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**Mark Beeson**

# The Political Consequences of the Southeast Asian Region's Economic Vulnerability

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**Southeast Asia Research Centre**
The City University of Hong Kong
83 Tat Chee Avenue
Kowloon Tong, Hong Kong SAR
Tel: (852) 2194 2352
Fax: (852) 2194 2353
http://www.cityu.edu.hk/searc
**email: searc@cityu.edu.hk**

**The Political Consequences of the Southeast Asian Region's Economic Vulnerability**

**Mark Beeson**
**Senior Lecturer**
**School of Asian and International Studies**
**Griffith University**
**Australia**
M.Beeson@mailbox.gu.edu.au

While the status and composition of all regions may be inherently artificial, the position of Southeast Asia is especially contentious. The very idea of 'Southeast Asia' as a discrete, geographically demarcated area, is emblematic of the dependant and peripheral position that most countries of Southeast Asia have experienced over the last two hundred years. The very notion of 'Asia' as we currently think of it is a product of that complex area's interaction with the European powers (Korhonen 1997). At a more tangible level, the development of the disparate societies of Southeast Asia in particular, has been defined and delimited by the simultaneous intrusion of the Western powers and the concomitant expansion of capitalism as the dominant mode of economic organisation throughout the world (Beeson 2001). Indeed, it is possible to argue that the latterly independent nations of the region are both creations of, and still struggling to come to terms with, this complex and problematic historical legacy.

In short, the countries of modern Southeast Asia, both as independent nations and as colonies of various imperial powers, have been highly vulnerable to the actions of more powerful political and economic forces in the wider international system. The impact of such forces, and the degree of success with which the nations of Southeast Asia have managed them, will be among the central concerns of this essay.

Consequently, the first part of this paper places the Southeast Asian region in its specific historical context. I argue that it is simply not possible to understand the economic challenges and the political responses that have emerged in what we now think of as Southeast Asia without giving appropriate consideration to the – often overwhelmingly powerful – external forces that have shaped the region. Not only have such forces fundamentally influenced the course of domestic political and economic development, and led to a concomitant preoccupation with nation-building and the protection of national sovereignty, but they have also underpinned a number of important intra-regional developments. The second part of the paper considers the rise and fall of the 'Southeast Asian miracle', a process of economic development that initially seemed to hold out the possibility that the region might escape from its vulnerable position, but which now seems to confirm it. Finally, and given the foregoing constraints, I consider what sort of presence the Southeast Asian region has on the wider world stage in which inter-regional interaction is coming to play an increasingly important role. Here I suggest that the historical pattern of Southeast Asian vulnerability and subordination to greater external forces looks set to continue, albeit in slightly different ways.

**Southeast Asia in Historical Context**

One of the defining characteristics of Southeast Asia is its heterogeneity. In stark contrast with Western Europe, there is very little ‘natural’ basis for regional development. Apart from sheer geographical contingency and the arbitrary organisational requirements of Britain’s military operations in Asia during World War 2,[1] there is no obvious reason why the countries of the region should be considered as constituting a distinct region at all. At the level of brute geography, it is not clear why Myanmar, for example, should be included in South*east* Asia. Conversely, Papua New Guinea is clearly geographically part of the region, but has not been incorporated into all of the political expressions of ‘regionness’, in which the ‘passive object’ of geography is translated into ‘an active subject capable of articulating the transnational interests of the emerging region’ (Hettne and Söderbaum 2000: 457). For the purposes of this essay, it will be this latter, more actively constructed sense of regional identity that will be of central concern.

Yet even if the region is more narrowly defined in this manner, it is important to re-emphasise just how disparate and divergent the nations of the region are. The most important political expression of this nascent regionalism[2] is the Association of Southeast Asian Nations (ASEAN), which now embraces most of the countries of Southeast Asia. In addition to the founding members Malaysia, Indonesia, the Philippines, Thailand, and Singapore, the organisation has expanded to include, Brunei, Vietnam, Laos, Cambodia and – most controversially – Myanmar. I shall consider the possible ‘widening and deepening’ of ASEAN in more detail later, but overall I shall give greatest analytical attention to the pivotal founding members of ASEAN. The point to note at this stage, however, is that ASEAN, and the geographic region it represents, encompasses a complex mosaic of political structures, levels of economic development and more expansively defined cultural practices. At one level this is manifest in the gulf between Singaporean city-state’s ‘first world’ living standards, on the one hand, and the impoverished and much larger populations of the Indo-Chinese region and Indonesia on the other. At another level, there are major differences between say Buddhist Thailand, Islamic Indonesia and Malaysia, and the Christian stronghold of the Philippines – to say nothing of the increasingly fractious ethnic and religious minorities each of these countries contains *within* their respective borders.

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[1] The notion of a distinct Southeast Asian region only came into being during the Second World War, when the British established a South-East Asia Command to coordinate the war effort against the Japanese (Korhonen 1997: 356).

[2] It has now become conventional to distinguish ‘regionalism’ , or state-led cooperative political projects, from ‘regionalisation’, or processes that are primarily market-driven. Such a distinction can also be applied respectively to *de jure* or *de facto* processes of regional integration. For useful discussions of these issues, see Hurrell (1995) and Oman (1994).

The disparate ethnic and religious formations that are so characteristic of the region, and which present such a profound challenge to national and regional coherence, serve as a powerful reminder of just how profoundly the region has been shaped by external forces. Whether it is the impact of successive waves of religious traditions over the course of several millennia, or the more recent impact of Western colonialism, Southeast Asia – for better or worse – owes much of its contemporary shape to exogenous influences. The incorporation of much of Southeast Asia into a powerful, increasingly global capitalist system, in a process that fundamentally transformed existent social structures and gave economic control to the colonial powers, helps to explain why most of Southeast Asia has been plagued by poverty ever since (Reid 2000). As Bob Elson argues, when confronted with the intrusion of a Western capitalist economic order undergirded by an irresistible military capacity local peoples had two options: 'cooperation or ignominy' (Elson 1992: 140).

Significantly, the origins of the contemporary political structures of Southeast Asia, and many of the problems that have subsequently confronted them, can be traced to the intrusion and subsequent withdrawal of the colonial powers from Southeast Asia over the course of the nineteenth and twentieth centuries. The expansion of the states system from Europe throughout the rest of the world not only generated an overarching institutional infrastructure into which the freshly minted states of post-colonial Asia would subsequently aspire to fit (Watson 1992), but it also profoundly influenced the domestic shape of those states. The development of domestic bureaucracies, the scope and style of government, and the increasing centralisation of power, all reflected the influence of European organisational practices (Elson 1992). And yet, when many of the European colonial powers were finally expelled from the region in the aftermath of the Second World War, following their humiliating defeats at the hands of Asia's first successful industrial power – the Japanese – the newly independent governments found themselves confronting profound challenges of nation-building and economic development.

*The challenges of independence*

The leaders of Southeast Asia's newly independent nations faced problems that other regions have not had to confront in the same way, not the least of which was the challenge of nation-building itself. This problem was compounded by the complex ethnic legacy of colonialism. The dominant European powers encouraged large scale migration into the region to supply the labour needs of their colonial empires. Indentured labour from China in particular, not only created racial divisions which have provided potential sources of social conflict in countries like Indonesia and Malaysia, but they laid the foundations for an enduring source of economic power that has shaped subsequent economic *and* political development throughout the region. The 'overseas Chinese', for example, or the estimated 50 million or so ethnic Chinese resident in Asia outside China, are now a powerful economic and political force in Southeast Asia. As a consequence of these multifaceted questions of ethnic and national identity, plus the difficulty of operating within fragile political structures that often lacked political legitimacy, to say nothing of the broader challenge of promoting economic development, the governments of these emergent nations developed a predictable preoccupation with internal stability and security (Ayoob 1995). In such circumstances, the development of the authoritarian rule that is so characteristic of much of the region's history is perhaps unsurprising.

Yet it is important to recognise that authoritarianism took hold in post-war Southeast Asia under very different circumstances from those which prevail today. One of the reasons that Indonesia, for example, was able to rid itself of Dutch colonial rule, was that it had the support of the United States. The US had assumed the hegemonic leadership of the capitalist 'free world' and was preoccupied with shoring up potential allies against its ideological rival, the Soviet Union. In the context of the Cold War, the US was not only prepared to bully a number of its European allies into recognising that the colonial moment had passed, but it was equally prepared to turn a blind eye to the installation of non-democratic, authoritarian leaders throughput the region – as long as they were either within the Western capitalist camp, or at least not aligned to their socialist opponents (McMahon 1999). Indeed, the so-called 'non-aligned' nations like Indonesia were able to exploit the rivalry between the American and Soviet camps to their own advantage at the height of the Cold War (Yahuda 1996). With the collapse of the Soviet Union and the end of this sort of strategic rivalry in Asia, however, a fundamentally new set of circumstances obtains in which the US is less prepared to tolerate economic and political practises of which it does not approve (Buzan and Little 1999; Beeson 1999).

The post-war geo-strategic situation in which the states of Southeast Asia either gained, or in the case of Thailand, attempted to consolidate their independence, was a complex mixture of threats and opportunities. Certainly, the economically tiny and militarily insignificant nations of the region were incapable of independently affecting the overarching security environment of which they were a part, but for some countries, at least, there were potential advantages to be exploited. The Vietnam war may have been a tragedy for much of Indo-China, but for countries like Singapore and Thailand, it provided – in much the same way as the earlier Korean War had for Northeast Asia – a catalyst for export-oriented industrialisation (Stubbs 1999). The other crucial development that the Vietnam War in particular, and the wider Cold War strategic contestation in general, helped fuel was the formation of ASEAN.

The numerous criticisms of, and challenges to, ASEAN will be considered in more detail later, but for all its shortcomings, it remains the most enduring multilateral institution in the developing world. ASEAN's very continued existence in the face of significant threats and obstacles must be considered some sort of achievement. Much of its early success, and the immediate motivation for its foundation in 1967, was a direct consequence of its founding members' mutual concerns about regional security generally, with the rise of China and the US intervention in Indochina being issues of particular concern (Frost 1990: 4). Earlier attempts to create an institutional forum within which to manage intra-regional relations and tensions had been undermined by disputes between Malaysia, the Philippines and Indonesia. ASEAN's ability to at least avoid outright conflict between its highlight disparate and fiercely independent members owes much to the fact that regional relationships were institutionalised and routinised. The members of ASEAN became socialised into patterns of conduct and committed to collaborative norms in ways which discouraged conflict and underpinned ASEAN's 'long peace' (Kivimäki 2001). Yet for all its comparative success in the security arena, ASEAN has been less successful in managing or promoting the region's economic development and intra-regional relations. In the wake of the Cold War's end, this has become a more conspicuous failing. To see why economic issues have proved so problematic, it is necessary to look more closely at the region's recent economic development.

## The rise and fall of the Southeast Asian miracle

When the World Bank (1993) produced its seminal report on East Asia's 'miraculous' economic development, it was not just describing established industrial powers like Japan and the celebrated 'tiger' economies of Hong Kong, Korea, Singapore and Taiwan. Also included in this group of stellar performers were Indonesia, Malaysia and Thailand. When judged by the remarkable economic growth rates they began to achieve from the 1960s onwards, their inclusion is not as surprising as it may now seem with the benefit of hindsight. We now know, of course, that Southeast Asia in general was especially badly affected by the crisis, but it is important to remember that before the crisis hit there were very few sceptics about either the basis or the resilience of the region's phenomenal performance.[3] Paradoxically enough, the positive sentiment evinced toward the region as a whole, not just by influential international financial institutions (IFIs) like the World Bank, but also by increasingly powerful institutional investors, played a major part in unravelling the Southeast Asian component of the 'Asian miracle'. Ill-informed institutional investors recklessly and indiscriminately poured money into 'Asia', creating both the pre-conditions for crisis and unsustainable economic bubbles, especially in the smaller Southeast Asian economies (Winters 2000). One of the enduring factors that the crisis highlighted, and which contributed to the dramatic transformation in the region's fortunes, has been a failure to adequately discriminate between the Northern and Southern parts of 'East Asia' generally, and between the individual countries that constitute these very different areas in particular.

The first step in trying to understand why the countries of Southeast were so badly affected by the crisis, therefore, is to distinguish between the successive waves of industrialisation and economic development that have occurred in the broader East Asian region. Significantly, the original Asian miracle – Japan – was already an established industrial power even before World War 2. Despite the devastating blow the war dealt Japan, it had a basic institutional infrastructure, replete with a competent bureaucracy and – at that time – highly effective business-government relations which allowed it to 'catch-up' with its

[3] For an important exception, see Krugman (1994).

North America and western European rivals in a remarkable and unprecedentedly short space of time (Tabb 1995). The Japanese pattern of state-led industrialisation and economic development proved an influential model for the majority of the second wave of industrialising nations that followed in its wake. Of the very successful 'gang of four' – Taiwan, Korea, Singapore and Hong Kong – only Hong Kong was not highly influenced by the Japanese exemplar (Castells 1992). Crucially, however, these successful acolytes possessed a number of fundamental advantages that allowed them to emulate much of Japan's success in an even more truncated time frame. On the one hand, they were able to take advantage of a general up-turn in, and restructuring of, the wider global economy, allowing them to occupy specialist niches in an emergent 'new international division of labour'. On the other hand, they were able to target lucrative export markets, especially in the US, secure in the knowledge that their often unashamedly mercantilist economic strategies would be tolerated because of the US's wider strategic interests. Arguably of greatest significance, however, was the existence of significant 'state capacity', underpinned by competent and relatively independent bureaucracies (Wade 1990; Weiss and Hobson 1995).

Southeast Asia, by contrast, faced a very different set of circumstances. Firstly, the industrialisation process generally and the switch to export-oriented development in particular, occurred a good deal later than in other parts of the region. Whereas countries like Taiwan and Korea had rapidly industrialised from the 1950s and shifted toward the promotion of export-oriented manufacturing industries during the 1960s, Thailand, Malaysia and Indonesia did not make the transition from resource-based to more industrialised economies until the 1970s and 1980s (World Bank 1993). Moreover, even where industrialisation did occur, this did not mean that the nations of Southeast Asia inevitably replicated the developmental experience and successes of the earlier waves of industrialising nations.

The idea that the East Asian region would collectively make a steady progress toward increasingly sophisticated forms of industrial production underpinned some of the most powerful ideas about the region and the concomitant prospects for an 'Asian century'.[4] Amongst a number of influential – mainly Japanese – economists, this idea was captured in the metaphor of the 'flying geese', in which Japan pioneered the Asian route to industrial development and pulled along the other regional economies in its wake (see Gangopadhyay 1998). The reality has been very different. Not only have Japanese companies often not transferred technology to those countries at the bottom of the developmental pyramid in Southeast Asia, but they have not necessarily shifted out of lower-value added production in the expected manner either (Bernard and Ravenhill 1995). Consequently, many neighbouring countries have not only found it difficult to break into some of the more lucrative and sophisticated forms of manufacturing, or to establish the sorts of complex domestic linkages that

[4] The literature on the 'Asian miracle' and the possibility of a Pacific century is extensive. For a prescient, critical review of the background issue, see Berger (1997)

have allowed a 'deepening' of the industrialisation process to occur.[5] The smaller economies of the region have, however, found themselves caught up in a web of complex and constricting economic and political relationships where investment has occurred (Hatch and Yamamura 1996).

Japan's dominance of the wider East Asian economic region has implications that merit elaboration. Firstly, Japan has been a crucial source of investment for the rest of the region, especially in the wake of the so-called Plaza Accord[6] which saw a fundamental restructuring of Japanese industry as a consequence of the yen's appreciation. The massive outflows of Japanese capital that intensified at the end of the 1980s had an important global impact, but were especially influential amongst the smaller Southeast Asian economies. But as Japanese industry moved offshore it did so with the assistance of the Japanese government in a co-ordinated manner that reproduced the hierarchical dominance of Japanese industry across the region, effectively locking other countries into subordinate and dependent positions (Beeson 2001b). As a consequence, the triangular relationship between Japan, its Asian neighbours and the lucrative markets of North America and Europe was consolidated, as Japan exported capital goods to Asia and finished products to the US. Southeast Asia found itself simultaneously dependant on and vulnerable to Japan, and to the export markets that underpinned Southeast Asia's industrialisation strategies. The structural development of industry in Southeast Asia and its location in the wider regional scheme of things, helps to explain the impact of the crisis.

*Southeast Asia in crisis*

There is no intention of re-telling the story of the East Asian economic crisis in any detail here, as numerous accounts now exist of this episode.[7] However, it is necessary to highlight a number of aspects of the crisis as it both transformed the way Southeast Asia is viewed by potential investors and the powerful IFIs like the International Monetary Fund (IMF), and fundamentally altered the circumstances in which future development will take place.

The first point to make about the crisis is that there are a number quite different explanations of what happened, even though most observers agree on the basic facts. In essence, the story of the East Asian economic collapse is that in late 1997 a localised currency crisis in Thailand rapidly and unexpectedly spread throughout Southeast Asia and then on to Korea and even Japan. This caused a massive withdraw of capital from the region, a major loss of confidence in most of its economies, and a collapse in foreign exchange and

[5] The prominent role played by export processing zones in Southeast Asian industrialization has also entrenched the labor intensive, import dependant nature of much regional manufacturing. See, Amirahmadi Wu (1995).
[6] Under pressure from the US, the Japanese assisted in engineering a major appreciation in the value of the yen, something that encouraged large scale outflows of capital from Japan and contributed to the development of Japan's bubble economy. See Leaver (1993).
[7] See, for example, Robison, R. et al (2000), Noble and Ravenhill (2000), and Pempel (1999).

equity markets as a consequence. In countries like Korea, Malaysia, and especially Thailand and Indonesia, economic collapse was followed by political instability, as a number of countries in the region rapidly descended into a negative downward spiral in which declining confidence undermined local currencies, creating further problems for domestic banks, companies and ultimately households (Krugman 1999: 94). Although the IMF was quickly called in to try and restore stability, a number of influential observers have argued that its actions actually made things worse rather then better (Sachs 1997), and that its heavy-handed intervention fuelled a sense of resentment about the region's vulnerable position in the international system (Higgott 2000).

In trying to make sense of why the crisis occurred and why it had such a devastating, rapid impact, different observers have stressed alternative factors in developing their explanations. In part, explanations of the crisis, like the earlier debate about the causses of the original 'Asian miracle', reflect the theoretical and even normative prejudices of the observers. The East Asian developmental experience has long provided an arena in which advocates of various theoretical and developmental paradigms can utilise the Asian experience to press their respective positions. It should come as no surprise, therefore, that explanations of the crisis fall into quite distinctive camps. For the more orthodoxly inclined economists who were never comfortable with the prominent role attributed to the state in the East Asian developmental experience generally, the crisis suggested that their arguments about the possible dangers of close business-government relations were vindicated. Consequently, those who consider market-led economic development to be preferable to the state-led variety, have tended to attribute the crisis to the domestic failings of regional economies. The emphasis has been on problems associated with a lack of transparency, 'crony capitalism' and the poor policy choices that result from close relationships between governments and powerful economic actors (Corsetti et al 1999; Garnaut 1998).

In contrast, commentators that have taken a more sympathetic approach to the role of the state in the region's development have argued that it has been the impact of changes in the external environment within which East Asian states operate that has undermined their overall position. Wade and Veneroso (1998), for example, suggest that the famously high savings rates that are associated with most of the regional economies not only provided a basis for an indigenously financed processes of economic expansion, but could have insulated these economies from externally generated risks. However, once the countries of the region had been encouraged to open their capital accounts and plug themselves more directly into global circuits of finance capital, they became highly vulnerable to massive, often highly speculative, movements of money, and to the judgement of the 'international investment community'.[8] In Southeast Asia, it is suggested (Weiss 1999: 328), a lack of requisite institutional development and concomitant state capacity to control and direct

[8] Given that much of the investment into Southeast Asia recently has been in the form of short-term lending and/or portfolio investment it is a moot point whether terms like 'investors' or the even more nebulous 'investment community' are really useful.

the developmental process exacerbated these potential risks. Certainly, in the case of the most badly affected Southeast Asian country – Indonesia – a combination of potential access to massive capital flows that dwarfed the Indonesian economy, and a state without the capacity, or often the desire, to regulate such flows, provided the preconditions for disaster (Beeson 1998).

Neither side of the debate has a monopoly of wisdom in explaining the crisis. Plainly, there were problems associated with the 'minister's nephew' syndrome, in which political connections were often more important than economic credibility in accessing foreign funds from domestic financial intermediaries with little regulatory oversight (Krugman 1999: 88). Yet the existence of 'crony capitalism' and the possible distortion of market forces is not a sufficient explanation of the region's problems. Indeed, if such factors were so important, why were they not highlighted as dangers and obstacles to growth by either potential investors or institutions like the IMF *before* the crisis? In a noteworthy fracturing of the so-called 'Washington consensus'[9] that underpinned the market-based international economic orthodoxy, the World Bank's chief economist argued that there was no simple relationship between 'corruption', a lack of transparency and economic crisis. On the contrary, Stiglitz (1998) pointed out that China, one of the least open or transparent countries in the region had been insulated because it had a closed capital account and a non-tradeable currency. The crucial source of vulnerability as far as the Southeast Asian economies were concerned, then, was to embark upon rapid financial liberalisation without adequate supervisory controls, leaving them exposed to abrupt changes in market sentiment and possible rapid capital flight.

In short, the crisis revealed, yet again, the enduring vulnerability of the countries of Southeast Asia to more powerful external forces, both economic and political. Not only were these economies decimated as foreign capital withdrew, but their economic systems came under sustained reformist pressure form the likes of the US and the IMF as a consequence. Before considering the implications of these latter developments, it is worth spelling out the overall economic status of the region a couple of years after the initial economic trauma.

*Southeast Asia's current economic position*

One of the fundamental weaknesses that the Asian crisis exposed was the degree of indebtedness that some of the most affected countries had developed. However, it is important to note that unlike earlier debt crises in Latin America, the Asian debt problem was overwhelming a private sector affair: a symbiotic relationship developed between cash-rich lenders in the 'North' and would-be borrowers in the 'South', which both parties appeared to believe was a certain source of continuing profitability. Even though governments were generally not directly involved in such relationships, the build up of debt before the crisis, particularly the short-term form which could be rapidly withdrawn, was one of the major factors that allowed the crisis to develop with such rapidity. In

[9] The 'Washington Consensus' stresses fiscal discipline, financial and trade liberalization, privatization and deregulation. See Wiiliamson (1994).

1996, prior to the crisis, short-term debt represented more than 40% of overall borrowing in Thailand and about 25% of borrowing in Indonesia and Malaysia. As a percentage of foreign reserves, short-term debt represented about 100% in Thailand, 80% in the Philippines, and a remarkable 176% in Indonesia (Corsetti et al 1999: 36).

In the aftermath of the crisis, private capital flows to the developing world generally have declined, as have indebtedness ratios as a consequence (World Bank 2001: 35). In Southeast Asia, however, as Table 1 indicates, indebtedness ratios were still on the rise in 1998 in the immediate aftermath of the crisis and the currency collapses it initiated. Simply put, as the region's pegged exchange rates collapsed and their respective currencies plummeted, the cost of servicing hitherto cheap external borrowings blew out, compounding the affected nations problems. In such circumstances, the ability of the hardest hit countries like Indonesia and Thailand to resist the demands of the IMF, which offered crucial financial assistance to meet their respective debt servicing requirements, was limited despite noteworthy domestic opposition to the role of the IMF across the region (Hewison 2000).

**Table 1: Debt Indicators (Percent)**

| Total External Debt to GNP Ratio | | | | | |
|---|---|---|---|---|---|
| **Country** | **1985** | **1995** | **1996** | **1997** | **1998** |
| Cambodia | - | 70 | 67.5 | 70 | 77.7 |
| Indonesia | 44.4 | 64.6 | 58.3 | 65 | 172.5 |
| Lao PDR | 26.1 | 123.2 | 121.3 | 136.1 | 199.1 |
| Malaysia | 69.9 | 41.3 | 42 | 49.8 | 65.3 |
| Philippines | 89.1 | 49.7 | 46.5 | 53.3 | 70.1 |
| Singapore | 23 | 9.8 | 10.4 | 14 | 16.1 |
| Thailand | 45.9 | 50.5 | 51.4 | 62.8 | 76.4 |
| Vietnam | - | 128 | 114.7 | 82.1 | 82.3 |

*Source*: Asian Development Bank

Despite the loss of faith in the region by the holders of mobile portfolio capital and short-term lenders, as Table 2 indicates, with the noteworthy exception of Indonesia, foreign direct investment (FDI) apparently held up surprisingly well. There are three important caveats here, however. Firstly, the bulk of the continuing flows of FDI into the region were directed toward merger and acquisition activity. In other words, new FDI was intended to take over existing assets that had suddenly become extremely cheap as a consequence of the region's collapsing currencies (Mody and Negishi 2001). Secondly, Japan has become a much less significant source of investment for Southeast Asia than it has been in the past. From its peak in 1996 when Japanese bank lending accounted for 40% of all lending in Asia, it had fallen to 28% by 1999, reflecting Japan's own domestic economic problems. Japanese FDI also fell by 71%

during 1998, with only 20% of Japanese companies indicating that they intended to undertake new investment (*Far Eastern Economic Review* 29 July 1999). Thirdly, as Table 2 also indicates, China has received the lion's share of new FDI flow into the East Asian region. The potential size of China's domestic market, its imminent access to the World Trade Organisation (WTO), and its increasing presence in precisely the same sort of low-end manufacturing that has traditionally been Southeast Asia's great strength, has meant that China has emerged as a formidable competitor, not least as a potential regional investment location (Goad 2000). Again, the increasing disparity in economic weight between a rising China and the much smaller economies of Southeast Asia leave the latter potentially vulnerable to competitive pressures from their much larger regional neighbour, a problem which looks likely to intensify as China develops.

**Table 2: Foreign Direct Investment (US$ million)**

| Country | 1990 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Cambodia | - | 150.8 | 293.6 | 203 | 220 |
| China (PRC) | 3487 | 35849 | 40180 | 44236 | 45600 |
| Indonesia | 1093 | 4348 | 6194 | 4677 | -356 |
| Lao PDR | 6 | 95.4 | 160 | 90 | 80 |
| Malaysia | 2333 | 4131 | 5078 | 5106 | 5000 |
| Philippines | 530 | 1478 | 1517 | 1222 | 1713 |
| Singapore | 5575 | 7206 | 7883 | 9710 | 7218 |
| Thailand | 2444 | 2068 | 2335 | 3745 | 6778 |
| Vietnam | 16 | 1400 | 1500 | 1800 | 1200 |

*Source:* Asian Development Bank

Before concluding this brief overview of the current position of Southeast Asia's economies, it is important to consider the nature of its evolving trade relationships as these continue to have important political ramifications and shape the overall trajectory of the region. Historically, as noted above, Southeast Asia's trade relations were initially shaped by the impact of the European colonial powers and latterly by the influence of Japan and America. Japan has supplied the capital and technology with which the Southeast Asian countries have produced commodities for sale in other countries, primarily the US (Gangopadhyay 1998: 40). As a consequence, and despite rising exports of intermediate products to Japan, Southeast Asian countries have tended to run substantial trade deficits with Japan and trade surpluses with the US. Although this has helped the industrialisation process throughout the region, it has tended to reinforce its vulnerability and dependence on both the US and Japan. As Table 3 indicates, a number of countries are heavily dependent on continued access to and demand for exports of manufactures, especially electrical goods to the US and to a lesser extent Japan. However, in the event of a sustained downturn in the US (see Brenner 2001), countries like Malaysia look extremely exposed to shifting external conditions. Although, as Table 4 indicates, intra-regional East Asian trade now accounts for nearly half of overall trade, much of this is a reflection of the pivotal role of Japan and the trade in intermediate goods. Significantly, more than a quarter of the region's exports continue to be absorbed by North America, a factor that continues to influence the behaviour and limit the options of the countries of East Asia.

**Table 3: Electronic Equipment Exports**

| | Exports as % of GDP, 1999 to: US | Japan | IT equipment as % of total exports, 1999 | Total external debt as % of exports, 2000 |
|---|---|---|---|---|
| Indonesia | 6.0 | 7.4 | 13 | 203 |
| Malaysia | 23.5 | 12.5 | 53 | 41 |
| Philippines | 13.7 | 6.1 | 63 | 98 |
| Singapore | 26 | 10.0 | 52 | 5 |
| Thailand | 10.7 | 7.2 | 26 | 92 |

*Source:* The Economist

**Table 4: Intra- and Inter-Regional trade, 1999**
(Direction and Percentage)

| | | | Destination | | | | |
|---|---|---|---|---|---|---|---|
| **Origin** | North America | Latin America | Western Europe | Eastern Europe | Africa | Middle East | Asia |
| North America | 39.6 | 15.6 | 19.4 | 0.7 | 1.2 | 2.4 | 21.1 |
| Latin America | 61.6 | 16.0 | 12.9 | 0.9 | 0.9 | 1.0 | 6.0 |
| Western Europe | 9.9 | 2.4 | 69.1 | 5.1 | 2.5 | 2.4 | 7.5 |
| Eastern Europe | 4.4 | 1.9 | 56.0 | 26.1 | 1.2 | 1.9 | 7.4 |
| Africa | 14.9 | 3.0 | 51.0 | 1.2 | 9.9 | 1.5 | 13.8 |
| Middle East | 14.8 | 1.3 | 20.2 | 0.7 | 4.7 | 8.3 | 42.9 |
| Asia | 26.3 | 2.5 | 18.1 | 0.9 | 1.5 | 2.6 | 46.6 |
| World | 22.0 | 5.4 | 42.2 | 3.7 | 2.1 | 2.5 | 20.9 |

*Source*: World Trade Organisation

Overall, then, while the Southeast Asian nations have benefited from their incorporation into an overarching regional division of labour, their position remains dependent and vulnerable. Not only can changes in market sentiment inflict major damage on their economies and developmental prospects leaving them vulnerable to the influence of powerful IFIs, but the manner of their integration into regional and global production structures means that industrialisation processes are often shaped by patterns of economic integration that remain centred on the established industrial heartlands of North America, Western Europe and Northeast Asia (Ruigrok and van Tulder 1995). In such circumstances, the countries of Southeast Asia have attempted to develop political and strategic responses that will lessen their vulnerability and improve their overall position. An examination of these initiatives tells us much about the possible future development trajectory of the region.

## The Politics of Economic Vulnerability

Before considering some of the specific domestic and region-wide political responses to Southeast Asia's economically vulnerable position, it is worth placing the debate about the region's political development in a wider theoretical and global context. This is important because there are widely held expectations about what some see as the inevitable course of political and economic development in the contemporary period. The most conspicuous example of this idea is Fukuyama's (1992) 'end of history' thesis, which suggests, in essence, that capitalist liberal democracy is the developmental end point to which all countries are destined. Even more empirically grounded analyses of political development have suggested that there is compelling evidence that democracy is indeed spreading throughout the world in successive 'waves' which incorporate increasing numbers of countries (Huntington 1993). While there is clearly something in this contention, it is also important to recognise that democratic consolidation is highly dependent on continuing economic stability and growth, as well as the institutionalisation and routinization of democratic practices themselves (Haggard and Kaufman 1995). More fundamentally, it should be emphasised that there is no necessary relationship between capitalist based development – however successful – and specific political practices. Indeed, Bowles and Gintis (1986) argue that in many ways the economic polarisation associated with a market-oriented system, which entrenches economic privilege through legally sanctioned property rights, is fundamentally incompatible with a more broadly defined notion of democracy that includes equality of economic opportunity and the exercise of individual rights.

These theoretical caveats notwithstanding, the current situation in post-crisis Southeast Asia is, in any case, sufficiently dire to have undermined optimistic prognoses about its development. Paradoxically enough, what seems to be emerging in the region is a volatile combination of continuity and change, that reflects a complex mix of internal and external factors. Both are important and merit examination.

### *Domestic political pressures*

It should be re-emphasised that political development in Southeast Asia is intimately bound up with, and cannot be separated from, prevailing economic circumstances. While the state may have played a significant role in most of East Asia's developmental experience, in Southeast Asia the relationship between key economic actors and political elites has often be extremely close, if not inseparable. As a consequence, major political and economic players have frequently been precisely the same people, with the result that major political struggles are frequently played out within the confines of the state itself, rather than within what are often still inadequately developed civil societies (Jayasuriya 1995). This has major implications for the type of future development that can be expected to occur – a crucial consideration given the pressure placed on these countries to adopt policies in keeping with predominantly 'western' ideas of 'good governance'.[10] A brief glance at the experiences of some of the more important regional countries, especially following the recent crisis, will illustrate this point.

Indonesia is both the most populous and the most badly affected of Southeast Asia's crisis countries. Although many celebrated the demise of Suharto, the highly entrenched system of patronage politics over which he presided has not disappeared,[11] nor has his demise ushered in a new era of governmental competence and transparency. Given the scale of Indonesia's problems this is, perhaps, unsurprising. After years of steady economic growth, the scale of Indonesia's collapse was starkly revealed by the renewed spectre of starvation in Indonesia in the aftermath of the crisis (*Australian* 4-5 July 1998). Even though some limited recovery has now occurred, Indonesia's future prospects are blighted by the size of its accumulated debts. Overall, it is estimated that Indonesia owes some US$262 billion or 170% of GDP, of which US$152 is government debt (*Australian* 28 February 2001). The agency charged with resolving the debt problem and instituting economic reform – the Indonesian Bank Restructuring Agency (IBRA) – is widely considered to be incompetent and lacking in the political authority or leverage to challenge the powerful vested interests that constitute Indonesia's distinctive political-economy (Caragata 2001). Compounding Indonesia's problems is the simultaneous challenge of attempting to develop new patterns of decentralised political rule while confronting the possible fragmentation of the nation itself, as ethnic minorities take the opportunity to put pressure on a weakened central government. All this at a time when the government itself is wracked by internal political manoeuvring and a widespread doubts about the competence and democratic credentials of the Presidency of former Muslim cleric, Abdurrahman Wahid (Vatikiotis and McBeth 2001).

Similarly, the country that was at the original epicentre of the crisis – Thailand – although initially praised by the IMF for its willingness to adopt the full panoply of neoliberal reforms, has recently seen a resurgence of 'money politics' and political corruption. Thailand's recent history illustrates the acutely difficult position Southeast Asian governments find themselves in. The coalition government of Chuan Leekpai, which took office in the immediate aftermath of the original crisis, attempted to demonstrate its orthodox economic management credentials to both the IMF and foreign investors. However, there has been widespread domestic opposition to the intrusive role of the IMF and the painful reforms it advocates, partly from non-governmental organisations and organised labour, but also from elements of the domestic business class

[10] For a more detailed explanation of the implications of this issue, see Beeson (forthcoming).
[11] See Robison (1997) for a highly readable overview of Indonesia's Suharto-era political-economy.

(Hewison 2000). After growing at between 6-10 per cent for a number of years, in 1998 Thailand's economy contracted by a massive 10 per cent (Hartcher 2001: 80), paving the way for rise of the populist government of prominent business tycoon, Thaksin Shinawatra, which rode to power on promises of increased public spending and blatant pork-barrelling. Ominously for the future of Thailand's continuing political reform process, there are signs that Thaksin is using his economic leverage and control of the local media to stifle debate about his trial on corruption charges (*Far Eastern Economic Review* 26 April 2001). Revealingly, Thaksin's first prime ministerial trip was to Malaysia – the Southeast Asian country which has been most vocal in criticising 'western' reform initiatives and championing Asian alternatives.

Not only has Malaysia attempted to pursue its own distinctive response to the crisis in particular and the challenge of economic development more generally, but it has also, as we shall see, been at the forefront of promoting East Asian regionalism. The Malaysian response to the crisis was motivated both by the apparent failure of the orthodox IMF remedy, and by a number of contingent politico-economic factors that made possibly incurring the wrath of foreign investors and the IFIs a risk worth taking. At the heart of Malaysia's economic policies under the leadership of Prime Minister Mahathir Mohamad has been a desire to accommodate or overcome the twin colonial legacies of an ethnically divided population and a resource dependent economic structure. This produced a pattern of development in which political and economic activities became highly integrated, as the indigenous Malay class assumed a pivotal position through policies of positive discrimination. The United Malays National Organisation (UMNO) became the principal expression of this dominance and the centre of a comprehensive system of political and economic patronage (Gomez and Jomo 1997). In such circumstances, where non-transparent business-government relations are central to the operation of the Malaysian political-economy, it is less surprising that Malaysia should be willing to flout conventional orthodoxy and experiment with capital controls as a response to the crisis. Yet the self-serving motivations for Malaysia's post-crisis policies notwithstanding, it effectively demonstrated that even the governments of small economies have policy options in a global economy (Beeson 2000).

If nothing else, the Malaysian experiment – so far, at least – has managed to ward off the sort of political crisis that has engulfed Indonesia and the Philippines. The Philippines was initially considered to have been less badly affected by the crisis because of its more liberalised economy and the substantial economic reforms – including challenging the position of politically powerful cartels and monopolies – which occurred under the administration of Fidel Ramos during the 1990s (Hutchcroft 1999: 164-67). It should also be noted, however, that the Philippines' much slower growth rates compared to those of its neighbours during the boom years meant it attracted smaller capital inflows and there was thus less risk of a dramatic turn-around in investor sentiment. The subsequent descent into political and – to a lesser extent –

economic chaos was a major blow to the alternative, IFI-approved,[12] route to economic development (Bello 2000). In any case, the subtleties of the Philippines' distinctive position and liberalisation efforts were clearly lost on foreign investors and currency speculators who sold the peso down anyway. Although the election of Joseph Estrada in May 1998 was viewed with some dismay by many outside observers who doubted his economic credibility, it is worth pointing out that Estrada persisted with many of the personnel and policies - especially the commitment to trade liberalisation - of his predecessor. His subsequent exposure and removal for alleged corruption may have provided a convenient scapegoat for the apparent failings of orthodox policy reform, but it has done little to change the fundamentals of the Philippine situation. On the contrary, the installation of the supposedly reformist and 'clean' administration of new President Gloria Arroyo, has been described as a '"soft revolution" that ejected an elected president in order to return to the old, wealthy political and business elite to power' (Sheehan 2001).

Despite the traumas induced by the crisis, therefore, some of the fundamental relationships and structures that characterise political and economic relationships in Southeast Asia have not been radically transformed. Even though some of the *dramatis personae* may have been changed, the script looks surprisingly familiar. Indeed, it should be noted that even in Singapore, clearly Southeast Asia's most economically developed nation, political liberalisation and a shift from authoritarianism has not been the inevitable corollary of rising living standards. On the contrary, the Singaporean government has displayed a remarkable capacity to retain a form of one party rule and effective social control (Rodan 1996). Somewhat ironically, it may prove to be the newer members of ASEAN and the least developed economies of Southeast Asia, Vietnam, Laos, and Cambodia, which will undergo the most profound long-term changes. Vietnam is the quintessential Southeast Asian example of a country which is attempting to make the transition from 'communism' to capitalism, while attempting to retain some of the doctrine, ideology and personnel of its former socialist incarnation. It may find that, while it can develop a distinctive form of capitalism, it will effectively obliterate the political and economic practices that were associated with life in Vietnam under the old order (Kolko 1997).

*Collective responses to external imperatives*

Although Southeast Asia's domestic difficulties may serve as a stark reminder of the individual weakness of the region's economies and the fragility of its political structures, their collective response to crisis and the challenge of vulnerability have been innovative, and may yet help to re-shape the broader East Asian region of which they are a part. The proposed 'ASEAN + 3' grouping could – if realised – fundamentally transform the long-term trajectory of the region and its place in the wider international system. Before assessing its prospects, it is useful to re-consider ASEAN's own development as this

[12] Both the IMF and the World Bank exerted a major influence over Philippine policy under Fidel Ramos during the 1990s. See Bello (2000).

illustrates some of the potential pitfalls and benefits that confront the nascent grouping.

The first point to emphasise about ASEAN's own evolution was that it was primarily a response to the perceived vulnerability of the ASEAN states at the height of the Cold War (Frost 1990). The Vietnam War, the rise of China, and the chronic insecurity that pervaded the region at the time – 1967 – ASEAN was founded, provided compelling reasons to overcome simmering intra-regional tensions, especially between Indonesia and Malaysia, and seek greater security through collaboration. It should also be stressed that the overall orientation to security that distinguishes most of East Asia, and which helps to explain their approach to both domestic and foreign policy, owes much to an overwhelming preoccupation with maintaining the integrity and sovereignty of the state itself. Algappa (1998: 622) argues that there are three core concerns that underpin this overriding preoccupation with political survival, 'territorial integrity, international challenges to their political ideologies, and constraints on their autonomy'. The attractions of the so-called 'ASEAN way', or the commitment to non-interference in the domestic affairs of members, and the preference for consensus-based decision making processes, become easier to understand as a consequence (see Acharya 1997)

And yet, even before the crisis engulfed Southeast Asia, the members of ASEAN were having to address uncomfortable questions about the role of ASEAN itself and the basis of future intra-regional relations. In a post-Cold War environment, the security imperatives became less compelling, and ASEAN attempted to develop a new *raison d'être*. The increased primacy of economic development that has characterised the post-Cold War world, also influenced Southeast Asia, and was epitomised by the inauguration of the ASEAN Free Trade Area (AFTA) in 1992. From the outset, however, the goal of trade liberalisation and intensification within the ASEAN area was elusive because of the competitive rather than complimentary nature of the region's economies, something reflected in the very low levels of trade between ASEAN members.[13] As a consequence, Ariff (1997: 85-86) argues, AFTA's success should be judged by its capacity to boost overall trade, not simply trade within the region as in comparable regional trade agreements. But even when judged by this less demanding calculus, AFTA can only be considered a limited success. Despite the rise of a pro-trade liberalisation business lobby across the region (Stubbs 2000), there remain formidable roadblocks to implementing AFTA's agenda of tariff reduction, not the least of which are strategically important domestic economic sectors like Malaysia's car industry (*Asiaweek* 25 August 2000).

The other distinctive and potentially far-reaching innovation that has been touted, if not implemented, has been the suggestion that ASEAN should change its underlying *modus operandi* and allow for greater 'interference' in each others domestic affairs. Thailand has played the most prominent role is advocating a policy of 'flexible engagement' in which members would more closely coordinate

[13] Without the pivotal entrepot role played by Singapore, intra-ASEAN trade is only 5% of total ASEAN trade. See Chia Siow Yue (1998: 217).

macroeconomic policies and be given greater licence to criticise the domestic policies of fellow members. Significantly, it was ASEAN's noteworthy failure to play a crisis management role, and its vulnerability to criticisms of ineffectiveness and non-transparency that lay behind the Thai initiative (Haacke 1999). Despite this potentially significant initiative, however, the ASEAN grouping has proved unable to build upon it. Not only has the 'widening' of ASEAN to include the less politically and economically developed countries of Indochina and Myanmar made both the coordination of policies and the deflection of criticisms about human rights issues more difficult (Henderson 1999), but Thailand itself has advocated a return to a more 'Asian way' under the new Thaksin government (*Far Eastern Economic Review* 22 February, 2001: 26-27). For ASEAN sceptics, such behaviour was simply confirmation of their belief that ASEAN was primarily interested 'in the art of conflict avoidance, but not conflict resolution' (Narine 1999: 360).

These developments remind us that there is nothing certain about either the direction or inevitability of ASEAN's institutional evolution. Although there are grounds for scepticism about the capacity of the Southeast Asian nations to initiate or sustain reform, they are central actors within what may prove to be one of the most significant developments in the evolution of regioness in East Asia. 'ASEAN + 3', which includes Japan, China and South Korea in addition to the ASEAN states, represents a potentially major regional grouping with a substantial internal market and major financial strength. Indeed, one of the principal attractions of such a grouping was the economic weight and thus independence that such a collaborative enterprise might provide. The East Asian crisis dramatically highlighted the entire region's vulnerability to both externally-generated economic dislocation, and to subsequent political intervention from IFIs and the US. As ASEAN Secretary General Rodolfo Sevrino (1999) observed, 'recent events have made clear that there is no other course but closer economic integration and political solidarity in ASEAN, there are precious few alternatives to closer cooperation in the larger region of East Asia'.

Certainly there is much that could yet derail ASEAN + 3. Japan's initial reluctance to develop its proposed Asian Monetary Fund in the face of US opposition (see Higgott 2000: 268-73), and the sheer technical complexity of developing currency swap mechanism with which to insulate the region from future financial crises, suggest that even if lingering animosities between key members can be overcome, there will still be formidable challenges for the region's limited institutional capacity to overcome. Nevertheless, the fact that the ASEAN + 3 relationship was formalised in late 1999 is indicative of perhaps surprising momentum behind the project.[14] ASEAN + 3 is essentially Dr Mahathir's proposed East Asian Economic Caucus (EAEC) by another name (see Hook 1999). The fact that ASEAN + 3 has succeeded in at least making a beginning, whereas Mahathir's project was frustrated by a combination of US

[14] For an indication of ASEAN + 3's potential agenda see ASEAN (1999)

opposition and Japanese ambivalence, is indicative of greater regional resolve and a significantly different post-crisis political context.

Even if ASEAN + 3 does develop and ultimately offers a more powerful vehicle for the expression of East Asian regionness, however, there is no guarantee that this will be of unalloyed benefit for the smaller Southeast Asian economies. Certainly, ASEAN + 3 may provide a shell within which East Asian versions of capitalist organisation may continue. It may even provide a platform for a rearticulation of the so-called ‘Asian values’ discourse which was such a prominent and distinctive part of Southeast Asia’s identity during the boom years.[15] But even a successful ASEAN + 3 will see its Southeast Asian nations overshadowed by the strategic, economic and political weight of their regional neighbours. In such circumstances, as the earlier relationship with Japan vividly demonstrates (Beeson 2001b), there is nothing to suggest that Southeast Asia will escape from the politics of vulnerability.

## Concluding Remarks

Southeast Asia has never been the master of its own destiny. Indeed, its very identity, economic structures and social formations have shaped by powerful external forces it had only a limited capacity to influence of deflect. The recent East Asian crisis vividly demonstrated that little has changed in this regard. What has changed, perhaps, is the speed with which the multifaceted forces associated with globalisation can profoundly undercut the developmental strategies, prospects and autonomy of these nations as they grapple with the challenges of complex interdependence in an increasingly integrated global political economy. Such forces are proving formidable challenges for even the established industrial democracies that can draw on comparatively competent, long-established state capacities with which to manage them. The more vulnerable nations of Southeast Asia are doubly disadvantaged by comparison, in that they suffer from both less competent governments and more acutely pressing problems. In such circumstances it is, perhaps, surprising that they made the progress they did before the recent crisis brought them undone.

In a region as volatile as Southeast Asia, prediction is a foolhardy enterprise. However, the surprising durability of ASEAN, its lack of tangible achievements notwithstanding, suggests that there is a desire to maintain some sense of regional solidarity and identity in the face of common adversity. If this momentum can be sustained and translated to the wider ASEAN + 3 grouping, the possibility that a more significant regional entity will develop – of which the Southeast Asian nations would be an important part – cannot be discounted. Whether this will deliver significant benefits to the less powerful nations of Southeast Asia is a moot point. It may, however, provide a more insulated environment in which distinctively Asian style developmental projects can be taken up once more.

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[15] For a useful discussion of the Asian values debate see Bauer and Bell (1999).

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