

limits of the study are thus acknowledged. Nevertheless, we remain firmly committed to the belief that the productive interface between economics and politics can form the basis for a new research paradigm within which the evolution of the East Asian region can be fruitfully studied.

As an intellectual enterprise, any book project builds on the generosity and cooperation of many people. This study had a rather long gestation period and its completion would not have been possible without the exemplary patience and cooperation of Jill Henry, the publisher. We also benefited from the insightful comments of a number of referees who reviewed the project when it was merely a proposal, and later from two anonymous readers who patiently read the first draft and suggested a number of substantive improvements. Of course, the standard caveat applies: we are solely responsible for any errors and omissions. We would also like to acknowledge the generous support of our institutions, namely, the Department of Economics and Finance at the University of Western Sydney (Anis Chowdhury) and the School of International Business at Griffith University (Iyanatul Islam). The latter was attached to the Jakarta-based UN Support Facility for Indonesian Recovery when the manuscript was completed, and the project received active encouragement and support from Satish Mishra, Chief Economist of the Facility. We must add that despite the pressures that the writing of this book placed on our families, they were generous with affection and patience. This book is dedicated to them.

Chapter 1

The Evolution of East Asian Political Economy: An Analytical History

INTRODUCTION

The study of East Asia is at a critical juncture. Only recently, the ebullient voices of cheerleaders proclaiming the 'East Asian miracle' resonated across the world. A small group of economies stretching across Southeast and Northeast Asia—Hong Kong, Singapore, South Korea, Taiwan, Indonesia, Malaysia, and Thailand—have often been cited as rare exemplars of rapid and shared growth. The People's Republic of China (PRC) was added to this elite list of economies as a fine example of the transition to a market economy.

However, events since mid 1997 have taken the shine off the miracle and stories of East Asian success have been overshadowed by a profound sense of anxiety over the future of the region. The currency crisis that started in mid July 1997 in Thailand soon engulfed most of the region. It pushed the successful economies of Indonesia, South Korea, and Thailand under the tutelage of the IMF and led them into a full-blown recession. Even mighty Japan, often regarded as the model that the East Asian economies emulated, appears to be faced with an uncertain future of rather slow growth. The consensus is that there will be a sluggish recovery in the region over several years. Admittedly, some of the crisis-affected economies have rebounded in impressive fashion, but whether the rapid growth era of the past can be replicated and sustained remains an open question. Some have muttered about the 'decline of the Asian century' (Lingle 1998). Only Taiwan and the PRC seem relatively immune from such grim developments, at least for now.

Any study of East Asia must take account of this striking transformation from boom to gloom. Why were these economies heralded so widely as success stories? Why are they now so widely criticised? To what extent is such criticism justified? Is the future of the region really bleak? In trying to come to terms with these disturbing questions, one is confronted with the task of analysing the history of the role of ideas and ideology in the evolution of the East Asian political economy. This introductory chapter is intended to accomplish that difficult but intellectually exciting task.

Several themes guide this chapter. It begins with the 1950s and 1960s—an era that can be described (somewhat disparagingly) as the golden age of the ‘dirigiste’ doctrine. That doctrine regarded the state as the engine of growth within the context of inward-oriented industrialisation. It found a natural ally in ‘dependency’ theory, which regarded the unfettered operation of a free world economy as an agent of oppression that perpetuated the dependence of poor nations at the periphery on rich nations at the core.

Both the dirigiste doctrine and its more radical variant came under the intellectual onslaught of neo-classical economics. Using the tools of conventional economics, practitioners were able to argue that the analytical foundations of the dirigiste doctrine—or the profound pessimism of dependency theory—were suspect, and that their basic premise was not supported by the available evidence. The ascendancy of four East Asian newly industrialised economies (NIEs)—Hong Kong, Singapore, South Korea, and Taiwan—played a central role in the neo-classical resurgence. The key argument was that East Asia prospered because of good policies that represented the virtuous combination of free trade and free markets (Little 1979, 1981, 1982).

A distinctive group of political scientists and regional specialists also began to question the tenets of dependency theory when documenting the rise of the ‘four dragons’. Thus, one of the best-known studies of East Asian success characterised it as a case of ‘pathways from the periphery’ (Haggard 1990). However, criticising dependency theory did not mean embracing neo-classical resurgence and rejecting the notion that the state was an engine of growth. One could argue that the political economy literature on East Asian ascendancy—as shaped by political scientists and regional specialists—was essentially a re-invention of dirigisme under the guise of the ‘developmental state’ hypothesis. The essence of that argument was that, under certain circumstances, it was possible for a poor nation at the periphery—as

were Taiwan and Korea in the 1950s and 1960s—to overcome the burden of dependence on rich nations at the core. The literature documented extensive state intervention in East Asian economies (with the notable exception of Hong Kong) and explained why it proved so effective. The attempt simultaneously became a critique of the neo-classical interpretation of East Asian success.

It is a testimony to the success of the developmental state hypothesis that practitioners sympathetic to the neo-classical tradition found it necessary to construct a ‘neo-classical synthesis’ in explaining East Asian success. Such a synthesis drew on the notion that the state could be an engine of growth, and combined it with the market-oriented ethos of conventional economics. A much-cited example is World Bank (1993a). One could argue that a sequel to the emerging paradigm of the neo-classical synthesis was provided by the Asian Development Bank (ADB) (1997).

Events since mid 1997 have led to the demise of the developmental state hypothesis and disrupted the neo-classical synthesis, as both focused on explaining economic success. The current literature aims to explain the East Asian crisis and its implications. The stage is thus set for the emergence of the new political economy of East Asia.

BOX 1.1: DIRIGISME, THE NEO-CLASSICAL RESURGENCE, AND EAST ASIA

In the 1950s and 1960s, many countries in the developing world embraced a development strategy whose key components formed the substance of the so-called dirigiste doctrine. This is sometimes construed as a disparaging label, but it is used here as an abbreviated way to define the notion of state-led development. Such a strategy entails various inter-related elements, including:

- import-substituting industrialisation (ISI) sustained by the use of tariff and non-tariff barriers (NTBs) that protect domestic industries from international competition
- extensive state intervention in financial and labour markets, typically entailing nationalisation of banks, selective credit allocation, political patronage of trade unions, minimum wage legislation and strict hiring and firing rules

- significant reliance on state-owned enterprises (SOEs), particularly in key areas such as banking, transport, telecommunications and power generation
- a predilection for detailed planning and regulation.

Why were the first-generation politicians and practitioners attracted to state-led development that entailed detailed planning and regulation and a focus on domestic markets? We must take into account the power of economic ideas and how such ideas are assimilated in the political process. As Krueger (1993: 353), acknowledges: 'There is ample reason to believe that, in many developing countries, the initial choice of an import-substitution development strategy was made by well-intentioned individuals behaving as benevolent social guardians'.

The intellectual underpinnings of dirigisme can be traced to the work of a number of first-generation development economists, such as Rosentain-Rodan, Nurkse, Singer, Prebisch and Myrdal (see Arndt 1987: ch. 3). Bhagwati (1984) has reinterpreted this strand of scholarship as encompassing the twin notions of export pessimism and market failure. The export prospects of the primary products of developing economies were considered limited, and international trade was seen as a mechanism of international inequality enriching the rich nations and impoverishing the poor—a view that developed into dependency theory (Furtado 1973; Sunkel 1969). The typical developing economy was characterised by endemic market failure, expressed specifically as the failure of private producers to internalise external economies (Rosentain-Rodan 1943).

Mainstream economics was belittled as a 'special case' reared in the cultural, social, and political context of Western market economies (Seers 1962). These concerns evolved to a stage where they entailed a focus on state-led 'big-push' industrialisation that relied primarily on domestic markets.

In this intellectual milieu, first-generation policy-makers in the developing world put dirigisme into practice. The notion

of autarkic industrial development was particularly influential in India through the role of Mahalonobis, 'physicist turned planner' (Arndt 1987: 76). India was one of the first—if not the first—country in the developing world to produce a detailed development plan (of 671 pages), in 1952 (Turner & Hulme 1997: 136).

NEO-CLASSICAL CRITIQUE OF DIRIGISME: FIRST-GENERATION LITERATURE

It is often suggested that the tide against dirigisme turned with Little, Scitovsky and Scott's (1970) comprehensive evaluation of ISI in seven developing economies. It is possible, however, to detect dissenting voices well before the publication of that report (Rodrik 1992). For example, Raul Prebisch, regarded as one of the prime intellectual architects of ISI, apparently raised concerns about the viability of ISI in his later writings (Arndt 1987: 78–81). Despite such caveats, it would be fair to say that the Little, Scitovsky and Scott report provided the primary intellectual ammunition against ISI.

Another important contribution to the critique of ISI was an ADB-sponsored study of industrialisation in Southeast Asia (ADB 1971; Myint 1972). Drawing attention to the high costs of pursuing ISI in Southeast Asia, it warned that 'industrial growth is in danger of slowing down ... because the relatively easy import-substituting possibilities have been exhausted' and counselled the adoption of an 'outward-looking industrialisation strategy' (ADB 1971: 232).

The emerging critique of ISI at the beginning of the 1970s was given a major boost by subsequent contributions (see, for example, Bhagwati 1978). We must also note the seminal contributions by McKinnon (1973) and Shaw (1973) on the deleterious effects of interventions in financial markets, that broadened the attack on dirigisme. Those studies argued that policy measures such as selective credit allocation and general controls on interest rates led to financial repression, which had real sector effects: both the volume and efficiency of saving and investment were adversely affected. The result was a drag on growth.

The issue of interventions in labour markets, and the way they formed part of a comprehensive critique of dirigisme, appeared to

receive less attention in the early 1970s. In the 1980s, Fields (1984) drew attention to the thesis that variations in labour market interventions could partly explain variations in growth performance in the seven economies studied. More specifically, competitive or flexible labour markets were seen as a central element in facilitating rapid economic growth.

The neo-classical critique of the dirigiste doctrine was reinforced by the belated discovery of hypergrowth in a handful of countries in East Asia—Hong Kong, Singapore, Korea, and Taiwan (Chen 1979). The discovery was belated because, as Hicks (1989: 39) notes, the four East Asian economies were growing at phenomenal rates for two decades before they came to the attention of mainstream economists. More importantly, as Hicks (1989: 36–7) emphasises, the pioneers of development economics, such as Rosenstein-Rodan, Chenery and others, did not expect them to perform as well as they did. The success stories of the developing world were expected to be in South Asia and Latin America.

Little (1979, 1981, 1982) was one of the first to provide an intellectual framework for the discovery. It transpired that these economies—the so-called Gang of Four—had a brief engagement with ISI, then moved towards export-oriented industrialisation (EOI) through a series of policy reforms initiated in the early 1960s. The conventional wisdom is that the industrial revolution in parts of East Asia can be linked to this decisive policy shift, which entailed a conspicuous deviation from prevailing orthodoxy.

Perhaps the following observations by Little (1982: 141) are the most cogent way to illustrate the conventional neo-classical interpretation of East Asian success:

Starting in the years around 1960, these countries (i.e. Korea, Taiwan and Singapore) made policy changes that by the middle 1960s combined selective protection for certain import competing sectors with a virtual free trade regime for exporters—by which we mean that exporters could obtain inputs ... at world market prices, while the effective exchange rate for exporters was close to that which would have ruled under free trade. Overall effective protection for industry was zero for Korea and, of course, Hong Kong, and low for Taiwan and Singapore. The consequential growth of exports was phenomenal, far exceeding what anyone could have predicted or did predict.

Elsewhere Little (1981: 45) emphasises the lessons of rapid growth in East Asia. He concludes that:

The major lesson is that labour-intensive export-oriented policies, which amounted to almost free trade conditions for exporters, were the prime cause of an extremely rapid and labour-intensive industrialisation which revolutionised in a decade the lives of more than fifty million people, including the poorest among them ... nothing else can account for it.

In the 'nothing else' category, Little (1981: 45) lumps together capital markets, tax systems, planning, foreign aid, foreign investment (with the exception of Singapore), and luck. Everything could be attributed to 'good policies and the people'.

A flurry of publications in the early to mid 1980s vindicated Little's account of East Asian success. They include Balassa (1981), Krueger (1983), Galenson (1985), and Corbo, Krueger and Ossa (1985). Their standard refrain is the superiority of EOI over ISI and the fact that the East Asian NIEs are rare exemplars of the successful implementation of EOI.

EMERGENCE OF THE WASHINGTON CONSENSUS

The emerging orthodoxy of the neo-classical interpretation of East Asia received a boost from the burgeoning influence of what Williamson (1990, 1994) has called the 'Washington consensus'. This described the shared ideas of the US Treasury and the Washington-based, Bretton Woods institutions of the IMF and World Bank on appropriate universal economic policies. Thus free markets, free trade, free capital mobility, and limited government represented the virtues pertinent to both poor and rich nations in delivering economic prosperity: they were relevant in the past, are applicable today and will remain valid in the future. Of course, the ascendancy of conservative governments in the USA (the presidency of Ronald Reagan) and Europe (the Tory government led by Margaret Thatcher in the United Kingdom) played an important role in establishing the Washington consensus.

We must remember that the calm of the world economy in the 1960s was broken by the volatility of the 1970s and 1980s. There

were sharp movements in oil prices (1973, 1979, 1986) and in other key commodity prices, two deep recessions in the OECD countries (1975, 1982), and, of course, the debt crises that engulfed the developing economies in 1982–83. Such developments meant that macro-economic management of external shocks became the preoccupation, helping to undermine the long-term structural issues inherent in the dirigiste doctrine.

In this context the Washington consensus began, although neither the IMF nor the World Bank played a decisive role in moulding the anti-ISI tracts of the early 1970s. The National Bureau of Economic Research sponsored the Little, Scitovsky and Scott (1970) study, and the ADB (1971) funded the seminal study on Southeast Asian industrialisation. The World Bank stepped into the scene at a later stage and sponsored a series of studies led by Krueger (1983) on the relationship between trade policy and economic growth. A distillation of the ideas and findings in those studies was reflected in the 1987 World Development Report (World Bank 1987).

More importantly, the World Bank put neo-classical orthodoxy into action through its 'structural adjustment lending' (SAL) programs, a variation of the long-standing IMF principle of 'conditionality'. Access to IMF financial assistance for countries suffering from macroeconomic imbalances was contingent on fulfilling certain policy measures.

SAL applied this idea to medium-term structural issues, based on the notion of dismantling the dirigiste doctrine. Access to World Bank financial assistance for developing member countries depended on them undertaking trade policy and related reforms. Hence, SAL formalised the division of labour between the IMF and the World Bank (the former with its mandate of short-term macroeconomic stabilisation issues, the latter with its charter of long- to medium-term structural issues). It represented the Washington consensus in action.

It is important to emphasise that the notion of 'best practice' economic management at the core of the Washington consensus often sought inspiration from East Asian success (see, for example, World Bank 1987). The East Asian NIEs were usually considered benchmarks for judging the performance of developing economies in other parts of the world, such as the debt-ridden economies of Latin America.

It seemed that the neo-classical resurgence of the 1970s finally triumphed, after decades of questioning the wisdom of the dirigiste

doctrine. The state was no longer the engine of growth because it led economies into the trap of unsustainable, inward-oriented industrialisation. 'Good policies' embodied the creation of free trade conditions that paved the way for labour-intensive, export-oriented industrialisation and produced the virtuous outcome of rapid and equitable growth. The East Asian NIEs exemplified such rapid and equitable growth because they followed the prescriptions of good policies. The Washington consensus of the 1980s, developed in an era of US political conservatism and unprecedented volatility in the world economy, simply reinforced the conventional wisdom. Finally, the collapse of the Soviet Union and the East European bloc by the end of the 1980s signified the formal termination of ideological hostility to market economies.

BOX 1.2: EVOLUTION OF POLITICAL SYSTEMS AND THE NATURE OF STATE IN EAST AND SOUTHEAST ASIA

The East and Southeast Asian countries gained independence after World War II (the Philippines in 1946, South Korea in 1948, Indonesia in 1949, Malaysia in 1957, and Singapore in 1963) and immediately embarked upon the stupendous task of constitution-making. A variety of systems emerged, ranging from authoritarian regimes to Western liberal democracies. The experiment with Western-style liberal democracy did not last long. By the 1950s the military had become a decisive force in the political systems of South Korea, Thailand, Burma, and Indonesia. Moreover, political institutions such as an effective parliament, free and fair periodic elections, and an independent judiciary did not develop, and thus could not determine and control the authority of the executive. In establishing 'guided democracy', President Sukarno blamed the instability of the period of parliamentary democracy in Indonesia (1950–57) on the importation of incompatible Western liberal ideas. Indonesia virtually became a one-party military regime during the thirty-year reign of Soeharto, until he was toppled by a mass uprising in 1998. The Philippines too fell under military rule of President Marcos who was removed by the people's power revolution of 1986. Thailand, South Korea, and Taiwan experienced authoritarian regimes

connected to the military elite, prior to their move towards democratisation in the late 1980s and early 1990s. Although both Malaysia and Singapore have a nominally Westminster-style democracy, they are ruled by one dominant party. The system rather accommodates essential factors of both authoritarianism and democracy, and sometimes is classified as semi-democratic.

The states in East and Southeast Asia that are generally characterised as strong enjoy relative autonomy from pressure groups. How did this autonomy develop? It is possible to trace the existence of such states in France and Germany under the rule of Napoleon and Bismarck, where the bourgeois class was weak and set against other classes, resulting in the emergence of an authoritarian state with a high degree of autonomy. According to Alavi (1972), in most post-colonial societies no single dominant class exists. Instead there are three contending classes—the domestic bourgeoisie, the metropolitan (old colonial powers) bourgeoisie, and the landed elite. Thus there is a need for a broker or a mediator to form a leadership which works for the benefit of the three classes. The military-bureaucratic elite often performs this role. In return, the three contending classes surrender their political participation and allow the military-bureaucratic oligarchy to become independent of them. They let the authoritarian rule continue as long as the regime maintains economic liberalism from which all three parties are likely to benefit. One may also point to the geopolitics of the Vietnam War and communist insurgencies which played a role in the emergence of strong autonomous states in East and Southeast Asia (see Kang 1995).

EMERGENCE OF THE DEVELOPMENTAL STATE IN EAST ASIA: DIRIGISME REINVENTED

Neither the anti-ISI neo-classical resurgence of the 1970s nor the Washington consensus of the 1980s went unchallenged. Killick (1984) was one of the first to offer a robust critique of IMF conditionality. He

followed it with a more general critique of neo-classical orthodoxy and felt that it was a 'reaction too far' (Killick 1989). Mosley, Harrigan and Toye (1991) reinforced the voices of dissent against the Washington consensus by offering an unflattering evaluation of the effectiveness of the World Bank's SAL programs in developing countries. They concluded that using financial leverage to induce policy reforms rarely worked because sovereign nations could find ingenious ways of undermining compliance with the conditions in a typical SAL package.

Developmental state in East Asia: Perspectives of regional specialists and political scientists

Perhaps the strongest attacks on neo-classical orthodoxy in development policy came from a group of political scientists and regional specialists who questioned the empirical validity of the free trade story of East Asian success. Johnson (1982, 1985, 1987) is normally credited with being the pioneer of the anti-neo-classical tracts on East Asia, but Hofheinz and Calder (1982) cover similar terrain. Critiques of the neo-classical orthodoxy on East Asia culminated in the work of Amsden (1989), Wade (1988, 1990), and Haggard (1988, 1990).

What were the contributions of this literature and how does it suggest a new phase in the evolution of East Asian political economy? Two features stand out. First, Johnson and other scholars draw attention to the association between rapid economic growth and pervasive state intervention in Korea, Taiwan, and Singapore. Only Hong Kong appears to approximate the neo-classical ideal. Little and others do not ignore the role of state intervention (referring to 'selective import protection'), but it is insufficiently emphasised. Second, the complex interaction between culture, politics, and history receives scant attention from neo-classical writers. Critics focus on these issues, laying the foundation of the 'developmental state' hypothesis (Onis 1991).¹

The observation of the close relationship between rapid economic growth and pervasive state intervention in Korea and Taiwan strikes Johnson (1985) as the replication of a relationship in his notable study of Japanese economic development (Johnson 1982), prompting him to question the theory of 'free enterprise economists' who always maintain that 'governmental intervention in the economy is inevitably inefficient and distorting' (Johnson 1985: 64). More generally, Johnson

makes the point that neo-classical economists either ignored or downplayed the role of the state in East Asian economic development because it represented an awkward fact that could not be easily explained.

If rapid growth in East Asia is indeed associated with pervasive government interventions, it raises the intriguing possibility that the state could, under certain circumstances, be an engine of growth. When such a possibility exists, we encounter the case of the developmental state. The critics of the neo-classical story of East Asian success thus engaged in an imaginative reinvention of dirigisme that, as will be discussed later, was embraced by several economists.

The notion of the state as an engine of growth in developing economies entailed an intellectual battle against Little and others, and against the basic tenet of dependency theory. In a classic dependency framework that relies on a core-periphery distinction, the developed core extracts economic surplus from the underdeveloped periphery through channels such as trade, aid, and foreign investment. The manner in which the surplus extraction occurs can be complex (Amin 1974, 1976). The point is that the state in peripheral nations cannot be an agent of development simply because it is a 'subserving comprador (member) of an international coalition of owning classes' (Arndt 1987, paraphrasing Frank 1967).

Dependency theory has undergone a number of revisions, most notably in the form of 'new wave' dependency theory drawing on the Latin American experience. Examples include Cardoso and Falleto (1979), Evans (1979), Gereffie (1982), Bennet and Sharpe (1983), and Newfarmer (1985). The revisions allow for greater autonomy of domestic political actors from the domination of international capital, but it would be fair to say that the second-generation models still support the 'basic theoretical proposition of dependency theory—stunted or incomplete development in the Third World' (Rodan, Hewison & Robison 1998: 5).

Confronted with evidence of sustained state-led growth in East Asia, despite its dependence on international markets, many commentators felt that it was a 'challenge to dependency theory' (Amsden 1979)—even the reformulated versions. As Hawes and Liu (1993: 630) note: 'Dependency analysis, even in their ... revised formulation ... had not predicted and could not explain this record of economic growth and industrial diversification'. Rodan, Hewison and Robison

come to the same conclusion: 'the emergence of countries like South Korea, Taiwan, Hong Kong and Singapore as important industrial exporters in the 1970s ... delivered a mortal blow to the claims of dependency theorists' (1998: 5). The attempts of political scientists and regional specialists to explain the emergence of the East Asian NIEs thus stemmed from the need to cope with the manifest inadequacies of dependency theory, but the endeavour also led to a robust critique of neo-classical orthodoxy.

How does the developmental state model explain economic growth in East Asia? It rightly draws attention to the fact that, while the neo-classical story of East Asian success focuses on outcomes (the successful adoption of EOI), it does not explain the process through which this policy implementation takes place. After all, if the costs of dirigisme are so well-documented and well-known, why has it not been systematically dismantled in developing economies? We need an explicit political economy theory of policy reform.

Haggard (1988: 262–5), focusing on South Korea and Taiwan, develops three sets of arguments about the political economy of export-led growth. First, he draws attention to political systems that enabled the policy-making process to be 'relatively insulated from direct political pressures and compromises'. This was possible because of an authoritarian political system in which legislatures were historically weak, and the channels of political access and representation were tightly controlled. It also meant that the political elites, driven by the need to legitimise their durability through enhanced economic performance, allowed technocrats to have considerable discretion in economic policy-making. The delegation of responsibility was certainly helped by the fact that South Korea and Taiwan could rely on meritocratic bureaucracies for policy implementation.

Second, key social groups involving the rural sector, labour, and protection-seeking domestic business that are traditionally opposed to market-oriented reforms were organisationally weak or co-opted into a corporatist framework in which the government exercised significant authority. The weakness of the rural sector stemmed from historical circumstances. Land reform under the auspices of the USA in South Korea and Taiwan attenuated the development of an anti-industrial rural elite. At the same time, it secured a support base for the regimes and pre-empted the possibility of the rural-based revolutionary movements seen in other parts of East Asia.

Labour movements were also historically weak in South Korea, Singapore, and Taiwan. A combination of co-optation and repression of the union movement reinforced the weakness. Thus, the East Asian NIEs embarked on a phase of export-led development under a set of conditions in which the organised political Left that typically drew on labour and peasant movements was virtually non-existent. As left-wing political parties share a consistent ideological animosity towards the private sector, foreign investment, and market-oriented policies in general, the absence or insignificance of such politics facilitated the adoption of export-oriented industrialisation in East Asia.

East Asian governments also managed to exercise political control over domestic business. Despite their business-friendly demeanour, governments in South Korea, Taiwan, and Singapore ensured that the political influence of the business community was limited. This was done through a range of discretionary instruments (taxes, subsidies, and credit allocation), financing of peak business associations, and general control of channels of access to decision-making.

The third element in Haggard's institutional account of East Asian success pertains to international political conditions in which East Asian industrialisation evolved. The defeat of Japan in World War II left the USA as the dominant power in the region. Both South Korea and Taiwan felt the geopolitical benefit of abutting communist Asia, thus attracting expanded political and economic commitments from the USA. The massive inflow of US aid and the ideological influences of US aid advisers in the 1950s and early 1960s facilitated outward-oriented industrialisation in the East Asian NIEs (see Jacoby 1966).

In later writings, Haggard (1994: 269–72) largely retains the essence of his institutional account of East Asian success, but highlights the important role of the government's independence from the business sector. This is epitomised in his summary of the developmental state hypothesis (as he prefers to call it, the institutionalist or statist approach):

Growth hinges on effective government policy, usually taken to include some mix of stable macroeconomic policies and a growth-promoting industrial policy. Such effectiveness is dependent on bureaucratic capacity, on the existence and control of relevant policy instruments and a certain degree of institutional insulation from social groups, including the private sector. Though governments in the [NIEs] have been broadly pro-business, political

institutions have minimised capture by narrow private interests. Where they have existed, industry associations have not so much represented business interests to the government as communicated government concerns to the private sector (Haggard 1994: 273).

Other prominent advocates of the developmental state hypothesis, such as Wade (1988, 1990), largely share the Haggard theory. Thus, Wade (1988: 157–61) draws attention to the centralised decision-making structure of East Asian governments (by which he means South Korea and Taiwan). It is staffed by the 'best managerial talent available in the system' and 'insulated from all but the strongest pressure groups'. He highlights the 'feebleness of the legislature' and the absence of a 'powerful, or left-wing labour movement'.

Wade highlights how the 'insulation' from pressure groups is institutionalised in corporatist arrangements in East Asia: 'the state creates ... a small number of interest groups, giving them a monopoly of representation of occupational interests in return for which it claims the right to monitor them in order to discourage the expression of narrow, conflictual demands' (1990: 27).

It must be emphasised that Wade's primary focus in explaining East Asian success is on demonstrating how the state used a plethora of distinctive policy instruments (financial policy instruments, trade policy instruments, direct foreign investment controls, use of conglomerates and state enterprises, moral suasion or 'administrative guidance') to guide resources to priority industries (shipbuilding, steel, computer peripherals, consumer electronics). He contends that East Asian governments were guided by the conviction that the private sector would underinvest in such priority industries—a phenomenon that earlier discussion highlighted as market failure. Hence, East Asian success derived from the fact that government intervention could overcome market failure. At the same time, bureaucratic inefficiency, waste, and corruption did not undermine the challenging task of 'governing the market' because of the institutional prerequisites embedded in the East Asian state.

Another good example of the developmental state hypothesis is Amsden (1989, 1991), who focuses on South Korea. She posits a model of 'late industrialisation' where policy-makers face a Gershenkronian compulsion (Gershenkron 1962) to force the pace of industrialisation by manipulating the structure of relative prices, in particular through the allocation of subsidised credit to targeted firms and industries.

South Korea represented a special case of late industrialisation because of the state's unusual capacity to impose discipline on subsidy recipients. The explanation of such unusual state capacity relies on the institutional features—political authoritarianism, bureaucratic competence, insulation from fractious social groups—identified by Haggard and Wade.

Developmental state in East Asia: Perspective of economists and their intellectual affinity with non-economists

The intellectual impact of the work of Haggard, Wade and others began to be recognised by economists, and some added further contributions. A good illustration is the work of Lee and Naya (1988) and Lee (1992). They accept the unusual capacity of the East Asian state to implement growth-promoting policies, but argue that the answer lies in a greater understanding of the nature of government–business relations—a point that is also acknowledged in Bardhan (1990).

Drawing on the theory of corporate governance as reflected in Williamson (1975, 1985), Lee and Naya argue that the East Asian state can be characterised as an efficient 'quasi-internal organisation' (QIO). Williamson makes the point that transactions costs (the costs of negotiating, implementing, and negotiating contracts) were ignored in standard neo-classical analysis. Transactions costs stem from a confluence of bounded rationality and opportunistic behaviour. The former pertains to the notion that individual economic agents have limited capacity to comprehend and foresee all possible contingencies; the latter to the notion that parties to a contract tend to exploit asymmetric information to their advantage.

As Williamson argues, market failure is common in the pervasive presence of transactions costs. Firms emerge as a means of minimising transactions costs, but they are also prone to organisational failure as bureaucratic inertia and opportunistic behaviour by managers and workers sap entrepreneurial vitality. Williamson uses this insight to show how the design of corporate governance could mitigate both market failure and organisational failure. This led to the theory of the multidivisional (M-form) firm.

In an M-form firm, there is a clear separation of functions between a head office and quasi-autonomous operating divisions. The former is entrusted with the strategic mandate of looking after corporate goals,

while the divisions are engaged in routine operational activities. The head office monitors the divisions via a range of easily observable performance indicators. It acts as an internal capital market in the sense that funds are allocated to competing divisions on the basis of high-yield use. This critical internal capital market function is supplemented by a range of control and incentive mechanisms, such as internal audits to identify low performance, and salary supplementation and promotions to reward high performers. The outcome, according to Williamson, is that the M-form firm has a better record (as measured by profit) than do alternative forms of corporate governance.

Lee and Naya's conceptualisation of the East Asian state as a QIO relies heavily on analogy to the M-form firm. Centralised policy-makers represent the head office, and the business groups interacting with the government perform a role equivalent to the operating divisions.

How do the policy-makers maintain control over the corporate sector and ensure adherence to state-articulated goals? We can find some equivalence between policy instruments and the *modus operandi* of the head office in the M-form firm. The state acts as a vast internal capital market by allocating subsidised credit to targeted business groups to fulfil the goals of industrialisation. Discipline is imposed on subsidy recipients by applying performance standards that can be related in a directly observable manner to central development goals. Given the commitment of East Asian policy-makers to economic growth via export growth, the use of export targets closely tied to subsidised credit allocations appears to be a logical choice—a point acknowledged by Amsden and others.

Whether relying on Williamson's theory of the firm or sticking to the straightforward accounts of Haggard and others, we can detect a common theme that 'East Asia Inc.' was characterised by an unequal partnership between government and business. Other interpretations of the nature of government–business relations in East Asia suggest a more complex form of interaction. In Okimoto's (1989) notion of the 'network state', developed in relation to Japan, the ruling elite (consisting of key members of the ruling party, technocrats, and managers of large firms) share a common background. This provides the basis for informal but binding ties between key representatives of the private sector and government. Such informal ties are reinforced by a variety of institutional arrangements, such as 'discussion councils' that act as a forum for government and business to exchange views on the future course of the economy and society. The atmosphere of trust and

cooperation that is engendered by such repeated interaction among key societal actors enables East Asian policy-makers to reduce the transactions costs of policy-making.

Weiss (1996) arrives at a similar interpretation of the network state by developing the concept of 'embedded autonomy' (see also Evans 1989), which captures the existence of policy networks linking government and industry. Focusing on Japan, South Korea, and Taiwan, Weiss (1996: 185) observes that 'in all three countries, various state agencies have established an elaborate set of linkages to the private sector. These linkages ... provide a vital mechanism for acquiring adequate information and for coordinating agreement with the private sector'.

We can also reinterpret the theory of the East Asian state as a QIO in terms of Olson's principle of encompassing organisations (Olson 1982, 1986). In an Olsonian framework, the rent-seeking proclivities of narrowly based 'distributional coalitions' represent the key threat to sustainable economic growth. Such a threat can be attenuated if encompassing organisations emerge. Narrowly based groups have an incentive to engage in 'zero-sum activities': one group's gain is another group's loss. Encompassing organisations, on the other hand, do not have a similar incentive to engage in zero-sum activities. Given their weight in the economy, the larger the societal output the greater the gain for an encompassing organisation. In terms of Olson's model, the East Asian QIO represents a growth-promoting encompassing organisation.

We noted earlier that some economists embraced the pioneering models of the developmental state and gave them a distinctive theoretical twist. Other economists, such as Rodrik (1996a, 1996b), revisit the developmental state hypothesis and arrive at conclusions that appear to highlight the enduring relevance of the work of political scientists and regional specialists on East Asia. Rodrik recognises that East Asian growth is characterised by a good deal of state intervention in the economy. His theories draw on growth-promoting 'initial conditions' à la Haggard and the ability of governments to overcome market failure à la Wade.

The initial conditions relate to human capital endowments (an issue that receives insufficient attention from Wade and others) and the incidental benefits of land reform (extensively discussed by Haggard). Rodrik (1996a) develops a formal model in which initial endowment of skills affects subsequent growth, an example of an

analytical tradition that stems from new growth theory. He highlights three groups of countries. The first consists of rich countries that are well-endowed with physical and human capital and specialise in skill-intensive, high-tech goods. At the other extreme are poor countries that lack both skills and capital and specialise in standardised, labour-intensive goods. There is also an intermediate category of middle-income countries that are poorly endowed with physical capital but have a well-educated labour force. That category is vulnerable to the risk of multiple equilibria: the economy may get stuck in a low-wage, low-tech equilibrium although it is possible to attain a high-tech, high-wage equilibrium. This particular kind of market failure occurs because of a 'coordination problem inherent in many industrial activities. Production and investment decisions in the upstream and downstream parts of industry will often be interdependent. When these decisions are made in a decentralised fashion, skill-intensive industrialisation may fail to hold in countries which otherwise possess the requisite human resources' (Rodrik 1996a: 2). The coordination problem emerges because of the existence of economies of scale and the imperfect tradability of some goods, services, or technologies associated with skill-intensive industrialisation.

Rodrik uses this framework to argue that government intervention can shift the economy from the low-tech to the high-tech equilibrium. The intervention can take many forms: administrative guidance to coordinate private-sector investment decisions, an investment subsidy, or a minimum wage policy. In each case, the effect is to make the high-tech equilibrium an attractive option to the private sector.

In applying this model to East Asia, Rodrik (1996a: 19–20) draws attention to the fact that the East Asian economies had a favourable initial condition in a critical area. Their human capital endowments exceeded what could have been predicted by per capita income levels as shown by the divergence between actual and predicted values of enrolment ratios and literacy rates in 1960. This skill intensity had two important, related ramifications:

- it allowed those economies to draw on a plentiful pool of educated citizens, some of whom became very able bureaucrats and provided administrative and policy-making leadership (note the resemblance to the institutionalist perspective on East Asian growth as discussed above)
- in terms of the multiple equilibria model, it meant that the East Asian economies conformed to the characteristics of an economy in

which governments had two possible scenarios—a low-tech, low-wage equilibrium or a high-tech, high-wage equilibrium. The superior human capital endowments of the East Asian economies yielded the necessary condition for governments to play an active role in ‘coordinating, subsidising and guiding private investment decisions ... implemented through ... the allocation of credit, through tax and other incentives, administrative guidance and ... public enterprises’ (Rodrik 1996a: 19–20). This steered the economies to the preferred high-tech, high-wage equilibrium. This conclusion by a mainstream economist will delight the pioneers of the developmental state hypothesis.

As part of the discussion of growth-promoting initial conditions, Rodrik (1996b) highlights the incidental benefits of land reform in South Korea and Taiwan. It left those economies with an egalitarian distribution of wealth that attenuated the threat of ‘distributive politics’. Alesina and Rodrik (1994) coined that term for a phenomenon where actual and perceived inequality can fuel demands for redistributive measures that are growth-retarding. They assemble international evidence to show that countries with initially low levels of inequality (the East Asian case as recorded in 1960) grew faster than countries with initially high levels of inequality.

Another example of economists embracing the developmental state hypothesis is Stern et al. (1995), who reinterpret a controversial episode in Korean economic history. The 1973–79 period is generally acknowledged as the heyday of activist Korean industry policy, when the government embarked on its heavy and chemical industries (HCI) drive. Neo-classical economists generally regard the period as evidence that aggressive state intervention hindered, rather than helped, Korea’s progress (e.g. World Bank 1987). Stern et al. conclude, however, that the HCI drive may have accelerated Korea’s industrialisation. The acceleration of heavy industrial exports (such as steel and automobiles) after 1985 would not have been possible without the investment in the HCI program during the 1970s.²

This discussion on the intellectual affinity between economists and non-economists on the efficacy of East Asian-style dirigisme highlights the fact that it became an orthodoxy and seriously challenged the neo-classical account of East Asian success. It is in this intellectual context that we must place the ambitious attempt by the World Bank to reconcile the first-generation neo-classical story with the developmental

state hypothesis. The discussion now turns to the construction of the neo-classical synthesis of the East Asian miracle.

EAST ASIAN DEVELOPMENTAL STATE AND THE NEO-CLASSICAL SYNTHESIS

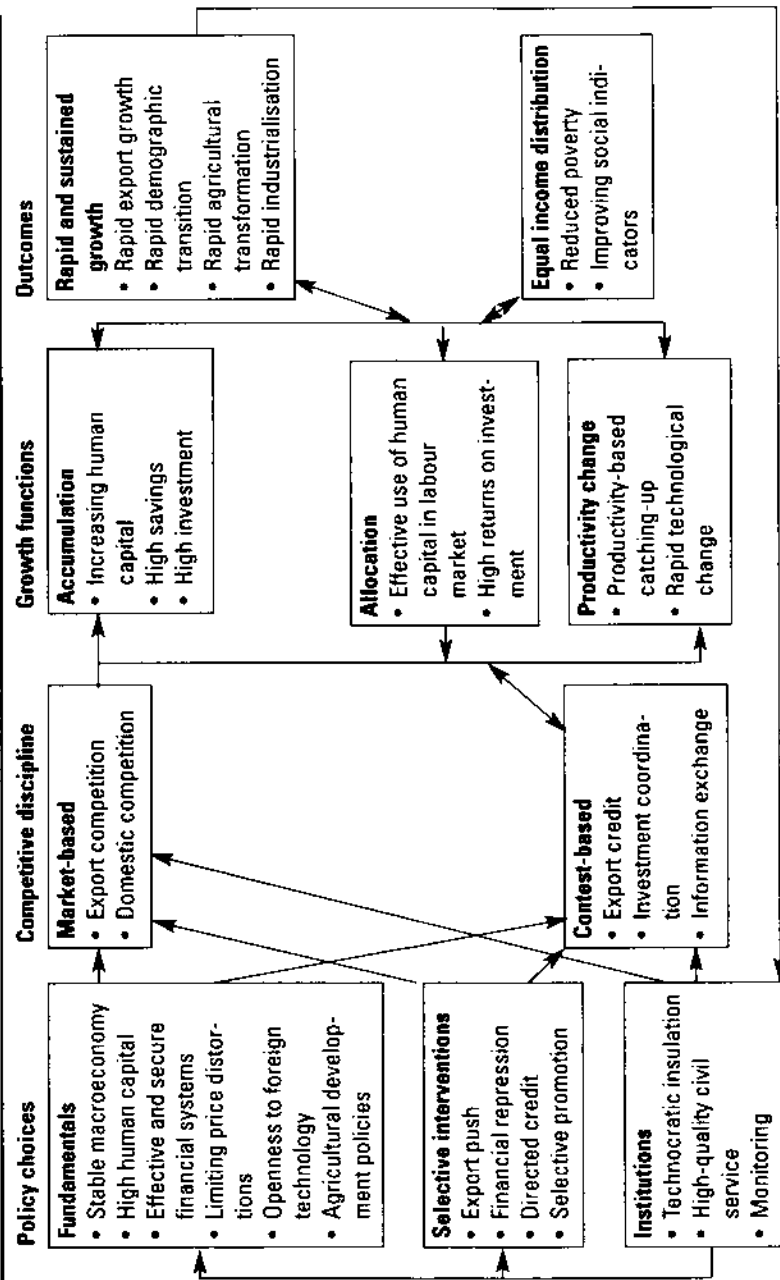
The 1993 World Bank study on seven East Asian economies (Hong Kong, Singapore, South Korea, Taiwan, Indonesia, Malaysia, and Thailand) is generally seen as an attempt to soften its adherence to the Washington Consensus of the 1980s. It was no longer possible to ignore the pervasive degree of state intervention in East Asia, despite the case of Hong Kong which did approximate the ‘free trade cum free markets’ story reasonably well. It was necessary to explain why dirigisme failed elsewhere but seemed to work so well in East Asia. In addition, as Awanohara (1993: 79) has noted, the World Bank was responding to Japanese pressure to develop a version of the East Asian model of economic development that explicitly incorporated the central role of the state. This led to the World Bank’s functional approach to understanding the interaction between public policy and economic growth.

The World Bank’s functional approach

Figure 1.1 captures the essentials of the 1993 World Bank study and enables us to demonstrate why we can regard the study as a neo-classical synthesis. As Figure 1.1 shows, the policy choices undertaken by East Asian governments had two components: those affecting economic fundamentals and those belonging to the realm of selective intervention. Economic fundamentals pertain to:

- macroeconomic management, especially fiscal prudence
- high human capital endowments
- effective and secure financial systems
- moderate price distortions in foreign exchange, labour, and goods markets
- openness to foreign technology
- agricultural development policies.

Figure 1.1: A Functional Approach to Growth



Source: World Bank (1993a: 88)

Policies that fall within the purview of selective intervention include:

- measures to facilitate exports (export push)
- financial repression entailing controls on interest rates
- selective credit allocation
- a range of measures to selectively promote certain industries (activist industry policy).

The policy choices and their sustained implementation were contingent on a set of institutional arrangements that entailed:

- wealth-sharing programs to include non-economic elites in growth
- economic technocrats insulated from narrow political pressures (technocratic insulation and high-quality civil service)
- mechanisms for sharing information with, and to win the support of, business elites.

The policy choices also evolved in a context of competitive discipline that affected the behaviour of firms. The competitive discipline was both market-based (stemming from international and domestic competition) and contest-based, a distinctive East Asian innovation. An example of a contest-based competitive discipline is the allocation of credit to firms, dependent on the firm reaching prescribed standards of export performance.

The interaction of policy choices with competitive discipline yielded growth functions that economists can usually measure: high saving, high investment, rapid skill accumulation, effective utilisation of capital and labour, and improved factor productivity driven by adaptation of technology and innovation. The outcome was rapid, sustained, and equitable growth in East Asia.

The World Bank study sought to include three distinctive features of the East Asian developmental state into its framework: selective intervention, contest-based competitive discipline, and the institutional framework that underpinned policy choices. Chapter 4 of the study expanded the theme of the institutional framework. Its reliance on concepts such as technocratic insulation and its examination of the interaction between government and business recognises the insights of the advocates of the developmental state hypothesis. At the same time, its emphasis on economic fundamentals and competitive discipline affirms the intellectual primacy of neo-classical economics.

It must be noted that the World Bank study regards some aspects of the rubric of selective intervention in East Asia as empirically more credible than other aspects. For example, it is rather circumspect in accepting that the promotion of targeted industries worked in East Asia. It highlights the risks inherent in activist industry policy and notes that its effectiveness depended on the unusual policy implementation capacities of East Asian governments—an institutional trait that may not be replicable elsewhere. The study is, however, willing to accept that export push or export facilitation measures generally produced the desired outcomes.

Distinctiveness of East Asian economic growth: Perspective of the ADB

We can regard a study on economic growth in Asia by the ADB (1997: chs 1, 2) as a sequel to the neo-classical synthesis embedded in the 1993 World Bank study. It notes: 'The lesson of history and international comparisons are that countries' growth rates depend ... primarily on ... the performance of their institutions and policies' (ADB 1997: 8). A distinctive feature of the ADB study is that it provides an econometric investigation of the determinants of cross-country growth in which East Asia is treated as the critical comparator. Thus, other regions' growth records (South Asia, sub-Saharan Africa, Latin America) are measured and explained in relation to the extent to which they fall below the East Asian benchmark.

Chapter 2 of the ADB study (which draws on Radelet, Sachs & Lee 1996) aims to illuminate the debates on the sources of economic growth. It distinguishes between classical growth theory, neo-classical growth theory, and endogenous growth theory. As the study notes, 'the three approaches offer different explanations for East Asia's rapid growth during the past thirty years, and yield different predictions about the future' (ADB 1997: 65). The distinctive features of the different growth theories are summarised in Table 1.1.

The ADB study then sets up a statistical model where differences in economic growth across countries are determined by the following variables:

- trade policy (as a measure of openness or the lack of it)
- government saving (as a measure of fiscal prudence or the lack of it)

Table 1.1: Growth Theory and East Asia

<i>Type of growth theory</i>	<i>Key sources of growth and implications for future evolution of East Asia</i>
Classical theory (e.g. Adam Smith)	Outward orientation maintained through trade policy, relatively strong protection of property rights and effective enforcement of contracts. East Asia's geography, with its fine natural ports and easy access to major markets, is a bonus. Growth in East Asia can be sustained as long as these preconditions are sustained
Neo-classical growth theory (e.g. Robert Solow)	Rapid capital accumulation reflected in high saving and high investment. While the gap between East Asia and poor nations will diminish (the 'catch-up' factor), the rate of East Asian economic growth will slow because of diminishing returns to new investment as the ratio of capital to labour rises
Endogenous growth theory, also known as 'new' growth theory (e.g. Paul Romer)	New ideas and new products represent the engine of long-term growth. The superior institutions and human capital of East Asia have led to productivity-driven growth. Given that investments in knowledge are subject to constant, or even increasing, returns to scale, the prediction is that East Asia may eventually overtake richer countries

Source: Adapted from ADB (1997: 63–5)

- quality of government institutions (based on survey data that captures the perceptions of the business community)
- structural factors entailing demographic, geographic, and natural resource endowments
- initial conditions pertaining to initial level of per capita income (as measured in 1965) and initial human capital endowments (as measured by schooling in 1965).

Based on the cross-country statistical analysis of the 1965–90 period, the study concludes that:

The evidence best supports a synthesis of the classical and neo-classical approaches, augmented by demographic considerations. East Asia has benefited from rapid capital accumulation ... and (outward-orientation) ... supported by good policies and institutions and a rapid demographic transition ... The predictions of endogenous growth theory do not apply (ADB 1997: 67).

The study (1997: 80) draws attention to the significance of different variables in explaining why East Asian growth was much higher than other parts of the world. South Asian, sub-Saharan Africa, and Latin American growth rates (as measured in terms of per capita GDP) were 3–4 per cent lower than East Asian benchmarks over the 1965–90 period. At least 60 per cent of this difference in growth rates can be statistically explained by differences in policy and institutional variables between East Asia and other developing regions.

Although the ADB study is not explicitly a test of the developmental state hypothesis, the above finding is consistent with the hypothesis. It is not, however, entirely consistent with the 1993 World Bank study, which can be reinterpreted as an attempt to encompass classical, neo-classical, and endogenous growth theory, given that accumulation, allocation, and productivity are considered primary sources of East Asian growth and that policy and institutional variables are highlighted (see Figure 1.1 and related discussion above). The ADB study's rejection of the empirical validity of endogenous growth theory in explaining the East Asian experience is thus a partial endorsement of the World Bank's functional approach.

The ADB study backs up its statistical exercise with an institutional account of East Asian success. The observations suggest a cautious endorsement of the developmental state hypothesis.

Consider first the role of selective intervention in the industrial revolution of East Asia. Like the World Bank study, the 1997 ADB study distinguishes between export facilitation measures and activist industry policy. The former measures are enthusiastically endorsed, but considerable reservations are expressed about the efficacy of the latter. Although success stories of activist policies are acknowledged, the ADB study notes some offsetting cases of failures and is reluctant to accept that such policies in Korea, Taiwan, and Singapore produced net benefits.

In terms of policy lessons, the ADB study makes the following points. First, activist industry policy should be limited to removing biases against exports and making exporters competitive. Second, while governments may hasten the pace of comparative advantage, too much haste may engender costs that may outweigh the initial benefits of policy activism. Third, activist industry policy of the type employed in 'Korea and [Taiwan] could only succeed in countries with an effective and disciplined civil service' (ADB 1997: 103). Fourth, the first-generation East Asian NIEs could implement activist industry policy because they were only small players in world markets, to be noticed by others. Today, the rules of the game that govern international trade have changed, with the World Trade Organisation (WTO) and the Uruguay Round of GATT talks limiting the ability of developing countries to use protectionist measures to promote targeted industries.

In trying to explain why the quality of East Asian governance was high relative to other developing regions, the ADB study ends up with an account that is a ringing endorsement of the developmental state hypothesis. It draws attention to:

- stable political leadership
- an unusually high premium on rapid economic growth, because the political leaders saw it as critical to the survival of their regimes
- well-trained economic technicians in charge of policy management, backed by a generally competent civil service
- close government–business interactions that helped build broad consensus on key policy initiatives.

Both the World Bank and the ADB readily acknowledge that conventional economic variables as well as more complex institutional forces shaped rapid growth in East Asia. The studies can thus accommodate the developmental state hypothesis. However, they display considerable ambivalence about the efficacy of activist industry policy in shaping East Asian growth, although they accept the effectiveness of export facilitation measures. In emphasising the primacy of policy fundamentals (including trade policy) in understanding East Asian development, both the World Bank and the ADB affirm the insights of the first-generation neo-classical theory into East Asian success. They differ, however, in the importance placed on the relevance of endogenous growth theory to East Asia: the ADB rejects it, but the World

Bank considers it an essential component of its analytical framework. Despite this, the World Bank and ADB are united in advocating the neo-classical synthesis as a means of understanding the East Asian miracle.

EAST ASIAN DEVELOPMENTAL STATE: REGIONAL VARIANTS

Although the 1993 World Bank study on the 'East Asian miracle' and the 1997 ADB report on 'emerging Asia' discuss a diverse group of economies, they tend to arrive at generalisations. Some commentators have wondered whether such generalisations are possible. It may be more fruitful to emphasise regional variants of the developmental state. Perkins (1994), for example, highlights the need to deal with at least three models of East Asian development: the two fully urbanised economies of Hong Kong and Singapore; the three interventionist states of Japan, Taiwan, and South Korea; and the resource-rich countries of Southeast Asia. The PRC is excluded from the World Bank study. The ADB, although including it, questions whether it fits the typical East Asian case.

There is now a vibrant political economy literature that seeks to highlight both the differences and the shared features of the first-tier NIEs and their Southeast Asian counterparts of Indonesia, Malaysia, and Thailand (e.g. Jones 1997). The politics of the PRC's transition to a market economy has also spawned a distinctive literature (e.g. Watson 1994). It is therefore necessary to go beyond the generalisations of the neo-classical synthesis and examine more carefully the extent to which the developmental state hypothesis can withstand regional variations.

Developmental state and Southeast Asia

How relevant is the institutional framework derived from the experience of the core East Asian economies to explaining the economic transformations of Southeast Asia? The World Bank (1993a: ch. 4) tries to argue that the framework applies to both the East Asian NIEs and Southeast Asia. The 1997 ADB study (ch. 2) also blurs the distinction between the two groups, in its brief comments on the role of growth-promoting institutional factors.

Hill (1997), an economist well-known for his expertise on Southeast Asia, seems to concur with the framework offered by the 1993 World Bank study and its ADB sequel. He regards macroeconomic orthodoxy, openness, and equity as the core factors driving Southeast Asia's (including Singapore, which he analytically categorises with Taiwan and South Korea as East Asian NIEs) economic growth (Hill 1997: 103–4). He argues that such growth-promoting factors stem from a conjunction of 'political leaders committed to economic growth' supported by 'able technocrats ... who have to some extent been insulated from political pressure groups' (1997: 108). Such insulation reflects the fact that 'the political bureaucratic elites and the commercial elites have been rather distinct'.

Hill (1997: 138–9) dismisses the relevance of activist industry policy in understanding the rapid growth in Southeast Asia. Such an interpretation, combined with the above depiction of the political economy of policy-making in Southeast Asia, pitches it very close to the neo-classical synthesis of the World Bank and ADB studies. It also pits it against dissidents—such as Jomo (1997)—who regard the Southeast Asian economies of Indonesia, Malaysia, and Thailand as 'misunderstood miracles'. They appear to be much more sympathetic to the cause of activist industry policy.

Hill's (1997) interpretation of Southeast Asian political economy also contrasts with the work of some political scientists. They have maintained, for some time, that the relatively straightforward relationship between political structures and rapid, internationally oriented economic growth in Korea and other countries cannot be easily extrapolated to interpret the experiences of Southeast Asian economic development. As Mackie (1988: 291) notes, the 'differences ... turn out to be more significant than the similarities'. What are these differences?

To start with, scholars agree that the economies of Southeast Asia lack the bureaucratic competence and technocratic insulation of the core East Asian NIEs. MacIntyre (1994: 7) emphasises the 'pervasive importance of patrimonial and clientalistic links between government figures and business people'. This means that perceptions of corruption are significantly higher in Southeast Asia than in the core group.

The multi-ethnic nature of many Southeast Asian societies also undermines attempts to develop a model of governance that has regional applicability—a point emphasised by Chowdhury and Islam (1996: 491–2) with specific reference to Malaysia. The essence of the