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Author(s): Richard F. Doner
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Approaches to the Politics of Economic Growth in Southeast Asia

RICHARD F. DONER

I. Introduction

The Pacific Rim's record of impressive economic growth over the past twenty years is now well known. While most obvious in Japan, this expansion has been striking in the East Asian Newly Industrialized Countries (NICs): Singapore, Hong Kong, South Korea, and Taiwan. But it has also occurred to varying degrees in four of the original members of the Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, the Philippines, and Thailand. In addition to increases in overall output, each of these four economies has achieved a considerable degree of restructuring in favor of manufacturing and away from commodity production since the 1970s (e.g., Lee and Naya 1988: 8134).

Among those who have tried to explain this process, neoclassical economists have attributed growth in the East Asian NICs and in Southeast Asia to government success at "getting the prices right," at letting free market-based price signals determine the most efficient allocation of resources for national economic growth (e.g., James, Naya, and Meier 1989; Noland 1990). To this end, policymakers have allegedly promoted relatively open economies, avoided the provision of more incentives to some industries than to others, and generally limited the government's economic role.

But recent studies of economic growth, especially in the East Asian NICs, have suggested limits to the explanatory usefulness of neoclassical views. Some have asserted that economic success in the NICs results from governments providing selective incentives and "getting the prices wrong," i.e., deliberately engineering price distortions to create comparative advantage where none existed before (e.g., Wade

Richard F. Doner is Assistant Professor of Political Science at Emory University. An earlier version of this article was presented at a conference on Southeast Asian Studies and the Social and Human Sciences at the Wingspread Conference Center, July 22, 1990, sponsored by the Joint Social Science Research Council/American Council of Learned Societies Committee on Southeast Asia. I wish to thank Alasdair Bowie, Don Crone, David Feeny, Anek Laothamatas, Nathaniel Leff, Linda Lim, Ansil Ramsay, Danny Unger, and Martha Winnacker for helpful comments.

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1988a; Bradford 1987; Amsden 1989:ch. 6). Others, while acknowledging that economic growth requires market-conforming policies, emphasize the need to explain why and how such policies have been implemented in certain countries and time periods, but not in others (Haggard 1990; Wong 1990:418; Myhrman 1989).

Work on the roots of economic expansion by scholars studying East Asia, as well as Latin America and Africa, has contributed to the study of political economy, an emerging subfield within political science whose broad focus is the ways in which politics influences aspects of economic policymaking, and economic interests and outcomes influence political processes and outcomes. My emphasis in this article is on political economy as the study of the institutional bases of economic growth. But my overall concern is the unfortunate gap between Southeast Asian studies and political economy more broadly defined.

The mutual influence of politics and economics has certainly been part of Southeast Asian studies (e.g., Furnivall 1944; Boeke 1961; Geertz 1963; and Anderson 1977). But with the notable exception of the debate over moral versus market-based peasant behavior (Popkin 1979; Scott 1976), work by Southeast Asianists has not been informed by the theoretical concerns of political economy. This weakness has not gone unnoticed. In the mid-1980s, remarking on the Latin American origins of work on dependency and corporatism, Clark Neher, for example, contrasted the “lack of systematic, coherent Southeast Asian scholarship and the paucity of lasting theoretical breakthroughs” with the “innovative perspectives on the study of Latin societies that have transformed social science analyses of ‘Third World’ nations” (1984:130). Similarly, Richard Higgot and Richard Robison have found it ironic that “while the levels of capitalist development in Asia are certainly higher than those in Africa, the level of analysis of these respective rates of development are reversed” (1985:49).

This article will explore the ways scholars of Southeast Asia are now beginning to make important contributions to the field of political economy. Southeast Asianists have continued the area studies tradition of confronting theorists with the “singular,” the anomalies that compel theoretical examination (Johnson 1975). The case of Indonesia, for example, has been used to show the problems of simple strong-weak state dichotomies (Emmerson 1990) as well as the ways the implementation of neoclassical economic policies involves political culture, ideology, and coalitional politics (Liddle 1989).

Southeast Asia’s combination of diversity in sociopolitical arrangements and impressive economic performance therefore makes it an especially fertile area for marrying the contextual sensitivity of area specialists to the more general assertions of the political economy literature. My principal objective in this article is to provide some guideposts for further mutually enriching research. I do so by using data from East and Southeast Asia to evaluate three development frameworks: dependency, statist institutionalism, and an inclusionary form of institutionalism. I also want to demonstrate the theoretical superiority of the third framework. Unlike statism, which has been emphasized in much of the recent literature on the East Asian NICs, inclusionary institutionalism suggests the utility of arrangements involving less domination and more cooperation between state and business and within the business world itself.

Section II of this article defines political economy as a field of study and suggests an explanation for the relative weakness of the field in Southeast Asian studies. Section III highlights areas of dispute in the economic performance of capitalist Southeast Asia. Section IV evaluates the dependency school and external influences
on Southeast Asian growth. Section V focuses on domestic sources of economic growth through an exploration of statist and inclusionary institutionalism.

II. Political Economy and Southeast Asia

The interaction of economics and politics is an old theme in the study of both international and domestic politics (Spero 1990:1–3; Staniland 1985:12–13). Yet, since the rise of liberalism in the eighteenth century, the logics of the two fields have stood in sharp contradistinction to each other. Neoclassical economics assumes that preferences are measurable and rationally derived from the desire to maximize individual benefits; politics assumes that people’s preferences reflect (at least in part) values less easily ascribable to rational, measurable calculations of individual benefits. Also, economics assumes a world of efficient markets in which all might gain; politics depicts a more zero-sum world in which conflicts over justice and distributional issues are resolved by actors with unequal power. In the West, the separation between politics and economics became institutionalized in part due to academic specialization and in part because of conditions after World War II. The Cold War both minimized the importance of economic issues and encouraged the establishment of rules and structures that diminished conflict over economic issues (Spero 1990:1–2).

The last twenty years or so have witnessed a growing critique of this separation. A literature has emerged that spans the boundaries of politics and economics in both domestic and international relations. But the two logics remain sharply distinct. The simple recognition of overlap and mutual influence between politics and economics does not constitute a methodology or theory. Indeed, a central feature of political economy is its “eclectic mixture of methods and theoretical perspectives” (Gilpin 1987:9). Thus, political economy is best understood not as a theory but as an agenda or an “object of theoretical ambition” (Staniland 1985:198).

Acknowledging this eclecticism, we can nevertheless identify at least three related areas of research on the political economy agenda. One is the strict application of neoclassical assumptions to nonmarket situations. Some political economists thus examine the degree to which the behaviors of the electorate and elected officials conform to the search for immediate individual gain rather than longer term, value-based objectives. A second area concerns the ways individuals, groups and/or nations transform political resources into economic power and economic resources into political power (e.g., Gilpin 1981).

A third area of research, the one most pertinent to our present concerns, focuses on the failure of markets to operate according to strict neoclassical assumptions. The political economy frameworks examined in this study are thus efforts to explain market malfunctions, their consequences, and/or efforts to contend with them. Neoclassical economics makes several important assumptions, the first of which is that markets are perfectly competitive. Dependency theory, however, proceeds from the recognition of market imperfections; the international capitalist system is seen as facilitating the flow of foreign investment with monopoly or oligopoly power over host-country firms to the detriment of host-country development (Hymer 1976; Gereffi 1983).

2For reviews of these critiques, see Staniland (1985:ch. 2); also Strange (1988:part I); and Alt and Chrystal (1983:1–6).

3For example, are voters’ choices based on economic or noneconomic conditions? Do officials show any concern for citizen welfare or their own long-term reputations, or do they “mortgage the future for current electoral advantage”? (Alt and Chrystal 1983:104–05).
Institutionalism is a response to the violation of three other neoclassical assumptions: the absence of externalities, of public goods, and of significant information or transaction costs (Alt and Chrystal 1983:22–24). Externalities are the benefits (positive) or costs (negative) of one individual's activities that spill over to others for which payment or compensation is not made (Davis and North 1971:15; Gilpin 1981:70). Negative externalities would include the costs of one firm's polluting activities on the welfare of others. Positive externalities include unintended benefits accruing to the economy at large when, for example, one firm trains large numbers of engineers who then take jobs elsewhere. Public goods are goods or services such as national defense or water systems characterized by nonexcludability (no one can be excluded from consuming them), and joint consumption (use by one individual does not affect the use by others).

Externalities and public goods are problematic for neoclassical economists: because they are difficult to price, the market does not provide the means to express demand for them. Even when all parties explicitly recognize the importance of, say, better technical training, actual provision may be blocked by collective action problems—the disincentive individuals have to pay an amount equal to the benefits they acquire. In collective action problems, shirking individual contributions leads to an undersupply of goods necessary for national development. A lack of property rights or coordinating arrangements means that the benefits of such goods may accrue to individuals who pay little or nothing (free riders). Finally, joint production of a good or service may be undermined by high transaction costs, i.e., individuals lack information and/or cannot afford to bargain over and organize the production of certain goods (Williamson 1985).

Collective action problems are potentially resolvable by institutions—arrangements that go beyond the arm's-length relationships of competitive markets to regularize the processes of cooperation and competition (North and Thomas 1970:5). The state is certainly one such institution but not the only one capable of resolving the collective problems associated with economic development.⁴

Political economy studies in the area of market failure generally exhibit two further characteristics worth noting. First, they incorporate interaction between domestic and international variables. Even if we are seeking to explain domestic phenomena such as national development, the growing interpenetration of national markets requires us to take account of external forces. There has thus been a marked "blurring of boundaries between the fields of international relations and comparative politics" (Keohane and Nye 1987:753). Second, much of the recent work in political economy has a sector- or industry-specific focus. Such a focus often provides a clear view into both the tensions between allocative and distributive objectives and the collective action problems of coordinating disparate interests.

How do we account for the relatively meager contribution of Southeast Asian studies to the political economy literature? One contributing factor is the economics profession's preference for theoretical over applied studies. Chalmers Johnson's argument that academic economists discriminate against the study of the Japanese economy applies to the study of Southeast Asia as well (Johnson 1987). Second, the political divisiveness of the Vietnam War in the U.S. academic community probably discouraged the development of some dependency-oriented scholars whose work would have contributed to a stronger political economy thrust in Southeast Asian studies.

⁴There is also an extensive literature applying the institutionalist approach to international relations, especially the study of international regimes in areas such as trade and monetary relations. See, for example, Keohane 1988.
Many activist scholars "either never secured any academic position, voluntarily left, or were forced out of Asian studies" (Allen 1989:117).

The underdevelopment or at least low visibility of private entrepreneurship in Southeast Asia also impeded the development of a political economy literature on the region. For Western observers, the dependent position of local business vis-a-vis state officials encouraged a static view of indigenous capitalists as "pariah entrepreneurs" (Riggs 1966). Vertical, patron-client links obscured the processes of capital accumulation, class formation, and private influence over economic policies. With rare exceptions (e.g., Skinner 1957), few plumbed below the bureaucratic polity's official-centered focus to analyze the beehive of private commercial activities, the seeds of subsequent capitalist growth. And few anticipated the incentives for state officials' cooptation by business rather than bureaucratic domination of entrepreneurs (McVey 1990:19). The result was a general neglect of dynamic interactions within the private sector and between public and private interests.

The weak position of local business also undermined the development of "producers" and "consumers" of a political economy literature within the region itself. The impact of import substitution industrialization (ISI) merits special emphasis in this regard. Unlike most of Southeast Asia, most of Latin America entered into ISI during and even prior to WWII. This prompted strong economic nationalism, broad, politically informed debates on development conflict and strategy, and an increasingly sophisticated awareness of state-market and foreign-domestic interactions (e.g., Hirschman 1971; Prebisch 1950; Cardoso and Faletto 1979; and Goodsell 1974). It is perhaps not a coincidence that Southeast Asian postwar social science and nationalist writings were the most developed in the Philippines, where ISI had the strongest base during the interwar period (Yoshihara 1985; Golay 1961).

The link between the emergence of local capital, economic nationalism, and studies of political economy is suggested by more recent work in English by Westerners as well as Southeast Asians. In the wake of Indonesia's 1974 Malari Riots against Japanese firms (and their Indonesian Chinese partners), Indonesians began to advocate countering foreign firms through the organization of big local capital into "nationally integrated economic units" (e.g., Panglaykim 1974; Chalmers 1988:ch. 5). Richard Robison's (1986) pathbreaking work on Indonesian capital can be seen as part of this general affirmation of the role of local entrepreneurs. While differing in certain respects, the studies of Hewison (1989), Suehiro (1985), Thanamai (1985), Phongpaichit (1980), Laothamatas (1989), and Chenvidyakarn (1979) on Thailand and Sundaram (1988), Lim (1985), and others (Hirschman 1989) on Malaysia can be viewed in a similar light. There is also a growing political economy literature in Southeast Asian languages (Reynolds and Lysa 1983; Neher and Bowornwathana 1984; Anderson 1984). Work in Thai has been especially impressive, no doubt bolstered by a growing Thai-language business press.

Harris (1988) discusses the idea of "consumers" of political economy. Reynolds and Lysa (1983) make a similar point in noting the importance of political struggles in generating a Thai Marxist literature.

However, the depression provided less stimulus to ISI manufacturing in the Philippines than in Latin America due to the former's continued import capacity (resulting from sugar exports to the U.S.) and its lack of tariff and exchange autonomy (Brown 1989).

Recent works in Thai include Samudavanija 1988; Pornvalai 1989; and Thanapornpan 1990. For an example of the Thai-language business press, see Phu Chaat Kan (Manager). Also worth note are in-depth case studies such as Thammasat (1987) and the M.A. theses from the English-language program of Thammasat University's Economics Department.
The region's economic growth is thus beginning to generate a literature that describes and explains that development. Before evaluating these and other writings, it is useful to assess the nature of that growth.

III. Economic Performance in Southeast Asia

Since we are concerned with explanations of Southeast Asian economic growth, it is necessary to note divisions of opinion as to the depth of that performance. Many studies have emphasized rising manufactured exports, increases in higher value-added products (Simandjuntak 1988), and the strengthening of local capital, measured by equity ownership, in all areas of economic life (Hewison 1989; Robison 1986).

But others have pointed to important weaknesses. One is the region's tendency to adopt capital-intensive growth strategies that create small pockets of highly paid urban workers while leaving the rural or traditional sector behind (Clad 1990; Hay 1989:656; Lee and Naya 1988:S140). Unequal income distribution environmental degradation (Hirsch and Lohman 1989; UN 1988), prostitution, and other negative results of economic expansion also seem to be intensifying.

It is also asserted that Southeast Asian growth remains overly reliant on and vulnerable to external forces. With regard to trade, the region's export markets are unstable and unlikely to provide the kinds of opportunities enjoyed by the East Asian NICs (Clad 1990; Bello and Rosenfeld 1990:9–11). Perhaps the most serious criticism concerns the shallowness and dependence of the region's own economic structures. Southeast Asian capitalism is viewed by some as "ersatz" (Yoshihara 1988; Suehiro 1985; Clad 1990). Local capitalists lack independent technological capacity in areas outside the tertiary sector and light manufacturing. Entrepreneurs favor opulence over excellence, rent seeking and speculation over long-term industrial investment. They are, in sum, paper capitalists, compradors of foreign firms. The region's shortage of technical personnel reflects and reinforces this inattention to real industrial development (e.g., Tasker 1990a; 1990b). Unlike those in the dependency tradition (discussed below), this critique emphasizes not externally imposed obstacles but the inability of local capitalists to follow their Japanese and NIC counterparts in taking advantage of external opportunities.

This line of criticism highlights the need for further empirical research. The efficiency of local producers can be evaluated through tariff levels, export subsidies, and the percentage of exports undertaken by local versus foreign investors (measured through levels of interfirm transfers). Technological reliance on foreign capital can be assessed through outward remittances of management fees, patent royalties, and management fees (e.g., UN 1984).

Some notes of caution are in order, however. Studies of Southeast Asian capital should avoid paying exclusive attention to large firms. There is considerable evidence, from studies of Japan, the East Asian NICs, and Southeast Asia, that small and medium-sized firms are an active and important component of recent economic growth (Doner 1991; Phongpaichit 1989:345; Friedman 1988; Amsden 1989:ch. 7). Future studies should also be cautious in drawing too sharp a contrast between dependency and self-reliance. Most less developed countries (LDCs) are best understood not as one or the other, but as somewhere on a continuum between the two (e.g., Grieco 1984; Packenham 1983). Cumings (1984), for example, notes that South

For a critique of the East Asian NICs along many of the same lines, see Bello and Rosenfeld 1990.
Korea and Taiwan expanded their autonomy in the world at large while deepening their reliance on Japan. As Hirschman (1989) argues in the Malaysian context, more work is needed on the issue of foreign versus local control and benefits in Southeast Asia.

Finally, we should avoid overly sharp dichotomies between rent-seekers or commercial capitalists on the one hand, and industrialists on the other. Some capitalists are clearly more oriented toward short-term profits and tertiary activities than others. Yet, throughout Asia, strong industrial firms have emerged from commercial capitalists, speculators, and rent-seekers benefiting from government-controlled import licenses. Research on the South Korean economy has shown that the large industrial groups known as chaebol (actually meaning "financial clique") emerged from those entrepreneurs known as "political capitalists," plutocrats, or compradors" (Kim 1976:469; see also Amsden 1989:46–48; Jones and Sakong 1983).

Despite these questions as to its depth and endurance, Southeast Asia's economic growth has been quite impressive. Explaining this performance (as well as its limitations) requires consideration of the opportunities and constraints provided by its external environment.

IV. Dependency and the External Context of Growth

Much of the recent academic emphasis on external conditions as influences on LDC development (or its absence) has come from the dependency school. Three central assertions characterize dependency literature. First, as noted earlier, LDCs are confronted with international market imperfections: international capitalism is presumed to be a "hierarchically ordered system of dominance" of which LDCs are found at the bottom or periphery (Haggard 1990:16). Second, this peripheral position undermines the opportunities for autonomous economic growth in the developing world. More specifically, foreign investment (1) squeezes local entrepreneurs out of the most dynamic sectors; (2) employs "inappropriate" capital-intensive technologies, thus adding to unemployment; (3) worsens income distribution; and (4) modifies consumer tastes and undermines local culture (Moran 1978). Finally, the political link between the international capitalist system and the preceding distortions is provided by a triple alliance among subservient local capitalists and states on the one hand, and dominant foreign capital on the other (Evans 1979; Bennett and Sharpe 1985; Gereffi 1983).

There have been several dependency studies of Southeast Asia (e.g., Steven 1988; Weinstein 1976; Permtanjit 1982; Bell 1978; Elliot 1978), but apart from the early to mid-1970s, the influence of dependency has been weak. Critics from both inside and outside the region have noted a number of important flaws in the approach. Methodologically, the school's fuzzy operationalization of dependence and its presumption that even nationalist host country demands reflected the interests of foreign investors made some of its hypotheses difficult to falsify (Packenham 1983; 9The fact that origins do not determine industrial strength is illustrated by a comparison of Philippine businessman Ricardo Silverio and South Korean businessman Pyong-chol Yi. Both expanded from commercial origins to create major industrial groups with support from powerful political patrons. Silverio, however, became a notorious Marcos "crony" who was forced to flee the country when his mismanaged and overextended conglomerate fell apart in the early 1980s. Yi, on the other hand, founded Samsung, South Korea's largest chaebol based on steady expansion from production of consumer goods to basic industries.
Empirically, LDC realities have been at odds with dependency predictions. Industrialization has occurred, albeit unevenly, and indigenous bourgeoisies have emerged that confront as well as integrate with foreign capital (Higgott and Robison 1985:37). The fact that this capitalist growth has been uneven suggests that the dependency approach is also flawed by its ignorance of domestic factors, accounting for different national responses to similar external constraints.

But the dependency framework's most serious flaw is its lack of a well-developed theory or paradigm of international capitalism (Becker 1991:105). The fact that LDC growth has occurred at all and is uneven suggests that the international system is not a monolith blocking Third World development. It is rather a variegated and dynamic structure that can influence development in two related ways: economically, by providing external opportunities for, as well as constraints on, developing country growth; and politically, by influencing the growth of national capabilities necessary to contend with external conditions.

Studies of the East Asian NICs suggest that these processes can be understood in part through the interaction of the product life cycle with global and regional hegemony. The product cycle refers to the process by which standardization and diffusion of technology promotes the gradual shift of a product's manufacture out of the innovating country to other countries with similar factor endowments but less advanced technology (Wells 1986:200–1). As the Japanese portray it, the product cycle resembles a “wild flying geese pattern” in which the leader of the inverse V formation of geese is periodically replaced by a newcomer (Akamatsu 1961). The product cycle's evolution is not automatic, however, but conditioned by the interests and relative strength of dominant external powers.

Applied to Northeast Asia, the argument is that South Korea and Taiwan have benefited from a Japanese-led product cycle embedded in a changing hegemonic structure. Prior to 1945, unilateral Japanese colonialism not only strengthened the two countries' physical and human infrastructure, it also promoted modern manufacturing in Korea and Taiwan. Beginning in the late 1960s, heavy industrialization efforts in these two countries encountered opposition from U.S. economic planners who claimed that such plans violated the law of comparative advantage. Yet South Korea and Taiwan obtained Japanese technology and financing in part because their “new programs provided the structure necessary to receive declining Japanese heavy industry” (Cumings 1984:76).

U.S. geopolitical objectives in the region first encouraged this move up the product cycle by providing economic opportunities. The U.S. security blanket allowed Japan to devote its full energies to economic restructuring, a process with beneficial spillovers for Taiwan and South Korea. Also helping was the diffuseness of U.S. hegemony relative to prior systems of domination. The open U.S. trade regimes provided significant market opportunities for the East Asian NICs (Yoffie 1983).

The U.S. also helped to strengthen domestic structures in Northeast Asia necessary to internal policy changes. American aid was a critical source of domestic capital formation in South Korea and Taiwan during the postwar period. These financial flows also provided state officials with important leverage over business interests. And through its support for land reform, the U.S. helped to erase a source of political instability and to remove landed interests capable of obstructing state-initiated economic reforms (Cumings 1984:54, 56). Research along these lines has

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10 Section V explores these domestic factors.
11 The Japanese colonial contribution to South Korea's infrastructure was reduced by the fact that South Korea “had already lost its colonial industrial base in the North when Korea was divided” (Jong, 1990:100).
already begun to yield useful comparative and theoretical results, whether in showing how U.S. interests in Latin America were more antagonistic to locally initiated development than in East Asia (Gereffi and Wyman 1989:38–40), or in showing how Taiwan’s experience challenges the hierarchical assumptions of Wallerstein’s world systems approach to development (Crane 1982).

In sum, while dependency theory is flawed as a theoretical approach, it highlights the need for research on the influence of external variables on (1) the economic opportunities available to Southeast Asia, and (2) the region’s domestic capacities to take advantage of these opportunities.

**Economic Opportunities**

Research on economic opportunities should focus on the expansion of a regional product cycle, the structure of regional hegemony, and the interests of external actors. Some argue that a product cycle has already begun in Southeast Asia, that Indonesia, Malaysia, the Philippines, and Thailand have already begun to participate in a “multiple catch-up” process through which Japan leads the Asian NICs and then the other ASEAN countries through stages of comparative advantage. As the NICs follow Japan into capital- and knowledge-intensive products, the ASEAN-Four will move into exports from light industries such as textiles, food processing, and simpler electronics. The region, in sum, is presumably shifting from Japan’s “garden” to its “tool shed” (Hay 1989; Meier 1986:15). Yet many Southeast Asians argue that this process has been blocked by Japan’s reluctance to share technology and to open its markets to foreign (or at least Southeast Asian) manufactured goods (e.g., Sundaram 1988).

Two specific research foci can help clarify the evolution of the region’s product cycle. First of all, sectoral studies can be invaluable. Linda Lim (1988), for example, has helped to identify the extent and processes of manufacturing diffusion in electronics throughout East Asia. Also worth examination is the emergence of a regional (albeit Japanese-led) division of labor in auto components production. A second focus involves the expanding linkages between capitalist and socialist Southeast Asia. Investments in Vietnam by Indonesia’s Astra group and Thai acquisition of logging concessions in neighboring countries may reflect an extension of the regional division of labor in which foreign-exchange-poor Indochina becomes a source of raw materials and cheap labor for its more developed neighbors (e.g., Buszynski 1989; Far Eastern Economic Review, March 23, 1989:95).

The product cycle’s evolution is influenced by the structure of hegemony, i.e., the relative distribution of capacities among the larger external powers. For some (e.g., Stubbs 1989), the cooperative joint hegemony of U.S. geopolitical and Japanese economic power in the postwar period facilitated the region’s prosperity. While this arrangement chiefly promoted Japanese, not Southeast Asian interests (Borden 1984), the openness of the U.S. market supplemented Japan’s investment in and purchases of primary commodities from the region. In addition, the presence of two major powers provided Southeast Asia with alternate sources of capital, at times allowing a country to obtain from one what the other refused (e.g., Robinson 1985).

But the postwar hegemonic structure is undergoing transformation. Reductions are occurring in the U.S. geopolitical presence and in the level of U.S.-Japan

12Reports on this regional production scheme can be found in various issues of Economist Intelligence Unit, Japanese Motor Business.

13For a discussion of structure, see Waltz 1979.
cooperation. The degree and impacts of these shifts merit study. Cumings has suggested that increased U.S.-Japanese rivalry and Japan's move toward greater political influence in low-growth periods can spell trouble for smaller, weaker countries such as those in Southeast Asia. The analogy here is with the interwar period when Japan, "striving toward core-power status," attempted to limit the opportunities of less industrialized countries in the region. Japan is portrayed here as resembling not a lead goose in the product cycle but a moth moving toward a flame (Cumings 1984:82).

This hypothesis of increasing rivalry closing off opportunities for the ASEAN countries seems overly general. First, the inflow of funds from Taiwan and South Korea may reduce Southeast Asia's reliance on Japanese capital. Second, following a pattern set in Northeast Asia, the erosion of American influence may reduce the role of U.S.-supported agencies in Southeast Asian developmental coalitions, thus increasing domestic economic autonomy (Deyo 1987a:240). Third, Thailand's adaptation to Japanese dominance in the interwar period, as well as former Prime Minister Chatchai's proposal of joint naval exercises with Japan, suggest that some may be better positioned to benefit from external shifts than others. This highlights the need for crossnational studies of foreign policy goals, a task facilitated by Wurfel and Burton's The Political Economy of Foreign Policy in Southeast Asia (1990).

The opportunities for economic development reflect not only the distribution (structure) of external powers but also the particular interests of those powers. One area for further research concerns the impact of economic versus geopolitical interests of Japan and the U.S. Identifying the U.S. as principally concerned with regional stability is less and less valid. The increasing American concern with the defense of its own domestic economic interests clearly spells trouble for Southeast Asian countries long reliant on U.S. purchases of manufactured exports. This shift will probably threaten what the U.S. perceives as an unfair division of labor: Southeast Asia sells raw materials to and buys capital equipment from Japan, but sells manufactured goods to the U.S. 14

This brings us to a related question: What are the features and consequences of economic changes within Japan and the East Asian NICs? Recent work has shown that conscious economic restructuring is occurring not only in Japan but in Taiwan and South Korea as well (Unger 1989; Morris-Suzuki 1984). Undertaken in response to trade frictions, exchange rate shifts, and rising labor costs, this restructuring has generated significant flows of foreign investment from the NICs to Southeast Asia. 15 Of particular interest is the possibility that much of this recent investment comes from small and medium-sized enterprises. Because these firms tend to employ labor-intensive manufacturing techniques, this investment can help even out rural-urban wage differences. It can also encourage a regional product cycle by introducing industries whose financial and technical requirements are compatible with Southeast Asian capacities (Phongpaichit 1988; Hay 1989; Dunne 1989).

These investments, through the provision of financing, export channels, and technology may have the additional benefit of easing the transition from import substitution to export promotion. Comparative studies of both the NICs and Latin America suggest that this transition may be the central issue of development (e.g.,

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14 See Lim (1986) as well as various articles by Linda Lim in Southeast Asia Business, published by the Center for South and Southeast Asian Studies, University of Michigan, Ann Arbor.

Haggard and Cheng 1987; Gereffi and Wyman 1989). In Southeast Asia, this transition may be especially difficult (but typical of LDCs) because revenues from natural resource exports have financed high rates of protection for inefficient local producers of manufactured goods (e.g., Yoshihara 1988:118–19). The political consequences of forcing local firms to contend with foreign competition through tariff reductions and devalued exchange rate are often quite severe.

Whether foreign investment, in fact, benefits a Southeast Asian economy will depend in part on the entry strategies of foreign investors which are themselves a function of negotiations between foreign firms and local governments. For example, initial moves into exports by Thailand and Malaysia during the mid-1970s were facilitated by the small and medium-sized firms leading Japan’s investment at that time. The willingness of these firms to accept minority shares “made it easier for the ASEAN governments to sell the idea of foreign investment and export-oriented industrialization to domestic business interests” (Stubbs 1989:532–33). One study has gone so far as to argue that foreign investment in East and Southeast Asia might “represent the thin edge of the wedge in the eventual triumph of capitalism over imperialism” (Lim and Pang 1991:231).

Whether this, in fact, is the case depends not only on the changing nature of that investment but also on coalitions of interests and institutions internal to the Southeast Asian countries. As shown in the remainder of this section, these factors are influenced by the external environment. 16

External Influences on National Capabilities

External conditions can affect LDC abilities to respond to external opportunities by influencing (1) the political strength and (2) the strategies and organizational capacities of domestic interests.

Foreign actors can influence what one scholar has termed a country’s “strategic capacity”—its ability to develop a coalition supportive of “well-chosen development strategies” (Deyo 1987a:228; 1986). The importance of foreign influence in this regard is most striking with regard to the shift to export promotion. The core argument of work on this issue, based on studies of the East Asian NICs, involves the sequence of foreign-domestic linkages and a state’s initiation of economic changes: in South Korea, Taiwan, and Singapore, geopolitically inclined external actors suppressed domestic forces (e.g., labor unions and landlords) likely to oppose changes in economic policy before such changes were initiated by the state. These same external forces simultaneously strengthened the organizational capacities of the state, which then had a relatively free hand to implement domestic economic changes while restricting the role of foreign capital.

This process did not occur in the Philippines (or Latin America) where foreign investment tended “to foster vested social and economic interests opposed to industrial modernization” (Chan 1990:56). This was in part a function of U.S. objectives. While geopolitics drove the U.S. policies toward domestic actors in Northeast Asia, private firms were the leading force in U.S. policy toward the Philippines. In their drive for economic benefits, U.S. investors strengthened first the Philippines’ agro-based elites and then, after World War II, an expanding group of Philippine businesses

16It bears emphasis that domestic institutions are influenced but not determined by external factors. This is illustrated by differences between states in South Korea and Taiwan, despite the fact that both underwent Japanese colonial control (Cumings 1984, Hamilton and Biggart 1988).
based on import-substitution industrialization. In addition, U.S. efforts were devoted by and large to minimizing rather than strengthening Philippine state intervention. The result, argues Deyo (1986), was "coalitional immobilism." Domestic actors with crosscutting interests, foreign (private) backers, and claims to the nationalist mantle were well entrenched prior to economic reform efforts initiated by technocrats in the Marcos regime.

Deyo's approach is statist in assuming that powerful societal interests will oppose needed changes in economic policies. The emphasis is on the developmental utility of suppressing societal actors so as to clear the decks for state-led economic reforms. While valid in many cases, this emphasis may preclude something different but equally beneficial for economic flexibility: external strengthening of indigenous capitalists interested in economic changes and capable of implementing those changes. In the late 1950s, for example, foreign investment provided political protection for Sino-Thai entrepreneurs pressing for economic reforms (Hewison 1989:274–77; Phongphaichit 1980).

A related hypothesis worthy of investigation is that external challenges can encourage corporatist arrangements, i.e., the organizational strengthening of local entrepreneurs and close public-private sector cooperation. Katzenstein (1985) has argued that corporatist arrangements often develop in small, industrialized states as a way of mobilizing resources to cope with the vulnerabilities of those economies to external market shifts. Others have added that such corporatism will be most common in trade-dependent countries with highly differentiated exports (Rogowski 1983:729). This pattern may have begun to emerge in Thailand where the need for export-oriented economic policies encouraged stronger public-private cooperation (Laothamatas 1988). It is likely that such collaboration will occur at the industry level when developed country protectionism forces state and industry officials to work out joint agreements on quota arrangements, quality control, product upgrading, etc. (e.g., Douglas 1989:428).

External factors can influence the organizational resources as well as the political strength of local firms and the state. Dependency studies argued that foreign capital squeezes out domestic firms and that the Third World state is simply "a hinge between international capital and Third World social formations—in effect a staging point in the syphoning of surplus" (Higgott and Robison 1985:47). Weinstein (1976) provides compelling evidence of Japanese restraints on Southeast Asian firms. And several authors have shown how external threats and constraints on fiscal powers limited the organizational capacities and objectives of the Thai state during the nineteenth and early twentieth centuries (Feeny 1988; Anderson 1978; Brown 1988).

Recently, however, analysts have noted more positive consequences of foreign investment. A "postimperialism" literature has argued that collaboration with foreign capital can expand the technical capacities of LDC capitalists as a class (Becker et al. 1987:180). Further studies are necessary to specify the firm-specific impacts of foreign investment, but general support for the postimperialist view comes from Hewison (1989) and Richard Robison's study of Indonesian capital. Peter Evans has made a similar argument with regard to the state—namely, that in the postwar period, the transnationalization of economic relations can provoke an organizational strengthening of government agencies in countries characterized by some prior bureaucrative institutionalization and relative autonomy (1985:207). Illustrations of
this pattern are beginning to emerge in Southeast Asia. Robert Muscat highlights the ways in which U.S. aid promoted the development of Thai state institutions (1990:esp. 284–87). Clark Neher’s (1989) study of U.S.-Thai disputes over intellectual property rights portrays a Thai bureaucracy pushed toward increasing expertise and activism to contend with U.S. protectionism. But as the Malaysian textile case reminds us, protectionism and the attendant need for state involvement in quota allocation can expand opportunities for corruption as well as increased efficiency (Douglas 1989:435).

The external context can also strengthen a country’s human and physical infrastructure. The impact of international conflicts merits special note here (Stubbs 1989). Increased commodity prices due to the Korean conflict raised export revenues for Malaya and Singapore. This windfall (combined with the need for colonial self-reliance due to problems in England) led to improvements in both tax administration and physical infrastructure. The Vietnam war, with its heavy dose of U.S. aid to Thailand, encouraged an expansion of the national transport system and the civil engineering sector. The conflict also strengthened Thailand’s fledgling consumer goods sector, since “Vietnam was forced to use United States aid to purchase consumer goods from neighboring countries, particularly Thailand” (Stubbs 1989:528).

The impact of the international system on domestic interests and institutions may be usefully addressed through case studies of specific types of foreign-domestic interactions (in jargon: cases of “external linkage mediation”). A first category involves bargaining between foreign investors and host countries. Several studies of such bargaining exist for Latin American and South Asian cases but, to my knowledge, few for Southeast Asia (e.g., Doner 1991). Studies of trade conflicts are also useful. In addition to the two studies already cited (Neher 1989; Douglas 1989), scholars can refer to work on trade bargaining relations between the U.S. and the East Asian NICs (Yoffie 1983; Odell 1984). Finally, relations between countries in the region and foreign financial institutions constitute fertile research soil. Indeed, work has already been done on the Philippines’ external debt problem (Broad 1988; Bello et al. 1982; Haggard 1988), on Indonesia and the IIGGI (Robinson, 1985), and on Thailand’s encounters with the World Bank (Hewison 1987; Muscat 1990).

In examining the range of external influences on national interests and institutions, I have depicted a more complex and less constraining international system than that portrayed by the dependency school. It is now necessary to examine domestic institutions as independent variables, i.e., as potential contributors to development in and of themselves. To do so we shall draw on an institutionalist framework that explains why nonmarket arrangements are useful for development in the first place.

V. Institutionalism

An institutionalist approach to development begins with the assumption that a country’s ability to exploit external opportunities and avoid external dangers depends in large part on its ability to mobilize and shift resources to new purposes. Certain countries are less developed than others because their factors of production are less mobile (Krasner 1985:40). At least three factors help explain this state of affairs. First, routinized market mechanisms for factors of production such as labor and capital are often inefficient in LDCs due to a lack of well-developed communications, transportation, and legal institutions for contract enforcement, as well as the greater vulnerability of LDC economies to change and uncertainty (Lee 1990:7–10; Leff
Second, LDCs' long-standing pursuit of import substitution strategies often results in protected, inefficient, and politically influential entrepreneurs who are unwilling to promote activities that are risky (or not immediately profitable) but beneficial for national growth.

Finally, poor countries must contend with a particularly demanding set of market requirements. They face the need to balance between: openness versus selectivity over foreign investment; protection of new industries versus free trade (to obtain inputs and expose those industries to competition from efficient producers); the benefits of competitive markets (to encourage efficiency) versus the utility of oligopoly or monopoly (to promote standardization and scale economies); and undervalued exchange rates (to support exports) versus overvalued exchange rates (to minimize the costs of inputs and foreign debt repayment) (Amsden 1989:13).

In sum, LDCs face collective action problems described earlier in this paper: they must encourage entrepreneurs with often contrasting and entrenched interests to undertake diverse activities for the benefit of the country as a whole; and they must do so where uncertainty is high and information low. The centrality of collective action problems is highlighted by Southeast Asian case studies discussed at the end of this section.

Statism

The collective action problems described above constitute the demand for institutions, especially, argues one school, strong states. The statist view rests on the virtues of the political and organizational components of state strength. Politically, strong states are autonomous from powerful societal interests. They thus have the leverage to extract resources, provide public goods, reconcile diverse needs, encourage the most productive firms, and impose the short-term costs associated with efficient economic adjustment (Haggard 1990:262; 1988a:264). They are also able to extract benefits from foreign capital independently of powerful distributional coalitions. Organizationally, such states are coherent, consistent and flexible (Moon 1990:24). They are thus able to accumulate and act on information necessary to reconcile diverse interests (e.g., Mardon 1990).

This statist approach has proven useful in several important respects. It has taken us beyond the assumption that markets always operate efficiently (Wade 1988a). It has helped to explain crossnational differences in economic performance. And it has identified sources of economic success in the East Asian NICs that are not addressed by neoclassical explanations (e.g., Lim 1983). Statism has also begun to find supporters among Southeast Asianists. Harold Crouch has argued that industry in ASEAN is least developed where "the ties between business and government are closest," and that technocrats have greater opportunities for rational policy-making when the political and business elites are separate (1984:96, 94).

But the statist approach suffers from two general weaknesses. The first has to do with its descriptive accuracy, even in the East Asian NICs. With regard to organizational strength, the institutional structures of states in South Korea and Taiwan seem cohesive, but case studies reveal internal preference differences, competing coalitions, and decentralization of decision-making (Moon 1990:24–27; Noble 1987).

The "strong state" label should not obscure important differences among the NICs with regard to degrees of authoritarianism, economic development of private sectors, and state implementation capacity. See, for example, Johnson 1987; Haggard and Cheng 1987; and Hamilton and Biggart 1988.
Crossnational variation also appears in NIC state structures leading to differences in policy instruments and economic strategies (Chu 1989). Turning to the issue of autonomy, even strong states are "creatures of political exigencies" as well as institutions with recurrent preferences (Haggard 1990:264). Thus, the South Korean state had some capacity to construct a supportive coalition within the business community. But its auto policies were not implemented when they conflicted with the broad structure of big business interests (Jong 1990).

A second weakness is functional: an autonomous state may not always be best suited for development tasks. Autonomously developed preferences may lead to predatory behavior by state officials. Prior state commitments may be hard to break because they have generated powerful societal interests demanding their maintenance (Ikenberry 1986). State-initiated economic reforms may weaken the state's coalitional base and impede subsequent efforts to impose its preferences (Moon 1988). And while organizational cohesion is certainly necessary, centralization may not be. Thus, one study of bargaining with foreign investors in Southeast Asia found that centralization led to the exclusion of some agencies and, as a result, poor implementation (Encarnation and Wells 1985). Conversely, some intrastate conflicts may be beneficial. Where the goal of industrial deepening pervades the bureaucracy, as in Indonesia, interagency struggles can take the form of competitive nationalism and lead to more effective bargaining with foreign firms (Chalmers 1988). Finally, the expertise of state officials is rarely sufficient to resolve complex commercial and industrial issues. As one review of Southeast Asia concluded, state officials may know enough to formulate economic policies, but they may lack the capacity to implement such plans (Crone 1988:256).

The implication of these functional weaknesses is not that we should ignore the study of states as institutions. As shown by numerous studies, states in Southeast Asia are important as developmental actors in their own right, as influences on the developmental contributions of societal interests, and as reflections of broader sociopolitical arrangements (e.g., Halim 1982; Wong 1990; Wibisono 1989; Hewison 1989; Bowie 1991; Hawes 1987). Nor is the implication that institutions are unnecessary. It is rather that, as the case of Hong Kong suggests, "developmentalist organizations need not be confined to public or state sectors" (Deyo 1987a:243).

**Inclusionary Institutionalism and the New Institutional Economics**

Based on their abilities to formulate and implement policy independently of powerful groups, states in Indonesia, Malaysia, the Philippines, and Thailand are not strong (Crouch 1984; Mackie 1988). Thus, unless we are to attribute their economic growth solely to market conditions, we must explore the role of nonstate institutions. Useful for this purpose is a body of literature known as the new institutional economics (NIE). The important feature of this approach is its unit of analysis. NIE begins with "the transaction, viewed as a relationship or contract" (Yarbrough and Yarbrough 1990:241; Williamson 1985). Such relationships are central to mobilizing and shifting resources for development. Yet they are vulnerable to the information and collective action problems described earlier.

Like statism, then, NIE begins with collective action problems. And like statism, it suggests the utility of hierarchical institutions rather than competitive markets to resolve these problems. But unlike statism, NIE's explicit focus on transactions allows it to acknowledge the importance of private and public-private institutions.
as well as states. This approach is only in its infancy as applied to development in general and to Southeast Asia in particular (Nabli and Nugent 1989; Lee and Naya 1988). It also contains important weaknesses, about which more later. But it does draw our attention to several nonstate and nonmarket institutions important to any explanation of both growth and problems in Southeast Asia.

**Business Groups:** The group is “a large-scale firm that invests and produces in several product lines that involve vertical integration or other economic and technological complementarities” (Leff 1979:52). Often, but not always, groups are owned and staffed at the higher levels by individuals who are linked by a communal, ethnic, or regional group (Leff 1990:7).

Groups merit further research by Southeast Asianists for two reasons. First, as reflected by their importance in the East Asian NICs, they are potential institutional solutions to the market failures so common in LDCs (e.g., Johnson 1987; Jones and Sakong 1983; Mody 1990; Imai 1987–88). In the absence of a well-developed capital market, they often allocate capital among diversified activities. In the face of information shortages and political obstacles, they may link primary inputs and intermediate goods within their firms. And their very participation in multiple activities allows them to reduce uncertainty concerning investment and production decisions. In sum, they may perform “many of the special functions required for entrepreneurship in underdeveloped countries” (Imai 1987–88:53).

Groups also merit study because they dominate much of the private and domestically owned advanced sector in Southeast Asia, as well as other developing regions. Existing studies of Southeast Asian groups include Robison (1986) and Yoon (1990) on Indonesia; Lim (1981, 1985) on Malaysia; Hewison (1989), Suehiro (1985), and Phipatseritham (1982) on Thailand; and Yoshihara, (1985), and Bello et al. (1987) on the Philippines. But work on these groups is just beginning. We have no systematic studies of several important groups such as Thailand’s major industrial conglomerate, Siam Cement, or Malaysia’s UMW. And while it is clear that groups such as Thailand’s Saha Union, Charoen Pokphand, and Siam Cement, as well as Indonesia’s Astra, do attempt to resolve market problems through vertical integration, our knowledge of how they do so and with what success is still rudimentary (e.g., Doner 1991; Christensen 1990:36).

**Networks:** Whereas groups attempt to overcome market failures by internalizing transactions within a firm or group of firms under one ownership umbrella, networks involve regularized linkages between and among independent firms or individuals. As in the case of groups, research on Japan and the East Asian NICs shows the potential contribution of network arrangements to economic growth. Work on such arrangements in Southeast Asia might usefully seek to identify crossnational networks in particular industries such as textiles, or electronics (Arpan et al. 1984).

While not unrelated, the new institutional economics should be distinguished from the “new institutionalism.” Both schools challenge the neoclassical assumption of the firm as a completely rational, technological unit operating in competitive markets. But NIE focuses on ways of organizing transactions in ways that go beyond the impersonal, arm’s-length operations of the free market. The new institutionalism stresses the relative autonomy of political institutions and the way such institutions influence individual preferences (March and Olsen 1984; Moe 1984).

Unless otherwise noted, the following discussion is adapted from Leff (1979).

For references on the operation of LDC groups, see Leff (1990:6, fn. 10).

Research on Pacific Rim business networks has been conducted under the auspices of the International Program on East Asian Business and Development (EABAD) at the University of California, Davis. This research has focused on East rather than Southeast Asia.
Of particular interest here is the degree to which Southeast Asian entrepreneurs have gradually dislodged the foreign firms initiating such networks.

Research should explore the ways in which networks, both domestic and crossnational, help to finance and organize economic growth. The Bangkok Bank’s active role in the Thai textile and apparel industries is an important case of such activities (Doner and Ramsay 1991). But work on interfirm financing should not be limited to large banks and companies. An important area of analysis is the informal financial sector—arrangements such as rotating credit associations, moneylenders, and credit between borrowers and lenders linked to transactions in other markets. Such institutions are widespread throughout the developing world and particularly in Southeast Asia (accounting for over 40 percent of outstanding debt in Thailand). They are also now recognized as potentially useful for economic growth. Along with general studies using the new institutional economics framework, recent empirical work on Sino-Thai rice traders suggests that rotating credit societies and other informal links may help to resolve problems of information-scarcity, transaction costs, monitoring, and free riders (Wongtada 1990; Hechter 1987; Varian 1990).

**Business-Interest Associations (BIAs):** Formal associations of firms in the same product area, industry, or sector are quite widespread in Southeast Asia. In many cases these institutions grew out of communal, especially ethnic Chinese networks (e.g., Bowie and Doner 1988). In addition to their impressive numbers, BIAs have fulfilled important functions at industry, national, and regional levels in Southeast Asia (Tiglao 1990:68; Laothamatras 1988; MacIntyre 1988; Wibisono 1989; Soesastro 1989). They have attempted to promote a sense of class identification (e.g., Stifel 1963:173), to influence public policy, and perhaps most important for our purposes, to implement policy. This latter function includes working out product standards, allocating export quotas, monitoring prices, promoting the adoption of new technologies, coordinating contracts, and supporting efforts to diffuse foreign protectionism (see especially Laothamatras 1988). Note also that trade and producers’ associations have grown through participation in the industry clubs of the Association of Southeast Asian Nations (Young 1981; Doner 1991). All of these activities require the reconciliation of otherwise conflicting private interests.

**Public-Private Sector Consultation:** Regularized consultation between state officials and local capitalists can help overcome problems of uncertainty by encouraging greater coordination and sharing of information than would occur through the market (Lee 1990:21). Work on Japan, South Korea, and Taiwan has stressed the ways in which these arrangements facilitate state leadership and coordination, especially in the provision of industrial finance. Appreciation of such formations has emerged in the literature on Southeast Asia, although the emphasis here is more on collaborative than state-dominated institutions. Jamie Mackie has emphasized the importance of “growth coalitions” involving the state and private sector (1988). Such arrangements may exist on the national level and, as described by Laothamatras (1988) for Thailand, contribute to greater administrative efficiency and shifts out of import substitution toward export promotion. Perhaps most common are sector- or industry-level collaborations to improve local responses to shifting foreign markets and investments (e.g., Siritiwatpatrickara 1989:ch. 6). Hong Kong’s ability to contend with U.S. protectionism in textiles and apparel provides perhaps the best illustration of the potential gains from public-private cooperation (Yoffie 1983:95, 118).

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Problems of the Institutionalist Framework

Despite its utility, the new institutional economics has at least two important weaknesses. The first is its general neglect of the redistributive and thus political consequences of institutions. NIE advocates presume that institutions are necessary responses to problems of market failure; they are efficiency-creating mechanisms. But at the most basic level, institutions often define efficiency in ways that favor some more than others (Bromley 1989). Groups may succeed in resolving factor-market imperfections by mobilizing their own capital or producing their own intermediate goods. For example, Thailand’s Charoen Pokphand circumvented political conflicts among soybean farmers and millers by building its own soybean processing mills and developing a contract-farming system (Christensen 1990:36). But such moves may result in the weakening of smaller economic units. And, as Leff emphasizes, these same groups may then create product-market imperfections, i.e., “a special form of oligopoly capitalism” that reduces overall efficiency (Leff 1979:55). Similarly, informal credit markets in rural areas may be vehicles for exploitation of poor peasants rather than the most efficient mechanism for local financing. And business interest associations may be more than mechanisms to share information and promote efficiency. Indeed, if we are to follow Becker in viewing capitalists as social movements, we must see business associations as mechanisms of class cohesion and propagation of class ideology (Becker 1991:121). There is, in sum, the danger that the new institutionalism becomes a “new apologia” for big business (Dugger 1983:107).24

The NIE is also flawed by its overemphasis on the demand for institutions and its inattention to their supply. That is, this literature demonstrates how institutions can resolve problems of uncertainty and information scarcity reflected in, for example, the absence of developed capital markets. But the very creation of institutions requires people to work together and thus involves collective action problems (Bates 1988). With few exceptions, then, the NIE literature lacks a theory of institutional origins (Feeny 1988).

How, for example, do we account for what seems to be a greater predominance of large, vertically integrated firms in Indonesia than elsewhere? What accounts for the strength of business associations in one country and not in another? One set of explanations includes coercion and/or incentives provided by political elites. For example, Japanese business associations, buttressed by state incentives, were quite active in promoting the importation and diffusion of foreign technology into the country’s cotton spinning industry. Such institutions did not exist in colonial India at least in part due to the indifference or opposition of dominant English firms (Otsuka et al. 1988:73–89).

Still another set of explanations focuses on what Robert Bates has termed “softer” factors such as “community, symbolism, and trust” (Bates 1988:398–99).25 Because transactions in LDCs are often plagued by uncertainties, and because consensus must usually precede contract, some type of normative consensus is often a necessary precondition for the establishment of long-term relationships. According to John Hall, the provision of such a consensus was one of the Church’s principal contributions to international trade (Hall 1982:26–27).

24A related criticism is that the very assumption of market failure is not justified, that it simply legitimates the expansionist goals of big groups. Nevertheless, when evaluating the welfare effects of groups, the most relevant comparison is not the LDC with perfectly competitive product and factor markets but the LDC without the groups. I am grateful to Nathaniel Leff for emphasizing this point.

25A similar concern has been expressed with regard to the study of international institutions (Keohane 1988:391).
to European economic growth (Hall 1985:123-26). In Southeast Asia, ethnic and communal ties among Chinese have clearly been important to the emergence of business associations, credit networks, and powerful business groups (e.g., Lim and Gosling 1983; Suryadinata 1988:265). The analysis of institutional origins in Southeast Asia thus has the great virtue of incorporating, indeed requiring, the study of culture and ethnicity.

Yet variation in institutional outcomes within similar ethnic or cultural contexts reminds us that the contribution of "soft" factors to institutional growth is mediated by the broader social, economic, and political environments noted earlier. These environments, in which cultures and ethnic groups are embedded, can help explain one of the critical issues of Southeast Asian development: crossnational and historical variation in levels and forms of assimilation by overseas Chinese (e.g., Skinner 1973; Mackie 1988; Lim and Gosling 1983). State efforts to coopt and control local firms thus help to explain the expansion of associational activity under Indonesia's New Order (MacIntyre 1988). The growth of Thai associations reflected official efforts to obtain collective business support in policy implementation (Laothamatas 1988). Sociopolitical factors can also help explain crossnational variation not in the existence of institutions but in their levels of efficiency and commitments to industrialization. The incentives provided by the Marcos regime to large "crony" conglomerates differed from those to which a more efficient conglomerate, such as Siam Cement, has been exposed.

But culture, ethnicity, or political constraints would seem unable to account for a still more microlevel of variation—namely, differences between firms of the same nationality and ethnicity. How, for example, are we to account for the fact that Indonesia's Astra is a more market- and industrial-oriented group than the more commercial-, financial-, and political-favor-oriented Liem group? Similarly, how do we explain the higher level of professionalization (measured by staffing and willingness to go public) exhibited by Thailand's Saha Union relative to the TBI group (Doner and Ramsay 1991)? Explaining such variation will require that scholars explore such factors as firms' economic origins, personalities of founders, regional opportunities, and links to political elites (e.g., Mackie 1988a:245).

A Problem-Specific Research Focus

My emphasis on the weaknesses in the NIE literature is meant to strengthen, not discourage, research on the developmental contribution of institutions in Southeast Asia. Such research should, however, be problem-specific and comparative. It should begin with collective action dilemmas in order to avoid prejudging institutional solutions. And it should examine these dilemmas and the institutional responses to them in different countries, industries, and time periods. Comparative analysis can clarify (1) the demand side of the equation—the range of functional requirements that any institution will have to fulfill if problems are to be resolved; and (2) the supply side—the kinds of institutions feasible in particular social, political, and cultural contexts.

26 Jamie Mackie implicitly stresses the role of communal ties in explaining how Indonesian Chinese began their shift into higher-level economic roles during a period (1957-66) when anti-Chinese feeling was quite high: the Chinese "were able to adjust to the difficult conditions of inflation and shortages of key materials, foreign exchange and capital with a much greater degree of flexibility than the ponderously bureaucratic state enterprises which took over the former Dutch investments" (1988a:237).
The following developmental tasks constitute useful starting points for such research. They are common in LDCs and they are politically difficult: each involves reconciling disparate individual interests with national economic growth. They are also tasks on which research has already begun with regard to Southeast Asia (Doner, forthcoming).

1. **Structural Adjustment/Economic Reform:** To promote efficiency and exports, countries often attempt to implement a set of economic policies including monetary and fiscal restraint, tariff reduction, and currency devaluation. However, these measures often encounter political resistance. They may, for example, hurt those manufacturers who rely on overvalued exchange rates to keep the prices of imported intermediate and capital goods low. The implication, accepted by some Southeast Asianists, is that implementation of such politically difficult reforms requires bureaucratic authoritarianism or corporatism (Higgott and Robison 1985).

Yet broad comparative research has cast doubt on a correlation between adjustment and authoritarianism (Haggard 1986). Indeed, structural adjustment in South Korea has led to a replacement of "unilateral administrative guidance" by "consultation and consensus between the state and business" (Moon 1988:75). In Southeast Asia, private business associations have played an important role in Indonesia's deregulation process (Maclntyre n.d.; Soesastro 1989), prompting Richard Robison to note that the link between adjustment and authoritarianism is more complex than originally thought (Robison 1988). Thailand's recent devaluation suggests even more grounds for skepticism as to the "functional" need for authoritarianism. This move did not correlate with increased repressiveness. Much of the pressure for export promotion in Thailand reportedly came from private firms suffering from domestic market slumps (Laothamatas 1988; Phongpaichit 1989).

2. **Reconciling Upstream and Downstream Firms:** LDC attempts to increase both value added and efficiency can pit producers of a finished good (downstream) against those supplying needed inputs (upstream). The externalities of firms at all stages of the production process must somehow be captured by the national economy. The textile industry can illustrate some of the specific dilemmas. Downstream producers, such as garment makers selling to foreign markets, require cheap, high-quality inputs from upstream firms, such as spinners, weavers, or dyers. In Southeast Asia, the garment firms generally prefer (or are required by U.S. importers) to obtain such inputs from more efficient, high quality foreign producers. The dual task is then (1) to provide strong domestic demand for products of upstream industries, while (2) enabling/forcing upstream firms to become more efficient. The South Korean and Taiwan cases suggest that selected protection and subsidy by state officials is one component of a solution to this problem (Weiss 1988:232–33; Wade 1988:50). Also necessary are state measures that reduce the costs of inputs to the upstream firms themselves (e.g., cutting tariffs on raw materials or capital goods for spinners). All of this suggests the need for a capable, autonomous, and flexible group of state officials. But private firms or associations may also play an important role. Business groups may overcome upstream-downstream problems through vertical integration. Credit allocation by private actors may be more efficient than those of the state. Bulk purchases to reduce input costs may be successfully undertaken by large trading concerns—the case for South Korean cotton spinners (Amsden 1989:61). Work on this issue in the Southeast Asian context has only just begun. Studies of the Indonesian textile and Thai soybean industries illustrate both the centrality of such conflicts and the importance of multiple actors in resolving them (Wibisono 1989; MacIntyre 1988; Christensen 1991). But with one partial exception, existing studies do
not identify upstream-downstream conflicts as the central problem (Robison 1988:66–67).

3. **Standardization:** The adoption of standard technologies leads to important externalities: greater scale economies, more rapid cost reduction, and potentially more rapid consumer acceptance. But convincing groups of firms to agree on a single format is difficult, especially in situations where production designs come from foreign, parent firms. While governments have a potentially important role to play in this problem, even Japan’s MITI was not highly successful in imposing common technologies on electronics or auto firms (Noble 1989). Conversely, an important “standardizing” role for large firms and associations of small firms is suggested by research on the Southeast Asian auto industry (Doner 1991).

4. **Excess Capacity:** Small markets and/or market slumps combined with large numbers of producers lead to negative externalities: surplus capacity and inefficiency. While all firms generally acknowledge this problem, each would prefer that some other producer close down its operations. The South Korean electrical equipment, shipping, and auto industry cases show that governments have an important role to play in resolving this collective action problem. But in Japan the government failed in its attempts to rationalize the auto industry, and in textiles it was the Japan Cotton Spinners’ Association that checked overproduction and uneconomic competition (Amsden 1989:61). In Thailand and Indonesia, there is evidence that such problems are addressed by banks as well as by trade associations (Ramsay 1987; Wibisono 1989:34–37).

5. **Investment Screening:** Obtaining benefits from foreign capital requires a gatekeeper capable of imposing conditions on foreign investors. Governments have played important roles in this regard through the imposition of local content and export performance requirements, limits on technology licensing agreements, etc. (Mardon 1990). But evidence from the East Asian NICs as well as from Southeast Asia suggest that local capitalists have been active and sometimes decisive participants in negotiations over these issues (e.g., Amsden 1989; Tang 1988). Private sector participation seems especially important in Southeast Asia where state officials do not possess high levels of technical expertise. Equally important is the tendency for the private sector to demand improvement in governmental expertise.

6. **Infrastructure:** A major obstacle to further industrialization in Southeast Asia is the lack of trained personnel and physical infrastructure. Clearly, states must play a coordinating and financing role in providing such collective goods. The issue of why some do and others do not is an important area of research (e.g., Malaysian training seems the most advanced, perhaps due to ethnic pressures to expand ethnic Malay economic participation). But so is the possibility that such goods and services are provided through private sector efforts. As noted, for example, one study of cotton textiles found that Japan’s strength relative to India was in large part due to the pooling of technology by members of the Japanese spinners’ association (Orsuka et al. 1988:87). These mechanisms are generally lacking in Southeast Asia, although in-house training programs and the use of Chinese technicians from Hong Kong and Taiwan may be partial solutions to the problem.

**Conclusions: Political Economy and Southeast Asian Studies**

Political economy can be understood as that body of literature addressing the sources of, and potential solutions to, market failure. Until recently, this literature
has been only minimally informed by or applied to Southeast Asian cases. This is unfortunate. Students of political economy have generated frameworks, at least two of which—dependency and institutionalism—are potentially useful for understanding Southeast Asia's economic performance. Conversely, a grasp of regional and national particularities is a helpful corrective to errors and oversimplifications in these frameworks.

The dependency school attempts to explain one form of market failure, the existence of monopolistic or oligopolistic foreign firms. Developments in Southeast Asia and other regions have highlighted the conceptual and empirical limitations of the dependency literature. Yet dependency has the virtue of drawing attention to the influence of external variables on the region's growth. By tracing the interaction of product cycles, structures of hegemony, and the interests of external powers in East and Southeast Asia, I have described a more variegated regional and global context than the hierarchical structure portrayed by dependency theorists. I have explored the influence of this context on the economic opportunities facing the countries of Southeast Asia and their domestic capabilities to profit from these opportunities.

A second framework, institutionalism, addresses the domestic requisites for growth through its focus on collective action problems and nonmarket solutions. Southeast Asianists have already begun to demonstrate the utility of this approach by showing the centrality of collective action problems in economic policymaking. But students of Southeast Asia can potentially contribute much more to the institutionalist literature.

First, they can illustrate the potential utility of an inclusionary rather than a statist form of institutionalism. In drawing attention to the activities of business groups, business associations and public-private sector bodies, Southeast Asianists can clarify the nonstatist sources of growth in the region. They can also help to develop an inclusionary model that is relevant for the broad majority of LDCs whose states are much weaker than those of the East Asian NICs. And they can compel a reexamination and perhaps modification of the statist view of growth in the NICs themselves.

Second, students of Southeast Asia can help to provide a better sense of institutional supply. As presently constituted, institutionalism tells us why nonmarket arrangements are needed, but it does a poor job of explaining or predicting variation in institutional response. If we are to understand why certain arrangements actually emerge we need to supplement the functionalist explanation of demand for institutions with the area specialist's grasp of the local variables that influence individuals' abilities to act collectively. Southeast Asia's ethnic, religious, and political diversity makes the region fertile ground for just such an integration of broad generalizations and finely-grained contextual insights.

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