The Second East Asian Miracle?:
Political Economy of Asian Responses to the 1997/98 and 2008/09 Crises

Success as Trap?
Crisis Response And Challenges To Economic Upgrading in Export-Oriented Southeast Asia

Richard Doner

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JICA Research Institute
10-5 Ichigaya Honmura-cho
Shinjuku-ku
Tokyo 162-8433, JAPAN
TEL: +81-3-3269-3374
FAX: +81-3-3269-2054

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SUCCESS AS TRAP?
CRISIS RESPONSE AND CHALLENGES TO ECONOMIC UPGRADING IN EXPORT-ORIENTED SOUTHEAST ASIA

Richard Doner*

Abstract
This paper explores the capacities for sustained growth in the export-oriented countries of Southeast Asia, with a focus on Vietnam, Malaysia and Thailand. The paper is especially concerned with the prospects for "upgrading" and moving beyond the "middle-income trap" in Malaysia and Thailand. But the core argument for all three countries is similar: Each has responded relatively well to economic crises with impressive reforms, especially in areas of property rights, macroeconomic policies, and, to varying degrees, financial supervision. With some exceptions, however, reforms have not extended to improving local (indigenous) competitiveness and technological capacities. These limits reflect both successful adjustment in areas noted earlier and the availability of resources, including commodity export revenues, external aid, and migrant / informal labor. The danger is that such "safety valves" will serve to reinforce existing institutional and political arrangements, thus undermining initiatives to improve local competitiveness and linkages so key to upgrading. Of particular interest is the fact that, unlike Western European countries where external exposure and vulnerability have led to various forms of labor incorporation, and unlike in the East Asian NICs, where such vulnerability has led at least to a commitment to shared prosperity (and in Singapore to a peak union's participation in labor market and productivity decisions), labor has remained largely disorganized and excluded from bargaining over key issues in export-oriented Southeast Asia. This argument in turn reflects the contention that crises vary in nature and intensity, that different crises have different impacts on the willingness and capacity of political elites to promote new coalitions and to foster new forms of coordination (i.e. institutions), and that such institutions are especially important for movement into more innovation-based activities and higher income status.

keywords: economic upgrading, middle-income trap, crisis, labor, capacity, Southeast Asia

* Dept. of Political Science, Emory University (rdoner@emory.edu)

1. Introduction

With economies whose reliance on exports has increased substantially since the 1997 crisis (Table 1), the middle-income and approaching-middle-income countries of Southeast Asia would seem to have been especially vulnerable to the more recent, severe decline in global markets. Confirming this expectation, in May 2009, the IMF's Deputy Managing Director concluded that Asia's growth deceleration had been sharper than in other regions, with GDP in Asia, excluding India and China, falling by almost 15 percent. This contraction, he argued, resulted from the region's "integration with the global economy."1 Countries relying more on manufactured exports were hit especially hard by the cyclical sensitivity of manufacturing, while those emphasizing commodity exports suffered from a subsequent fall in commodity prices. Yet only three months later, The Economist trumpeted "Asia's Astonishing Rebound" and highlighted the 10% average growth rate of the region's emerging economies, led by industrial production's impressive recovery.2 And by late summer of 2011, the World Bank upgraded the Thai economy from lower-middle income to upper-middle income status.3

Can this rebound translate into sustained growth? Any answer to this question must reflect Southeast Asia's cross-national diversity. I address the question through the lens of one low-income-but-growing country -- Vietnam, and two middle-income countries -- Malaysia and Thailand. My general answer to the question is twofold: I anticipate healthy economic growth in the short- and medium-term (i.e. 1-5 years). I anticipate that all three countries will, to varying degrees, benefit from short-term financial stimulus, from continued inflows of foreign direct investment, as well as from their impressively diversified exports.4

4. As discussed below, Vietnam faces more short-term challenges than do Malaysia and Thailand.
Table 1. East Asian export of goods and services as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>South Korea</th>
<th>China</th>
<th>Thailand</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>32</td>
<td>22</td>
<td>48</td>
<td>28</td>
<td>93</td>
<td>49</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>46</td>
<td>20</td>
<td>59</td>
<td>53</td>
<td>116</td>
<td>52</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>39</td>
<td>20</td>
<td>58</td>
<td>36</td>
<td>121</td>
<td>51</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>41</td>
<td>23</td>
<td>67</td>
<td>41</td>
<td>120</td>
<td>55</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>38</td>
<td>23</td>
<td>66</td>
<td>39</td>
<td>110</td>
<td>49</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>35</td>
<td>25</td>
<td>64</td>
<td>33</td>
<td>108</td>
<td>50</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>38</td>
<td>30</td>
<td>66</td>
<td>30</td>
<td>107</td>
<td>50</td>
<td>212</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>44</td>
<td>34</td>
<td>71</td>
<td>32</td>
<td>115</td>
<td>51</td>
<td>225</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>42</td>
<td>37</td>
<td>73</td>
<td>34</td>
<td>117</td>
<td>48</td>
<td>238</td>
<td>70</td>
</tr>
<tr>
<td>2006</td>
<td>43</td>
<td>40</td>
<td>73</td>
<td>31</td>
<td>117</td>
<td>47</td>
<td>246</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>46</td>
<td>42</td>
<td>73</td>
<td>29</td>
<td>110</td>
<td>43</td>
<td>231</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators

(1) United Nations data cited in Kohli (2009, Table 5)

But my main emphasis is on the longer-term, about which I am much less optimistic. Without innovation-promoting institutional reforms, their growth will be constrained by competition from low-wage, low-productivity rivals on the one hand, and by entry barriers to high-wage, high-productivity producers on the other. This perspective follows recent writings on "middle-income traps" and that shifts to higher income require movement from diversification to specialization and from investment to innovation.5 These moves in turn require different kinds of competencies, such as technical skills, new forms of infrastructure, and standards. These kinds of innovation-supporting collective goods rarely emerge naturally from the market. They require incentives and new forms of interest coordination. Put differently, new stages of development require new kinds of institutional capacities in the public, private, and public-private spheres.

I suggest that the emergence of new institutional interests and capacities has been stunted by the middle-income countries' otherwise successful responses to the 1997 crisis and their political consequences. These responses, which relied largely on macroeconomic measures and financial sector reforms, alleviated pressure for systematic improvements in technology-related capacities, such as R&D and technical training. They also perpetuated a

broader development strategy that, while resulting in impressive GDP growth rates and diversification, has encouraged capital-intensive, foreign-dominated manufacturing and weak intra-and inter-sectoral linkages. While reducing poverty quite significantly, this pattern of mild disarticulation has in turn spawned conditions which undermine sustained growth in the face of competition from both low-wage/low-skill and higher wage/higher-productivity rivals.

It has done so in at least three inter-related ways:

**Limited Domestic Demand:** It has dampened broad, private sector demand for the kinds of collective goods required for movement to higher-income activities. It has done so in part by strengthening the position of foreign firms in export-oriented manufacturing, firms with limited interest in the provision of innovation-related services such as technical training. It has also done so by encouraging the growth of migrant, casual, and other forms of informal employment that allow domestic firms to avoid higher-skill activities and discourage worker investment in skill development. The result seems to be a "low-skill equilibrium trap" seen in Latin America.

**Weak Labor:** Relatedly, it has weakened labor's political and economic role in the development process. This is of concern because it runs counter to the labor-inclusion experiences of more successful cases of development by small and medium open economies. High-income economies have generally exhibited at least two forms of labor inclusion: Explicit "cross-class collaboration," as in the small states of Western Europe, or de facto growth partnerships, including what some have called "micro-corporatism," as in the East Asian Newly Industrializing Countries (NICs). Such patterns are not evident in Southeast Asia.

**Fragmented Institutions:** This overall growth trajectory has both reflected and contributed to relatively fragmented political and bureaucratic institutions. Such fragmentation has in turn

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6. See, for example, Gill and Kharas (2007, 273-274, Tables 6.1, 6.2).
7. There are clearly exceptions to this statement, but even in cases where foreign producers have initiating training programs, these efforts have been undermined by weak responses from host-country actors.
has allowed for the persistence of domestic business groups relying on family ownership/control and diversification rather than developing core competencies necessary to compete with low-wage and low-skill rivals. This seems to be a more moderate version of the pattern seen in Latin America.

But these patterns of low demand for skills, labor exclusion, and weak development-related institutions themselves require explanation. Here I refer back to the costs of previous success. Significant threats to political elites are necessary for institutional strengthening. The recoveries of the middle-income countries have moderated such threats.

The paper proceeds as follows. Section II presents the theoretical underpinning of my arguments, drawing on literatures distinguishing challenges of different development stages, institutional capacities, and the political origins of such capacities. Section III, the empirical core of the paper, offers descriptions and explanations of growth strategies and institutions first in Vietnam, and then Malaysia and Thailand. My objective is to assess the impact of crises on countries at different stages of development. A core contention is that East Asian responses to both the 1997 and 2008 crises focused largely on macroeconomic measures and financial sector reform that facilitated further diversification and concentration on natural resource exports and low-wage, low-skill, manufactured exports. In the Vietnam case, this is less serious. In the Thai and Malaysian cases, the result was to truncate upgrading efforts. Section IV concludes by highlighting several issues that merit further analysis in light of their impact on sustained growth.

Table 2. East Asian growth and size of informal economy

<table>
<thead>
<tr>
<th>Country</th>
<th>Income Group (1)</th>
<th>GNI nominal 2008 (2)</th>
<th>GNI PPP 2008 (3)</th>
<th>Informal Sector GDP as % of non-Agricultural GDP 1994/2000 (3)</th>
<th>Informal Economy as % of GDP (4,5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>high</td>
<td>$20,560</td>
<td>$28,120</td>
<td>17</td>
<td>27.50</td>
</tr>
<tr>
<td>Taiwan</td>
<td>high</td>
<td>$17,230</td>
<td>$27,122</td>
<td></td>
<td>25.40</td>
</tr>
<tr>
<td>Singapore</td>
<td>high</td>
<td>$34,760</td>
<td>$47,940</td>
<td></td>
<td>13.10</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>high</td>
<td>$31,420</td>
<td>$43,960</td>
<td></td>
<td>16.60</td>
</tr>
<tr>
<td>Malaysia</td>
<td>upper-middle</td>
<td>$6,970</td>
<td>$13,740</td>
<td></td>
<td>31.10</td>
</tr>
<tr>
<td>Thailand</td>
<td>lower-middle</td>
<td>$2,840</td>
<td>$5,990</td>
<td>51</td>
<td>52.60 (6)</td>
</tr>
<tr>
<td>China</td>
<td>lower-middle</td>
<td>$2,770</td>
<td>$6,020</td>
<td></td>
<td>13.10</td>
</tr>
<tr>
<td>Indonesia</td>
<td>lower-middle</td>
<td>$2,010</td>
<td>$3,830</td>
<td>78</td>
<td>19.40</td>
</tr>
<tr>
<td>Philippines</td>
<td>lower-middle</td>
<td>$1,890</td>
<td>$3,900</td>
<td>72</td>
<td>43.40</td>
</tr>
<tr>
<td>Vietnam</td>
<td>low</td>
<td>$890</td>
<td>$2,700</td>
<td></td>
<td>15.60</td>
</tr>
</tbody>
</table>

(1) Based on World Bank classification: low income, $975 or less; lower middle income, $976 - $3,855; upper middle income, $3,856 - $11,905; and high income, $11,906 or more.
(2) World Development Indicators database, World Bank, 1 July 2009.12
(3) ILO (2002, 19). Informal economy defined as including both self-employment in informal enterprises (small and/or unregistered) and wage employment in informal jobs (without secure contracts, worker benefits, or social protection, including casual day laborers, domestic workers, industrial outworkers, undeclared workers, part-time or temporary workers without secure contracts etc). (Ibid. 7).
(4) Schneider (2002, 8). Informal economy is defined here as "unreported income from the production of legal goods and services, either from monetary or barter transactions - hence all economic activities which would generally be taxable were they reported to the state (tax) authorities" (Ibid. 3).
(6) By a different definition, Pasuk and Baker (2008, 72) calculate that the agricultural and urban informal sectors together account for roughly two-thirds of the workforce (and roughly the same proportion of the electorate).
(7) By a different definition, Pasuk and Baker (2008, 72) calculate that the agricultural and urban informal sectors together account for roughly two-thirds of the workforce (and roughly the same proportion of the electorate).

12. “GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.” “GDP is sum of gross value added, at purchaser prices converted at market exchange rates to current U.S. dollars, by all resident producers in the economy plus any product taxes (less subsidies) not included in the valuation of output.”
2. Theoretical Approaches to Growth Divergence

As noted, I am interested less in the chances of short-term recovery by East Asia's export-oriented economies than in their prospects for sustainable growth. The question of sustainability gains relevance in light of these economies' stages of growth, challenges specific to different stages, the institutional capacities required to address these challenges, and the political influences on such capacities.

2.1 Development Stages and Challenges

Recent scholarship has highlighted the shifting role of sectoral diversification in economic growth. First, evidence suggests a U-shaped pattern in which diversification (reflected in declining Gini coefficients for an economy's sectoral concentration) increases roughly through middle-income, after which further growth involves greater growth in fewer sectors. Although the benchmark estimate for the shift based on a pooled sample of all countries is roughly $9,000 per capita GDP, Imbs and Wacziarg found that the turning point to more concentration occurs much earlier for open economies. Indeed, maximum diversification in Singapore occurred around $2,500 per capita income, after which the number of sectors declined.\(^\text{13}\) Although Singapore's small size and unusual openness puts it at the extreme, this tendency for open economies to begin specializing at even lower income levels is relevant for the East Asian export-oriented economies whose traditionally high levels of openness have only continued to increase in the past decade.\(^\text{14}\) Indeed, Malaysia appears to be "at the cusp" of this shift, and China's export dynamics are already beginning to look like those of higher-income countries.\(^\text{15}\)

\(^{13}\) "...anecdotal evidence suggests it is the interaction of income per capita and openness that determines the stages of diversification." Imbs and Wacziarg (2003, 77).

\(^{14}\) Openness is reflected in low, declining tariff levels; significant roles of FDI in East Asian growth; export growth; export levels relative to other regions; and exports as percentage of GDP (see e.g., World Bank 1993, Ch. 3; Gill and Kharas 2007, 83-87). Also, note the heavy reliance on exports in Table 1 above.

\(^{15}\) Yusuf and Nabeshima (2009, Ch. 3).
This line of thinking is consistent with a second set of writings concerned with "middle-income traps."\textsuperscript{16} Countries ranging from lower middle-income Philippines, Indonesia and Thailand to upper middle-income Malaysia (Table 2) have grown through diversification. They have effectively mobilized resources that are “hidden, scattered, or badly utilized” for investment in new activities that have raised national incomes.\textsuperscript{17} Their ability to do so was based on 1) institutional arrangements that allowed them to overcome both information and coordination failures inherent in new, risky activities, and 2) factor endowments, raw material exports and low-wage labor. What they have not successfully done is to develop technological strengths and innovation capacities. Their development has been relatively "technologyless,"\textsuperscript{18} The resulting risk for the middle-income countries lies in being squeezed by lower wage rivals such as Vietnam but finding it difficult to compete with higher-wage and higher-productivity producers, such as Taiwan.

Continued growth, the argument goes, will require becoming more specialized in the sense of being more efficient and "deeper," i.e. with more domestic linkages, in a smaller number of sectors. This process, which can also be understood as "upgrading," requires relying less on investment and more on innovation understood as the diffusion of a product, process or practice that is "new," not necessarily to the world, but to a particular firm or group of firms.\textsuperscript{19} The shift from diversification-based growth to upgrading is akin to what economists have termed the shift from "extensive" to "intensive" growth.\textsuperscript{20} These shifts, and the required innovation, demand improved infrastructure and an educational shift "from equipping workers with skills that allow them to adjust to new technologies to preparing them

\textsuperscript{16} See Gill and Kharas (2007); Yusuf and Nabeshima (2009); World Bank (2008).
\textsuperscript{17} Hirschman (1958, 5); Waldner (1999, 163). Pritchett (2003, 145) describes this process as “freeing up and providing incentives for the existing factors of production.” For an application to the middle-income economies of Southeast Asia, see Yusuf and Nabeshima (2009, Ch. 1).
\textsuperscript{18} On lack of technology, see Wade (2005).
\textsuperscript{19} E.g. Kuznetsov (2004).
\textsuperscript{20} Extensive growth refers principally to economic expansion resulting from an increase in quantities of inputs. Because such an expansion does not involve growth in the efficiency with which inputs are used, (i.e. a growth in total factor productivity), it is allegedly subject to diminishing returns (e.g. Easterly 2002, 97).
to shape new products and processes.\textsuperscript{21} Rather than waiting for new technologies to appear, upgrading requires absorptive capacity - an endogenous, cumulative learning process in which local producers recognize the value of new information, assimilate it, and to apply it to commercial ends.\textsuperscript{22} The middle-income countries need, in now-common parlance, to move toward a knowledge-based economy (KBE).\textsuperscript{23} This process in some sectors poses difficulties beyond the uncertainty and risks characterizing any new investments. Its information requirements are higher; its success requires the involvement of multiple parties; and it poses tough distributional challenges.\textsuperscript{24}

The policy implications of the preceding discussion merit note: In the words of a recent World Bank study, “middle-income countries have to do something different if they are to prosper…”\textsuperscript{25} Although the specifics vary, the "something different" includes measures that facilitate the development of the following: core technological competencies (e.g. testing, standards and calibration services, vocational and technical training); FDI with the potential to generate technology spillovers;\textsuperscript{26} energy-saving and environmentally sustainable environmental practices (e.g. wastewater treatment); improved infrastructure (e.g. IT logistics); streamlined trade regimes that encourage upstream-downstream linkages; market exploration and development; and R&D diffusion.

While most scholars and practitioners concur on the need for such resources, there is less agreement on two related questions. The first is whether this shift to upgrading, from extensive to intensive growth, is an "automatic" one that occurs through simple market

\textsuperscript{22} Cohen and Levinthal (1990).
\textsuperscript{24} On upgrading and its challenges, see Doner (2009, 74-77).
\textsuperscript{25} Gill and Kharas (2007, 5). This view is consistent with Rodrik's argument that "...the policies required to initiate a transition from a low-income equilibrium to a state of rapid growth may be qualitatively different from those required to reignite growth for a middle-income country" (Rodrik 2003, 17). See also Lall (2000, 29).
\textsuperscript{26} Felker and Jomo (2003).
mechanisms. Andreas Irmen, for example, contends that periods of extensive growth through capital accumulation can lay the basis for subsequent intensive growth.\textsuperscript{27} Capital accumulation encourages shifts into labor-saving technical changes, shifts the capital-labor ratio, affects the relative scarcity and prices of factors of production, and induces innovation-related investments. The Southeast Asian experiences reviewed in this paper cast significant doubt on this position, in part, I believe, due to the pervasiveness of informal labor even in manufacturing.

The second question is whether this shift requires the intervention of extra-firm actors. A fairly strict neoclassical position answer is negative: given “functional” measures aimed at remedying generic market failures, such as general education, efficient customs administration, fluid labor markets, and openness to foreign technology, improved capacities and practices will disseminate through an economy via competitive emulation.\textsuperscript{28} The alternative position, adopted in this paper, is that the acquisition of innovation-related capacities requires services whose provision in turn requires collective action; and whether due to information scarcity, short time horizons, or the simple desire to free ride, such coordination typically requires the involvement of extra-firm institutions, i.e. norms, rules and/or organizations. Global value chains can and do fulfill key coordination functions; but the most important collective action mechanisms are national in scope. There is, of course, variation in performance among firms within countries; yet the more pervasive pattern is cross-national: 

...some countries produce a larger number of dynamic and competitive firms than others......in other words...the common set of markets, rules, and institutions that make up a national economic unit has a significant effect on the behavior and capabilities of the firms within that unit.\textsuperscript{29}

\textsuperscript{27} Irmen (2005).
\textsuperscript{28} Pack (2000, 87).
\textsuperscript{29} Lall, (2000, 24).
2.2 Institutional Requirements

Institutions are thus important to formulate and implement policies appropriate for different development stages. As Felker and Jomo argue, for example, the measures to encourage FDI technology spillovers "demand that government investment agencies develop greater expertise and flexibility - rather than a sector-neutral and minimally active policy stance." A related set of findings highlights the institutional competencies or strengths associated with different growth stages and policies. This literature does not prescribe specific institutional forms. Indeed, recent work warns that institutional innovations do not travel easily. But, harkening back to endogenous growth theory, it emphasizes the importance of mid-level arrangements that can address the high learning costs, the long learning periods, the exceptional risks, and the widespread externalities associated with the development of technological capabilities. Rodrik terms this the challenge of designing "governance in the small," i.e. designing institutional arrangements not as part of a broad-brush, one-size-fits-all agenda, but rather to address specific policy reforms aimed at the particular challenges "most closely linked to stimulating and sustaining economic growth." Overcoming the information, coordination, and distributional challenges of upgrading requires extensive consultation, monitoring and credibility.

2.3 The Politics of Institutional Origins and Evolution

There is, then, significant agreement among development economists as to the centrality of institutions for growth and the fact that different stages of growth require different types and levels of institutional capacities. But where do such capacities come from? Put differently, what explains variation - especially cross-national variation - in such institutional

30. Ibid. (85).
31. Rodrik (2007, Ch. 1).
32. See http://rodrik.typepad.com/dani_rodriks_weblog/2008/03/thinking-about.html. See also Pritchett (2003); and Lall (2000, 29).
34. See for example the overview by Irma Adelman (2001).
capacities? Writings by economists are either silent on the issue or, more typically, fall back on hopeful appeals for democracy, governance, and/or able and corruption-free leaders.\textsuperscript{35} These solutions are problematic: The link between regime type and development is suspect; the emphasis on governance suffers from both questionable measures and probable endogeneity problems; and while a focus on leaders highlights the political elites' role as “principals” in raising the profile of industrial transformation and in promoting institutional reform, it simply begs the question of political leaders' motivations.\textsuperscript{36} For example, China's experience suggests that successful institutions have emerged not full blown but rather out of an iterative discovery and tinkering process, and that this process in turn must involve both public and private sectors.\textsuperscript{37} But this begs the question of why leaders would engage in such experimentation and/or encourage others to do so.

A useful approach begins from the finding that institutional change, including shifts designed to enhance efficiency gains from trade among actors, emerge out of the "rough and tumble" of politics.\textsuperscript{38} Put differently, institutional capacities emerge from pressures and opportunities facing rational political leaders. Why then would political leaders pursue difficult but growth-promoting institutional rather than channel largesse to key constituencies – typically economic elites interested in easy profits through speculation and rent seeking? Two factors seem key: The inclusion of labor in the growth process; and crises: The institutional underpinnings for technological development required to shift from middle- to upper-income status in most developing countries require some form of labor inclusion in the growth process. Such inclusion is in turn a function of crisis, albeit a crisis that takes the form of ongoing threats to political elites. The following discussion of labor inclusion, categories of crises, and

\textsuperscript{35} Gill and Kharas (2007); Rodrik (2004, 19-20); Yusuf and Nabeshima (2009).
\textsuperscript{36} On democracy and growth, see Przeworski et al (2000). On governance problems, see Kurtz and Schrank (2007).
\textsuperscript{37} Heilman (2008).
\textsuperscript{38} Bates (1995)
crises' impacts is intended to provide an (admittedly crude) analytical framework to understand the weaknesses in Southeast Asian upgrading.

**Labor Inclusion--From Cross-Class Collaboration to Partners in Growth:** Over two decades ago, Peter Katzenstein argued that in the small states of Western Europe, cross-class collaboration was developmentally important, especially as a mechanism through which to provide "compensatory political gestures...essential for maintaining consensus" on difficult shifts in factors of production.\(^3^9\) In addition to facilitating compensatory measures, labor inclusion brings other important growth benefits: It can discourage inflation (by tying wage increases to productivity), encourage workers to invest in company-specific skills, and reduce tendencies to engage in disruptive forms of protests by providing workers with some degree of security against arbitrary layoffs and other types of punitive actions. To be sure, the collaboration Katzenstein described involved active, organized labor movements for whom there have been few if any counterparts in East Asia. Especially in the NICs, typically characterized as "narrow elite alliance(s) between the state and capital," labor repression rather than incorporation has been more common.\(^4^0\)

But if popular sectors, including labor, have been subordinated and in some cases brutally repressed, they have not been ignored in the NICs. Instead, linking developmental goals and nationalist sentiments, political leaders in the NICs combined "strategic repression" with broad-based public goods, including very significant investments in human capital.\(^4^1\) Popular sectors were de facto growth partners benefiting from compensatory measures that helped not only to foster a consensus on "difficult shifts in factors of production" but also to

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41. On "strategic repression," see Gallagher and Hanson (2009, 670, 672). On human capital investments, see Freeman (1993) and Teitelbaum (2011, 6-7). Haggard and Kaufman note that in East Asia (and in Eastern Europe), "... repression of the left and labor provided the conditions for policies that encouraged much more egalitarian distribution of social insurance and services and arguably more egalitarian distribution of income" (2008, 22-23). Similarly, in his contribution to the World Bank's *East Asian Miracle*, Freeman notes that despite extensive suppression of independent unions, real wages of even low skill workers rose and "income inequality was moderate or fell" (1993, 2), and "Korea's investment in human capital was extraordinary" (Ibid., 3; emphasis added).
make that shift an efficient one. The shift to export-led growth in the East Asian NICs prompted leaders to improve labor's access to high-quality, especially technical, education, even as elites remained more resistant to extensive social insurance schemes seen in other regions. Indeed, in Singapore and South Korea, labor has been an active participant in ongoing productivity improvement efforts. In Singapore, this has taken the form of a quas-corporatist relationship between the ruling People's Action Party and a politically subordinate National Trade Union Congress; in South Korea, the recent trend has been toward more enterprise-based microcorporatism in large firms.

As I argue below, such emphasis on improving human capital, in some cases involving labor in the process, contrasts sharply with the relative neglect of such issues in the middle-income countries of Southeast Asia. This neglect is not a function of ignorance, indifference, inexperience, or naiveté about the interests of the multinational corporations who dominate key manufacturing sectors. Indeed, these countries "have...sought to harness TNC activities to build more durable locational assets, including ones supporting technological innovation." But, owing to Vietnam's still competitive labor rates, pressure for such improvements in Vietnam has not yet been very high. Where pressures have grown - in Malaysia and Thailand - efforts to improve human capital have not been very successful. Thus, these modest achievements relative to those of the NICs reflect different kinds and degrees of crises, understood as threats to political elites' survival.

42. Haggard and Kaufman (2008, 9), who also emphasize the move by East Asian political elites to reach into rural areas for political support (Ibid., 9).
43. Yuen and Lim (2000) argue that globalization has strengthened the role of the National Trade Union Congress and its engagement with the state. On the 1990s emergence of "microcorporatism" in previously strike-ridden S. Korea, see Lee (1998).
44. Booth (1999); Yusuf and Nabeshima (2009).
Crisis as Shocks and Threats: There is now plenty of scholarship on crises. Yet, as Corrales notes, "...the literature offers no consistent guidelines as to what constitutes 'the real' crisis." To render this issue more tractable, it is useful to identify four crisis dimensions. 1) substantive: economic vs. political, 2) spatial: internal vs. external, 3) onset speed: rapid vs. gradual; 4) duration: shorter vs. longer. These dimensions yield a rough continuum of crises ranging from shocks to threats, with the former connoting rapid onset events that may or may not exhibit long duration, and the latter connoting more gradually emerging pressures that typically do exhibit long duration.

1. One set of writings emphasizes sudden but relatively short-term, economic shocks involving some combination of deteriorating fiscal deficits, sharp external imbalances and unsustainable inflation in the context of difficult external conditions. These crises would include, for example, episodes of Latin American hyperinflation in the 1990s, the 1997 Asian financial crisis, and of course the 2008-9 recession.

2. A second strain of literature, represented by Gourevitch and Katzensein, focuses on rapid onset but long-lasting, exogenous economic shocks, including the crisis of 1873-96, the Great Depression of the 1930s, and the oil shocks of the 1970s.

3. A third set of writings emphasize economic crises that emerge somewhat more gradually from domestic sources. I am thinking here of what might be called an "exhaustion" dynamic in which national development strategies become untenable in the face of external shifts.

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46. Corrales (1997, 617). Tomassi (2004 140-41) is even more specific: The crisis literature does not always distinguish between crises of bad policies ("endogenous deterioration induced by preexisting misguided policies, as in Argentina in 1990"), bad luck ("exogenous shocks that hit a polity that had generally sound policies...as in Argentina in 1994"), or bad institutions ("endogenous breakup of economic actors' confidence in the sustainability of extant policies...as in Argentina in 2001").

47. The onset and duration dimensions are similar to Pierson's (2004, Ch. 3) "time horizon of cause" and "time horizon of outcome." Each of these four dimensions can be broken down further. For example, economic crises can involve broad macroeconomic problems or one specific commodity. Despite being posed dichotomously, each dimension is obviously a matter of degree.


49. Katzenstein (1985); and Gourevitch, who identifies three properties common to such crises: "A major downturn in a regular investment/business cycle, a major change in the geographical distribution of production, and a significant growth of new products and new productive processes" (1986, 20).
The best known example of such a dynamic is the exhaustion of import-substitution strategies in Latin America. But East Asian countries have exhibited another type of exhaustion implied in the middle-income trap - namely, the declining competitive advantage of low-wage, low-productivity labor.

4. Political forces are more explicit in writings that emphasize credible, large-scale external security threats, such as those facing Japan or Germany in the 19th and early 20th centuries, or South Korea and Taiwan after WWII.

5. A more explicitly political type of crisis involves domestic unrest by popular sectors. Such "contentious politics" can be differentiated by geographical and/or sociological scope.

6. Finally, a more integrated approach incorporates multiple dimensions that add up to severe threats. The concept of "systemic vulnerability" emphasizes the interaction between ease of access to resources (e.g. foreign aid, natural resource exports) on the one hand, and claims on resources imposed on leaders by external security threats and by domestic political pressures.

Impacts of Crises: Most of the literature on crises explores the impact of the first category - sudden onset economic shocks - on the prospects for macroeconomic stabilization, exchange rate management, trade liberalization, labor market reforms, and, to a lesser extent, financial sector reforms. This literature seems to have evolved from a largely "optimistic" view, ("...if there is one single theme that runs through the length of the political economy literature it is the idea that crisis is the instigator of reform"), to a more nuanced position that 1) recognizes significant cross-national variation in response to similar crises; 2) disaggregates reform processes into speed of initiation, success of implementation, sustainability, and macro vs.

51. Gerschenkron (1962); Acemoglu and Robinson (2006); Woo-Cumings (1998).
52. Slater (2010).
55. E.g. Gourevitch (1986).
microeconomic components;\textsuperscript{56} 3) specifies causal mechanisms linking crises to reform;\textsuperscript{57} and 4) stipulates that the impact depends on domestic variables: The nature of coalitions; the nature of assets held by capitalists; capital-labor conflicts; the nature of political institutions, especially as this affects elite cohesion; and the degree to which reform burdens are shared equitably.\textsuperscript{58}

There are significant limitations on the utility of this crisis-as-shock literature for the kinds of upgrading challenges central to escaping the middle-income trap. Its emphasis is on reforms that, relative to upgrading, can be achieved with the "stroke of a pen." While they surely have distributional consequences, these "1st generation reforms" exhibit neither the need for coordination and long time horizons, nor the kinds of time-, place-, and sector-specific information required by 2nd generation reforms in health and education, much less the "3rd stage" measures inherent in technology absorption and upgrading.\textsuperscript{59} While economic crises-as-shocks typically demand immediate solutions, 2nd and 3rd stage reforms require changes in incentives and organizational capacities that take a long time to implement.\textsuperscript{60} This discussion suggests that while economic crises as "shocks" might trigger "blips" of reform, they will not

\textsuperscript{56} See the review in Rodrik (1996, espec. p. 36).
\textsuperscript{57} Such mechanisms include 1) "learning," in which economic chaos leads to reassessment of previous policies and a new, albeit often stochastic mapping from policies to outcomes; 2) "special politics," in which economic disarray and weakened opposition leads actors to suspend the usual political rules and to delegate authority to particular actors; 3) "switch in equilibrium behavior," in which participants reinterpret their payoffs: This may lead to greater cooperation for the common good or, equally useful, disaffection among previously cohesive rent-seeking groups; 4) "risk-taking behavior," in which severe threats to well-being lead people to accept market-oriented reforms that carry at least short-term risks. Tomassi (2003, 137-140.). See also Cavallo and Cavallo (2008, 7). Also relevant here is "prospect theory" in which people with choices leading to relative gains typically become risk averse, whereas those faced with losses will be more risk accepting (Kahneman and Tversky (1979).
\textsuperscript{58} For the "optimistic" view, see Drazen and Grilli (1993). On coalitional approaches, see Pepinsky (2009). On political institutions, see, e.g. Corrales (1997); and Cavallo and Cavallo (2008); on asymmetry of burdens, see Alesina and Drazen (1991); and Rodrik (1996).
\textsuperscript{59} Consider Ostrom's point that institution-building at the local level "is a difficult time-consuming, conflict invoking process. It is a process that requires reliable information about time and place variables as well as a broad repertoire of culturally acceptable rules" (1990, 14).
\textsuperscript{60} Nelson (1999); and personal communication from Joan Nelson. Note also Tomassi's (2003, 135) emphasis on the need for attention to "more continuous, less episodic, and less heroic view of the policy making process than that implicit in some discussions of 'reform'."
constitute the kinds of ongoing and severe threats leading to investment of political resources in consultation, monitoring and credibility required to address the challenges of upgrading.

The implication is that, other things being equal, multi-dimensional and ongoing threats to elite political survival, as highlighted in the concept of vulnerability, constitute a necessary condition for upgrading-related reforms. In fact, the crisis-as-shock literature highlights two pro-reform factors (noted above) that seem consistent with the vulnerability concept as applied to the East Asian NICs: Social equality (implying attention to labor's welfare and skills), and elite cohesion. But where these seem to be a matter of happenstance in the crisis-as-shock literature - crises might well encourage "defensive defection" rather than some rally-round-the-flag dynamic of cooperation \(^61\) - both factors are central to the vulnerability approach.

One objection to this line of thinking is that the vulnerability argument seems most applicable, or at least most applied thus far, to authoritarian regimes, especially to those relatively early in the process of state creation.\(^62\) How can one expect elite cohesion in inherently more fragmented democratic regimes characterized by multiple veto players? There are a couple of responses to this concern. First, we can recall Katzenstein's argument for democratic states in Western Europe that extreme threats, defined as "vulnerability and openness," can "impress…on the elites the need for internal unity and cooperation."\(^63\) Second it is important to note that in both Katzenstein's Western European cases and the East Asian NICs, elites unified not just on the need for an export strategy, but for an export strategy that engaged and rewarded non-elites, especially labor. The fact that vulnerability has had relatively similar impacts on both the post-WWII NICs and the pre-WWII Western European states is even more striking in light of two significant differences between the two: The tradition of political accommodation (reflected in adoption of PR systems), and the presence of

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61. Corrales notes, (1997-98, 640)
62. Doner, Slater and Ritchie (2005); and Gallagher and Hanson (2009).
organized labor in the European states but not in the NICs. Third, there is some evidence that extreme threats can result in multiple veto players delegating authority to an insulated agency.\textsuperscript{64}

Indeed, one finds hints of such a pattern - essentially blips - in the middle-income countries of Southeast Asia.\textsuperscript{65} But I argue that at least two related sets of factors have allowed these countries to moderate such severe threats. First, their heretofore successful export strategies have required neither indigenous innovation capacity nor domestic linkages, whether upstream or downstream. Robert Wade's argument on linkages merits note here: The lack of a "dense set of input-output linkages between sectors" weakens the expansion of domestic demand and thus raises vulnerability to export volatility. In addition, weakly aggregated production structures discourage cross-class alliances and thus prevent the formation of robust constituencies for technology promotion.\textsuperscript{66} Second, large informal labor forces (bolstered by migrant labor) undermine labor's capacity for collective action.\textsuperscript{67} Informality both reduces pressure on wages and productivity and leads to growth-inhibiting inequality. The result is that political elites (or local industrialists) do not view technology promotion, including effective education, as key to survival. These patterns have been exacerbated by responses to both the 1997 and 2008-09 crises. Although such factors are less problematic for lower-income Vietnam than for Malaysia and Thailand, we do see their impact in the Vietnam case, as described in the following section.

\textsuperscript{64} See the discussion of Israel's technology development process in Doner, Hicken and Ritchie (2009).
\textsuperscript{65} Doner (2009). My more recent (unpublished) research on innovation in Malaysia's rubber industry bears out this point.
\textsuperscript{66} Wade (2005).
\textsuperscript{67} Keefer (2009) highlights the importance of collective action, an issue to which I return.
3. Development Trajectories and Responses to Crises

3.1 Low Income - Vietnam

Development Performance

Vietnam's growth over the past 20 years has been impressive, described by one observer as "booming out of a poverty trap." There is general agreement that this growth has resulted from freeing up "enormous reservoirs of unused or underused resources, especially labour in the rural sector." GDP per capita grew at almost 7% per year from 1993-98 even as poverty declined at an annual rate of 4.1% during the same period. Indeed, there has been a pro-poor bias to the country's growth: Its equality as measured by Gini coefficient was significantly better in the late 1990s than in Malaysia, the Philippines and Thailand; its infant mortality rate is lower than in wealthier China and; and it will probably meet or exceed most of the Millennium Development Goals ahead of schedule. These achievements are in large part the result of policy and institutional reforms undertaken by an elite facing a series of significant pressures. Yet more recently income inequality increased, with the rural-urban gap especially wide. Further, as discussed below, reforms seem to be stalled and Vietnam risks falling into a middle-income trap just as it achieves middle-income status.

Reform Strategies and Stages

Command Economy: The country's initial, post-war strategy was a socialist command economy. Under the Five-Year Plan (1976-80), this involved full socialization, including

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68. Pritchett (2003, 142). The impressiveness of Vietnam's reforms and growth are all the more impressive in light of the disadvantages the country faced relative to China (see Riedel and Turley 1999, 12).
70. Balisacan et al (2003, 4, Table 1).
71. Gini coefficients were: Vietnam 0.35; Thailand 0.41; Philippines 0.46; Indonesia 0.32 (Ibid., 5, Table 3).
72. These are reviewed in an otherwise highly critical assessment of Vietnam's growth (Dapice 2008, 41).
73. Gill and Kharas (2007, 64, Figure 1.6) who also note that the rural share of the poor is about 95% in Vietnam (p. 5).
nationalizing industry and suppressing private trade; movement from small-scale to large-scale production, and integration of the North and South. The effort was doomed by a lack of state capacity in areas such as information gathering and monitoring, as well as by a failure to provide new modes of production and distribution to make up for the newly suppressed private activities. Shortages of food, agricultural production and inputs (e.g. gasoline and fertilizers), inputs for state-owned-enterprises (SOEs), and hyperinflation resulted. These problems were especially serious in agriculture where costs of production rose as equipment deteriorated, cultivated area decreased, and output of staples fell (rice production grew at only 0.4% during this period).74

In response, illegal markets exploded and state-owned-enterprises went outside the plan to procure inputs ("fence breaking"). Although these local deviations from the Plan probably moderated the crisis' impact, they also reflected a political problem - namely, a deterioration of public confidence in the party-based political leadership. Leaders had a stark choice: "Rescue the Plan by strengthening enforcement, which in the existing conditions was sure to make matters worse....or save the economy and recover public support by sanctioning some of the adaptations that had already occurred."75

**Market Retrenchment:** In the event, they selected the latter option. The 2nd Five Year Plan (1980-85) involved some relaxation of controls and the introduction of a contract system. The overall package included abolition of price controls, unification of exchange rates leading to a five-fold devaluation of the dong, raising civil servants' salaries, introduction of a contract system in agriculture, expansion of family farms through long-term leases, and reforms for SOEs that included cutting their budgets while granting them greater autonomy on pricing, production and investment decisions. However, this did not constitute a clear reform path.

74. Leung and Riedel (2001, 4). However, this national figure masks higher growth rates due to earlier moves to private plots in the north - see fn. 85 below.
Along with greater autonomy for local initiatives and recognition of the need for non-socialist sectors, various forms of regulation and taxes weakened small business in services and trade.

This "awkward compromise" between pressures from below and a desire for recentralization had significant, positive results: From 1981-1987 rice output grew at an annual rate of 4.2% (compared to 0.4% over the prior half decade), and food output increased to the point of self sufficiency. On the other hand, the increase in food production seems to have been a short-term response to growth in household plots. Further, the reforms resulted in speculation, corruption, smuggling, a flood of sideline activity, inflation due to increased wages for officials, subsidies, , and a significant spike in the budget deficit. When combined with growing resistance to centralized restrictions on local initiatives, especially in the South, the compromise was not sustainable.

**Doi Moi:** These problems prompted a new set of reforms - *doi moi* (renovation) - approved by the Sixth Congress in 1986. These included enhanced SOE autonomy, permission of small-scale private traders, and elimination of the state's monopoly over foreign trade. They provided the basis for changes at the margins, including cutting differences between official and market prices, ending rationing for many commodities, ending checkpoints on internal trade, and establishing the legal bases for foreign investment and trade. Yet again, these initial reforms were partial and couched within a clear reassertion of the government planning apparatus, government control of SOEs, and the maintenance of a dual pricing system. In sum, the initial stage of *doi moi* offered incremental changes. But these were fraught with tensions that contributed to increased budget deficits, triple-digit inflation, and pockets of famine (due to a poor harvest in 1987).

**Reform Intensification:** The response was an acceleration of the pace and expansion of the scope of *doi moi* in 1989. The leadership ended the two-tier price system, set interest rates at

76. Ibid. (16).
real positive levels, devalued the dong to rates close to market rates, equalized tax rates across economic sectors, cut public sector expenditures, freed up agricultural prices, and relaxed foreign exchange and trade rules. These measures amounted essentially to a Washington Consensus-type shock therapy in which the government moved to get out of the way of private producers. The results were impressive: GDP growth rates in the first half of the 1990s between 5% and 9% while inflation fell from over 80% to under 10%. Savings and investment as percentages of GDP rose sharply: Savings from negative 2.4% in 1988 to 10.1% in 1991, investment doubling from 1990-95. Freeing up the trade regime yielded rapid results as Vietnam not only shifted its exports to non-communist markets but also increased its exports some 25% a year during the first part of the 1990s. Significantly, the expansion of agricultural inputs helped Vietnam transition from a rice importer to the second largest exporter in the world.

Exports not only grew in volume; they also became more diversified. Garments and textiles constituted a core of this export drive. Hill's explanation for this growth, which began directly after the reforms of the late 1980s and early 1990s, emphasizes exchange rate adjustment, helping exporters to source inputs at prices close to international levels, effective duty drawback processes, a relatively open foreign investment regime, industrial expertise prior to reform, geographic proximity (to textile investors from the region) and low wage rates. Yet writing in 2000, Hill also noted that growth could not continue based only on low wages. A competitive exchange rate and free trade for exporters could facilitate strong outcomes for simple import-intensive exports such as garments. But if firms were to "graduate

78. Riedel and Turley (1999, 22); personal communication from Eddy Malesky.
82. Vietnam's export diversification index was low for East Asia (0.78 vs. 0.85 regional average) but exceeded the averages of all Latin American-Caribbean countries except Argentina, Brazil, Mexico and Uruguay (Agosin 2007, 31).
83. Hill (2000). Vietnam's wage rates in 1994 were close to those of China and Indonesia, half those of the Philippines, a third of Thailand's (Ibid., 296).
to a more diversified and higher value-added mix of products," they would require measures such as equipment modernization in the upstream textile industries, fewer barriers to private firm growth, and supply-side measures such as training and innovation schemes. These in turn require institutions, such as "a single, demand-driven, industry-responsive association which could overcome important market failures and enhance industry efficiency."  

Such an association did not exist as of 2000. Indeed, moving into the 21st century, Vietnam faced a number of challenges if growth was to be sustained. Foreign investment, which served largely to provide technology and improve efficiency in the SOEs, fell significantly in the latter part of the 1990s due to poor infrastructure and then further due to the Asian economic crisis. The financial sector was still dominated by a small number of large, state-controlled banks, and over half of these banks' assets were loaned to SOEs (although this was down from 90% in 1990). The fiscal system remained weak, despite the imposition of a value-added tax in 1999.

Perhaps the biggest challenge has been state enterprise reform. The SOE sector was still too large at the end of the 1990s, accounting for over 50% of industrial output and contributing to almost one fourth of state revenues (excluding oil revenues). As the only economic entities with clear property rights, they soaked up investments, dominated export quota allocation (which they often could not fill), and generally crowded out smaller, private firms. This problem did not go unnoticed, as the leadership was committed to reform through equitization of various forms, merger and transformation, divestiture, and in some cases, liquidation. Perhaps the most significant effort, begun in 1994, involved transforming the SOEs into chaebol-like "General Corporations" that incorporate at least five enterprises. Painter argues that this model has confused control and accountability because it was imposed

84. Hill (2000, 294; see also 297).
85. For reviews of these weaknesses, see Beresford (2008); Leung and Riedel (2001).
86. Painter (2003, 26).
top-down and because, in some cases, the composition of the conglomerates defies economic logic. There is nevertheless, he argues, a political logic: The General Corporation model allows the party-based elite to retain strategic control of the economy even as it reflects state efforts to establish a separate economic sphere under the "rule of law." In addition to party-state tensions, it also reflects fragmentation within the state itself. In sum, the very incoherence of the reform, along with the "diffusion and sharing of power and authority," enabled the transition to be managed “...to accommodate external pressures while also…preserving the state's ability and integrity as it pursues its long-term programme of doi moi.”88

An Early Middle-Income Trap?: This may have been an overly optimistic view. Writing in 2008, even before the current global crisis really hit, observers expressed not just skepticism but downright alarm at Vietnam's trajectory.89 Especially striking is the charge that, despite Vietnamese claims of pursuing an East Asian NIC strategy of industrialization and growth with equity, the country's policies, institutions and growth trajectories are in fact closer to those of Thailand, Indonesia, Malaysia, and the Philippines. Vietnam is alleged to be "replicating many of the mistakes made by the region's less successful countries..." 90 The risks are clear: These "Southeast Asian countries, and indeed most middle income countries around the world, began to slow down and plateau when they reached a level of development such as Vietnam will attain soon."91

None of this is to gainsay Vietnam's accomplishments under reform. It is rather to highlight significant challenges. With regard to human development indicators, for example, inequality seems to have increased, with the country's Gini coefficient rising to 0.41 in 2004, up from 0.35 in 1998.92 The rural-urban gap also seems to be widening so that Vietnam looks

89. I draw here on Beresford (2008); Dapice et al (2008); and FETP (2008); as well as personal communication from Alasdair Bowie.
90. FETP (2008, 1).
more like its inequitable Southeast Asian neighbors than the NICs. The concern, of course, is that such inequality undermines the social cohesion important for "difficult shifts in factors of production." 

Macroeconomic weaknesses constitute a more immediate challenge. As of May 2008, price inflation was high (at least 20%); the fiscal deficit was at least 7% of GDP (Figure 1); indirect foreign investment had slowed even as DFI flowed into inflated real estate rather than areas with technological spinoffs; and public debt (of public corporations) was well over 50% of GDP. Finally, highlighting the country's problems of competitiveness and vulnerability to external market challenges, Vietnam's trade deficit in the first quarter of 2008 was almost equal to the deficit for all 2007; the country's imports were almost twice its exports, with the deficit threatening to reach 40% of GDP (Figure 2). The contrasts with regional neighbors are stark: South Korea's trade deficit never reached 10%; and even Thailand's deficit in the period leading up to the 1997 crisis was only 6%. Such deficits are tolerable, of course, if imports emphasize equipment and other inputs destined to increase export growth. But there are suspicions that imports are dominated by private consumption and/or investment in firms that lack foreign exchange financing or earnings.

93. On rural-urban gaps, see Beresford (2008, 235-236).
94. FEPT (2008, 4).
**Figure 1.** Consumer price inflation, % change on year earlier

Source: General Statistical Office and Global Financial Data

**Figure 2.** Trade deficit, USD billions

Source: Asian Development Bank; General Statistics Office

There seem to be two major weaknesses underlying these problems. One is the expansion of a private banking system without adequate supervisory institutions. The other more fundamental problem involves the state sector. By around 2006, it had become clear that the General Corporations had not lived up to expectations. In response to these problems and in the hopes of meeting the competitive pressures resulting from Vietnam's entrance into the WTO, in 2006 the government began to consolidate these and other enterprises into 19 large conglomerates that have significant influence over several heavy industry sectors. As part of the state sector, these groups' records in job creation, value added, and share of overall industrial growth is very poor, even as they soak up a majority of credit and investment allocations and suffer from debt-to-equity ratios that surpass even those of the Korean chaebol. Ostensibly designed to meet the political goals of maintaining state influence in the economy for the public good and the economic goals of industrial deepening a la the South Korean chaebol, these enterprises seem instead to have followed the Southeast Asian pattern of business groups. The concern here merits emphasis:

While Indonesian, Malaysian, Thai and Philippines conglomerates did grow in size and scope, few of them succeeded in penetrating export markets for technologically advanced, income elastic products. They remained heavily dependent on domestic markets for low-value added goods and on speculation and financial engineering. The conglomerate structure also created domestic vested interests that eventually became a serious obstacle to industrialization and national competitiveness. Vietnam is now replicating this strategy.

98. Ibid. (46). According to FETP (2008, 8), the state owned sector receives around 70% of credit in the economy. Debt ratios of the conglomerates was well over 20 times equity compared to three-fifths for the Korean groups. Job creation in the state sector was "zero or negative" (Ibid., 10).
99. Dapice et al (2008, 47-48). Another indication of inefficiency is Vietnam's high ICOR relative to other countries in the region at similar levels of development (Ibid., 38, Table 3).
This implies some other commonalities between Vietnam and the Southeast Asian countries. One is the assumption that an open trade and capital account can promote development even without much attention to efficiency and productivity. Vietnam also seems to be following its Southeast Asian neighbors in its lack of linkages. While the East Asian NICs were especially successful in creating upstream producers, whether of intermediate goods, capital equipment, or key components, the Southeast Asian countries have either ignored these sectors, leaving them to foreign producers, or promoted them inefficiently. What is striking about upstream development in the NICs, as in Taiwan's state-owned conglomerates in chemicals and synthetic fibers or South Korea's steel, is that these firms have survived by virtue of their success in providing inputs to downstream exporters at competitive prices and quality. In general, neither Vietnam nor the other Southeast Asian countries have followed this pattern of "downstream leadership." Finally and related, is the reduced attention to technology-prompting institutions, such as secondary and tertiary education, and vibrant business associations. Such institutional lethargy is precisely what our argument leads us to expect under conditions of weak or moderate threats.

**Crises and the Politics of Reform**

For two decades, Vietnam's reform process was rapid, extensive, and highly productive. Since roughly 2000, however, it has slowed considerably to the point that the country now confronts some of the challenges faced by the wealthier, middle-income countries of Southeast Asia. The crisis framework - the prospect of significant losses - provides a significant but not complete explanation for this uneven record. Non-crisis factors were clearly significant. The impact of earlier changes contributed to reform through the 1990s: The incremental retreat from collectivization, the expansion of private plots and the emergence

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100. For a discussion, see Doner, Ritchie and Slater (2005).
of a contract system built on early, less-noticed moves to private plots in the north.\(^\text{101}\) Also, the development of parallel markets early in the process facilitated successful macroeconomic stabilization in 1989 and further liberalization of agriculture in the 1990s.\(^\text{102}\) Another factor was what Riedel and Turley characterize as the elite's room for risk-taking.\(^\text{103}\) Specifically, the party had no domestic rival or neighbor ready to absorb it (in contrast to North Korea or Cuba), and its nationalist credentials were strong.\(^\text{104}\)

But it was the threat of significant losses that pushed the elite into the risks of reform.

- Vietnam's shift from a command economy to initial reforms in the early 1980s was clearly a response to "food shortages which represented a threat to political stability...",\(^\text{105}\) to the aid and trade embargo by Japan and the West; to the suspension of Chinese aid in the spring of 1978; to armed conflicts with China in 1979 and Khmer Rouge raids on the western border. It was these threats that pushed the leadership to "sanction limited reforms from below."\(^\text{106}\)

- The subsequent shift to doi moi in the mid 1980s was, as noted, moderate and incremental. This reflected the achievements of initial reforms, along with generous Soviet support.

- Intensification of doi moi in the late 1980s occurred only with the collapse of the Soviet Union and loss of broader socialist support. The resulting loss of access to cheap inputs for agriculture and the SOEs exacerbated internal

\(^{101}\) I am grateful to Alasdair Bowie for pointing this out and for directing me to a key source on the topic: Kerkvliet (2005).

\(^{102}\) Leung and Riedel (2001, 4, 7).

\(^{103}\) Riedel and Turley (1999, 21). This point has interesting implications for Acemoglu and Robinson's (2006) argument that political elites will accept the risks of new technology when they are either quite secure or confronted by high levels of competition. It also raises questions as to the extent and durability of reforms in the absence of external threats. Indeed, it may have contributed to the short-lived nature of the reforms discussed below.

\(^{104}\) An interesting question is whether this has changed in light of China's more aggressive behavior on the Spratly Islands.

\(^{105}\) Leung and Riedel (2001, 10).

\(^{106}\) Ibid. (42; see also 14-15).
economic problems, such as inflation. This situation "confronted leaders as never before with a stark choice between stagnation in the status quo and drastic measures that entailed both risk and uncertainty."107 These pressures pushed the leadership not only to undertake significant policy changes, but also to initiate complementary institutional reforms, ranging from moderate shifts in property rights to support for business associations.

But other factors have contributed to a weakening of reform efforts. One involved consequences of state enterprise reforms. Two components of this reform, enterprise autonomy and conglomerate development, encouraged state enterprises to pursue non-core activities and to rely on credit and protection. Without government support for investment to upgrade technology, directors "had few incentives to make large investments in the more uncertain task of technological upgrading and becoming internationally competitive."108 And while the ostensible goal of the enterprise consolidation was the kind of "alliance capitalism" seen in the NICs, the result has been closer to "crony capitalism" operating through "networks of party and state patronage and connections."109

Equally important, earlier urgency was replaced by "a sense of complacency and satisfaction with the status quo."110 In addition to the success of prior reform efforts, this satisfaction is also a function of the relatively moderate pressures facing Vietnam up to 2008. Owing to an earlier "mini-crisis" in 1996, Vietnam avoided some of the worse impacts of the Asian crisis by its imposition of controls over trade, investment and financial flows.111 More recently, it has not suffered from significant foreign exchange shortages. Despite the country's

107. Ibid. (43). See also Pritchett (2003, 144); and Lueng and Riedel (2001, 10), who note that the imminent collapse of the USSR "galvanized the government into fundamentally changing the macroeconomic relationships in pursuit of macroeconomic and political stability."

108. Beresford (2008, 232). Beresford's analysis of the problems of state enterprises is more nuanced, emphasizing the fact that in early stages of institutional reforms, the state enterprises were largely "left out in the cold," expected to generate jobs and exports without much help in developing new technology and production systems (Ibid., 227-228).


significant fiscal and trade deficits noted above, the latter has been financed by large capital inflows which rose from $9.4 billion in 2006 to $15.7 billion in 2007, amounting to 15.4% and 22.7% of GDP.\textsuperscript{112} Vietnam has also benefited from high prices for its commodity exports - crude oil, marine products, rice, coffee, rubber - which dominate its list of largest export earners.\textsuperscript{113} One might also imagine that Vietnam's WTO 2007 membership would constitute pressure for increased competitiveness; indeed, the Chinese government deliberately accelerated WTO membership for this reason. Vietnam, on the other hand, despite having over a decade to prepare for WTO membership, seems to be allowing its conglomerates and general corporations to "circumvent...WTO commitments."\textsuperscript{114}

The ability to take "the easier way out" seems to have both reflected and reinforced the particular structure of Vietnam's political leadership. In addition, the way that structure channels newly available resources seems important. Malesky, Abrami and Zheng argue that, in contrast to China's more unified leadership, Vietnam's leadership is essentially a "diffused troika" representing different views of the roles of the party and military and of the benefits of private sector growth and global integration. These divisions require broader policy-making coalitions which in turn motivate leaders "to provide equalizing transfers that limit inequality growth among provinces."\textsuperscript{115} What is especially significant for our purposes is that these equalizing transfers are channeled through well-established patronage networks. Although

\textsuperscript{112} FEPT (2008, 5, Figure 3).
\textsuperscript{113} These products, plus garments and shoes, are the largest export products (CIA World Factbook-Vietnam, \url{https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html}). [NOTE: Not listed in bibliography].
\textsuperscript{114} FEPT (2008, 12). On China's use of WTO commitments to promote automotive industrialization, see Doner, Noble and Ravenhill (2005).
\textsuperscript{115} Malesky, Abrami and Zheng (2009, 1). Malesky et al argue that this structure emerged in response to significant popular criticism Vietnam's export basket - dominated by coffee, rubber, rice and labor-intensive garments and shoes - seems much less diversified than those of its Southeast Asian neighbors. In addition, these products exhibit less income elasticity than the higher-technology electronics that occupy significant positions in Thai and Malaysian exports. In principle, this implies that Vietnam still has opportunities to expand its range of products up to the middle-income producers. But the heavy weight of state enterprises, along with the lack of the kinds of investment promotion mechanisms seen elsewhere in Southeast due to poor economic conditions and persistent conflict in Cambodia. It is not clear to me why these pressures would lead to a more fragmented leadership, but the authors do argue that the breadth of this coalition was reinforced by the competitiveness of leadership selection procedures (Ibid., 19).
reducing inequality, these transfers seem to follow more of a political logic than an economic one. The use of new resources for patronage was far from unknown in the NICs, but in those countries, patronage was devoted to particular areas of the economy that did not undermine more efficiency-based sectors. In Vietnam, on the other hand, there seems to be no such separation. As a result, "there is reason to suspect that Vietnam's architecture privileges equality over long-term growth prospects by choking off development in its economic engine." Malesky et al extend this reasoning to a suspicion that this dynamic may influence responses to economic crises.

Further, Vietnam's export market advantages seem quite temporary in light of both the country's structural weaknesses and the present global financial crisis. First, Asia, may inhibit such a move. Second, WTO membership, despite some phase-out conditions of the Agreement on Textiles and Clothing (ended in 2005), has not provided Vietnamese producers with the length of production experience enjoyed by the ASEAN countries. Third, the global crisis likely will constrain demand from Vietnam's largest export market, the U.S., which accounts for over 20% of Vietnam's exports. Fourth, the foreign capital that has flowed in has gone mostly to a booming stock market, attractive government bonds, and, in some cases, state enterprises. The expectation is that with a decline in global growth, these flows will slow considerably.

The question, then, is whether these tougher conditions will be sufficient to overcome the kinds of patronage networks noted above. If not, the risk increases that Vietnam - an aspiring middle-income economy - will remain stuck in a Southeast Asian pattern of reliance on "low-cost labor and natural resource exploitation," but that it will do so without the more extensive diversification, the vibrant private sectors, and the sophisticated financial sector of

118. These mechanisms are reviewed in Doner (2009) and discussed below.
119. Next in terms of importance are Japan (13.7%), Australia (7.4%), China 6.9%), and Germany (4.5%) CIA World Factbook - Vietnam (2008 figures).
the more advanced middle-income countries. We turn now to two of these: Malaysia and Thailand.

3.2 Middle Income: Malaysia and Thailand

Malaysia and Thailand differ from each other in certain important respects, such as ethnic makeup and politics, population, and religion. But their similarities are more striking, especially relative to the East Asian NICs. In this section, I first trace the developmental outcomes, policies and institutions common to the two middle-income countries. I argue that relatively similar levels of threats, involving resource endowments, external pressures, and domestic considerations, are necessary to explain both their strengths and the challenges they face in response to the most recent global crisis.

Development Performance

Malaysia and Thailand are middle-income countries. Both are spectacular successes relative to the majority of developing countries. Both have benefited from FDI inflows and reliance on manufactured exports, although Thailand moved in this direction earlier than its neighbor. As seen in Table 3, both have enjoyed impressive income growth rates; both have undergone significant structural change as reflected in shifts from agricultural to manufacturing, in expansion and diversification of manufactured exports, and in the growth of medium-high-tech exports. On all of these dimensions, the two countries are more advanced than is Vietnam. The two have also performed well in reducing poverty; indeed, since

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122. The two countries exemplify East Asia's impressive diversification relative to the Latin American-Caribbean countries (Agosin 2007, 31, Table 5).
1990, the two countries have, like the rest of the region, improved with regard to human development indicators.\(^\text{124}\)

Their records in two other areas -- equality and economic upgrading -- are less impressive. In Malaysia, inequality worsened significantly from 1957 to the mid-1970s, then improved through the 1980, worsened somewhat in the 1990s and continued to deteriorate more recently.\(^\text{125}\) Inequality in Thailand worsened from 1963 to 1986, with deterioration especially severe in the first half of the 1980s. Inequality improved for the first time in 30 years from 1985 to 1988, worsened again in the early 1990s, then was improving by 1996 and seems to have improved up through 2002. Indeed, Thailand seems to have bucked an East Asian regional trend of worsening overall income inequality.\(^\text{126}\) However, regional and urban-rural gaps have consistently widened in Thailand.\(^\text{127}\) The sources of this inequality are uncertain, but at least three merit note: the expansion of the FIRE sector (finance, insurance and real estate); increasing skill premiums and widening wage dispersion as a result of trade, liberalization and globalization; and associated labor market reforms resulting in growing informal sectors, (the latter reflected in Table 2).\(^\text{128}\) I return to these factors at the end of this section.

The two countries have also seriously lagged the NICs' level of upgrading, i.e. combining increased value added with efficiency, local linkages and technological capacities. To be sure, higher value added products have become more prominent in the two economies, as reflected in the growing percentage of medium- and high-tech products in manufacturing

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124. Gill and Kharas (2007, 274, Figure 6.1) which shows HDI scores consistent with overall income levels, i.e. Malaysia leading Thailand, and the two (well) behind South Korea, Singapore and Hong Kong.
125. Data for Malaysia from 1957-1997 from Jomo (2003, 208, Table 6.11); for 1990-2002 from Gill and Kharas (2007, 64 and 277) which reports a 4.1% increase in inequality (measured by Theil, not Gini, index).
126. Data for the period up to 1996 drawn from (NOTE: No source given. 2004, 408-410). For the period 1990-2002, see Gill and Kharas (2007, 64, Figure 1.6; and 277, Table 6.3).
exports (Tables 3, 4). But this record is marred by limited local inputs, high trade dependency and, in some cases, denationalization. Local producers account for little of the value, as reflected, for example, in the high trade deficits characteristic of mid- and high-tech industries, and the general lack of indigenous suppliers in industries such as Malaysia's semiconductors and Thailand's disk drive and automotive production. As Rasiah notes: "Domestic policies...have only favoured structural widening...the entire export-oriented sector has not developed import-replacing linkages."129 Nor have the two countries' diversified business groups with extensive experience developed the technological and managerial capacities to shift from original equipment manufacturing (OEM), to original design manufacturing (ODM), to original brand manufacturing (OBM).130 Growth has been, in other words, largely driven by capital.131

The result has been a sort of dualism in which, as Jomo notes, manufacturing is "often disembodied from the rest of the national economy..."132 These weaknesses are more broadly reflected in the comparative rankings in productivity and technology competencies (Table 5), as well as other indicators of infrastructure capacity and human capital. On the latter issue, Yusuf and Nabeshima's portrait of Malaysia applies to Thailand as well: "...the quality of human capital in Malaysia and its technological readiness lag the findings in the higher-income economies...if demand for skills is softening, this lag could worsen."133

An important puzzle, then, is the gap between the advanced nature of these two countries' export structures and the much more modest technological levels in their production

129. Rasiah (2003, 60).
130. This review draws on Doner (2009, 9-11). In electronics, "No Malaysian manufacturing firm has established itself as a major contract (OEM) supplier of a product or a service with an expanding international market" (Yusuf and Nabeshima 2009, 140).
133. Yusuf and Nabeshima (2009, 28, which also has more recent rankings on selected indexes of technological capacities; and 174 on comparative numbers of patents granted to foreign residents, e.g. in 2007: Korea: 6,295; Taiwan: 6,128; China: 772; Singapore 393; Hong Kong: 338; Malaysia: 158; Philippines: 20; Thailand: 11; Indonesia: 5). On Thailand, see the various assessments cited in Doner (2009, 36-37).
processes. As relatively high wages in Malaysia and Thailand require a shift to competitive advantages resulting from knowledge and spillovers, rather than merely resources and labor costs, these capacities remain modest, especially in historical and comparative perspective: A 2003 analysis concluded that Thailand's capacities for exploiting technology and generating innovation, as well as the commitment to building such capacities, lag significantly behind what they were in the NICs at similar stages in their development.\textsuperscript{134} Although Thai and Malaysian rates of growth and degrees of diversification remain above world and developing country averages, these weaknesses in technology and innovation raise broader concerns with the sustainability of their growth.\textsuperscript{135} I suggest below that these weaknesses are in part a function of the labor market structures, especially the informal sectors, resulting from these countries' otherwise successful development strategies.

\textsuperscript{134} Bell (2003, 4).
\textsuperscript{135} For a stark statement of this concern, see Yusuf and Nabeshima (2009, 3).
Table 3. Growth and Structural Change in East Asia

<table>
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<td>70.8</td>
<td>52.1</td>
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Table 4. Export Structure of Southeast Asian Countries, 1970–2006

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<tr>
<th>Country</th>
<th>Year</th>
<th>Electronic and electrical</th>
<th>Other high technology</th>
<th>Textile, garment, and footwear</th>
<th>Other low technology</th>
<th>Automotive</th>
<th>Process</th>
<th>Engineering</th>
<th>Primary products</th>
<th>Agro-based products</th>
<th>Other resource-based products</th>
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<td>6.07</td>
<td>12.75</td>
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<tr>
<td></td>
<td>1980</td>
<td>0.47</td>
<td>0.07</td>
<td>0.61</td>
<td>0.02</td>
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<td>0.03</td>
<td>85.31</td>
<td>10.51</td>
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<td>3.64</td>
<td>0.16</td>
<td>4.62</td>
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<td>9.58</td>
<td>6.29</td>
<td>1.88</td>
<td>4.51</td>
<td>5.81</td>
<td>36.33</td>
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<td>0.85</td>
<td>0.48</td>
<td>0.52</td>
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<td>12.29</td>
<td>12.68</td>
<td>9.81</td>
<td>4.34</td>
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Source: Yusuf and Nabeshima (2009, 9, based on UN Comtrade).
Reform Strategies and Stages: Several common elements in Malaysian and Thai growth strategies stand out. First, beginning in the early 1970s, both countries shifted from a combination of import substitution industrialization and commodity-based exports to export promotion emphasizing manufactured goods. The results were reflected in the striking shift in the composition of each country's exports (Table 4). Second, these shifts were complemented by increasingly open financial sectors, as well as liberal trade and investment regimes. Both countries have gradually reduced tariffs (although, as discussed below, this reduction has been uneven and incremental). Whereas Malaysia has been much more reliant on FDI inflows than has Thailand, both countries' development approaches have been "embedded in regional and global innovation systems, and...(their)...primary linkages to sources of innovation are through
MNCs' internal technology transfers.\textsuperscript{136} Third, both have generally practiced cautious macroeconomic management.\textsuperscript{137}

Fourth, however, in addition to these otherwise Washington Consensus-like strategies, both countries' states have intervened to alter both the sectoral composition of their economies and to deepen their technology levels and linkages. As suggested by their impressive diversification, state efforts were quite successful in the former. Research on Thailand's tourist, sugar, textile, auto, and rubber industries, as well as on the country's impressive macroeconomic performance, demonstrates the success of state-supported, sector-specific promotion efforts by public and private sector institutions, including ministries, the Board of Investments, sectoral institutes, and business associations, to address information, coordination, and related risk problems.\textsuperscript{138} These findings are consistent with Dani Rodrik's contention that scratching the surface of any nontraditional export success story will reveal a range of institution-based interventions "lurking beneath the surface."\textsuperscript{139}

Similar efforts took place in Malaysia, albeit with less even results. Promotion was successful in the cases of rubber and palm oil, as well as in electrical and electronic products, which became the main export component of Malaysia's manufacturing sector. Such efforts involved institutions such as the Malaysian Rubber Board and the Penang Skills Development Center. But in autos, Malaysian promotion efforts have remained more domestically oriented and resisted the shift to the extensive FDI-supportive policies that Thailand adopted after the 1997 crisis, policies that have made Thailand the automotive hub of Southeast Asia.\textsuperscript{140}

As suggested by our earlier review, however, neither has done well on linkage and technology promotion, despite awareness of the importance of upgrading by both governments.

\textsuperscript{136} Felker (2001, 139-140). FDI did not amount to over 6.8% of gross domestic capital formation in Thailand from 1981-1998, compared to levels ranging from 10.8% to 26% for Malaysia (Ibid., 134, Table 6.1).
\textsuperscript{137} See e.g. Rasiah (2001).
\textsuperscript{138} Doner (2009).
\textsuperscript{139} Rodrik (2007, 109).
\textsuperscript{140} Doner, Noble and Ravenhill (2005).
Thailand's auto industry and Malaysia's electronics industry nicely illustrate these weaknesses. Both industries are successful export hubs, operating within global value chains. This creation of efficient "clusters" is a very significant achievement. But as a recent World Bank report notes, the actual tasks performed in these clusters are typically of low complexity, "often involving only the assembly of final products. Import content is high, and in the case of Malaysia a substantial fraction of the labor in industry is also imported."¹⁴¹ In fact, these clusters are primarily logistical (i.e. they reduce transactions costs in production) rather than technological (which capitalized on spillovers of research and development between different players in the supply chain), and often companies within the supply chain of Japanese MNCs are also Japanese.¹⁴²

Overall, both countries’ technology and innovation policies suffered from key strategic weaknesses: A focus on product innovation rather than the process innovations that were more feasible, given the MNCs’ control of product development; a tendency to separate state-based R&D from firm-level innovation processes; a failure to integrate science and technology policy into broader economic policies, i.e. industrial policy, investment policy, trade policy and, to a lesser extent, education policies; weak technology financing strategies; and relative neglect of policies to encourage technology diffusion.¹⁴³ These policy problems have continued from the 1990s to the present, and they are reflected in persistent institutional weaknesses in Malaysian and Thai technology-promotion efforts.

¹⁴¹. World Bank (2010a, 12). This distinction between products produced vs. tasks performed has been emphasized more recently for the Thai case by a World Bank researcher: "Even as products...(made in Thailand)... became more complex, tasks performed in Thailand have remained simple. These consist primarily in assembly, testing and packaging. The research, design, development and branding of these sophisticated export products are still done mostly outside of Thailand and technology comes embedded into modern imported machinery. However, manufacturing wages and jobs have stagnated even as output in the sector has increased dramatically over the past decade."
¹⁴². World Bank (2010a, 12).
¹⁴³. The most nuanced treatment of this subject is Felker (2003). See also Intarakumnerd et al (2002); Doner (2009, 133-135).
**Crises and the Politics of Reform:** These weaknesses in real economy upgrading are especially striking relative to both countries' strengths in macroeconomic policy and financial reform. How do we explain these weaknesses? My answer, noted at the beginning of the paper, hinges on the degree of pressures -- threats -- facing political leaders. In the rest of this section, I assess this argument through the lens of three major crises as well as what might seem at first glance to be outliers.

**1980s Crisis:**¹⁴⁴ Both countries were hit hard by falling prices for agricultural commodities, oil price hikes and cyclical declines in electronics in the mid-1980s. GDP growth slowed and even fell. Both countries' foreign indebtedness had risen, with Thailand's exceeding that of the Philippines; Thailand was forced to borrow $542 million from the World Bank, thus becoming the world's fifth largest recipient of Bank funds at the time. As Muscat noted for Thailand, "No previous Thai government had been under the kind of severe and sustained economic pressure that now brought the technocrats to the conclusion that a thoroughgoing shift to an export orientation could no longer be delayed."¹⁴⁵

These pressures stimulated important stabilization measures, reforms in trade administration, devaluations, and infrastructural development that helped both countries emerge from the crisis in good shape. Thailand became the poster child for successful World Bank-type economic reform in these areas. But reform *initiatives* did not stop with macroeconomic measures. Thailand also initiated an effort to improve the basic competitiveness of local producers and to reform the enclave-nature of foreign dominated manufacturing. This took the form of proposals for tariff reform and the creation of a Restructuring Committee (RESCOM) and, subsequently, an Industrial Linkage Program designed by the Board of Investments (BUILD) to match indigenous suppliers with foreign firms. For Malaysia, Felker documents a whole series of largely institutional initiatives,

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¹⁴⁴ This discussion draws on Rasiah (2003); Doner (2009, Ch. 4).
including a reinvigorated National Science Council in 1987, as well as the National Action Plan for Industrial Technology Development in 1990 and the Malaysian Industry-Government Group for High Technology in the late 1990s.  

Equally significant is what did not occur. Thailand's RESCOM was largely ignored and eventually abandoned. BUILD ended up as little more than a state-sponsored data base of local suppliers largely neglected by multinationals. In the area of trade, export-oriented reforms were grafted on to protection for local suppliers of raw materials and intermediates and for local downstream firms producing for the domestic market. In addition, the country’s overall tariff levels actually increased in the 1980s, even as the government proclaimed its export orientation. And while tariff rates declined in the 1990s, they remained high relative to those of other large developing countries. The result was a combination of rising effective rates of protection for upstream firms, most of which were locally owned, and countervailing export subsidies for downstream firms, most of which were foreign owned. Added to this protection were local content requirements in the automotive and agricultural machinery industries and a set of specific business taxes and tariffs that discouraged linkages between final exporters and domestic suppliers. Finally, as Felker has argued, Thai business itself resisted efforts by Thailand's Board of Investment to take advantage of new FDI inflows with promotion criteria more focused on technology development. Technology promotion efforts in Malaysia were "not much more than government wish lists."  

Three factors - facilitated, to be sure, by the reforms noted above - moderated pressures that likely would have pushed further institutional development. First, both countries initially used their resource endowments to moderate balance of payments problems. This seems to have been especially important for Malaysia, where new petroleum contracts

provided significant revenues. Second, both benefited significantly from rapidly rising FDI inflows, especially from Japan and the East Asian NICs. Finally, the availability of large reserves of unemployed workers, including migrant labor, both attracted foreign firms and reduced pressure to devote resources to upgrading-related activities such as technical and vocational training. In Malaysia's booming electronics industry, the use of migrant labor grew from just over 1,000 in 1990 to over 46,000 in 1996, roughly 10% of the workforce.

1997 Asian Financial Crisis: Haggard labels the 1997-98 Asian crisis a "singular event in the region's postwar economic history..." The magnitude did, however, vary by country. Although Thailand and Malaysia were among the four most seriously hurt (along with South Korea and Indonesia), Malaysia was the least hard hit and responded with the most heterodox policies: Prime Minister Mahathir abandoned Malaysia's currency peg in July 1997 but avoided IMF borrowings, fixed its exchange rate and imposed capital controls. However, Malaysia did not go it alone. Its ability to sustain capital controls without IMF help reflected the availability of other funds. Domestically, the government was able to draw on funds from Petronas (the national oil company), as well from the Employee Provident Fund. Externally, rebuffed by international financial markets, the government drew heavily on funds from the Japan Export Bank. A final, important part of this story has to do with the size and the "dispensability" of Malaysia's foreign workforce. Many of the workers in the worst hit

149. Rasiah (2003, 66). I am grateful to Bryan Ritchie for pointing out the importance of petroleum revenues, whose contributions to government revenues rose from RM 322 million in 1975 to RM 2,075 in 1982 (Jomo and Gomez 2000 281, Table 7.1).
150. In Malaysia, foreign shares of manufacturing fixed assets rose from 35% in 1985 to 50% in 1990 (Rasiah 2003, 50). As Jomo and Gomez note, “The timing was perfect, as manufacturers from Northeast Asia…rushed to relocate their industries...” (2000, 292). On Thailand, see Doner (2009, Ch. 4).
sectors, especially construction, were migrants who "simply left the country; in effect, *Malaysia exported a substantial part of its unemployment.* ¹⁵⁴

Thailand was harder hit: Over three million people were pushed into poverty; the country was in a state of insolvency; and the government accepted the IMF’s second-largest-ever support package - $17 billion.¹⁵⁵ In addition to financial sector reform, the government responded with aggressive efforts to improve productivity in both agriculture and industry. The latter took the form of the ambitious Industrial Restructuring Program noted earlier. The IRP aimed to upgrade 13 sectors via some eight sets of measures ranging from product design to equipment modernization to labor skills. Extensive consultations were held between Ministry of Industry officials and business representatives. This was, in effect, a serious corporatist-type initiative in response to both economic turbulence and political upheaval involving rural protests and land occupations by unemployed workers and displaced villagers. But in 2000 a senior ministry official labeled the IRP a failure in the face of bureaucratic turf wars and ministerial instability, and in 2001, newly elected Prime Minister Thaksin explicitly abandoned the IRP.

Thailand’s ability to avoid the challenging upgrading tasks proposed in the IRP was a function of two factors. One was the devaluation-induced jump in exports (Table 1), which in turn helped improve the balance of payments, increase foreign exchange reserves, and stabilize the baht. And, as in Malaysia, foreign funds were important: In addition to the IMF program, Japan’s Miyazawa Fund provided around $1.5 billion for development and the ADB chipped in $300 million for agriculture. There were little if any credible conditions for serious upgrading attached to these funds.¹⁵⁶ Efforts by Prime Minister Thaksin, elected in 2001, seemed initially

¹⁵⁴. Ibid. (196, emphasis added). Migrants accounted for almost 14% of total manufacturing workers (Henderson and Phillips 2007, 92, Table 3).
¹⁵⁵. Unless noted, this discussion draws on Doner (2009, 125-130).
¹⁵⁶. In response to a question as to whether the Miyazawa funds constituted pressure for domestic technology development, a Thai auto association official replied that he, and others, simply opened up their hands and waited for the funds to descend. On the lack of monitoring and credibility in this process, see (Doner 2009, 129).
much more impressive. Thaksin announced what was probably Thailand's most ambitious and explicit upgrading effort, aimed at technology, linkages, and clusters and bolstered by an aggressive plan for educational and bureaucratic reform. By 2006, when Thaksin was overthrown, most of these initiatives had come to naught. Export-driven growth and baht stabilization facilitated the use of state credits for stimulating demand and fueling clientelist politics.

While Thailand's recovery may not have "benefited" from as a large migrant workforce as did Malaysia's, Suehiro was surely accurate in his conclusion that, as of 2000, Thailand had "become deeply dependent on legal and illegal foreign migrant workers..." It also evident that the rural sector has provided a "labor sink" and, since 1999, that Thai growth has been driven by "the increasing employment of its large reserves of underemployed labor in the rural sector." The broader impact of the 1997 crisis on labor rights and organization merits special note due to its relevance for subsequent developments. While Haggard concludes that the crisis did not discourage expansion of social safety nets, especially in countries like Thailand that had resources to spend, he is decidedly less optimistic about labor market policies. The crisis stimulated more flexible labor market policies that expanded the legal scope for part-time, contract, temporary, and other forms of informal employment. This process was intensified in Thailand where, with the rural sector acting as a labor sink, "crises and reform have bred informalization."

**2008-09 Crisis:** The region's rebound in the wake of the recent crisis seems to have resulted from several factors. First, as other papers argue, relatively healthy financial sectors (due to post-1997 reforms of financial supervision, corporate governance etc.) have facilitated aggressive monetary and fiscal stimulus programs. Thailand and Malaysia, as well as Taiwan, South Korea and Singapore, have "all had a government boost this year of at least 4% of

160. Ibid. (113).
Malaysia's ability to provide such financing is in part a function of natural resource revenues. Oil and gas now account for around 40% of government revenues. In the Economist's view, the longer-term challenge involves sustaining the recovery without the expansionary policies fueling asset-price bubbles. Doing this will require letting exchange rates rise, but as the magazine notes, this will hurt exports; and exports are, of course, another key component of the recovery in Malaysia and, more strikingly, in Thailand (Table 1).

Although a critical strength, the countries' export performances conceal two weaknesses: Extensive reliance on exports and on unskilled, informal (temporary, contract) labor. As the World Bank recently warned, "The Thai economy runs on a single engine: external demand." A major challenge for both countries is thus to expand internal demand. But this has been difficult in light of the country's lack of upstream linkages with the potential to absorb labor and persistent inequality. In Thailand, inequality is reflected in a strikingly small middle class: According to the World Bank, the Thai middle class is quite small (8.7% of the population) relative to other developing countries, including Colombia. And while a recent Asian Development Bank report highlighted the rise of an Asian middle class and the fact that Thailand and Malaysia were among the five Asian countries with the largest middle classes (as a percentage of population), the ADB also highlighted the fragility and overall vulnerability of these middle classes.

In addition, both countries have increased their dependence on unskilled and temporary/contract labor. This is reflected in Archanun et al's findings that, following the 1997-98 crisis, "many enterprises...adopted a more flexible employment system for production in which firms hire both permanent and temporary workers at the same time. In addition, they usually run overtime to enhance their capital utilization rate and to avoid any possible over-

162. NEAC (2010, 131-132).
163. World Bank (2010a, 1). This was the explicit view of the highest career civil servant in Thailand's Ministry of Commerce (Author interview, July 2010).
164. World Bank (2010a, 3, 70).
165. ADB (2010, espec. 32-33).
investment problems.\textsuperscript{166} The rise of unskilled labor is especially marked in Malaysia.\textsuperscript{167} On the one hand, the country has suffered a significant, even massive brain drain in which around one third of the million-strong Malaysian diaspora consists of those with a tertiary education. On the other hand, four fifths of the Malaysian workforce has only a low, secondary education; and the use of low-skilled labor has risen significantly across industries, with the electronics and electrical sector experiencing some of the largest declines in the use of high-skilled labor.

Large and growing informal sectors have contributed to this low-skill equilibrium. For Thailand, the informal sector accounts for over 50\% of the economy and probably higher than that as a percentage of workers, and almost one third for Malaysia (Table 2). In each of these cases, migrant workers are probably a significant portion of this informal sector. For Malaysia, official sources estimated that semi- and unskilled migrant workers accounted for 13.9\% of total manufacturing workers and fully 10\% in electronics in 2000. As such, the electronics industry is running a close second to construction as the largest user of migrant labor, with most migrants in electronics working as contractual production employees.\textsuperscript{168} Encouraged by immigration policies favoring low-skilled and cheap labor, foreign labor accounted for more than a third of the growth in total labor supply from 1990 to 2005, with over 90\% of these low-skilled, contract workers. One estimate is that the number of migrant workers might have reached 2 million in 2006, roughly 20\% of the formal labor force.\textsuperscript{169} For Thailand, estimates of migrants range from 2 million to as high as 4 million, well over 5\% of the labor force in 2005, contributing to 7-10\% of value added in industry and 4-5\% of value added in agriculture.\textsuperscript{170}

\textsuperscript{166} Archanun et al (2010, 109).
\textsuperscript{167} The following is drawn from NEAC (2010, espec. 42-60); and World Bank (2010b).
\textsuperscript{168} Department of Statistics, Malaysia Manufacturing Census, cited in Henderson and Phillips (2008, 92, Table 3). This is more or less consistent with Tham and Liew's conclusion that foreign labor accounted for 14\% of total manufacturing labor (2004). According to Tham and Liew, the percentage of foreign workers functioning as contractual production workers rose from 8.6\% to 78.6\% from 1988-1996.
\textsuperscript{169} Personal communication from Dr. Donna Turner, Oct. 16, 2009. See also Turner (2005).
\textsuperscript{170} Figures from ILO (2007); Youngyuth and Prugsamatz (2009, 4); and Huguet and Sureeporn (2005).
Research points to several related, negative consequences of large informal sectors, especially those with sizeable numbers of migrant workers. One, stressed in the Malaysian literature, is wage depression.\(^{171}\) This in turn discourages investments in higher value-added activities requiring more skilled labor and thus to reduce potential technology spillovers from foreign investors.\(^{172}\) Ironically, this may also inhibit labor absorption despite overall "growth." In Thailand, GDP growth is driven by exports, and most of those exports are driven by a few sectors with relatively high import components but low employment.\(^{173}\) The result is a tendency for "wageless growth" that, in the long run, will undermine efforts to develop a middle class and to reduce inequality.

This emphasis on informality also has institutional and political consequences. Institutionally, it seems to discourage the emergence of public, private, and public-private rules and organizations designed to promote skills development. Bryan Ritchie has effectively documented the extensive fragmentation characterizing workforce development agencies in both Thailand and Malaysia.\(^{174}\) Thailand's institutional weaknesses are striking: The country established a Ministry devoted to labor (Ministry of Labor and Social Welfare) only in 1993; prior to that, labor issues were addressed by a Department of Labor within the Ministry of Interior, the agency responsible for domestic administration and control, not skills development.\(^{175}\)

\(\text{\cite{171}}\). Tham and Liew (2004). See also Wad (2009, 20). This would seem to hold for Thailand as well, given the willingness of migrant workers to accept lower wages than Thais (ILO 2007).

\(\text{\cite{172}}\). Turner argues that migrant labor contributes to a segmented labor force that in turn promotes a "low wage regime," where local unions make little effort to organize, and "where little is invested in training and technological advances…" (2005, 58). The challenges of training migrant workers were illustrated by a large Malaysian auto parts firm that posted safety instructions in five different languages reflecting the presence of Bangladeshi, Indonesian, Nepalese, and Indian, as well as Malaysian workers. (Author interview, Kuala Lumpur, July 2011). On the other hand, owners of two Thai auto parts firms claimed that migrants, in part because of limited options in home countries and official travel restrictions, were more stable workers than were Thai workers who often jumped to different jobs and/or returned to rural homes. (Author interviews, Bangkok, July 2011).

\(\text{\cite{173}}\). Exports of electrical and electronics, mechanical machinery and auto parts constitute over 40% of exports and close to half of Thai GDP but employ well under 5% of the labor force (Sethaput 2010).


\(\text{\cite{175}}\). Brown (2004, 127) describes the creation of the Ministry of Labor and Social Welfare largely as a response to "the growing economic and political importance of industrial wage-labour in terms of the
Reliance on a large informal workforce also has important political consequences.

One is the weakening of labor's potential for organizational cohesion and thus political influence. This not only reduces the possibility of pressure on employers to raise wages and potentially, as a result, to invest in productivity measures such as technical training, but it also deprives both business and government of active interlocutors with whom to develop such programs. The further implication, reflected in the earlier-noted work on Western Europe, is that weakly organized labor is associated with inequality. This last point is speculative, but it is consistent with the conclusion that well-organized social groups are necessary for broad public goods: "Democratization without well-organized social groups may lead to modes of political competition that promote inefficient policies, targeted at narrow groups at the expense of the poor."176 It is also consistent with the rise of inequality in Malaysia and Thailand, noted earlier. The challenges to long-run political stability are evident in Thailand's recent conflict between "red" and "yellow" shirts, and labor's vulnerability to populist appeals having little to do with improvements in skills and productivity.177

4. Conclusions and Key Questions

This paper has explored the factors accounting for the success and limitations of Southeast Asian responses to economic crises through the lens of a low, but rapidly developing income country, Vietnam, and two middle-income countries, Malaysia and Thailand. My

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177. Along these lines, the new (2011) Thai government of Prime Minister Yingluck proposed a Baht 300/day minimum wage without any accompanying program to improve labor productivity. For an emphasis on the benefits of labor incorporation in democracies, based on the experiences of India and Sri Lanka, see Teitelbaum (2011).
overriding concern has been with the potential for sustained economic growth. In the case of Vietnam, this speaks to the capacity for further diversification. For Malaysia and Thailand, it involves the capacity for upgrading as the basis for movement out of middle-income status. I have argued that two "demand" factors - significant pressures on political elites, and some form of labor inclusion, whether in the form of a macro-corporatist bargain, a more enterprise-level "microcorporatism," or a "growth partnership" in which labor is repressed organizationally but strengthened with educational and other job-related resources - are necessary if the institutional capacities required for upgrading are to be "supplied."

This concluding section addresses a number of challenges to and questions about the preceding analysis. My goal is to signal areas in which further analysis is required to strengthen our understanding of the challenges to sustained economic development in Southeast Asia.

**Threats as Stimuli to Institutional Development and Upgrading:** The argument presented above - that significant threats are necessary for the creation of upgrading-related institutions and growth partnerships - suffers from two important methodological weaknesses. One is that the threat variable is dichotomous: a country is either threatened or is not. The second weakness is that our cases lack "variation on the independent variable." That is, since neither Vietnam, Malaysia nor Thailand, at least at the national level, confronted significant threats, it is difficult to conclude that the presence of such threats would have stimulated institutional strengthening and upgrading.

We can address both of these weaknesses by expanding our cases in two ways: through within-country observations ("mini" cases) that allow us to see the impact of even moderate threats, and through comparisons with other national cases. Within Malaysia, the cases of electronics in Penang and of rubber are instructive. Research by Rasiah, by Henderson and Phillips, and by Athukorala has demonstrated the fact that Penang's highly successful electronics sector, unlike in Malaysia's other two regional states where electronics is important,
has been built on "an institutional capacity capable of encouraging upgrading in the industry." The key agency, the Penang Development Corporation, emerged under conditions of relative scarcity and bottom-up pressures that is consistent with our earlier discussion of threat:

The problems of economic decline (associated with the collapse of Georgetown's entrepot functions) were compounded by the fact that, as the principal location for political mobilization among the Malaysian Chinese, Penang was not a state favoured by a Bumiputera (Malay)-dominated federal government. The consequence was that the Penang government had to look to the state's internal resources to help drive economic development. The institutional key to this was the PDC.

Malaysia's global leadership in natural rubber also reflects institutional strengths born out of threats. Although British colonial interest in rubber exports was important in creating the Rubber Research Institute of Malaysia, the efficiency and scope of RRIM and affiliated institutions expanded as a result of the understanding by the country's post-independence political leadership that natural rubber, including downstream rubber-based manufacturing products, was critical both for foreign exchange earnings and for the livelihoods of politically key rural Malays. The result has been a long series of Malaysian-based upgrading in rubber, ranging from the development of "block" rubber in the 1960s to new products and processing innovations to address latex allergies on the part of consumers of latex medical gloves, of which Malaysia is the world's leading producer. The contrast between Malaysia's impressive performance in natural rubber and the striking inefficiency of the country's automobile industry is especially instructive: Whereas rubber was a source of foreign exchange, the auto industry

178. Henderson and Phillips (2007, 86); Athukorala (2011). The pioneering research on Penang is Rasiah (e.g. 2000).
180. See for example, Richard F. Doner and Aaron Collett, "Comparing Successful Rubber Producers: Upgrading in Malaysia and Thailand." (Forthcoming 2011).
has been a consumer of funds drawn from the country's natural resource exports, especially petroleum.\(^{181}\)

In terms of cross-country comparisons, the experiences of the East Asian NICs illuminate the impact of significant threats. The economic success of the NICs are, of course, well known. Perhaps less publicized are both the extensive institutional innovations underlying those successes and the significant threats under which those institutions were developed. Consider the example of Taiwan:\(^{182}\) The initial impetus for Taiwan's move to more developmentalist institutions was a crisis in Taiwan's foreign trade sector and budget resulting from cuts in U.S. aid even as the country was compelled to increase its defense spending in the late 1950s. To be sure, military requirements declined in the 1960s as Taiwan abandoned plans to retake the mainland after the U.S. refused to finance such an effort. But even if Taiwan gave up on "offensive militarism," intense security concerns still influenced its development strategy: The country's heavy-industry drive, along with key education and R&D reforms, reflected the need to address the "Nixon Shock" of improved relations with the PRC and the end of free military aid to Taiwan.

But if we can resolve the methodological weaknesses, we also have to acknowledge the failure to assess the argument's causal mechanisms through which threats allegedly operate. Have we seen instances of "learning"? Do threats cause political actors to suspend the usual rules and delegate authority to particular actors? Do participants reinterpret their payoffs? If so, do they take risks or do they play it safe? What degree and composition of threat pushes leaders into the domain of losses where such risks are acceptable? To what degree do proximate political factors, such as the degree and nature of democracy, coalitional factors, and veto players influence the impact of threats?\(^{183}\)

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\(^{181}\) Petronas, the national oil company, is one of the two largest shareholders of Proton, one of the national automobile producers.

\(^{182}\) The following is drawn from longer accounts in Doner, Ritchie and Slater (2005); and Doner (Forthcoming 2011).

\(^{183}\) On the impact of veto players, see Doner (2009).
Foreign Investment as Alternative to Threats: What of the potential for improved skills and upgrading as a result of investments by multinational corporations? There are exogenous and endogenous obstacles to such productive spillovers. On the exogenous side, their access to global suppliers allows MNCs to avoid the resource-consuming efforts to promote skill-based domestic suppliers. Further, in industries such as electronics and autos, firms tend to be capital-intensive. Thus, electrical and mechanical machinery and automotive goods account for over a third of Thailand's exports but employ well under five percent of the labor force.\(^\text{184}\)

And finally, FDI-linked options are more "compressed."\(^\text{185}\) For one thing, changes in production technology and social relations that occurred over a century and a half in the U.K., some 50 years in Japan, and a few decades in the NICs, occur more rapidly and, in some cases, simultaneously. In addition, the disaggregated nature of global production chains means that, unlike South Korea, Japan and Taiwan, countries such as Malaysia and Thailand have fewer if any opportunities to develop complete, national production structures (i.e. upstream, midstream and downstream) in industries that also have the potential to be globally competitive.

These rising entry barriers and narrower linkage opportunities intensify the need for internal strengths in seeking to benefit from FDI: An assertive FDI promotion strategy, a deepening of the kinds of institutional capacities reviewed earlier in this paper, and an educated workforce.\(^\text{186}\) Yet the overall strategy of Malaysia and Thailand is what one World Bank study labeled "passive FDI-dependent learning" that has engendered little of the spillovers assumed to flow from the presence of foreign producers.\(^\text{187}\) It bears emphasis that despite significant entry barriers, this pattern is not primarily a function of deliberate obstruction by foreign investors, but rather of the institutional fragmentation in areas such as

\(^{184}\) World Bank (2010a).
\(^{185}\) This discussion of "compressed development" is drawn from Whittaker et al (forthcoming).
\(^{186}\) de Velde and Xenogiani (2007) argue that foreign investment enhances skills in countries relatively well-endowed with skills when foreign investment begins.
\(^{187}\) Yusuf and Nabeshima (2009, 159, fn. 1).
skill development discussed above. This point is reflected in Singapore's ability to take greater advantage than Thailand or Malaysia of investment in the same sector by the same multinationals.\textsuperscript{188}

This combination of external challenges and internal weaknesses can have several pernicious consequences. One is a "low-skill equilibrium trap" in which workers are reluctant to invest in training and education because of a shortage of available positions, but businesses are reluctant to upgrade, i.e. invest in more skill-based activities, because of a shortage of skilled personnel.\textsuperscript{189} Alternatively, where MNCs do want to promote local competitiveness by expanding the supply of skilled labor, their temptation is to develop in-house and on-the-job training programs rather than to contribute to industry-wide or public provision of such training services.\textsuperscript{190} Unfortunately, the overall result is that political elites, unencumbered by resource constraints and/or some form of organized labor, have found it acceptable to cede key industrializing roles to multinationals who pay decent wages but employ relatively few workers and develop few linkages to local suppliers.\textsuperscript{191}

\textbf{Indigenous Business Demand for Upgrading:} As documented by Suehiro, large, indigenous, diversified business groups have played key development roles in Southeast Asia, as they have in Latin America.\textsuperscript{192} But the concern of Schneider and Soskice is that the diversification of Latin American "groupos" minimizes their need to develop deep, core competencies that would increase their focus on technology absorption and transfer, and thus their demand for technical personnel.\textsuperscript{193} Commodity booms have further weakened pressures for technology development. Such concerns have also been expressed in scholarship on Thailand and

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\textsuperscript{188} Spillovers from the same foreign disk drive producers exhibited significant cross-national variation, with the strongest results in Singapore and weakest in Thailand. The variation was a function of differences in national institutional capacities. McKendrick, Doner and Haggard (2000).

\textsuperscript{189} This trap seems to be pervasive in Latin America (Schneider and Karcher 2010).

\textsuperscript{190} For a similar argument for Latin America, see Schneider and Soskice (2009).

\textsuperscript{191} van der Hoeven and Saget (2004, 204)

\textsuperscript{192} Suehiro (2008, Ch. 9).

\textsuperscript{193} Schneider and Soskice (2009).
Further, indigenous groups in both regions may operate according to similar political rationales: Diversification may facilitate the network of reciprocal transactions needed to manage the spot transactions common in political systems fragmented by factions and parties. For Dixon, these economic weaknesses and political pathologies raise "a question mark over the ability of Southeast Asian business to operate under open and highly globalized conditions."  

Potential for Labor Inclusion: The possibilities for more active labor inclusion in Southeast Asia seem limited by a number of factors. One, emphasized earlier, is the availability of a politically weak and relatively low-skilled migrant workforce. A second is that the shift from mass, Fordist-type production to more flexible or "diversified quality production" reduces labor cohesion and thus leverage. The former encouraged labor organization by relying on a relatively homogenous workforce of semiskilled workers who could operate with centralized bargains and wage compression. By contrast, more flexible work organization seems to fragment labor by using a more heterogeneous and shifting workforce in which the distance between skilled and unskilled has widened. Third, as Teitelbaum argues, labor's role in promoting productivity increases and overall stability in industrial relations seems to be facilitated by union links to encompassing yet competitive political parties. The case of Singapore would seem to provide positive support for this contention, whereas the more fragmented party system of Thailand demonstrates the results of a lack of such a party.
Toward Clientelism and Populism? A related obstacle to labor leverage and inclusion involves the impact of neoliberal reforms and open economies. Marcus Kurtz has argued that in "open economies," i.e. those that have undergone neoliberal reforms, workers face significant barriers to collective action and thus to political influence. Such obstacles include increasing informality, reduced numbers of industrial workers, and marketization (de-politicization) of issues relevant to labor due to the reduced role of government. The result is to discourage low-income groups, such as workers, from programmatic voting and other forms of political participation. In this situation, labor's reliance on clientelist links ends up as the more feasible option. Ethnic political machines (Malaysia's UMNO) and populism (Thailand's Thaksin) may not qualify precisely as clientelist networks. But both have encouraged and benefited from labor's organizational and political weaknesses. And in both cases, in the absence of resource pressures, labor's weakness reduces incentives to invest in technology absorption and development. Whether such patterns develop in what has historically been a more active labor movement in Vietnam remains to be seen.

can influence the weight of labor - the impact of majoritarian vs. proportional representation - see Schneider and Soskice (2009).

References


要約

本ワーキングペーパーは、ベトナム、マレーシア、タイを取り上げ、東南アジアの輸出志向型国家における経済成長を維持するための能力を考察している。特に、マレーシアとタイにおける「アップグレード」（産業構造の高度化）と「中所得国の罠」の克服についての展望に関心を有している。核となる議論は三ヶ国とも類似している。すなわち、各国は財産権、マクロ経済政策、そして、程度の違いはあるが金融監督をはじめとした分野で優れた改革を行い、1997年と2008年の二度の経済危機に比較的上手く対応した。しかしながら、一部の例外はもあるものの、改革は地場企業の競争力や技術革新の向上には繋がらなかったのである。こうした限界があったのは、先に述べた分野での調整に成功したことと、一次産品輸出からの収入、外国からの援助、インフォーマルな移民労働といった資源の利用が可能であったことの両方の結果である。そのような「安全弁」は既存の制度的配置や政治的取決めを強化することで、アップグレードに不可欠な地場企業の競争力や産業間のリンケージを向上させる取り組みを損ねる危険がある。特に興味深いのは、東南アジア諸国に関する次の事実である。すなわち、対外的な貿易依存と脆弱性が様々な形での労働の参加に結び付いた西欧の国々とも異なり、また同様の脆弱性が少なくとも経済の分配へのコミットメントを生み出した東アジアの新興工業国（そして、脆弱性のために労働市場や生産性の決定過程に労働組合の役を果たしたシンガポール）とも異なり、輸出志向の東南アジア諸国では、労働者は未だほとんど組織化されておらず、主要な争点に関する交渉への参加は認められていなかったのである。本研究が示しているのは、性質や強度の点で危機は様々であること、そうした様々な危機は政治エリートが新たな政治連合を促進したり、新たな調整形態（つまり制度）を育成するための意志や能力に対して異なる影響を及ぼすこと、そして、そうした制度は一層のイノベーションを基盤とした経済活動やより高所得の水準に移行するため特に重要だということである。
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