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Economic governance and economic performance

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This chapter considers economic governance both as a kind of ideal type and as it has occurred in the states of East and Southeast Asia. Three issues are explored. The first is the link between economic governance and economic performance. Theories that specify causalities deductively and empirical studies that do so inductively are reviewed and potential causal links are operationalized. Second, using these categories and variables as a framework, the actual practice of economic governance in a number of East and Southeast Asian states is sketched, essentially as an indicative exercise. Third, the extent to which patterns of economic governance are common amongst states of the region is assessed and the principal pressures affecting this activity are summarized. This will enable us, in the next chapter, to consider the impact of democratization on economic governance.

Until the financial reverse of 1997, the states of East and Southeast Asia had a remarkable record of economic achievement. The 1997 crisis began in the financial sector and affected those states with greatest dependence on foreign investment (Thailand, Indonesia, Philippines, Malaysia) and/or with extensive short-term borrowings (Korea). The predatory possibilities of Korea's chaebol had already been recognised (Evans 1995; Clifford 1997; Ernst 1996). Similarly, the role of "money politics" in Malaysia, of predation and rent seeking in Indonesia, and of corruption in Thailand were acknowledged (e.g., Gomez and Jomo 1997; Gomez 1998). These structural conditions were not the only elements in the crisis. Other ingredients included: the enthusiasm with which financial institutions lent funds to regional companies and intermediaries; change in the relative competitiveness of affected states (particularly following China's 1995 devaluation); and the capacity of states to upgrade technologically in step with rising wage rates (Thurow 1998; Radelet and Sachs 1997; Wade 1998). Later analysis may identify other causes. The immediate consequence is a reduction in the expectations for growth in the affected states and in the region as a whole (World Bank 1998). The IMF has required affected states to implement budgetary, financial sector, and other institutional changes. The medium-term outlook depends on how individual political systems absorb the twin pressures of recession and institutional change. More distantly, a Chinese devaluation or a slump in Japan would compound the difficulties of adaptation.

Yet productive capacity of East and Southeast Asia remains strong. The region as a whole has dominated global output of a variety of manufactured products. For example, in 1994, regional production amounted to over 60 per cent of world production of radio–tape players, VCRs, bicycles, microwave ovens, colour TVs, air conditioners, refrigerators, watches, and ships, and just under 40 per cent of world production of automobiles and steel manufactures (*Nikkei Weekly*, 3 October 1994). Export-led industrialization has been the engine of economic development. In turn, this has stimulated the growth of domestic capital, infrastructure, and consumer goods markets, culminating in the 1997 bubble.

Save for Hong Kong, government has taken an active part in economic management in all the states of industrializing Asia (Stiglitz 1996). The experience of Japan provided a model for Taiwan and Korea (Kim et al. 1995). The different circumstances of Southeast Asian states have circumscribed Japan's relevance to them. Economic globalization, manifested vividly in the events of 1997, is a constraining element. This is the context for exploring the links between economic governance and economic performance. On the basis of varying perspectives drawn mainly from economics but also from political science and from such eclectic approaches as business strategy, a substantial body of empirical work about economic governance in regional states has emerged. However, comparison and synthesis is difficult, not least because of different premises and different methodologies. Nevertheless, recent developments in institutional and evolutionary economics have begun to provide a link, and a common framework can perhaps be explored. In particular, the latter theorizes the causal linkage between economic governance and economic performance, albeit at a high level of generality. Meanwhile, the empirical literature suggests some of the detailed elements – although the events of 1997 suggest its incompleteness.

One threshold difference in economic governance between individual states of the region arises from the duration and level of their economic performance and the primary source of investment. In this perspective, the eight states covered in this study fall into three categories. The first group is composed of Singapore, Korea, Hong Kong, and Taiwan. These states have enjoyed sustained growth, at least since the seventies; all four remain significant global competitors in electronics, computing, and information technology (IT), and are seeking positions in advanced technology sectors: with the exception of Singapore, indigenous firms, not DFI, have been the engine of development. In this group, Korea alone was immediately affected by the 1997 crisis. The countries of the second category, Malaysia, Indonesia, and Thailand, experienced accelerated development after the Plaza Accords of 1986. To a large degree these states have become production sites for industries from Japan. They remain underdeveloped by comparison with those of the previous group: even if they sustained growth rates of 7 per cent p.a., it would have taken Malaysia 17 years, Thailand 22 years, and Indonesia 46 years to achieve Korea's 1990 per capita income (MacIntyre 1994a, 16). Finally, the Philippines is in a third category as its experience of development dates from the early 1990s. All the states in the last two groups were implicated in the 1997 crisis.

Economic governance and economic performance: Theory

The state as a distinctive learning environment

Studies of economic performance based in neoclassical economics discount the role of the state beyond the establishment of a liberal market system, appropriate fiscal and monetary settings, and skills development (Krugman 1994): these deductive analyses therefore contest the link between economic governance and performance. Studies which emphasize the role of state institutions typically generalize from empirical appraisals of arrangements and are therefore essentially inductive. However, evolutionary and institutional economics have added new dimensions to the case for asserting that there is a causal link between economic governance and economic performance on the basis of a framework consistent with the historical record of optimal solutions often ignored; efficient solutions rarely replicated; decline experienced as often as development; and limited convergence between states and between firms from different states.

Both evolutionary and institutional economics share the premise that the actors (firms, state agencies, politicians, citizens) make their choices on the basis of bounded rationality and genuine uncertainty: path dependence thus becomes a key influence in development. In addition, institutional economics focuses on transaction costs, which are indeed held to be the decisive influence in long-term performance. Douglass North proposes "adaptive efficiency" as the relevant norm. This embodies "the willingness of a society to acquire knowledge and learning, to induce innovation, to undertake risk and creative activity of all sorts, as well as resolve problems and bottlenecks of the society through time" (North 1992, 80).

Jettisoning the neoclassical model of choice opens up the issue of the genesis and propagation of the motives and ideas which guide business firms, citizens, organized interests, the political leadership, and the bureaucracy. According to North, the state and the political system more generally influence what actors identify as relevant information and how they gather, process, and act on the latter (North 1992, 76, 111).

Transaction costs are also critical causal variables. These arise in measuring the valued attributes of what is being exchanged, of protecting rights, and of enforcing agreements. The polity is the setting in which trust (an informal constraint) and credible commitments (a formal constraint) can be mobilized: the level of trust and credible commitments, among others, determines the transaction costs to be faced by firms in the market.

There are thus at least four broad ways in which economic governance might contribute to economic performance: first, actions contributing to the generation of ideas, choice sets, and motives; second, actions reducing transaction costs; third, actions stimulating creativity, innovation, and skills; and, fourth, actions inhibiting and/or correcting government failure.

A critical threshold concerns the characteristics of the state as a learning system and of the polity as a learning environment. To play an effective part in economic performance, the state must constitute a setting in which, despite bounded rationality and uncertainty, distinctive information can be gathered and distinctive perspectives framed (Kelm 1996; Marsh 1995). If the information and perspectives generated from the state cannot be distinguished from those of private actors, the state's role is obviously weakened, if not even negated; its capacity for leadership and for acting as a catalyst in selective interventions is markedly affected.

The state's learning and teaching capacities arise from two broad sources. The first is the public policy agenda: it is the deposit of an extended historical process, which largely determines the questions addressed in technical analysis and the context in which this occurs. Perhaps more importantly, this process also determines pertinent values. In turn, the public policy agenda affects the spatial and temporal comprehensiveness and reach of the state's information gathering and judgements. It also affects the state's conception of its dissemination and mobilization task.

The second source of distinctive state capacities arises from the institutions through which the broader community and particular interests are mobilized and information is disseminated. These, too, are historical deposits. The presence and impact of these two factors can be explored comparatively and empirically (Hall and Taylor 1996; Steinmo et al. 1993). In general, the scope of politics and the role of the state in strategic socio-economic developments is the basis for differentiating the information generated and the perspective formed by private and public actors.

Third, the different conceptions of their role held by different states can be assessed through such factors as the economic, social, and other issues on the public agenda, the temporal horizon within which perspectives are framed, and the range of values and remedies conventionally recognized as relevant: these are the "ideas in good currency" (Schon 1971).

Fourth and finally, depending on how the state construes its role, it might be expected to have different motives from those of business organizations in gathering information and framing perspectives. Indeed, how the state construes its role may be an important constitutive element in the formation of business motives, ideas, and choice sets.

The state is not only an agent of scanning and discovery: it is also a constitutive setting for the formation of the motives, choice sets, and ideas of private actors. The state is a kind of learning system within which private actors are situated and in which they participate. Both through the distinctive information and perspectives it gathers and through its specific authoritative role in information dissemination and interest and citizen mobilization, the state is an important potential influence on the motives, ideas, and choice sets of private actors, whether they are individual citizens or business firms. The state's impact on these relationships is brokered by both a variety of media and a host of intermediary associations and institutions.

Developmental state theory

These propositions about the causes of longer-term economic performance and about the distinctiveness of the state as a learning environment provide a link to the inductive literature on what are termed "developmental states." At the core of developmental states is an elaborate practice of economic governance. Descriptions of economic governance are available in the literature on "governed markets" (Wade 1990), "governed interdependence" (Weiss and Hobson 1995), and "embeddedness" (Evans 1992, 1995). These studies deal with state penetration of, or "embeddedness" in the surrounding society and specifically with business-government relations, as well as with "state steering" capacities. Broader community mobilization on behalf of developmental goals has also been mentioned as an additional causal element in longer-term economic performance (Campos and Root 1996). These concepts suggest ways in which the abstract notion of economic governance might be operationalized.

Business-government collaboration

Evans (1995) identifies at least three criteria for effective collaboration between business and the state: the forums available for interaction; the sources of influence at the disposal of the state; and the capacity of business to participate in these exchanges. The first criterion is constituted by the modes of exchange: it refers to the institutional arrangements through which interaction between government and business takes place. Japan, for instance, the paradigm case, is characterized by deep formal and informal exchanges (Okimoto 1989; McMillan 1996). Arrangements that are more or less elaborate and more or less collaborative have been identified in the other states of the area.

The second criterion is constituted by the resources available to the state to influence behaviour in its exchanges with business. These include coercive, indirect, and cooperative instruments. Legal authority provides coercive influence; the ability to allocate capital or specific tax or subsidy arrangements might constitute indirect influence; and provision of valued information constitutes the third source of influence. Commentators have pointed to a move from the former to the latter modes as relationships develop from a directive towards a more collaborative pattern. States with collaborative business-government relations possess an array of deliberative councils.

The third criterion concerns the extent to which business is organized in associations. These might be more or less independent from the state, but organization and representation are essential for effective interaction: an atomized business sector would not be able to enter into or maintain ordered relations.

The role of labour, which has not generally been treated as a partner of equivalent standing to business, might also be noted. For example, in Japan, after initial unrest, integration was largely accomplished at the firm level through enterprise unions. Wage decisions are co-ordinated through the annual *Shunto* round (Sako 1997). Analogous arrangements exist in Singapore, Taiwan, and Thailand. Korean labour relations are more turbulent, and unions are handled differently in Indonesia and Malaysia.

State autonomy

Economic governance also involves what is termed state autonomy. If the state is to play a catalytic role, it must display a capacity for independent strategic and tactical planning. This process might be more or less collaborative and more or less iterative; but the requirement that the state be able to take an independent view of its strategic economic priorities is fundamental.

Evans (1995) enumerates three conditions for state autonomy to be realized without rent seeking. The first is constituted by strategic institutions (see also Wade 1990, 322–23). Directing institutions must be able to evaluate longer-term economic priorities and propose goals, at least as a contribution to a subsequent debate. The state must have at its disposal institutions that can frame a view about its desired economic future. This has been the classic role of MITI in Japan. The second condition is bureaucratic prestige, which is required to render a public service career valued and respected and therefore able to attract talented and qualified recruits. In Confucian states, this prestige is grounded in a tradition of bureaucratic social leadership; in other cases equivalent arrangements need to be present. The third condition is bureaucratic integration: talented bureaucrats might otherwise be attracted to extend their personal power or their "turf" at the expense of larger public goals. An *esprit de corps* and a sense of common purpose strong enough to counteract these tendencies needs to exist in the elite bureaucracy: this could be maintained through socialization, in more material ways, or both.

There is a fourth condition of state autonomy, moreover, as the three features which have just been described could be present in states in which there are no strategic economic or structural aims: manifest economic priorities are a sign that such aims exist. These priorities might emerge in three areas at least: the identification and orchestration of action relating to growth sectors (from the perspective of employment, output, or trade); the identification and orchestration of action for the development and commercialization of new technologies; and the elaboration of mechanisms designed to ease the difficulties of declining industries. Empirical studies attest to activities of all three of these types in Japan (Tilton 1996), although there is disagreement with respect to the second of these types (Callon 1995).

Technology development has been particularly significant in contributing to regional economic growth. The state has played a part, more or less directly, in its stimulation (Hobday 1995; Matthews 1997a). Reverse engineering has been an effective catching-up strategy (Magaziner and Patinkin 1995, 235–50), and Wade (1992) judges this to have been central to the economic success of the states of the area: "late industrialisation ...

has been a political process shaped by the exigencies of mastering (and learning) already existing technologies.'' This strategy has become less effective because of the impact of microelectronics on both product and production processes (Bernard and Ravenhill 1995, 171–209; Hobday 1995). Innovation has been found to pose special challenges to particular states (e.g. Korea, Ernst 1996).

Shared growth

Shared growth as a distinctive feature of states of the area is noted as an important feature in a number of studies; income distribution data also point to the relative success of this strategy (World Bank 1993; Campos and Root 1996). This strategy has been said to result from the need for legitimacy on the part of the political leadership, as Wade states: ''What should be at the heart of a politics of economic growth [is] rulers' and would be rulers' calculations, that is how they attempt to secure support, by what mix of policies designed to appeal to which groups, with what political success, and at what political cost'' (1992, 309).

Economic governance and economic performance: Practice

If we concentrate on institutional analysis, four broad factors accounting for economic performance can be identified: the development of appropriate ideas, choice sets, and motives; the minimization of transaction costs; the encouragement of innovation, creativity, and skills; and the minimization and subsequent correction of governmental failure. These four factors provide the basic headings for the following survey of East and Southeast Asian practice. The subheadings within each of the four basic headings are drawn from the developmental state analysis.

Hong Kong is not considered in detail because of the distinctive character of its approach to policy-making. As a matter of fact, two studies of Hong Kong's future economic strategy reach contrary conclusions about what the state should do, one recommending an active and selective role (Berger and Lester 1997) and the other pressing for the maintenance of the existing approach (Enright et al. 1996).

Ideas, choice sets, and motives

According to Garrett and Weingast, the capacity of ideas to facilitate co-operation is a function of three factors, ''i) the gains to be expected from co-operation among a relevant set of players, ii) an idea which expresses these gains from co-operation, and iii) a mechanism devised to translate the idea into a shared belief system so as to affect expectations and hence behaviour'' (1993, 203–5).

Ideas might be deployed at both national and sectoral levels. At the national level, the state might champion longer-term socio-economic objectives and mobilize popular support on their behalf; this might be expected to influence the expectations of individual citizens and their understanding of the steps which have to be taken in order that the desired outcomes be achieved. In particular, linkages between the national and the global economy might be better understood and the implications accepted. Meanwhile, the potential positive-sum character of the national socio-economic project might be articulated and its terms affirmed. These points would be expressed in terms appropriate to the particular political culture or other sources of normative authority; they would have to be substantiated by technical analysis.

At the sectoral level, these broad purposes would need to be translated into programmes: similar outcomes in terms of ideas, choice sets, and motives might be stimulated in this way. The process would have to be collaborative and reciprocal: commitment would thus be built and the process of adaptation eased. While unanimity would be neither achieved nor expected, a majority coalition would be established and maintained.

Ideas, choice sets, and motives at the national level

At least five elements of governance might contribute to the development of ideas, choice sets, and motives at the national level: the establishment of strategic social and economic goals; elite economic agencies responsible for defining and refining these goals; leadership consensus; active advocacy; and appropriate outcomes.

STRATEGIC SOCIO-ECONOMIC GOALS

There is evidence of the adoption of broad socio-economic goals by all states, though with varying degrees of explicit articulation. For example, according to Kim, in Japan, ''the idea of catching up and surpassing the West (*oitsuke, oikose*) was generally accepted throughout the population, including by the elite of the ruling party.... It was the pervasive anxiety arising from *fuan* (insecurity) that helped mobilise the people.... The state adopted the principle of shared growth'' (Kim et al. 1995, 515).

In the case of Korea, Campos and Root suggest, ''For economic growth to be a substitute for legitimacy it had to be transformed into a symbol.... that symbol in Korea was ... double digit GNP growth ... the Korean score in the race to catch up with Japan'' (1996, 34). In relation to Singapore, Khong (1995, 112) suggests that Lee sought ''to legitimise his rule through the promise of economic performance'' and Cheng and Haggard suggest that Taiwan adopted the principle of shared growth from 1949 (1992, 22). Similar conditions existed in Southeast Asia. In Thailand, Sarit justified his 1958 coup as essential for both security and development; MacIntyre suggests that Suharto also sought legitimacy by promising economic growth (1994b, 242); in Malaysia's case, Gomez and Jomo suggest that redistribution has been given priority over growth (1997).

ELITE AGENCIES

In emulation of Japan's MITI, elite agencies concerned with the strategic economic or socio-economic outcomes have been set up in every state. Their effectiveness, however, varies widely. Strong agencies include Singapore's Ministry of Trade; Korea's Economic Planning Board, and since 1995 the Ministry of Finance and the Economy (Lee 1997); and Taiwan's Council of Economic Planning and Development and the Industrial Structure Bureau in the Ministry of Economic Affairs. Parallel agencies can be identified in Southeast Asian states, but various studies suggest they are much less well insulated from political pressures and/or much less authoritative in the public policy process than those noted above (Gomez and Jomo 1997; MacIntyre 1994). In Malaysia, strategic policymaking is concentrated in the Economic Planning Unit in the Prime Minister's Department. This has a staff of around 80 professionals, of whom 90 per cent have at least a master's degree. The Institute of Strategic and International Studies (ISIS) is a quasi-independent think tank associated with the government; it was particularly active in the development of the broader "2020" vision, and is also the co-ordinating agency with the peak national business organization, the Malaysia Business Council.

Indonesia's strategic agencies include the National Planning Agency (Bappenas), the Ministry of Finance, and the Investment Co-ordination Board. An Agency for Strategic Industries was established in 1984; its role has since expanded to managing state-owned strategic industries in the areas of transportation, information, telecommunications, and electronics.

There are four elite agencies in Thailand: the National Economic and Social Development Board (NESDB), the Bank of Thailand, the Board of Investments, and the Bureau of the Budget in the Ministry of Finance. The NESDB was established in 1959 and is directed by a 15-member committee including key public executives, the governor of the Bank of Thailand, the secretary-general of the Civil Service Commission, the director of the Bureau of the Budget, the director-general of the Fiscal Policy Office, the secretary-general of the NESDB, and nine members appointed by the Cabinet. There is also a Joint Public/Private Sector Consultative Committee (NJPPCC), established in 1980 by the NESDB, which identifies issues affecting economic development. Finally, in the Philippines, the elite agencies include the Department of Finance, the central bank, the Department of Trade and Industry, and the National Economic Development Authority (Velasco, this volume; also Rivera 1996).

The central strategic agencies in each state are responsible for the preparation and dissemination of longer-term plans. With the exception of Thailand, the Philippines, and Indonesia, projections are based on industrial structure outcomes, not economic magnitudes; they will therefore be examined in the next section. Singapore has begun to experiment with scenario planning as the basis for a revision of its development strategy (Schwartz 1991).

In states where strategic agencies are strongest, government service continues to be an elite activity associated with high social prestige. In Japan, law graduates from Tokyo University constitute 14 per cent of the applicants but 35 to 40 per cent of the intake. Similarly, in Korea, 55 per cent of the intake comes from Seoul National University and 45 per cent from two prestigious Seoul high schools; engineers predominate in Taiwan's Industrial Development Bureau; and Singapore rewards its civil servants well, with "public sector salaries ... higher on average than private sector salaries and higher than salaries of equivalent senior officials in the US" (Campos and Root 1996, 143).

The relationship between the elite bureaucracy and the political leadership varies between states. In relation to Japan, Inoguchi suggests that "the national bureaucracy does not seem to be ready to relinquish its power.... it is the only feasible agent for making the body politic reasonably cohesive" (1997). The situation in East and Southeast Asia varies in this respect. In Korea, public policy power is concentrated in the president's hands and the bureaucracy plays a less independent role than in Japan, although Matthews suggests bureaucratic authority may be reasserted in the wake of the financial crisis (1998). Taiwan and Singapore are intermediate between Korea and Japan.

In Southeast Asia, the situation is again different. For example, in Thailand the bureaucratic elite is distant from political influence, as a result of civil service traditions established under the absolute monarchy, while parliament has a minimal role in determining public spending, even though elected politicians are influential in implementing policies. This division of roles between executive and legislators has given technocrats scope to pursue a conservative macroeconomic agenda. These "tend to distrust the line ministries, believing that they are dominated by narrow bureaucratic and political interests" (Christenson et al. 1993, 24). Endemic corruption at these levels and continuing military influence did impede economic development until the collapse of 1997. (Suchit 1996;

Anek 1996). The independent standing of the Bank of Thailand was compromised in a corruption scandal in 1996. In the Philippines, the elite bureaucracy has retained its autonomy.

LEADERSHIP CONSENSUS

Taiwan, Korea, Thailand, Malaysia, and the Philippines all have political opposition parties, none of which opposes the strategy of economic growth and all of which support an activist state. In Singapore and Indonesia, the opposition is not significant, as was already indicated in the previous chapter.

ACTIVE ADVOCACY

Detailed evidence of the steps taken within each state to mobilize the society on behalf of developmental objectives remains to be gathered. Before the financial crisis, and ostensibly at least, Malaysia appears to have gone furthest by elaborating three components, a ‘‘vision,’’ ten-year outline plans, and a five-year operating plan. In 1991, *Vision 2020*, adopted by the government, envisaged the country to be by that year a fully developed society. This was supported by an Outline Perspective Plan for the 1990s, covering macroeconomic prospects, sectoral targets, and human resource development, which identified the major steps required for the 2020 goals to be realized. This Outline Plan is supported by a Five-Year Plan, which details the macroeconomic and sectoral targets needed to implement the larger objectives as well as social balance and ethnic issues; educational issues, including the needs for professional, technical, and related workers; and the desired R & D levels (0.5 per cent in the mid-1990s). Detailed evidence on how popular support is mobilized for these objectives has still to be gathered.

APPROPRIATE OUTCOMES

One of the distinctive features of the region’s experience has been the association of economic growth with diminished income inequality (Campos and Root 1996; World Bank 1993). The point is to some extent disputed, however: Evans acknowledges the general participation of the population in the prosperity in Taiwan and Korea, but suggests that a cloak of legitimacy has been given in this way to narrower interests and to ‘‘a kind of Gramscian hegemony in East Asia’’ (1992, 181). In Indonesia’s case, Mochtar suggests that economic growth ‘‘has benefited the urban and modern sectors considerably while marginalizing the rural and traditional ones’’ (Mochtar 1995, 277). Campos and Root argue about Thailand that ‘‘underinvestment in postprimary education had a negative effect on income distribution in the 1980s as the economy shifted to more skill-based activities’’ (1996, 59); a rural movement, the ‘‘Assembly of the

Poor,'' mobilized 15,000 people for a camp and vigil in Bangkok (*Sydney Morning Herald*, 27 January 1997). In Malaysia, partisan interests have been especially favoured (Gomez and Jomo 1997). Thus aggregate findings supporting the view that there has been shared growth may mask significant regional or sectoral variations, and more detailed evidence is required.

Ideas, choice sets, and motives at the sectoral level

Sectoral mobilization is the second activity through which ideas, choice sets, and motives might be influenced. Mobilization at this level is required to implement broader national objectives and it involves selective intervention. At least four processes contribute to this outcome: the establishment of appropriate institutional and planning processes; the establishment of sectoral priorities; the introduction of specific incentives; and business-government collaboration.

SECTORAL AGENCIES

Except for Thailand, the Philippines, and Indonesia, the states of the area have institutional arrangements covering the key dimensions of industry strategy formulation and implementation. In figure 3.1, three fields are covered: industrial strategy, technology strategy, and industrial-cum–trade policy implementation.

In Korea, as in Japan, key strategic agencies are supported by external policy think-tanks. In Singapore, the Economic Development Board has played a key part (Schein 1996). It operates as an enterprise, maintaining 22 international offices and taking initiatives in identifying gaps in industry clusters or new sectors where investment is desired, discovering suitable multinational corporations to meet these needs, and approaching firms to solicit interest. It is also the key agency in charge of implementing Singapore's programme of expansion in the region, boosting the role of local firms, and broadening the part played by its SOEs. In Malaysia, the major co-ordinating bodies are the National Economic Consultative Council and the National Development Planning Committee. Large powers are concentrated in the prime minister's hands; industrial policy is the responsibility of the Ministry of Trade and Industry; the Malaysian Industry Development Authority (MIDA) co-ordinates foreign investment.

SECTORAL PRIORITIES

The sectors targeted by Korea, Taiwan, and Singapore (as in Japan) build from existing activity and reflect the linkage between the economic prosperity of these states and the growth of global trade in manufactures (figure 3.2).

	Japan	Korea	Taiwan	Singapore
Industry Strategy (Peak Agency)	• Industrial Structure Council • Industrial Policy Bureau MITI (237 staff) • MITI Research Institute (46 staff)	• Economic Planning Board (Ministry of Finance) • Korean Development Institute	• Council for Economic Planning and Development (CEPD) • Nominates strategic industry/export sectors	• Ministry of International Trade and Industry
Technology Strategy	• Agency of Industrial Science and Technology (AIST – 3,537 staff, 6 programmes, 25 target fields (1995)	• Ministry of Science and Technology (MOST) • Korea Advanced Institute of Science and Technology • 9 main research centres • Implementation through HANPs (Highly Advanced National Projects)	• IDB nominates development-targeted lead products (69 in 1994) • Industrial Technology Research Institute (ITRI – 8 major subunits)	• National Science and Technology Board (administers National Technology Plan) – R & D Target 2% GDP) – 40 Researchers per 10,000 – Administers 52 BICC R & D Funds
Industry Policy/ Trade Policy	• Industrial Structure Council • 14+ Deliberation Councils • MITI – International Trade Policy Bureau (236 staff) – Basic Industries Bureau (208 staff) – Industry Location (177 staff) – Machinery and Information Industries (200 staff) – Consumer Goods Industries	• Ministry of Trade Industry and Energy (MOIE) • Korean Institute of Economics and Technology • Trade Policy/Export Promotion by Kotra (100 International Trade Centres) • Major Centres – Korea Institute of Science and Technology – Korean Research Institute of Bioscience and Biotechnology – Korea Institute of Energy Research – Korea Institute of Machinery and Metals – Electronic Research Industry	Industrial Development Bureau (Ministry of Economic Affairs)	• Economic Development Board (22 international offices) • Trade Development Board (1995 – 5 missions, 29 trade fairs)

Figure 3.1 **Institutional structures for industry strategy in Japan, Korea, and Taiwan**

Japan	Korea	Taiwan	Singapore
Microelectronics	Biotechnology	Communications	Aerospace
Biotechnology	New materials	Consumer electronics	Biotechnology
New materials	Aeronautical engineering	IT	Chemicals
Telecommunications	Oceanography	Semiconductors	Precision engineering
Commercial aircraft	Fine chemicals	Precision machinery and automation	A third petrochemical cracker
Machine tools	Informatics	Aerospace	Electronics
Robotics	Environmental audit	Advanced materials	Disk media
Computers	Precision manufactures	Speciality chemicals and pharmaceuticals	Precision engineering equipment and components
		Speciality medical devices	
		Pollution control	

Figure 3.2 **Targeted emerging industrial sectors in Japan, Korea, Taiwan, and Singapore** (Sources: Thurow 1996, 67 [Japan]; *Technical Transfer Week*, 26 June 1996 [Korea]; Matthews 1977b, 300 [Taiwan]; Economic Development Board, http://www.sedb.com.sg [Singapore])

Japan	Singapore	Taiwan
Information	RHQs	Asia Pacific Regional Operations Center
Consumer credit	Logistics	Sea/air transportation
Advertising	Lifestyle	Financial services
Education	Health	Telecommunications
Security	Communications/information	Media enterprises
Temporary staff placements	Education services	
Music	TV broadcast	
Fitness	Multimedia content	
Design		
Homes for the aged		
Home cleaning		

Figure 3.3 **Targeted services sectors in Japan, Singapore, and Taiwan** (Sources: Economic Planning Agency, http://www.epa.go.jp [Japan]; Economic Development Board Web Site http://www.sedb.com.sg [Singapore]; Council for Economic Planning and Development 1995, http://www.cepd.gov.tw [Taiwan])

There is substantial overlap between the nominated sectors. This is a consequence of the facts that regional firms have established global positions in some sectors such as electronics, and that production in these sectors is regionalized. In some cases, too, this overlap is the consequence of emerging global market sectors such as biotechnology, or of a desire to build national participation in an established sector, such as aircraft and aerospace. The selection criteria nominated by Taiwan are typical. These include strong market potential, production which is technology-demanding but not energy dependent, high value added, and a pivotal industrial position (Matthews 1997b). Explicit strategies for service sector development have been identified in figure 3.3 for Singapore, Taiwan, and Japan. Expected outcomes for sector size and growth are set in relation to both manufacturing and service target sectors; performance can thus be assessed.

The Japanese policy of preserving a bureaucratic role in the development of the industrial structure is particularly relevant because of the economic maturity of the country. It is envisaged that the Ministry of Finance will maintain financial and monetary control and that MITI will extend its role to include telecommunications; MITI also wishes not merely to foster individual industrial sectors but to be concerned with the overall industrial environment (*Nikkei Weekly*, 30 June 1997). Japanese agencies continue to give a strong lead in identifying growing sectors. The list established by MITI of these sectors (see figure 3.4) is notable for the fact that it covers emerging technologies as well as domestic manufacturing and service sectors, the outlook for market size and employment levels being specified for the last two of these.

Malaysia has targeted multimedia as an area for growth in value-added activity, the focus being the "Multimedia Super Corridor," of which the prime minister, Mahathir, has been the most active advocate. This is envisaged to provide an advanced communications infrastructure between Kuala Lumpur and a new urban centre, Cyberjava. Government investment of between US$8 billion and US$15 billion had been foreshadowed before the financial crisis. The corridor aims at hosting companies to provide multimedia content, such as digitally produced special effects and video games; by May 1997 (but before the financial crisis had fully developed), over 900 companies had made a bid to participate in the corridor (*Nikkei Weekly*, 5 May 1997).

In Thailand, Indonesia, and the Philippines, the established economic bureaucracies have sought to manage only macroeconomic aggregates, although before his downfall, President Suharto had supported family members and Technology Minister Habibie in favouring particular sectors or activities. In Indonesia, the Pelita VI strategic plan (1994–95) involved a further relaxation of restrictions on foreign investment and a reduction of tariffs. Investment has been concentrated on textiles, tourism, shoes, food processing, and timber products.

SECTORAL INCENTIVES

Targeted incentives are a direct method used to influence sectoral activity. Research and development, automation, training, and new ventures in particular are thus singled out for special benefits and concessions in the policies of Taiwan, Singapore, and Malaysia (Sicklen 1997).

BUSINESS-GOVERNMENT COLLABORATION

Business-government collaboration can contribute directly to the dissemination of ideas, choice sets, and motives; it can also contribute indirectly, as we shall point out later, to the reduction of transaction costs. This kind of collaboration has been mentioned as a particular feature of the development process. In Japan, it has been extensively documented, for instance by Okimoto, who notes: "Much of the crucial negotiation that goes into industrial policy-making takes place behind the scenes in what might be called an intermediate zone between the public and private sectors. It would be hard to formulate and implement Japanese industrial policy if the labyrinth of personal relationships in the intermediate zone did not exist." He adds: "Instead of labelling Japan a strong state [it would be] more accurate to call it a 'societal,' 'relational,' or 'network' state ... whose strength is derived from the convergence of public and private interests and the extensive network ties binding the

Technologies	**Services**			**Domestic Sectors**				
		Market size (Y trillion)			Market size (Y Trillion)		Employment (1000's)	
New materials	Information	6.17	25.00	Housing: renovation, building housing for the aged	1	4	30	90
Superconductivity	Consumer credit	13.69	24.00	Medical and welfare services: nursing equipment	38	91	3,350	3,690
Biotechnology	Advertising	6.35	10.00	Lifestyle and culture: leisure and lifelong learning businesses	8	19	1,220	1,760
Micromachinery technology	Education	3.60	5.40	Urban development: development of deep underground environments	5	16	60	150
Electronics/information	Security	1.75	2.86	Environment: recycling, waste disposal	15	37	640	1,380
Femosecond technology	Temporary staff placement	0.93	1.59	New energy sources: generating electricity from waste materials	2	7	40	130
Accelerated biofunction technology	Music	0.56	0.95	Information and communications: electronic trading	38	126	1,250	2,440

Figure 3.4 **Targeted growth sectors in Japan** (Sources: AIST, *Annual Report 1996* [Technologies]; MIT [*Nikkei Weekly*, 3 June 1995] [Services]; MIT [*Nikkei Weekly*, 2 December 1996] [Domestic sectors])

Optical topographic imaging system	Fitness	0.35	0.60	Distribution	36	132	490	1,440
Digital hearing aids	Design	0.19	0.33	Employment services	2	8	60	100
Unassisted excretion	Homes for the aged	0.06	0.16	Internationalization: convention services and translation	1	2	60	100
Stereotactic cancer treatments	Home cleaning	0.03	0.12	Business support services: technology assessment	17	29	880	1,260
Renewable energy technology				New manufacturing technology	14	41	730	1,530
Fossil fuel utilization				Biotechnology	1	10	30	150
Energy transfer				Aviation and aerospace	4	9	90	150
Environment management								

Figure 3.4 **(cont.)**

two sectors'' (Okimoto 1989, 104). The practice of *amakudari* (retirement from public service to a senior private-sector position) fertilizes contact between the state and the business sector. The transmission of information and the formation of perspectives are thus influenced in both directions, as will be examined in the next section.

In Korea, relations between the state and the chaebol were identified before 1997 developments as a threat to continued growth (Clifford 1997; Evans 1995). The economic dominance of these conglomerates was remarkable, with the 50 largest organizations contributing 93 per cent of GDP in 1983 (Lim 1996, 2). As Evans notes: ''Korea is pushing at the limit at which embeddedness can be concentrated without partial predation'' (1992, 158), while financial liberalization, to the extent that it has occurred, has not been used to curb the chaebols' power (Kong 1995). Dieter Ernst (1996) has noted the dysfunctionality of chaebol strategies for upgrading technology in the critical electronics sector. In Taiwan, on the contrary, the business sector is dominated by small and medium-sized enterprises, while large enterprises are mostly state-owned. As a result, the top 50 firms contributed only 32 per cent of GNP in 1983. One study suggests that organized business had developed close relationships with the dominant party, the KMT (Shiau 1996).

There are differences among the states in the character of relations with the bureaucracy. Kong observes that relations between bureaucrats and business in Korea are, in contrast to Japan, ''vertical, secretive, and exclusionary'' (1995, 636). For Taiwan, Evans notes that ''weak links to private capital threaten the state's ability to secure full information ... and efficient implementation'' (1992, 158).

In Southeast Asia, the situation is more problematic. In Thailand, business-government collaboration is thoroughly institutionalized for established industries, but it coexists with endemic corruption (Anek 1992). In Malaysia, the institutional apparatus came to acquire a quasi-developmental pattern fairly late, especially with the Malaysian Business Council which was set up in 1991. But according to Bowie, ''direct personal access is a *sine qua non* for obtaining partnerships in privatised government operations and infrastructure projects'' (Bowie 1994, 189). In Indonesia, ''traditional patrimonialistic or clientelistic patterns of political participation endure in the business community.... State-allocated monopolies are the key to business success'' (MacIntyre 1994b, 243). In the Philippines, President Marcos's crony coalition was significantly weakened with the restoration of democracy. This was confirmed by the course of the Lakas-LDP coalition from April 1995 to November 1996.

Following the events of 1997, pressure for more transparent rules, administrative processes, and a non-corrupt regulatory infrastructure have come from the IMF and foreign investors.

Transaction costs

Transaction costs arise in measuring the valued attributes of what is being exchanged, of protecting rights, and of enforcing agreements. They are pervasive in economic activity and can result from patterns of culture; failure of governance, markets, or co-ordination; limitations of ideas; and genuine uncertainty. Steps which might be taken to reduce those transaction costs which stem from limitations of ideas and from uncertainty have already been discussed. Governance can affect transaction costs both formally and informally and both directly and indirectly: for example, the regime of property rights might be more or less formalized and more or less comprehensive. The 1997 financial crisis points to deficiencies in the affected states. Similarly, social trust might be based on a mix of formal agreements on such matters as wage outcomes, indirect programmes such as welfare and training arrangements, and tacit understandings on matters such as norms of authority and hierarchy (Redding 1996).

Regarding market failures, it is important to note that these are endemic. Dunning identifies five categories of endemic failure: (1) those arising from uncertainties concerning supply and/or demand, for instance concerning future prices and qualities of inputs, future demand conditions, and the behaviour of competitors; (2) those arising from externalities associated with transactions, for instance environmental consequences; (3) those arising from effects of scale where optimum production may influence price; (4) those arising from high start-up or fixed costs and low or zero production costs, as in telecommunications; and (5) those arising from chronic rigidity, as in labour and capital goods markets (Dunning 1993). At the same time, it is necessary to distinguish between dysfunctional and positive market failures. For example, when innovation and technology development are the engine of economic growth, market failures differentiate opportunities for gain: this creates incentives for innovation (Kelm 1995).

So far as failures of co-ordination are concerned, governments can reduce these, for instance, by initiating co-ordination focused on more remote and less certain global markets and by announcing changes in industry structure. Thus in December 1996, the Korean Ministry of Information and Communications presented a strategy for development of what it termed the "infocommunications" subsector. The programmes covered developments in existing product lines up to 2001 and in emerging technology beyond 2000. In each product category, global market size and Korean market share were specified precisely. The global telecommunications equipment market was estimated to grow to US$1.2 trillion by 2000. The telecommunications gear industry was expected to grow from US$929 million in 1997 to US$1.048 trillion by 1999; meanwhile, Korean telecommunications companies exported US$26 billion worth of goods in 1997 and were expected to export US$59 billion worth by 2001. Production and export goals for the software industry by 2001 were established at US$20 billion and US$2.5 billion respectively: it was estimated that 500 new software companies would need to be created if this target was to be met.

Government investment in R & D activities of 1.9598 trillion won (approx. US$1.7 trillion) by 2000 was predicted. A joint public-private project involving the commercialization of a future public land-mobile telecom service (FPLMTS) cellular technology was announced: this project is designed to enable Korean industry to supply the next generation of wireless communication services, including voice, data, and video, which is expected to replace cellular services from 2000.

In general, transaction costs can be reduced through processes which ensure repeated interactions between key participants. As North states: "The most likely empirically observable state in which contracts are self-enforcing is that in which parties to an exchange have a great deal of knowledge of each other and are involved in repeat dealings. . . . In such a world the measured costs of transacting are very low" (1992, 55).

In a discussion of the characteristics of Japan as a "network state," Moon and Prasad argue that "the factor influencing economic performance is not state dominance or bureaucratic competence, but continued interactions between public and private organisations." These arrangements diminish transaction costs through "extended bounded rationality, reduced opportunism and uncertainty, reduced small number indeterminacies, better information, and a group-oriented atmosphere" (1994, 360–86). Dore notes the contribution of interaction to the diminution of transaction costs in framing longer-term business strategies in Japan (1996, 367). The role of the state has progressively changed from being directive to being collaborative, with information playing increasingly a key part (Wang 1995, 568–69).

In the context of a discussion of formal public- and private-sector consultation and other patterns of interaction in Korea and Taiwan, Hawes and Liu suggest that

> [states] can reduce transaction and information costs as well as provide collective goods. They do this by reducing bureaucratic red tape, by pooling information, by reducing the need for regulation, and by increasing the efficiency of decision-making. The collective goods produced by these institutions may include market information, sectoral co-ordination, bargaining leverage, or a myriad of other factors that have helped to make Southeast Asia internationally competitive in an expanding range of products and services. (1993, 656)

Sabel embellishes this theme in discussing exchange in Japan. He argues that transaction costs are reduced by building from, and making explicit, the shared or common interests of the parties. This arises from

> institutions that make discussion of what to do inextricable from discussion of what is being done and the discussion of standards for apportioning gains and losses inextricable from apportionment.... discrete transactions among independent actors become continual joint formulations of common ends in which the parties' identities are reciprocally defined.... These institutions transform transactions into discussions, for discussion is precisely the process by which parties come to reinterpret themselves and their relation to each other by elaborating a common understanding of the world." (1994, 231–74)

Transaction costs increase as governmental capacities – including law and order, administration, ports, harbours, transports, banking, and customs – diminish. These capacities have been found to be much less embedded in the states of Southeast Asia than in those of East Asia. In 1994, MacIntyre reached a cautious, even pessimistic, conclusion about the general condition of economic governance in the region: "Limited capacities and insulation of Southeast Asian state institutions are likely to be a serious constraint on economic performance" (1994a, 17). The events of 1997 seem to vindicate this judgement. Ethnic pressures differentiate the political circumstances of Malaysia, Indonesia, and Singapore from those of Korea, Taiwan (and Japan) (Jesudasan 1996). Overseas Chinese dominate the business sector in Southeast Asian states: in Malaysia, they account for 36 per cent of the population but control 61 per cent of companies in terms of market capitalization; in Indonesia, for 3.5 per cent of the population and 68 per cent of companies; and in Thailand, for 10 per cent of the population and 81 per cent of companies (East Asia Analytical Unit 1995).

The dependence of Southeast Asian states on DFI is a contextual factor differentiating their experience from that of the states of East Asia. Moreover, the instruments available to the former states for economic governance are different from those available to Japan in the 1950s and to Korea and Taiwan in the 1960s and 1970s, in particular because of U.S. bilateralism and because of the advent of the World Trade Organisation (Strange 1996).

The 1997 financial crisis in Thailand, Korea, Indonesia, Malaysia, and the Philippines, at least in part, reflected a perception by international investors that transparency and other prudential arrangements in the financial sector were inadequate. The precise conditions and circumstances in each state remain to be evaluated. A systematic collection and analysis of data relating to transaction costs remains to be undertaken.

Creativity, innovation, and skills

Economic governance can foster innovation and skills through compulsory education and through programmes which encourage research and development.

The emphasis on compulsory schooling in the states of the area and the success of these states in achieving skills development in fields such as mathematics and computing have been thoroughly documented (World Bank 1993). The experience of Southeast Asian states may again have to be distinguished from that of East Asia: Thailand, in particular, has achieved lower rates of educational participation and retention.

In relation to research and technology, the states of East Asia all have active strategies based on lead agencies, clear performance goals, targeted technologies, and elaborate arrangements for public–private sector co-operation: Hobday (1995) and Mathews (1997a) document these points for the electronics sector. Japan's commitment is clear, with total spending in these fields of approximately US$75 billion, or US$97 per labour force member, in 1993: this figure was higher than that of the United States, where expenditure was only US$76 per labour force member. Korea would have to spend 60 per cent of its entire GDP to achieve a similar level of expenditure (Kong 1995).

All the states of the area have clear development targets, following the model of Japan's Agency for Industrial Science and Technology, which set technology priorities in 15 areas in 1995. Thus, in 1994, and within the framework of its nominated 10 sectors, Taiwan's Industrial Development Bureau selected 69 components and products as "development targeted lead products" (DTLP). The criteria for selection were high added value, good development potential, contribution to competitiveness of downstream products, and import replacement. These 69 products were estimated to have a near-term production value of US$11 billion rising to US$50 billion early in the twenty-first century. Firms seeking to develop their products were eligible for a 50 per cent subsidy for development costs and a subsidized loan for the balance; the government owns 50 per cent of any resulting intellectual property.

The Korean government also launched a programme designated "Highly Advanced National Project" (HANP) which is intended to select and develop strategic industrial technology requiring nationwide R & D investment. Two categories of HANPs have been selected. The first group, the Products Technology Development Project, concerns technologies for specific products which have or will have a substantial share in the global industrial markets; the second group, the Fundamental Technology Development Project, concerns core technologies; products resulting from both projects should be available by 2001. Fourteen HANPs were set up in 1995.

The effectiveness of technology transfer programmes in Southeast Asia is less clear. Japanese companies, as the principal investors, are also the principal potential source of such transfers. State action can be seen in programmes designed to achieve linkage between investing firms, local enterprises, and local citizens. Moore's judgement is cautious: "Japan's record of technology transfer has improved in the 1990s.... While more advanced technology has been transferred, this does not necessarily bode well for the emerging NICs since this kind of export-oriented production is often highly reliant on imported inputs, automated manufacturing processes, and foreign management" (1996, 24; also Bernard and Ravenhill 1995).

Government failure

There is a familiar litany of arguments against state action. Purposive action is a powerful source of co-ordination and selective action has special advantages, but as Kelm observes, selective action "has inherent disadvantages as a generator of incentives" (1995, 63). In markets, he argues, "the unconscious force of natural selection operates only on the basis of achieved results without taking the individual circumstances affecting these results into account" (55). In contrast, purposive state action always introduces evaluation and assessment and the problem of withdrawing support from unsuccessful ventures.

A number of findings derived from the transposition of assumptions originating in the neoclassical model of economic activity to the political sphere suggest that, even in an imperfect world, action by the state is unlikely to be preferable to market-based decisions because of the knowledge needed for effective state action. "Misapplication, abuse, interest group capture, mistaken targeting, and bungling can bring about economically undesirable outcomes" (Murtha and Lenway 1994, 120). Such a list suggests a taxonomy of governmental failures which might also allow for remedial practices to be documented.

There are indeed numerous studies of governmental failure in East and Southeast Asia (Callon 1996; Islam 1994). There is also extensive empirical evidence of corruption: bribery scandals have caused political crises in Korea and Japan, for instance, while corruption is acknowledged to be endemic in Thailand and Indonesia, and Gomez (1998) regards rent seeking as pervasive in Malaysia.

But the weight of evidence, at least up until the early 1990s, and at least in East Asia, favours an opposite conclusion. The developmental state, conceived as an ideal type, was the antidote to government failure. Bureaucratic capture, at least until the early 1990s, had been resisted through elite recruitment and the prestige attaching to public service. Bureaucratic authority was reinforced, at least in Korea and Taiwan and at least through the 1980s, by a capacity to influence capital allocations and to initiate tax audits (Rodrik 1995). But there were also marked contrasts between states. For example, in a comparison with Japan, Kong observed: "The divergence of state and business interests originated in the 1980s. . . . five years after democratization a smooth partnership of the Japanese type has yet to materialize" (Kong 1995, 636–37).

The East and Southeast Asian experience also illustrates the extent to which a state can absorb corruption and (episodic) government failure and still foster development. The causal relationship seems contingent. Aoki identifies a variety of remedies for government failure in both East and Southeast Asia. He cites instances of corruption which had positive effects (Aoki et al. 1996, 14–18).

The financial crisis of 1997 also challenges the earlier findings of persistent government failure. The first point to note is that factors other than government failure might be introduced to explain this crisis. An obvious market failure occurred at the level of the international financial system. Total short-term fund flows by commercial banks to East and Southeast Asia escalated from US$24 billion in 1994 to US$53 billion in 1996. In 1997, the flow was reversed by US$74 billion (Wade 1998). The eagerness of commercial banks to lend coincided, in Korea's case, with a partial liberalization of its financial markets that occurred as a condition of entry to the OECD in 1995. International lending entered a "liberalized" domestic system and coincided with chaebol ambitions to attain global scale.

Underlying domestic conditions in Korea and Southeast Asian states also contributed to the crisis. In the former case, the economic dominance of a few chaebol has already been noted. Perhaps the single most important factor was the relaxation of firm state leadership as part of the democratization that occurred progressively after 1988, and particularly in the mid-1990s. Wade and Veneroso reach pessimistic conclusions regarding Korea's prospects (1998). By contrast, Matthews anticipates the emergence of a reworked state framework that is more attuned to Korea's expanded international economic role and its domestic democratic consolidation (1998). Others are more pessimistic about the embeddedness of its party system (Ahn, this volume). In Southeast Asia, lax control of financial markets, cronyism, and the eroding authority of the technocrats (in Indonesia and Thailand particularly), have already been noted.

In sum, the financial crisis and Japan's prolonged recession suggest a variety of issues for attention concerning government and market failure. The most prominent is perhaps the anarchic condition of the international financial system itself (Kapstein 1994).

The findings of this chapter can now be summarized – bearing in mind, however, that the complexity of the issues, the variations in economic (and political) dynamics, and the shortage of empirical data all point to a need for more evidence and analysis. The financial crisis of 1997 compounds these gaps and enhances the uncertainties.

The extent of pervasiveness of the developmental pattern described at the outset of this chapter is the first issue. This approach to economic governance exists in its most elaborated form in the states of East Asia. The states of Southeast Asia have been dirigiste, at least in some respects, but their practices depart significantly from the "ideal" developmental pattern in relation to both bureaucratic autonomy and embeddedness. These states have pursued an economic strategy of shared growth, but the results seem more uneven than those achieved in East Asia. Further, economic growth in Southeast Asian states was spawned by the regionalization of production and DFI was the catalyst, thus introducing a different context for economic governance from that of East Asia; moreover, overseas Chinese networks have dominated economic activity. Thus it seems difficult to discover a common pattern in the management of structural outcomes among these states: while Malaysia and Indonesia have endeavoured to influence the industrial structure and the formation of indigenous firms, Thailand and the Philippines have eschewed elaborate economic governance.

The political context for economic governance also varies between East and Southeast Asia. In both Korea and Taiwan, democratization and a move towards more consensual business-government relations is taking place. Meanwhile, the traditional pattern has been maintained in Singapore, though some pressures for change are beginning to emerge at the sectoral level. Thus, in all three states, as well as in the special case of Hong Kong, there is a trend towards more collaboration in economic governance, through democratization, through the elaboration of structures of business-government relations, through the need for strategies to accommodate labour, and through increasing reliance on information as a medium of exchange.

The political context for economic governance varies widely in Southeast Asia, with the Philippines and Thailand the most democratic, and Malaysia to an extent democratic while Indonesia remained authoritarian, at least until the downfall of Suharto. There is also some evidence of an active civil society, based on an urban middle class, in Thailand, Indonesia, and the Philippines, but only to a lesser extent in Malaysia (e.g., Laber 1997; Jesudasan 1995; Bell et al. 1995). In this latter case, at least so far, the established regime has mostly co-opted new groups, or groups which lack the weight to challenge the dominant order. All these states will be profoundly affected by the events of 1997 as middle-class expectations are curbed, elite rent seeking is curtailed, and unemployment expands.

Questions of social relationships lead to questions of politics; economic governance is obviously also dependent on politics as public servants can be helped or frustrated by the actions of politicians. We need, therefore, to bring together the findings relating to economic governance discussed in this chapter and those relating to politics examined in the previous chapter to see how far, in East and Southeast Asia, the links between politics and economics are likely to continue to result in growth and development, whatever constraints may be imposed on the states of the area by democratization. It is therefore to the character and to the consequences of the links between political behaviour and economic governance that the next chapter is devoted.

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