Journal of East Asian Studies **18** (2018), 401–405

Review Essay

Dictators, Democrats and Development in Southeast Asia: Lessons for the Rest. By Michael T. Rock. New York: Oxford University Press, 2017.

Reviewed by Jomo Kwame Sundaram, Khazanah Research Institute
doi:10.1017/jea.2018.24

Of the ten fastest growing economies since 1960, eight are in East Asia. As Haggard (2018) aptly demonstrates for Northeast Asia, two explanations account for this exceptional regional performance. On the one hand, neo-liberals committed to an Anglo-American night-watchman state (Krueger 1978; Bhagwati 1978; Edwards 1993; World Bank 1993; Pack and Saggi 2006) attribute performance to macroeconomic stability, provision of public goods, and openness to trade and investment. On the other hand, a heterodox group (Johnson 1982; Amsden 1989; Wade 1990/2004; Chang 2002, 1994; Rodrik 1995; Evans 1995; Lin 2009) focuses on market and coordination failures and the need for states to adopt pragmatic, 'trial and error' and selective approaches to high-speed growth. In this latter view, the strong developmental states of Northeast Asia used their embedded autonomy viz the private sector to overcome market and coordination failures to usher in rapid growth and technological catch-up.

The reigning conventional wisdom among political scientists of Southeast Asia (see, for example, Doner 2009; MacIntyre 1994), particularly Indonesia, Malaysia, and Thailand—what Michael Rock labels IMT—is that the states there lack the strength, autonomy, and embeddedness with the private sector to successfully adopt the interventionist development strategies used in Northeast Asia. Most economists (see, for example, Hill 1996b) agree, arguing that the pervasive selective interventions in IMT were subject to too much rent-seeking and corruption, which are widely believed to have caused growth slowdowns elsewhere. Given sustained rapid growth in IMT, this view does not quite fit the facts, nor has it gone unchallenged (Kuhonta 2011; Khan and Jomo 2000; Jomo et al. 1997; Jomo 1999, 2001, 2007; Jomo and Felker 1999; Rock 1995, 1999; Rock and Sheridan 2007).

Yet, what has been missing from the challenge is a sophisticated and coherent explanation of how even the weaker and less autonomous states in IMT, subject to corruption and rent-seeking, have also pursued successful interventionist policies that have contributed to rapid growth and catch up. This is the task Michael Rock takes on in *Dictators, Democrats and Development in Southeast Asia*.

Rock focuses on IMT because they look much more like the Rest (Amsden 2001) than the polities in Northeast Asia. They are resource rich but, unlike the Rest, they have avoided the resource curse. They "suffer" from high levels of ethnic heterogeneity, but unlike the Rest, they have avoided growth tragedies (Easterly and Levine 1997). Like the Rest, they have poorer forms of governance—weaker states, less autonomy from the private sector, higher rates of corruption and rent-seeking; yet, they have avoided the growth slowdowns and lost decades experienced by the Rest. Given these similarities in factor endowments, ethnic heterogeneity, and governance, Rock argues the Rest have much to learn from IMT.

So how have IMT succeeded where their counterparts among the Rest have not? Rock's answer is deceptively simple and parsimonious, yet powerful. He begins by demonstrating that economic take-offs in IMT were preceded by political elites gaining control of the state and using what they learned to implement an industrial development strategy that is capitalist, but not laissez faire, FDI friendly and export-oriented, but not free trade. As he shows, this was not easy; it took time and was fraught with political instability and violence. There is a very sobering lesson here for anyone interested in the development prospects of the Rest. As Rock (2018, 46) says, "Those interested in knowing why the economies of sub-Saharan Africa have performed so poorly since independence, should perhaps look no further than the inability of political elites there to complete their nation-building projects (Herbst 2000; Thies 2009)."

As he goes on to show, development did not emerge on the political agenda of elites until one group of elites completed conservative nation-building projects that defined national identities while creating clear winners (a center right coalition composed of monarchies, the military, bureaucratic elites, and business elites) and clear losers (the Left, popular groups, and religious fundamentalists). As the winners were consolidating power, they began turning their attention to development, as they recognized that growth was in their long-term political interests. With the defeat of the Left and a history of openness to trade and investment, elites used the state to build lasting pro-growth political coalitions that provided time for an interventionist, capitalist, and open economy growth strategy to work. As Rock argues, this development strategy was not ideological, but pragmatic, rooted in a "muddling through," "trial and error" approach. Because IMT governments used both markets and states to sustain growth, development policies were rarely laissez faire, even though they were capitalist, and the state was much more than a neo-liberal night-watchman. Similarly, even though these governments were committed to open economies, they were not dogmatic 'free trade' advocates.

What evidence does Rock offer for this pragmatic and interventionist development strategy that could prove relevant for the Rest? His initial evidence, provided in chapter 5, focuses on government intervention in the rice economies of IMT. He argues for this outcome in three steps. In the first, he uses in-depth case studies to delve into the history of government intervention in the rice economy to show that intervention was pervasive and effective. He then goes two steps further. First, he shows how intervention in rice markets was tied to underlying differences in the political economy of rice. Second, following John Mellor's (1995) arguments about the role of agriculture in industrial development, he shows how intervention in rice markets (particularly efforts to stabilize the price of rice around the long run trend in world rice prices ala Peter Timmer 1993) had a positive effect on industrial growth. Rock also shows the various ways economic technocrats in these economies were actively involved in interventions in the rice economy. This latter finding is important because it provides counter-evidence to the neo-liberal claim of bifurcated states—where economic technocrats in core economic agencies maintained macroeconomic stability and a competitive exchange rate, but held little sway in microeconomic markets.

Rock also provides compelling case evidence that IMT states sought to promote a domestic capitalist class to compete in the global economy. He shows how such promotion of rentier business elites was reciprocated with kickbacks for political elites with the financing they needed to secure political support. He combines this case evidence with a range of econometric tests aimed at answering the question: Was growth in IMT driven by openness to trade and investment or by domestic investment? While he finds some modest support for an openness-driven growth hypothesis, he finds much more robust support for a domestic investment-driven growth hypothesis. Thus, he rightly concludes, in my view (see, for example, Jomo et al. 1997) that growth in IMT was driven by domestic investment. This finding has important implications for development policy.

Rock (2018, 42–43) notes some consequences of this approach. First, IMT's favored capitalists generally responded by substantially increasing the investment to GDP ratio. Second, as noted above, he demonstrates that the primary causality between domestic investment, trade and GDP runs from investment to trade to output such that IMT growth was investment, rather than export-led. Third, this strategy had a profound effect on the size distribution of firms as a small number of very large conglomerates—the government-patronized ethnic Chinese conglomerates in Indonesia, Malaysia, and Thailand, which dominate the IMT economies and, exceptionally, Malaysia's state-owned conglomerates (now termed "government-linked investment companies"). Fourth, based on international norms, the share of manufactures in GDP and in exports are larger than expected while export concentration indices are lower than expected, suggesting that selective industrial policies worked, albeit unevenly.

As Rock (2018, 43) says,

This system could have run amok if governments in IMT lacked substantial commitment to development, if they took too much, if business failed to respond to incentives to invest, or if no corrective mechanism existed to weed out bad investments. Most of the time, these things did not happen. They did not happen because ruling political elites in IMT were too deeply committed to increasing national power and national strength in a hostile world and in pursuing economic and industrial development as components of national power and as goals in their own right. Governments and capitalists in IMT also learned, from sobering and unpleasant experiences, what happened when government took too much, when they failed to offer promotional privileges, while businessmen feared what might happen if they failed to respond to the government's incentives.

Rock shows that industrial policy affected the structures of the IMT economies, as reflected by the size distribution of firms, the relative size of manufactures and manufactured exports in GDP, and the diversification of exports away from the primary products that dominated exports at the beginning of their growth miracles. But what about technological catch-up or total factor productivity growth (TFPG)? Most authors of different persuasions from Rock (Doner 2009; Hill 1996a, 1996b; Rasiah 1999) suggest that the IMT economies have not been very good at catch-up growth. Reflecting post-Washington Consensus preoccupations, some (Yusuf and Nabeshima 2009) suggest that all three may be caught in middle income traps. Rock's review shows that the TFPG studies for IMT are highly variable and all over the map. As the conditions necessary for meaningful TFPG studies are rarely met, he correctly discounts the importance of such studies. It would be wise to remember that not too long ago, Young (1995) famously claimed to show that there had been very little TFPG in Korea—and he was not referring to the North!

Rock puts much less stock in Young and much more in Kim's (1997) study of technological learning and upgrading in a wide range of Korean firms and industries. Hence, he focuses on the evidence of technological learning/upgrading in individual firms and industries. He finds mixed stories, but correctly leans to the view that industrial policies were effective in encouraging upgrading in some firms and industries some of the time. Of the three economies, he finds some limited evidence of learning in aircraft, wood processing, and autos in Indonesia; substantial learning in palm oil processing and electronics (particularly in Penang) in Malaysia, and substantial learning in agro-processing (particularly chicken meat and shrimp aquaculture), cement, automotive parts, and component supplies in Thailand.

Are these achievements significant enough to ensure that IMT will escape the middle-income trap? The middle-income trap is a poorly specified problem, which simplistically and misleadingly equates income with development. However, it raises the question of the likelihood of sustaining growth, industrialization, and technological progress as preconditions for sustained income increases. In this connection, Rock notes in the book under review here (p. 203),

According to McVey (1992), ' … in retrospect, the states in IMT look less like an incubus and more like an incubator for development. Given this experience, if one were to hazard a guess, governments in IMT are more rather than less likely to respond to diminishing returns to the existing growth strategy by developing a new growth strategy around technological learning in skills-based exports. However, if they do so, they are likely to follow a way that is consistent with their penchant for muddling through. Is this a certainty? Of course not.'

One final issue deserves mention. What has been the impact of democracy on growth in IMT? Rock has tackled this issue in the pages of this journal (Rock 2013), and he does so in several novel ways in the book. First, through in-depth case studies, he traces movements toward and away from democracy. As part of his case studies, he draws on Reilly (2006), among others, to show how IMT political elites opted for majoritarian forms of democracy. He then uses the literature on the impact on growth of *different forms of democracy* to set up rigorous empirical tests of the following hypothesis: Growth during periods of majoritarian democracy in IMT was no lower than during periods of developmental autocracy. Somewhat surprisingly for many, he finds substantial support for this proposition. This is significant, following such democratic turns in Indonesia and, more recently, Malaysia; although neither the Thaksin ascendance nor its reversals appear to have undermined Thai growth. In the current international environment, where support for authoritarian ethno-populism is spreading in the West, this finding may have broader significance.

In sum, Rock's book demonstrates that he is a serious scholar of the political economy of IMT. Unlike most economists, he draws on the literatures in politics, history, and economics to develop a serious strategic development alternative to the neo-liberal Washington Consensus and the Northeast Asian developmental state, both of which have limited lessons to offer to the Rest. He does so by utilizing an increasingly popular mixed-method methodological approach (Lieberman 2005) that combines in-depth qualitative analysis with rigorous econometric work to provide strong empirical support for the alternative development strategy he posits. Rock's book is a significant addition to the work of a small, but influential, group of economists open to heterodox interpretations of development policy and development performance. He has gone a long way toward shaking up conventional wisdom about the political economy of development in IMT. Unlike the literature on Northeast Asia, there is nothing remotely like it. His messages should resonate with those concerned with getting growth going in the Rest.

REFERENCES

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

———. 2001. *The Rise of "the Rest": Challenges to the West from Late-Industrializing Economies*. New York: Oxford University Press.

Bhagwati, Jagdish. 1978. *Foreign Trade Regimes and Economic Development,* Vol. 11*, Anatomy and Consequences of Exchange Control Regimes*. Cambridge, MA: Ballinger for the National Bureau of Economic Research.

Chang, Ha-Joon. 1994. *The Political Economy of Industrial Policy*. Basingstoke: Macmillan.

———. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem.

Doner, Richard. 2009. *The Politics of Uneven Development: Thailand's Economic Growth in Comparative Perspective*. New York: Cambridge University Press.

Easterly, William, and Ross Levine. 1997. "Africa's Growth Tragedy: Polices and Ethnic Divisions." *Quarterly Journal of Economics* 112 (4): 1203–1250.

Edwards, Sebastian. 1993. "Openness, Trade Liberalization, and Growth in Developing Countries." *Journal of Economic Literature* 31 (3): 1358–1393.

Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press.

Haggard, Stephan. 2018. *Developmental States*. Cambridge: Cambridge University Press.

Herbst, Jeffrey. 2000. *States and Power in Africa*. Princeton: Princeton University Press.

Hill, Hal. 1996a. *The Indonesian Economy Since 1966*. Cambridge: Cambridge University Press.

———. 1996b. "Indonesia's Industrial Policy and Performance: Orthodoxy Vindicated." *Economic Development and Cultural Change* 45 (October): 146–174.

Johnson, Chalmers. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*. Stanford, CA: Stanford University Press.

Jomo, K.S. 1986. *A Question of Class: Capital, the State and Uneven Development in Malaya*. Singapore: Oxford University Press.

———. 1999. Malaysia's Innovation System: Actors, Interests and Government. In *Technology, Competitiveness and the State*, edited by K.S. Jomo and Greg Felker, 98–147. New York: Routledge.

https://doi.org/10.1017/jea.2018.24 Published online by Cambridge University Press

———, ed. 2001. *Southeast Asia's Industrialization: Industrial Policy, Capabilities and Sustainability*. London: Palgrave.

———. 2007. "Industrialization and Industrial Policy in Malaysia." In *Malaysian Industrial Policy*, edited by K. S. Jomo, 1–34. Singapore: National University of Singapore Press.

Jomo, K.S., and Greg Felker, eds. 1999. *Technology, Competitiveness and the State*. New York: Routledge

Jomo, K.S., et al. 1997. *Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia*. Boulder: Westview.

Khan, Mushtaq, and K.S. Jomo, eds. 2000. *Rents, Rent-Seeking and Economic Development: Theory and the Asian Evidence*. Cambridge: Cambridge University Press.

Kim, Linsu. 1997. *Imitation to Innovation: The Dynamics of Korea's Technological Learning*. Boston, MA: Harvard Business School Press.

Krueger, Anne. 1974. "The Political Economy of the Rent-Seeking Society." *American Economic Review* 64 (3): 291–303.

———. 1978. *Foreign Trade Regimes and Economic Development,* Vol. 10*, Liberalization Attempts and Consequences*. Cambridge. MA: Ballinger for the National Bureau of Economic Research.

Kuhonta, E. M. (2011). *The Institutional Imperative: The Politics of Equitable Development in Southeast Asia*. Stanford, CA: Stanford University Press.

Lieberman, E.S. 2005. "Nested Analysis as a Mixed-Method Strategy in Comparative Research." *American Political Science Review* 99 (3): 435–452.

Lin, Justin. 2009. *Economic Development and Transition: Thought, Strategy, and Viability*. Cambridge: Cambridge University Press.

MacIntyre, Andrew, ed. 1994. *Business and Government in Industrializing Asia*. Ithaca, NY: Cornell University Press.

McVey, Ruth. 1992. *Southeast Asian Capitalists*. Ithaca, NY: Southeast Asia Studies Program, Cornell University.

Mellor, John. 1995. *Agriculture on the Road to Industrialization*. Baltimore: Johns Hopkins University Press.

Pack, Howard, and Kamal Saggi. 2006. "Is There a Case for Industrial Policy? A Critical Survey." *The World Bank Research Observer* 21 (2): 267–297.

Rasiah, Rajah. 1999. Malaysia's National Innovation System. In *Technology, Competitiveness and the State*, edited by K.S. Jomo and Greg Felker, 180–198. New York: Routledge.

Reilly, Benjamin. 2006. *Democracy and Diversity: Political Engineering in the Asia Pacific*. Oxford: Oxford University Press.

Rock, Michael T. 1995. Thai Industrial Policy: How Irrelevant was It to Export Success? *Journal of International Development* 7 (5): 745–757.

———. 1999. "Reassessing the Effectiveness of Industrial Policy in Indonesia: Can the Neoliberals be Wrong?" *World Development* 27 (4): 691–704.

———. 2013. "East Asia's Democratic Developmental States and Economic Growth." *Journal of East Asian Studies* 13 (1): 1–34.

———. 2018. "The Last Fifty Years: Development Strategy and Development Performance in Southeast Asia." *Journal of Southeast Asian Economies* 35 (1): 41–51.

Rock, Michael T., and Megan Sheridan. 2007. "The Political Economy of Industrial Policies in Malaysia." In *Malaysian Industrial Policy*, edited by K.S. Jomo, 179–221. Singapore: Singapore University Press.

Rodrik, Dani. 1995. "Getting interventions right: How South Korea and Taiwan grew rich." *Economic Policy* 10 (20): 53–107.

Thies, Cameron G. 2009. "National Design and State Building in Sub-Saharan Africa." *World Politics* 61 (4): 623–669.

Timmer, C. Peter. 1993. "Rural Bias in the East and Southeast Asian Rice Economies." *Journal of Development Studies* 29 (4): 149–176.

Wade, Robert. 1990/2004. *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: Economic Growth and Public Policy*. New York: Oxford University Press for the World Bank.

Young, Alvin. 1995. "The Tyranny of Numbers: Realities of the East Asian Growth Experience." *Quarterly Journal of Economics* 110 (3): 641–680.

Yusuf, Shahid, and Kaoru Nabeshima. 2009. *Tiger Economies Under Threat*. Washington, DC: World Bank.