"Re-thinking the Southeast Asian Development Model (SEADM): Bringing Ethical and Governance Questions In"

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Re-thinking the Southeast Asian Development Model (SEADM): Bringing Ethical and Governance Questions In[1]

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Abstract

This paper argues that the Southeast Asian Development Model (SEADM), as practised in parts of Southeast Asia, reflected an overwhelming emphasis on *growth* as a goal while neglecting issues of equity and justice. This was clearly seen in the Thai and Indonesian experiences where rising growth rates and income levels under open/free market policies was accompanied by widening income and wealth disparities as well as growing feelings of marginalisation, deprivation and of injustice among large segments of the local population. In both countries, these developments led to growing challenges to the open market system well before the regional financial crisis. Yet, rethinking the SEADM does not mean doing away with open market policies. Instead, approaches to development must take seriously the goals of equity and social justice to overcome the danger of open conflict and societal resistance that will likely emerge to challenge the very policies that have the best chance of delivering economic well being over the long run.

Keywords: Development model; growth; equity; distributive justice; Thailand; Indonesia

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Introduction

Since the mid-1980s, the core ASEAN economies, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand adopted an outward-focused, export-oriented and FDI-led approach to economic development, which was also underwritten by a broad commitment to free markets. This model – the Southeast Asian Development Model (SEADM) – reflected to a large extent the neoliberal practices commonly associated with economic globalisation[1] and was, in fact, a means towards rapidly integrating the Southeast Asian economies with the global market. Recently, especially after the 1997-98 regional financial crisis, there have been growing calls to review the SEADM.

This paper contributes to the debate on rethinking the SEADM. It does so via a focus on governance of the economy in an era of globalisation. The issue of governance lies not only at the heart of the SEADM, but is also central to any review and refinement. Governance is simply defined here as the art of providing direction to society, whether directly or indirectly. It may be accomplished by markets, an idea much in vogue, as well as by authorities such as national governments, regional/global institutions or networks of non-state actors (Pierre and Peters, 2000). The notion of governance thus encompasses both the delineation of priorities or goals and possible mechanisms to implement those goals. Our core argument is that the SEADM, as practised in parts of Southeast Asia, reflected an overwhelming emphasis on *growth* as a goal at the expense of *development.* This is increasingly seen to be inadequate. In addition to growth and market efficiency, the values of social justice[2] and equity should form the core of any approach to economic development. Any economic system that fails to do so will be increasingly contested.

The first part of the paper establishes the theoretical case for an approach to economic governance that places the values of equity and social justice *as well as* growth and market efficiency at its core. Using these theoretical insights and focusing on the Indonesian and Thai experiences, part two asks how well the SEADM has served regional economies in the delivery of both growth and equity to citizens.

(1) Emphasising Equity and Social Justice as well as Growth and Market Efficiency

Neoclassical economics treats equity and efficiency as trade-offs (Okun, 1975: 48), in effect setting up a tension between the values of growth and distribution (or equity). The former emphasises the expansion of total income or wealth of a country irrespective of its distribution among different groups in society. Equity, which is closely related to the notion of equality, is defined here as economic equality, or equality of wealth and in the distribution of resources (Bealey, 1999: 121). Sen argues that growth is but a means to other objectives, including distribution (Sen, 1983: 753). Thus, for Sen and other development economists, growth and distribution are not opposed as much as inter-related, with growth enabling distribution to take place in order to achieve some form of equity in society. As will be argued below, the converse may also be true. Distribution itself – to achieve equity in society – is now increasingly recognised as key to sustaining growth-centred policies, particularly open market systems. To be sure, development economists have always recognised the link between inequality and reduced growth prospects. This is, however, essentially seen as an economic relationship based on either productivity effects (Dreze and Sen, 1987) or on the negative impact of redistributive tax and regulatory policies on capital accumulation (Persson and Tabellini, 1984). This paper emphasises the *political* consequences of inequitable income and wealth distribution.

Okun's point about the trade-off between efficiency, which is presumed to maximise growth, and equity rests on the notion that the process of state-directed redistribution will result in administrative costs, reduced and misdirected work effort, and changed motivation (Okun, 1975: 91-114). Okun's position, echoed in much neoclassical theory, is that if national governments refrain from engaging in redistribution and allow markets to work unimpeded, inefficiency would be reduced and "the economic pie would grow faster for both rich and poor alike" (Dugger, 1998: 289 & 298). The assumption implicit in all neoclassical economics is of a self-regulating market that maximises welfare for all, allocating resources in an impersonal manner according to the price mechanism, and is, therefore, by extension impartial when compared with the behaviour of governments, which engage in political acts (Underhill, 2000: 4). This understanding can be challenged in at least two ways that are better handled in the political science literature than that of economics. They are discussed below.

Markets are political constructs

The neoclassical view of an impartial and apolitical market fails to recognise that markets are themselves political constructs (of a large literature see Polanyi, 1944; Samuels, 1981; and Underhill, 2000). Government is constantly engaged in allocating and distributing resources through the market, even if a free market appears to be in place. In effect, what appears to be a 'free' market has been politically constructed by governments through a set of rules that enables rights and obligations to be allocated to different actors via the market (Samuels, 1981: 100-104).

These rules, moreover, have the potential to confer power on different actors. For instance, fully liberalised global capital markets are essentially the outcome of governments' liberalising policies. While potentially offering national economies expanded opportunities for wealth creation through FDI and other forms of globally mobile capital, such market systems place national workers at a disadvantage due to the latter's more limited mobility, notwithstanding the expanded employment opportunities created by FDI. In a trend that has been increasingly evident worldwide since the 1980s (Strange, 1996), this confers power on investors, whose interests governments may well be inclined to favour relative to those of labour.

In short, the market is not the natural outcome of some spontaneous order. Neither is it simply 'distorted' by government 'intervention'. Rather, governments institutionalise markets through an activist process of rule building, creating different kinds of markets, each generating different systems and degrees of inequality (Clark, 1996). This implies that one solution to inequity in society is institutional reconstruction that eliminates, or at least minimises, systems of inequality through the set of rules and laws written to govern markets (Dugger, 1998: 290 -300). Aside from the normative assumption that equity is, of itself, an ethically valuable goal to which all societies should strive, the question arises as to why else governments should want to govern markets.

Markets can be politically challenged

Our second point is that far from being a trade-off, some degree of distributive equity is necessary if governments wish to maintain open market systems increasingly regarded as the route to growth and wealth creation. The Southeast Asian case illustrates that countries adopting neoliberal policies of liberalisation, deregulation and privatisation revealed astounding growth performances and broadly rising living standards, at least until the 1997-98 financial crisis. Paradoxically, despite this track record of economic success, open market systems remain under intellectual and political challenge. This question has bemused economists in a way that always surprises the student of politics. Good economic theory is often poor political theory.[3] But in brief here, the problem is that conventional economic understandings of market liberalisation over-emphasise its long-run benefits to the exclusion of its short-run adjustment costs.

But, the short-run is salient precisely because it is in this time frame that the primacy of politics over economics prevails. It is over the short-term that groups in society contest the purported benefits of liberal market systems. As Keynes reminded us, 'short-run' dislocations can actually persist for considerable periods of time (Stewart, 1986: 67-97). Moreover, it is also the *perception* of widening and/or enduring inequities and injustices as well as the sense of relative deprivation[4] that exaggerates the political effects of these short-run dislocations and generates opposition to market liberalisation. An economic system widely viewed as unjust is unlikely to endure, a point also acknowledged by Adam Smith in *Wealth of Nations* (see Kapstein, 2000).

In political, as opposed to economic terms, poverty is less crucial than *relative* poverty or the issue of equity. The latter is politically more sensitive because people tend to compare their living standards not with their own or their parents' historical situation but with fellow citizens in a particular time and place (Booth, 2000: 96). Moreover, distribution assumes greater political significance when it is associated with the cleavages already present in heterogeneous societies, as is the case in Southeast Asia where significant ethnic, religious and regional divisions exist.

While the standard neoclassical argument that the liberal market system enhances aggregate welfare might be true, it is thus less salient in a context where it is *perceived* to have "negative redistributive consequences that exacerbate resistance to globalisation by the dispossessed or disadvantaged" (Higgott and Phillips, 2000: 378). The liberal market system associated with globalisation, notwithstanding its ability to increase aggregate welfare, is increasingly regarded by many citizens to exacerbate inequality (Kaul *et al*, 1999; Payne, 2000). Hence a return to our initial point: markets, even open liberal ones, are social-political constructions, and thus, their continued functioning depends on their legitimacy and support among citizens.

While the latter is true for democratic systems, it is likely to be equally true in more authoritarian contexts where the political legitimacy of governments and regimes, usually contested or fragile, is largely based on governments' ability to deliver material well-being to citizens (Castells, 1992: 59-60). This situation prevails in much of Southeast Asia, despite a trend towards democratisation in particular countries (Alagappa, 1995: 330; Soesastro, 1998: 27). Although political repression may prevent groups with economic grievances from challenging the prevailing political order, this is, at best a temporary state of play, particularly if inequities and injustices are prolonged and excessive, or are perceived to be so, *and* if governments are not seen to be addressing the situation. Attempting to put a lid on citizen dissatisfaction can merely delay an inevitable (violent) reaction in crisis situations. As events in Argentina in December 2001 and in Indonesia in May 1998 revealed, a widespread sense of inequity, marginalisation and injustice can lead to open political challenges to governments of the day.

Similarly, the growing number of protests directed against multilateral bodies since the late 1990s reflects a growing transnational movement that is increasingly articulating and organising against 'excessive' and 'unmanaged' economic globalisation. While the impact of protest groups may be limited to date, they have, nonetheless, contributed to delays in the WTO negotiation process. Even proponents of further (rapid) economic liberalisation now concede that globalisation may well hold within it the seeds of its own demise if it fails to deliver a more just economic order. As James Wolfensen, President of the World Bank, admitted in October 1998, greater equity and social justice is crucially needed to ensure political stability, if financial and economic stability is not to be jeopardised[5] and, as Dani Rodrik noted

> "the most serious challenge for the world economy in the years ahead lies in … ensuring that international economic integration does not contribute to domestic social disintegration" (Rodrik, 1997: 2).

For readers of history, this should come as no surprise. Inequalities associated with widespread global market integration in the decades before World War I were largely responsible for the retreat from openness during the inter-war period (Polanyi, 1944; Williamson, 1996: 20).

If we take the signals of growing resistance to globalisation to be salient, markets must deliver what citizens want or continue on a fraught road to increasing contest. The tendency of many in mainstream economics is to regard these voices of resistance as "self-interested protectionists" who need to be moderated (Rodrik, 1997: 3-6). This is not to suggest that trade in particular and open market systems in general are inimical to welfare gains. On the contrary, retreating from open market systems will itself generate similar kinds of social conflicts while seriously disrupting opportunities for wealth creation. But, how to preserve open and liberal market systems that do deliver aggregate economic welfare overall while mitigating the inequalities that such systems generate under conditions of globalisation remains the key question. This is at heart a political, and hence governmental question rather than a pure economic one.

The role of governance

The preceding discussion made two key points: first, that markets are political constructs, and second, that markets need to be legitimised by ensuring that growth is accompanied by equity and justice if open economic systems are to be sustained. One solution, easier said than done of course, is to bring about institutional reconstruction via the introduction of sets of rules and laws to govern markets in the interest of minimising inequality. At a practical minimum it means giving due emphasis to non-corporate actors in economic policy – for instance labour, or groups likely to be adversely affected by industrialisation and the corporate use of land, notably farmers. At a more far-reaching level, it possibly requires a re-assessment of full-scale and rapid market liberalisation. That is, reform needs to go beyond the contemporary 'Anglo-American' preoccupation with corporate governance and regulatory reform. Important though these may be, they are not sufficient. Also required is an *expanded* role for governments in constructing or shaping markets to deliver equity and justice as well as efficiency, rather than leaving things to the 'free' market to deliver. This, in turn, requires the greater participation of the 'marginalised' in market systems.

The need for the reform of existing governance structures is now fairly well recognised by the international financial institutions (IFIs), at least at the rhetorical level. They have begun engaging with civil society actors to advance the cause of greater accountability and transparency in the management of the world economy while not undermining their overriding goal of promoting the effectiveness and efficiency of markets (Scholte *et al*, 1998). Current rhetoric also reveals an attempt by these institutions to legitimise globalisation by mitigating its worst excesses and by allowing a ‘voice’ to the civil society groups so far marginalised in international decision-making. While many critics do not necessarily see this process as inherently ‘progressive’, the new governance agenda of the IFIs, nevertheless, reveals their recognition that the liberal market systems that are constructed to advance globalisation need to be legitimised – to enjoy support among citizens – if they are to be sustained. This point is relevant to the national domain as well.

The answer to the governance question is not *either* the market *or* government but a combination of government, market *and* society. Yet, the emphasis thus far in many national settings, including in Southeast Asia, has been on the interaction and consultation between governments and business actors, while civil society – the third and no less crucial leg of the triangle – has been neglected, or worse, repressed. An added issue is the extent to which it is possible to adopt such developmental approaches nationally given the reality of globalisation. The latter, manifested especially through the structural power[6] of globally oriented corporate actors and that of the multilateral economic institutions, notably the WTO, imposes constraints on the extent to which governments may depart from the neoliberal orthodoxy favoured by these agents of globalisation.

The downside of this argument – expanding the role of governments to mitigate the inequities thrown up by liberal market systems – is that of government failure through the increased opportunities not only for mismanagement but also corruption. After all, one of the early arguments made for accelerating the neoliberal reform of the crisis-torn Southeast Asian economies was to remove the potential for government corruption, cronyism and nepotism by instituting the discipline of the free market (Mallaby, 1998). Many Southeast Asian economies including Indonesia, Thailand, Malaysia and the Philippines no doubt continue to work along patronage lines amidst a system of elite politics (McCargo, 1998). This raises the possibility that a more limited distributive and particularistic imperative may well prevail in practice rather than more egalitarian impulses benefiting those groups disadvantaged by the open/liberal market system. Yet, to call on the free market to discipline governments is to further institutionalise both the dominant position of globally-oriented capital and the structural inequities associated with liberal market systems.

One solution, it is suggested, lies in enhancing the greater transparency and accountability of governments, particularly by extending to citizens the right to participate in political decision-making through democratisation and through institutionalising processes of consultation with societal groups, as is already done for corporate actors. While potentially restricting the space for governments to engage in corrupt practices, democratisation can also be a crucial means to address both the justice and equity issues (see Sen, 1999). One of the hallmarks of justice is the absence of arbitrariness, as noted by Rawls (1971: 5), while equitable systems are also defined in terms of their even-handed treatment of different groups in society, or fairness. By allowing citizens voice, fully functioning democratic systems help to reduce the potential for arbitrariness in governmental decision-making. They also tend to be associated with the institutionalisation of the rule of law, which is vital to ensure, and to be *seen* to ensure, even-handed treatment of all groups in society as well as to provide for redress of injustice.

With these necessarily truncated conceptual insights in mind, the next section asks how well the SEADM has served regional economies. While broad macroeconomic statistics reveal the spectacular performance of these economies between the mid-1980s to 1997, our theoretical discussion suggests the necessity to explore more deeply how this performance measures up when judged against the goals of equity and justice rather than merely growth.

(2) Assessing the 'performance' of the SEADM during the 1990s: The Indonesian and Thai experiences

Amidst the high growth performance of the core ASEAN countries, problems with income inequality and economic marginalisation have been evident, especially in Thailand and Indonesia. The Indonesian and Thai experiences reveal how high growth performance may be accompanied by substantial economic inequities that are potentially destabilising by worsening domestic social relations. As the following discussion suggests, these problems had emerged in these countries even before the financial crisis struck the region. While unregulated financial markets generated a particular set of problems for them, the SEADM as it was practised in these countries provided only a partial approach to development that focused on growth at the expense of equity and justice.

Indonesia

While President Suharto (1966-98) presided over substantial welfare improvements – as seen in the marked decline in the incidence of absolute poverty, infant mortality rates and literacy rates – problems of equity emerged as by-products of growth (Vatikiotis, 1998: 58). The decline in relative poverty, or inequality, was much slower than the fall in absolutes levels of poverty, while in fact, increasing in urban areas over the 1990s (Booth, 2000: 96). Booth sees the sharp increase in inequality in some of Indonesia's largest cities between 1987 and 1996, albeit amidst rapid growth in average incomes and consumer expenditure, as partially responsible for the growing social, racial and religious conflicts that had emerged in the country even before the 1997-98 financial crisis.

Between 1993 and 1996, inequality worsened, with the share of income of the poorest 20 per cent of the population falling from 8.7 per cent to 8.0 per cent. In contrast, the share of the richest 20 per cent of the population rose from 40.7 per cent in 1993 to 44.9 per cent in 1996, the only increase in income share among the various population quintile groups. Of this group, the richest 10 per cent of the population increased their share of income from 25.6 per cent to 30.3 percent (World Bank, 2000: 238-9). The World Bank also noted a growing concentration of corporate wealth during Suharto's rule, with the top ten families in Indonesia holding 57.7 per cent of corporate wealth compared to 2.4 per cent in Japan, 18.4 per cent in Taiwan and 26.8 per cent in South Korea (Smith, 2001: 3). Soesastro (1998: 24) argues that these disparities have the potential to halt the open market economic policies that underpinned Indonesia's rapid growth in the 1990s until the crisis.

Among the causes of rising inequities in Indonesia were the unequal access to education, especially high quality tertiary education and the relatively backward state of the agriculture sector, especially in the regions outside Java and Bali, notably in Kalimantan, Sulawesi and the Eastern islands including East Timor and Maluku (Booth, 1999 & 2000: 91). Despite policies to widen access to education, these have had limited impact on distribution and may even exacerbate existing inequities.[7] Similarly, government policies prioritising agricultural development outside Java were not very successful since they did not address the root cause of these inequities – the skewed nature of land distribution in these outer regions, with the huge plantation companies holdings large tracts of land in Kalimantan, for instance (Booth, 2000: 91 & fn 15). In fact, land disputes were a major source of dissatisfaction in Indonesia during the high-growth 1990s, with about 75 per cent of the grievances directed to Parliament in the mid-1990s made up of problems related to land tenure and labour relations (McBeth, 1996). It is no coincidence that social conflicts and violence have broken out in precisely these regions, which despite taking on a religious and/or ethnic flavour, are deeply rooted in strong feelings of economic deprivation.

Issues such as labour rights also assumed greater salience among Indonesian citizens during the 1990s, particularly among the young and civil society groups (Soesastro, 1998: 32). The government's response to these concerns was either neglect or outright repression of labour groups, particularly to assuage foreign investors who had warned of the adverse impact on FDI of growing labour unrest (Praginanto, 1993). Enforcement of the minimum wage law was poor, while independent trade unions had long been banned (Vatikiotos, 1998: 110, 178). Despite repression, the instances of labour unrest grew substantially in the 1990s, with more than 2.8 million work hours lost to 350 strikes and demonstrations in 1996 according to government figures, a rise from 290,000 lost work hours in 1990 (Cohen, 1997).

The point is, deep frustration existed in the country by the mid-1990s, derived from feelings of relative economic deprivation and marginalisation, of injustices and the unfulfilled aspirations of younger Indonesians looking for a share of Indonesia's new found economic wealth. It is interesting to note that many strikes in the early 1990s were 'prosperity strikes' centred on demands for provision of work insurance, transportation expenses, annual bonuses and adequate meals, with the fastest-growing textiles industry the most popular target (Praginanto, 1993). These demands were fuelled by the growing view among workers that they too deserved to benefit from their companies' success, and were an increasing feature at medium-sized and large companies already observing the official minimum wage. In short, it was the sense that the wealth accruing to firms, and the country, was not equitably distributed that seemed to be fuelling much of the labour unrest in the country.

The inability or unwillingness of the government to address these widespread concerns arising from income and wealth disparities and unequal access to land and other wealth-creating resources further added to the growing sense of resentment and frustration among the general public (McBeth, 1996). A Jakarta-based business research group, Capricorn Indonesia Consult, noted in the mid-1990s that "the swelling of the unemployed, the widening of the social gap, and the shrinking of agricultural lands have all combined to generate a sense of dissatisfaction *with no place to air complaints*".[8] The absence of channels for ordinary Indonesians to voice these concerns, as would be available in more democratic and thus more responsive political systems, was clearly a factor responsible for the expressions of violence among ordinary people frustrated by the lack of political recognition of their grievances. The general feeling was that government policy decisions were made on the basis of the interests of the powerful rather than that of the public. These already existing perceptions of social and economic injustices exacerbated the dislocations caused by the regional financial crisis and contributed to the political crisis in the country (Ananta, 2001).

<u>Thailand</u>

Thailand is another country that was feted by the World Bank for its impressive growth rates since the mid-1980s (World Bank, 1993). Yet, it displayed one of the worst records of income distribution in the world. Although the boom years (1986-95) saw average real incomes double in the country and the rate of absolute poverty fall to about 12 per cent of the population, the gap between the rich and the poor widened rapidly. While the poorest 20 per cent of the population shared only 5.6 per cent of Thai income in 1992, the richest 20 per cent accounted for almost 53 per cent of income (World Bank, 2000: 238-9). By 1996, the richest 20 per cent of the population accounted for close to 60 per cent of total income, while the poorest 20 per cent earned only about 5 per cent of total income, a smaller share compared to 1992 (Hewison, 2001: 13). Distribution, moreover, was most inequitable between urban and rural incomes, due largely to the dominance of unproductive smallholder agriculture in the rural areas, and as a result, substantial regional disparities in income distribution were also evident (Hewison, 2001: 14). Per capita income in the poorest Northeast was 52 per cent of the national average before the crisis, and just over 20 per cent of the Bangkok Metropolitan Area (EIU, 2000). Despite government efforts at economic decentralisation, the gaps have widened (Hewison, 2001: 14).

There is sufficient evidence to suggest that exploitation was a major feature during the Thai economic 'miracle' (Hewison, 2001). Exploitation occurs when inequalities of income are generated and sustained by inequalities in rights and powers over productive resources (Wright, 2000: 1563). This was clearly the case in Thailand, where increasing amounts of agricultural land were taken over for industrial and housing estates, golf courses and tourist resorts while the dams built to provide electricity to the Bangkok region flooded forest areas, displaced villagers, and disrupted fish stocks. This led to localised fights as villagers attempted to protect their access to land, water and forest resources (Phongpaichit and Baker, 1995: 148). By the mid-1990s, it was reckoned that on any one day, Thailand had two rural protests.

Thus, the key concerns that had emerged in Thailand by the mid-1990s were the unequal access to resources, particularly by the rural population and other disadvantaged groups, as well as environmental damage. Labour standards and rights had also become a key concern amongst the domestic population in Thailand, with many seeing the drive for international competitiveness being pursued at the expense of workers (Vatikiotis, 1997). Unequal access to justice was another more subtle dimension to Thailand's problem with inequity, with the law enforcement agencies and the judicial system seen to be heavily biased in favour of the rich and powerful (Phongpaichit and Baker, 1995: 221).

The political power and influence of Thai businesses, including both provincial businesses and the Bangkok-based conglomerates, was seen by many in Thailand to be a major factor behind the persistence of much of the structural inequities in Thai society. The business lobby had long resisted any adjustment in policy that might have compromised the centrality of growth in Thai economic strategy. In this they were supported by the liberal technocrats in the bureaucracy, particularly in the powerful ministries such as finance and commerce, all sufficiently strong adherents to the liberal economic tradition to regard government intervention in the free market, even to redress inequalities in the system as unnecessary ((Phongpaichit and Baker, 1995: 203-36). Because these corporate actors dominated formal politics in Thailand during the 1990s to the exclusion of other groups in society, the latter increasingly turned to means outside the system to register their grievances – essentially through protests, which became increasingly strident towards the mid-1990s.

Growth was the predominant priority of successive governments during the 1990s, which refrained from adopting redistributive policies and environmental protection on grounds that these would slow growth (Soesastro, 1998: 34). Although distribution was placed on the national development agenda under the Sixth (1987 –91) and Seventh (1992-96) Plan periods in view of growing rural resentment at the widening regional disparities in income, few effective policies were implemented (Dixon, 1999: 223). In fact, the primary approach adopted to reduce rural and regional disparities was to further promote urban-based industrial growth, a somewhat odd policy given that more than 70 per cent of the Thai population resided in rural areas. Even the Eighth Plan (1997-2001), generally touted as the first development plan to adopt a human-centred approach to development and involving inputs from NGOs and community organisations (Teokul, 1999: 363-4), was dominated by orthodox approaches to growth. Its much-publicised 'alternative' elements remain poorly defined (Chantana, 1998: 273-74).

The Thai experience reveals how governance was crucial in shaping the nature of development and its outcomes. Clearly, the development goals and priorities set by Thai governments in the 1990s – but one dimension of governance – paid little attention to the distributive issue despite very obvious and sustained inequities in the country. The latter must be regarded as potentially destabilising if left unchecked, easily able to descend into social and political unrest through the competition for control over and access to resources, as had occurred in Thailand in the past (Chantana, 1998: 277; Dixon, 1999: 237). Although present Prime Minister Thaksin Shinawatra is one of the few Thai leaders to have explicitly placed poverty and distribution on the national agenda, the measures thus far implemented have had little real impact because they have not addressed a primary cause of these problems – unequal access to the country's resources, including land, forest resources, and especially education and training.[9]

Conclusion

It is clear that the SEADM as it was practised in Indonesia and Thailand, while delivering growth and raising average incomes, was also accompanied by widening disparities in income and wealth distribution, growing feelings of marginalisation, deprivation and of injustice. While it is well recognised that rapid economic growth under conditions of globalisation leads to growing disparities within and between states, it is how economies are governed that makes a difference to outcomes. The delineation of goals and priorities that emphasise equity and justice in addition to growth, as well as the political will and capacity to implement such priorities is the first step to perhaps achieving greater distributive equity amidst open market policies.

Both countries discussed in this short paper failed on both counts. Thailand's primary failure was to emphasise growth at the expense of more appropriate developmental goals. Although Indonesian economic policy had a strong developmental focus, sub-standard capacity to implement policy on the part of the state, coupled with the close business-politics links, prevented the implementation of more egalitarian distributive measures. Instead, distribution often took on a particularistic flavour, increasingly benefiting Suharto's close allies and family while marginalizing the already disadvantaged (Nesadurai, 2001: 210-37). In both these countries, disparities in income and wealth, including the unequal access to national resources, gave rise to increasingly frequent and strident protests that, in the Indonesian case, culminated in political unrest during 1998 and ongoing violence in various parts of that now fragile country.

The Malaysian experience offers an interesting contrast. Since 1988, preferential policies favouring the ethnic Malays with material entitlements were combined with increasingly liberal economic policies, though with certain limits imposed. Interestingly, the 1990s has witnessed a reduction in inter-ethnic inequalities, thereby easing considerably the inter-ethnic frictions that had long been a part of the Malaysian social, economic and political scene, particularly between the Malay and Chinese communities (Lee, 2000: 24-25). Although the ethnic policies generated particular problems including crony capitalism, and while *class* inequality within ethnic groups emerged as a key feature during the 1990s, Malaysia has so far escaped the kinds of social disintegration experienced by Indonesia and to a lesser extent, Thailand. This is principally because it is the inter-ethnic dimension of inequity that is politically salient in the country, and this has been fairly well managed so far. Yet, the widening disparities within the Malay community itself became a potential threat to the political dominance of Prime Minister Mahathir's party, UMNO during the financial crisis. The rescue of politically favoured companies triggered anger amongst ordinary Malays at the disproportionate share of economic wealth concentrated in the hands of the Malay/UMNO elite from preferential policies meant to benefit the Malay community in general. This led to a significant loss of Malay support for UMNO and the ruling government during this period (Lee, 2001: 24).

Clearly, and contrary to some of the more fundamentalist free market ideologies of the 1980s, the market alone cannot be an appropriate mechanism of governance. While the theoretical literature suggests that the state is a crucial player in governance through writing the rules and laws that govern markets and structure access to national resources (Weiss, 1998), the two cases examined here reveal how the state itself has failed in its governance functions and, in fact, promoted inequities in the system. Although democracy, and democratisation, is not a panacea for all the ills of society, its scope in developing and enhancing participatory processes by giving the disadvantaged a voice (theoretically at least) suggests one way to address the equity deficit in the SEADM through procedural means. Democratisation has the potential to enhance the responsiveness of the state to the needs of ordinary people, rather than accommodating the interests of the powerful and well connected only. What is important, however, is to guard against elite dominated democratic systems that can often mean support for the *status quo* and limited progress towards equitable development (Sorensen, 1998: 89), as the case of Thailand (and even Malaysia) has demonstrated. In short, representative and accountable democratic structures are needed to offer various groups in society a voice in political decision-making, and to catalyse the emergence and consolidation of rule-based economic systems that reduce the degree of arbitrariness in resource allocation (Drache, 2001).

The constraints on adopting developmental approaches to governing the economy imposed by globalisation, while increasing, should not be exaggerated. There remains sufficient scope at the level of the state for adopting policies that can address domestic imperatives centred on equity, including programmes for education, training and health. Foreign investors also appear able to live with investment policies that depart from the neoliberal orthodoxy, including restrictions on equity ownership provided certain basic rights are guaranteed, although they would clearly prefer fewer rather than more restrictions on FDI (Walter, 2000). On the other hand, the international financial institutions have, to-date, tended to reaffirm the neoliberal orthodoxy for the governance of the world economy. True, the IFIs might have tempered their rhetorical neoliberal zeal as they confront their critics from global social movements (Higgott, 2000: 147-48) but evidence suggests that this has not resulted in a fundamental shift in policy, especially if the response to the December 2001 crisis in Argentina by the IMF is any guide. It is at this level that attention needs to be focused on constructing a new global development architecture to enable national governments to address domestic equity and justice issues (Rodrik, 2001).

In sum, this paper has argued that rethinking the SEADM does not mean doing away with the open market policies that have clearly brought benefits to the countries that adopted them. This paper is not 'anti-market'. Approaches to development in Southeast Asia must, however, take seriously the issue of *development* defined as equity and social justice, in addition to economic growth. Otherwise, there is a danger that the open market system will continue to be increasingly contested, and in such a way as to offer the strong prospect of open conflict and societal resistance – paradoxically and tragically – to the very policies that have the best chance of delivering economic well being over the long run.

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Notes

[1] Economic globalisation is defined here as the tendency towards international economic integration through neoliberal processes of liberalisation, deregulation and privatisation of national economies, which generates increasingly intense interactions between nation-states and societies.
[2] Social justice, like all forms of justice, encompasses the notion of the absence of arbitrariness. See Rawls (1971).
[3] See Higgott (1999) for a detailed elaboration of this point.
[4] This refers to the gap between what people have and what they believe they should be entitled to.
[5] Address to the Board of Governors of the Bank in October 1998.
[6] The structural power of capital rests on its ability to deny investment (Lindblom, 1977).
[7] See Booth (2000) for a more detailed treatment.
[8] Quoted in McBeth (1996). Our emphasis.
[9] See the views of Dr Chalongpob Susangkornkarn, Head of the Thailand Development Research Institute (TDRI) as reported in *Straits Times*, ' More Thais sinking below poverty line' 23 January 2002.