Dictators, Democrats, and Development in Southeast Asia

Implications for the Rest

Michael T. Rock

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To my daughter Jenny, 1972–2009.
Oh how your mother, brother, and I miss you.

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ABRI	Armed Forces of the Republic of Indonesia
ADF	Augmented Dickey-Fuller Test
ASEAN	Association of Southeast Asian Nations
ASPRI	President Suharto's team of advisors, or Asisten Pribadi
AUTOC	Autocracy
BA	*Barisan* Alternatif
BAAC	Bank of Agriculture and Agricultural Cooperatives
BAPPENAS	State Ministry of National Development Planning
BI	Bank of Indonesia
BKPM	Board of Investment
BN	Barisan Nasional
BOI	Board of Investment
BOT	Bank of Thailand
BPPT	Agency for the Assessment and Application of Technology
BULOG	Bureau of Logistics (Badan Urusan Logistik)
CAD	Computer aided design
CAM	Computer aided manufacture
CBU	Completely built up
CC	Constitutional Court
CDA	Constitutional Drafting Assembly
CKD	Completely knocked down
CP	Charoen Pokpahan Group
CLC	Community Liaison Committee
CLU	Central Labor Union

CPO	Crude palm oil
CSIS	Center for Strategic and International Studies
DAP	Democratic Action Party
DDC	Democratic Development Committee
DEMOC	Democracy
DEP	Department of the Environment in Malaysia
DEPT	Department of Export Promotion in Thailand
DPR	People's Representative Council
DPRD	Provincial Regional House of Representatives
E&E	Electrical and electronic equipment
EC	Election Commission
ECM	Error Correction Model
EDB	Economic Development Board
EIMP	Export Industry Modernization Programme
EKUNIN	Coordinating Ministry of Economics, Finance, and Industry
EPU	Economic Planning Unity
FDI	Foreign direct investment
FEER	Far Eastern Economic Review
FELDA	Federal Land Development Authority
FLS	F. L. Smidth
FTZ	Free Trade Zone
FTZA	Free Trade Zone Act of 1971
GATT	General Agreement on Tariffs and Trade
GD	Guided Democracy
GDP	Gross domestic product
GOLKAR	The party of functional groups, or Partai Golongan Karya
GRI	Government Research Institute
GSP	Global Supplier Program
HCI	Heavy chemical industries
HYV	High yielding variety
ICRG	International Country Risk Guide
ICS	Industrial Consultancy Services
IFCT	Industrial Finance Corporation of Thailand
IIA	Investment Incentive Act of 1968
ILP	Industrial Linkage Program
IMT	Indonesia, Malaysia and Thailand
IRRI	International Rice Research Institute
IMF	International Monetary Fund
INTP	Indocement
IPPS	Institute for Public Policy Studies
IPSTAR	Shin Corporation Satellite

IPTN	Industri Pesawat Terbang Nusantara
ISA	Internal Security Act
ISC	Investment Services Center
IT	Information technology
ITRI	Industrial Technology Research Institute
iTV	Shin Corporation TV station
JPPCC	Joint Public Private Sector Consultative Committee
JTC	Jurong Town Corporation
KCIA	Korean Central Intelligence Agency
KMM	Young Malays Union, or Kesatuan Melayu Muda
KMT	Kuomintang
KMTM	Kuomintang of Malaysia
KOTRA	Korea Trade Promotion Agency
KPPU	Business Competition Supervisory Commission
LCR	Local content requirement
LPN	National Padi and Rice Authority, or Lembaga Padi dan Beras Negara
LMW	Licensed Manufacturing Warehouse
LTD	Limited
MPAJA	Malayan People's Anti-Japanese Army
MBC	Malaysian Business Council
MCA	Malayan Chinese Association
MCP	Communist Party of Malaysia
MFN	Most Favored Nation
MIC	Malayan Indian Congress
MIGHT	Malaysian Industry Group for High Technology
MIMOS	Malaysian Institute of Microelectronic Systems
MOC	Ministry of Commerce
MOF	Ministry of Finance
MITI	Ministry of International Trade and Industry
MNC	Multinational corporation
MP	Member of Parliament
MPR	People's Consultative Assembly of the Republic of Indonesia
MTDC	Malaysian Technology Development Corporation
MMSC	Multi-Media Super Corridor
NCCC	National Counter Corruption Commission
NEA	Northeast Asia
NEDB	National Economic Development Board
NESDB	National Economic and Social Development Board
NEP	New Economic Policy
NGO	Nongovernmental organization
NICs	Newly industrializing countries

NOC	National Operations Council
NSTDA	National Science and Technology Development Agency
NTB	Non-Tariff Barrier
NU	Nahdlatul Ulama
OECD	Organisation of Economic Co-operation and Development
OLS	Ordinary least squares
OEM	Original equipment manufacturer
OSA	Official Secrets Act
PAN	National Mandate Party
PAS	Pan-Malaysian Islamic Party
PDC	Penang Development Center
PDI-P	Indonesian Democratic Party
PSDC	Penang Skills Development Center
PKI	Communist Party of Indonesia
PL	Plurality electoral rule
PM	Prime Minister
PNB	Permodalan Nasional Berhad
PNI	Indonesian Nationalist Party or Partai Nasional Indonesia
PORIM	Palm Oil Research Institute of Malaysia
PORLA	Palm Oil Registration and Licensing Authority
PPO	Processed palm oil
PR	Proportional electoral rule
PRM	Parti Rakyat Malaysia
PRS	Political Risk Services
PSI	Socialist Party, or Partai Sosialis Indonesia
R&D	Research and development
RM	Ringgit
RTO	Research and Technology Organization
SA	Sedition Act
SAB	Summit Auto Body
SASI	Summit Auto Seat Industry
SCBA	Straits Chinese British Association
SC	Siam Cement
SCCC	Siam City Cement Company
SG	Summit Group
SI	Sarekat Islam
SME	Small and medium enterprises
SMIDEC	Small and Medium Enterprise Development Council
SOCA	Societies Act
S&T	Science and technology
TFPG	Total factor productivity growth

TRF	Thailand Research Fund
TRT	Thai Rak Thai
TSA	Thai Summit America Corporation
UK	United Kingdom
UMNO	United Malays National Organization
UNIDO	United Nations Industrial Development Organization
VDP	Vendor Development Program
WTO	World Trade Organization

DICTATORS, DEMOCRATS, AND DEVELOPMENT IN SOUTHEAST ASIA

1 Getting Growth Going Is Difficult and Rare

1.1. Introduction

Except for Japan,[1] rapid growth and development in East Asia were ushered in by the region's developmentally minded dictators (Deng Xiao Ping in China [Harding 1987], Park Chung-hee in Korea [Amsden 1989], Suharto in Indonesia [Elson 2001], Chiang-Kai Shek in Taiwan [Wade 1990], Sarit [Thak 2007], and Prem [Muscat 1994; Anek 1988] in Thailand,[2] Lee [Lee 2000] in Singapore, and Mahathir in Malaysia [Khoo 1995]).[3] Yet after 30 years or more of high sustained growth, several of this region's developmental autocracies gave way to democracy.[4] As Reilly (2006) has shown, the shift from developmental

[1] Japan is a somewhat confusing case. Polity IV characterizes it as fully democractic from 1952 to the present (Marshall et al. 2014). At the same time, Johnson (1982) has considered Japan (1982: 137) a soft-authoritarian state that, until not so long ago, was characterized by a strong unsupervised state administration, single-party rule for more than three decades, and a set of economic priorities unattainable under political pluralism.

[2] While Sarit and Prem are the most notable developmentally minded autocrats in Thailand, a number of others who served during the heydays of what Muscat (1994: 86) labeled as Thailand's developmental and despotic paternalism period maintained commitments to development started under Sarit (Muscat 1994: chapter 4).

[3] As is well known, the three prime ministers before Mahathir, Tunku Abdul Rahman (1957–1970), Abdul Razak Hussein (1970–1976), and Hussien Onn (1976–1981), were also developmentally minded. The latter two, like Mahathir, were in power during the period of Malaysia's developmental autocracy.

[4] While only Indonesia, Korea, and Taiwan appear to have been able to consolidate democracy, both Malaysia (1957–1968) and Thailand (1992–2005) have had important democratic interludes.

autocracy[5] to democracy[6] took a particular form, which he labels *centripetal democracy*,[7] as emerging democrats and elites from the *ancien régimes* selectively engineered transitions to democracy by putting in place electoral rules, political party systems, and forms of executive government that privileged the effectiveness and accountability of democratic government over representativeness.[8] Some (White and Robinson 1998; White 2006) have described these kinds of democracies as *democratic developmental states*, or democracies that are more effective at delivering the policies and public goods necessary to sustain high growth at some cost to representativeness.

This shift in political institutions raises a number of questions. Chief among them is, what has been the impact of the shift from developmental autocracy to centripetal democracy on growth?[9] The answer to this question, provided in Chapter 8, is that growth during periods of developmental democracy in these polities has been as high as it was

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[5] POLITY IV's autocracy variable (AUTOC) is used to define political institutions as autocratic where autocracy is defined by the lack of competitiveness of political participation and executive recruitment; the lack of openness of executive recruitment; and the lack of constraints on the executive (Marshall et al. 2014: 15). Developmental autocracies are a subset of autocracies and, as is argued in Chapter 3, they are characterized by five elements: (1) They are led by elites committed to development as a way of enhancing national power in a world of nation states. (2) They are committed to capitalist, industrialist, and open economy development strategies, but not free market strategies. (3) They repress and control popular groups in civil society, most particularly farmers, workers, and students, so they can focus on development. (4) They develop difficult and costly, but ultimately effective long-term relationships with capitalists that are growth oriented. And (5) political elites in them defer to macroeconomic technocrats in core economic agencies—central banks, ministries of finance and national planning agencies—to maintain macroeconomic stability and a competitive exchange rate and to weed out bad investments.

[6] Polity IV's democracy variable (DEMOC) is used to define political institutions as democratic. In Polity IV, democracy reflects the presence of institutions and procedures by which citizens can express preferences about alternative policies and procedures; the existence of institutionalized constraints on the power of the executive; and the guarantee of civil liberties (Marshall et al. 2014: 14). This definition of democracy is close enough to Dahl's procedural definition of democracy (Dahl 1998) and the POLITY IV democracy variable (DEMOC) is taken to measure it, if ever so imperfectly.

[7] As noted earlier, Polity IV's democracy variable (DEMOC) is used to define political institutions as democratic. Centripetal or developmental democracies are a subset of democracies and, as is argued in Chapter 8, the hallmarks of centripetal democracies include adoption of some combination of more majoritarian electoral systems (Reilly 2006: 109–112), political party systems that favor the institutionalization of a smaller number of large bridging parties (Reilly 2006: 131–142), and forms of executive government that increase government stability (Reilly 2006: 146–166). As is argued in Chapter 8, these kinds of democratic governments are more effective in providing the public policies and public goods necessary for growth, but they are also decidedly less representative of the range of interests extant in many, if not most, polities, particularly those with multi-ethnic and/or multi-religious communities, as in IMT.

[8] The best examples of this in Southeast Asia are Indonesia and Thailand. For discussion of how and why they did this, see Chapter 8.

[9] In Malaysia, the shift was from a centripetal democracy between 1957 and 1969 to a more or less developmental autocracy that followed. That said, political scientists have not quite known what to make of Malaysia's post-1969 political regime. Levitsky and Way (2010: 3) label it a *competitive authoritarian regime*, Crouch (1996: 5–7) calls it a *repressive-responsive regime*, while Case (2004: 99) labels it a *semi-democracy*.

during the halcyon days of development under developmental dictators.[10] This finding is important for three reasons. It suggests that democratization need not slow growth, even in those cases where a slowing of growth might be expected.[11] It contributes to the growing literature on the impact of a particular set of democratic institutions on growth. And it brings the agency of political leaders and elites, along with politics, back into consideration of what causes growth.

The ability of political leaders in these polities to sustain high growth rates for more than 30 years under quite different political institutions raises several additional and important questions. To begin with, why have this region's developmental dictators been so much more successful in sustaining high growth than their counterparts in most of the rest of the developing world?[12] Why and how did new and emerging democrats and old order elites combine to engineer developmental democracies so that high growth could be sustained? And why and how has high growth been sustained?

The aim here is to answer these questions by focusing on three of Southeast Asia's high performing economies: Indonesia, Malaysia, and Thailand (hereafter IMT). The focus is on IMT because the three have factor endowments, ethnic heterogeneity, and forms of governance that resemble those in the Rest[13] (Lindauer and Roemer 1994: chapter 1). Their central governments are weaker than those in the Northeast Asian newly industrializing

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[10] While I fully recognize that average growth rates of real GDP per capita and real GDP have been lower under centripetal democracy than under developmental autocracy in East Asia's fast-growing economies, including in IMT, I reach this conclusion for two reasons. First, except for the period of 1986–1996 when growth was exceptionally high, simple difference of means tests show no difference in growth rates. For example, for Indonesia, a simple difference of means test for the growth rate of real GDP per capita during Indonesia's centripetal democracy and that of its developmental autocracy yields a t = .54, rejecting the hypothesis that growth was higher during the New Order. This finding holds if the focus is on the growth rate of real GDP and if the New Order is dated from 1970 rather than 1966. Then the simple difference of means test yields a t = .54, decisively rejecting the hypothesis that the growth of GDP was higher during the New Order. For Thailand, the difference of means tests yields a t = .22, rejecting the hypothesis that growth was higher during Thailand's developmental autocracy. The same holds for Malaysia where t = .98. Second, in the panel regressions on real GDP per capita growth rates in 11 East Asian countries reported in Chapter 8, Wald tests of the restriction that the regression coefficients (or growth effects) for the centripetal democracy dummy variable are equal to those for the developmental autocracy dummy variable are decisively not rejected (see discussion and panel regressions in Chapter 8).

[11] There are two reasons for thinking that the shift from developmental autocracy to any form of democracy might slow growth in the East Asian NICs. First, as these economies began to catch up with the West, growth should slow irrespective of regime type. Second, with democratization, old centralized corruption networks that appeared to be growth enhancing gave way to more decentralized forms of corruption. By at least one reading, this too should slow growth.

[12] This is particularly true of the autocracies in sub-Saharan Africa (where predatory neo-patrimonial autocracies largely reined; see, for example, van de Walle 2001 and Bratton and van de Walle 1994) and in the Middle East and North Africa, where three different varieties of non-developmentally oriented autocratic states—bunker states, bully praetorian states, and globalizing monarchies—ruled (see, for example, Henry and Springborg 2010: chapters 4 through 6).

[13] The Rest refers to the developing economies identified in A. Amsden's book *The Rise of the Rest*.

economies. Their bureaucracies are less meritocratic, less politically insulated, and less embedded with the private sector than those in Northeast Asia's developmental autocracies. Corruption and rent-seeking are more prevalent (Chapters 3 and 9). Unlike their counterparts in Northeast Asia, these economies are resource rich and hence more prone to the resource curse. The polities of IMT are also extremely ethnically diverse. These elements are important because weaker, more corrupt and rent-seeking governments, resource riches, and high ethnic diversity have been identified with low growth elsewhere, particularly in sub-Saharan Africa (Easterly and Levine 1997). The question is, why has this combination not slowed growth in IMT?

There is another reason that the experiences of IMT matter for the Rest (2003). As late as 1965, few thought the three were candidates for high growth. Much, but no means all, of the literature on the development outlook for countries in sub-Saharan Africa (Bratton and van der Walle 1994; Van de Walle 2001) or the Middle East and North Africa (Henry and Springborg 2010) echoes similar sentiments. Yet all three followed growth and development failures (Chapter 2) with high sustained growth. Why and how they did so are likely to be of interest to the Rest.

The focus is unabashedly on the politics of development in IMT (Chapter 3). These politics are important simply because both dictators and democrats in IMT built and sustained pro-growth and development political coalitions that enabled them to link their long-term political survival with delivering development. How and why they did so are likely to be of great interest to political elites elsewhere in the developing world.

The focus is also on identification of a viable, workable, and credible development strategy, but rather than superimpose either some version of the Washington Consensus or of the East Asian developmental state on the emergence and evolution of this strategy, the approach to it is decidedly inductive (Chapter 3). This imparts a pragmatic, experiential, and muddling through[14] cast to the analysis that follows. This analytical frame is adopted simply because there is substantial evidence that political leaders in IMT were goal driven (they wanted to develop their economies), but pragmatic, rather than ideological, in pursuing their developmental goals (Chapter 3). Why and how such an approach to development succeeded are also likely to be of interest to the Rest.

As will also become clear, the analytical focus on the growth strategy in IMT is on capitalist growth (Chapter 4), rather than on laissez-faire markets, in IMT because governments in each often deviated from free markets (Chapters 5 and 6). The emphasis is also on industrial growth and industrial policies (Chapter 6) because political elites in IMT set out to create diversified industrial economies and a class of industrial capitalists[15] that

[14] As one reviewer suggested, muddling through was at least sometimes a result of shifting power ascendancies within government. For discussion of this in Indonesia, see discussion on pages 138–146 in Chapter 6.

[15] Evidence to support the hypothesis that political elites favored the creation of an indigenous capitalist class that could compete in the global economy can be found in Robison (1986) for Indonesia, Jomo (1986) for Malaysia, and Hewison (1989) for Thailand.

could compete in the world economy to reduce their dependence on primary exports, overcome poverty, and enhance national strength in a world of nation-states (Chapter 3). This is a goal that governments in numerous other developing countries share with IMT. And the focus is on the development of an open economy strategy that enabled domestic firms to leverage global demand and knowledge (Chapters 3 and 4). But IMT's open economy strategies[16] were never quite laissez-faire, simply because that was politically unacceptable and because it was seen as not conducive to the development of an internationally competitive domestic capitalist class.

Because sustained growth altered the economic, social, and political landscapes in IMT, the emphasis is also on how political leaders, old order elites, and newly empowered democrats adapted the structure of their polities to sustain growth (Chapter 8). Sometimes, as in Malaysia, adaptation meant transforming a developmental democracy into a more authoritarian polity (Chapter 8). In two of the three, Indonesia and Thailand, the structural changes in the economy and society ushered in by high sustained growth facilitated a shift to more developmental democratic institutions[17] that facilitated the maintenance of high growth (Chapter 8). How and why this happened are likely to be of interest to the Rest. Before proceeding to analyze the development experiences in IMT and demonstrate how those experiences might be useful to the Rest, it pays to put their development performances in a larger perspective.

1.2. Getting Growth Going Is Difficult

The experiences in the developing world since 1960 demonstrate that getting high growth going and sustaining it are difficult, and in all too many instances have been well nigh impossible. By one measure, of some 195 countries, only 13 (6.6%) achieved GDP growth rates of 7% or more for 25 years (*The Growth Report* 2008). More recent data confirm this basic picture. A simple comparison of changes in real per capita incomes between 1960 and 2012 for a sample of 81 developing economies with populations greater than 1 million for which long times series data are available reveals the stark differences between the winners and the losers. In 8 countries (10% of the sample), average incomes in 2012 were less than in 1960, sometimes drastically less. In the Democratic Republic of Congo, formerly Zaire, for example, real average income in 2012 was roughly $164, 37% of what

[16] As one anonymous reviewer pointed out, there were important differences in those strategies. Malaysia and Thailand were always more open than Indonesia. Malaysia also tended toward a Singapore-like strategy, while neither Indonesia nor Thailand adopted anything like the Singapore strategy.

[17] Although Thailand's developmental democracy did not last. For discussion of developmental democracies, or what some call centripetal democracies (Reilly 2011), in IMT, see Chapter 8. The hallmarks of this particular form of democracy include electoral rules, party formation rules, and forms of executive government that enhance both political stability and the accountability of democratically elected governments to voters (Reilly 2011, 2006).

it was in 1960 ($443) (World Bank 2014). In 4 of these economies, average incomes in 2012 were at least 25% below what they were in 1960 (World Bank 2014). For the group as a whole, average incomes in 2012 were 30% less than in 1960.

In another 9 countries (a bit more than another 10% of the sample), average incomes rose by less than 50%, sometimes decidedly less. In Burundi, for example, real average incomes in 2012 ($153) were roughly the same as they were in 1960 ($147). In 4 of these economies, average incomes in 2012 were less than 25% higher than they were in 1960 (World Bank 2014). For these 17 poor-performing economies, average incomes declined by an average annual rate of .3% per year. To make matters worse, 33 countries (40% of the sample) failed to experience any catch-up growth.[18] For another 18 developing countries, data gaps made it impossible to calculate mean growth rates for over 30 years. Many of these countries have either been very poorly governed (Libya, Iraq, Liberia, and Haiti) or beset by massive political instability and war (Cambodia, Laos, and Myanmar). Given these conditions, it is extremely doubtful that there have been long-run increases in average incomes in this group of economies. If these countries are included in the sample, a full one-third of the sample experienced very little increase in real incomes, and a bit more than one-half of the sample (52%) failed to experience any catch-up growth. Of those in this group experiencing catch-up growth, catch-up has been pitifully slow.

At the other extreme, 4 of these economies witnessed at least a fivefold increase in average incomes, while another 5 saw average incomes rise by more than an astonishing 10 times between 1960 and 2012.[19] For this high-performing group of economies, real average incomes increased 9.2 times by growing at an average rate of 5% per year. As a result of this disparity in growth performance, average incomes of the best-performing developing economies rose from .6 times that of the poorest-performing in 1960 to 14 times in 2012.

Given the differences in growth rates, it should not be particularly surprising that the incidence of poverty in the poorest-performing economies is 2.4 times higher (48.3% versus 20.4%) than it is in the best-performing economies.[20] Perhaps a bit more surprising is the fact that income inequality in the fast-growing economies is less (by 11%) than it is in the poorest-performing economies.[21] The combination of less poverty and lower income inequality in the high-growth developing economies suggests that, at least for some of the high-growth economies, growth was both equitable and poverty reducing.

The best-performing economies also do substantially better on virtually all indicators of social development. Three examples should suffice.[22] While the under-five-years-of-age

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[18] Their long-run growth rates in real income per capita were less than that of the United States between 1960 and 2012 (World Bank 2014).

[19] The 9, in order of their long-run income per capita growth rates, are Indonesia (3.59%), Malaysia (3.83%), Hong Kong (4.29%), Thailand (4.50%), Singapore (5.26%), Korea (5.35%), Botswana (5.8%), Oman (5.92%), and China (6.78%) (World Bank 2014).

[20] This is based on a poverty line of $2 in PPP per day (World Bank 2014).

[21] The average Gini Index is 38.4 for the fastest growers and 48.3 for the slowest growers (World Bank 2014).

[22] The data for the discussion that follows are from the World Bank (2014).

mortality rate declined by 62% in the poorest-performing developing economies, it fell by 82% in the best-performing economies, so that by 2012 the under-five mortality rate in the best-performing economies declined from 78% of that of the poorest-performing economies (185 per thousand versus 253 per thousand) in 1960 to only one-third (33 per thousand) of the worst-performing economies (97 per thousand) by 2012. Similarly, while the best-performing economies experienced rapid demographic revolutions as fertility rates fell by 64% (from 5.8 to 2.1), fertility rates in the poorest-performing economies remain distressingly high, declining by about 22% (from 6.5 to 5.1). As a result, the fertility rate of the poorest-performing economies, which was only 12% higher than the fertility rate of best-performing economies in 1965, grew to nearly 2.4 times the fertility rate of the best-performing economies in 2012. Finally, while education attainment rose from 1.3 years to 6.1 years in the fast-growing economies, it only rose from .9 year to 4.2 years in the poorest-performing economies such that the gap in educational attainment rose from .4 years in 1960 to 1.9 years in 2012 (Barro and Lee 2013).

1.3. Why Is It So Difficult to Get Growth Going?

Why have so few developing countries experienced high and sustained economic growth? While there are no easy answers to these questions, a few prominent candidates stand out. At one end of a spectrum, Easterly (2002, 2007, 2014) blames donors and experts for providing foolish and patronizing advice to developing country governments. At the other end of this spectrum, a host of others blame political leaders who chose a wrong and unworkable growth strategy either because they were blinded by ideology (as in the Great Leap Forward in China under Mao), used faulty strategies to build political support and rally a restive urban population to their banner (Bates 1981), or simply used those strategies, such as they existed, for predatory purposes (Callaghy 1984). Still others[23] argue that if political leaders would only follow the policy nostrums of their favored growth strategy, all would go well. While there are elements of truth in each of these trenchant criticisms, by themselves none of them tells the whole story. What is needed is a broader methodological line of inquiry that links the development policy choices made by political leaders to both the building of political coalitions that can support them and the economic viability of particular growth strategies.

A recent report by the Commission on Growth and Development (World Bank 2008: 2) makes important moves in this direction. As the report's authors argue, successful sustained growth requires getting three components right: an economic component (choosing a credible and workable growth strategy); an institutional component

[23] Among numerous others, see either Williamson (1991), who argues for a minimalist state that stabilizes, privatizes, and liberalizes, or Amsden (1989), who argues for an interventionist state to correct market and coordination failures.

that deals with the politics of growth; and a component that deals with the politics associated with the long-run structural changes in the economy, society, and polity attending growth. As it turns out, getting each of these right has been quite difficult to do.

With respect to growth strategies, for far too long debate has been trapped between an Anglo-American minimalist state (Agarwala 1983; Williamson 1989; World Bank 1993b), which suggests that developing country governments would do well to stabilize, privatize, and liberalize (World Bank 2008: 14), and the embedded autonomy of an activist and interventionist developmental state (Rhee et al. 1984; Amsden 1989; Wade 1990; Evans 1995). The former approach emphasizes the importance of macroeconomic policy fundamentals, government investment in public goods, the power of markets, good governance, and the venality of the state. The latter emphasizes market and coordination failures (Rodrik 2004), particularly in technology markets (Nelson and Winter 1982), the power of created competitive advantage (Porter 1998), and the guiding hand of the state in late development (Amsden 1989; Wade 1990). While this debate has cooled, as evidenced by the Beijing Consensus (Ramo 2004), it has not died.

There are numerous problems with both growth models. To begin with, these polar extremes obscure a range of alternatives that have been practiced, with some success, in both the developed and developing world.[24] More important, while there are elements of truth in both models, neither, by itself, is particularly relevant to the vitally pressing need to provide practical, real, developing world examples of highly successful political economies of growth to the all too large part of the developing world where growth and development since 1960 have been all too slow and halting.[25] As the argument that follows demonstrates, those examples don't fit neatly into the policy nostrums of either the minimalist or the developmental state.

To make matters worse, few governments have ever embraced or are ever likely to embrace the Washington Consensus minimalist state. The best exemplars of it—the colony of Hong Kong under British rule and authoritarian Chile under Pinochet—underscore how politically difficult it is to let the market rule in all but the most authoritarian polities. Declining support for it is visible across the developing world. When associated with democracy, practice of the Washington Consensus almost always results in governments responding to public pressures to modify the worst excesses of pure market outcomes by providing widespread access to education, unemployment insurance, the right of labor to organize, and minimal support for disadvantaged populations, alongside protection for consumers, investors, and the environment (Sheahan 2002). The question is how to do these things while sustaining the growth process.

[24] Hall and Soskice (2001) delineate how a liberal market model and coordinated market models have been used to promote growth and development in the United States and Europe. Sheahan (2002: 28–29) identifies three versions of liberal market models and three versions of state-led market models in Latin America.

[25] See discussion in section 1.2.

East Asia's developmental states are no more helpful to the rest of the developing world than the Anglo-American minimal state. Few, if any, governments outside Northeast Asia possess Northeast Asia's merit-based Weberian bureaucracies (Evans and Rauch 1999). Given how difficult it is to create and sustain such bureaucracies, it is not at all clear that many developing country governments have the patience to invest in nurturing them. Even fewer governments outside Northeast Asia possess the embedded autonomy with the private sector (Evans 1995), and it is difficult to see how this can be created in governments lacking the merit-based bureaucracies presumed necessary to make embedded autonomy work. Even fewer still appear to have governing elites in executive offices, legislatures, or political parties content to reign rather than rule (Johnson 1982).

Moreover, as developing countries continue to democratize, consolidate existing democracies, and open their governments to more transparency and accountability with popular organizations in civil society, it is doubtful that they can reproduce the degree of control over civil society exercised in Northeast Asia's development states (Johnson 1982). Yet without each of these, by the reckoning of at least some versions of the developmental state argument (Johnson, 1982), it is difficult to see how government officials can intervene in numerous markets and hold firms receiving promotional privileges accountable for performance, while keeping civil society at bay, without succumbing to the tempting rewards associated with corrupt rent-seeking activities that ultimately undermine the growth process.

To make matters worse, all too often, political leaders in developing economies have eschewed, or at least not attempted to adopt, either the Washington Consensus or the East Asian interventionist model of growth or any other growth strategy, but have opted instead for growth and development strategies that don't and can't work. The developing world is littered with numerous examples of failed and doomed growth strategies from predatory neo-patrimonialism in sub-Saharan Africa (Bratton and van der Walle 1994; van der Walle 2001) to state-centered and populist import substitution policies in Latin America (Sheahan 1987), to rent-seeking state-led development in India (Bardhan 1984) and the Great Leap Forward and Cultural Revolution in China.

Given the faulty advice proffered by outsiders, the neglect by technical experts of the political aspects of growth strategies, and the frequent choice of unworkable growth strategies, perhaps it should not be surprising that sustained high growth in income per capita is so rare in the developing world. Reluctantly and finally, the advocates of growth have retreated to less lofty and more pragmatic ground about how to get growth going and how to sustain it. As the Commission on Growth and Development (World Bank 2008: 3) argues, the right combination of the three ingredients to sustained high growth include an open economy strategy that leverages global demand and knowledge, institutions and incentive structures that keep politicians focused on citizens' long-term well-being, a set of political structures that provide stability early on for the right model to work, and subsequent adaptation of those structures to the endogenous structural changes in the economy, society, and polity so the growth process can be continued. As the Commission also says, beyond these recommendations there is no single path or formula for sustained growth (World Bank 2008: 3).

1.4. Bringing Politics Back In

What the Commission report does accomplish is to bring agency and politics back in and place them at the center of the discussion about how to start and sustain high growth. That said, the Commission is less clear on precisely how to do this. At least two distinct strategies for doing so are available. The first gives primacy of place to institutions (Pepinsky, 2014b). An alternative sees institutions as epiphenomena and gives primacy of place to the underlying social conflict that gives rise to particular sets of institutions in particular countries and regions (Jayasuriya and Rodan 2007; Rodan and Jayasuriya 2012). The former has proved quite attractive and has fostered a voluminous case and statistical literature. Some of this literature emphasizes path dependence (Acemoglu et al. 2001). Some of it places more emphasis on the regional demonstration effects of particular institutional forms, such as East Asia's capitalist development state (Johnson 1982; Evans 1995) or sub-Saharan Africa's predatory and neo-patrimonial states (Bratton and Van de Walle 1994).

A third approach focuses on the particular institutional forms of authoritarian regimes (are they military regimes, one-party regimes, dominant-party regimes, or monarchies?) and the impact of each, along with several other formal institutions in autocracies, especially political parties and legislatures, on regime survival and breakdown, as well as on investment and growth (Geddes 1999; Jensen et al. 2014; Smith 2005; Brownlee 2007; Gandhi 2008; Wright 2008). A methodologically similar literature examines the impact of forms of democracy (presidential versus parliamentary) and the micro-institutions of democracy (forms of executive government, the nature of party systems, and electoral rules) on the representativeness and accountability of elected officials (Reilly 2006). Another strand of this last literature examines the impact of differing democratic institutions on several policy variables thought to affect growth or on the ability of elected political elites to implement needed economic reforms (Haggard and Kaufmann 1995; Persson and Tabellini 2000, 2005; Reilly 2006).

The value of the institutions approach is its generalizability and the plethora of findings about the benefits associated with particular institutions (Pepinsky 2014a: 4). But because institutions are socially constructed, it is methodologically difficult to separate out the effects of particular institutions from the resolution of the underlying sociopolitical conflicts that produced them (Pepinsky 2014b). What this means is that institutions need to be treated both as an outcome of the interplay among the individuals and socioeconomic groups who created them, and as proximate contributors or inhibitors of growth (Pepinsky 2014b). But if institutions are the endogenous outcomes of underlying social conflicts, it becomes critical to understand how a particular set of institutions came to be in particular places (countries and regions), while at the same time disentangling the set of social forces that created those institutions from the impact of those institutions on growth and investment outcomes. Much of the econometric literature on institutions and growth is reasonably good at this latter task because it treats institutional variables as endogenous variables in standard growth regression models.[26] But this literature is less good at providing compelling models of how underlying social forces fostered the creation of the specific institutions that emerged in particular times and places.

Pepinsky (2014b) Rodan and Jayasuriya (2012), and Jayasuriya and Rodan (2007) suggest how one might go about this latter task. As Pepinsky says (2014a: 4), if one wants to understand how and why a particular set of political institutions exists in particular places and times, one needs to start with the assumption that the political regimes and the particular institutions that undergird them and that are observable are the outcome of the struggle and interactions between those individuals and groups engaged in politics. In this view, politics in particular places and times is about creating institutions that determine who gets what, where, and when in politics (Pepinsky 2014b). This implies that observable institutions privilege some individuals and organizations in the game of politics while shutting others out.

One concrete example of this is the privileged position of business in Southeast Asia's developmental autocracies, while popular groups (workers and farmers and, to a lesser degree, students) were largely shut out.[27] As Jayasuriya and Rodan (2007) argue, this combination has had three important consequences. Because their vital interests were protected in Southeast Asia's developmental autocracies, neither business nor the middle class proved to be ardent supporters of democracy. Yet to the extent that this structure of institutions carried over into democratization—and there is some evidence that it did (Robison and Hadiz 2004)—both business and the middle class have been less fearful that their vital interests would be threatened by democracy. The privileged position of business and the closing of opportunities for participation for popular groups also meant that labor tended not the play the same historic role that it did in democratization in Western Europe.

1.5. Implications for This Study

How can these theoretical insights be used to construct credible framing stories of the highly successful growers that have implications for the Rest? There are several answers to this question. To begin with, given the need to demonstrate how pro-growth political coalitions emerged and were sustained in the high sustained growth countries, a methodological focus on country cases is critical. This puts a premium on choosing the right

[26] Mauro (1995) and Acemoglu et al. (1999) are good exemplars.

[27] As one anonymous reviewer pointed out, following democratization, workers in Indonesia and Korea were not shut out.

cases. Second, because most of the high growth stories followed on the heels of failure, the country cases need to analytically delineate the role that intra-elite and broader social conflicts played in failure and in shaping the shift in institutions from low- to high-speed growth, following failure. This means the case stories must be analytically clear on why and how political leaders built and sustained pro-growth political coalitions. Third, the analysis must be able to identify the major elements of the growth strategy chosen and how this strategy changed as growth was sustained. Fourth, the case stories need to conceptually identify why and how successful long-run growth shaped new social and intra-elite conflicts, and how political elites used those conflicts to alter the pro-growth coalition in ways that sustained growth. Finally, since the institutions of high-speed growth are endogenous, any empirical attempt to statistically test for the impact of institutions on growth must account for this endogeneity. All but the last of these is addressed in turn. The last is addressed in Chapter 8.

Of the nine high sustained growth countries identified earlier, all but two, Botswana and Oman, are from East Asia. For obvious reasons, neither is a particularly good country case. This means that the search for cases should be limited to the high and sustained growth performers in East Asia. But which of these cases is likely to be most helpful to the Rest? It makes little sense to choose country cases that are exemplars of the Northeast Asian developmental state (China, Korea, or Taiwan). Virtually none of the Rest has merit-based bureaucracies like those in the Northeast Asian developmental state model, nor is it clear that any have the capability to build and sustain such bureaucracies. None has the degree of autonomy from organized groups in civil society extant in the Northeast Asian developmental state model. Few, if any, are likely to possess embedded autonomy with the private sector.

But this is less true of the three high sustained growth economies, Indonesia, Malaysia and Thailand (hereafter IMT) in Southeast Asia. While all three have pockets of efficiency in their public sector bureaucracies, especially in core macroeconomic agencies—central banks, ministries of finance, and national planning agencies—none of the three possesses the kind of bureaucratic competence visible in Northeast Asia. Unlike their counterparts in Northeast Asia, none of the three possesses highly autonomous states or states with embedded autonomy with the private sector. In fact, government-business relationships have been fraught with rent-seeking and corruption (MacIntyre 1994).

There are other reasons for focusing on the growth experiences in IMT. The three have factor endowments, ethnic heterogeneity, and forms of governance that resemble those in the Rest (Lindauer and Roemer 1994: chapter 1). Their central governments are weaker than those in the Northeast Asian newly industrializing economies. Their bureaucracies are less meritocratic, less politically insulated, and less embedded with the private sector. Corruption and rent-seeking are more prevalent. Unlike their counterparts in Northeast Asia, these economies are resource rich and hence more prone to the resource curse. The polities of IMT are also extremely ethnically diverse. These elements are important because weaker, more corrupt, and rent-seeking governments, resource riches, and high ethnic diversity have been identified with low growth elsewhere, particularly in sub-Saharan Africa. The question is, why has this combination not slowed growth in IMT?

There is another reason that the experiences of IMT matter for the Rest. As late as 1965, few thought the three were candidates for high growth. Much, as noted earlier, but no means all, of the literature on the development outlook for countries in sub-Saharan Africa or the Middle East echoes the same sentiments today. Yet all three followed growth and development failures with high sustained growth. After independence, Indonesia was one of the poorest countries in the developing world. There was nothing in its disastrous political experience between 1949 and 1965 that suggested growth would take off after 1965, and most analysts gave it little chance of succeeding (Geertz 1963; Higgins 1968; Myrdal 1968). The same was true of Thailand—it had experienced a long period of no growth in income per capita (Ingram 1971), and there was not much hope that its corrupt, rent-seeking bureaucratic polity could be a carrier of development (Riggs 1966; Girling 1981; McVey 1992). While Malaysia was in a somewhat better position, as Horowitz has argued, most thought it was in for serious, if not devastating, ethnic conflict following independence (Horowitz 1989: 18).

But, as will be shown in Chapter 3, following a set of difficult experiences,[28] political leaders—Suharto in Indonesia, Sarit in Thailand, and a number of prime ministers including Mahathir in Malaysia—in IMT completed the nation-building process and adopted similar growth strategies that favored capitalist, industrial, and open economy growth strategies,[29] and they built sustainable domestic political coalitions to support them. But neither came easily. In Indonesia, this only emerged following the scarring collapses of both democracy and the economy that severely chastened political elites. In the aftermath of what can only be seen as a long nightmare following independence, which culminated with the overthrow of President Sukarno and a pogrom against the Communist Party of Indonesia, the PKI, a coalition of center right political elites refurbished an old nationalist ideology and fashioned both a new, but highly autocratic, politics and a new economy (see Chapters 2 and 3). Subsequently labeled General Suharto's

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[28] For discussion of these experiences, see Chapter 2. This included the collapse of the economy and the pogrom against the PKI in Indonesia, the successful fight against the British proposal to create a multi-ethnic state, the defeat of the Malayan Communist Party, serious ethnic tensions and bloodletting after the defeat of the Japanese and before the retutn of the British, the expulsion of Singapore from the Federation of Malaya, and the race riots of 1969 in Malaysia, the murder of a young king, the decline of the monarchy, recurrent political instability, flirtation with a fascist and state-owned enterprise strategy, repeated harassment of the ethnic Chinese business community, economic policy drift, and the bankruptcy of a state-owned enterprise (the National Economic Development Corporation, Ltd.) that imposed high costs on the Thai economy (Muscat 1994: chapter 3).

[29] Despite the focus in IMT on capitalist, industrial, and open economy growth strategies, as one reviewer noted, there were important differences in quite prototypical economic policies such as effective rates of protection, shares of trade and FDI in GDP, and rankings on indicators like the World Bank's "Ease of Doing Business" indicators.

New Order, this new political economy emphasized political stability and capitalist development.

Completing the nation-building project and developing a coherent development strategy alongside a domestic political coalition to support it were even slower to develop in Thailand (see Chapters 2 and 3). Following the overthrow of the monarchy in 1932, political and military elites were more interested in rent-seeking through patron-client networks than they were in promoting development (see Chapter 2). Between 1932 and 1960, successive governments flirted on and off with both a fascist and quasi-socialist state-owned enterprise strategy while harassing an indigenous, but ethnic Chinese, business community. Consequently, there was little development prior to 1960 until General Sarit, who took power by way of a military coup, recognized that he could oust his political opposition by adopting a capitalist, industrial, and open economy development strategy. Like General Suharto in Indonesia, Sarit promoted a nationalist ideology and built a center right political coalition that supported this strategy.

An open economy and capitalist industrial development strategy, along with a political coalition to support it, emerged early in Malaysia, but it was upset by the race riots of May 1969 (see Chapter 3). Forced to confront the failures of an essentially laissez-faire strategy toward the dominant Chinese business community alongside heavy investment in the rural economy, the United Malays National Organization (UMNO), the dominant political party in Malaysia, responded by introducing a new nationalist ideology; restructuring its political coalition and the state by making both more autocratic; continuing to open the economy to foreign investment (and exports); and investing heavily in the creation of a class of big Malay industrial capitalists who could compete in the global economy (see Chapter 3).

As should be clear, the focus is unabashedly on the politics of development in IMT. These politics are important simply because both dictators and democrats in IMT built and sustained pro-growth and development political coalitions that enabled them to link their long-term political survival with delivering development. How and why they did so is likely to be of great interest to political elites elsewhere in the developing world.

Several key elements of IMT's pro-growth political coalition deserve attention. To begin with, authoritarian leaders built close trial-and-error relationships with business (Chapter 3). In all three, governments searched for a viable way to build a domestic capitalist class that could compete with the Organisation for Economic Co-operation and Development (OECD) multinationals. This proved to be a difficult, costly, and at times a highly unsuccessful endeavor, and it tended to degenerate into rent-seeking behavior and corruption, but as the historical case studies that follow suggest, this strategy has been more, rather than less, successful. In addition, political leaders worked hard to limit the role of popular groups (farmers, workers, and students) in the politics of development policy (Chapter 3). They did so by controlling, repressing, or placating farmers, especially rice farmers, and by promoting very conservative nationalist ideologies. In all three, independent trade unions were illegal. Students were either co-opted, or their political activities were narrowly circumscribed. What this meant in practice was that business was given a privileged position in the game of politics, while popular groups were largely shut out. Third, governing elites deferred to economic technocrats in core economic agencies—central banks, planning agencies, and ministries of finance—to maintain macroeconomic stability and a competitive exchange and to weed out bad investments so that high growth could be sustained.

The focus is also on identification of a viable development strategy; however, as noted earlier, rather than superimpose either some version of the Washington Consensus or of the East Asian developmental state on the emergence and evolution of this strategy, the approach is decidedly inductive. That is, governments did not place undue emphasis on free markets or interventionist states. When markets worked, governments relied on them. When state intervention worked, it too was relied on. But when either failed, governments had little problem in shifting emphasis. And when the limits to an existing development strategy emerged, as manifested by a significant slowdown in growth, political leaders searched, in a trial and error fashion, for an alternative strategy to revive growth.

As will become clear, the analytical focus on the growth strategy in IMT is on capitalist growth, rather than on laissez-faire markets, because governments in each country often deviated from free markets (see Chapter 5) in rice agriculture and in industry (Chapters 6 and 7) yet continuously embraced a version of capitalism that worked, and because it is virtually impossible to sustain long-run improvements in the quality of life without the sustained increases in living standards that capitalism brings.

The emphasis is also on industrial growth, industrial policies (Chapters 6 and 7), and policies outside industry, including in agriculture (Chapter 5), that supported industrial development because political elites in IMT set out to deliberately create diversified industrial economies and a class of industrial capitalists that could compete in the world economy to reduce their dependence on primary exports, overcome poverty, and enhance national strength in a world of nation-states. This is a goal that governments in numerous other developing countries share with IMT.

And the focus is on development of an open economy strategy (see Chapters 3, 4, 6, and 7) that enabled domestic firms to leverage global demand and knowledge. But IMT's open economy strategy evolved over time. It was never quite laissez-faire, simply because that was politically unacceptable and because it was seen as not conducive to the development of an internationally competitive domestic capitalist class. This meant that governments in each country initially pursued an import substitution industrial development strategy. When the returns to that strategy slowed, governments increased the openness of the economy to both trade and investment.

But because sustained growth altered the economic, social, and political landscapes in IMT, the emphasis is also on how political leaders, old order elites, and newly empowered democrats adapted the structure of their polities to sustain growth. Sometimes, as in Malaysia, adaptation meant transforming a developmental democracy into a more authoritarian politics. Other times, as in Indonesia and Thailand,[30] developmental autocracies were transformed into developmental democracies. These transitions raised new challenges for political leaders committed to sustaining high growth. Sometimes political leaders responded to these new challenges by adopting second-best economic concessions to blocks of vital political supporters, as Thaksin did in Thailand (Selway 2011). Other times, they made important political concessions to powerful protesters to maintain domestic peace and tranquility, as UMNO and Mahathir did in Malaysia.[31] What this means is that at least some of the interventions in the economy were aimed at sustaining political support for a growth strategy, rather than being aimed at increasing growth. Because of this, criticisms of these efforts that focus on the inefficiency aspects of these interventions are misplaced and misdirected, simply because they fail to see the political consequences for the political coalitions that elites used to sustain growth.

But before turning to the theoretically informed country case studies, it is important to document the development performances in IMT, especially for those unfamiliar with them. Between 1960 and 2012, real GDP per capita grew at an average annual rate of 3.6% in Indonesia, 3.8% in Malaysia, and 4.5% in Thailand (World Bank 2014). This performance put all three economies in the group of the nine fastest-growing economies. Rapid growth went hand in hand with rapid declines in the incidence of poverty. The headcount incidence of poverty fell from 88% to 43% in Indonesia, from 12% to 2% in Malaysia, and from 44% to 4% in Thailand. Income inequality remained low in Indonesia between 1984 and 2010 (the Gini index was 30.4 in 1984 and 38.1 in 2010). Despite this rise, inequality of incomes tended to be lower in Indonesia than it was in Malaysia (where it hovered between 48 and 49 between 1984 and 2009)[32] or Thailand (where it ranged from 44 in 1984 and 39 in 2010) (World Bank 2014).

Rapid and more or less shared growth occurred alongside large and lasting changes in human development. All three countries experienced a substantial and enduring fertility transition as fertility rates were more than halved between 1960 and 2012 (falling from 5.7 to 2.3 in Indonesia, 6.2 to 1.9 in Malaysia, and 6.2 to 1.4 in Thailand). Under-five mortality rates virtually collapsed (falling from 223/1,000 to 31/1,000 in Indonesia, 92/1,000 to 8.5/1,000 in Malaysia, and 148/1,000 to 13/1,000 in Thailand), while life expectancy rose dramatically (rising from 45 to 71 in Indonesia, 59 to 74 in Malaysia, and 55 to 74 in Thailand). All three countries achieved near universal literacy and near universal primary school enrollment rates, while the average years of education attained by those over 25 years old rose from 1.1 year to 5.5 years in Indonesia, 2.3 years to 9.5 years in Malaysia, and from 3.4 years to 6.5 years in Thailand.

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30 But as is well known, the Thai transition did not last.

31 This is particularly true of the New Economic Policy in Malaysia (Khoo 2001: chapter 2).

32 I would like to thank one anonymous reviewer for pointing out that the Indonesian and Malaysian Gini coefficients are not directly comparable since the former are expenditure-based, while the latter are income-based.