997 at 8.8% (DTI, 1997). Practically written off by some observers in the mid 1980s (Robison et al, 1986), the Malaysian economy has been transformed with the share of manufacturing in GDP rising from 14% in 1971 to 32% by 1996 (Economic Planning Unit, 1997). Diversifying away from raw material production and traditional manufactured exports to goods such as semiconductors, disk-drives, telecommunication apparatus, calculators, colour televisions, air-conditioners and AV equipment, Malaysia was in 1995 the 19th leading exporter of world merchandise and according to the 1994 World Competitiveness Report, published by the World Economic Forum in Geneva, Malaysia ranked third among non-OECD countries in terms of international competitiveness after Singapore and Hong Kong (Interview Data, 1995). Among the three economies examined in this thesis Malaysia perhaps more than Thailand or Indonesia, has sought to deliberately emulate the developmental experience of Japan and, among the NIEs, South Korea.

Like the former, under the direction of Prime Minister Mahathir, Malaysia has adopted a notion of *Malaysia Incorporated* , symbolising a commitment to a collaborative relationship between the public and private sector towards long term strategic goals. Like the latter, Malaysia launched a heavy industrialisation import-substitution drive in order to deepen the country's economic structure particularly in automobile production, high technology exports and more recently aerospace.

As noted in chapter one (pp. 44-5), in order to assess whether or not the developmental experiences of Indonesia, Malaysia and Thailand conform to a state-led development paradigm Deans' (1996) five-fold definition of the ideal characteristics of the Capitalist Developmental State in East Asia will be used. Having considered the extent to which Malaysia conforms or deviates from this 'model', the Chapter will examine aspects specific to Malaysia's development and assess the successes, failures and implications of this development.

4.2 The Capitalist Developmental State in Malaysia: The Public-Private distinction.

In his discussion of the public-private distinction in East Asia, Deans makes the argument that two key sources are responsible for a blurred distinction between the public and private sectors resulting in a different political economy to the market-oriented view that is dominant or hegemonic in the west. These two sources are linguistic/cultural on the one hand and historical/institutional on the other (p.82). In particular the latter source is given greater weight to substantiate the view that East Asia's 'Great Transformation' "was different from the western case, because of factors such as imperialism, foreign threat and the vital fact of late development" (p.83). The central theme is that the challenge from the west encouraged a closer relationship between state and capital in order to learn from and catch-up with the western imperial powers. Such goals were seen as absolutely necessary for survival, particularly of Japan, as an independent nation-state.

Unlike Japan, South Korea and Taiwan, Malaysia did not escape domination from the west. Indeed the concept of and existence of modern-day Malaysia is very much a product of the colonial period, given the linguistic and ethnic similarities between Malaysia, Indonesia, Brunei and the Philippines. Furthermore until 1963 Sarawak and North Borneo had been administratively separate from Malaysia, the former under the control of the Brooke family and the latter governed by the British North Borneo Company (both ceded to the British crown in 1946).

The dominant mode of accumulation under British rule had centred around large colonial enterprises, particularly plantations and mining controlled by European agency houses, usually from Singapore. Plantation and mining managers were usually recruited from Europe often with an immigrant labour force. In the case of the plantations this was mainly recruited from South Asia and in the case of mining from China (Kahn, 1996, p.53).

This system,

> shaped social, political and economic relations beyond the boundaries of the plantations and mines themselves.. [F]irst.. the reproduction of the particular labour regime.. was made possible by the relation between agency houses, large foreign-owned corporations and an international colonial political system.. Second the search for even greater areas of land for plantations, mining or speculation led to conflicts over land with established local Malay or immigrant Indonesian communities. The result was the emergence of peasant communities in the interstices of a land-hungry plantation and mining regime; in other words, the emergence of a mass of small-scale, often family based, semi-commercialised farming and fishing enterprises (Kahn, pp. 54-5).

The effect of this, Kahn maintains, was that the colonial system of accumulation had far-reaching impacts beyond merely the plantation and mining sectors. Principal among these was the separation of economic and political power. To date despite two decades of positive discrimination with the Bumiputera first policies of the NEP, Malays continue to dominate the state apparatus while Chinese dominate the commercial and manufacturing sector.

This separation of economic and political power is a direct result of the British practice of 'indirect rule' which "spawned a powerful rentier class" (Lubeck, 1992, p.188). Until 1895 British rule in the Malay peninsular was conducted from the Straits Settlement in Singapore which itself had been a branch of the Indian Imperial government until the transfer to the colonial office in 1867. Between 1867 and 1895 British rule had been extended as clan antagonism between Malay chiefs led to political and economic instability. In order to establish a monopoly of control, the British co-opted Malay rulers that supported the British against those that refused, thus taking maximum advantage from the political instability in the classic tradition of divide and rule. With the establishment of the Federated States of Malaya in 1895 the British set about creating a centralised administration and the trappings of a modern state. This was however "never simply an expression of the interests of foreign capital.. [and] once it was drawn into the process of colonisation the colonial state pursued its own project" (Kahn ibid., p.54). Malay rulers were given salaries and payments in lieu of payments that they once received from traders.

Furthermore the British championed the traditional rule of the Malay aristocracy and the notion of Malay prestige and primacy. As a result Lubeck argues that the Malay aristocracy emerged "from colonialism with the titles and regalia of a non-productive ruling class.. [that had] never felt the competitive pressure nor the financial necessity to pursue commercial and industrial capital accumulation" (ibid.). In fact it was this separation of economic and political power that largely lay behind the ethnic riots of 13 May 1969[1] and the subsequent launching of the New Economic Policy (NEP) in 1971. Despite this for much of the 1970s and early 1980s little seemed to change except a growth in the public sector largely as the vehicle for achieving the greater equity share of the bumiputera. Consequently Malay capitalists relied on the distribution of patronage from the Malay dominated state elite who "aligned themselves with foreign capital in exchange for directorships, Joint Ventures and other.. essentially rentier rewards" (ibid., p.184). Furthermore among domestic private capitalists the practice of *ali-baba-ism* was common with ethnic Malays (ali) being employed as 'frontmen' while the corporate ownership remained firmly in non-Malay, principally Chinese (baba), or foreign hands.

Initially under Mahathir this situation continued, with the government launching a major heavy-industry drive within the public sector not only to deepen Malaysia's industrialisation but to spread bumiputera ownership. In addition a number of banks and holding companies were also established ostensibly to further this purpose. However with the launch of the 'Look East' Policy and 'Vision 2020' the government began to change its position. Furthermore the New Development Policy, which replaced the NEP in 1991, while seeking to continue to increase bumiputera ownership was less precise in how this was to be achieved and refrained from setting specific targets and requirements. In addition the government has pursued a major privatisation policy and rolled back the public sector from a peak of 47% of GNP in 1981 to under 30% today[2].

What we have witnessed in recent years, however, is not simply a more market-oriented economy. While both government ownership and public spending may have been reduced, the government continues to pursue a policy of setting goal-oriented strategic plans. Furthermore the promotion of 'Malaysia Incorporated' can be viewed as a direct attempt to emulate the blurring of public and private in the Japanese political economy by viewing the achievements and aspirations of privately owned and managed enterprises as national achievements.

4.3 State Ideology and paternalist capitalism.

Deans notes that "[a]n important factor in.. state ideology.. has been the role of the Confucian heritage of the developmental states of East Asia" (1996, p.84). Analyses of Confucianism have among many attributes stressed the ethical basis of government; a justification of hierarchical political systems; a stress on respect and loyalty being translated into consensus and conformity; a collective industrial organisation along community/family; and a co-operative relationship between government and business (ibid.). Such values Deans argues have provided a powerful tool for those in authority to 'hijack' symbols of nationalism in order to achieve specific developmental goals. Morishima in a similar vein argues that the Japanese reinterpreted Confucian ethics that had originated in China in order to support the twin goals of industrialisation and political independence (1982, p.3). In Japan this permeates all aspects of society including the educational system that promotes "nationalist doctrines.. [to] keep the Japanese people passive and provide an important social block to labour action" (p.85). Similar pictures are found in all of the Confucian states while in addition in Taiwan and South Korea the existence of rival irredentist regimes has further perpetuated authoritarianism, consensus and anti-labour regimes.

In Malaysia the only external threats came from the brief period of Confrontation (Konfrontasi) with Indonesia[3] and the challenge to Malaysian economic and political dominance from Chinese dominated Singapore. The former challenge was resolved with the overthrow of Sukarno by General Suharto in 1965 while the latter was ultimately dealt with firstly by incorporating the two Borneo states with their majority non-Chinese populations into Malaysia, and eventually by the expulsion of Singapore from the Federation in 1965 following attempts by the Peoples Action Party to contest peninsular Malaysia elections in 1964. Since then the only serious challenge has been from the nation's fragile ethnic mix, particularly from the ethnic Chinese that constitute around a third of the country's population. Although a minority the ethnic Chinese continue to dominate commerce and industry in Malaysia at the expense of the numerically superior Malays, much to the continuing chagrin of the government. UMNO's express purpose in its establishment was for the protection of Malay identity rights in the face of the immigrant threat.

As for the reinterpretation of identity, in Malaysia the ethnic mix of the country means that such attempts are fraught with difficulty. The 1991 national census notes the barest majority of Malays to non-Malays in Malaysia as a whole, 50% Malay, 10.6% other bumiputeras, 28.1% Chinese, 7.9% Indian and Tamil, 3.4% others. In East Malaysia Malays constitute 8.9% of the total population in Sabah and 21.2% in Sarawak. Approximately 58% of the population is Muslim, with 18.4% Buddhist, 8.1% Christian, 6.4% Hindu, 5.3% Confucian, Taoist and other Chinese religions, 3.2% rest (Nair, 1997, pp.18-19). Unlike its Northeast Asian neighbours therefore Malaysia is not, despite the presence of its Chinese minority, in any way a society in which Confucian values can be said to have a role to play in the country's economic development. Indeed commentators including the Prime Minister himself have criticised the lack of a Weberian equivalent of a rational and disciplined approach to work and accumulation. In *The Malay Dilemma* and *The Challenge* Mahathir bemoaned what he perceived as Malay fatalism, a disinclination for competition and a preference for spiritual over material pursuits which in part he attributed to the structurally weak socio-economic position of the Malays.

Lubeck argues that given the ethnic and religious position in Malaysia any such reinterpretation of values must come from a reinterpretation of Islam and its discourse on development. While industrialisation and urbanisation has created a technocratic elite that is critical of the irrationality and corruption in the present system of accumulation, Islam, particularly in rural Malaysia expresses "Malay identity in a manner that has no parallel (Muzaffar, 1987, quoted in Lubeck, 1992, p.191)

Islam and the special position of the Malays are enshrined in the country's constitution and are necessary to the definition of Malay identity and enshrining Malay prerogative. A Malay is defined in the Constitution as one who professes the Muslim religion, habitually speaks Malay, and conforms to Malay custom (Article 160, Clause 2). Furthermore, non-Muslim proselytising among Muslim peoples is forbidden but not the reverse, thus legitimating the promotion of Islam among non-Malays (Nair, 1997, p.21). Such rights and definitions enshrines the special position of the Malays. The protection of Islam and the protection of the Malays constitutes to mediate the political elites operating philosophies, indeed the fundamental basis of UMNO's role as protector of the Malays is enshrined in the party's constitution (Article 4). The problem with this is, as Nair notes that,

> [w]hile Islam is perceived as an integrative instrument in the Malay community, it does not function as an effective symbol of legitimacy for other Malaysians. All symbols of Malay political culture have in fact largely served to reassure Malay dominance but have had alienating effect on Malaysia's non-Malay constituents (Nair, S, 1997, p.9)[4].

Lubeck argued in 1992 that any reinterpretation of the Islamic discourse on development would occur as a result of increasing inequality among Malays and as the effects of corruption and the rentier system of government came under challenge. Indeed this is precisely what has happened although the impetus from change has again come from the Prime Minister, most likely in an effort to co-opt potentially destabilising forces. In *The Malay Dilemma* and *The Challenge*, Mahathir argues that another factor in the lack of success of the Malays is an incorrect interpretation of Islam and their lack of real understanding of their religion (Nair, 1997 p.98). He states that contrary to traditional interpretations of Islam, which are regarded as a cultural hindrance to progress, spiritual values are capable of withstanding the pressure of the material world, maintaining that wealth is not disapproved of and that religious faith is neither weakened nor destroyed by a mastery of science and technology. On the contrary, Mahathir goes further and argues that Islamic ideas would help Muslim societies to hold their own in competition with others and safeguard the Islamic civilisation. What we have seen articulated by the Mahathir administration since 1981, and increasingly in recent years then is the notion of a 'correct' Islam -- namely an interpretation of Islam that sits comfortably alongside Mahathir's vision of Malaysia as a fully developed and industrially dynamic economy.

4.3.1 Mahathir, Industrialisation and 'Correct' Islam.

Under the Mahathir administration a policy of Islamisation was among a litany of new campaigns. However while UMNO had to remain somewhat ambiguous about any overt-Islamisation the Mahathir administration sought to counter the politically vulnerability of the party to the overtly Islamicist Parti Islam SeMalaysia (PAS) and Islamic revivalist movements. During the 1980s Mahathir attempted to achieve this by institutionalising Islam at the national and federal level, and by promoting the religion as one suited to the establishment of the national goal of economic modernisation (Nair, ibid. p.35). The establishment of an Islamic Teachers Training College (1982); an International Islamic University (1983), an Islamic bank (1984); an Islamic Development Foundation (1983) and an Islamic Insurance Company (1985) can all be seen as concessions to Islamicists. In addition there was an expansion of the religious bureaucracy in particular within the Religious Affairs Department of the Prime Minister's department.

A year into his administration Mahathir scored an important coup by co-opting Anwar Ibrahim, the renowned and charismatic president of ABIM[5], and vocal critic of Mahathir's 'Look East' policy, into UMNO. The Look East Policy represented Mahathir's first attempt at singularly changing the work ethics, attitudes and values of all Malaysians and more particularly the Malays. However its implicit emulation of Japanese and Confucian ethics met with resistance from a variety of Muslim quarters including Anwar who warned against foreign dominance and the 'Look East' policy. While Anwar's 'defection' to UMNO effectively signalled the end of ABIM as a political force, resistance from traditionalists continued, reaching a peak with the success of PAS, in alliance with a splinter group of UMNO[6], in general and by-elections elections in the state of Kelantan between 1990-95. PAS's domination of Kelantan resulted in the creation of an exemplary Islamic state including the planned introduction of Shariah law in the State and offered a direct challenge to Mahathir's vision of Malaysia. Arguably in response to traditionalists Mahathir attempted to achieve his earlier goal of changing the work ethic of the Malays by re-modifying and remoulding Islamic values to the twin goal of modernisation and the goal of an advanced industrialised nation[7]. As Nair again comments,

> [t]he Mahathir administration has thus been seriously engaged in enabling if not encouraging the development of a kind-of 'Malay-Islamic' work ethic that might power the spirit and growth of its own definitions of capitalism in Malaysia.. Increasingly the conception of Melayu Baru (new Malay) and its characterisation of the qualities 'necessary' for Malay economic advancement -- corporate attitude and 'achievement' orientation

- are also depicted by the Mahathir Administration as being fully congruent to such 'modernist' imaginings of Islamic values (pp.100-101).

Essentially Mahathir's attempt to define correct Islam or a modernist-Malay-Islamicism compatible with his twin policy of rapid economic development can be viewed as an attempt at emulating or co-opting aspects of Confucian or East Asian values, and it represents precisely the reinterpretation of values that are regarded by Morishima as a prerequisite for national development. Indeed Mahathir himself has listed the six most important societal values of east Asian as: an orderly society; societal harmony; the accountability of public officials; openness to new ideas; freedom of expression and respect for authority (quoted in Freeman, 1996, p.354) values that are little different from those Pye and others associate with Confucianism. Indeed such commonality with Confucian values is illustrated by the Bangkok Declaration in 1992 in which East Asian, West Asian and South Pacific States called for the non-use of human rights as an instrument of political pressure[8] and in a series of outspoken comments by Mahathir and Lee Kwan Yew in the region's press and western journals[9].

4.4 Developmental Legitimacy.

As a result of the ethnic inequalities that culminated in the 1969 riots, Malaysia unlike most of its East Asian counterparts, has pursued *two* overriding policy goals over the past three decades. On the one hand it too has stressed industrial and economic development, but equally as significant for the legitimacy of the

UMNO headed regime, it has pursued a policy of ethnic redistribution. This Bumiputera first policy was introduced as a direct result of the 13 May riots, and was instituted in the New Economic Policy which was launched in 1971. The NEP sought to accelerate the process of restructuring Malaysian society by eliminating the identification of race with economic function. To achieve this goals were set of raising Malay corporate assets from approximately 2% to 30% by 1990[10]. Politically the restructuring aim of the NEP was the legacy of Malay nationalism, itself a product of the colonial discourse of Malay privilege, ensuring that UMNO would continue to be regarded as the guardian of Malay interests. Furthermore the policy led to the emergence of a Malay business elite closely associated with UMNO, and an inflated public sector[11] overwhelmingly dominated by Malays (86%).

The growth of the public sector primarily occurred as a result of the growth in the number and scope of public enterprises and particularly Non Financial Public Enterprises (NFPEs) such as PROTON, HICOM, MAS (the national airline), PETRONAS (the state oil company) and so forth. The growth of public enterprises although reaching its peak by the late 1980s, means that "now public enterprises produce around 40 per cent of Malaysia's non-agricultural GDP" (Kahn, ibid. p.59). In addition to NFPEs the state also created a number of Financial Public Enterprises (FPEs) such as The Bank Bumiputera and a number of trust agencies (e.g. National Equity Corporation, PNB) in order to acquire stakes in a wide variety of enterprises for te purposes of increasing Malay corporate equity (ibid. p.60).

Such activities although ostensibly conducted by the state, have as a result of the dominance of the ruling party, Barisa Nasional, by UMNO given rise to what Kahn terms 'party capitalism' and others (notably critics within Malaysia such as PAS) 'money politics'. Consequently "the rise of Money Politics has resulted in the blurring of State and UMNO business interests and the increasing dominance of UMNO by UMNO associated enterprises in the economy" (ibid.) to such an extent that "there are few other political parties in.. the world which have control over so wide a range of business ventures as do the United Malay Nationalist Organisation" (Gomez, 1990, p.45). While the extent of UMNO's holdings is not in doubt, both authors underestimate the extent to which corporate rivalries within UMNO, undermines the notion of a blurred distinction between UMNO and the State. While there is both an alternative developmental goal, and evidence of patronage and corruption, the situation is far from the cronyism associated with Indonesia and Suharto. Indeed in recent months corporate rivalries have reflected a growing political rift between Dr. Mahathir and Anwar[12].

Nonetheless despite the twin policy of increasing bumiputera equity, the Malaysian state made economic development a cornerstone of economic policy during the past two decades, and particularly since 1981. While the creation of NFPEs was in part designed to increase bumiputera equity and employment, the HICOM projects in particular were intended to diversify the Malaysian economy away from simple assembly in Export Processing Zones, and state involvement and investments were necessary in order to overcome the caution of private investors.

Since 1990-91, the NEP has been replaced by the National Development Policy (NDP) which although still committed to raising bumiputera equity marked a noticeable watering down of the NEP moved much closer to the kind of industrial interventions practised by the East Asian NIEs. The launching of an industrial policy that was much more selective and targeted towards the needs and capabilities of manufacturing activities marked a noticeable change in overall government policy. Since the mid 1980s Mahathir has prioritised economic development much more than his predecessors, as clearly evident in 'Vision 2020' which he announced prior to the 1995 elections.

The victory of UMNO in those elections, with both an increased share of the vote and a larger majority, was seen by political commentators as both a vindication of the project and for the prioritisation of rapid economic development. Consequently in the last decade developmental legitimacy has become more significant to the Barisa Nasional and UMNO's hold on power than at any other period since independence, although this is not to say that the twin task of increasing the equity share of the Malay majority is no longer important.

4.5 Plan Rationality

The fourth aspect of the Developmental State concerns the role of the state in the economy and the manner in which this is institutionalised. As stated in chapter one (pp. 28-29), in plan rational economies the dominant feature of the state is the setting of substantive social and economic goals with a view to transforming the structure of domestic industry in order to enhance the nation's international economic competitiveness.

The setting of such goals however does not imply significant state ownership or levels of public spending. Instead it entails a "negotiated relationship between privately accumulating capitalist firms and target-setting state officials.. that links domestic and export-oriented strategies, so as to increase value-added, raise technical expertise, and maintain global competitiveness" (Lubeck, 1992, p.178). Such a relationship is one in which the state seeks to augment the market in the long term by effectively reducing risks through the provision of cheap loans, tariff and non-tariff protection, and by intervening to ensure specific allocative effects.

Evidence of government planning is plentiful, from short term to long term overall plans for the economy, as well as more specific sectoral plans. Indeed any review of government literature will demonstrate a plethora of strategies aimed at improving the nation's industrial and economic competitiveness. Of these the most important to consider are the rolling five year plans, the long-term strategies, and the more social-oriented plans.

Under the latest of the five year plans, the Seventh Malaysia Plan (1996-2000), the government plans to upgrade the country's technology; boost research, development and education; and aims to improve the country's current account position by the promotion of tourism, shipping, insurance and other services. Its predecessor the Sixth Malaysia Plan (1991-5) was intended to hasten the expansion of the manufacturing sector and the promotion of the efficient use of natural resources. In addition it signalled the beginning of a privatisation programme that both reduced government spending as proportion of GNP, and allowed absolute increases in resources available to the sectors in critical need.

Perhaps the most famous of the long term strategies is the 'Look East' Policy launched within months of Mahathir assuming the premiership in 1981. Although notoriously vague on specific details, the policy reflected Mahathir's personal admiration for the achievements of the Japanese economy. After early confusion, the 'Look East' policy was eventually defined by Mahathir as a campaign to boost the productivity of Malaysian labour by adopting Japanese work ethics and by incorporating modes of labour organisation associated with the Japanese -- e.g. quality circles; Just in Time methods of production etc. Other policy initiatives associated with the 'Look East' policy included the preference during the 1980s for heavy industry projects such as the PROTON national car project (discussed in greater detail in chapter six, pp. 261-264); the award of major construction contracts to Japanese and Korean conglomerates; and the development of co-operative consultancy forums for public-private sector relations. In the mid 1980s support for the policy became more mooted due to criticism from conservatives and traditionalists within UMNO as well as from Muslim groups. However, the surge in foreign investment from Japan that followed the appreciation of the Japanese yen after the Plaza Accord, was widely perceived as a vindication of the 'Look East' Policy.

More recently the second major long-term strategy initiated by Mahathir has been 'Vision 2020'. Launched in 1995 prior to the elections, 'Vison 2020' effectively provides Mahathir's own personal blueprint for Malaysia over the next 25 years. The plan calls for Malaysia to become a fully developed and industrialised nation by the year 2020 targeting aerospace, advanced materials industries, microelectronics, automated manufacturing technology, biotechnology and information technology as the industrial sectors to be promoted in order to achieve the plans objectives[13]. In particular 'Vision 2020' stresses the need to improve the human skills of the country's workforce in science, technology and IT. Interestingly 'Vision 2020' calls for Malaysia to become the role model for other developing economies to emulate and stresses emulating the success of not just Japan but all industrialised economies. In line with both earlier and existing plans the Malaysian government amended taxation laws and incentives to foreign investors in an attempt to encourage investment in those sectors it has specified for development, and to dissuade investment in areas that it considers inappropriate, such as basic assembly and textiles/garment production.

The intermediate plans are designed to run in tandem with both the five year plans and the general thrust of the longer term 'Look East' and 'Vision 2020' plans. Of these the most significant have been the Industrial Master Plan and the Outline Perspective Plan (1991-2000). The more socially-oriented plans principally include the National Economic Policy (NEP) launched in 1971 and discussed above, and its successor the National Development Policy (NDP, 1991-2000). As mentioned above the National Development Policy while continuing to emphasise to eradicate poverty and ensure a more equitable ethnic distribution of wealth did not set numerical targets for bumiputera equity ownership. Nonetheless in encouraging the strengthening of the capacity of the bumiputers to manage and operate their own businesses it continues to work towards greater bumiputera participation in Malaysia's commercial and industrial sectors. Indeed the persistence of policies ensuring Malay dominance and privilege stand as testimony to the fact that economic development alone is not sufficient to ensure political legitimacy in Malaysia.

Critics of Malaysia's economic development stress that while the Malaysian government has officially sought to create a 'market augmenting' relationship between state officials and business elites, in practice the government's success has been mixed. Unlike in those economies that purportedly provide the developmental state model, the Malaysian economy is one in which government expenditure and intervention have been more comparable until recently with Western Europe[14]. While industrial policy is important, the Malaysian political economist K.S. Jomo felt that the government was trying to impose a Korean-style of planning on a country whose industrial structure bore a closer resemblance to Singapore. Unlike South Korea with its prevalence of strong national conglomerates, *the chaebol*, the Malaysian economy with a few exceptions is marked by a preponderance of foreign multinationals. Consequently Jomo argued that although such planning is successful in certain areas, across the economy as a whole it is the wrong approach to be taking.

For example, details of Malaysia's capital structure by industry of companies in production reveal that as of December 31st 1993, 44% of the paid-up capital came from foreign sources with a further 14% from Chinese capital in Malaysia (MIDA, 1995). If we break this down by sector it some becomes obvious that the most dynamic areas of the Malaysian economy are even *more* reliant on foreign capital than the economy as a whole. In the single largest manufacturing sector, electrical and electronics, foreign capital represents over 86% of total paid-up capital (MIDA, 1995). Consequently not only does Jomo's remark seems particularly apt, but such figures reveal a stark dependency. While the Malaysian government may have grand designs about the direction it wished to see its economy take, foreign investment attracted by sweeteners and monetary and fiscal incentives is far less easy to manage and manipulate in accordance with economic strategies than domestic capital.

4.6 Autonomous Economic Technocracy.

In the literature on the Capitalist Developmental State it is the role of the technocracy that has drawn greatest attention. From Johnson's famous study of the role of MITI in Japan (1982) to Wade's analysis of the role of policy-making agencies in Korea (1990), nearly all studies of the CDS in East Asia stress the importance of "a technocratic elite, typically an economic bureaucracy, that is both skilled and committed to the task of economic reform"(Deans, 1996, p.92). In addition, "[t]he key to success of this group is their commitment to national goals rather than self-aggrandisement and their relative autonomy from powerful interest groups within the state" (ibid., p.93).

The degree of 'guidance' from such a technocratic elite obviously varies depending upon the strength of corporate and other interest groups in the various states in question. Thus in Korea the technocracy has pursued strategies centred on the chaebol conglomerates while in Taiwan policies were directed toward family-centred firms (Deyo, 1987). However while the 'form' and 'target' of such direction may vary somewhat, "the essential characteristic of the NIC model rests upon the negotiated relationship between privately accumulating capitalist firms and target-setting officials" (Lubeck, 1992, p.178). Consequently in order to assess the extent to which an autonomous economic technocracy exists and functions effectively in Malaysia, Malaysian "industrial policy must be judged by whether state and business elites, do, in fact, institutionalise market augmenting policies" (ibid.).

Rhetorically, at least Malaysia's industrial policy and bureaucracy is committed to the practice of administrative guidance associated with the East Asian NIEs. The implementation of "Malaysia Incorporated", the "Look East" industrial policies and "Vision 2020" (as discussed earlier) are all littered with the terminology of encouraging a more co-operative and complementary business-government relationship. The principal agency credited with this task is the Malaysian Industrial Development Authority (MIDA). Created in late 1960s MIDA was given the task of encouraging the promotion of exports and in particular of targeting industrial sectors for promotion and assistance. For example, MIDA is credited with spotting the opportunity to target US electronics MNCs in order to develop the semiconductor industry and in recent years for adopting a more coherent and systematic analysis of the needs of Malaysian manufacturing industry (Interview Data). Additionally, its increased use of incentives to guide foreign investment into higher value added industrial sectors has also been applauded by some commentators (e.g. see Lall, 1995).

To further enhance the effectiveness of the economic bureaucracy in delivering administrative guidance during the 1980s and 1990s, the Malaysian government has encouraged greater public-private consultation in organisation such as the Malaysian Business Council, The Malaysian International Chamber of Commerce and Industry, The Federation of Malaysian Manufacturers and the National Chamber of Commerce and Industry. In addition MIDA now has offices in over 15 countries world-wide including three in the United States and two in Japan.

Futhermore, in 1996 MIDA established an International Procurements Office in Osaka in order to encourage Japanese sub-contractors to relocate to Malaysia (Interview Data).

Critics however stress that while agencies like MIDA may exist, overall the authority of the technocratic elite is fragmented among too many competing agencies. In addition to MIDA, other important policy-making bodies include: the Ministry of International Trade and Industry (MITI), the Economic Planning Unit, PETRONAS, HICOM, state development corporations (such as the Penang Development Corporation) and in particular the Prime Ministers Office. MIDA for example while having autonomy from MITI is ultimately responsible to MITI and the Minister for Trade and Industry (Interview data, March 1996). Such fragmentation obviously hinders attempts to pursue and implement rational, market-augmenting strategies.

However, the most important obstacle to the technocracy's autonomy and effectiveness must be the extent to which the political elite dominates the decision-making process and frequently interferes with the industrial policy (Lubeck, 1992). As noted in the section on developmental legitimacy, parallel to the government's pursuit of economic growth is the goal of increasing the equity share of the bumiputera majority, consequently, "the necessary consultation between state and business is neglected in favour of inter-ethnic political bargaining" (ibid. p.181).

Such bargaining has resulted in recent years in corruption becoming a major feature and problem for the Malaysian government. As noted earlier, the growth of so-called 'money politics', "a range of practices whereby the benefits of State economic sponsorship and protection are channelled to individuals, groups and private companies associated with the ruling political parties, in particular UMNO" (Kahn, 1996, p.60) clearly runs contrary to the required rationality of an autonomous economic technocracy.

Widespread government and UMNO "involvement in business, direct or indirect, has evolved into a complex web which, however difficult to untangle, much less to quantify, has become a critical dimension of Malaysian political economy" (ibid., p.61). While generating strong criticism from rival political forces, UMNO's status as a major business enterprise has also heightened internal competition within UMNO, as control of the party now implies higher financial stakes. Money politics not only benefits certain businesses (particularly Malay controlled ones), but also, it is alleged, provides special access to contacts, and ensures a steady flow of funds into UMNO party accounts.

Since becoming Prime Minister in 1981, Dr Mohammad Mahathir has played a major role in formulating and overseeing Malaysia's economic development. Indeed, any discussion of Malaysia's development that did not discuss the role played by Mahathir would be incomplete since much of the direction that the country has taken over the past two decades can be personally attributed to this often outspoken figure. Principal among these must be the 'Look East' policy initiative launched within a year of Mahathir assuming the premiership.

The 'Look East' policy reflected Mahathir's personal admiration of Japan's extraordinary economic achievements since 1945, achievements that he very much sought Malaysia to emulate. In his own words,

> Japan's disciplined determination lifted her from the abyss and made her the economic power she is today... What.. [the Look East policy] means is that we must learn the reason and the factors for Japan's success in modernisation: a good work ethic, social consciousness, honesty and discipline, a strong sense of social purpose and community orientation, good management techniques and aggressive salesmanship (quoted in Jomo, K.S., 1993, p. 22)

A whole host of initiatives and projects have been linked to the 'Look East' policy, including the emphasis during the early 1980s on heavy industries and the preference for turnkey projects, the PROTON national car project (discussed in more detail in chapter six (pp. 261-264), the award of major construction contracts to Japanese and South Korean companies, and the encouragement of more co-operative and consultative relations between government and business.

Reflecting his own personal 'vision' of what the 'Look East' policy required, Mahathir has intervened directly in policy formation and implementation. Among his first measures as Prime Minister, Mahathir transferred overall control of

HICOM (Heavy Industries Corporation of Malaysia), the government owned holding firm charged with deepening Malaysia's industrial base, into his own Prime Ministerial Department in an act that was indicative of future developments. The national car projects, discussed in chapter six, are credited by Malaysianists such as Jomo and Machado, as being the brainchild of Mahathir himself. By way of an indication, when still Deputy Prime Minister in 1980 Mahathir ordered MIDA to carry out a feasibility study for a made-in-Malaysia car, and in 1981 embarked on a personal visit to the president of Mitsubishi Corporation in Tokyo, Mimura, where a verbal agreement was reached that Mitsubishi would be the joint venture partner (Jomo, 1994, p.268). According to accounts by Jomo (1983) work had already begun on the project before Mahathir had received Cabinet approval in December 1982 -- Mitsubishi having sent a clay model of the PROTON Saga to Kuala Lumpur for Mahathir's personal approval. Similarly, in 1992 Mahathir personally intervened in the negotiations over the formation of the second national car project, the Perouda Kancil, criticising the Malaysian side for insisting on Malaysian management control warning that, "excluding Japanese management may bring losses, as experienced during the early years by PROTON" (cited in Machado, 1996, p.311).

Such interventions have undermined the autonomy of the economic bureaucracy by effectively giving the Prime Minister the ultimate veto over policy-making. For example while the PROTON project may have finally begun to develop along the lines originally envisaged, critics argue that the government undermined its bargaining position with Mitsubishi Motor Corporation because no contacts were made with other foreign or local automobile corporations "thus privileging Mitsubishi without any semblance of competitive bidding" (Jomo, 1994, p.269). As Jomo continues this situation arose because, "[b]y all accounts Mahathir seemed to believe that Mitsubishi was the best of the Japanese automakers when it came to understanding Malaysian national ambitions, or at least, his desires" (interview, March 1996). The extent of such centralisation of decision-making in the Prime Ministerial Department is reflected by comments from the former PROTON chief executive Wan Nik Ismail concerning recruitment policy. Reflecting on why unemployed non-Malay veteran workers from other auto assemblers were not recruited to PROTON, whose personnel although overwhelmingly Malay were comparatively inexperienced, Ismail commented, "if we wanted to employ such 'veterans' we would have to get permission from the PM's Department" (*Business Times*, 19 July 1986).

The effect of such an interventionary role by the Prime Minister has had mixed results. While it may have speeded up protracted negotiations between Malaysian negotiators and Japanese JV partners, it has also had the effect on a number of occasions of weakening the hand of the Malaysian negotiators, resulting in deals that later have emerged as unsatisfactory. Similarly the growth of 'Money Politics' and internal competition within the ruing party UMNO *undermines* the effectiveness of policy-making towards truly national developmental goals. From this examination of the economic bureaucracy in Malaysia it is my contention that it is very different from the autonomous technocracy identified in Japan and NIEs.

If in Japan, as Johnson commented, "the politicians reign while the bureaucrats rule" in Malaysia, the politicians (and particularly UMNO) rule *and* reign.

4.7 Managing Foreign Capital

Since the 1980s Malaysia has become more import and export *dependent* on Japan after trying to reduce its dependency on Britain and the European Union. Japan absorbs between 16-25% of Malaysia's exports while about 20% of Malaysia's imports originate from Japan. While this picture at first glance appears relatively balanced, Malaysia's exports to Japan constitute only 3% of Japan's total imports, thus it is clear that the trading relationship is far from interdependent. Equally the quality of Malaysia's exports to Japan in terms of value added is low. Japan's principal imports from Malaysia *remain* along the pattern of exports commonly associated with the developing world, namely raw materials and fuels, including: rubber, timer, sawn logs and petroleum. In addition Japan imports close to 100% of Malaysia's exports of Liquified Natural Gas. In contrast 90% of Malaysia's imports from Japan are capital goods, principally intermediate goods, machinery and transport equipment, consistent with arguments made by Cardoso and Faletto about the difficulties of developing countries in moving into the production of the means of production (1979, pp 172-4).

Linked to the question of the quantity of capital goods imported from Japan is the question of technology transfer. Indeed technology transfer is viewed as critical to the Malaysian government's desire to become a fully industrialised and developed economy by the year 2020. Indeed as interview data revealed it also remains the source of greatest friction between the Malaysian government and Japanese business.

The frustration of Malaysian government officials at the pace of technology transfer is also borne out by survey findings from Japanese sources. The 1992 JETRO Survey (The activities of Japanese Manufacturing Companies in NIES, ASEAN - Malaysia) for example revealed that approximately 70% of Japanese companies that invested in Malaysia still depended on *imported* materials. Furthermore among those that relied on local sourcing many had requested their Japanese subcontractors invest in Malaysia in order to retain their contracts. This trend has been accentuated by the two periods of Enkada. Hence, several subcontractors *still* supply the *same* components to the *same* principal (Anzawa, 1996, p.94). Such conclusions match those made by Bernard and Ravenhill (1995), in their analysis of regionalization of industrial activity in East Asia (e.g. pp.179-80, p.187).

Similarly most foreign-owned firms, particularly Japanese MNCs do not view technology transfer as a priority in choosing to locate their manufacturing facilities in Malaysia. Indeed motivations cited for investment in Malaysia range from attractive incentives (64.4% of Japanese firms), political and social stability (72.3%) and cheap labour (52.5%). Furthermore much of this relocation was initiated for re-export as only 33.2% of 202 firms involved in manufacturing cited access to local markets as their motivation for investment. (Anzawa, ibid.)

When technology transfer does occur, it is normally between the principal investor and its subsidiary or affiliate in Malaysia. This ensures that technology transfer is effectively internalised within the global production system of the transnational firm within which transfer pricing can be used to further undermine benefits that may be accrued from the transfer in the first place. The reluctance to transfer technology is also evident with research and development activities, few foreign firms have showed much desire to allocate funds for R & D to their overseas offices since most of these activities are generally controlled by the Head office in the industrialised countries[15]. By way of an attempt to remedy this latter situation, the Malaysian government echoing earlier attempts by Singapore, has produced guidelines and incentives for the establishment of Representative Offices and Operational Headquarters (MITI-MICCI, 1995). Alongside this are comprehensive and specific incentives to promote greater private sector participation in Reasearch and Development Activities (MITI, 1996. See Figure 1).

Nonetheless the result of the reluctance by foreign firms to transfer technology and R&D activities to Malaysia is that it,

> creates an industrial structure which leaves domestic entrepeneurship in areas such as services, including finance, trading and small-scale manufacturing utilising low-level technologies which contribute little towards a more independent industrialising process (Ali, 1996, p.109).

This in turn is compounded by the fact that the influx of foreign direct investment ultimately heightens the pressure on domestic capital, crowding out those firms that are weak and less competitive than their foreign rivals. None of this is particularly a new phenomenon, indeed the tendency of foreign capital to have such effects was a noticeable feature of the work of some of the dependency theorists and critics of MNCs such as Barnet and Muller (1974), and Vernon (1971).

4.8 Conclusions

Malaysia's economic performance over the past three decades has without doubt been impressive. The country's export composition has moved away from the traditional exports of raw materials and processed goods (although export earnings from rubber, tin and palm oil remain important) to become increasingly dominated by manufactured goods, of which two thirds are electrical and electronics goods. Government industrial policy has clearly become more targeted and now approximates to the industrial policy of Japan and the NIEs much more closely. Selective interventions, the use of incentives to attract foreign capital and a second round of import substitution industrialisation have all paid dividends to a greater or lesser degree. As a result of the first two policies, Foreign Direct Investment in manufacturing after falling from RM 17, 629 million in 1990 to just over RM 9,000 million in 1995 rose again to just over RM 15,000 million in 1996; while the latter ultimately gave rise to a an automotive industry that now exports to over 28 countries including the united Kingdom, Germany, Singapore and Australia.

Nonetheless as this Chapter has demonstrated while the Malaysian government may have sought to emulate the experience of Japan and the NIEs, it is far from clear that this has approximated to the Capitalist Developmental State. Malaysia's ethnic mix has ensured that development has not been the only or even on occasions the major source of legitimacy and overriding goal of government policy. Furthermore while one of the successes of the NEP and of the country's rapid growth rates has been the "creation of a Malay, technocratic, professional and managerial class" (Lubeck, 1996, p.194), its autonomy and effectiveness have been *undermined* by the political dominance of the decision-making process by the Prime Ministers department and competition within the ruling party UMNO. While corruption may not be as endemic as in Indonesia, 'money politics' has resulted in the growth of a rentier class that owes its position to the spoils of patronage. Nonethless this in itself can be said to be a legacy of the British colonial period.

As noted earlier in this chapter, the Malaysian government has pursued two goals concomitantly: economic development, and ethnic redistribution. The latter social goal embodied in both the New Economic Policy and its successor the New Development Policy sought to 'eradicate poverty.. [and] eliminate the identification of race with economic function' (Malaysia, 1971). The NEP was a direct response to the race riots of 1969 that reflected Malay opposition to the dominance of commercial activity by the Chinese community and the disparity of income that existed between the Malays and non-Malay ethnic groups. As detailed above the NEP set a goals of raising Malay corporate assets from approximately 2% to 30% by 1990. Although not as successful as originally envisaged, the NEP had resulted by 1990 in an increase in Malay corporate assets to approximately 20% (Stafford, 1998).

Economic difficulties during the mid 1980s led to a wave of protests by the Chinese business community to reduce some of the restrictions that the NEP imposed. The government subsequently toned down the NEP and abandoned the goal of setting an equity share in the NDP which was launched in 1990. In addition it relaxed the Industrial Coordination Act of 1975 by which the government could force foreign and domestic busineeses with RM 250,000 or 25 employees. Although not abandoned, the restrictions were raised to RM 2.5 million and 75 employees thereby enabling many Chinese and foreign companies to avoid it (Stafford, 1998). Unlike in neighbouring Indonesia there has not been any recurrence of the ethnic tension of 1969, and although the NEP fell short of its overall goals the extent of corporate restructuring that it engendered means that for the most part it can be considered a success (Interview Data).

Finally, and of greatest concern for Malaysian policy-makers is the problem of *continuing dependency* on foreign technology, skills and management techniques. While this dependency is not the static kind associated with the dependency analyses of the 1970s, it raises serious questions about future developments. As we shall see in chapter six some progress has been made in the automotive industry in increasing the bargaining power of the government by seeking to play off multinationals against each other (pp. 258-265 and p.275), and by the purchase of controlling stakes in foreign companies with access to desired technologies (p. 279). However elsewhere in the Malaysian economy their remain serious bottlenecks. In the Export Processing Zones (Free Trade Zones as they are called in Malaysia), for example, local content in electronics and electrical sector remains appallingly low (see Abbott, 1997). The ILO estimated in 1993 that in the Free Trade Zones only about 2.2% of the raw material requirements were purchased from local sources, with the rest from either foreign firms in the zones (35%) or from outside the country (61%). Related to this, MNCs continue to dominate Malaysian exports, which themselves are conspicuous by their concentration in a few manufactured goods. In 1990 the top five products accounted for nearly 60% of total exports.

To its credit the Malaysian government through the selective employment of incentives is trying to rectify this situation and some foreign producers (notably INTEL) have begun their own Vendor Development Programmes. Incentives alone will not provide the solution however, since most firms cite the inability of indigenous firms to provide low-cost intermediate goods of sufficient quality. Ultimately Malaysia' economic development represents a form of *managed* dependency which has had some success. The problem, however, is that in relying on foreign capital, technology and skills, to the extent that they have, there is a limit to what the government can achieve in its industrial policy alone. Exogenous factors play equally as important a role, as clearly seen by the influx of FDI following the appreciation of the Yen after the Plaza accord. The danger for the future is as Lall notes, not that foreign corporations will "relocate there existing facilities.. [but] that over the longer term their new investments in higher technology activities would concentrate on other locations" (1995, p.770) particularly in countries such as China and India that can offer low wages, huge domestic markets and a larger base of skills.

Figure 1: Summary of R&D Incentives.

Incentive	**Basic Requirements**	**Application**
Double deductions on revenue expenditure for approved research projects	Research projects must be approved by the Minister of Finance	application to be submitted to the Malaysian Industrial Development Authority (MIDA)
Double deductions on cash contribution on approved research institutes	research institutes must have the approval status granted by the Minister of Finance	Claim to be submitted to Inland revenue Department (IRD)
Double deductions on payments for the use of the service of R&D centres	R&D centres include approved research institutes, approved research company, Contract R&D company and R&D company.	Claim to be submitted to IRD
Pioneer Status in the form of full tax exemption for 5 years OR Investment Tax allowance of 100% on capital expenditure incurred within 10 years for Contract R&D companies. Abatement is restricted to 70% of the statutory income.	Company carrying out research and development services in Malaysia only for companies other than its related companies.	Application to be submitted to MIDA
Investment Tax allowance of 100% on capital expenditure incurred within 10 years for R&D companies. Abatement is restricted to 70% of statutory income.	Company carrying out research and development services in Malaysia only for companies and any other companies.	Application to be submitted to MIDA
Investment Tax allowance of 50% incurred within 10 years for in-house R&D. Abatement is restricted to 70% of statutory income.	Company carrying out research and development in Malaysia for its own business.	Application to be submitted to MIDA
Full exemption of import duty, sales tax and excise duty on machinery/materials used for R&D.	Machinery/equipment, materials, raw materials/component parts and samples used for R&D purposes.	Application to be submitted to MIDA
Capital Allowance on plant and machinery for R&D.	Capital expenditure incurred in the provision of plant and machinery used for R&D purposes.	Claim to be submitted to IRD
Industrial building allowance on the construction or purchase of building for R&D	Expenditure incurred in the construction or purchase of buildings used for R&D purposes.	Claim to be submitted to IRD

Source: *Ministry of International Trade and Industry Malaysia, 1996.*

[1] The worst excesses of communal violence erupted on 13 May 1969 in Kuala Lumpur. Racial tension had been a striking feature of the election that had been held on May 9th and in which the ruling Alliance Party faired badly. In particular the Chinese component of the alliance the Malaysian Chinese Association lost 14 out of 27 seats, while in terms of votes rather than seats, the United Malay National Organisation lost a significant number of votes to its principal Malay opponent the Parti IslamSe-Malaysia. Tensions came to a head in Selangor where the election produced a dead heat and no-Malay opposition party supporters held a celebratory procession. A rival counter-victory procession was organised by Selangor UMNO and riots broke out in which 196 were killed. As a result of the violence, parliamentary democracy was suspended until January 1961 and the government was placed under a temporary National Operations Council. Although the domestic political system of Malaysia has formally functioned on the basis of pluralism in practice it has functioned through Malay prerogative. The erosion of and challenge to this prerogative in 1969 was followed by a reordering of the political economy to Malay advantage.

[2] An exact figure of spending as a propotion of GNP is difficult to be precise about, as public spending is broken down into Federal government expenditure, states expenditure and Development Expenditure. If we take to former and latter then in 1990 total spending was 31.3%, and 25.0% in 1995 (Source, 7th Malaysia Plan Report, *The Star* (special focus), May 7th 1996).

[3] Konfrontasi refers to the period 1963-7 in which Indonesia led by President Sukarno registered a militant stance towards the establishment of the Federation of Malaysia incorporating former British North Borneo and Sarawak. It involved coercive diplomacy and all military measures falling just short of war, including border incursions. As a result of the Konfrontasi Britain honured its defence commitment to Malaysia and consequently deterred and thwarted such tactics. After General Suharto became President normal diplomatic relations resumed between the two countries. (Leifer, 1995, p.89).

[4] To allay non-Malay fears about the growing institutionalisation of Islamic values, Mahathir has in the mid 1990s called for a wider debate and discussion of the country's future and articulated the notion of a Bangsa Malaysia (Malaysian race) as a national culture (Nair, 1997, p.47).

[5] Islamic Youth Movement of Malaysia -- the vehicle for Islamic revival on the campus of the University of Malaya. Anwar has since become Mahathir's deputy, and likely successor.

[6] In 1988 Semangat '46 (The Spirit of 1946) was formed by the former Minister of Trade and Industry, Tengku Razaleigh Hamzah and former Deputy Prime Minister Datuk Musa Hitam and 12 of his supporters. Although claiming to be the authentic legatee of UMNO's political values and traditions, the party's formation probably represented more accurately personal rivalry between Mahathir and Tengku. In 1989 it entered into a election pact with PAS but failed to seriously affect Mahathir's hold on power within UMNO.

[7] Reinterpretations of Islam are not unique to Malaysia, as Lubeck notes it is, "already a major intellectual industry among the world's Muslims" (p.193).

[8] The declaration takes the view that the universal human rights enshrined in the UNDHR have a distinct Western cultural bias and are therefore not applicable to Asian cultures.

[9] For example see Mahathir (1994) and Zakaria (1994)

[10] In actual fact the NEP failed to meet the targets it set. By 1990 Malay corporate assets were estimated to only have reached 20.3%.

[11] According to Kahn (1996), by 1987, 14% of the workforce was employed by the public sector (p.59)

[12] Reports that Renong (associated with UMNO Treasurer Daim Zainuddin a close Mahathir confidant), has come up with a proposal to build a high-speed train line between Kuala Lumpur and Singapore clashes directly with similar plans by DRB-Hicom (seen as being more closely linked with individuals associated with Anwar). In addition, the finance ministry recently refused to provide financial guarantees to Ekran, the company responsible for the construction of the massive Bakun Dam. Anwar has never really embraced the project, and it is not hard to conclude from this decision that the finance minister is determined to make things as difficult for Ekran as possible, despite the fact that the Bakun Dam is one of Mahathir's pet projects.

[13] It is no surprise then that since 1995 the government has launched a number of high profile developments to visibly demonstrate its commitment to Vision 2020. Among these most notable are the completed Petronas Towers (now the tallest building in the world), the Light Rapid Transfer system in Kuala Lumpur, the construction of a purpose built administrative capital in Putra Jaya alongside a new international airport and Mahthir's current pet project the Multimedia Super Corridor project.

[14] In the sense that a) government spending as a proportion of GDP tended to be more comparable to the percentages associated with the welfare states of Britain, France and Germany rather than the low spending economies of Japan, Singapore, Taiwan and Thailand, and b) the government provided substantial subsidies to public sector industries for political rather than overtly strategic

reasons. In Malaysia one refers to the desire to increase Malay corporate equity and promote industries regarded as symbolising modernity -- petrochemicals, automobile production etc.

[15] This situation is exacerbated by the lack of technically experienced scientists and engineers in Malayisa.

Chapter Five:

Thailand: From a bureaucratic polity to the politics of corruption.

5.1 Introduction

Throughout the late 1980s and early 1990s Thailand was Asia's rising star. Talk of a fifth tiger and the cherished Newly Industrialising Country status abounded (Krongkaew, 1995, Hewison, 1996)[1], and economic growth averaged close to double digit figures (See Table 1). Over the period 1985-1991 Thailand doubled its share of world export trade rising from 44th position among the world's trading nations to 34th in 1987 and 28th in 1991. Along with such growth came the tell-tale sign of deepening industrialisation, the growth of manufactured exports as a proportion of total exports. While in 1960 manufactured products had been less than 2% of the value of total exports, by 1980 they had risen to 32.3%, and by 1992, 77.8%. In addition the range of goods exported diversified away from traditional raw material/agricultural industries (see Table two).

Table 1: Thailand's Economic Growth 1981-1996

Year	GDP Growth (%)	GDP/capita (000 baht)
1981	6.3	15.7
1982	4.1	16.6
1983	7.3	18.2
1984	7.1	19.0
1985	3.5	19.3
1986	4.9	20.4
1987	9.5	23.0
1988	13.2	27.2
1989	12.2	33.2
1990	11.6	38.6
1991	8.1	43.3
1992	7.6	47.4
1993	7.5	47.7
1994	8.0	--
1995	8.6	--
1996	6.7e	--

Source: Falkus, 1995, Business Monitor International, 1997, Department of Trade and Industry, 1997. e = estimated.

Table 2: Leading Exports 1991 (million baht)

Export	Value
Garments	86.7
Computers and parts	46.6
Gems and Jewellery	35.6
Rice	30.5
Frozen Prawns	26.6
Integrated circuits	25.8
Canned Seafood	25.6

Source: Bank Of Thailand

Historically Thailand is unique among South East Asian states and among developing world countries more generally in that it escaped colonisation by the judicious playing off of colonial powers. As Kulick and Wilson comment,

> the primary reason for Thailand to be singled out... is the fact that it escaped the debilitating effects of colonialism.. in never having suffered colonial rule by another country, never having seen violent revolution.. and never having been occupied by foreign armies... [w]esternization and modernization were taken on board voluntarily, with no loss of self-confidence.. it [Thailand] stands as a case study of what might have happened without colonialism, a pointer to the 'Asia that might have been' (1994, pp. 5-6).

In the same way that Thailand maintained its independence by effectively acting as a buffer between British Burma and French Indochina, after World War Two Thailand found itself favoured by its importance in geopolitical framework of the Cold War. As was noted in chapter two many of the early infrastructural developments in Thailand came about either directly or indirectly from US economic and military aid, providing the country with an important foundation for future rapid development with the culmination of US involvement in Vietnam.

Although there is always a danger with cultural generalisations, some commentators have argued that "another reason for Thai success can be found in Buddhism" (Kulick and Wilson, 1994, p.5). Buddhism's stress on tolerance, conciliation and compromise, and on the salvation of the individual, is regarded as providing key attributes for the development of modern rational political economy. While such claims can be contested, it is the case that the stress on tolerance in Thailand has resulted in the "almost trouble-free assimilation in this century of several million Chinese"(ibid., p.4) a situation in stark contrast with that found in Malaysia and Indonesia (see chapters three and four for details). Although the most important immigrant group in Thailand is, as in her two Southeast Asian neighbours, the Chinese[2], religion (Buddhism), social customs (alcohol consumption and gambling) and culinary habits (pork-eating) have not created any cultural distinction from the Thai community. Nonetheless as elsewhere, the Sino-Thai community dominates domestic commercial and manufacturing investment. Some estimates put the figure as high as 90%. While no-one can completely dismiss the future possibility of any ethnic backlash should circumstances arise, it is extremely unlikely. For example, key Thai political figures such as Chatichai Choonhavan[3] have openly acknowledged their Chinese ancestry.

Although such features alone already illustrate that their are historical and cultural specific factors in Thailand's economic development, this chapter will examine the specific features of the Capitalist Developmental State in Thailand in order to make the argument that Thailand least approximates to the state-led model of development associated with Japan and the Northeast Asian NIEs. Furthermore, although far more liberalised and market-driven, neither does Thailand's developmental experience suggest that Thailand has succeeded by leaving the market to its own devices as neo-liberals would maintain (e.g. World Bank, 1993).

5.2 Aspects of The Capitalist Developmental State in Thailand

Hewison (1989), characterises three distinct phases of capitalist development in Thailand this century. The first phase, under the absolute monarchy, saw the emergence of a capitalist class from the royal family and aristocracy, chinese and european traders, and from those who worked as tax agents of the administration. The second phase saw a range of chinese and Sino-Thai tycoons emerge from the ranks of petty traders and the labouring classes, especially after World War Two, to take control of the country's economy. A large proportion of the initial wealth of this class came from financing trade and they enjoyed their hey-day during the 1960s when Sino-Thai conglomerates were established, often based around a bank, in manufacturing and agro-industry. The final phase, beginning in the 1970s sees the emergence of a new generation of capitalists. This 'new generation' emerged as a result of the country's rapid economic growth, and moved increasingly from domestic construction deals and stock manipulation into high technology and higher-value added manufacturing.

For the most part this Chapter concentrates on the latter of these phases, both in its analysis of whether Thailand conforms to a model of the Capitalist Developmental State, and in the empirical data it draws upon to assess the success or failure of such state-led development. The sections that follow, as in chapters three and four, correspond to the five fold definition of the Capitalist Developmental State put forward by Deans (1996) and discussed in chapter one (pp. 26-36).

5.2.1 Public-Private Distinction

Thailand's contact with the West and its eventual incorporation into the world economic system did not really begin until the 1840s, with the watershed regarded as the 1855 trade treaty between Britain and Thailand -- The Bowring Treaty. Prior to this the Thai economy was dominated by the production of use-values, products necessary for subsistence and the reproduction of society. Within the so-called *Sakinda* society land was subject to 'private possession' thus constituting the embryonic private realm, however, "although the king had rights over all the land in his kingdom.. his subjects could also take up land" (Hewison, 1989, p.34). Thus, like in many pre-industrial societies the nobility dominated, taking large tracts of land and holding them as estates, although "[t]he peasantry often laboured on land they possessed" (ibid.). In many ways then, the Sakinda system shared features with the european experience of feudalism although in the case of Thailand society was formally demarcated into only two basic classes, *phrai* or *that* (commoners) and *nai* (the ruling class). In addition a large proportion of the non-Chinese population was subject to differing kinds of servitude (ibid.).

Creating social cohesion both within the two classes and between them, the King and aristocracy relied on "a belief system that drew heavily on animism, Hinduism and especially Buddhism" (ibid.). Bellah (1957, cited in Deans, 1996, p.82) argued that, "the relation of economy to polity can only be understood in terms of the Confucian theory of state.. The keynote of Confucian thinking on the matter is 'the unity of economy and polity'". Similar parallels between the public and private can also be witnessed in Buddhist thought.

One of the ways in which the separation of the public and private is achieved in the West is the division between an individual's public and private role as encapsulated in 'office'. When in office the individual acts simply as an official exercising the powers the office gives them, treating others in an impersonal manner. When outside the office the individual is a private citizen with personal ambitions but he is unable to use his public position to achieve them. For Weber this separation of roles ensured that the powers of the modern state were divorced from the interests of its constituents creating what he termed a form of rational-legal authority (Weber, 1968). For Buddhists however there is no unique individual self, on the contrary there is the *Anatman* (no-self). In addition Eastern philosophy for the most part stresses the shared nature of things, their interconnectedness. What is important in this is not the notion that any-value system inherent in Eastern philosophies is responsible for the economic dynamism of Thailand[4], but rather that the Sakinda system and the influence of Buddhism have ensured that the institutionalisation of the public and private has occurred in a manner distinct from that associated with the West and with Anglo-Saxon societies in particular.

One of the ways in which the distinction between public and private is most obviously blurred in Thailand can be demonstrated by examining Thai conceptions of corruption. It is clear from a reading of Thai political culture that corruption is not viewed in the same way as in most western industrialised nations (except perhaps with the exception of parts of Southern Europe). As Niyomsilpa (1996) notes, "there is a high degree of public acceptance of many activities legally defined as corruption... [f]or example, gifts presented to a public official for services rendered are seen as a way in which people pay respect to his office" (p.188). Niyomsilpa goes on to argue that corruption in Thailand falls into seven categories ranging from the less to the more severe (ibid., p.189). These are: "*sin nam jai* (gift of good will), *kha nam ron nam cha* (tea money), *praphuet mi chob* (improper behaviour), *sin bon* (bribery), *rith thai* (extortion), *thut jarit nor nathi* (dishonesty in duty) and kan khorrapcan (English corruption)" (ibid.).

Of these it is the latter that is universally accepted as being criminal, with petty forms of bureaucratic corruption and nepotism more widely tolerated than would be the case in the West[5]. However in recent years it is none of these forms of corruption that has been the biggest problem. Rather it has been the practice of *kan sue siang*, vote-buying, that has attracted most attention. As will be discussed in greater detail later in this chapter, vote buying, particularly in the rural constituencies was both a root cause of the 1991 coup and one of the principal factors in the recent collapse of financial and economic confidence in the Thai economy.

Despite such examples of the blurred distinction between the public and private, it is important to note that from the perspective of neo-liberal (classical) economists Thailand stands out among Southeast Asian and indeed Northeast Asian economies as having one of the smallest public sectors and smallest budgets in terms of its proportion to Gross National Project. It is also one of the most open economies to trade and a fervent supporter of trade liberalisation both within the association of Southeast Asian Nations as well as in APEC. As Sakurai comments, "compared with those of other countries in East and Southeast Asia, Thailand's industrialisation policies have respected the independence of the private sector by including measures that have not largely contradicted the market mechanism" (1995, p.353). By way of an example Thailand, unlike Malaysia and latterly Indonesia, has not championed the production of a national automobile and while it operates a local content requirement of 54% this is modest by comparison with Malaysia. Furthermore Thailand is committed to phasing this out in preparation for free trade within the ASEAN Free Trade Area, due to begin in 2000.

However while it may be true that in comparison with other countries in East and Southeast Asia, "Thailand has had relatively little direct government intervention.." (Krongkaew, 1995, p.2), and that such empirical evidence is used by neo-liberal economists to argue that Thailand's economic success demonstrates the fruits that can be achieved if the state (public) is rolled back and market forces (private) left to their own devices, they are missing the crucial point that has been consistently put forward by scholars of 'state-led development' (e.g. Amsden, 1985, 1989; Johnson, 1982, 1987; Wade, 1990) Simply, that an interventionist state is not necessarily synonymous with state-*ownership*. Consequently in Thailand's case, "industrialisation has been consistently supported by government policy since the 1950s" (Falkus, 1996, p.15) although it is true to say that "the government has sought industrial (and economic) growth through a largely liberal, market-oriented approach, within a framework of economic stability and conservative monetary policy" (ibid.).

5.2.2 State Ideology and paternalist capitalism.

The mobilisation of nationalism and the exploitation of labour are probably the two most conspicuous aspects of development in East Asia and aspects which I have alluded to elsewhere (Abbott, 1997; Palan and Abbott, 1996). Indeed the conscious decision to pursue both of these policies by East Asian states can be regarded as a strategy designed to further enhance the autonomy of the state in order to pursue rapid economic growth and industrialisation (Deans, 1996, p.84).

In Japan, South Korea and Taiwan, developmentalism was implemented by a regime that at best had weak links to society. In Japan the Meiji restoration replaced a broadly feudal system with one that relied heavily on national rather than local connections (Deans, 1996, p.92). In Taiwan the defeated nationalist (Kuomintang) forces of Chiang Kai Shek not only retreated to an island that had been separated from mainland China and subjected to Japanese colonialism, but had to break the power of the indigenous elites that had subsequently emerged. Finally in Korea the government of Syngman Rhee was overthrown by a military coup led by General Park Chung-Hee. Because of the radical change of government witnessed in all three cases the new state elite consciously adopted nationalism and nationalist symbols to enhance their legitimacy (e.g. Fukui, 1992) and stoked up the perceived challenge from external forces[6].

The only comparable period of Thai history with the situation found in Japan and Northeast Asia in this respect took place from 1933- 1948 in which a curious alliance of the socially conscious Peoples Party under Pridiand and the economic nationalists under Phibul and Mano existed. Similar in policy direction to the Fascist and populist/corporatist governments that were springing up across Europe and Latin America, from 1938,

> an aggressively nationalist economic policy was pursued.. designed to relieve rural hardship and unemployment, and to move the economy out of the hands of aliens. [However] what in fact emerged was an early and rather haphazard attempt at import-substitution industrialisation, bolstered by investments in infrastructure such as railways, and roads.. (Hewison, 1989, p.64).

The regime similarly marked a radical break with tradition as it came into being following the overthrow of Thailand's absolute monarchy in 1932.

While Thailand has not faced the threat of a rival irredentist regime, the influence of the perceived threat from communist Vietnam, seemingly embodied in the Communist Party of Thailand (CPT), enabled the Thai security apparatus to have a dominant role in decision-making, particularly following the victory of radical forces in 1973 that precipitated a right wing coup and the massacre at Thammasat University campus. Labour activists and student leaders were either arrested, fled into the northern jungles or went into exile overseas[7]. While the activities of the CPT may have had an adverse effect on democracy it nevertheless ensured a lenient and sympathetic policy towards farmers grievances particularly in the Northeast of the country. In those years the major political, administrative and military decision-making structures and processes were unified into a single command from the cabinet to the field. The security and development dimensions were fused, forcing military leaders, technocrats and businessmen to be flexible with the masses. Furthermore as outlined in more detail in chapter three the internal dimension of the spectre of communism was buttressed by the commitment of massive sums of economic and military aid by the United States as well as the deployment of US troops in America's commitment to prevent the so-called 'domino effect' in Southeast Asia.

As the challenge from communism was regarded as multi-faceted, including political and economic issues as well as military threats, the development dimension became an important component of state ideology complimenting the security dimension. By focusing on development, the state was able to extend its role whilst limiting the dimension of popular participation to a manageable role. One consequence of the mobilisation of nationalism against internal and external communist threats was that the military and the technocrats learned to work together, with the former group recognising its limitations in economic management (Chai-Anan, 1995, p.242).

5.2.3 Developmental Legitimacy.

One of the features of the Capitalist Developmental State in Northeast Asia and in particular in South Korea and Taiwan, as alluded to above, was that the state elite had weak links with society. Consequently in order to maintain their position the delivery of rapid economic growth and rising living standards was considered a necessity. Similarly it can be argued that in Japan, that the political crises and unrest following the negotiation of the Security Treaty with the United States in 1960 persuaded the governing LDP to steer away from high-profile political issues to economic development as demonstrated by Prime Minister Ikeda's 'Income Doubling Plan' (Deans, 1996, p.88; Johnson, 1982, pp. 77-9)

It is particularly problematic to argue that the state has suffered from weak links with society in the case of Thailand. While it may be fair to argue that democracy in Thailand is not fully institutionalised, it is not the case that state or public authority is either. Instead there is a coexistence of opposing forces with their own values, structures and processes. Thus both statism and pluralism are evolving at once. Indeed the only cementing force is the monarchy which is thoroughly institutionalised in Thai public life and as such acts as the centre holding the opposing forces together, despite the fact that the monarchy's absolute powers were surrendered in 1932 (Chai-Anan, 1995, p.250).

The armed forces for instance need the king's acquiescence if not full approval for an intervention and they are usually willing to take royal advice on a few matters if that will gain them legitimacy. Going against the king would greatly add to the risks of a venture, as the public chastisement and humiliation of General Suchinda Kraprayoon visibly demonstrated on 20 May 1992[8]. Similarly political leaders are not beyond the wrath of the monarchy with recent corruption charges warranting much royal criticism. Not only is the monarchy revered in Thai society but it has strong links with that society. For example, through the Crown Properties Bureau, the monarchy has major stakes in over forty Thai companies, including Thailand's largest conglomerate, Siam Cement, which was actually founded by King Vajiravudh in 1913. The bureau is the second largest landowner in the country, and the fourth largest investor. However the monarchy is not just part of the domestic capitalist class. In addition, the income that King Bhumiphol receives from his dividends not only lines the pockets of the royal household but are put to social uses in rural development projects (such as irrigation programmes and rural literacy campaigns). Indeed as a result of such royal development projects, the Food and Agricultural Organisation of the United Nations openly paid tribute to the king on his sixtieth birthday (Kulick and Wilson, 1994, p.58).

Although the monarchy performs a crucially important mediating role in Thai politics, as well as performing socially desirable activities in the countryside, the experiences gained during the political struggle against communism ensured that key sections of the state, such as the technocrats, were able to maintain a leading role. The guiding principle of the technocrats was to implement rational-decision-making process in economic and development issues, and this was best achieved through development.

Although the technocrats were able to consolidate this position during the semi-democratic period from 1980-88, without the challenge from communism the decision-making structure and process began to disperse among a number of technical agencies leading to conflicting policy formulations and implementation. In addition during the Prem administration (1980-88) the technocrats alienated elected politicians by effectively depoliticising the economic decision-making process. In response the subsequent Chatichai regime attempted to dismantle the previously entrenched technocratic machinery, directly challenging the status quo and the apparatus of the state. Unsurprisingly the technocrats responded by quietly sabotaging the regime and working closely with the military to overthrow it in 1991 (Chai-Anan, 1995, p.243).

5.2.4 Plan Rationality

According to some commentators (e.g. Rock, 1995) prior to 1989 government intervention in Thailand was both pervasive and selective. Furthermore despite the 'rolling back' of the state since 1991-2, when interviewed (March, 1996) officials felt that the state still had an important part in providing the 'framework conditions' for growth (Vickey, 1993). This meant more than simply getting the monetary and fiscal fundamentals correct, but also upgrading and improving the country's infrastructure and opening Thailand to foreign capital.

Like most East Asian developing economies the Thai state operates a series of plans the most important of which are the regular successive five year plans begun in 1967. The agency responsible for setting these plans is the National and Social Development Board. To date seven five year plans have been completed with the eighth beginning in 1997. The first and second plans (1961- 71) aimed to stimulate economic growth through investment and to this end the government invested heavily in infrastructure, mainly electricity generating stations, highways, inland waterways and air transport facilities as well as improving the telecommunications and postal services (Dhiratayakinant, p.100). The 1954 Investment Promotion Act was re-enacted, and tax concessions such as five year income tax holidays were introduced to promote manufacturers. Although such inducements were not large, they did have some positive effect in conjunction with other factors such as increased domestic demand induced by US involvement in the Vietnam War and the subsequent build-up of Thailand's internal security problems. The Second Development Plan was based on the typical Import Substitution Industrialisation (ISI) pattern of developing world industrialisation involving the promotion of certain heavy industries such as paper, chemicals, fertilisers, iron and steel , automobiles etc. Both plans were the product of the NESDB and the industrialisation strategy was very much "formulated within the bureaucracy and without the participation of the private sector" (ibid., p.102).

The shock of American withdrawal from Vietnam, with the subsequent decline in domestic demand, prompted changes in industrial policy and the movement in the Third Plan (1972-6) to a much more export-oriented industrialisation (EOI) strategy. The most significant measures introduced during the Third Plan were the revision of the Investment Act 1972 and the improvement of public and bureaucratic services. The Investment Act was revised to increase tax incentives to those industries promoted. For example import tax was removed from imported units that would be used in export activities, while business tax was removed from exported products.

During the Fourth Plan although the overall drift of economic planning continued to favour EOI there was also a big-push in the direction of a second stage of import substitution. This was no more evident than in the large scale industrial development programme, the Eastern Seaboard Development Programme (ESB) and in the adoption of a strategy of regional industrialisation that covered three particular provinces: Chon Buri Province and the Laem Chabang area; the Rayong area; and the Chachoengsao area. All were designated as locations for heavy industries, mainly petrochemicals and agro-business. The idea behind the ESB and the promotion of regional industrialisation was to address the overcentralisation of industry in the Bangkok Metropolitan Region (BMR). The plan was largely the brainchild of the bureaucrats who continued to be inspired by western development theories and the lure of mega-projects, to the extent that the private sector was largely absent from the planning process (ibid., p. 104).

This situation slowly began to change under the premiership of Prem (1981-88) when at the request of business interests a forum for public-private sector consultation was created, the Joint Public and Private Sector Consultative Committee (JPPCC). The purpose of this was to provide regular opportunities for dialogue between the leading echelons of the business community and senior government officials in core macro agencies and sectoral ministries and represented “a landmark in post-war policy” (Kulick and Wilson, p.113). Under Prem the JPPCC met twice a month to discuss economic issues, particularly ways in which the government could cut unnecessary bureaucratic red tape and deregulate the economy. Perhaps the biggest success of the JPPCC was in encouraging the government to promote international tourism. From 1985 the government directed public and private sector agencies like the Tourism Authority, the Airport Authority on the one hand and the hotel sector and tourist companies on the other, to develop a comprehensive promotion and investment programme for the tourist sector. The net result was that over the period 1985-88 tourist revenues increased threefold from $1 billion to $3 billion -- approximately 15% of export earnings. As Rock (1995) comments "[t]he promotion of international tourism may well have been the single most important export policy success of the 1980s" (p.752). Other successes included deregulation of the gem industry, making Bangkok the centre of global gem trade, and the creation of regional JPPCC meetings alongside newly formed provincial chambers of commerce. The cumulative effect of the changes introduced by the Prem administration was that, arguably, "[f]or the *first time* businessmen were able to influence government collectively through their associations and share in the making of public policy" (Kulick and Wilson, p.114, my emphasis).

Another characteristic synonymous with the developmental experiences of Northeast Asia was the provision of subsidised credit by the banking sector to promoted industries. Under Prem, despite a more liberal and inclusive regime in economic planning, from 1986 the Bank of Thailand's long-standing programme of subsidies for working capital needs of agricultural exporters was reoriented to meet the needs of manufacturing exporters. The result was that within two years, exporters received 53% of the Bank of Thailand's subsidised loans. The combination of promotion and subsidised credit, Rock argues, suggests that Thai trade policy during this period was closer to South Korea's during its early export expansion (1965-68) than it was to any neo-liberal explanations postulated by organisations such as the World Bank.

Another example of 'rationality' in economic planning led the Thai government to create a highly effective Department of Export Promotion (DEP) in the Ministry of Commerce. The DEP identifies buyers, runs trade fairs, and matches buyers with local producers. In addition, in response to market failures in export information markets the Prime Minister and leading business leaders, particularly in manufacturing export-oriented industries, regularly make overseas trips in order to promote Thai exports.

Despite this, economic planning in Thailand effectively falls between two stools with the overall five year plans effectively being little more than a compilation of objectives and aspirations of various interests, a 'wish list' with few real sanctions to achieve economic goals that are often contradictory. According to Narongchai (1986, p.1), for instance,

> Thailand has *never* been able to formulate a so-called 'industrial plan'. Rather industrialisation in Thailand has come about through policies that formed part of the economic and social development plan. Though certain strategies have been adopted, there has *never* been a co-ordinated and pattern specific industrial-development approach. (Dhiratayakinant, 1995, p.99, my empasis).

Reflecting the prevailing position of the World Bank and neo-liberal economists' assessment of economic planning in Thailand, Dhiratayakinat continues by stating that,

> It was noted, albeit with some exaggeration from Prime Minister Kukrit Pramoj that 'economic growth thus far has been the result of the exclusive efforts and initiatives of businessmen, while the government has been indifferent and passive throughout. [Only] when problems arise does the government step in, mostly to control or regulate selling prices' (ibid., p.106).

While commentators such as Chai-Anan and Rock are more upbeat about the role of the technocracy in formulating rational planning, it nevertheless remains the case that since the aborted coup in 1991, the autonomy of the technocracy has been undermined by its growing politicisation and corresponding factionalism. As officials at the Ministry of Industry confirmed (March, 1996), such factionalism hinders the ability to pursue co-ordinated strategic economic planning. By way of an illustration I will cite an example from Kulick and Wilson (1992) at some length,

> Although free enterprise is the slogan, there is much jockeying for position and.. opportunities for corruption and influence peddling. The Board of Investment and the appropriate ministries and officials decide which new companies can start, and how much they can produce, using tax holidays and similar incentives to get the results officials and politicians want.

> Originally Siam Cement [Thailand's largest industrial conglomerate] had a monopoly in cement, but ultimately had to accept two rivals joining the field.. Siam Cement later sought, with an American partner, to crack the monopoly on the manufacture of sheet glass products, but the industry ministry refused permission on ground that current production exceeded demand.
>
> No-one failed to notice that the existing glass manufacturers were important financial supporters of Premier Chatichai's Chart Thai Party, the leading party in the government coalition, and the party then supplying the Minister of Industry. In contrast Siam Cement had done well under the administration of Prem during the 1980s and did not expect such big favours under his successor (pp. 143-4).

One major obstacle to the government in formulating and implementing economic planning is that many key industries are controlled by foreigners who are more interested in integrating development of their Thai based plants into their own strategic planning on an international basis than in Thailand in isolation. Consequently if there is to be much relevance for future plans, the National Economic and Social Development Board or its successor will have to play both a co-ordinating and conciliating role between the competing objectives of different sectors rather than simple presenting a compilation of all the 'wishes' that everybody has for the next five years.

5.2.5 Autonomous Economic Technocracy.

As mentioned in chapters three and four, the instrument through which the Capitalist Developmental State exercises its ability to promote and sustain development is through an efficient, committed autonomous economic technocracy. This task is usually conducted by a particular 'lead agency' that either explicitly or implicitly assumes a leading role among the bureaucracy as a whole in providing the direction of the market to meet pre-assigned industrial and growth targets.

In Thailand there are unsurprisingly a number of key agencies for modern macroeconomic management: a planning agency, *The National Economic and Social Development Board*; the *Office of Fiscal Policy* in the Ministry of Finance, the *Bureau of the Budget*. and the *Board of Investment*. In addition other major agencies within the bureaucracy include the Council of Economic Ministers[9] and the Joint Public-Private Consultative committee.

Arguably the lead agency during the past two decades of export-oriented industrialisation was the Board of Investment, principally because it offered lucrative fiscal incentives to foreign investors. However the BOI is by no means comparable with the Japanese Ministry of International Trade and Industry, South Korea's Economic Planning Board or even Malaysia's MIDA because industrial policy making is spread across a wide array of agencies with limited technical capacity. For example, while the BOI might offer the incentives to foreign capital, the Ministry of Finance sets tariffs and tax rates, the Ministry of

Commerce controls the import and export of certain goods, the Ministry of Industry issues licenses to build factories, regulate business conduct and enforce zoning laws, the NESDB sets the broad direction for the economy and the Bank of Thailand determines credit policy (Rock, 1995, p.748).

Interviews with Ministry of Industry officials in 1996 confirmed that there continues to be both inadequate co-ordination between these agencies and overlapping jurisdictions, contributing to a lack of coherent industrial policy. (Indeed one interviewee remarked that the technocrats wished that they had a lead agency comparable to the Japanese Ministry of International Trade and Industry). As Rock (ibid.) illustrates, "no less than five departments in three ministries controlled access to numerous permits and licenses.. [indeed f]irms provided privileges by BOI often found those privileges undermined by the actions of other ministries" (pp. 748-9). Similarly, according to Christenses et al (1993), macro agencies such as the NESDB and the Office of Fiscal Policy were divorced from real involvement with line ministries. This meant that the NESDB lacked the ability to get specific sectoral agencies such as the BOI or the Ministry of Commerce to restructure incentives to encourage labour-intensive export-oriented investments.

Another of the suggested factors explaining the degree of autonomy enjoyed by the technocratic elite in Japan, South Korea and Taiwan stems from the 'revolutionary' nature of the regimes in question[10]. In Thailand as discussed above (pp. 203-206), the closest parallel with the 'revolutionary' regimes of Northeast Asia was the overthrow of the absolute monarchy in June 1932 by Field Marshal Phibul Songkram. Under his effective dictatorship Phibul promoted an early form of import substitution industrialisation, as well as an overtly nationalistic agenda that romanticised Thai culture and discriminated against non-Thai ethnic groups. Although briefly detained by the allies after World War Two on charges of war crimes, the onset of the Cold War ensured Phibul's political survival as his staunchly anti-Communist sympathies revived American interest. In 1948 he was once again involved in a coup which saw him assume the role of Prime Minister until 1957. In contrast with Northeast Asia however, Phibul's coup d'etat did not settle Thailand's turbulent political environment, nor provide the long term political stability that proved conducive to the establishment of the Developmental State elite in Taiwan and South Korea. Phibul himself was 'dethroned' in a bloodless coup in 1957 by Field Marshal Sarit Thanarat (who assumed the premiership the following year) and Thailand's political environment continues to struggle with the unresolved problem of accommodating all its competing interests including the military[11].

Indeed it is this political turbulence that in many ways undermines any identification of Thailand as a Capitalist Developmental State along the lines of the Newly Industrialising Economies. While the interpenetration of political and bureaucratic elites is a feature of the political systems of Japan, South Korea and Taiwan, (most visibly demonstrated by the Japanese practice of amakudari), the technocracy in Thailand is not insulated from political control. As a result its autonomy is severely constrained, with agencies and departments of government falling prey to the rife political factionalism.

Indeed interview data with both bureaucrats and businessmen confirmed that such politicking within departments affected the ability of various ministries to pursue a coherent industrial policy. In one illuminating interview in particular an anonymous source remarked that the only time in recent years that the technocrats had enjoyed the autonomy necessary to pursue necessary economic reforms was during Anand Panyarachun's interim government that followed the military coup in February 1991 and lasted until September 1992[12]. It is interesting to note that this technocrat-dominated government was widely praised by industry -- indeed such praise was evident during interviews with the Federation of Thai Industries (FTI)[13]. This praise reflects the fact that from the perspective of the domestic private sector in Thailand, Anand was one of their own. Prior to becoming the head of the new government in 1991 Anand was Head of the FTI and a number of his cabinet members were leading executives of large corporations. However such governments have been the exception in Thailand rather than the norm.

Nonetheless the notion of there being a strong-state, strong bureaucracy in Thailand is partly due to the continuing influence of the work of Riggs (1966). In his seminal piece on Thai political economy Riggs identified Thailand as a bureaucratic polity, which has as its fundamental premise the supremacy of the bureaucracy as opposed to non or extra-bureaucratic forces in society as a whole. Furthermore the bureaucracy, particularly through the military, ensures that "a large number of autonomous centres of power-interest groups and political parties - outside of the state do not emerge" (Riggs, 1966, pp. 379-380). Where interest groups did exist they merely acted as agents of the state itself rather than pursuing any independent interests. Similarly the relationship between the state and business was heavily skewed in favour of the former, with business succumbing to the patronage of factions within the bureaucratic apparatus.

This view of the Thai bureaucracy gained wide spread recognition and dominated political studies of Thailand from its publication into the first half of the 1970s. From then onwards, while there have been modifications in Riggs work much of the literature still maintains the thesis of a strong-state, strong bureaucracy[14]. Where there have been modifications they have tended to highlight the growth of business interests and other non-bureaucratic forces within society. Such modifications were deemed necessary because according to Riggs, the bureaucracy would never allow independent business and urban-based organisations to emerge, and yet clearly growing affluence did see the emergence of a domestic capitalist class and bourgeoisie. Consequently Rigg's viewpoint was increasingly difficult to maintain. While authors such as Hewison (1986, 1989) have concentrated on the emergence of the former group to stress that the economic policy is increasingly designed to serve their interests, others writing from within a liberal-pluralist tradition stress the emergence of peak business associations (Laothamatas, 1989) and other non-governmental associations to argue that while Thailand is still characterised by corporatist relations, this form of corporatism has become decidedly more liberal in recent years.

One organisation in particular that Hewison and Laothamatas discuss in detail in order to prove their thesis, is the Joint-Public Private Consultative Committee (JPPCC). Laothamatas (1989) for example argues that business was not only the strongest social force, but that it shared power equally with the state in economic policy-making. Despite the fact that the JPPCC was created by the government, and that business was generally excluded from critical financial decisions, because membership in the JPPCC is by *choice* and not coercion and because business representative organisations had other channels for making contacts with the government the JPPCC represents 'liberal' corporatism, a "two way direction of influence between the government and business" (Laothamatas, 1989, p.296). Generally speaking then pluralist scholars increasingly perceive government-business relations as political manoeuvrings among bureaucrats, business interests and political parties. MacIntyre (1990) for example, regards the JPPCC as only one among many access points between business and the state.

A major flaw with these liberal-pluralist views is that it is problematic to sharply distinguish between members of the political and business elites. For example, leading businessmen like Boonchu Rojanasathien, Ob Vasurat, Pramarn Adireksan and Amnuay Virawan were active in business associations, but also served as leading politicians in the cabinet. Conversely, key technocrats such as Anand Panyarachun, Nukul Prachuabmoh and Supachai Panichpakdi resigned from the bureaucracy and entered the world of corporate business to assume top executive positions (Niyomsilpa, p.50); while it is almost the norm for retired high-ranking military officers to enter the corruption-ridden world of Thai politics, despite the fact that it is precisely such corrupt political figures that prompted the military to suspend democracy in 1991! Unsurprisingly then, "[i]t is often difficult to say who leads whom when the interests of the bureaucrats (technocrats) and businessmen are aligned" (ibid.).

5.3 The Thai political environment

> "Politicians of all shades -- including General Chavalit -- are to blame. They have allowed this country to surrender economic sovereignty because of their gross mismanagement over the past several years" (*Bangkok Post*, Editorial, August 6th 1997).

If there is perhaps one image of Thailand that immediately differentiates it from its near neighbours in Northeast Asia, it is the tradition and cost of political instability. During this century, Thailand had experienced seventeen coups, with the last failed attempt occurring only seven years ago in 1991. However despite the fact that democratic regimes in Thailand have only been the norm since the 1980s, many commentators held that Thailand had emerged from its days of political turmoil as a result of a combination of sustained economic growth and the emergence of an active relatively affluent urban middle class (Rock, 1995, p.756, Hewison, 1996, p.86). Despite the aborted coup in 1991, interviews with bureaucrats and businessmen in 1996 revealed a confidence that the democratic system had been sufficiently entrenched to provide the necessary political stability to foreign investors.

However, as the above quote from the Bangkok Post clearly reveals political instability has once again become a major problem in Thailand. Indeed for many in Thailand and the wider international economic and financial community, the principal cause of the country's recent economic malaise is the widespread corruption and machinations within the political arena[15].

Of all the criticisms levelled against Thai politics the one key complaint is the widespread practice of 'vote-buying' and 'vote-selling' at the heart of the democratic process (Hewison, 1996, p.89). To quote from Kulick and Wilson (1994), "[a] poor north-eastern farmer put the matter squarely: 'For us a general election is a time for collecting money. Democracy? I must pay off my debts first before thinking about it.'"(p.38). Similarly, when General Kriangsak tried to launch a comeback after he had been replaced by Prem, "he spent $600,000 on his by-election -- 40 times the legal limit.. [enabling] him to have many more canvassers than his opponents, and to pay out $3 to each voter" (ibid.). Despite this no charges were brought against Kriangsak because almost every candidate exceeds the legal maximum! In the election of 1990 for example, the Chart Thai party was alleged to have spent $120 million on buying votes! (ibid., p.39). Similarly the practice of vote-buying and selling also takes place within parliament. It is not uncommon for members of parliament to set financial terms for voting with the government.

In addition to the corruption inherent in Thai politics, another cause of recent political instability is the sheer proliferation of political parties (ibid., p.45). As a result, of the three major forces in the political arena (the political parties, the army and the king) it is the political parties that both have the least cohesion of the three and are the easiest to 'knock aside'(ibid.). Many of them are personal *factions* more than parties, united around a charismatic leader rather than any principles. Small parties inevitably mean coalition governments whose leaders harbour different views and goals, and which are for the most part comparatively impermanent, and short on ideology or coherent political programmes. Impermanent coalitions of constantly shifting political parties have aggravated the Thai political economy offering little stability of administration or policy making. Indeed some of the political parties are short-lived, disappearing in the space of two or three parliaments.

In the current political environment the largest political party in Thai politics is *Chart Thai* which was formed by three relatives of Field Marshall Phin Choonhavan, who had been a key supporter of Marshal Phibul. Phin's son General Chatichai Choonhavan became leader of the party in 1986 and served as

Prime Minister from 1988 until 1991 (Leifer, 1996, p.80). However in the run up to the elections of 1992 he defected from the Chart Thai party that he had led since 1986 to form *Chart Pattana* (National Development Party) (ibid., p.79). In the elections of 1992 although securing 60 seats Chatichai failed to secure membership of the coalition. The newest party is *Kwang Wang Mai* (New Aspiration) led by General Chavolit Yongchaiyudh (ibid., p.185) which formed a coalition government in 1996 when it joined forces with Chatichai's Chart Pattana and a number of other smaller parties.

Niyomsilpa (1995), argues that integral to the development of the party system and the proliferation of personalised factions are the complex networks of *hua khanaen* that operate in a similar way to the personalised political support systems (koenkai) in Japan (p.194). Such *hua khanaen* connect politicians with provincial businessmen and bureaucrats and with local village headmen. Niyomsilpa continues, maintaining that "Since the 1969 election, *hua khanaen* comprising village headmen, factory owners, and underground lottery vendors have become a regular part of political campaigning" (ibid.). The 1975 election provided a fillip to such networks since the coalition government institutionalised a quota system that ensured that cabinet seats wee based upon the number of MPs a faction leader could control. The impact of this meant that,

> each party tried to bring in as many factions as possible in order to expand quickly and increase its chances of joining the governing coalition [in order to achieve this] financial support to the party and the party organisation

became increasingly dependent on these factions. Since the strongest factions of any party were based on the local *hua khanaen* system, faction leaders who were able to control an extensive network of hua khanaen in many districts were best able to increase the potential number of MPs within their control and provide them with a good chance of winning party executive positions or becoming cabinet ministers (ibid., pp. 195-6).

With the exception of the Chart Thai party, most of the political parties in Thailand have only emerged since the 1970s. Consequently they lack organised party structures, and have used their networks of *hua khanaen* in order to buy votes to ensure the success of their candidates (ibid., p.196).

Kulick and Wilson (1994, p.33) argue that one of the factors responsible for such corruption is the fact that Thai society, stiffened by Buddhism, is built on personal relationships rather than principles or law, in other words it does not conform to the kind of *rational-legal* systems we associate with the West. Thai democracy begins with the family, not, as in the more mobile societies of the west, with the individual, and a village will vote as one through its headman. The *hua khanaen* system produces a network of 'godfathers', referred to in Thai as *chai por* (jai por), that maintain battalions of key individuals to which they give help or presents, and on whom they call at election time to support a particular party or candidate. Conversely the *chai por* in return expect a quid pro quo from the party or candidate. Such paybacks have involved "the diversion of expenditure flow though kickbacks and commission fees obtained from government projects, purchases of materials, and bidding projects" (Niyomsilpa, 1995, p.192), as well as pork-barrel projects, the award of government contracts to companies owned by the officials concerned (auto-corruption) and the evasion of regulations[16]. Such practices have become part of the Thai political scene because ministers had to reward faction leaders and their supporters[17].

Previous studies of corruption and development (e.g. Huntingdon, 1989), have stressed that modernisation leads to an increased role for the state with new opportunities for corruption (Niyomsilpa, 1995, p.186). Ironically in Thailand in the past decade bureaucratic corruption, and corruption by the military, has not been the source of greatest public condemnation. Indeed if anything the latter two forms of corruption have become less prevalent. In contrast "corruption scandals in Thailand seems to be more associated with economic deregulation rather than increased government control.. as suggested by Huntingdon" (ibid., p.193) with political parties actually trying to reduce opportunities for corruption by the bureaucracy and the military in order to maximise the corruption flows available to the *party* machines.

As this brief discussion of the Thai political environment has demonstrated at the heart of the corruption and political instability within Thailand is the present political system. Because so many of the political parties are comparatively new with limited local organisations, they have used vote-buying and other corrupt activities to attract political factions (ibid., p.219). This system perpetuates competition between factions and the necessity of presenting ever greater financial rewards to party members on the one hand, and to *chai por*, through the *hua khanaen* system, to ensure electoral success. Such activities consequently *undermine* the ability of the technocrats and various government agencies to co-ordinate long term developmental strategies for the Thai economy since such corruption invariably spills over into the various government departments as interview data suggested. Furthermore the present constitution and constituencies are biased in favour of rural areas where the *hua khanaen* system is strongest rather than in favour of Bangkok and other urban areas where anti-corruption forces, reform groups, and private business interests are strongest. The fact that such groups initially welcomed the 1991 coup and the technocratic government of Anand is testimony to their gross dissatisfaction with the democratic regime. As Laothamatas notes,

> The fact that the middle class did not object to the overthrow of the elected government in 1991 was testament to the fact that this government was seen to be corrupt and incompetent. For the middle class, government appears to be about competence and this does not necessarily require elections. The middle class only rejected the military in 1992 when it was clear that it was cementing its own position (1989, p. 215)

Nonetheless despite the optimism of some commentators (Laothamatas, 1989; Niyomsilpa, 1995) the post-resumption governments of Chuan and Chavolit have not seen "Thailand's political landscape.. being redrawn" (Laothamatas, p.220). Instead corruption and financial scandals have contributed to Thailand's economic miracle coming to an abrupt halt and a humiliating bail-out by the International Monetary Fund.

5.4 An Assessment of Thailand's Industrial Performance.

In many ways Thailand's industrial structure bears many similarities with that of Malaysia, such as: limited indigenous domestic manufacturing industry, overreliance on foreign (particularly Japanese) investment and technologies, a localised concentration of industrial development, and the need for a favourable regional/international climate. One of the ways in which the two economies differ, is in the more liberal attitude towards foreign capital and government direction of the economy[18]. Apart from major infrastructural developments such as the Eastern Seaboard Development, successive Thai governments have not emulated Mahathir's penchant for national prestige industries/projects. There is for example no indigenous Thai automobile or any plans to introduce one (interview data).

For the most part, Thailand has a fairly unsophisticated locally owned industrial base centred largely on the export of garments (see Table Two above) and other goods derived from the country's own abundant natural resources: leather products, canned seafood, frozen prawns etc. As discussed earlier in this chapter (p. 211) perhaps the "single most important export policy success of the 1980s" (Rock, 1995, p.752) was international tourism. By the end of the decade the number of tourists rose from 2 million in 1980 to 5 million, generating revenues of

$3 billion per year and encouraging a boost in tourist related infrastructure and construction.

Such modern industry as exists is largely imported assembly operation tied to more sophisticated industry elsewhere (principally Japan) with less stringent local content requirements than in many of Thailand's neighbouring economies at a similar level of development[19].

Furthermore, industrialisation and economic growth have been heavily concentrated in Bangkok and the Bangkok region with alarming regional disparities of income[20] (see Table 3 below). In 1986, gross per capita regional product in Bangkok was nearly twice that in the Eastern region, three times per capita income in the Central and West, over four times greater than in the North and above seven times that in the Northeast (Falkus, 1995, p.16). In addition, over half of the countries factories (27,000) are within the Bangkok Metropolitan Region (BMR), which during the 1980s accounted for 75% of valued added in manufacturing; twelve of Thailand's 23 industrial estates are located within the confines of the BMR; while data from The Board of Investment shows that the BMR attracts the bulk of approved foreign investment projects.

Table 3: Regional Distribution of GDP.

Distribution of GDP (%)	1960	1970	1980	1989
BMR	22.6	29.0	31.1	48.1[21]
Centre	28.8	27.7	29.0	18.5
North	15.4	15.1	13.9	11.4
North-east	17.4	15.7	14.4	12.9
South	15.7	12.4	11.5	9.1
Thailand	100.0	100.0	100.0	100.0
Baht millions	53, 984	136,060	684,930	1,775,978

Source: Tinakorn, P, (1995), p.229

Examining Thailand's industrial structure in greater detail, one of it's major weaknesses is that sub-contracting relations between the leading companies and SMEs are weak. Government policy between the late 1950s and the 1980s, reveals a systematic bias towards large firms and a few entrepreneurs (Rock, 1995; Suehiro, 1992), especially in the use of promotional privileges. Furthermore, large minimum investment requirements coupled with large minimum production capacity requirements effectively discouraged SMEs from applying for such privileges. The effect of this bias was to allow Thai industry to become dominated by a small number of family-centred conglomerates. To illustrate, by the 1980s, fifty of Thailand's largest hundred firms belonged to one of sixteen conglomerates who together controlled 90% of the total assets of *all* Thai firms. Such firms while constituting a mere 1.6% of all industrial establishments, owned 54% of all industrial assets and were responsible for 41% of industrial employment.

Like most of Southeast Asia, throughout the 1980s and 1990s foreign investment flooded in. During the 1980s FDI into Thailand totalled approximately \$8 billion, concentrated in electronics, chemicals, property and tourism. Between 1988 and 1989 total investment (including portfolio investment) rose from 2.5% to 4.4% of Thailand's GNP, with foreign investors responsible for half of Thailand's industrial output and a fifth of total industrial employment. Most of the direct investment is export-oriented, coming from industrialists in the more developed East Asian economies and North America in search of lower manufacturing costs, principally labour. To encourage this flow of investment, the brief technocratic government of Anand in 1991, liberalised the financial markets, and removed many of the controls on forex and capital movements (ibid., Kulick and Wilson, p.117). However, from 1986 Japan overtook the United States to become the largest investor in Thailand, providing around \$2.6 billion cumulatively between 1980-89. The growth of this investment and of Japan's presence in the Thai economy generally, led "to some anxiety that this growing dominance.. could in the long run affect the flexibility of Thai economic decision making and have unfortunate political ramifications" (ibid., 1994, p.115). Indeed as will be demonstrated in chapter six, Thai dependency on Japanese capital, technologies, and know-how is most marked in the Thai automotive industry.

5.5 Conclusions

This chapter demonstrated that the conceptualisation of Thailand as a Capitalist Developmental State is highly problematic. While the Thai state does share features similar to aspects of the CDS in Japan and Northeast Asia other features of the CDS are conspicuous by their absence. Among those features that are common are: the institutionalisation of the public and private realm in a manner distinct from that in the West; the manipulation of the communist challenge from Vietnam to enable the Thai security forces a major role in development planning; rational economic planning through a series of strategic industrial plans that since the 1980s have involved consultation with the private sector through the use of public-private forums such as the JPPCC.

On the other hand there are many features of the cultural, political and socio-economic landscape that make Thailand's developmental experience markedly distinct. Principal among these are: the fact that Thailand escaped formal colonisation by European powers; the influence of Buddhism on the institutionalisation of the public and private realm; and the history of political instability both in the form of frequent coup d'etats and increasingly due to the practices of vote-buying and vote selling and the proliferation of political parties with the subsequent difficulties for forming and maintaining governments.

It was also demonstrated in this chapter that the role of the technocracy in Thailand is far from that of a coherent all-powerful group directing the economy. Unlike its counterparts in Japan, South Korea and Taiwan, as well as to a lesser extent in Malaysia, the technocracy is not sufficiently autonomous leading to agencies and departments within the government falling prey to political factionalism. In addition it was demonstrated that there is no single lead agency charged with the task of economic planning, and that furthermore there is a lack of effective co-ordination between the various agencies responsible for different aspects of economic management. Consequently the picture that emerges in Thailand is of a divided and weak technocracy that has a limited ability to engage in rational economic planning free from political interference. The brief assessment of Thai industry that followed revealed an industry in which half of all output is dominated by foreign investors. Among these the Japanese are the single largest group raising concerns, as chapter six (pp. 280-290) demonstrates, over the political and economic ramifications of this.

What emerges from this chapter is an image of an economy that has experienced rapid economic growth *despite* government intervention rather than because of it -- hardly the epitome of the Capitalist Developmental State. Indeed many would argue that the recent collapse of the Thai financial system demonstrates this perfectly. Firstly corruption was prevalent while government supervision was both inadequate and inappropriate. Finally ill-advised lending, suposedly guaranteed by the state, coupled with a bourgeoning current account defecit, eventually proved to be the recipie for financial collapse (see foreward for a discussion of this further).

[1] In 1988 Thailand's chief economic planner, Snoh Unakul, stated that, "NIC status for Thailand is less than a few years away". (cited in Clad, J, 1991, p.102).

[2] The chinese, and chinese origin Thais, constitute approximately one in seven of the population, rising to one in three in Bangkok.

[3] Chatichai Choonhavan served as Prime Minister from 1988 to 1991, the first elected Prime Minister since 1976. A founder member of the Chart Thai party, he defected in 1992 to set up his own party the Chart Pattana party. Before his political career, Choonhavan served with the Thai military in Burma and southern China during World War Two.

[4] The Asian Values argument is not one that the author wishes to engage with here. Nonetheless while today's social scientists may find religious-cultural factors to be responsible for the dynamism of East Asia, it must be remembered that in the first decades of this century, social theorists such as Weber argued that it was precisely such Asian values that hindered economic development. With regard to the specific case of Thailand, while Buddhism's stress on the lack of self and the notion of the interconnectedness of all things might be cited as sharing values with Confucianism and thus the tiger economies of Northeast Asia, Buddhists universally are concerned about greed overreaching itself.

[5] Examples would be such things as 'additional' school fees on top of acknowledged expenses, commission fees, kickbacks and the like. Nonetheless it is important to note that while such forms of corruption exist in Thailand, it does not dominate the nation's political economy to the extent that I does in neighbouring Indonesia, consequently it is this author's contention that Thailand does not warrant classification as a neo-patrimonial state (Palan and Abbott, 1996, pp. 184-200).

[6] In the case of South Korea and Taiwan the existence of a rival irredentist regime made this easier to exploit.

[7] In its intermittent periods of direct rule the army has tended to pursue an anti-trade union role which has helped to continue the low labour cost characteristics that has helped to attract FDI for industry.

[8] On live public television King Bhumiphol chided Suchinda after four consecutive days of public disorder and protest against the new constitution. Groveling on his knees before the king and his political rival, Suchinda was openly criticised. "You talk about democracy", Bhumiphol said, "but you don't do anything about it, you are losing the country" (cited in Kulick and Wilson, 1992, p.184).

[9] Chai-Anan (1990a,b) argued that the Council of Economic Ministers (CEM), the most important policy-making body after the Cabinet, was initiated by technocrats during the Prem regime to balance the increasing role of political parties. Furthermore she maintains that the CEM not only assumed the leading roles in both economic policy-making and monitoring but did so without intervention or competition from other political or bureaucratic bodies. Under the Chatichai administration (1988-91), however, in order to circumvent the influence of the technocrats as well as their scrutiny, Chatichai sought to build up support from elected politicians.

[10] In the case of Japan, Deans argues that the bureaucracy came to enjoy significant autonomy as a result firstly of the Meiji restoration (1868) which swept away a highly feudal system of government, and secondly that this position was further enhanced as a result of the American Occupation which broke the power of the Japanese military in politics. In Taiwan and South Korea the revolutionary origins of the regimes in more obvious, with the exiled Kuomintang finding it necessary to destroy the local indigenous power structures to ensure their political dominance on the island, while in South Korea Deans highlights the coup d'etat led by General Park in 1960 (1996, pp. 92-3).

[11] Indeed the last although short-lived coup took place in February 1991, when the elected government of former Brigadier General Chatichai Choonhavan was overthrown by the then army commander General Suchinda Krapayoon.

[12] During this period Anand Panyarachun assumed the premiership of a mainly technocratic administration. Anand had been educated in England receiving a degree from Cambridge in 1955

before returning to Thailand as a bureaucrat in the Ministry of foreign affairs. Between 1979 and 1991 he pursued a successful business career before being persuaded by King Bhumiphol to accept the interim position of prime minister.

[13] Set up 1967, with 22 participants, the FTI has grown to over 4,500 members: including representatives of SMEs and MNCs, academics and economic 'wise-men'. The FTI's role is effectively akin to the British CBI acting as a lobby group/pressure group representing the broad interests of Thai industry. The FTI also acts as a forum for public-private consultation and participates in planning for the National Economic and Social Development Plans (NESDP).

[14] Initially most of the critiques of Riggs were concentrated on the existence of non-bureaucratic interests e.g. Anderson (1977). In response to the pluralisation of Thai society after the mass uprisings of 1973, a range of Thai-language 'statist' interpretations began to emerge, some of which focused on the military, the bureaucracy, or state-business relations. While there was a wider recognition of emerging extra-bureaucratic forces, Thai statists still maintained that the bureaucracy reigned supreme -- e.g. Girling (1981). (See Niyomsilpa, 1996, p.54)

[15] For example, see Asiaweek, August 15th 1997, *Its the politics, stupid*;

[16] Niyomsilpa, notes that "[o]ne economic minister under the Chuan government.. tried to divide a large project into many smaller contracts to fit within the legal limits regarding deals that can be made without cabinet approval" (ibid.).

[17] In 1990, Santi Chaiviratana, a former minister of the Social Action Party and Chatichai government, revealed that he had been forced to resign because he was unable to meet the financial demands of the party. Santi claimed that among other accusations, in 1990 20 SAP MPs demanded 5 million baht from each Deputy Minister for their votes in a no-confidence motion (Niyomsilpa, 1995, p.208).

[18] There are comparatively few restrictions on the repatriation of profits, for example.

[19] Thailand is now Japan's largest overseas manufacturing base in Asia

[20] In 1985, for example, over 80% of industrial concentration was concentrated in the Bangkok region.

[21] By 1996, Bangkok's share of Thailand's GDP had risen to approximately 50% (Interview Data).

Chapter Six:

The Automobile Industry in Southeast Asia in Comparative Perspective.

> The automobile industry stands for modern industry all over the globe. It is to the twentieth century what the Lancashire cotton mills were to the early nineteenth century: the industry of industries (Drucker, P., 1946, p.149).

6.1 Introduction

As stated in the introduction 'ambiguous' development can be defined as a process of development that has been uneven, leaving some sectors of the economy more developed while others are less so (p. xvi). Cardoso and Faletto suggested in their study of dependency in Latin America that while economic development had taken place in these peripheral economies, this development was uneven, concentrated in specific sectors of industry. Furthermore such societies were ultimately restricted from achieving autonomous industrialisation because the capitalist-industrial mode of production in such societies would be invariably constrained by a capitalist development that originated in the dominant centres of international capitalism (1979, pp. 163-171). In this chapter the automotive industries in Indonesia, Malaysia and Thailand are analysed in order to determine whether such conclusions can be drawn.

Organisationally automotive manufacturing is one of the most global of all manufacturing industries. It is an industry of giant corporations, many of which are increasingly organising their activities on internationally integrated lines. Some 4 million workers are employed directly in the manufacture of automobiles throughout the world and a further 16 million in the automotive industry as a whole (manufacturing parts and components, and employed in sales and servicing (Dicken, 1992, p.268)). In Europe alone, production is responsible for nine per cent of the continent's Gross Domestic Product (ibid.). In order to demonstrate that despite undergoing rapid economic development, Indonesia, Malaysia and Thailand remain ambiguously developed, the thesis examines the case of the automotive industry in the three countries under investigation with special emphasis on the Malaysian National Car projects, Proton and Perouda[1].

6.2 The significance of the Automotive Industry.

This section explains the main reasons why the automotive industry is important both in Southeast Asin development and in the logic of the development of this thesis.

'Clustering' and key technologies.

One of the justifications for choosing this industry as a case study lies in the immense spin-off effects it generates through its linkages with numerous other industries. A large amount of academic research has been conducted into the impact of major technological innovations on other industries and on the socio-economic environment by the Science Policy Institute at the University of Sussex. This draws inspiration from the work of Schumpeterian economists such as Chris Freeman who have observed that innovations act more like a series of explosions than a gentle though incessant transformation. Furthermore innovations are not distributed at random but tend to concentrate in certain sectors at certain times which lead to further innovations. Consequently a major new innovation needs many applications to take advantage of its new properties for various uses. As Freeman notes,

> [a] new piece of equipment, such as a computer, would lead to both component and applications innovations.. [m]ost product innovations lead to further process and product innovations as their scale of manufacture increases and as competitors strive to gain some cost of production or quality improvement advantage (Freeman, 1992, p.60).

This process Freeman refers to as *'clustering'*[2]. The automotive industry is precisely one in which major technological innovations have been concentrated, resulting in significant industrial clustering and its growth would create increased demand for the backwardly linked industries such as steel, rubber, glass, paint, electrical equipment, plastic aluminium, component and sub-assembly, and for the downstream linked industries such as oil industry, consumer credit, sales activity, advertising, maintenance, and repair. Consequently for many countries the automotive industry has become a vital ingredient in many national economic development strategies. It is partly precisely because the state is so implicated in its development that it makes an appropriate case study in this thesis.

Stages of development in the automotive industry.

Bloomfield (1978) has suggested that four stages of development can be recognised in the development of a country's automotive industry; although it is by no means inevitable that all countries will pass through this sequence.

- Stage 1: The import of completely built-up (CBU) vehicles by local retailers. This tends to be limited in scale because of high transport costs and government trade restrictions. (For example, the first TIMORs in Indonesia were CBUs imported from the Kia Corporation of South Korea. Upon arrival in Indonesia they were simply rebadged).
- Stage 2: The assembly of completely knocked-down (CKD) vehicles imported from the major auto manufacturers. This allows savings in transport costs[3] and the opportunity to make minor modifications for the local market.
- Stage 3: The assembly of CKD vehicles with increasing locally made content. This both depends upon and encourages the development of a local components industry. In all the economies of Southeast Asia the automotive industry has reached this level of development. What differs is the level of local content stipulated by the government as well as the preferential treatment given to particular domestic assemblers. In Malaysia the latter resulted in the launching of the National Car Project, PROTON, which effectively began life as the assembly of CKDs from Mitsubishi with minimal local content. Over time as detailed below PROTON has become a much more sophisticated operation.

- Stage 4: The full scale manufacture of motor vehicles. This tends to be restricted to a smaller number of countries than stages 2 and 3. It is no means inevitable that countries which have reached stage 3 will graduate to stage 4. Indeed as this Chapter demonstrates the continuing dependency of Southeast Asian manufacturers on Japanese suppliers and Japanese technology appears to be frustrating government aspirations to move to stage 4.

Okada (1984) similarly notes two principal patterns of development discernible in the growth of the components industry of Southeast Asia. In the first of these, technologically less sophisticated SMEs emerge in maintenance and repair services of imported machinery in an almost evolutionary manner. The process of the industry's development is regarded as evolving through five stages.

- Once the industry is established the machinery and equipment in the industry require both periodic and emergency maintenance and repair. While this is carried by foreign experts in the factory operation to begin with, the task is later transferred to indigenous technicians.

- Next the manufacture of machines and parts for replacements is progressively transferred outside the factory, usually on an *ad hoc* basis.

- Once the industry reaches a certain size some producers begin to specialise in the manufacture of replacement goods (REM).

- Following such developments a marketing network is established for a variety of replacement machine products, while the emergence and growth of replacement markets itself contributes to the rise of a number of new machinery industries usually requiring relatively unsophisticated technologies.

- Finally, indigenous SMEs are established to engage in the domestic production of the machinery that was previously imported (OEM).

To illustrate this pattern of development Okada cites the example of the development of the Thai automotive industry. Once the number of motor vehicles registered in Thailand exceeded the 500 000 mark, Okada maintains, many small machine factories sprung up in Bangkok to cater to the demand for a variety of replacement parts. Among those who established these factories, a large number were ex-apprentices who had worked for the dealers of spare parts (ibid., pp. xi-xiii).

The second pattern of development associated with Southeast Asia is one in which foreign producers, separately or through Joint Ventures with local firms, establish a new branch of the automotive industry and consequently help the developing economy take a process of development different to that discussed previously. Of most significance is the fact that the technological knowledge brought in by such enterprises tends to be at a distinctively superior level compared to those introduced through the 'evolutionary' pattern. The foreign technology that is subsequently transferred is different from that obtained by copying imported machinery, purchasing licences or even contracting turn-key projects. As Okada points out "[w]hat matters here is the socio-economic consequences of the appearance of the foreign-related companies in so much as its ultimate social purpose is the absorption of the advanced technologies" (ibid., p. xiv). Such diffusion of technology takes two forms.

In the first, the foreign technology imported by the foreign or JV enterprise, is later transferred to a large and growing number of local small-scale firms that subcontract[4] the production of parts or the provision of special manufacturing services. Thereafter the foreign or JV enterprise acts as a major assembler, while many of the local subcontractors develop to become independent modern enterprises, specialising either in the production of component parts or in the provision of fabricating and/or processing services.

Alternatively or indeed concomitantly, 'packaged' (or 'bundled') technology is brought in by foreign or JV companies who simply assemble imported parts and components. Design and production technologies are then spread to local newcomers whose technological and managerial resources are drawn from indigenous technicians and managers that have been trained by or transferred from the foreign/JV companies (as a result of step two the component sector registers significant growth). Finally, while specific 'unpackaged' technologies are still imported, indigenous enterprises attempt to localise research, development, and engineering activities.

What is important in both Bloomfield and Okada's models concerning the development of the automobile industry is that because the automobile has traditionally been well developed in industrialised countries, benefits from technology transfer can be realised. Consequently the industry has played, and will continue to play, an indispensable role in the choice and diffusion of effective and appropriate technologies in industrial development.

Fordism.

In addition to the factors detailed above, the socio-economic impact of the automotive industry this century has had enormous ramifications, as Womack et al comment, "the auto industry is even more important to us than it appears. Twice in this century it has changed our most fundamental idea of how we make things. And how we make things dictates not only how we work but what we buy, how we think, and the way we live" (1990, p.11).

Between 1913 when Henry Ford introduced the moving assembly line, and the 1970s when post-Fordist (Toyota-ism) systems of production began to emerge in Japan, the automotive industry changed very little, epitomising the mass production industry. It involved a large output of a limited range of standardised goods over long production runs in massive assembly plants using specialised machinery and less skilled labour. As Jessop comments, Fordism was characterised by,

> a virtuous circle of growth based on mass production, rising productivity based on economies of scale, rising incomes linked to productivity, increased mass demand due to rising wages, increased profits based on full utilisation of capacity, and increased investment in improved mass production equipment and techniques (1991, p. 136).

Indeed the auto industry is widely considered to be one of the core technologies of the age of mass production referred to by neo-Schumpeterians as the fourth Kondratiev or the fourth long wave. Freeman and Perez (1988) draw on a tradition begun by the work of Kondratiev in the 1920s on fifty year long cycles of boom and bust in the capitalist economies, and developed further by Schumpeter in the 1930s with his work on the role of innovative entrepreneurs creating new technical paradigms of future growth. They argue that the transition from one long wave to the next occurs when pioneering advances in technology diffuse across the economy resulting in a 'quantum leap' in industrial productivity. For Freeman and Perez such innovations can be a new range of products or industrial processes, but equally they can be new forms of work organisation and management, new high growth sectors, new transport communication technologies etc.

The fourth Kondratiev, from the 1920s to the 1970s, is underpinned by electromechanical technologies, the products of mass consumption industries and oil and petrochemicals as sources of cheap energy that brought with it vertically integrated and hierarchically governed corporations, and the birth of the interventionist welfare state that served to sustain the virtuous link between employment, output and productivity. The development of the internal combustion engine, the mass production techniques devised by Taylor and adopted by Henry Ford, and the growth of mass production multinationals such as Ford, General Motors and Chrysler epitomise this wave.

The Ford Motor Company was among the first to bring together the new industrial practices that would epitomise the system of mass production. It adapted the standardisation and precision techniques first utilised by the federal armouries during the American Civil War (Rupert, 1996, pp. 62-3) incorporated new production processes, such as sheet metal stamping, incorporated the new management techniques of Frederick Taylor, and between 1913-14 introduced the moving assembly line. By the 1920s Ford had captured half of the market share of the American market and the techniques he pioneered were rapidly spreading throughout industry across the US and beyond.

Synonymous with modernity and economic development.

Another justification for selecting the automotive industry for particular attention is that the industry was integral to the post-war economic development of Japan and South Korea, precisely those countries that are held to serve as the model for the three economies examined in this thesis. Prior to World War Two Japanese motor production was principally trucks and it was under the direction of MITI that the industry shifted towards the production of passenger vehicles after the Korean War. Between 1960 and 1989 Japanese motor vehicle production increased tremendously from 443,000 units to 9,891,000 (Dassbach, 1994, Dicken, 1992). From being an inconsequential world auto producer with less than two per cent of world production, by the end of the 1980s Japan was the single largest auto producing nation, responsible for producing one in four cars world-wide (Womack, Jones and Roos, 1990).

Similarly in South Korea the government actively supported and encouraged the development of the nation's automobile industry (see Amsden, 1989). In 1960 South Korea's auto production was negligible, estimated at less than 0.1 per cent of global production. Even by the early 1980s the industry was still in its infancy producing some 20,000 units annually. However rapid growth during the decade saw production rise by 1989 to nearly 900,000 units, 2.5 per cent of global production, making South Korea the largest auto manufacturer outside Europe, Japan and North America (GATT, 1989, Table A11). Of the three major Korean auto producers, Daewoo, Hyundai and Kia, Hyundai is of most interest[5] because it represents the first developing world indigenous[6] auto manufacturer to penetrate both global markets as well as establish production sites in North America.

Unlike the pattern of most developing world auto producers, rather than forming a joint venture with an existing manufacturer, Hyundai developed by acquiring technological know-how without the significant involvement of a foreign producer. Consequently when Hyundai's began production of it's first car, the Pony, in the 1970s, the company drew on technology from a large number of foreign sources, (Italy, Japan, the UK, and the US). The principal strategy of the company was to export in large volumes both the Pony, and later the Excel to the US, and compete against the Japanese in a very narrow product range almost entirely on price. The strategy hinged on labour costs in South Korea which were a fraction of those in Japan and other developed countries. Initially the strategy was very successful, between 1986-1988 Hyundai exported 300,000 cars to North America and constructed its first North American plant near Montreal.

Nonetheless, towards the end of the decade Hyundai was experiencing problems (e.g. see Womack et al ibid.). As part of South Korea's transition to democracy, wage costs rose substantially while demand in the North American market declined because problems with the reliability of Hyundai's vehicles. Hyundai's continuing problem is how to compete on a global scale when confronted with the particular challenge of catching up technologically on the one hand and of moving from being a low-wage producer to a firm being able of competing with the Japanese on the other. In addition its market share is vulnerable to the emergence of new auto manufacturers with wage costs significantly below those in Korea, such as Indonesia, Malaysia and Thailand.

6.3 The Indonesian Automotive Industry.

The Indonesian automotive industry enjoyed considerable growth over the past decade in both automobiles and motorcycle production (see Table 1 below). In addition component production for export has also registered an increase during the 1990s[7]. However, Indonesia's automotive industry currently remains in a more fledgling stage than those of its neighbours in ASEAN, and while sales figures for 1995 reveal that Indonesia was the second largest market for automobiles in ASEAN behind Thailand, this must be set against the fact that Indonesia's population at 185 million is three times as large, and nearly ten times the size of ASEAN's third largest market, Malaysia.

Table 1: Car Production By Category.

Category	1985	1990	1997
Up to 5 tons	88,612	161,842	226,743
5-10 tons	13,141	27,160	49,733
10-24 tons	4,563	17,685	12,771
General purpose	8,923	7,092	4,081
Over 24 tons	--	481	624
Sedan*	24,199	57,479	54,925
TOTAL	139,438	271,712	388,877

* Passenger Car

Source: *Department of Trade and Industry, Export Market Information Centre, Indonesia Sector Summary: Automotive Industry, 1998.*

Prior to the early 1950s the automotive industry in Indonesia centred around the General Motors assembly plant that had been established in 1928. GM imported vehicles in two unit packs which were then assembled locally and proved cheaper than simply importing CBUs. After the Second World War the two unit packs were replaced by CKDs as the Indonesian government tried to increase labour utilisation and the technical skills of the workforce on the one hand, and reduce the drain on the country's foreign exchange reserves on the other (Witoelar, W., in Okada, K., 1984, pp. 17-18). However growing economic difficulties during the 1960s made it difficult to even import CKDs and by 1961 apart from the assembly of government vehicles all production ceased.

The initial emphasis of the Soeharto regime after 1967 was simply to alleviate shortages and increase the supply of goods, including automobiles. Consequently automobiles in all formats were permitted to be imported, including CBUs. While this increased supply, it had an adverse affect upon domestic assemblers, resulting in only six of the country's 21 assemblers being operational by the following year. Clearly this situation had to be addressed, and in 1969 the government began the process of developing the automotive industry through a series of measures ultimately geared to increasing localisation and creating a domestic automotive industry with full manufacturing capabilities. The National Plan for Industrial Development launched in 1969 aimed, optimistically, to achieve full capabilities in the motorcycle industry and in the three wheel sector by 1980, in basic commercial vehicles by 1981 and realise the overall goal by 1984. In order to realise this, the domestic components industry would be firstly nurtured for the original equipment market, and subsequently for the replacement equipment, and export markets (ibid. pp. 19-21).

A number of measures followed, beginning in 1971 with the prohibition of imported CBUs to Java and Sumatra -- subsequently extended to the whole of Indonesia three years later (in other words all imports had to be either semi-knocked down (SKD) or CKDs), followed in 1976 by a localisation programme launched under Decree 307 by the Minister of Industry (Interview Data). The decree introduced a schedule for the deletion of specific components from imported CKD kits in the assembly of commercial vehicles. Once an item appeared on the schedule (which was an item by item basis) local manufacturers were required by law to supply the items.

The Indonesian automotive industry, is as we shall see later in Thailand, overwhelmingly dominated by the Japanese who enjoy a 85-90 per cent market share. Until recently government policy sought to increase localisation among primarily foreign or joint venture assemblers rather than, as in Malaysia, champion a national car project (Interview Data, 1996). In line with the localisation programme CBUs were banned again from 1976 until 1993, since when high tariffs and import duties were introduced to discourage their use (Interview Data, 1996, see also Table 2).

While the localisation strategy sought to reduce dependence on imported components and machinery it led to the concentration of local production in a small number of large conglomerates. For example, prior to the launch of the national car project in 1996, 90 per cent of the production and/or distribution of the twenty three brands of automobiles assembled or produced in Indonesia were in the hands of three business groups. The largest of these *PT Toyota-Astra Motor* produced over half of all the cars sold in Indonesia[8]. The second largest group, *PT Indombil Utama* assembles Suzuki, Mazda, Hino, Volvo and Nissan while the third group *PT Krama Yuhdu* produces Mitsubishi vehicles (Embassy of the Republic of Indonesia, ibid., p.129).

Table 2: Rates of import duty (ID) and import surcharge (IS) on CBU vehicles

Category	ID(%)	IS(%)
Sedans	200	35
Category I - petrol	105	20
- diesel	105	25
Categories II and III	70	35
Category IV	100	35
Category V	5	35

Source: *Department of Trade and Industry, Export Market Information Centre, Indonesia Sector Summary: Automotive Industry, 1997.*

In February 1996 to the surprise of her neighbours and many commentators, Soeharto launched the National Car (MOBNAS) Programme. The government announced that PT Timor Putra Nasional, perhaps unsurprisingly owned by the Soeharto's son

Tomy, could receive pioneer status as a national car manufacturer and would consequently be exempt from import duties and luxury sales tax. To qualify for pioneer status, the Indonesian government stipulated that automobile companies must meet three basic criteria: firstly that they use an Indonesian brand name for its cars; secondly that the company's shareholders must be wholly Indonesian and; thirdly that the company should contribute directly to improving national technological, design and engineering capabilities, principally by increasing local content[9]. Consequently local content must exceed 20 per cent by the end of the second year of operation and 40 per cent by the end of the third year (DTI, ibid.).

The launch of the MOBNAS Programme and the subsequent award of the contract to the then President's son generated a storm of criticism that led to the Indonesian government being taken to the World Trade Organisation for unfair trading practices by the US and Japanese governments and by the European Union[10]. Partly in response to such allegations the Government announced in June 1996 that *any* manufacturer achieving a local content of 60 per cent would similarly qualify for tax breaks enjoyed by PT Timor Putra Nasional. However after making such a concession, a Presidential Decree in the same month gave permission for the company to import, in CBU form, 45,000 automobiles made by the Korean firm Kia which would then be rebadged as the *Timor*[11]. These imported CBUs would be classed as national cars and thus receive the tax breaks detailed above. The Government's justification for this was on the grounds that the company did not yet have an assembly line and was not able to produce its own vehicles. Construction of a purpose built plant began in February 1997 and the first imported Timor went on sale in October 1997 since when approximately 18,000 units have been sold (ibid.).

The only other significant automobile programme involves a Joint Venture between the Bimantra Group[12] and Hyundai. Bimantra produces two models, the 1500cc Cakra with a local content of approximately 17 per cent, and the 1600cc Nenggala, which currently has no local content (Interview Data, British High Commission, Jakarta). By way of an indication of the impact that pioneer status has on the price differentials between the Timor and its rivals, the first imported TIMORs retailed at Rp 35 million (£8,975, November 1997 ex rate), the Cakra at Rp 45 million (£11, 540), the Nenggala, Rp 59.6 million (£15,285) whilst an imported Peugeot 306 assembled locally retails at Rp 65 million (£16,670).

Production of motorcycles in Indonesia is dominated by the Japanese companies, Honda, Yamaha, Suzuki and Kawasaki, all of whom have assembly plants in the country. With local demand fractionally below that of Thailand, Indonesia is one of the biggest markets for motorcycles in the world, and with a much larger population than its Southeast Asian neighbour, there is still room for significant further expansion of this market. As a consequence BMW has recently set up a plant and two further (unnamed) companies have received licenses to begin production in 1998.

Table 3: Indonesian Motorcycle Production Figures (Units)

1994	1995	1996	1997
781,404	1,042, 938	1,360,000	1,861,111
1,413,890 *	NA	NA	NA

Source: *Department of Trade and Industry, Export Market Information Centre, Indonesia Sector Summary: Automotive Industry, 1997.* (* Comparison figure for Thailand).

Similar to the development of the automobile sector, although motorcycles had been imported in CBU form since before World War Two, it was not until the 1950s that assembly operations began in earnest when *Vespa* began production. The Indonesian government has constantly treated the two industry sectors as one package, launching for example in 1977, under Decree 08, a deletion schedule for two wheel vehicles similar to that provided for the automobile industry (Witoelar, in Okada, ibid., pp. 36-53).

In 1976 when local assembly was found to be adequate the government decided to stimulate local manufacturing by issuing decree 307, binding assemblers of commercial vehicles to the use of locally manufactured components (original equipment) according to an itemised schedule. In addition, differential import duties on finished products, raw materials, components and machinery also served to encourage localisation. Partly as a result of the localisation programme the automotive component parts industry has developed substantially in recent years now producing a range of components including: radiators, ball bearings, body parts, mufflers, pistons and spark plugs. In 1977 there were 23 members of Indonesian Automotive Parts and Components Industries Association (GIAMM, *Gabungan Industri Alat-Alat Motor & Motor*); by 1996/7 this ad risen to 119 manufacturers. While mainly servicing the needs of local assemblers, exports of component parts rose sharply from US$13.2 million in 1992, to US$188 million in 1996. However approximately 43 per cent, 59 of the 119 members of GIAMM, were as of 1997, Joint ventures with foreign investment (DTI, 1998).

However while aggregate figures on production and use of local components show a marked increase since the localisation programme was launched, there are several factors that remain issues of concern. Firstly, while labour costs are low in Indonesia, in reality the cost of assembly is very expensive. The principal complaint of the major assemblers is that the use of local components tends to escalate the price of the finished vehicle. Although the government provides deletion allowances, assemblers complain that the price of the local components are in many cases higher than the deletion allowances (GIAMM, 1998). Among the factors held responsible for higher costs two are of particular concern. Firstly sales volumes for a number of components (such as carburettors, drive chain, chain adjuster, speedometer etc.[13]) are still too small to realise economies of scale, a problem exacerbated by the fact that the large number of makes and models each require different specifications which further narrows the market. Secondly many local manufacturers of component parts are in reality assemblers of parts manufactured by *other* manufacturers (sub-components), many of them foreign-owned or joint ventures. Hence added in to the cost of such parts are shipping charges and import duties (reflecting this, GIAMM has on a number of occasions complained to the government that sub-components are too heavily taxed[14]).

There are two further conclusions that are drawn from the Indonesian automotive industry that are cause for concern. Firstly, although the ban on CBUs combined with investment incentives provided new opportunities for ancillary firms to enter the component industry as suppliers of OEM, government protectionism disproportionately favoured large-scale firms. In particular large firms that have relationships with foreign firms have faired better than smaller purely indigenous companies because the latter are unable to raise large amounts of capital and lack access to modern technologies. Secondly, few successful components firms derive their technology from local assemblers (Witoelar, in Okada, ibid., pp. 73-6).

What is clear from this brief discussion of the automotive industry in Indonesia, is that there has not been a determined and co-ordinated national strategy designed to create an internationally competitive industrial sector of the kind detailed below in Malaysia. From 1976 until 1993, the government banned the importation of CBUs, operated a system of duties and tariffs and a deletion programme in order to encourage the manufacture of components locally. Despite this local content in Indonesian automobiles averages less than in its neighbours in Malaysia and Thailand. Although exact figures are difficult to come by because of the opaque nature of the bureaucracy and record keeping, it is estimated that for saloons the figure is as low as 10 per cent rising to between 40-45 per cent for all other vehicles (interview data). When a national project was finally announced, the award of the contract for the national automobile to Soeharto's son provided a perfect illustration of the extent to which nepotism and patron-client relations dominate Indonesia's political economy. This is anything but an example of rational planning by an autonomous economic technocracy and clearly differentiates Indonesia from the developmental experience of Japan, Taiwan and to a lesser extent South Korea.

Both Bloomfield and Okada envisage a natural evolution of the automotive industry in the developing world. Firstly foreign technology is transferred or imported to a few local large-scale manufacturing firms, mostly foreign subsidiaries, then this technology is diffused to smaller firms that act as subcontractors to the large companies. Finally some of these small-scale firms develop into modern independent companies specialising in the manufacture of specific parts and components. In Indonesia it is clear that the first two stages have been realised but there are few signs that technologies have been diffused sufficiently to allow subcontractors to develop independently of their relationships with their principals. In addition since many subcontractors import sub-components for use in the effective assembly of the components they produce, one has to question the extent to which such technologies have really been transferred (Ibid., pp. 74-81., GIAMM, 1998).

Before concluding this section it is necessary to consider the automotive industry in the wake of the recent economic crisis that has afflicted Indonesia and the wider region. The regional economic crisis has crippled the Indonesian economy. The rupiah has depreciated by 70 per cent against the US dollar, the banking system is near collapse, and many Indonesian conglomerates are struggling to service or repay large dollar denominated debts. The downturn in the economy has hit the automotive sector particularly hard. So far analysts are predicting total production of vehicles for 1998 to be down by nearly 75 per cent at 100,000 units, with the production of motorcycles down by half[15]. Of most concern for the government's strategy for increasing localisation in the Indonesian automotive industry were the strict conditions attached to IMF's $43 billion bail-out of the economy. Among these was the insistence that the pioneer status and luxury sales tax exemption that PT Timor Outra

Nasional enjoyed was rescinded. Without the tax breaks afforded the TIMOR the company will no longer enjoy a price differential over its rivals and will have to compete on a level playing field with existing assemblers. Furthermore the bankruptcy of its Joint Venture partner the Korean car manufacturer, Kia Motors[16] also raises serious questions about the future viability of the company[17]. The economic crisis has also meant that the integrated assembly plant that Hyundai and Bimantra Citra planned to develop has been postponed, while finally given the high import content of many sub-components the depreciation has also adversely affected ancillary firms in the automotive sector.

6.4 The Malaysian Automotive Industry

The Malaysian automotive industry has experienced rapid growth over the past decade and was, until the recent crisis, one of the most dynamic sectors of the Malaysian economy. In 1996 automotive output accounted for 4.8 per cent of total manufacturing output and 3.3 per cent of total employment (MACPMA, 1997). The production of passenger cars within the sector expanded 837 per cent between 1987 and 1996 from 33,685 units to 315,650 units and whereas in the mid 80s non-national vehicle assemblers accounted for over 80 per cent of the domestic market, by 1996 their share had been reduced to 19.1 per cent. Not only have Malaysian manufacturers been able to dominate the domestic market but they have done this against rapid growth in vehicle ownership.

By the 1996 the Malaysian national car company, PROTON, had captured 63.9 per cent share of the Malaysian automobile market, principally because it is the beneficiary of exemption from the 40 per cent import duties imposed on its locally assembled competitors and the far higher import duties on imported completely built units (CBU). Ridiculed by its critics on its launch and beset by huge losses during its early years of production PROTON has turned its fortunes round to record profits since 1989. In addition the Malaysian government were able to begin export of PROTON models earlier than had been anticipated by the Japanese partner Mitsubishi, and with some notable success, particularly in the UK market. What the PROTON and its successor projects, Perouda and Tiara demonstrate vividly is in many ways a microcosm of the Malaysian economy as a whole. The often acrimonious relationship between the Japanese and Malaysian partners over questions of technology transfer, managerial expertise, marketing and export market access resonate with wider attempts to manage a *dependent* relationship across Malaysian manufacturing. Nevertheless while the viability of the PROTON must be seriously questioned given the continuing protection it enjoys from rival automobiles, there have been a number of successes on the Malaysian side in their attempt to improve their bargaining position with its Japanese partners, Mitsubishi Corporation and Mitsubishi Motor Corporation as will be illustrated below.

Prior to the launch of the first national car project, the Malaysian automobile industry never progressed beyond minimal assembly operations and limited local content requirements. For example, by 1979 local content averaged an abysmal eight per cent mainly concentrated in low valued added inputs such as batteries, paint and filters (Jomo, 1994, p.264). Besides limited local content, a proliferation of models[18] made it difficult for local components manufacturers to achieve the requisite economies of scale, consequently their parts were expensive and uncompetitive.

During the 1970s attempts were made to improve the industry by reducing the number of assemblers and insisting on mandatory increases in local content that would be enforced by penalising those assemblers that failed to meet the requirements. Most of the measures failed or were abandoned for a number of reasons. Firstly, there was some concern within the Malaysian government that such regulations might interfere with ASEAN's brand complementation scheme; secondly there were fears that prices would rise as a result of such protection; while finally the failure reflected in general the weakness of parts producers against strong multinational corporations that showed little interest in localisation.

There was little significant changes within the industry until 1978 when 6 large parts producers rationalised their production and formed the Malaysian Automotive Component Parts Manufacturers Association (MACPMA). Encouraged by their example by the end of the year 50 of the country's 200 automotive parts producers had joined MACPMA. Such rationalisation resulted in MACPMA becoming a powerful lobbying force for change resulting the following year in the first government steps towards a Made-in-Malaysia car.

Those first steps were occurred when the Local Material Policy programme came into force with the introduction of Mandatory Deleted Items Lists from Completely Knocked Down (CKD) vehicle kits. The rationale behind this move was by prohibiting certain components in imported CKD the government created opportunities for local parts manufacturers. In addition these deletions were backed by ample protection for local producers in the form of fiscal and monetary incentives, tariffs, duty exemptions on the one hand, and by penalties for assemblers not meeting the guidelines on the other. As a direct result of this legislation local content levels in the automobile industry increased from eight per cent to 18 per cent between 1979 and 1982, and from 18 per cent to 30 per cent by 1986 (Jomo, ibid., p.265).

Nonetheless despite these first moves problems persisted because prices for locally assembled vehicles remained higher than Completely Built Unit (CBU) imports,. Furthermore between 1978 and 1983 the industry's contribution to GNP actually decreased from 1.2 per cent to 0.6 per cent. Market fragmentation, high prices of local components and the refusal of a number of Japanese corporations to reduce the price of their CKD kits by the amount that local producers of the deleted parts were charging were held to be responsible for the decline and for the continuing higher cost of locally assembled autos.

PROTON

As mentioned earlier, many of the prestige projects and main policy thrusts of Malaysia's developmental strategy since 1982 were either initiated personally by Mahathir or originated from within the Prime Minister's office. The first National Car Project is no exception, and indeed at crucial moments in both the preliminary negotiations and in negotiations over the question of technology transfer and local content Mahathir intervened personally. PROTON is closely associated with the Heavy Industrialisation Drive that Mahathir launched in 1980 when Deputy Prime Minister which aimed to deepen Malaysia's industrial structure principally through the creation of Joint Venture agreements with Japanese partners who would provide the capital, technology and finance in return for captive market access. The JVs were to be established with the then 100 per cent government owned Heavy Industries Corporation of Malaysia which Mahathir placed in the Ministry of Trade and Industry (also then under his jurisdiction), and which negotiated the joint venture between Perussahaan Otomobil Nasional (PROTON), Mitsubishi Motor Corporation and Mitsubishi Corporation.

Mahathir first mooted the idea of a National Car project in 1980 when he instructed MIDA to undertake a feasibility study for such a project. From the beginning Mahathir was aware that this was something Malaysia would not be able to do alone and consequently MIDA began talks with Daihatsu Motors. The deal with Daihatsu failed because the Japanese were reluctant to offer anything more than a body-stamping plant with some technical assistance, considerably less than the made-in-Malaysia car that Mahathir envisaged.[19]

As a result negotiations began with Mitsubishi and in 1982 Mitsubishi's chairman, Dr Kubo visited Malaysia where he reached a deal with Mahathir on the type of car that would be produced. Mitsubishi has long been among the second division of major Japanese automobile producers which are dominated by the big three of Nissan, Toyota and Honda. Unlike these three Mitsubishi has had to co-operate much more with other motor manufacturers in order to compete in the world market. For example, the US manufacturer Chrysler owns a 24 per cent stake of Mitsubishi Motor Corporation (MMC). During the 1980s MMC developed a Pacific Production Plan designed to use cheaper products from produced from across the Pacific region in order to augment competitiveness[20]. The attraction of the PROTON deal for MMC was that it presented the Japanese producer with an opportunity to increase share in one of the ASEAN region's fastest growing auto markets, from eight per cent in 1982 to over two-thirds by the latter half of the 1980s[21]. MMC were also attracted by the deal because it presented them with an opportunity to consolidate its regional production scheme by locating various facilities for vehicle production in the ASEAN region in order to dominate the ASEAN car industrial complementation scheme[22].

To ensure both MMC's participation in the project, and financial viability, the Malaysian government assured PROTON of market dominance by exempting it from a newly-imposed 40 per cent import duty on CKD kits and by raising CKD import duties by 300 per cent simultaneously. The result of this was that PROTON was able to import parts one-third the cost of its competitors resulting in a price differential of

20-30 per cent between PROTON and its rival models. Consequently PROTON's market share grew steadily since its launch, from 47 per cent of the market in 1986, to 68 per cent in 1987 and 73 per cent in 1988. From MMC's point of view therefore the,

> PROTON Saga was seen as a golden opportunity to secure a strong foothold in the increasingly prosperous Asian region (in the face of aggressive competition) where Toyota dominates the Indonesian archipelago of 170 million inhabitants, Mazda has the upper hand in the 75 million strong market of the Philippines, while Nissan is the number one car manufacturer in Thailand, a market of 65 million. (Bartu, cited in Jomo, 1993, p.268).

In the Joint Venture, HICOM contributed 70 per cent of the paid up capital with MMC and the Mitsubishi Corporation providing 30 per cent. Most of the funds for plant construction and much of the operating equipment came from Japanese sources while PROTON raised 33 billion yen from Mitsubishi related banks. In addition to the market access Mitsubishi were also guaranteed that any losses incurred would be underwritten by the Malaysian government while benefiting from the supply of car parts and production equipment to the Malaysians on turnkey terms. With hindsight the biggest mistake made by the Malaysian side was in not opening negotiations with a number of manufacturers in order to improve their bargaining position with Mitsubishi through competitive bidding.

Perouda and Tiara

Again wholly an initiative by the Prime Minister, and much to the chagrin of Mitsubishi, a deal for a small car with an engine size below 1000cc was struck between the Daihatsu Motor Corporation Japan, Daihatsu Malaysia Bhd (Daiahtsu's local distributor in Malaysia Mitsui Co.), Permodalan Nasional Bhd (a Bumiputera holding company) UMW Holdings Bhd (the local Toyota assembler and distributor) and a subsidiary of MARA (an agency for advancing Bumiputera participation in the economy). Although touted as a lower middle class car the strategy behind the second national car project is to encroach on PROTONs lower range models and its overall market share thus enhancing the governments bargaining position with Mitsubishi. Again however the Malaysian side weakened their hand because Daihatsu was the only candidate considered for participation.

Perouda began producing the 660cc Kancil in mid 1994 and within two years Perouda had sold 46,941 units giving it 32 per cent of the small car market, against PROTON's 54 per cent, approximately 17 per cent of the overall car market. In April 1996, again following the personal intervention of the Prime Minister, Perouda began producing a 1300cc national van and in September a 850cc Kancil. Although Perouda was set up to realise Malaysia's aspirations for an affordable, compact, and practical car for its growing motoring population a limited number of units have been exported to Brunei (Interview Data), and since 1997 to the United Kingdom[23].

In April 1996 Malaysia's third national car, a 1,100 cc re-styled Citroen AX produced in collaboration between Peugeot-Citroen, PROTON and Usahasama PROTON-DBR was launched. Interviews with MIDA during the negotiations suggested that one of the principal motives for such a deal was MMC's refusal to transfer production of engines and engine parts to Malaysia. Such know-how and skills, MIDA maintained, would be developed through collaboration with Citroen eventually allowing local producers to substitute the import of such parts from MMC in the production of the PROTON itself (Interview Data).

The Motorbike Sector

The motorcycle market in Malaysia is enormous, growing at 20 per cent per annum with 32 per cent of Malaysians owning such a vehicle. Currently according to British High Commission Report, there are over 28 models in the domestic market ranging from 70cc to 250cc, and dominated by the Japanese producers: Kawasaki, Honda, Suzuki, and Yamaha. Smaller bikes, assembled locally, currently dominate the domestic market with close to 80 per cent local content. Local component design has improved in recent years with a growing number of manufacturers producing for the OEM market. More recently superbikes have gained popularity across ASEAN, including Malaysia, with Yamaha and Kawasaki producing bikes in the range of 500-1000cc. However, the top end of the market remains dominated by imported CBU superbikes such as Harley Davidson, Ducati , BMW and Triumph. With estimated demand for smaller bikes and scooters at 350,000 units per year, the government launched The National Motorbike Project in 1995. The result was a RM300 million JV between DRB-HICOM Group and Kawasaki and Nissho Iwai Corporation, MODENAS, to produce two and four cylinder 100cc and 110cc motorbikes. The first of these, the 110 cc KRISS, was launched in November 1996 with a local content of 70 per cent. MODENAS aims to achieve sales of 120,000 units by the end of 1997 and begin exporting to other ASEAN countries, particularly Vietnam and Cambodia (MACPMA, 1997).

Automotive Components Parts

Within the automotive sector, the manufacture of component parts has become increasingly important. Total production of such parts rose from about RM280 million in 1989 to RM2.3 billion in 1996 (MACPMA, 1997). Currently over 300 companies manufacture component parts in Malaysia[24] with 143 of these involved in OEM and REM. Although providing parts to the automotive sector as a whole, the Malaysian components parts manufacturers supply over 3000 components for PROTON alone, contributing over 50 per cent in value of the PROTON's local content. In fact there is a heavy concentration of component parts manufacturers in the Selangor area within a 50 km radius of the PROTON plant in Shah Alam (Interview Data).

In 1995, the industry represented a fixed assets investment of RM six billion and directly employed a workforce of 12,500. Although it has grown rapidly, it has largely been as a result of government assistance, firstly by stipulating the Mandatory Deleted Lists and from 1992, with the introduction of a mandatory Local Material Content of between 45 per cent (Passenger Vehicles 1851cc-2850cc, Commercial vehicles up to 2500cc) and 60 per cent (Passenger Vehicles up to 1850cc and all motorcycles). As a result of such strategies the range of parts produced locally is now more comprehensive (see Figure 1).

Figure 1: Parts Produced Locally

Parts Group	Major Items
Body Parts and Panels	• Safety Glass • Weather Strips • Body Mouldings
Engine Parts	• Castings • Manifolds • Filters • Radiators • Radiator Hoses • Air filter Housings • Spark Plugs • Pistons • Piston Liners
Drive, Transmission and Steering Parts	• Nuts • Gear Shift Components • Drive Shaft • Clutch • Wheel Rim • Wheel Nuts and Studs • Rack and Pinion Steering assembly • Brake and Suspension Parts

	• U-bolt and Shackle assembly • Shock Absorber • Brake drum • Brake Disc • Brake Pad
Electrical Parts	• Battery • Horn • Wiring Harness • Alternators • Starter Motors • Voltage Regulator • Wiper and Washer Assembly • Instrument Clusters • Relays • Clock • Fuse Box • Headlights and other Lights
Trim and Upholstery	• Carpet • Floor Mat • Rear Parcel Shelf • Seat assembly • Safety Belt

	• Melt Damping Sheet
General Parts	• Paint and thinner • Underseal • Tyre • Tubes • Air Conditioner • Radio • Screwjack and Tool Sets • Fuel Tank • Exhaust System • Control Cables • Mirrors

Assessing the success of the automotive industry.

The first question that has to be asked about the national car projects is whether they actually represent a Malaysian Car at all? In its early days the PROTON Saga was essentially a four-door Mitsubishi Lancer Fiore, in 1300cc and 1500cc engine size. Most of the car was shipped to Malaysia in knocked-down kit form and assembled there (Jomo, 1994, p.270). Even a UN report noted that the deal "appeared far more secure for Japan and Mitsubishi than it did for Malaysia" (ibid., p.271). Nonetheless central to the original deal was a commitment by Mitsubishi to increase local content and technology transfer from less than 20 per cent at the outset to almost 60 per cent by 1991. Interviews carried out at MIDA in March 1996 confirmed that this upward trend continues with 1996 local content exceeding 70 per cent. Much of this increase has occurred *despite* resistance from Mitsubishi. Indeed central to the increase has been the two periods of enkada which meant that parts imported from Japan became exorbitantly expensive[25]. However rising local content does not necessarily imply a significant deepening and upgrading of the Malaysian economy. As Jomo commented when interviewed, increasing local content in itself is unimportant since it is what is actually produced that matters. If the local content is relatively low in terms of value-added then the amount of local content is not that significant to the economy. In the automobile industry despite rapid growth in local content crucial technologies particularly in engine parts manufacture and engineering design and research have not been transferred.

Initially the national car project was oriented towards supplying the domestic market, thus the size of the Malaysian passenger car market would define and limit the size of PROTON's operations. A slump in demand in the latter half of the 1980s and the effect of the rising Yen upon PROTONs outstanding yen loan sent the company into financial difficulties. Despite the fact that the original deal between MMC and HICOM envisaged PROTON not engaging in export until 1990, the slump in domestic demand led Mahathir to consider the export market as the only way of taking up excess capacity and generating the required economies of scale. Needless to say Mitsubishi were reluctant to begin exporting so soon and as the pressure mounted they tried to stall the Malaysian government with calls for adequate market research to assess the viability of export and to consider technical modifications that would be needed to make the car exportable.

In reality MMC did not want the PROTON to compete with other vehicles that it produced for export elsewhere in the Asia-Pacific region, most notably the Lonsdale in Australia. In addition leaked reports in the Asian Wall Street Journal and the Far Eastern Economic Review revealed that the quality of the PROTON was below the standards the Malaysians had anticipated,

> The vehicles are designed to Malaysian requirements only.... Their windshield glass isn't up to European standards, dashboards are made from plastic materials that could shatter in an accident, bumpers aren't adequate, and starters aren't suitable for temperate climates. (Asian Wall Street Journal, 19 December 1985, cited in Jomo, 1994, p.274)

Not only would such quality problems raise problems for export to overseas markets, particularly the US and UK, MMC felt that the PROTON could damage Mitsubishi's image overseas.

Despite disastrous attempts at entering the US market without Mitsubishi, the attempt persuaded the Japanese to abandon their stalling tactics and assist in the export of the PROTON. Units were sold within ASEAN, to Brunei and Singapore, and further afield to New Zealand, Malta and the UK, which became the PROTONs principal export market. The cars lack of quality seemingly did nothing to dent its popularity which resulted in demand outstripping supply in the first year, although in the initial stages of the export drive critics questioned whether any actual profit was being made (see for example, Jomo, 1994, p.277) and continue to maintain that the export price is subsidised.

By 1989 PROTON finally came into the black registering a profit of RM32.6 million. However as a result of the losses incurred during 1987 and 1988, management control was wrestled away from Malaysian sources to MMC. This has led to subsequent allegations that MMC and MMC's PROTON management are not doing everything they could to increase local sourcing and technology transfer. For example, Malaysia has for some time now produced electro-magnetic relays that are used in the automobile industry. These relays are already sold to the US and Europe but are not used by Malaysian car assemblers including PROTON. PROTON instead prefers to source such parts from companies that have an association with MMC in Japan, despite the fact that the high value of the Yen makes such parts expensive.

Nonetheless by 1990 PROTON's sales exceed RM one billion for the first time, and in 1991 profits soared sufficiently to allow PROTON to be floated on the Kuala Lumpur stock Exchange with a sale of 150 million shares out of 500 million. At the flotation HICOM still commanded the largest stake in PROTON with 29 per cent of the shares, the Ministry of Finance holds 18 per cent of the stock with the Japanese stake trimmed to 17.4 per cent.

PROTON's success continues to depend upon its privileged treatment from the government, that continues despite dissatisfaction with MMC. For example in 1991 the central bank passed tough new guidelines on loan financing of new cars restricting it to 4 years rather than 5. Again PROTON escaped as it only applied to cars above RM40,000 and although in 1993 PROTON launched an upper-end model costing over RM40,000 it is expected that the limits will be revised to allow PROTON to escape the conditions.

In terms of competitiveness, it is estimated that the benchmark level for achieving economies of scale in the automobile industry from one plant is 200,000 units. Despite continuing economic boom in Malaysia since the late 1980s, PROTON has yet to break though this figure achieving just over 180,000 units a level that PROTON itself believed would be difficult to maintain with the launch of the Kancil. Nonetheless assisted by Mahathir's penchant for big prestige projects a designated automobile 'city' aptly named PROTON City is being constructed at Tanjung in Perak state which will increase capacity to 500,000 units by the year 2000. Consequently the necessity for exporting the PROTON will become even greater.

Continued dissatisfaction with the reluctance of MMC to increase technology transfer, and the practice of charging inflated prices for parts imported to Malaysia for use in the PROTON models, has led to a number of personal initiatives by Mahathir to break the deadlock and improve the bargaining position of the Malaysian side. First among these was his decision to initiate negotiations with Daihatsu for the second national car project -- the Perouda which by encroaching on PROTON's market share, particularly in the smaller engine size, would strengthen the government's bargaining position with MMC[26]. Unlike PROTON however local content in the Perouda units although increasing is low by comparison with PROTON (Table 4).

Table 4: Local content in the Malaysian automotive Sector

Vehicle	Local Content % terms
Motorcycles	75% and over
PROTON	70%
Perouda	50%
Other local assembled	30-40%

Source, Malaysia Automotive Industry, Sector Report, 1997, British High Commission, Kuala Lumpur.

Despite the problems over technology transfer and the sourcing of parts, the development and growth of Malaysia's automotive component parts industry arguably has also begun to redress the balance between government and domestic capital on the one side and foreign capital on the other. Lobbying hard for the development of indigenous technologies and for the sourcing of parts from countries other than Japan has been MACPMA, who have achieved some success in the latter although critics would claim that this has more to do with enkada than their own efforts. Nonetheless sourcing now takes place from countries as diverse as Taiwan, Thailand, the US and India. Among the indigenous manufacturers that benefited from the national car projects are UMW, Tan Chong and Oriental Motors (Interview Data). Of these the first two now export around a fifth of their production to Australia, the Middle East and perhaps surprisingly Japan, with total exports of component parts rising from RM52.3 million in 1990 to RM193 million by 1996[27].

Nonetheless there are still areas of concern for the Malaysian government. Echoing the arguments made by Bernard and Ravenhill concerning OEM in Taiwan (1995), and Yoshihara (1988) on 'technologyless development', most of the companies engaged in the manufacture of component parts have a high percentage of *foreign* capital participation and technical collaboration, and for many of the components exported, local content is relatively low. Of particular concern in the automotive sector is the production of engines -- crucial sub-components crucial to the engines assembly continue to be imported (Among these for example are: Thermostats, Insulators, Cylinder Head, valves, Manifold Cover etc.).

Table 5: Match making agreements between Malaysian Automotive Component Part Manufacturers and Foreign Collaborators.

Source Country	Joint Venture	Technical Assistance	Purchase Agreement	Total
Japan	16	35	4	55
Germany	3	6	-	9
Taiwan	5	1	-	6
South Korea	6	-	-	6
Australia	2	1	-	3
Others	4	6	-	10
TOTAL*	36	49	4	89

Source: Proton Public Relations Department (*Figures as of January 1997).

As the above table demonstrates, the majority of technical collaborative arrangements among PROTON's local vendors are with Japanese partners. Overall Japan is the source country for 62 per cent of all arrangements, ranging from 44 per cent for Joint Ventures to 71 per cent for technical assistance. This visibly demonstrates both a situation of technological dependence, and the need to 'resurrect' dependency as an analytical tool since this condition is a very real problem for both the Malaysian government and Malaysian industrialists.

To try and rectify this and to break the Japanese principal-supplier links, that have been subject to much criticism, the Malaysian government has adopted a number of strategies. Firstly in 1980 as detailed earlier the government introduced the Mandatory Deletion Programme alongside local content targets for the automotive industry as a whole. The purpose of the MDP was that certain components were required to be 'deleted' from imported CKDs and consequently sourced from local manufacturers. As of January 1996, 30 items were listed on the MDP[28]. The Introduction of the MDP resulted in increasing localisation, of over 70 per cent for PROTON, 50 per cent for PEROUDA and 30-40 per cent for other passenger and commercial vehicles (MIDA, 1995, p. 12).

Secondly the Malaysian government established an International Procurement Centre in Osaka run by MIDA (although separate from MIDA's office in Tokyo) in order to break the link between Japanese principals and their suppliers. This they hope to achieve by a) attempting to persuade the supplier firms to provide parts directly to Malaysian companies and b) through the formation of Joint Ventures with domestic manufacturers (Interview data, March 1996). Another important move occurred in July 1996, when a consortium of 12 major Malaysian components companies was set up as Premier Choice Sdn Bhd specifically to invest in Japanese firms with technical expertise in the components industry and to encourage them to manufacture locally.

Furthermore, recent developments within the automotive sector look set to further strengthen the hands of domestic producers. In 1996 HICOM was privatised with the industrial and financial conglomerate Master Carriage acquiring a 32 per cent, RM1.8 billion stake in the holding company. The acquisition of HICOM by Master Carriage began the process of creating a major Malaysian automobile conglomerate as Master Carriage owns Diversified Resources Berhad (partner in the Tiara production), a controlling interest in Automotive Corporation (the country's leading assemblers and distributors of foreign cars, trucks and buses) and USPD another company involved in the Tiara project (Interview Data, August, 1998).

The newly formed DRB-HICOM group subsequently bought the governments shares in PROTON, thereby handing one of Mahathir's pet heavy industry projects over to the private sector, and earned Master Carriage's chief executive Yahaya, the title of Malaysia's Car Tsar[29]. The coming together of so many separate firms under one company should allow for rationalisation and streamlining within the industry resulting in cost reductions and the further development of Malaysia's indigenous components parts sector. By way of an illustration of the changed realities at PROTON in October 1996 the company bought an 80 per cent stake in the UK automotive engineering company and sports car manufacturer Lotus (16 per cent of which was purchased personally by Yahaya). This case of purchasing equity in foreign companies in order to acquire new technology may point the way forward for many of Malaysia's heavy industry firms rather than JVs given the problems that have been experienced over the past two decades with the national firms and their Japanese counterparts. It also demonstrates a conscious strategy to manage the dependent relationship to the advantage of the dependent party. If not by breaking the dependent link, at least by providing an alternative source of technology in order to strengthen the bargaining hand of the Malaysian side.

However, despite rapid growth since the 1970s, the domestic market in Malaysia for motor vehicles still remains small. The small population coupled with the high cost of vehicles ultimately constrains the development of the industry. While the PROTON and PEROUDA projects were established to spearhead the development of the automotive sector, and have contributed to greater localisation, many of the automotive component projects are set up by local partners in collaboration with suppliers of Mitsubishi group (MIDA, 1995., p. 15). As production of components focuses mainly on the needs of PROTON and PEROUDA other motor groups and their parts suppliers have not participated actively in parts production in Malaysia. In addition since both companies produce a limited range of cars the components base is also narrow (ibid., p.20). Finally although the industry has made great progress since its onset it has yet to make any serious impact on the development of engineering design capabilities (ibid., p. 21). This is of considerable concern for the government since most major automotive producing countries have at their disposal research and engineering design centres for motor vehicles where continuous improvement, adaptation and innovation are undertaken.

6.5 The Thai Automotive Industry

What is arguably most noticeable about the Thai automotive industry is that government industrial policy is more 'liberal' than its counterparts in Malaysia and Indonesia. We have already seen above that the Malaysian automobile industry is extremely regulated in order to allow for the development of an internationally competitive indigenous automobile industry. While this has indeed led to the development of two major indigenous manufacturers, PROTON and PEROUDA, the cost has been higher prices for imported automobiles, massive government subsidies in the early development stages and a degree of technological dependency on the Japanese Joint Venture partners.

The automobile was first introduced to Thailand at the turn of the century by members of the Royal family. As was the case in most countries then, the automobile was treated as a luxury item affordable only by a wealthy elite. After the Second World War, automobiles were still considered luxury items and a limited market was supplied by importation of CBUs from England, France, Germany, Italy and the United States. However in response to the government's industrialisation programme three companies began assembly of CKD packages between 1961-2 (Nawadhinsukh, 1984, pp. 180-181). At the same time import duties were raised on CBUs with a 50% import duty reduction provided for respective CKD packages. Consequently CBU passenger car, van and pick-up were tariffed at 60, 40 and 20 per cent, with, CKD packages levied at 30, 20 and 10 per cent respectively.

At first glance, the size of the Thai automobile market would suggest that it presented a ripe opportunity for the development of an equivalent indigenous automobile manufacturer. Thailand is after all the largest automobile market in ASEAN, over two and a half times the size of its Malaysian counterpart and even 50 per cent larger than Indonesia (1994 figures, DTI). Similarly for any foreign Joint Venture partner in such a product the size of the domestic market means Thailand presents more than just a launch pad for export-oriented manufacture. This is not to say that the Thai government does not operate any form of regulation designed to encourage local industry because it does. Rather that such regulations have aimed at increasing the linkages between the major foreign automobile producers and the Thai automotive industry, instead of nurturing a uniquely Thai manufacturer. Local content requirements were first introduced by the Ministry of Industry in 1975 at 25 per cent for passenger vehicles and between 15-20 per cent for trucks and buses. These rose steadily throughout the 1970s and 1980s until in 1986 the MoI raised local content for passenger vehicles to 54 per cent where it remains today (note that this figure is considerably less than for the PROTON in Malaysia), and announced that the local parts had to be drawn from two compulsory parts lists. Local content for pick-ups, trucks and buses is now currently over 70 per cent, however this higher figure is in part a recognition of the fact that Thailand is the second largest market in the world for pick-ups after the United States[30]. In 1978, the MoI banned the establishment of any new assemblers[31] and the importation of CBUs.

In addition the MoI offers additional incentives depending on the geographical location of an assembly plant as part of a strategy to alleviate the gross economic imbalance between Bangkok and the rest of the country noted in chapter five. For example, there is no exemption for machinery import duty, income tax and dividend if a project is located in Bangkok and environs. However if a project is located in the central region of Bangkok bordering Myanamar (Zone 2) then machinery import duty is deducted and an exemption from income tax and dividend granted. In Zone 3, comprising the northern and Northeast regions plus the southern region joining peninsular Malaysia the above incentives apply but in addition there is a 50 per cent deduction of income tax for a further 5 years, and the right to deduct for some utility expenditures. Accompanying these incentives, regulations insist that motorcycle production must be in Zone 3, vehicle parts in Zones 2 or 3 except the manufacture of engine parts, transmissions, brakes, steering and suspension systems which can be located anywhere (Office of Industrial Economics, 1997).

In addition to these incentives the Thai government also uses tariffs to both protect the domestic market and encourage inward investment to take advantage of Thailand's market size. Since 1961 the government has maintained a tariff differential between CKDs and CBUs across the industry as a whole (see tables below), banned all CBU passenger cars between 1978 and 1991[32]. In addition, any assembler must have a Thai majority shareholder -- 51 per cent minimum (Millar, 1995, p.1). Finally, as exports of CBUs from Thailand are negligible (8,805 units in 1995) the following incentives to exporters exist: no local content requirements, no import taxes on CKDs, a tax reimbursement on local parts, and up to 100 per cent foreign share ownership for the assembler (Office of Industrial Economics).

Automobile production in the first half of the 1990s increased rapidly from 304,843 units in 1990 to 525,636 units in 1995. Across Southeast Asia as a whole total auto sales in Thailand represented over 40 per cent of total automobile sales in the region in

1995 (see table 8). Furthermore despite the growing congestion and corresponding environmental problems in Bangkok, the people per car rate in Thailand as a whole, at 14.6 persons is still relatively low, suggesting that there is still considerable room for expansion of the domestic automobile market. Indeed the MoI and the FTI project auto production of 1 million units by the year 2000. There are currently twice as many commercial vehicles (principally pick-ups) as passenger cars, with sales reaching 398,438 units in 1996. Furthermore in 1995, motorcycle production exceeded 1,700,000 units in making Thailand the third largest market in the world for motorcycles (OIE, 1997).

Table 6: Tariffs on Assembled Vehicles (CBUs)

Type of Vehicle	Import Duty	Excise Tax	Interior Tax	VAT
1. Passenger cars/vans/jeeps				
(1) <2400cc	42%	32.5%	10%	7%
(2) 2401-3000cc	68.5	38	10	7
(3) >3000cc	68.5	45	10	7
2. Pick-up trucks	60	--	--	7
3. Medium and heavy duty trucks without body	30	--	--	7
4. With body	40	--	--	7
5. 4-wheel drive (off road)				
(1) <2400cc	42	27	10	7
(2) >2400cc	68.5	27	10	7

Table 7: Tariffs on Automobile CKD set

Type of Vehicle	Import Duty	Excise Tax	Interior Tax	VAT
1. Passenger cars/Jeeps/Vans (1) <2400cc	20%	32.5%	10%	7%
(2) 2401-3000cc	20	38	10	7
(3) >3000cc	20	45	10	7
2. Pick-up trucks	20	--	--	7
3. Medium trucks without body	10	--	--	7
4. Medium with body	20	--	--	7
5. 4 wheel drives (off Road) (1) <2400cc	20	27	10	7
(2) >2400cc	20	27	10	7

Source Tables 6 and 7: *The Office of Industrial Economics, 1995*

Table 8: Major Automobile Markets in Southeast Asia

	Population (millions)	Sales in 1995 (Units)
Thailand	57.7	571,580
Malaysia	19.2	285,790
Indonesia	186.6	385,000
Philippines	65.2	128,900
Singapore		41,700
Brunei		7,970
Total ASEAN		**1,420,940**
Cambodia		1,000
Laos		300
Burma	43.92	25,000
Vietnam	73	33,700
Total SE Asia	**445.82**	**1,480,940**

Source: ASEAN Automotive Federation, 1997.

On the positive side successive government policies towards the automotive industry have resulted in the development of an indigenous component part manufacturers and three major Thai automobile companies (Siam VMC, Thai Rung and Siam Motors[33]). Currently it is estimated that there are over 600 auto-parts makers making both OEM and REM. parts with exports from the industry averaging 85 per cent annual growth between 1992-1994. Of the $908.2 million worth of auto exports in 1994, automotive electric wire set and components comprised $663.7 million, 73 per cent of the total.

As a result of the local content requirements and tariffs on CBUs many Japanese assemblers responded by implementing a ‘satellite policy’. That is bringing their

Japanese suppliers to Thailand and clustering them around the assembly plants. Approximately half of all Japanese auto parts manufacturers have some kind of commercial and technical co-operation in Thailand (Wattanuruk, 1994, p.2). Thai companies have made the most progress in labour-intensive segments of the industry, principally in simple rubber parts (tubes, hoses, pipes), interior components and decorative items such as: seat assembly, door trim, floor mat, rear view mirrors, steering wheels etc., some of which are now exported to Europe and Australia (ibid.). Elsewhere Thai manufacturers have made little impact except in the production of safety glass and windshields and in the REM market. Nonetheless the reputation that Thai firms have acquired for reliability coupled with low labour cost place Thailand in a competitive position vis-à-vis rival automotive manufacturers in South Korea and Taiwan (ibid., p.3).

To enhance Thailand's international competitiveness in automotive component parts and provide additional stimulus to the automotive industry as a whole, Thailand established with Malaysia, Indonesia and the Philippines the Brand-to-Brand Complementation scheme. Under the agreement automotive parts manufactured by a member are considered as local content among ALL member countries and a 50 per cent import tariff reduction granted on CKDs. The scheme was designed to provide cost reductions due to economies of scale production. The BBC was replaced in September 1996 by the ASEAN Industrial Co-operation (AICO) which accepted the principle of complementation in local content and reduced the tariff on imported CKD to a rate of zero to five per cent (OIE, 1997). Furthermore the establishment of the

ASEAN Free Trade Agreement is expected to expand the trade and investment attraction of all ASEAN members and in particular provide a boost to pick-up sales exports from Thailand to other ASEAN members (Bangkok Bank Monthly Review, 1996).

On the negative side the despite government policies and the success of the automotive component parts industry, the Thai automotive sector as a whole remains, as elsewhere in Southeast Asia, *dominated by Japanese industry* with a number of significant economic ramifications. In the passenger car sector the Japanese hold 80 per cent of the total market share and falling[34], while in the market for pick-ups and other commercial vehicles they hold 95 per cent! Honda, Isuzu, Mazda, Mitsubishi, Nissan, Toyota and Yontakit all have assembly plants in Thailand with Toyota having the single largest share of the market at 38 per cent (Millar, 1995, p.1).

Despite the development of indigenous Thai automotive companies and certain segments of the automotive component parts industry, Japanese companies still often direct the 'partnership' (ibid.). Siam Motors, for example, assemble and produce component parts for Nissan and other companies within the group but are unable to sell these parts to other assemblers (ibid., p.2). Furthermore among ancillary firms most have strong connections with the principal assemblers. Nippon Denso (Thailand) producer of electrical equipment, is a division of Nippon Denso (Japan) which is closely related to Toyota and is intimately associated with Japanese assemblers -- for example, the Thai subsidiary is contractually bound not to engage in export (Nawadhinsukh, ibid., pp. 215-7).

Similarly, where Thai firms such as Thai Rung and Siam VMC have explored the possibility of producing their own 'badged' vehicle they have been restricted because of their close ties to their Japanese partners and because of a lack of technology, in the case of Thai Rung (Computer Aided Design for example) (ibid., p.3). Furthermore the implementation of satellite strategies, mentioned above, by Japanese assemblers limits the opportunities available to Thai companies because the Japanese assemblers will generally source primarily from the suppliers that they encouraged to invest in Thailand with them. Indeed similar observations are made by Bernard and Ravenhill (1995) with regard to sections of manufacturing industry in South Korea and Taiwan.

As in Malaysia, the lack of technology transfer is a major complaint by the Thai government. In the automotive component parts sector unsurprisingly the high value added technology intensive segments such as electrical parts are dominated by the Japanese. While Thai firms have made successes in component parts manufacture (see above) production of items such as: wire harnesses, alternators, motors, electrical signal lamps, and spark plugs are virtually controlled by Japanese or Japanese-related factories (Wattanuruk, 1994, p.3). Interviews with officials from the Ministry of Industry revealed a degree of disappointment with the pace of technology transfer from Japanese companies and an acknowledgement that European and US companies were less concerned with technology transfer than their Japanese counterparts.

However, the problem for the european and americans is that the dominance of the industry by the Japanese and the brand loyalties that have developed over the decades provide serious obstacles to penetration of the Thai market. Similarly the Japanese appear reluctant to promote Thais to senior posts. Consequently, overall, as Khun Kavee of Siam Motors notes, "Thailand is [still] mainly a screwdriver assembly operation" (Millar, 1995, p.1).

6.6 Conclusions

In all of the economies discussed above, governments sought to intervene in the automotive sector, to a greater or lesser degree, in order to promote industrial development of the sector and in particular promote the growth of ancillary firms through localisation programmes. There seems little doubt that the promotion of local content programmes has encouraged the growth of ancillary firms although the most common pattern of this development creates a complex situation of dependency, much to the consternation of the respective authorities.

Ancillary firms in the automotive industry of Indonesia, Malaysia and Thailand often start either as a joint venture, or as a result of technological tie-ups with a foreign manufacturer of automobile parts and components. The majority of such firms are relatively large, benefiting from various tax privileges, and are under licensing agreements of some description with either foreign controlled or foreign owned producers of components or sub-components. Consequently a form of *dualism* exists in the industry between the suppliers of OEM and those firms that supply the replacement market. The latter firms have more spontaneous origins, emerging for the most part as small machine shops engaged in repairs of imported vehicles. As the automotive market has expanded such firms accumulated technologically know-how and expanded their activities to the production of replacement components. However few supply parts to the OEM market which remain dominated by primary-ancillary ties that restrict opportunities for genuinely local ancillary firms to move into the OEM market (see Okada, 1984, pp. 397-404; Hoffman and Kaplinsky, 1988, pp. 285-323).

Although the components industry has grown substantially in Indonesia, Malaysia and Thailand the evidence seems to suggest that this growth has not been concentrated in those areas that are by general acknowledgement the core technologies of the automotive industry, namely engines, transmissions, gearboxes, research and development, design etc. Instead we can observe the development of generic components (i.e. those components that are common to many industries: nuts, bolts, screws); bulky, non-mechanical parts (exhausts, seats, fueltanks etc.) which are low in both product and process technology; and various other low tech parts such as wire harness, switches, windscreen wipers, window handles etc.

Where we see less indigenous success except through collaborative relationships or technology tie-ups with foreign producers (typically Japanese) is in the production of electro-mechanical and systems components (carburettors, clutches, starter motors, ignition systems, brakes, shock absorbers) and in the core technologies. Indeed the majority of core-technologies remains imported from foreign producers. For example, the bulk of the foreign produced content of the PROTON lies in core technologies particularly engine manufacture that, as demonstrated above (pp. 261-279), remains a continuing source of friction between the Malaysian government and Mitsubishi Corporation/Mitsubishi Motor Corporation. Consequently as Bernard and Ravenhill comment,

> [i]nstead of a process of replication and homogenisation of industrial structures... technological diffusion.. has been *partial,* varies from country to country and has remained linked throughout to a supply architecture built around on-going Japanese innovation of components, machinery and materials (1995, p. 177, my emphasis).

Clearly continuing dependence on core technologies from foreign producers, coupled with the dominance of the OEM market by ancillary firms reliant on technological tie-ups or collaborative arrangements, raises a whole series of questions about the success of the automotive industry in Southeast Asia and a whole series of problems about its continuing development, questions that in order to be answered fully require a recognition and understanding of complex situations of dependence in the political economies of Indonesia, Malaysia and Thailand.

As I stated in the introduction to this thesis (p. xvi), of particular importance in assessing the development of Southeast Asia is the ability or inability of these economies to develop domestic capital and indigenous technology that reduces their 'dependency' upon both goods and skills from exogenous sources. Despite the development of indigenous automotive industries, this development has NOT produced the linkages with the upstream and downstream sectors that are characteristic of the industry in the developed world. The studies in this chapter reveal that all of the countries under investigation continue to experience difficulties in developing fully autonomous industrial sectors. While local content continues to increase, the material presented above demonstrates that crucial technologies and skills remain jealously guarded by foreign partners in the production of both vehicles and component parts.

In their study of Latin American development and dependency, Cardoso and Faletto remarked that, "the dynamism of the modern sector is based on almost automatic mechanisms. Local industries become dependent on foreign technology and require a continuous expansion" (1979, p.164). As a result the more dynamic sectors of the economy become islands of modern industry striving *because* of their relationship with foreign capital, state support and access to foreign export markets since the domestic economy *as a whole* lacks the dynamism and technological base needed for the economy to fully modernise. Similar conclusions can be deduced for the automotive industry in Southeast Asia. While production in Indonesia, Malaysia and Thailand principally serves the domestic market rather than export the evidence presented in this chapter clearly reveals that automotive production and component parts manufacture *are dependent* on the relationship with foreign capital. Furthermore without state intervention in the form of subsidy, preferential tariffs and local content requirements initial opportunities for indigenous development would have been largely confined to the REM market. What is revealed in this chapter is the dependent nature of the automotive industry, dependent on foreign capital, technology and skills on the one hand, and on a protected artificial market on the other.

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[1] During fieldwork conducted in Indonesia, Malaysia and Thailand I encountered difficulty establishing contacts with all the organisations and institutions that I anticipated interviewing. This was primarily a result of bureaucratic obsfucation which itself is a character of the Indonesian political system as detailed in Chapter Four. Consequently the study of the Indonesian automotive sector is drawn from secondary sources made available by the DTI and facsimile correspondence with the commercial section of the British Embassy in Jakarta. Interviews and information from primary sources was more readily available in Thailand, while in the case of Malaysia, I was able to do follow up research during a visit to Kuala Lumpur in August 1997 that built on contacts I established in March 1996. Consequently the section in this chapter on the Malaysian automotive industry is more developed than the other two case studies.

[2] Freeman goes on to characterise a taxonomy of innovations from incremental through to changes in the 'techno-economic paradigm' -- technological revolutions (ibid., pp. 194-6). The latter are closely associated with Schumpeter's account of long-waves (Kondratiefs) in the world economy and the argument that each major upturn in the world economy is closely associated with a major technological revolution which is accompanied by socio-economic changes as the new technological regime is consolidated.

[3] CKD exports first began in the 1920s when American companies sort to reduce costs of shipping vehicles in crates. Unfinished goods, components and chassis could be transported at 50 per cent less per pound than assembled vehicles (Dassbach, 1994, p. 492).

[4] Subcontracting is more pervasive among Japanese automotive firms.

[5] Daewoo is a joint venture with General Motors and its operations are closely integrated into GM's global operations. Kia similarly has major collaborative arrangements with Ford and Mazda (which is also part-owned by Ford) and Kia cars are sold in the US under Ford brand names.

[6] Although Mitsubishi has a minority share in the company, managerial control rests firmly with the Koreans.

[7] In 1989 the value of component part exports was US$ 1,009,630 rising to $159.9 million by 1995 and $188.6 million in 1996.

[8] In addition to Toyotas the group also assembled and sold Daihatsu, Honda, Isuzu, Nissan, BMW, Peugeot, Fiat and Renault.

[9] Facsimile correspondence with Ms G. Sidnell, 2nd Secretary, Commercial, British Embassy, Jakarta, January 1998.

[10] Facsimile correspondence with Ms G. Sidnell, 2nd Secretary, Commercial, British Embassy, Jakarta, January 1998.

[11] Facsimile correspondence with Ms G. Sidnell, 2nd Secretary, Commercial, British Embassy, Jakarta, January 1998.

[12] Bimantra also holds licenses to assemble and market Ford and Mercedes-Benz vehicles.

[13] For each of these components estimates of economies of scale range from 300,000-400,00 units (PT Federal, in Witoelar, W, 1984, p.59), as of 1997 total automobile production stood at just sort of 400,000 units before different makes and models were taken into consideration.

[14] Facsimile correspondence, July 27th 1998.

[15] Facsimile correspondence, Mr Harris Siagian, Commercial Officer, British Embassy, Commercial office, Jakarta, July 1998.

[16] "Kia to seek Won500 bn", *Financial Times*, January 23rd 1998, p.24.

[17] Despite this, sources in Jakarta confirm that Timor is proceeding with plans to build an integrated assembly plant.

[18] According to Jomo (ibid.) by 1980 there were 11 auto assemblers, producing 25 makes of commercial and passenger vehicles, 122 models and 212 variants.

[19] Interestingly Daihatsu became the principal supplier to the second National Car Project launched in 1994 -- Perouda.

[20] Unusual among Japanese companies MMC has ownership or part-ownership in automobile production units across East Asia and Australia and has had links with Chrysler since 1971 (Jomo, 1994, p.267).

[21] Despite the relatively small size of the Malaysian market by 1984 Malaysia had a person-to-car ratio of 1 to 20.8 second only to Singapore in ASEAN and higher than either South Korea or Taiwan.

[22] The idea behind the ASEAN Industrial Complementation scheme (AIC) was that each member of ASEAN would specialise in the production of component parts for a larger product and then be guaranteed preferential access to the other markets within ASEAN for that component. Despite much criticism for the lack of products covered by the scheme (Clad, 1991, pp. 223-4) the one area in which the AIC did achieve some success in automotive components.

[23] In the United Kingdom the Kancil is marketed as the Nippa.

[24] According to the Transport and Machinery Industries Division of MIDA, 1996.

[25] A point seemingly confirmed by Jomo and Machado (1994) who detail the relocation of small and medium sized Japanese ancillary firms to Malaysia.

[26] This has already begun to happen, PROTON's overall market share has fallen from a peak of 73 per cent in 1988 to a current share of 63.9 per cent. Nonetheless the growth of demand for passenger vehicles in Malaysia has grown to such an extent that despite this decline, PROTON has continued to increase the number of units it produces.

[27] In addition UMW has a 32 per cent stake in Perouda, will is involved in the production of the Malaysian National Van and in conjunction with the British Company, Dennis Specialist Vehicles, will begin production of Malaysia's first bus.

[28] These are: Air Filter, Alternator and Voltage regulator, battery, carpet and underlay, coil spring, exhaust system, external body protective moulding, flasher relay, fuel tank, glass, horn, leaf spring, melt damping sheet, mudflaps, radiator, radiator hoses, seatbelts, seat and slide assemblies, seatpads, shock absorbers, spark plugs, starter motor, tubeless tyre valves, tubing for brake, clutch and fuel, tyres, wheel nuts, windscreen washer, wiper motor, wire harness, U-bolts assemblies comprising of spring pins and shackle pins and shackle assembly for commercial vehicles.

[29] Yahaya controlled 15 listed companies with a combined market capitalisation of over RM22 billion. After acquiring HICOM and PROTON Yahaya's companies controlled 60 per cent of the Malaysian automotive market (BHC, 1997, Automotive Industry Report). In March this year, Yahaya died suddenly raising some doubts about the future of the conglomerate DRB-HICOM.

[30] The attraction of this market gave the Thai government increased bargaining power to raise local content requirements and insist that since 1989 all pick-ups had to use locally produced engines (Millar, 1995, p.1).

[31] A ban that remained in force until 1994 when automotive assembly was again liberalised (Bangkok Monthly Review, 1996, p.1).

[32] Although between 1985 and 1991 cars with engines of less than 2300cc were exempted from the ban.

[33] NB these companies do not produce an indigenous Thai car. All of them are assemblers with varying degrees of relationship with Japanese motor manufacturers.

[34] This decline is due to the lifting of the import ban on passenger cars which resulted in imports soaring from 1,831 units in 1990 to 54,819 units in 1995 with over 42 per cent of such imports coming from Europe against only 29 per cent from Japan (Bangkok Monthly Review, 1996).

Chapter Seven: Conclusion

7.1 Review of General Arguments

The introduction of this thesis advanced two principal propositions for examination (p. i). Firstly that significant dissimilarities existed in the developmental experiences of Indonesia, Malaysia and Thailand which devalue generalised explanations for their economic success. Secondly, that while generalised explanations of dependency had been shown to be seriously flawed both logically and theoretically, that situations of dependency did exist throughout the developing world including its more dynamic areas. Consequently analysis of those areas of an economy where situations of dependency exists provides a valuable tool for an investigation of economic development. Dependency, it was suggested, may be a useful concept <u>providing</u> that we differentiate the idea clearly.

As I argued in chapter one (pp. 4-5), although the inequitable nature of North-South relations have always been of concern in Development Studies, such issues first emerged within International Relations and International Political Economy during the 1970s. Despite this, the continuing dominance of realism and the imposition of the Cold War dynamic ensured that such issues remained largely on the periphery of the discipline. Pivotal in the re-emergence of such issues was the development of a critical approach to the dominant realist and liberal paradigms. Drawing inspiration from the Critical Theory of the Frankfurt school, historical-sociology and a variety of (neo)Marxian approaches that 'brought historical materialism back in' the discursive space of IR/IPE was widened to allow discussion of a whole variety of issues and agendas that were once largely ignored.

In addition to opening a discursive space for a reconsideration of developmental issues in IR and IPE, the emergence of a critical 'school' stressed the need to focus on the relationship between the local and the global, between domestic state-society relations and their interaction with the global and regional political economy. What emerged from this discussion in Chapter One was the need to ensure that any study of development be grounded in the *historical-specificity* of the states or region under investigation. The thesis noted the importance of the work of the neo-Gramscians, Robert Cox, Stephen Gill and Mark Rupert, but also of historical sociology and the work of scholars such as Braudel, Mann and Tilly, who challenge the dominant realist/neo-realist viewpoint that takes the state as a given, arguing instead that the state, the international system and indeed many of the structures at work in the contemporary world are the product of complex social forces.

Having established a growing interdisciplinary concern for historical specificity the thesis reviewed the principal literature on development (pp. 10-21) and the role of the state (pp. 23-35), in order to make the argument that all of the dominant perspectives are largely meta-narratives that attempted to provide an abstract and totalising concept of development in which there is little room for historical specificity. Liberal, modernisation theory took the abstracted logic of western European development and sought to impose it upon the developing world through international institutions such as the World Bank and International Monetary Fund and through the orthodoxy of neo-liberal economics. Neo-Marxism by contrast took the historical experiences of Latin America and similarly sought to develop these into a theory applicable to the developing world as a whole.

The rapid development of Japan and the Newly Industrialising Economies of East Asia challenged both of these paradigms by demonstrating that the state could and had played a major role in promoting industrialisation and by seeming to offer a model of development by which the developing world could be elevated from the periphery towards the core. However although many of the early studies of Japanese and Northeast Asian development were precisely detailed historically-specific accounts. Increasingly commentators, scholars and policymakers began to talk of an East Asian model of development that once again sought, explicitly or implicitly, to impose a totalising logic on the many diverse countries and economies of East Asia.

As discussed above, the first proposition introduced in the thesis was to argue against the tendency to impose abstracted explanations of the development process be it in East Asia or indeed any region of the developing world. Having illustrated this tendency in the existing literature the thesis then sought to refute such explanations further by analysing three case studies from Southeast Asia where the similar experience of rapid late industrialisation had resulted in their classification as second-wave or second-tier Newly Industrialising Economies (NIEs); and had led a number of commentators to argue that their developmental experience was 'Like the Rest', i.e. that it corresponded to the earlier experiences of Japan and the NIEs.

In the country-specific studies of Indonesia, Malaysian and Thailand (chapters three, four and five) detailed case studies were presented of the political economies of Indonesia, Malaysia and Thailand in order to demonstrate that while many commonalties existed, equally significant were the marked dissimilarities in their developmental experience and in the way in which the state and wider social forces were constituted and interacted both with each other and with international capital. Consequently detailed study of the developmental experiences of these countries reveals sufficient historical specificity to render any common developmental model invalid. The idea of 'developmental experience' in use here primarily focused on industrialisation, and on state-society and public-private interactions and networks.

The second proposition of the thesis advanced the argument that despite problems with generalised theories of dependency, concrete *situations* of dependency were revealed in the developmental experiences of Southeast Asia to warrant the continuing relevance and importance of 'dependency' as an analytical tool. In order to support this proposition situations of dependency were illustrated in both the country specific chapters, and more importantly in chapter six, where a cross country study of the automotive study revealed clear evidence of continuing dependency. While the situations and degrees of dependence *varied* between the three countries what emerged from this investigation was a common experience of dependence upon Japanese automotive firms for key technologies and components within the industrial sector. The existence of such situations of dependence not only reveals the utility of dependency as a sub-generalised concept in the study of development but also raises questions about the long-term ability of the industry sectors across the three countries to mature and compete in more value-added production (pp. 292-3).

7.2 Limitations and suggestions for further research

Further areas of research that would test the conclusions made in this thesis would include a cross industrial sector study that examined traditional primary sectors, labour intensive secondary sectors and the tertiary sector. From this one could determine whether dependence was a *general* feature of the economy under investigation, or whether it was confined to more technologically intensive, value-added sectors as the study of the automotive sector in Chapter Six suggests. Furthermore one could suggest from such research, specific policy options that could assist in ameliorating such situations of dependency.

Finally, research could be conducted to investigate the view from the other side of the dependent relationship, namely from the dominant partner. In the cases of this thesis this would entail a study of Japanese automotive multinationals and the relationship between these and their component suppliers, both Japanese and non-Japanese. For example, Chapter Six suggests that it is not uncommon for Japanese automotive MNCs to encourage their domestic component suppliers to relocate in Southeast Asia, either directly or through joint ventures, in order to maintain the existing supplier link, and to choose these suppliers in preference, where possible, over local producers.

7.3 Concluding Remarks

This thesis demonstrates the weakness of the current contending positions on economic development in Southeast Asia. Instead of offering a model of development, this thesis argues that economic and social development has not evolved 'naturally' as a result of either allowing the free operation of market forces, or as a natural progression of history. Nor has development occurred because of a co-ordinated response to the global economy. Instead, the development process in Indonesia, Malaysia and Thailand evolved both incrementally and partially as a result of *specific* localised responses largely determined by *specific* conditions, sectoral interests and so forth. The sum total of these incremental responses, pursued either actively or reactively, aimed as forms of adjustment and adaptation to changing global and regional economic realities, produced developmental strategies which, despite sharing many commonalties, display sufficient differences to make any *universal* or *regional* model of economic development an inaccurate depiction. Furthermore the case studies in chapters three, four, five and six demonstrate that development is a social process as much an economic one (Cardoso and Faletto, 1979, p. 8) since, "[d]evelopment always alters the social system of domination as it changes the organisation of production and consumption" (ibid., p. 16).

Few governments in the developing world today refuse to accept that in order to industrialise, foreign capital and investment is vital. However as the case studies in the thesis demonstrate, this recognition often entails accepting that the relationship with foreign capital may be a dependent one, often in the form of technological dependence. While this thesis accepts that many of the early dependency analyses were logically flawed, often contradictory and deterministic, it argues that the existence of specific *situations* of dependence necessitates the continuing value of the concept for studies of development. However, such dependence is not, as in earlier studies, a general condition but rather, as Cardoso and Faletto observe, a specific condition resulting from the, "formulation of the relation between economic process, structural conditions and historical situations" (ibid., p. 172). Consequently, as Patrick Chabal (1994) comments, the point today is about the *management* of that dependent relationship (not whether it exists, or whether it is detrimental) and the specific conditions that shape and inform that management.

While the detrimental effects of multinational activity are well documented (e.g. Marthoz and Szymanski, 1996), many states including those in Southeast Asia, have consciously sought to incorporate multinationals into national developmental strategies. These attempt to manage the level of penetration that foreign capital and investment have in both specific industrial sectors and in the economy as a whole. Export Processing Zones, local content requirements and joint ventures, can all be regarded as attempts to manage the relationship between foreign capital and the developiong state. Such situations may be far from ideal and may limit the autonomy of developing world states, but those states that have held out against the realities of the global economy have not been success stories, while Southeast Asia, despite the current crisis, has.

While the current economic contagion affecting Southeast Asia may silence those celebrating the existence of an Asian model of capitalism, the propositions advanced in this thesis remain largely unaffected. Indeed in some ways the crisis actually supports the argument that historical specific analyses of the economic developmental process are of greater utility than the construction of abstract models. While the region as a whole is sharing the common experience of economic recession, the manner in which the crisis is affecting Indonesia, Malaysia and Thailand, and the response of the state and society to this crisis, is manifested *differently*. Both the impact of the recession and the responses that it has engendered are a reflection of the *specific* political economies of each of these countries.

The crisis in Indonesia firstly resulted in ineffective and inappropriate policy responses as the Soeharto regime attempted to ensure that the patrimonial system remained largely protected. As the economic situation deteriorated further the Soeharto government was overthrown in the wake of popular protest. In Thailand policy responses were more immediate and although there was a change in government, this was as a result of electoral dissatisfaction with corruption, and with the end of the years of growth, rather than the result of the loss of the government's legitimacy. In Malaysia, although growth rates have continued to revised ever down since June 1997, the impact of the recession has been more gradual resulting in little clamour for a change in government[1]. Furthermore, as mentioned in the foreword, Malaysia has to date avoided having to turn to the International Monetary Fund for a rescue package (with the obligatory restructuring and liberalisation which inevitably accompany them). This is largely because Malaysia's current account deficit has been financed by foreign direct investment rather than short-term foreign loans, so the ratio of bank debt to GDP is more modest. While the slowdown has led to the cancellation of a number of Mahathir's infamous mega-projects[2], the market-distorting policies that champion the economic position of the Malay population continue to be in place. What we have seen in Southeast Asia over the past twelve months is that the economic crisis has affected *specific* political economies in *specific* ways resulting in *specific* outcomes and *specific* policy responses.

This thesis has demonstrated that any analysis of economic development in Southeast Asia, and indeed in the developing world as a whole, must examine the historical specificity of that development. In doing so such analyses will provide a more accurate portrait of the complexity of the developmental process, and the relationships between different economic sectors, government, society and the domestic, regional and global political economy. Such an approach will also resist the tendency within existing theories of development towards ahistoricism and generalisation. Finally, the empirical evidence presented in this thesis has demonstrated that situations of dependency exist in the political economies of Indonesia, Malaysia and Thailand, presenting serious economic questions for policymakers across the region. Consequently dependency remains a useful and necessary conceptual tool of economic analysis at a sub-generalised, sectoral-specific level despite the theoretical inadequacies and flaws of generalised theories of dependency.

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[1]The recent anti-Mahathir *reformasi protests* are a direct challenge to the arrest of the former deputy Prime Minister on charges of sodomy and corruption, and the alleged brutal treatment of him in custody. This confrontation between Mahathir and supporters of his former Deputy Prime Minister Anwar is the culmination of growing economic and political differences between the two men. Mahathir and his chief economic aide criticised the austerity measures that Anwar had introduced and advocated, arguing that tight monetary policies were not going to deliver recovery. In addition Mahathir considered Anwar's call for a campaign against corruption and nepotism within the United Malay National Organisation in May this year as a personal challenge to his authority. The protests are not consequently a direct result of the economic recession itself.
(www.news.bbc.co.uk/hi/english/business/the%5Feconomy/newsid%5F199000/19978.stm).

[2] Since this conclusion was written Mahathir has reversed the decision made by his former Deputy and Finance Minister Anwar to cancel this spending. Instead Mahathir announced in his budget speech on October 23rd 1998 a spending spree in which many of the shelved mega-projects have been revived. Mahathir is gambling on ignoring IMF advice, instead attempting to 'kick-start' the Malaysian economy through tradtional Keynesian demand managemnt policies. ("Mahathir's spending spree for recovery", BBC World News, BBC Online:
http://www.news.bbc.co.uk/hi/english/business/the%5Feconomy/newsid%5F199000/199711.stm).

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