Transplanting the neoliberal state in Southeast Asia

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When the 1997 Asian financial crisis brought down many of the so-called miracle economies, it dealt a seemingly fatal blow to those claims about the functional superiority of a highly centralized, state-led system of “Asian capitalism” and expectations of an imminent Asian Century that had been so central to the rhetoric of many Asian political leaders in the previous decade. For neoliberal reformers within the World Bank and the IMF, and in the treasuries and finance ministries of Western governments, the crisis confirmed that the various models of “Asian capitalism” were in fact outdated and dysfunctional in an age of global markets. Convergent, once again, became part of the vocabulary of policy-makers in the West as Asian governments were urged to eliminate cronyism and embrace the natural efficiency of the market.

The crisis, indeed, represented an important stage in an ongoing and interrelated struggle by the international financial institutions and some Western governments and businesses to undo the systems of state-led industry policy and predatory cronyism that had variously defined the economic and political organization of most Asian economies and undermined their successful mercantile assaults on global markets. But neoliberal reform agendas were not just about markets. They necessarily sought fundamental transformations in systems of state power and governance, spelling the end of the strategic interventions through industry and trade policy identified as the defining elements of the developmental state, as well as the discretionary interventions of predatory state power through various clientelist mechanisms (cronyism). For neoliberals, market capitalism required that the function of the state become one of regulating and facilitating an abstracted market driven by its own laws. The regulatory state was envisaged as a state where “technopoles” would be able to get on with the job of creating rationally efficient policies and institutions insulated from the needs of predatory alliances and the demands of vested interest.

The crisis posed an important structural question. It concentrated minds on the question of whether either developmental or predatory models of capitalism and state power could continue to survive in a world of global markets. Most the strategies of Asian economies now focus on how to build their hegemony within the terms of a neoliberal model of market capitalism? For countries like Singapore, constituting an archetypical developmental system where a highly organized central state not only managed key financial and capital institutions but presided over a framework of trade and industry strategies, the question was how far to abandon these, to focus, instead, on building corporate, financial, and capital institutions able to compete in a highly fluid and volatile global market economy. This was no simple policy choice. Whether such a transition could be achieved without eroding the hierarchy of state and social power embedded in the existing arrangements was the central dilemma faced in Singapore.

In countries like Indonesia, Thailand, and South Korea, where beleaguered governments struggled to contain fiscal crisis, economic contraction, and widespread corporate bankruptcy, the dilemmas were more immediate. The crisis meant that a much more instrumental power lay in the hands of the IMF which demanded the implementation of reform measures aimed at deregulating markets, privatizing state sectors and imposing fiscal austerity—the key policy ingredients of the programs of structural adjustment identified as the Washington Consensus—as conditions for the huge rescue packages it provided. These deregulatory measures were supplemented by reforms aimed at insulating the administration from outside influences that might impede “rational” policy-making. Reform packages included programs for “good governance” that included market-based schemes to limit the discretion of state officials, increasing the independence of central banks and the judiciary from the political apparatus, contracting out state functions, introducing regulation that separates officials from bidders in procurement and contracting, and making rules more transparent. The ultimate aim was to empty the state of politics and to repackage it with a notion of “governance” conceived as a technically rational and abstracted process, thus neutralizing predatory interests that distorted policy.

Yet, the triumph of the neoliberal regulatory state has been ambiguous and inconclusive. In Singapore, the government has attempted to introduce new strategies of accommodation to the dramatic transformation of global markets without disturbing the essence of those existing structures of the developmental state within which a specific set of power relations was embedded. Even where the path of the crisis was most destructive, and where the political frameworks and global financial markets that had glued together and papered over fragile economic regimes began to come apart, attempts to reorganize banks and financial regimes, to transform systems of corporate governance, and to replace systems of money politics with representative forms of political democracy have been bitterly contested. In Thailand, Indonesia, and South Korea, a range of powerful political and economic interests were intent on undermining market reform where it threatened their social power or sought to engage with elements of the reforms where this promised that privilege and power might be maintained.

These apparent paradoxes raise important questions about the underlying relationship between markets and states; between the evolution and globalization of capitalism and the processes of institutional and regime change. Are we simply at the early stages of a long and drawn-out process of convergence or can market capitalism survive and even flourish in a range of different institutional
frameworks? In attempting to unravel the dynamics of change, the three case studies, Singapore, Indonesia, and Thailand, offer contrasting insights into the importance of different ensembles of factors. Is it easier for a developmental state to make the transition to liberal market capitalism than a state that is more predatory in nature? Singapore offers a model where a highly efficient and insulated state already prevails over a prosperous, if highly disciplined society. No institutional building is required here—just a process of deregulation. But do the very economic successes of the developmental state and the political insulation of its ruling interests mean it is better able to accommodate markets without changing its state structures? Or are there now a large corps of public and private managers better able to survive in the cold winds of the market and for whom the developmental state is a constraint?

At the same time, both Indonesia and Thailand represented systems where state power was more porous and fluid and the distinction between public and private authority more ambiguous than in the statist regimes of East Asia. In these cases, the parallels with the early systems of uncontrolled laissez-faire and money politics that characterized liberal market capitalism in Europe and North America are clearer. Here, the task for liberal reformers was not to unravel a suffocating state but to enhance its ability to regulate uncontrolled and destructive systems of private expropriation of public authority. This was not simply a technical matter. It also meant that a technocratic elite must be able to impose its will on current state-business alliances or that power must shift from interests reliant on rents to those who see advantage in rules and regulations that govern the general interests of capital. At the same time, despite the many similarities, the differences between Thailand and Indonesia are important. From the 1980s in Thailand, the relationship between state power and powerful private commercial interests was mediated largely through a system of money politics based on political parties, parliament, and elections. By contrast, the growth of large private corporate groups in Indonesia was, until recently, embedded and orchestrated within a highly centralized system of state authority and is only now being reaccommodated within a more diffuse democratic regime of money politics.

How do these two sets of state-business relations influence the relative prospects for a transition to the regulatory state?

Conceptualizing the problem: three paradigms

In the choice-theoretic approaches of neoclassical economics it is assumed, at its simplest level, that utility-maximizing individuals emerge spontaneously to address collective action dilemmas, creating institutions that deal with transaction costs and imperfect information that arise as markets change and prices alter. In this abstracted telos of efficiency, questions of power and conflict are absent, and even the notion of the state is nowhere to be seen. Hence, continuing resistance to market capitalism and to the regulatory state after the crisis was puzzling where it had been assumed that economic shocks resulting from crisis would force a process of learning that would result in policies that addressed issues of efficiency. Yet, bad times apparently brought neither "good" policies nor a regulatory state.

As expectations of a licentious transformation were disappointed, rational choice political economists introduced politics into the neoclassical equation. Realizing that markets were far from self-regulating, they proposed that deregulation in itself was not enough and might play into the hands of predators and rent-seeking coalitions where the institutional framework was weak. Hence, the failure of the neoliberal agenda was explained in terms of a failure of institutions and of the capacity of the state to insulate its "technocrats" from rent-seeking coalitions. This translated into a political agenda designed, ironically, to free the state of "politics" and subordinate the rationality of politics to the rationality of economics to create a form of technocratic and even undemocratic rule.

Where did social power and interest enter the equation? Neoliberals became increasingly aware of the substantial lack of enthusiasm and even opposition to their agendas coming from within the broader society. This was understood, not as the product of opposition to the social implications of neoliberalism but as a fundamental weakness of "social capital"; that set of values, norms, and networks in society that would support markets. Hence, building social capacity and incorporating NGOs and other groups within the neoliberal umbrella were added to the building of the institutional capacity of the regulatory state as a second central pillar in the neoliberal agenda.

A quite different approach was taken within the broad camp of historical institutional theory and by many statist political economists. In a world where markets are not abstract mechanisms driven by their own internal laws but the constructions of politics and governments, liberal market capitalism and the regulatory state are conceived as the evolving products of a specific Anglo-Saxon historical trajectory and embody the immediate national interests of American capitalism. In a global chain of different capitalisms, the failure of the regulatory state becomes the pathology of a rejected transplant unable to survive in the alien environment of a different historical institutional pathways. Indeed, Wade and Venette argued that hasty and impudent attempts to impose liberal financial and political regimes only led to disaster as they captured established and working high-debt models that underpinned the economies of Northeast Asia.

This is a reductive view and one that neatly captures the way institutions resist over time and through traumatic changes. But its benign view of institutions as the product of incremental change within cohesive social amalgams gives a false sense of immutability. Such a view does not account for the bitter conflicts and violent shifts that have propelled and defined change in Indonesia and Thailand, for example, in the past decades. Similarly, liberal markets and the regulatory state are hardly the "natural" historical expression of Anglo-Saxon capitalism but have emerged in prolonged struggles between those alliances supporting the social democratic agenda and those powerful interests in America and Britain seeking to dismantle and to escape those representative systems, environmental and welfare lobbies, tax regimes, and organized labor that have been part of social democratic tradition.
The point is that the institutions that shape economic and social life are forged in conflicts between shifting and fluid coalitions of state power and social interests. Institutions are more than mechanisms for resolving the collective efficiency dilemmas of individual actors, they are about the concentration of power and its allocation. As state is nothing less than the social order, this is why the beneficiaries of the old order will resist institutional reform even where the economic costs are high if it threatens their social and economic interest and political authority. In this view, the Asian crisis is significant, not because it demonstrates the inherent inefficiency of entrenched economic regimes and states but for the extent to which it has fractured and weakened those coalitions underpinning developmental and predatory systems and created opportunities for the building of neoliberal coalitions.

The formation of these coalitions is not an abstracted or timeless process. They are decided in the specific context of an evolving global capitalism which not only shifts the configuration of power itself as new classes emerge and others decline but changes the very issues and questions around which conflict is focused; questions about the legal framework of property rights, regulation and public administration, the opening of financial and capital markets and trade regimes, rationalization of production through outsourcing and subcontracting, and the introduction of new technologies. In this context, we have two primary questions. First, why has neoliberalism failed politically to mobilize and organize coherent and effective coalitions around its agenda? Second, how have those state and social interests, the beneficiaries of existing or previous regimes, managed to preserve or reorganize their ascendancy and to accommodate the political and economic challenges of the postcrisis era?

It has been argued that crises often liberate naturally progressive and “overdeveloped” middle classes and capitalist interests nurtured within various systems of nationalist, precarity or state capitalism but for whom these have now become a constraint. Now requiring access to global markets, rule of law, and an end to arbitrary authority, they become the potential beneficiaries of neoliberal reform and the regulatory state. The failure of such a metamorphosis suggests at one level that there is a continuing weakness of a “progressive” middle class and bourgeois or the underdevelopment of a civil society. Yet, the reality of powerful corporate interests and an increasingly prosperous middle class provides an apparent paradox. The answer lies not in the absence or weakness of these forces but in the fact that they have so far found their interests advanced in illiberal economic and political regimes.

In Singapore, it is the developmental state that has offered a pathway to prosperity to the middle classes and the political elite has been able to accommodate global markets successfully without requiring the specific framework of state control. In Thailand and Indonesia, the embrace of neoliberal ideas has rarely extended beyond technocratic elites in the public and private sectors who see themselves as the beneficiaries of an insulation that is part of the managerial revolution and the regulatory state. While various reformist middle-class forces in Indonesia and Thailand might have seen the IMF as a means of paring their assault on arbitrary state power and the ascendancy of predatory leagues of oligarchs, their commitment to markets has been less certain and their support for nationalism and populist appeals strong. Basically, while the crisis may have precipitated the fall of governments in Thailand and of an entire regime in Indonesia, the apparatus of the state and that ensemble of power relations embedded within it has remained intact even where new political institutions have emerged and where old elites must now reorganize themselves, often within expanded social alliances. Rather than institutional reform driving a reorganization of power and interest, entrenched interests have reorganized themselves to give life to the new market economies and political democracies that have emerged in the wake of the crisis.

Most important, there is an ambiguous support for neoliberal reform agendas among the international community. In a more pragmatic assessment, political order assumes a priority in the immediate tasks of enforcing property rights, removing obstacles to investment, and weeding out discreditable coalitions over systems of governance that are accountable and transparent and over democratic transition. After all, big global corporate players flourish under authoritarian rule in precrisis Asia and within highly protective and predatory economic regimes. It is the uncertainty and disorder of economic life in postcrisis Asia that are disturbing, not the absence of liberal institutions.

The case studies

The impact of the Asian crisis was different in Singapore, Thailand, and Indonesia. In the latter two countries, financial crisis extended into a destructive cycle of corporate and political collapse and direct intervention by the IMF. In Singapore, the economy and state remained intact, forced to respond to structural alterations rather than any instrumental imposition of reform agendas. But these were not the only differences. In Indonesia and Thailand, the immediate concern of the IMF was not only deregulation and fiscal constraint but the reform of a system of state-business relations based on the discretionary allocation of state monopolies, resources, contracts, and guarantees. In the case of Singapore, governance and regulation were not the central issues. If ever there was a model of the regulatory state and rule by technocrats, it was Singapore. Perhaps the more interesting question is whether a transition towards liberal market capitalism and the sort of regulatory state neoliberal advocates favor where an efficient and insulated state is already in place, although presiding over a developmental economy, or where the institutions of state power are porous and ineffective but there is greater volatility in social power vis-à-vis the state.

Singapore

Before the Asian crisis, Singapore seemed to be the case of the developmental state par excellence. For decades the state had played a decisive and systematic role in shaping the costs of the various factors of production to influence the
city-state's comparative advantage in international trade. This involved the state in activities ranging from the establishment of statutory bodies to plan and coordinate industrial development, the subsidization of social and physical infrastructure costs for capital, institutional mechanisms to control wages, direct state investments to initiate and support the industrial drive, and an extensive array of social and political controls meant to consolidate and extend central policy control.\(^{16}\)

Yet while this state was characterized by a significant degree of relative political autonomy of policy elites from capital and labor and high levels of efficiency, by no means did this amount to the removal of interest or politics from the policy process. On the contrary, the policy choices of technocrats and the structures through which they were developed reflected the political, material, and ideological interests of the People's Action Party (PAP). Indeed, the ruling party's interests had come so intertwined with the operations of the public bureaucracy and public institutions that a one-party state had effectively been in place since the late 1960s.\(^{17}\) Consequently, state paternalism, political authoritarianism, and an institutionalized ideology of clientism— all of which were meant to blunt political opposition and reproduce PAP hegemony—were integral features of the broader relationships within which the developmental state operated.

The impact of the 1997-8 Asian crisis on Singapore was severe and did raise some questions about the future form, if not viability, of the developmental state. Economic growth plummeted from an impressive 8.4 percent in 1997 to just 0.4 percent in the subsequent year. The immediate policy response was swift and included a further embrace of economic deregulation and liberalization involving the banking, services, telecommunications, and power sectors. Initial economic recovery was dramatic, with Singapore enjoying 10.3 percent growth in 2000. In the following year, though, the economy shrank by 2 percent in the worst recession since independence in 1965. The same acute export dependence on the US economy by the electronics sector that had underwritten the sharp recovery had just as rapidly set the economy back.

In this context, forces aligned to a more robust neoliberal reform agenda, most notably those associated with international finance capital, have subjected Singapore's developmental state model to unprecedented critical scrutiny. Private-sector economists within brokerage firms and other investment houses have been at the fore of this campaign. Policy recommendations from these quarters have included increasing private consumption and lowering national savings, and "de-linking" GLCs from the government,\(^{18}\) as well as the transfer of some of the S$6.2 billion of the compulsory national superannuation scheme money—through the Central Provident Fund (CPF)—to private fund managers and private superannuation companies. But such changes also have the potential to diminish the PAP's capacity for social, political, and economic control, a threat that the PAP is acutely aware of.

Yet the crisis also combined with structural changes in the global economy to foster a major reassessment by PAP leaders of how best to protect and advance the various interests so well served by the political economy of the established developmental state. Ironically, as is argued below, a partial embrace of neoliberal economic reforms might be functional for that objective, although such a direction may not be without a degree of tension and even occasional conflict. The challenge, in effect, is for the PAP state to become more strategic and flexible about the protection and advancement of its various interests at the same time as increasing the opportunities for international access to domestic markets. Retention of fundamental power relations underlying the prevailing developmental state, and not just the intricate forms of that state, are the priority for the PAP.

Nowhere is the challenge more conspicuous than with regard to the role of government-linked companies (GLCs). GLCs and statutory bodies dominate the commanding heights of the domestic economy,\(^{19}\) much of this through Temasek Holdings that handles approximately S$90 billion.\(^{20}\) GLCs also accounted for as much as 60 percent of Singapore's foreign investment in 1988,\(^{21}\) as they sought new accumulation opportunities beyond the limits of the city-state economy.\(^{22}\) Yet Singapore Inc. and the wider economic role of the state embody power relations critical to the PAP. State control of capital and resources underwrites political paternalism central to the authoritarian regime.\(^{23}\) Moreover, state capital has created something approximating a new establishment of political and economic elites.\(^{24}\) Past and present government leaders and their relatives, as well as former senior military commanders have joined a select group of politically trusted senior civil servants as either directors or executives of GLCs.\(^{25}\)

By the time the Asian crisis hit, government leaders had drawn a number of conclusions about the implications of the changing global economy for the ambitions they harbored for the further internationalization of the GLCs and the upgrading of the Singapore economy.\(^{26}\) After asserting in his 1999 National Day Rally Speech that globalization was an irresistible force, Prime Minister Goh Chok Tong emphasized the need to build "world-class Singapore companies," with his approving comments about GLCs making it abundantly clear which companies he had in mind.\(^{27}\) He added that: "We should now go global by forming strategic alliances or mergers with other major players. Indeed, we have no choice where the industries are consolidating worldwide, we either become major players, or we are nothing."\(^{28}\) These strategic alliances were essential, according to Goh, for "organizational strength, technology, access to global markets, and a worldwide network."\(^{29}\) The internationalization of Singapore-based companies was presented as a crucial element in the transition to a knowledge-based economy, but it seemed to dawn on Goh that strategic alliances would be difficult to forge while global players were substantially blocked from key domestic markets.

The seriousness of the economic crisis led to the establishment in late 2001 of the Economic Review Committee (ERC) to find ways to "upgrade, transform and revitalize the economy."\(^{30}\) Headed by Deputy Prime Minister Lee Hsien Loong, the ERC released some of its subcommittee recommendations in 2002 and its final report in early 2003. Essentially the ERC attempted to satisfy
The significance of these tensions between the established developmental state and the interests of international capital should be recognized but not overstated. What we are witnessing is a redefinition of the developmental state or a rationalization of it rather than its demise. In many respects, the pressures for change exerted on the Singapore government from within the international business community are justifiable. There is no expectation or even desire of wholesale dismantling of all the elements of the developmental state, but there are attempts to redefine the space for domestic competition. To secure the conditions for the GLC's own internationalization, we can expect continued pragmatism and cautious responses to these pressures—such as we see in the proposed reforms that have the potential to diminish the PAP's social and political control. Broadly, the government is seeking to effect a rationalization of its role in the economy that consolidates its strategic influence, selectively opens up increased access to domestic markets for international capital, and refines it of certain social responsibilities it has customarily assumed.

Thailand

Prior to the Asian crisis, Thailand was one of the world's most successful economies, often lauded by international financial institutions as a model for developing countries. In fact, however, Thailand was not a model of a liberal, market-driven economy promoted by these institutions. Neoliberal analysis captured this in their descriptions of patronage and rent-seeking that they argued were the main causes of state intervention prevented effective policy-making and led to slower growth than would have been possible with more market-driven policies. In other words, the Thai state was not the regulatory state favored by neoliberals. Nor was it an exemplar of the developmental state usually associated with Asian capitalism. Institutional economic and political theorists explained that Thailand's economic success was driven by an ensemble of nonstate institutions such as commercial banks and business associations. They viewed the state as fragmented and relatively weak, especially when compared with Asian developmental states. Even so, both sets of theorists agreed that Thailand's economic success owed something to the fact that the state's fiscal and economic offices were controlled by technocrats and were insulated from patronage.

In fact, by the 1990s, Thailand's state was in a process of transformation. In the 1960s, the state was dominated by the military, supported by senior bureaucrats and technocrats. The military had supported the development of capitalism and a strong domestic capitalist class. However, the military's political power had been challenged by the military's political power. While the military attempted to maintain its position, the state changed during the 1980s. In this decade, a relatively small group of Bangkok-based, family-controlled conglomerates dominated the economic structure, and although seldom directly involved in electoral politics, supported various political parties and had well-organized lobbying organizations. In this period, economic policy was controlled by technocrats, who promoted domestic business through various incentives including...
increased until protection. However, as the economy boomed and the influence of technocrats and the military waned, political competition became focused on the cabinet, and parliamentary politics became increasingly corrupt under the influence of "money politics." The parliamentary dominance of provincial business derived from the fact that most members of parliament were returned from provincial constituencies. These clans and representatives of provincial business were required to reimburse election expenses and make as much money as they could for their business supporters and their parties prior to the next elections.

Even though the Thai state had generally maintained policies that protected and promoted their economic interests, the Bangkok-based conglomerates increasingly found that their political and economic prerogatives were challenged by provincial politicians. Likewise, senior technocrats were unhappy that provincial politicians were establishing control over economic policy. The 1991 coup, where the military overthrew a corrupt government of rent-seeking politicians, reflected this dissatisfaction with the dominance of money politics. Shortly after, the 1992 uprising demonstrated the political impossibility of continued military rule. Clearly, the state was yet to be fully transformed, and struggles to control it remained critical to political and economic power. These struggles were mitigated by the economic boom that continued until 1996, and it was the Asian crisis that brought these struggles to a crescendo. As will be shown below, the result was the political reorganization of the power of the remaining elements of the domestic capitalist class to take control of the state and implement policies that protected their economic interests.

When the economic downturn hit, there was a resurgence of neoliberals in policy advice to the Thai government, most of it from the international financial institutions. Neoliberals identified "market distortions" resulting from state intervention as contributing to the crisis. Analysts identified weak state and corporate governance, inadequate institutions, corruption, and the privatisation of public assets. The IMF identified the need for "market-oriented reforms," including the privatization of state enterprises, civil service reform, the liberalization of the financial sector, and the reduction of state intervention in the economy. The IMF's programme aimed at reducing state intervention and increasing the role of the market.

The IMF's programme was successful, as it led to a rapid improvement in economic indicators. The Thai economy began to recover, and the IMF's programme was praised for its success. However, the programme also led to a significant increase in inequality, with the benefits of economic growth concentrated in the hands of a small group of wealthy individuals and corporations. The programme also led to a significant increase in foreign debt, with the Thai government taking on large amounts of debt to finance its economic programme. This led to the collapse of the Thai economy in 1997, as the country was unable to service its foreign debt.

Despite the economic downturn, the Thai political elite remained committed to the neoliberal programme. The government continued to implement the IMF's programme, and the Thai economy slowly began to recover. However, the programme also led to a significant increase in inequality, with the benefits of economic growth concentrated in the hands of a small group of wealthy individuals and corporations. The programme also led to a significant increase in foreign debt, with the Thai government taking on large amounts of debt to finance its economic programme. This led to the collapse of the Thai economy in 1997, as the country was unable to service its foreign debt.

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Thaksin's business success was due to state concessions in telecommunications and related areas. He had excellent links to the military and government. While his businesses were damaged by the crisis, he was one of the first local capitalists to expand after 1997. As Pasuk and Baker show, Thaksin quickly came to arrangements with former business rivals and built business and political alliances.

Having great wealth and powerful alliances were critical factors in the construction of RTK and paved the way for the election victory. Thaksin and RTK promised the electorate a new form of politics, building on the new, reformist constitution that had been adopted in 1997. Using techniques drawn from US campaign experience and marketing, RTK created an electoral platform that addressed the aspirations of many voters and built on the widespread dissatisfaction with the social and economic impacts of the crisis and neoliberal policy. RTK's slogan emphasized that something new and inclusive was required: "Now thinking, new ways, for all Thais." This slogan and the party's platform, tinged with nationalism and promises for those suffering from the economic downturn, was appealing, especially to poor, rural voters. These promises and policies marked Thaksin's policies as different from the neoliberalism of Chuan and the IMF.

Thaksin's government quickly implemented its measures for the poor. However, this was a government by and for the rich. His cabinet included a range of business leaders drawn from those conglomerates that remained forces in the post-crisis era, including Thaksin's own Shin Corporation, Jasmine, Channon, Photpho, Bangkok Entertainment, the Thai Military Bank, Thai Summit, and a range of others. The government set about helping domestic business, including those of its leaders. It did this in two ways: first, by introducing measures to protect domestic business; and second, by strengthening the RTK government.

To support local business, the government pumped money into the domestic economy, increasing consumption. It also rolled back or slowed liberalization measures. It dallied on privatization, allowing time for domestic investors to ready themselves for later involvement in these companies when they were slated for sale. In the telecoms sector, the government slowed liberalization and maintained domestic control through limits on foreign ownership, a move that benefited the Prime Minister's companies. In other ways, the government slowed the pace of reform as the 1997 timetables were forgotten. At the same time, investigations into pre-1997 financial shenanigans were dropped. State banks came to quick deals with Thaksin supporters and advisers who had been bankrupted by the crisis.

To strengthen the government of domestic capital, Thaksin's adopted policies amounted to a new social contract for Thai society. The development of a social contract in effect since the early 1960s, affirmed that domestic business would deliver growth, while government would support domestic capitalists, with the poor gaining through the trickle-down of benefits of growth. This compact was shattered by the economic crisis. The IMF, the World Bank, and
This form of state power underwent a metamorphosis in the 1980s. As selective programs of market deregulation took hold after the collapse of oil prices, oligarchy of politico-business families, of which the Soeharto family was the most powerful, emerged from within the state itself to expropriate public authority, harnessing it to the development of their private interest and that of those large corporate conglomerates with whom they became allied. Reform, for the most part, simply meant that public monopoly became private monopoly while the authoritarian structure of the state remained intact. Indonesia, then, was a curious amalgam of an almost Leninist centralized state capitalism and a system of predatory relationships that provided the cement of a new ruling alliance. While the “technocrats” may have achieved some autonomy in setting macroeconomic policies, the state could by no means be seen as insulated. Indeed, it was crudely instrumental. Its president, Soeharto, not only stood at the apex of state power, he was the head of Indonesia’s most pervasive politico-business family and was the very pivot around which rents were allocated.

Nevertheless, until the very moment of crisis in 1997, the management of the Indonesian economy had been regarded within the neoliberal policy communities in Western governments and in the World Bank as a model of macroeconomic responsibility. A consortium of Western creditors maintained a flow of loans and aid that sustained a balanced budget. International banks jostled to lend to huge infrastructure projects they knew to be viable only because of state guarantees and political favors. Even as the crisis loomed, Western securities and business analysts expressed confidence that Indonesia possessed the fundamentals to weather the storm. After all, inflation was low, the current account was not critical, debt appeared under control and Indonesia was not burdened with huge budget deficits. All the indicators important within the Washington Consensus were in place. In the political sphere, too, Soeharto had clearly demonstrated an almost invariable grip on power after emerging triumphant from a series of struggles with the military and civilian critics in the early 1990s.

Yet, nowhere was the crisis to be more traumatic. By January 1998, the rupiah had fallen over 80 percent in value and in the ensuing year economic growth went into reverse. Fiscal crisis loomed and Indonesia was rescued only by huge loans from the IMF and from creditor nations under the auspices of the CGI (Consultative Group on Indonesia), Indonesia’s giant corporate groups, so recently presiding over rapidly expanding commercial empires, faced a nightmare as they contemplated repayment of large amounts of short-term, unhedged debt. By 1998, most had ceased even trying to repay and were technically insolvent. Mounting nonperforming loans paralysed Indonesia’s public and private banks, drawing the state into a rescue operation of massive proportions that was to consume a huge proportion of the state budget. What distinguished the Indonesian case was that financial and economic crisis progressed quickly to political crisis, bringing down not only a government but a regime. Unable to control the panic and the currency collapse, the regime began to disintegrate from within. The man who had been its architect now became the greatest obstacle to the survival of those interests embedded within...
its structures. Soeharto’s fall from power appeared to open the floodgates to fundamental reform.

When the IMF entered the scene in 1997 it immediately initiated a series of reform packages as conditions of its $43 billion bailout. Defined in successive Letters of Intent signed between the IMF and the Indonesian government, these stipulated new programs of privatization of the extensive state-owned enterprises, regulatory audits of state enterprises and agencies, administrative reform aimed at ending the authority of powerful gatekeeping institutions like the state oil company, Pertamina, to allocate licenses and monopsonies, and the independence of Bank Indonesia. Anxious to clean up the paralyzed banking system and to resolve the huge debts that hung over Indonesia’s corporate world, it initiated programs for debt restructuring and the introduction of new bankruptcy laws and a commercial court to enforce and enable this restructuring.77

These were not simple technical reforms. They threatened the very heart of political and business power in Indonesia. Recapitalization and debt restructuring potentially split the end for many formerly dominant corporate groups while new investment laws theoretically signaled the introduction of international capital as a major player in sectors of former domestic monopoly. At the same time, the reforms directly challenged the expropriation of the state by its officials and by powerful politico-business oligarchies, terminating their control of the national budget and the sources of patronage and clientelism that had been the cement of the political system in Indonesia.

Once Soeharto fell, the reform agenda gathered steam. Previously untouchable conglomerate owners, including Liem Sioe Liong and the Soeharto family itself, were forced to hand over billions of dollars in assets and cash to repay for the recapitalization costs of their banks, many of which had been closed or taken over by the government. At the same time, the government cut a swath through state gatekeeping institutions like Pertamina and Bumirah, stripping hundreds of lucrative contracts and monopsonies from well-connected business groups, particularly the Soeharto family.78 As the reformist movement swept the streets of Jakarta and other cities in 1997 and 1998, the political successors to Soeharto were forced to take up the calls for prosecution of corrupt businessmen and officials. It was this pressure that saw the remarkable spectacle of formerly untouchable figures dragged before the Indonesian courts. These included Soeharto’s business partner and forestry tycoon, Bob Hasan, Bank Indonesia Governor, Sabrin Sjahrid, Speaker of the parliament, Ahyar Tanjung, as well as Soeharto himself, his son, Tommy, and son-in-law, Hashim Djoko-hadikusumo.79

It soon became clear, however, that the reform agenda was stalling. Neither banking recapitalization nor debt restructuring programs produced a major shift in corporate ownership or allowed a substantial outflow of new entrants into the arena. Attempts to reform the state apparatus foundered as the courts and judiciary as well as the police and military defied reformers within the government. Despite the symbolic importance of arrests and prosecutions of powerful political and business figures for corruption, in the end, few were ever convicted and jailed and some of the most important business tycoons remained apparently immune from prosecution despite clear records of breaches of banking regulations.

Why has the reform agenda stalled? Uncertain progress under President Habibie’s brief rule was attributed to his deep links with the old regime, as a close confidant of Soeharto, architect of Indonesia’s nationalist industrial and high-tech investment program and as head of a major, second-tier politico-business family with corporate partnerships with many of the biggest Chinese conglomerates and with the Soeharto family. His successor, President Wahid appeared to bring none of this baggage. A long-time critic of the Soeharto regime, he ushered in a government that was free of most of the old cronies and contained prominent reformers, among them, Economics Minister, Kwik Kian Gie and State Enterprises Minister, Iriya Simorangkir. As his government proved increasingly unable to drive the reform agenda, critics pointed to his unpredictable and idiosyncratic behavior and his inability to forge alliances and make deals, preferring an autocratic, take-it-or-leave-it stance that generated cynicism.80

But these factors of behavior and leadership, so dear to rational choice models of transition, were only part of the story. Essentially, Wahid came to a presidency with little power to recast the state apparatus itself or to change the configuration of social power. He inherited a powerful and resentful state apparatus that proved uncooperative and resistant to reform. He commanded an powerful and cohesive party of reform. Above all, the new demography that emerged in Indonesia slid into money politics, providing the ideal conditions for the established oligarchy to reorganize their power and for new political fixers and entrepreneurs to establish themselves in league with the old forces and within the old predatorial power relations.81

These circumstances not only provided opportunities for old political interests to reorganize but enabled the main corporate players to avoid the loss of their corporate empires. Forced to default on their foreign debt, and to repay the government the costs of debt bailout and recapitalization in the banking sector and Indonesia’s corporate conglomerates faced ruin.82 Yet, the big corporate debtors managed to hang onto their main assets, effectively getting the government to warehouse their debt and carry the bulk of the cost. Most important, while recapitalization resulted in the closure of banks, it did not address the essential structural problems of a system where there was no division between borrowers and lenders. Nor did it open the door to new entrants. The old structure remained, potentially for the old players to re-emerge.83

How was this escape achieved? A web of opaque business statements and accounting practices enabled transfers of assets in settlement of debts subsequently revealed to be only a fraction of their original estimate. Besieged conglomerates were also able to rely on a notoriously corrupt court system where the government proved unable to pursue bankruptcy effectively.84 As fiscal pressures increased, the government was forced to speed up the process.
forced to negotiate even more generous debt settlements. Nevertheless, with billions of dollars in assets and commanding over 20 percent of the banking system, the sale of these assets was expected in some quarters to allow foreign interests to enter the market at a premium and for international corporate capital to replace the old Chinese conglomerates and political-business families. Yet, the political uncertainy of post-Suharto Indonesia meant that asset disposal rates were disappointing. Despite sales of several large private banks and the giant Indoamerica group, there are suspicions that some of these assets have been bought back by the old owners and, in any case, there are few similar attractive assets left in the pipeline. Why, then, has restructuring proven to be so difficult?

In part, the answer lies in the ability of old and new business interests to forge alliances and reorganize their activities within the new political environment. Reformers faced difficulties in their efforts to reform those strategic gatekeeping state institutions such as BRI and Pertamina, as well as the state banks, Bank Indonesia and the Ministry of Finance, which have long been sources of extrabudgetary funds for political parties and factions of political and bureaucratic power. This was because such sources of funds and patronage remained critical in the new world of democracy and parliament where the politics of patronage prevailed over the politics of ideological or social conflict. Already, such figures as Habibie, Wahid, and Akiar Tjahjo have been implicated in scandals involving a diversion of funds from BRI and Bank Indonesia into political party war chest. The basis of old relationships between business and the state remain open.

Nor have post-Suharto reformers proven able to control these regulatory arms of the state apparatus. Rather than being executors of the rule of law, Indonesia's courts and its judiciary have evolved under Suharto as instruments of political rule. As an editorial in the Jakarta Post observed, "The Suharto regime's mass court system in Jakarta is an instrument of political rule. As an editorial in the Jakarta Post observed, "subordination of the judiciary [under Suharto] paved the way for the total control by the state over every aspect of public life in Indonesia." Elsewhere, the judiciary was characterized as operating within a "black box" outside the rule of law where the real business of power and politics took place. Powerful business and political interests have quickly found a path to the door of the judiciary and it is no surprise that attempts to enforce bankruptcy and to prosecute corruptors in Jakarta's courts and judges have been consistently unsuccessful. This is a matter of the courts. Indonesia's notoriously corrupt police force remains a virtual weapon in itself and a highly ineffective instrument for hunting down and prosecuting corruptors. When Police Chief Bintangos refused to accept his dismissal by Wahid in May 2001, it definitively signaled that it lay beyond the authority of the government. While President Megawati Soekarnoputri has subsequently recognized that accommodation with these powerful forces is essential for political survival, it is not yet clear what cost has been negotiated.

The problem is also one of failure to create a powerful and politically cohesive reformist coalition. This was surprising to those who saw the end of Soeharto and the fall of the old order opening the door for a new democratic era driven by a vital and progressive civil society. After all, political reforms in 1999 had removed those constraints on the formation of political parties and elections that had defined the authoritarian corporatist character of the Soeharto regime. A vigorous and critical new press emerged. The 1999 elections were contested by thirty-eight parties and resulted in a dramatic fall in support for the former state political party, Golkar, from over 70 percent to just 22 percent. These parties that emerged as major players in the new parliament were precisely those that had been the main parties for over 40 years in Indonesia. While they were organized symbolically on the basis of various attachments to religious or secular values, to the state or to progressive social agendas, they became the vehicles within which political entrepreneurs and fixers jostled to capture power and influence. No clear policy programs distinguished them.

Within this shifting mass of predatory interests, nationalist, and populist agendas there were opportunities for old interests to reorganize their power. New operators moved into the political arena: former officials and local notables, gangsters, and thugs. Powerful conglomerates soon gravitated to the new centers of power in the parties and new figures have emerged within the parties to take control of the allocation of power and influence in the world of business. As decentralization of power and revenues spread to the regions, we have seen new struggles and bitter rivalries surrounding the election of mayors and regional governors. Reformers have been lost in this sea of fractured and dispersed power. Control over the forestry industry, for example, has become virtually impossible now that over 50 percent of logging is illegal. In the hands of increasingly of local officials, the military, businessmen, and politicians. As the World Bank itself has also admitted, reform lies increasingly in the hands of isolated and lonely officials and politicians, dependent upon the favor of powerful interests.

The reorganization of old interests and entrenched power relations has been facilitated by other developments. Foreign investors have failed to flood into Indonesia to buy out the assets of the old conglomerates. It has become apparent to the government that getting investment started again and recovering the huge outlays on bank recapitalization required the re-entry of Indonesian Chinese business money. This structural indiscernibility has given them greater leverage in negotiating debt restructuring and in avoiding prosecution. Most important, though, with growing foreign reserves and export success, Indonesia appears to be surviving without many of the institutional reforms demanded and regarded as functionally necessary by the IMF. Even though its banking system remains largely paralyzed, there appears to be no shortage of domestic investment, much of it flowing into the country outside the domestic banking system. Depositors are effectively using Singapore banks to channel their financing. Those absolute functional links between liberal markets, the regulatory state, and modern rational capitalism appear less certain than supposed.
Conclusion: implications for policy

At one level, both liberal and Marxist ideas about transition to liberal market capitalism are premised on the idea that a vigorous and powerful middle class will outgrow the confines of mercantilist, predatory or developmental systems of state power within which they may have been incubated. In these circumstances, the old institutions will become dysfunctional and will be replaced. Our case studies show us some interesting variants on this theme. In Singapore, developmental and statist institutions appear to have been successful in establishing both a prosperous middle class and a growing corporate sector. Where the assumed contradictions exist, they relate to the resolution of Singapore's place in evolving global markets. Vigorous capitalism appears to survive without the sort of civil society and political democracy and even without many of the market mechanisms assumed to be necessary. In contrast, highly centralized regimes in both Thailand and Indonesia were pushed aside, and democratic systems established, not to sustain liberal markets and civil power but to give way to systems based on oligarchy and rule.

Such a juxtaposition of institutions, capitalism, and social power may simply be seen as part of a longer evolutionary process or as evidence that capitalism has no necessary functional affinity with political liberalism; that there may be many sorts of capitalism, some of them profoundly illiberal. However, neoliberal, rational choice theorists continue to see the problem in terms of institutions. Those need not be the product of social forces but could be supplied and that once in place will shape and constrain subsequent developments. Referring to the process of democratic transition, for example, Juan Linz proposed that, "even bad democracies are better than authoritarian rule or chaos since we may assume that they may undergo processes of re-equilibration, and with improved conditions and leadership may become fully consolidated." The same logic is applied to the transplantation of market institutions where the ending of intervention was assumed to put an end to the structural opportunities for corruption. In ordinary words, change did not rely on politics but could be conceived as a technical problem to be solved by officials of governments or the World Bank or the IMF. Yet, formal democracies and market economies harboring corrupt, rapacious, and repressive systems of social power have existed for decades. In many cases they have provided no room for a "re-equilibration" or the emergence of appropriate leadership. Exactly how long does it take?

It matters what sort of social order these institutions are grafted onto. Building democratic institutions, for example, in a situation where a liberal social and political revolution is already underway, as in Britain in the eighteenth century, is different from constructing them in Indonesia. Attempting to construct markets where an authoritarian or predatory state has already provided the framework for capitalism and where business and the middle classes are already integrated into this system is more difficult than where these forces see their future only in the destruction of existing state power. Where then, does this leave us in terms of the questions asked in this chapter? Clearly, we suggest that the prospects for liberal transition in Singapore are undetermined, not only by the very success of a developmental state in insulating itself from social pressures but by its success in incorporating a large and prosperous middle class and integrating with global markets. In some respects it already encompasses many of the central features of the neoliberal regulatory state and insulates business more effectively from civil society, labor, environmental claims, and social welfare demands it faces in Western societies or even in the USA.

At the other end of the spectrum, the Indonesian state is clearly unable to provide the regulatory capacity sought by neoiberals and the merging of private interest and public authority is so great that the state is further than ever from escaping the demands of hegemonic predatory interests. Business is not only reliant on the favors and guarantees of state power but in many respects indispensable to the state.

Thailand is taking a different path. The Thaksin government represents a situation where the capitalist class has taken control of the state within a reasonably liberal political environment. However, this situation is no cause for political optimism. As Bellin has suggested, for "late-developing" societies, capitalists (and labor) are "contingent democrats" who have material interests that they must protect, and usually they will only support liberal political outcomes where these support their material interests. In fact, Prime Minister Thaksin has stated that democracy is not his aim but rather economic success. In seeking to achieve this, he has expressed admiration for the Singapore political model, and desires an illiberal political system. However, in contrast with Singapore, he wishes to have a strong and internationally competitive domestic capitalist class, and this means that his government will adopt elements of the market where these suit the material interests of domestic capitalism. In this sense, not only are these capitalists represented in Thaksin's Cabinet contingent democrats, but they are also contingent economic liberals.

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Notes

1 In the so-called Asian values debate it had been proposed that managed markets, social discipline, and political order serving the communal interest were proving functionally superior to the divisive and individualistic institutions of Western liberal capitalism. See, for example, M. Mohan, "No freedom without responsibility," New Straits Times, 28 May 1995, p. 11; P. Zakaria, "Culture is destiny: interview with Lee Kuan Yew," Foreign Affairs, 1994, vol. 73, no. 2, pp. 109-26. For a broader critical analysis, see K. Robison, "The politics of Asian values," Pacific Review, 1996, vol. 9, no. 3, pp. 306-26; G. B坚, "The internationalisation of Asian values," Pacific Review, 1996, vol. 9, no. 3, pp. 329-51.


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40 Power in transition, Thailand in the 1990s,” in K. Hewison


46 IMF, 1st Qtr, 14 August 1997.


50 Bangkok Post, 26 and 27 July 1998.


54 IMF, 1st Qtr, 21 February 1998.


57 IMF, 2nd Qtr, 28 August 1998.

58 IMF, 3rd Qtr, 23 March 1999.


61 Ericson, Money and banking, December 2000, p. 149.


63 Ibid.

64 The election victory has been discussed elsewhere, see, for example, ibid.


66 See Pasuk and Baker, “The Only Good Politician.”


68 Ibid.

69 Thaksin was accused of concealing assets by transferring them to his aides, gardeners, and other staff. He argued that this failure to report billions of baht had an oversight.


72 See the comments from Lehman Bros. and Stanley Morgan Asia, Jakarta Post, 2 August 1997, p. 1; 5 November 1997, p. 1.


77 V. R. Hadi, “Contesting political change under Suharto,” in A. Badman, B. Hatley, and D. Kingsbury (eds), Reforming: Crisis and Change in Indonesia, Clayton: Monash University, Centre of Southeast Asian Studies, 1999, pp. 105-35.

78 Asia Weekly, 14-16 June 1998, p. 3.


83 Organizations such as the Supreme Audit Agency and Indonesia Corruption Watch...

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