Are There Policy Lessons From the So-Called Southeast Asian Model?

Noelle Rodriguez
Freelance social and history researcher
Via della Piramide Cestia 63, Palazzina C, Interno 9, 00153 Roma, Italy

Anis Chowdhury[1]
Ex-Professor of Economics, University of Western Sydney, Australia; currently working as Director, Macroeconomic Policy and Development Division of UNESCAP, Rajdamnern Nok Avenue, Bangkok 10200, Thailand

Corresponding author: *chowdhury4@un.org*

[Submitted June 2013, Accepted September 2013]

Abstract. *The extraordinary transformation of East and Southeast Asian economies during the past four decades has produced a tendency to see East and Southeast Asia as a much more economically coherent region than it actually is, and a corresponding tendency to see economic progress in East and Southeast Asia as similar in origin and nature. This paper casts doubts on the idea of a monolithic East Asian model and argues that there have been significant differences between East and Southeast Asian development experiences. In the case of East Asia, the State or Government played a much more active role than in pthe case of Southeast Asia which benefited more from luck or coincidence of favorable events than conscious policy actions. Southeast Asia's development outcome is also inferior to that of East Asia in terms of growth, structural transformation and equity, and hence durability. Thus, this paper takes a much more nuanced view and attempts to discern policy lessons from the differences rather than similarities among them.*

Keywords: *High-performing Asian Economies, types of state interventions, industrialization, poverty reduction.*

JEL codes: *O11, I38*

Introduction

The phenomenal transformation of East and Southeast Asian economies during the past four decades has produced a tendency to see East Asia as a much more economically coherent region than it actually is, and a corresponding tendency to see economic progress in the region as similar in origin and nature. Terms such as the 'Far East', 'Asia-Pacific', 'Pacific Asia', 'East Asia', 'Asian miracle', 'yen bloc', 'flying geese', 'tigers', 'mini-dragons' and so on have tended to encourage this perception of the region.[2] Generalization of East and Southeast Asian experience has also led to the

---

[1] Views expressed herein do not reflect the views of ESCAP or UN Secretariat or any other UN agencies.

[2] One such early attempt to generalize East Asian experience was by Milton Friedman and his wife Rose Friedman. Their popular television presentation, *Free to Choose*, later published as a book, was based on what they have seen mainly in Hong Kong. He narrated a number of success and failure stories in history, which they attributed to capitalism or the lack thereof. However, the tone for such a free market view was set in the seminal work of Ian Little, Tibor Scitovsky and Morris Scott (1970). Others, such as Federic Deyo (1980), Stephan Haggard (1987, 2004) Robert Wade (1990), Alice Amsden (1989) and Ha Joon Chang (2006), using various strands of political economy

belief, especially among the proponents of "free market views" that sustained poverty reduction takes place in any country where three pre-conditions -- adequate macroeconomic management; economic freedom for peasants and small entrepreneurs; pro-poor, pro-rural public spending – hold.

This paper casts doubts on the idea of a monolithic East Asian model and argues that there have been significant differences between East and Southeast Asian development experiences. In the case of East Asia, the State or Government played a much more active role than in the case of Southeast Asia which benefited more from luck or coincidence of favourable events than conscious policy actions. Southeast Asia's development outcome is also inferior to that of East Asia in terms of growth, structural transformation and equity, and hence durability. Thus, this paper takes a much more nuanced view and attempts to discern policy lessons from the differences rather than similarities among them.

Southeast Asian Development: Myth vs. Realities

The most important and influential document recognizing the rapid growth, structural change and industrialization of much of East Asia in the last three decades or more has been the World Bank's (1993) *The East Asian Miracle*. The study was commissioned following the region's rapid growth and structural change in sharp contrast to the dismal experience with structural adjustment programmes (SAPs) in Latin America, Africa and other parts of the world, even resulting in severe recessions in several of these economies, and rather slow and unimpressive growth rates elsewhere, resulting in the so-called 'lost decade' of the 1980s.

The study identified eight high-performing Asian economies: Japan, the four first-generation newly industrializing economies (NIEs) or countries (NICs), dragons or tigers, namely South Korea, Taiwan, Hong Kong and Singapore and the three second-generation Southeast Asian NICs, namely Malaysia, Thailand and Indonesia. Importantly, China was left out.

The Bank study recognized that the likelihood of eight relatively contiguous economies growing so rapidly for such a sustained period of time was less than one in 60,000. Yet, it does not acknowledge the significance of geography – unlike the later 1997 *Emerging Asia* (EA) study led by the now defunct Harvard Institute of International Development (HIID) for the Asian Development Bank (ADB 1997).

The Miracle study appears to have shifted the World Bank's position from its market fundamentalism of the mid-1980s to acknowledging an important developmental role for the state in the 1990s. This impression has been reinforced by other Bank activities and publications, especially the *1997 World Development Report* advocating effective – rather than minimalist – states (World Bank 1997), *Development in the 1990s* and more recently, the work of the Growth Commission, housed at the Bank.

The Miracle study identified at least seven types of state interventions, which it saw as having been very important in East Asia. It approves of the following four, deemed *functional* interventions: (a) ensuring *macroeconomic* discipline and macroeconomic balances; (b) providing physical and social *infrastructure*; (c) providing good *governance* more generally; and (d) raising *savings* and investment rates.

Meanwhile, the four functional interventions were said to compensate for market failures, and are, hence, deemed necessary and less distortive of markets. However, the

---

approach, highlighted the role of state in the late industrialization of East Asia. Their emphasis includes attenuation of labor rights, government-business relations, control of the financial sector and active industrial and policies. As such these economies are described as "developmental state" –a term first coined by Chalmers Johnson (1982).

study was more sceptical of the three deemed *strategic* interventions, considered to be more market-distortive, namely directed (i.e. subsidized) credit, international trade policy and industrial policy interventions.

It is interesting to compare what actually happened in Southeast Asia with the way the World Bank presented this. There is very little disagreement that maintaining macroeconomic balances was important in East Asia. But the acceptable parameters of macroeconomic discipline may be disputed. For instance, inflation was generally kept under 20 per cent in the high-performing Asian economies (HPAEs, the World Bank study's preferred term), but it certainly was not always kept below 10 per cent as suggested by the Bank. Single digit inflation was neither a policy priority nor always ensured in some HPAEs (notably South Korea and Indonesia) during their high-growth periods. Similarly, the fiscal balance and the current account of the balance of payments were not always strictly maintained. Malaysia and Thailand had relatively high current account deficits throughout the 1990s, while other countries with much lower deficits were not spared the 1997 currency attacks and massive depreciation.

In pursuing these supposedly functional interventions, the East Asian governments were not just market conforming, but instead played important roles which have been more than simply market augmenting. Clearly, this is not in line with the Washington Consensus. On the more controversial, so-called strategic interventions, the Bank grudgingly concedes that only financial interventions were successful in East Asia, particularly in Northeast Asia – i.e. in Japan, Korea and Taiwan. However, the Bank implies that nobody else is capable of successfully pursuing the policies that the Northeast Asians successfully implemented because state capabilities in Northeast Asia were unique and are non-replicable.

Creating the conditions for attracting foreign investment, -- rather than liberalizing financial markets -- has had much more to do with reforming incentives and governance more generally to attract such investments. Southeast Asian governments, notably Singapore and Malaysia, have especially sought to attract FDI into areas where indigenous industrial capabilities were not expected to become internationally competitive.

Attracting FDI should, however, be distinguished from capital account liberalization, which has come under renewed consideration after the East Asian financial crisis. The 1997-98 crisis was precipitated by an eventually successful currency attack on the over-valued Thai baht, while contagion was greatly exacerbated by herd-like panicky withdrawals from the entire Southeast Asian region, inducing currency and stock market collapses (Jomo 1998; Islam and Chowdhury 2001). Since those who control financial assets have come to enjoy disproportionate political influence in Southeast Asian economies, liberalizing financial markets, ostensibly to induce net inflow of portfolio investments, may well cause greater movements out, especially during times of crisis when such inflows are most needed.

The Miracle volume claims that government interventions have been trade-distortionary and, more importantly, generally unsuccessful in East Asia, with some minor exceptions. However, contrary to the impression given by the study, the Japanese, South Korean and Taiwanese governments did pursue import substituting industrialization policies from the 1950s, but pursued export orientation from the 1960s *as well* to ensure that their industries quickly become internationally competitive by requiring a rapid transition from import substitution to export-orientation. Government played an important role in South Korea and Singapore in upgrading industrial structure from unskilled labour intensive activities to high value added capital and skill-intensive activities in the 1980s (Chowdhury and Islam 1993).

In many cases, infant industries were generally provided with *effective protection conditional on export promotion*, which had the effect of forcing the firms and industries concerned to quickly become internationally competitive. By giving firms protection for certain periods, depending on the product being made and the expected learning time, and by also requiring that they begin exporting certain shares of output within correspondingly specified periods, strict discipline was imposed in return for the temporary trade protection enjoyed. Such policies forced firms to push down their own production costs as quickly as possible, e.g. by trying to achieve greater economies of scale and accelerating learning. Singapore used labour market policy, in particular wages policy, in a very innovative way to rapidly move into high value added activities (see Chowdhury 2008). Requiring exports has also meant that producers had to achieve international quality standards quickly, which imposed pressures to progress technologically in terms of products as well as processes.

The Miracle volume argued that Southeast Asia began to take off after economic liberalization in the mid-1980s led to economic recovery, rapid growth and industrialization. This broad explanation understates the significance of the region's undervalued exchange-rates and other incentives to relocate manufacturing output from Japan and the first-generation newly industrialized economies into the rest of Southeast Asia as well as China. While exports may rise with greater external market access, imports also tend to rise strongly with trade liberalization, especially if the domestic currency appreciates as a consequence of greater exports. However, the possibility of increased exports does not necessarily ensure stronger domestic economic growth, as the collapse of Sub-Saharan African manufacturing and the stagnation of sub-Saharan African agriculture from the late 1970s makes it clear. Thus, the efficiency gains from trade liberalization have condemned Sub-Saharan Africa to economic regression.

Although the Bank did not really tout an East Asian model as such, the Bank study has often been read as offering one, or perhaps two variants. More generally, there was much talk about East Asia in the singular, as constituting a flock of 'flying geese' or even a 'yen bloc'. Many observers even spoke of generic East Asian models, approaches or ways of doing things. Following the end of the Japanese boom in the early 1990s and the 1997-1998 regional financial crisis, sentiment on East Asia turned sour. Since then, there have been similarly broad-brushed generalizations about East Asian 'crony capitalism' and other similar regional afflictions.

While there are many lessons to be drawn from the East Asian experience, they certainly are far from constituting a single model, with Southeast Asia quite distinct from the rest of the region in some respects, e.g. the role of foreign direct investment (FDI). While there was certainly some deregulation in Southeast Asia in the mid-1980s, there was also some new private sector-oriented regulation, more appropriate to the new industrial policy priorities of the governments of Singapore, Malaysia, Thailand and Indonesia (Jomo *et al*. 1997). In contrast, those most successful in developing industrial capacities and capabilities in East Asia – namely Japan, South Korea and Taiwan – have hardly depended on FDI, which has only played a relatively small role. Clearly, there is considerable diversity in the role and performance of public investments, including state-owned enterprises (SOEs), in Southeast Asia. For instance, the single largest Singapore foreign investor, in other words, the biggest Singapore firm investing abroad, has been the Government Investment Corporation (GIC).

As is well-known, the World Bank recommended that the rest of the developing world emulate Southeast Asia, not Northeast Asia, even though the achievement of the first-tier East Asian NIEs (including Singapore) – rather than the transformation of the second-tier Southeast Asian NICs – has been superior in terms of economic performance.

Despite the much greater resource wealth of Southeast Asia, one finds that growth performance has been superior in Northeast Asia over the long term. From the 1960s until the early 1990s, the growth rate in Northeast Asia averaged about eight per cent, compared to about six per cent for Southeast Asia. A two percentage points difference, compounded over a period of a quarter century or more, adds up to a lot. Additionally, income inequalities as measured by the Gini coefficient are much low in South Korea and Taiwan compared to Malaysia and Thailand, while most observers believe that inequality is much higher in Indonesia than what the published data show. Both South Korea and Taiwan achieved this by massive land reform in the early phase of their development. On the other hand, none of the Southeast Asian countries addressed the issue of initial asset distribution that perpetuates inequality. Consequently, Northeast Asia also ranks higher in terms of human development index that includes per capita GDP (in purchasing power parity), adult literacy rates and life expectancy at birth.

In sum, the improvements in per capita income and economic welfare have been much more significant in Northeast Asia, compared to Southeast Asia (with the exception of Singapore), despite the relative resource wealth of Southeast Asia. What Southeast Asia has achieved has been less impressive in some critical ways. Consequently, some people now argue that resource wealth is not a blessing, but arguably, a curse, insofar as it postpones the imperative to develop in a more balanced way.

Northeast Asia has long had more sophisticated and effective industrial policy compared to Southeast Asia, accounting, in no small way, for their very important differences in industrial and technological capabilities. Also, Southeast Asian industrialization is still primarily driven by FDI, whereas Northeast Asian industrialization is primarily an indigenous phenomenon.

Clearly, there are important lessons to be drawn from East Asia, but there is no model as such, including Southeast Asia. For a number of other reasons as well, it does not make much sense for anybody or any other country to think in terms of trying to emulate any particular economy in the region or Southeast Asia more generally. There are also reasons why most other developing countries will find it impossible to emulate Southeast Asia even if they want to. Nevertheless, some important lessons can be drawn from the Southeast Asian experiences. Such lessons are best drawn from careful analysis, rather than more broad-brushed generalizations about a rather diverse region.

Before the currency and financial crisis of 1997–98, the Southeast Asian second-tier newly industrializing countries (NICs) were celebrated by the World Bank and others as the new models for emulation by other developing countries. Singapore, Malaysia, Thailand and Indonesia achieved sustained and presumably equitable export-led high growth and rapid industrialization.[3]

The Bank and others suggested that owing to various exceptional characteristics of the first five HPAEs, the last three Southeast Asian HPAEs were the most appropriate examples for other developing countries to emulate. Implicit in this recommendation was the claim that the achievements of the Southeast Asian three (SEA3) countries of Malaysia, Thailand and Indonesia were similar to, and comparable with, the other HPAEs in terms of growth, structural change and industrialization. However, the SEA3's industrialization records have been significantly different from, and inferior to, those of the other HPAEs, especially Japan, South Korea, Taiwan as well as Singapore (Jomo *et al.* 1997; Jomo 2001; 2003).

The much greater Southeast Asian dependence on FDI raises disturbing questions about the actual nature of industrial and technological capacities and capabilities in

[3] The common belief that Southeast Asian growth was accompanied by low inequality, defying the so-called Kuznets inverted U-hypothesis, which has given rise to the notion of "shared growth" is a misnomer. (See Chowdhury and Islam (2007).

these countries, especially in their most dynamic and export-oriented sectors. This, in turn, raises concerns about the sustainability of their growth and industrialization processes, especially if they are later deemed less attractive for further FDI, e.g. as more attractive alternative locations become available. Dominance by foreign transnationals subordinated domestic industrial capital in the region, allowing finance capital, both domestic and foreign, to become more influential in the region. Thus, transnational dominance of Southeast Asian industrialization facilitated the ascendance and consolidation of financial interests and politically influential rentiers.

Thus, the 1997–98 Southeast Asian debacle can be traced to poorly conceived and sequenced financial liberalization that resulted in attracting massive, but easily reversible capital inflows into the region (Islam and Chowdhury 2001). Capital inflows tended to raise foreign reserves, domestic credit availability as well as exchange rates. The combination of increased capital inflows, credit expansion and exchange rate appreciation raised aggregate demand more rapidly than GDP, further increasing the current account deficit.

There is little evidence that capital inflows into the region contributed significantly to accelerating the pace of economic growth, especially in the tradable sectors of the economy. Instead, it is likely that they contributed greatly to the asset price bubbles, whose inevitable collapses were accelerated by the advent of currency crises with such devastating consequences. Other likely consequences include consumption binges as well as poor and excessive investments, though the evidence for, and understanding of, these phenomena are somewhat exaggerated.

Thus, the Southeast Asian component of the East Asian miracle – as represented by Malaysia, Thailand and Indonesia – was inferior to the rest of the region's economic achievements in terms of growth, inequality, human development, industrialization, policy formulation and implementation, as well as development of industrial and technological capabilities. Although the 1997–98 financial crises were not a direct outcome of these factors, or even of cronyism or poor corporate governance, as commonly alleged, the fragility and vulnerability of the region's national financial systems are not unrelated (Jomo 1998, 2001, 2004; Islam and Chowdhury 2001). The region's weaknesses were beginning to adversely affect growth and industrialization in the region even before the crisis. These failings have continued to limit growth and structural transformation.

Southeast Asian Best Policy Practices?

The following discussion challenges all the major claims of policy lessons as excessive. Instead, it suggests that a more balanced review of the evidence lends itself to a more nuanced understanding of the historical record which will not support the hypothesis that sustained poverty reduction takes place in any country where three pre-conditions -- adequate macroeconomic management; economic freedom for peasants and small entrepreneurs; pro-poor, pro-rural public spending -- are *all simultaneously* and *consistently* met. It is not clear that the claim of the three pre-conditions being "all simultaneously and consistently met" is true for Viet Nam and especially for Cambodia.

Of the ten Southeast Asian countries which are members of the Association of the Southeast Asian Nations (ASEAN), only five have strong records of sustained poverty reduction, all closely associated with sustained economic growth and structural transformation, including industrialization. The countries are Singapore, Malaysia, Thailand, Indonesia and Viet Nam, although the city-state of Singapore is not a suitable case for emulation. In contrast, Myanmar, Laos and the Philippines have had lackluster economic performances. The available evidence on Cambodia is too recent and too ambiguous to draw the strong policy conclusions, while the case of Brunei – mainly an oil-producing state -- is also too exceptional for purposes of this discussion.

While the paired comparison approaches is interesting, although not original (see the World Bank's paired comparative studies from the mid-1980s under the supervision of Anne Krueger and Deepak Lal, among many such comparisons), the choice of pairings seems to be motivated by the convenience of dealing with former British colonies in Sub-Saharan Africa whereas the different colonial experiences of the Southeast Asian choices is not seriously considered despite the historical approaches taken. This is not unimportant because of the IMF suggestion of aid bias against non-Anglophone Sub-Saharan African countries in favour of their Anglophone counterparts. Also, the possible significance of geography is not considered despite the World Bank (1993) suggestion that the likelihood of eight nearly contiguous economies growing rapidly for extended periods is one in 60,000. Thus, what follows is a critical evaluation of three key hypotheses that are supposedly the basis for generalized policy prescriptions.

1) Sound macroeconomic management

'Sound macroeconomic management' is an ambiguous term as what is considered 'sound' can be very subjective. However, it is often very narrowly defined in terms of, first, fiscal and monetary policy avoiding high inflation exceeding 5 per cent and keeping budget preferably in surplus if not in balance, second, avoiding 'administrative national currency overvaluation' to avoid a black market exchange rate.

By focusing exclusively on a narrow idea of macroeconomic stability, the monetary and fiscal policy prescriptions ignore managing the other determinants of inflation, such as high import price or major supply shocks. In short, such position undermines the need for effective counter-cyclical policies to reduce tendencies to swing between booms and busts, which have been used to varying degrees at different times, in the five successful Southeast Asian developing countries.

Except in the case of Singapore, the decade of rapid growth in the five from the late 1980s until the 1997-98 Asian crisis -- celebrated by the World Bank's *The East Asian Miracle* volume as due to economic liberalization more broadly -- can instead be attributed to effective *devaluation* of national currencies from the mid-1980s (Indonesia's three devaluations during 1984-87, Thailand in 1984, Malaysia from 1985, Viet Nam from 1986) against the US dollar as it declined against the yen and then the currencies of the first generation East Asian newly industrialized economies (South Korea, Taiwan, Singapore, with Hong Kong the exception following its dollar peg from 1983).

Most importantly, the better economic performance of the five -- compared, say, to Latin America and Africa which were experiencing 'lost decades' during the 1980s -- during the high growth period from around 1988 to 1997 can also be attributed to pro-active (pro-growth and pro-industrialization) policies, including consistent counter-cyclical macroeconomic policies, rather than leaving the market to 'get the prices right' following the Washington Consensus.

2) Economic freedom for peasants and small entrepreneurs

This hypothesis narrowly defines economic freedom in terms of no local-level – not national-level -- state regulation while not ruling out either state subsidies or international trade restrictions. Nevertheless, while Southeast Asian states have had very different degrees of regulation of the economic activity of small farmers and small entrepreneurs, it would be erroneous to characterize the situation as uniformly laissez faire or unrestricted at the local level.

For instance, there have always been restrictions on which crop to plant in irrigated areas and even in un-irrigated areas during the colonial period, and sometimes, thereafter. Peasants were often required to plant food crops, especially rice, even though the price of imported rice was relatively low, ostensibly to avoid the use of foreign exchange to import food, usually rice. In contrast, plantation interests tended to dominate export-oriented commercial agriculture, such as rubber (see e.g. Drake, 2004). Such requirements were often imposed at the time of land alienation, which became increasingly important during colonial rule. In post-colonial land development schemes in Malaysia and Indonesia, there have been varying crop requirements, e.g. on Felda and other schemes in Malaysia, and to a lesser extent, on transmigration (*transmigrasi*) schemes in Indonesia.

State-imposed monopsonies have been characteristic of Malaysia's government financed land development schemes, where all settlers are required to sell all their produce to Felda or the relevant authority. While undoubtedly coercive and sometimes problematic (e.g. enabling the spread of crop diseases), such requirements have enabled economies of scale and also for these schemes to be more financially viable.

Similarly, government monopsonies/monopolies have been central to rice and other food price support schemes in Malaysia and Indonesia, albeit to varying degrees over time; the varying terms of such coercive restrictions have resulted in resistance from time to time, but have nevertheless increased farmer incomes.

Thus, varying degrees and types of government small business regulation are to be found -- at national and local level -- throughout Southeast Asia, perhaps most pronounced in Singapore. In Viet Nam, internal migration has long been regulated through the *hukou* system, affecting the prospects for small entrepreneurs as well.

3) Pro-poor, pro-rural public spending

Pro-poor public expenditure can be understood in at least three different ways. First, any spending which brings some benefit to the poor, however meager, can be considered pro-poor. Second, pro-poor expenditure can also be defined as expenditure which benefits the poor more than others. Third, pro-poor spending can also be understood as spending more for the poor than their share of the population. Clearly, these different definitions have vastly different implications. If all public spending in Southeast Asia is considered, the evidence does not suggest that disproportionately more is directed to agriculture, the countryside and the poor than to others.

First, at least 10 per cent of all public spending, and/or 20 per cent of development spending (public investment) for the agricultural sector is certainly far less than implied by the claim of pro-poor or pro-rural public spending. In other words, the claim of a pro-poor, pro-rural or pro-agriculture bias is exaggerated when considered against the shares of the poor, countryside or agriculture in the economy. Nevertheless, these shares are higher than similar shares in Sub-Saharan Africa.

Government spending in rural areas and on agriculture has been motivated by political considerations, especially the desire of regimes to secure rural and peasant political support, not least by raising agricultural output, productivity and incomes. This has long been the case in Indonesia under General Soeharto, and in Malaysia, especially during the 1960s and 1970s. Thai agriculture has long been acknowledged to be internationally competitive, dynamic and the basis for agro-industry. The enduring political support for deposed former Prime Minister Thaksin in Thailand over the past decade is generally acknowledged to reflect his greatly increased rural spending allocations after decades of neglect by previous regimes. Likewise, there is little evidence of major increases in development budget allocations to agriculture, let alone food agriculture, in Viet Nam and Cambodia.

Except for land settlement schemes where newly opened land is made available to selected settlers, most government spending in the countryside and on agriculture is not redistributive, in terms of being biased towards the poor. Instead, such public expenditure tends to benefit the relatively better-off involved in agriculture or the countryside. This is generally true with improved rural infrastructure or social services including health and schooling as well as agricultural subsidies in the form of subsidized fertilizer or other agricultural inputs which are usually distributed according to amount of land owned. Likewise, those with more land are more likely to increase their output more with irrigation, improved seeds or other factors of production. Nevertheless, the poor will benefit in so far as the rising tide of greater output or productivity lifts all boats.

One important difference between Southeast Asia and Africa of course is the fact that the Green Revolution of the 1960s and 1970s mainly involved wheat and rice, and to a lesser extent, maize. Except for maize, neither rice nor wheat is very significant food crops in Sub-Saharan Africa. The subsequent collapse of significant productivity gains in food agriculture due to the neglect of research and extension funding suggests that even if more resources were put into African food agriculture earlier, the productivity and income gains would have been much more modest, especially for dry-land agriculture.

Even if successful, the current emphasis on improving food agriculture in Sub-Saharan Africa -- following increased hunger after the 2007-2008 food price spikes -- is likely to have mixed consequences. Increased food production is likely to enhance food security, reduce hunger and improve nutrition in Sub-Saharan Africa for the farmers themselves. This may be undermined by trade liberalization and the incentive to export. The recent purchase or long-term lease of vast swathes of choice agricultural land by foreign interests to produce food for export will only exacerbate this problem. But in order to reduce poverty more generally, food prices will be expected to go down to low levels in mid-decade, thus reducing farmer incomes and the incentive for them to stay with food production instead of more lucrative alternatives.

Also, low government spending on manufacturing, relative to agriculture, may not be desirable from a pro-poor or pro-rural perspective. In Thailand and Malaysia, industrialization has been very important for poverty reduction, not only by creating many more productive employment opportunities, including off-farm jobs in the countryside, but also by raising agricultural productivity through reducing demographic pressure on agricultural land and encouraging the greater use of irrigation, mechanization and other inputs.

Public spending on mining has been unsteady over time, tending to be episodic and limited to highly lucrative minerals, especially oil and gas in the recent period. Although mismanagement and abuse have significantly reduced mineral rents' contribution to government revenues, the availability of such additional revenues have significantly enhanced the fiscal and policy space for the governments concerned. Hence, high early investments in such mining contributed greatly to their ability to pursue pro-development and pro-rural or pro-agricultural policies, thus contributing very significantly to poverty reduction.

In Malaysia, Indonesia (Sumatra) and Viet Nam, agricultural and infrastructure spending has often benefited plantations, rather than peasant or smallholder agriculture. While agricultural taxation was generally proportional to land cultivated or to output, some benefits of government rural or agricultural spending have benefited plantation as well as larger smallholders more than smaller smallholders, tenants or sharecroppers, e.g. in the case of the rubber replanting and research funds in Malaysia, size was the major determinant of frequency of replanting, and thus benefiting from the replanting support payments and from higher productivity from the latest rubber tree clones (Khoo 1980).

Agricultural taxation in Indonesia, Malaysia and Viet Nam was generally biased towards foreign plantation interests in the colonial era, but such biases have been eroded over time in the post-colonial era, albeit very unevenly. Hence, there is little evidence of heavy taxation of small farmers, although there is also little evidence of significant urban-to-rural or industry-to-agriculture transfers of resources through the fiscal system or any other official economic arrangements.

However, the rural-urban terms of trade are another story. In peasant agriculture, intense competition -- not only at the national level, but also at the international level – has ensured near perfect price competition, eliminating the prospect of agricultural rents being captured by peasants. Many of the privileges associated with plantation agriculture during the colonial era have been retained, if not enhanced, in the post-colonial period. At the global level however, growing concentration -- associated with transnational agro-business over the last few decades -- has enabled such oligopolistic corporate interests to capture rents from a variety of sources throughout the production, credit and marketing chains.

The partial and uneven integration of peasant agriculture into these chains has undoubtedly enhanced corporate rents accruing to transnational agro-business without raising agricultural prices. Instead, the increasing use of food (maize, sugar and vegetable oils) to make subsidized bio-fuels in the West and the increased investment in food commodity futures following the collapse of financial asset bubbles have contributed to increased food prices in the short term while a variety of other factors have also pushed up food prices after a two-decade decline from the mid-1980s.

Concluding Remarks

Although the high-growth economies of Southeast Asia are quite heterogeneous, e.g. being at quite different levels of development, they have shared some policies that distinguish them from the other high-growth economies of the East Asian region. Most importantly, the Southeast Asian high-growth economies have relied more heavily on foreign direct investment (FDI) to develop most of their internationally competitive industrial capabilities. While savings rates in the region have been quite high, access to technology and markets has been the main motive for privileging FDI. However, the consequent weakness of domestic industrial communities has weakened the momentum for industrialization and increased the influence of other types of wealth and power with adverse consequences for sustained growth, structural transformation and poverty reduction.

As elsewhere, government interventions in the region have been influenced by a variety of considerations besides economic development and late industrialization. Consequently, developmental policy interventions have also varied in nature, quality and effectiveness. Nevertheless, the economies in the region would not have achieved as much as they have without industrial policy interventions.

In sum, the above discussion and other historical evidence on growth and poverty reduction in Southeast Asia in recent decades lend themselves to a different hypothesis which can be summed up as follows: Sustained poverty reduction took place in Southeast Asia where the following three preconditions were met: (a) Pro-growth and employment oriented macroeconomic policies; (b) Developmental finance, trade and infrastructure policies; and (c) Pro-active human resource investments. *Pro-growth and employment oriented macroeconomic policies:* instead of emphasizing macroeconomic balances, the five induced high investment rates; high savings rates followed; foreign savings were generally unnecessary except in providing access to new technology and foreign markets. *Developmental finance, trade and infrastructure policies:* specialized industrial, agricultural, trade and other inclusive credit facilities supported changing developmental priorities. Although few SEA authorities successfully provided effective protection *conditional* on export promotion, with the exception of Singapore, the other four provided effective protection as well as export promotion to promote new economic activities. The use of undervalued exchange rates served to discourage imports and encourage exports. *Pro-active human resource investments:* health, education, training and other investments in human resources not only served economic development but also strengthened political support so crucial to political stability and credibility necessary for long-term policy design and implementation.

Acknowledgement

The paper is based on the submission, which was a joint winner of the 2010 Tracking Development Falsification Challenge Award. Tracking Development is a multilateral, international research project on the comparative development trajectories of Southeast Asia and Sub-Saharan Africa over the last 50 years. The project is funded by the Dutch Ministry of Foreign Affairs.

References

ADB (1997). *Emerging Asia: Changes and Challenges*. Manila: Asian Development Bank.

Amsden, Alice (1989). *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.

Balassa, Bela (1988). "The Lessons of East Asian Development: An Overview". *Development and Cultural Change*, Vol. 36(3) (April).

Chang, Ha Joon (2006). *The East Asian Development Experience: the Miracle, the Crisis and the Future*. London: Zed Books.

Chowdhury, Anis (2008). "Labour Market Policies as Instruments of Industry Policy – What Can Europe Learn from Southeast Asia? *American Journal of Economics and Sociology*, Vol. 67(4), pp. 661-681.

Chowdhury, Anis and Iyanatul Islam (1993). *The Newly Industrialising Economies of East Asia.* London: Routledge.

Chowdhury, Anis and Iyanatul Islam (2007). "Revisiting Shared Growth and Examining Horizontal Inequality" in Raja Rasiah and Johannes D. Schmidt (eds.) *The New Political Economy of Southeast Asia*, Cheltenham: Edward Elgar, 2007, pp. 139-168.

Deyo, Frederic C. (1981). *Dependent Development and Industrial Order: An Asian Case Study*. New York: Praeger, 1981.

Deyo, Frederic C. (1989).*Beneath the Miracle: Labor Subordination in the New Asian Industrialism*. Berkeley: University of California Press.

Drake, Peter (2004). *Currency, Credit and Commerce: EarlyGgrowth in Southeast Asia*. Aldershot: Ashgate Publishing Ltd.

Friedman, Milton and Rose Friedman (1980). *Free to Choose: A Personal Statement*. New York: Avon.

Haggard, Stephan (1987). "Labor in the Political Economy of East Asian Industrialization". *Bulletin of Concerned Asian Scholars* 19(2)(April-June).

Haggard, Stephan (2004). "Institutions and Growth in East Asia". *Studies in Comparative International Development,* Vol. 38(4) (December).

Hughes, Helen (1988). *Achieving industrialization in East Asia*. Cambridge: Cambridge University Press.

Islam, Iyanatul and Anis Chowdury (2001). *The Political Economy of East Asia: Post Crisis Debates*. Melbourne: Oxford University Press.

James, William E., Seiji Naya, Gerald M. Meier (1989). *Asian Development: Economic Success and Policy Lessons*. Madison: University of Wisconsin Press.
Jomo K. S. [ed.] (1998). *Tigers in Trouble: Financial Governance, Liberalization and Crises in East Asia*. London: Zed Books.
Johnson, Chalmers (1982). *MITI and the Japanese Miracle*. Stanford: Stanford University Press.
Jomo K. S. [ed.] (2001). *South East Asia's Industrialization: Industrial Policy, Capabilities and Sustainability.* Houndmills: Palgrave.
Jomo K. S. [ed.] (2003). *South East Asia's Paper Tigers: From Miracle To Debacle And Beyond*. Routledge, London.
Jomo K. S. [ed.] (2004). *After The Storm: Crisis, Recovery and Sustaining Development in East Asia*. Singapore: Singapore University Press.
Jomo K. S., with Chen Yun Chung, Brian C. Folk, Irfan ul-Haque, Pasuk Phongpaichit, Batara Simatupang and Mayuri Tateishi (1997). *South East Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia*. Boulder: Westview Press.
Little, Ian, Tibor Scitovsky and Maurice Scott (1970). *Industry and Trade in Some Developing Countries: A Comparative Study.* New York: Basic Books.
Wade, Robert (1990). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.
World Bank (1993). *The East Asian Miracle*. Oxford University Press, New York, for World Bank, Washington, DC