INTRODUCTION

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

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

After clarifying their essential features, we will systematically examine these approaches. We will first consider the existing body of work on political economy in South-East Asia. The new trend in development theory is that of the "Washington Consensus" which operated until the Asian economic crisis. The approach is a policy of economic deregulation, privatisation, and fiscal austerity—the so-called "Washington Consensus" that operated until the Asian economic crisis (Williamson 1994).

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

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

Two important influences within the neoclassical camp are new institutional economics and public choice theory. New institutional economists argue that institutions create institutions to overcome transaction costs. Development, they maintain, requires solutions to collective action problems through the general systems of rules and regulation that is, institutions (North 1981, 1994, 1995). However, expectations that this would take place as rational individuals spontaneously aggregated to solve collective-action dilemma were
not to be realised. Instead, individuals generally preferred to seek their interests in rents. Public choice theorists understood this. They saw the roots of the problem lying in the state. In public choice theory, the political sphere was conceptualized as a marketplace of transactions among individual politicians, officials, and contending interest lobbies. Its product was the appropriation and role of public policy and public goods in return for political support. The predatory interests of political leaders were seen to lock them frequently into a pattern of rule aimed at keeping contending interests satisfied, ruining the economy in the process (see Bates 1981). At another level, the state itself was seen to have interests in accumulating ever-increasing revenues (Krugger 1971; Lal 1983; Buchanan & Tullock 1962). Such perspectives reinforced the neoclassical theme that there was a struggle between economics and politics. But it also identified the solution as one of constraining the state if predatory behaviour was to be restricted.

However, the weakness of the public choice argument was demonstrated by what followed the collapse of the state in Russia in the late 1980s: chaos, collusion, gangsterism, and widespread market failure. From this point, new institutionalist economists began to look increasingly to the state to enforce rules and regulations to safeguard the operations of the market. What all neoclassical theorists share, however, is an abstract notion of markets and a belief that they are inherently efficient. Differences centre around the precise way this is best realised. Importantly, there is general agreement that marginalising politics from the policy process will help liberate markets. In that sense, all neoclassical theorists understand development as a technical question of how best to unleash the positive forces of markets. As we will see below, historical institutionalist and social conflict theorists in particular have, in their different ways, challenged this understanding of markets and politics.

Historical institutionalism

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

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

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

After the earlier emphasis on insulation from vested interests as necessary for development, state-centred historical institutionalists argued that developmental elites needed to forge coalitions with dominant forces in business (Evan 1992, 1995). This was an implicit endorsement of policies. However, they shared the neoclassical theorists' concern about influences that could subvert the institutional rationality of the state. Such influences are best excluded through an 'embedding' of institutional autonomy. Development thus requires that the state adopt a distinctive organisational logic, one that contrasts with the logic of the unfettered market. In this way, rational—rather than private, market-oriented—developmental goals can be pursued. So, although markets might be seen as constraints on policy, there are definitely preferred state forms. This often sees the introduction of Weberian notions regarding the potential for elites to transform society and economy, together with a view of the policy processes of developmental states in terms of rational action rather than as reflective of broader and deeper political processes.

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

Despite these advances, historical institutionalism exhibits a number of shortcomings. First, its concentration on intermediate ‘variables’ means that system-level structures are left unexplained (Kazendjian 1998:196). For all of the competition, complexity, and historical contingency involved in the development and progress of institutions, it must be recognized that the interplay of social relations, power, and politics necessarily goes beyond institutions and the positions held in them by particular actors (Immergut 1998:28). Second, historical institutionalism, in focusing on constraints on institutional change (stuckness), emphasizes order rather than change (see Peters 1999:68–71).2 When change is examined, these analysts are concerned principally with addressing change within and as a result of institutions. Third, and relatedly, these analyses tend to engage in institutional determinism (Thelen & Steinmo 1992:16). This is clearest in statist approaches, where developmental states are presented as being insulated from interests and political conflict. Further, for all of their emphasis on interests, historical institutionalists seldom address the interests at work in the development of capitalism.

Social conflict theory

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

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

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

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

Change is therefore not driven by rational individuals, neutralizing obstacles to a naturally efficient market. Nor is it forged in global conflicts among contending models of economic organization. Rather, structural changes such
as new technologies, dynamic systems of production, the globalization of markets, urbanization, and environmental degradation—all products of an evolving capitalist epoch—represent the focal points of conflict. Struggles and competition over production and economic power, as well as over land, property rights, and civil rights, involve various coalitions of class and state interest across and within national borders.

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

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

BEFORE THE BOOM

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

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POWER AND CONTESTATION

Modernisation theory

The first major attempt to explain development in South-East Asia drew heavily on an approach labelled ‘modernisation theory’. Theorists asserted that the former colonies could replicate the ‘original transition’ of Western Europe (see Roxburgh 1979:chs 1–2). A variety of modernisation approaches emerged from the different emphases placed on sociological, psychological, and economic factors in the transition (see Hoogvelt 1982:chs 3–4; Larrain 1989:87–98). Modernisation approaches begin by establishing a dichotomy between tradition and modernity, and see an evolutionary movement from the former to the latter. Traditional societies were seen as ‘pre-state, pre-rational and pre-industrial’ (Higgett et al. 1985:17–18). To modernise, traditional societies needed to adopt the same organisational structures and social and political values of the West. Significantly this included the adoption of liberal-democratic political arrangements, seen as a natural accompaniment to economic development.

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

For many South-East Asian governments struggling against political instability, Huntington’s ideas provided a handy rationale for the suppression of opposition. This was complemented by policies for economic development, fostered by international agencies, that emphasised the need to maximise growth so that its benefits would eventually trickle down to all levels of society. Growth was to be enhanced through policies attractive to foreign investment, thereby alleviating any shortage of domestic capital (Higgett et al. 1985:24–7). One of the legacies of Huntington’s approach was the recognition of institutions and the state as central actors in transforming dysfunctional systems. These elements were revived in the late 1990s as theories attempted to explain economic crises in South-East Asia.

Dependency theory

At the time that modernisation theory was being revised to account for the apparent failure of development, dependency theory emerged to challenge it in fundamental ways. Dependency approaches had their origins in Latin America, where economists contested the notion that modernisation could be diffused to poor countries (see Frank 1967: 1969; Larrain 1989:102–10).
Neo-classical accounts

Although dependency theorists could not explain the development of East and South-East Asian capitalism, theories and policy-makers influenced by neoclassical economics were quick to fill the breach and claim superiority. The success of the Asian Tigers, they argued, reflected the adoption of policies that embraced global market forces. Export orientation was seen as crucial in rapid industrialisation—being regarded as a force for greater competitive discipline and a more efficient manufacturing sector. This was contrasted with production primarily for domestic markets, which was often heavily protected and seen as inefficient (see Krueger 1981). Importantly, the basis of export success was considered to be the exploitation of comparative advantage—concentrating production in areas of relative abundance in land, labour, or capital. Initially, in these economies that were labour-rich and capital-scarce, this meant low-cost, labour-intensive production (Liddle 1981).

Seen in this way, policy-makers in the Asian Tiger economies had simply chosen technically correct economic policies and the lesson was there for others to emulate. This perspective exerted considerable influence on the World Bank, which espoused developing countries to follow, for example, the South Korean model. Subsequently, loans—especially for structural adjustment—were often conditional on recipient countries accepting an export-oriented industrialisation (EOI) strategy.

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

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

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

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

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

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

Historical institutionalists accounts

There was increased interest in historical institutionalist approaches during the boom, especially when the South-East Asian economic performance was compared with that of East Asia. According to state-centred historical institutionalists, the remarkable feature of Asian industrialisation was the role of the state in orchestrating public and private capital to achieve strategic national economic goals—not, as neoclassical economics conceded, in facilitating markets. Within a framework of complex trade and industry regimes, export strategies and systems of state-business cooperation states could organise corporate juggernauts able to successfully assault global markets (Amidon 1989; Johnson 1982, 1987; Matthews & Ravenhill 1996; Wade 1990; Weiss & Hobson 1995). But this was dependent on 'state capacity' (Weiss 1998).

Predictions of an impending Asian Century were accepted within this camp of theorists who depicted these highly organised systems of East Asia as functionally well suited to export-oriented industrialisation.

The idea that authoritarian states could play a positive development role became attractive within the West at a time when growth rates lagged behind some Asian rates. But this was not because of any perception that state-led industry policies were a more efficient means of activating resources and global strategies. Within Western business circles, many looked approvingly at the state's role in sweeping aside 'distributional coalitions' (labour, welfare, and environmental groups) and instituting low tax regimes. These were the aspects of the Asian experience they believed provided broader economic lessons (see FSR 18 August 1994:5; 24 November 1994:63-9).

State-centred explanations often assumed that the developmental state was the backbone of economic dynamism in Asia. The problem was that, in South-East Asia, it was only Singapore that seriously fitted this model (Haggard 2000a:136). Despite this, rapid industrialisation certainly did occur in Thailand, Indonesia, Malaysia, and, to a lesser extent, the Philippines. As noted above, society-centred historical institutionalists argued that the focus on the state and the market neglected non-state and non-market institutions. They argued that it was these institutions that had determined much economic success. Focusing on private sector institutions, these analysts argued that such organisations were required to play critical directing roles within the economy (Doone & Ramsey 1997:273). The relationship between business and state was far more problematic in much of South-East Asia under the impact of patronage and cronyism, but business developed its own dynamic
institutional arrangements to drive industrialization. In examining the boom, then, these analysts devoted considerable attention to the development of collective private sector institutions (Anfly 1992; Doner 1992; Hardcastle 1994). The implication was that states and their institutions were important, but that the private sector and its institutions could compensate for relatively weak states.

Social conflict accounts

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

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

Hence, a range of social, political, and institutional outcomes accompanied the shift from commodity trade to import-substitution industrialization (ISI) and, in turn, to EOI and the progressive deregulation of economic life across the region in the 1980s. For example, in Thailand, EOI and deregulation went hand in hand with the transformation of class power as conglomerates in banking and industry were consolidated while the old trading business groups declined. State officials played a significant role in facilitating this process (Hewison 1990). Importantly, however, these transformations were accompanied by political reform that saw the power of state officials harnessed increasingly to private interests. By contrast, deregulation and EOI in Indonesia in the 1980s, partly enforced by the collapse in oil prices, took place in an economy dominated by coalitions of state and private corporate oligarchs. What transpired was a transfer of public monopoly into the hands of private interests. Unlike what occurred in Thailand, economic deregulation in Indonesia was not accompanied by political reform. The system of authoritarian state capitalism was simply harnessed to the needs of burgeoning corporate conglomerates. Short-term international bank credit replaced oil as the driving force in the economy (Robison 1986:387-8). New oligarchies and coalitions were liberated from centralised systems of state capitalism and given free reign to borrow short term to set up enterprises and banks without regulatory scrutiny.

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

MIRACLES GO BUST

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

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

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

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

Neoclassical accounts

Mainstream neoclassical theorists, particularly those within the IMF, seized on the crisis as validation of their primary arguments concerning the perils of obstructing free markets and the need for governments to embrace markets if development was to be sustained. For IMF head, Michel Camdessus, quoted in *Asian Wall Street Journal* (AWSJ) 13 November 1997:1) the crisis was a "blessing in disguise." The influence and power of international organisations such as the IMF, Asian Development Bank, and the World Bank ensured that these views prevailed in policy circles (see Jayasuriya 2000). For beleaguered governments in countries such as Thailand and Indonesia, these institutions represented the only viable source of funds to mitigate the crisis. This gave the institutions unprecedented leverage in domestic policy agendas.

With the crisis, collusive state-business relations became the objects of intense critical attention. Whereas the *Miracle report* grandly acknowledged that the state had played a significant development role, the crisis allowed neoclassical analysis to reassure aggressively that state involvement distorted markets. They argued that cosy political arrangements and the absence of adequate accounting standards and transparency distorted "price signals" and led to a misallocation of resources. This created the "moral hazard" in which borrowers and lenders of money (especially borrowers) operated in the expectation of government rescue should things go awry (Arndt & Hill 1999; Frankel 1998; Roubini et al. 1998; Wolle 1998). Market discipline, they argued, was simply not strong enough in these economies, and the task of recovery had to centre on establishing this discipline. Yet the crisis also led to several challenges to the Washington Consensus that had dominated neoclassical policy strategies for well over two decades—not least from within the neoclassical school itself. It had become clear that, where market deregulation was embraced, there were often negative consequences. This forced neoclassical theorists to become more interested in the political dimensions of markets, and they focused on questions associated with the rise of rent-seekers and how to dispose of them. Successful deregulation required particular sorts of institutions.

The Asian crisis necessarily reinforced the need for far more attention to be given to state capacity—if for no other reason than the need to enforce deregulation and break the power of cronies (see Camdessus 1998). But institutions-building is conceived here in distinct terms, for the ideal remains that a band of rational technocrats are able to operate above the constraints of vested interests (Schimmels 1999:26). Interestingly, however, differences surfaced between the IMF and the World Bank over the question of regulation and the role of the state. In particular, the Bank's then senior vice-president and chief economist, Joseph Stiglitz (1998, 1999), advocated a role for the state that went beyond refuting the capacity to implement deregulation and insulating policy-makers from vested interests. In effect, Stiglitz asked, on behalf of the Bank, why institutions could be successfully transplanted in some instances but not others—an issue of concern to new institutional economists in the 1990s, but which had not been convincingly accounted for. The World Bank had recognised the importance of social and political processes even before the crisis, motivated by development failures and setbacks in Africa and Eastern Europe. Thus the Bank began a somewhat vague advocacy of "good governance," acknowledging the social underpinnings of corrupt or weak institutional frameworks (World Bank 1991:6–7). Now, however, Stiglitz and the Bank became more expansive about what this entailed and the reform agenda attached to it. The language of participation, civil society, social capital, and community organisation became prominent as the social basis of sustainable markets was emphasised (see World Bank 1998). It was asserted that the state needed to work in concert with a range of social organisations to cement the social structures, values, and norms supportive of markets. According to Stiglitz (1998:12), "the hard part of capacity building is the development of organizational/social capital, including the institutions that enable society to function well." On these grounds, the Bank distinguished itself from the IMF on the question of fiscal austerity. It began to emphasise social safety nets for those who fell through the cracks.
in liberalising market systems. Of course, this also reflected a concern about the kinds of destabilising events seen in Indonesia and criticisms that World Bank and IMF policies were deepening the crisis there and in Thailand. There was a related worry that such resentment threatened the hegemony of neoliberal ideas.

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

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

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

Crisis as global conflict: historical institutionalists

Whereas neoclassical analysts concentrated on domestic weaknesses in explaining the crisis, historical institutionalists have, not unexpectedly, directed their attention to institutional problems.
The vulnerability of economies with limited or diminished regulatory capacity contrasted with the strength of the US’s international state power, referred to by state-centred institutionalists as the ‘US Treasury–Wall Street–IMF complex’. According to Weis’s (1999:332), the US has used the crisis to open markets further, and has played a role in making an ‘ordinary crisis’ into a ‘deep crisis’. The problem is not just that there are external interests involved, but also that the prescriptions coming from these quarters are grounded in assumptions about the universal applicability of a liberal market model.

Far from the crisis signalling ‘the death throes of Asian state capitalism’, Wade and other critics believe the jury is still out (Wade 1998b:1536). They point out that liberal capitalism in the advanced capitalist countries has its own unresolved and potential critical problems, nor the least being the rising social inequalities that accompany neoliberal globalisation. Its long-term political sustainability remains problematic. Moreover, the structural power of international capital notwithstanding, the crisis has engendered an apprehension and a reaction on the part of some Asian leaders about the neoliberal model. Wade (1998b:1551) predicts that the Asian model has considerable staying power and might still be influential ‘in setting norms for international economic and financial regimes’. Weis’s (1999) conclusion is that the crisis shows that strong states are essential to globalisation— not attributable to it.

Others are less sanguine. Chang-Iin Moon and Sang-young Ryha (2000:98) conclude that, ‘Convergence to Western capitalism is likely to be the fate of the Asian economy. In a sense, Asian capitalism could have been a temporal detour in the longer historical evolution.’ From this perspective, the developmental state has been an ‘irreversible coalition’ and its dissolution would lead to the triumph of the ‘free market’. However, in the recent crisis, the structural power of these institutions has been questioned and the stability of the state has been challenged (Moon & Ryha 2000:97).

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

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

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

These institutionalists favour technocratic solutions to such problems. Clearly, they see that institutional failures must be put right. Hutchcroft (1999:488) argues that reform in Thailand requires the political ascendancy of conservative urban elites who must capture the state and parliament from atomized and materially vulnerable ‘country bumpkins’ (politicized politicians). Haggard (2000a:131–2) also identifies Thailand’s party system as encouraging patronism, further noting the instability of multi-party coalitions. This patronial and non-transparent pattern was also seen in Indonesia and Malaysia. It is noticeable that this society-focused approach tends to emphasise order. Reform, for example, is often seen to involve establishing new distributional coalitions with its effective functioning, and the instability of the state has been weakened (Moon & Ryha 2000:97).

Crisis as global conflict: neodependency
In spite of the theoretical attacks discussed above, some versions of dependency theory had remained influential—especially with non-government organisations (NGOs)—and the Asian crisis prompted its re-emergence. The elements of dependency theory that attracted NGO interest, and which were incorporated into explanations of the crisis, included:
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- strong, sometimes moral, critiques of the negative impacts of development
- the power of rich countries (or the North) to exploit, impoverish, and dominate poor countries (the South)
- the need for a radical economic program that emphasises national development (Bello & Rosenfield 1990; Hart-Landsberg 1991).

Some continued to argue that the wealth of the rich countries was extracted from poor countries, with financial domination being a new colonialism (Tumana n.d.; Khor 2000). When the crisis struck, it seemed to vindicate longstanding criticisms of the dependent nature of South-East Asian development (see Bello et al. 1998).

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

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

This approach necessarily directed attention to national responses to the perceived negative impacts of globalisation: it also saw curious political alliances emerge as radicals and NGOs lined up with NGO-friendly governments such as Malaysia and a range of US conservatives in opposing the free trade agenda. Bello (2000b), for example, endorsed Mahathir as an...
importance of social conflict as the primary driver of institutional change. It is true, as historical institutionalists recognise, that social interest exerts an influence in the form of structural constraints on the choices of state managers. Even the most authoritarian regimes, for example, must ensure that food prices remain under control, not for reasons of social justice, but for concern about stability. Nevertheless, one of the defining features of the political economy of South-East Asia, with the exception of Singapore, is the highly instrumental nature of capitalistic control of state power. The money politics of Thailand and the politics of capitalistic oligarchy in the Philippines provide mechanisms by which powerful corporate interests directly capture and appropriate state power. In Malaysia, the distinction between the state and the interests of a ruling oligarchy is difficult to draw in a situation where the latter is constructed upon state contracts, credit, and economic concessions (Gomez & Juto 1999). Perhaps this instrumentalism has been most dramatically illustrated in Indonesia. Despite claims from neoclassical supporters of Indonesia’s economic technocrats that the Indonesian government was insulated from vested interests (Bhattacharya & Puangrat 1992; Liddle 1991), this autonomy did not extend much beyond macroeconomic policy. Nowhere was the crude exercise of state power for private interest more blatant than in the construction of patronage networks and corporate interests for the family of President Soeharto. As Soeharto’s children plundered the state, it was difficult to distinguish the public and private interest, or to understand the state except in terms of the possession of powerful private oligarchies.

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

**SOCIAL CONFLICT AND THE WAR ON TERROR**

The various contents and tensions between different interests and ideologies exacerbated or generated by the Asian crisis—highlighted in the social conflict approach above—ultimately relate to the fundamental issue of power.
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relations and the shape of economic and political regimes. While the Asian crisis brought some of these conflicts into sharp relief, so too has the so-called war on terror declared by US President George W. Bush in the wake of the attacks of 11 September 2001. The geopolitical shifts associated with the war on terror exert a significant influence over contestation about the shape of regimes in South-East Asia (see Rodan & Hewison 2004).

The new geopolitics has powerful resonances with the Cold War period. In particular, it has created new opportunities for authoritarian practices in South-East Asia. These opportunities not only relate to a strengthening of the repressive powers of the state, which can be used for political rather than security purposes, but also to an environment conducive to ideologizing these and other measures hostile to political pluralism. The US's linking of trade access to security is also reminiscent of the US aid, trade, and investment that propped up a range of authoritarian leaders in the region during the Cold War (FEER 30 October 2003:17).

Yes, there are limits to the Cold War paradigm. The structure of the global political economy has permanently changed from what it was during the Cold War. Consequently, not all forms of authoritarian regime can be reconciled with that structure and the interests embodied in it. Furthermore, the complexion of US neoconservative and business interests represented within the Bush administration is historically specific, complex, and contradictory. This affects both the form of capitalism and the institutions through which it is advanced in the US and abroad.

The early labelling of South-East Asia as the 'second front in the war on terror' (after Afghanistan) reflected the depth of the US government's security concerns in the region after 9/11. This concern was compounded by bombings in Bali and Jakarta in 2002 and 2003, respectively, and the understanding that al-Qaeda is a transnational force. To be sure, there were Islamic groups in the region that were connected with global terrorist networks and al-Qaeda's Jemaah Islamiah (JI), for instance, had regional-wide networks and training links with organisations in Afghanistan under the Taliban, and early preparation for the September 11 attacks included al-Qaeda meetings in Malaysia (Washingtonpost.com, 3 February 2002). However, the splintered and local character of these groups has been their predominant feature (International Crisis Group 2005; Wright-Neville 2004). In a climate where US President (Bush 2001) declared that 'You are either with us or with the terrorists', South-East Asian governments have quickly learnt that acting decisively against terrorist threats earns praise from the US and other Western governments, while governments seem to be ineffectual come under pressure.

Interestingly, the one country in the region that had made significant strides away from authoritarian rule—Indonesia—was immediately subjected to scrutiny from the US. Having repealed repressive laws allowing detention without trial, it was condemned for not emulating neighbouring authoritarian governments in Singapore and Malaysia where such laws were being exercised to arrest suspected terrorists (AP/6 11 March 2002:A11). Subsequently, some of the powers of the military and security forces that had diminished with the fall of Soeharto were restored. In turn, the US resumed training of the Indonesian military, the TNI, through the International Military Education and Training program. This support had previously been withdrawn because of extensive human rights violations by the TNI in East Timor. Similarly, authoritarian tendencies in Thailand, under Prime Minister Thaksin Shinawatra, received a fillip when the US war on terror was used to justify a string of repressive new laws and when decrees were implemented to bolster state powers (Rodan & Hewison 2004). Meanwhile, in Singapore and Malaysia, the war on terror was drawn upon to rationalise the consolidation and extension of official powers of detention and surveillance, including preemptive measures against cyberterrorism. Opposition campaigns to have Internal Security Acts repealed that began prior to September 11 were also stifled (Rodan 2004a).

In this context, the scope for political persecution under the guise of maintaining security increased across the region. Thus, in Malaysia, for example, members of the main opposition party, Parti Islam SeMalaysia (PAS), were caught up in ISA detentions; these detentions were questioned by domestic human rights groups.7 Similarly, after Thaksin aligned his government with the US-led war on terror, ethnic Malay Muslims in southern Thailand, where separatist and nationalistic movements have enjoyed strong support, faced increasingly ruthless treatment from authorities resulting in more than 550 deaths in 2004 (BBC News 25 February 2005). The linking of trade and security helped elicit increased responsiveness from governments in South-East Asia. At the October 2003 Bangkok Asia Pacific Economic Cooperation (APEC) forum, the US made it clear that countries in Asia delivering security cooperation would receive preferential access to the US market. As then US Trade Representative, Robert Zoellick, explained, the US was ready to extend trade benefits to 'can-do' Asian countries (as quoted in FEER 30 October 2003:17). Pressured negotiations towards a bilateral free trade agreement (FTA) between Singapore and the US were expedited and couched in rhetoric about the commitment and importance of Singapore to the US's security objectives (Redan 2004b). Thailand's initial reluctance to sign up for Washington's war against terror was soon put aside in order to move towards a US-Thailand FTA. Subsequently, and despite initial reservations expressed by majority Muslim nations Indonesia and Malaysia about the linking of trade with security, governments of these South-East Asian countries sought US endorsement for bilateral trade agreements.

Significantly, authoritarianism was no impediment in the dispensation of trade rewards for cooperation in the war on terror. Indeed, the concept of democracy became flexible as the priority turned to security issues. For example, in establishing the Malaysian Trade, Security and Economic Cooperation Caucus, US Member of Congress Pete Sessions declared that the Caucus...
would inform Congress and government officials ‘about the benefits of a cooperative, anti-terrorist, pro-democracy, free trading, and pro-economic growth relationship with the country of Malaysia’ (quoted in ST, 2 May 2002:2). Subsequently, an APSJ (23–24 July 2004:A7) editorial generously bestowed the virtues of this ‘mainly Muslim, but also multireligious and multilingual country that has burnished its free-market credentials and has a working democracy’... Indeed, Malaysia was described as ‘an example to other Islamic nations of progressive Islam’. Apart from over a hundred detentions under the ISA by this time, Malaysian cooperation in the war on terror has included the establishment of a Southeast Asia Regional Center for Counter Terrorism (SEARCCT)—an initiative suggested by President Bush—and joint military exercises.

Clearly, US security concerns have been important in mediating conflicts over political regimes in South-East Asia in favour of authoritarianism. Yet this reveals as much about the limits as it does about the extent of US influence. In effect, in pursuing its security interests, the US has had to reconcile itself to the reality that even the most repressive regimes are either ascendant or resilient in much of the region. For their own reasons, as we have seen, these elements have generally seized on the prosecution of the war on terror, not least out of the desire to contain radical Islam. The cooperation of these elements may be seen as necessary for US security objectives to be realised, but not necessarily as the ideal partners for US foreign policy. But, as US Deputy Defence Secretary Paul Wolfowitz acknowledged, the Cold War had demonstrated the ‘importance of leadership and what it consists of: not lecturing and posturing and demanding, but demonstrating that your friends will be protected and taken care of, that your enemies will be punished, and those who refuse to support you will regret having done so’ (cited in New York Times 17 March 2005:14).

During the Cold War, the US indicated that it could tolerate dictators and gross human rights abuses in South-East Asia. The support for a string of military regimes in Thailand, Marcos in the Philippines, and Soeharto in Indonesia reflected the need for allies in the region. Human rights issues only came into the political calculation when these regimes were well past their use-by dates in terms of international embarrassment over human rights abuses and corruption, to which could be added their clear failure to maintain political and economic stability. In a sense, then, the 2005 resumption of aid to the Indonesian military may be viewed as an admission of the US’s inability to curb the military’s power and human rights abuses in Indonesia as well as a—perhaps—grudging recognition that friends need support. Similarly, the Thai military’s brutal solution to the situation in southern Thailand certainly was not welcomed by US officials. The point is, however, that if the US has, post-Cold War, a preference for ‘low intensity democracy’ (Gills et al., 1993), it must nevertheless work with those forces most clearly aligned with its security agenda.
The war on terror has generated other tensions for South-East Asian regimes. First, the alignment of governments in the region with US actions, such as the Iraq War, have alienated domestic Muslim populations and have the potential to fan a more radical political Islam. Second, bilateral relations between various South-East Asian countries have been complicated, with tension between the Malaysian and Thai governments over the treatment of ethnic Malays in southern Thailand and accusations of Malaysian and Indonesian support for Thai Muslim separatists (The Straits Times 1 March 2005; Malay Mail 17 November 2004).

Furthermore, as already noted, the US’s approach to the war on terror has fostered a diminished commitment to multilateral economic institutions and an acceleration of bilateral FTAs. Despite signing up for FTAs, South-East Asian governments have continued to foster regionalism. Part of the reason for this is the rise of China as a major trading partner and nascent investor in the region (Frost 2004). The prospect of a major regional economic grouping—especially one in which China has been the driving force for integration—from which the US is excluded is a matter of potential friction (AFR 25 February 2005:26).

What, in essence, then, do the geopolitics associated with the war on terror mean for the contests in South-East Asia over economic and political regimes and, indeed, for the global political economy in general? Within the conflict approach, two responses have emerged. First, under George W. Bush, the war on terror is considered to have accentuated a trend towards securitisation of US foreign economic policy. According to Higgott (2004: 425), “globalisation has not been seen as a neoliberal economic terms, but also through the lenses of the national security agenda of the United States.” In this view, economic globalisation has become a security problem that necessitates a more coercive military role by the US. Second, it is possible to understand the securitisation of globalisation as a new phase of the neoliberal advance (Lauer 2004; Robinson 2004). Neoliberal ideologues now face the challenge of forming coalitions with neocorporatist political elements and predatory capitalists. Yet, at another level, the new geopolitical framework offers capital expansion defined in terms of ‘empire, strategic cards, and bilateral partnerships’ (Robinson 2004:408). In this context, there may well be an effective congruence of military and political regulation, and the expansion of market relations.

This perspective has important implications for political trajectories in South-East Asia. In particular, modernising elites that embrace a mixture of market values and social conservatism will continue to find numerous points of material and ideological intersection with interests based inside and outside the region. This leaves the door open for new forms of political regimes to develop, forms that may be quite different from traditional authoritarianism, but which nevertheless cheapen substantive political pluralism and class-based political organisations challenging market values and the power of capital.
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Poverty of Politics in the Philippines

Jane Hutchison

KEY TOPICS

Introduction
Political economy perspectives
Economic transformations
Social structure and development
A weak state
Securing stability?
Conclusion

INTRODUCTION

Capitalist development in the Philippines has not delivered sustained economic growth or substantially eased massive poverty and inequality. These features are linked (Balassam and Hill 2003:32), this chapter stresses the political foundations of each. Essentially, in both its democratic and authoritarian forms, the Philippine state has failed to attain the developmental attributes that elsewhere in Asia, have produced industrial dynamism and comparative social equality. Today, this situation exists despite concerted civil society activism against vested interests that have long stood in the way of vital reforms. These vested interests are embodied in the new and old elites that control political society and use that control to protect their personal and class privileges through patronage networks and violence against opponents. An important instrument of that violence in the postwar period has been the Armed Forces of the Philippines (AFP), through its deployment in a number of domestic conflicts. Linked to this has been the