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What happened to the Miracle Eight? Looking East in the twenty-first century

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ABSTRACT All developing countries have been “looking East” since the rise of the Asian tigers, especially South Korea and Taiwan. The designation of the Southeast Asian economies as “tiger cubs” implies the question: can would-be tigers become tigers? Against the background of both oriental globalisation and China’s effect on the region, this article compares trends in Northeast and Southeast Asia in agriculture, industry and services. State and political institutions are part of the comparison. As the conclusion notes, the new imperative for sustainable and inclusive growth excludes simply retracing the tigers’ development path: political change, in both national and regional institutions, is needed for the reforms in land, fiscal and industrial policy that will permit Southeast Asia to escape the middle-income trap.

RÉSUMÉ Depuis la montée des Tigres asiatiques, tous les pays en développement portent leur regard vers l’Est, particulièrement vers la Corée du Sud et Taiwan. L’appellation de Tigres asiatiques accolée aux économies de l’Asie du Sud-Est amène la question à savoir si les aspirants Tigres peuvent devenir des Tigres. Dans un contexte caractérisé par une mondialisation orientale et des retombées de la Chine sur la région, cet article compare les tendances de l’Asie du Nord-Est et l’Asie du Sud-Est dans l’agriculture, l’industrie et les services. L’État et les institutions politiques sont pris en compte dans cette comparaison. Comme soulevé dans la conclusion, le nouvel impératif pour une croissance durable et inclusive exclut de suivre la voie de développement des Tigres. Un changement politique des institutions nationales et régionales est nécessaire pour amener des réformes agraires, fiscales et industrielles qui permettront à l’Asie du Sud-Est de sortir du piège du revenu intermédiaire.

Keywords: oriental globalisation; Northeast Asia; Southeast Asia; comparative capitalisms; China

Consider the cityscapes of Seoul, Taipei, Bangkok, Kuala Lumpur, Jakarta etc. and there seems to be little difference among them: corporate high rises, multilane traffic, traffic jams, high-modern facilities, transnational and signature architecture, advanced mass transit systems, bustling shopping streets, ritzy malls, international brands and banks and a mobile WiFi populace. The differences lie elsewhere. In Northeast Asia (NEA), per capita GDP is high and inequality is low, while in Southeast Asia (SEA), per capita GDP is low and inequality is high. Is this a temporary deviation, just a time lag, or is there a pattern of differences between Northeast and Southeast Asia? This is the central question.

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Why is the question important and how should it be addressed?

All developing countries have been “looking East” since the rise of the Asian tigers simply because during decades of development the tiger economies, especially South Korea and Taiwan, have been the most successful and accomplished. In the 1990s the World Bank grouped the region’s eight high-growth economies together under the heading “East Asian Miracle”. In the Malaysian context the question resumes Mahathir’s Look East perspective. The comparison is implied in the term “tiger cubs” for Southeast Asian economies. Can would-be tigers become tigers? If Southeast Asian countries are to escape the “middle-income trap” this question has policy relevance. A further appeal is that it concerns Asia–Asia (East–East) research, rather than the well-worn problematic of Orientalism, the Western gaze, North–South relations and so forth.

There is a considerable literature on both regions, which differs in emphasis. Literature on NEA deals with the developmental state, Newly Industrialised Countries (NICs), an East Asian model, gender, democracy and subsequent developments such as neoliberal trends in South Korea and Taiwan’s industrial development and investments in south China. In SEA, early perspectives have often been culturalist, such as Asian values, Lee Kuan Yew’s Confucian ethic and Mahathir’s Melayu Bharu (New Malay). They echo Weber-in-reverse. According to Weber, Confucianism hampers progress; according to the new Confucian ethic, it enables progress. Asian dependency thinkers have all along questioned the success of the tiger economies and have criticised fast-lane growth in China and the region (Bello 1992, 2013; Jomo 1999, 2001).

While both regions have been the subject of vast swaths of literature, literature that compares Northeast and Southeast Asia is relatively sparse, with an upswing in the wake of the Asian crisis of 1997–1998. Several studies compare specific terrains (such as agriculture, corruption, Buddhism) but few take on a wide-ranging comparison (Park 1997, 2000; Booth 1999, 2002; Wu 2001; Perkins 2013). Of interest are two books by Joe Studwell, *Asian Godfathers: Money and Power in Hong Kong and Southeast Asia* (2007) and *How Asia Works* (2013), about Northeast Asia. When put side-by-side they offer a penetrating account of stark differences. If we compare the Northeast Asia–Southeast Asia discussion with the interminable India–China debate, it has a much lower profile. Yet the comparison is important and meaningful, not just within Asia but also with a view to the general debate on emerging economies, the leading economies in the twenty-first century. While they are often lumped together as emerging markets, or under the cheerful heading of “rising Asia”, they actually refer to quite different political economies. Methodological considerations that guide this inquiry include the following.

- Avoid presentism. To avoid a short-term, episodic approach it is important to take into account the depth of the historical field, also with a view to capturing structural transformations in the *longue durée*. Besides, the problematic involves temporal disjunctures. Comparisons do not refer to outcomes but to processes, so they are intrinsically dynamic. NEA, now no longer at the stage of the rising tigers, has entered different stages, including “second modernity” and facing the challenges of success. Options that were available to NEA countries at an earlier stage are no longer open to SEA because dynamics of globalisation have moved on. As Alexander Gerschenkron noted (1992 [1962]), it matters not just whether development occurs but also when it occurs and at which juncture in geoeconomic dynamics.
- Avoid one-dimensionality. Previous discussions have often been biased towards particular perspectives or dimensions. Twenty-first-century research should be multidimensional and wide-angle (while short of encyclopedic).

- Avoid economism and culturalism. An emphasis on institutions is constructive in that it bridges multiple dimensions (as in new institutional economics; see Rodrik 2007; Studwell 2013).
- Avoid in-built ideology. To avoid that a comparison is biased by fixed assumptions, say about capitalism, a comparative capitalisms approach is helpful. Paradigm consciousness should extend to the concepts and categories used.

The article addresses history by way of a brief review of oriental globalisation and reflects on the geographical categories used. The discussion then turns to a sectoral comparison of trends in agriculture, industry and services in NEA and SEA. It follows from an institutional approach that the state and political institutions are a key part of the comparison. The closing section deals with China effects in the region.

Oriental globalisation, past and present

For 18 out of the past 20 centuries Asia was the main driver of the world economy, notably from 1000 to 1800 (Frank 1998; Pomeranz 2000; Hobson 2004). While South Asia and China were major forces in this constellation, so was Southeast Asia, particularly as a midpoint and centre of maritime commerce and the spice trade (Gunn 2003). According to Abu-Lughod, “Venice survived because Egypt survived, sustained by the persistence of the southern route to Asia”. She quotes the sixteenth-century Portuguese writer Tomé Pires: “Whoever is lord of Malacca has his hands on the throat of Venice” (Abu-Lughod 1989, 215, 291). This places SEA at centre stage in the transformations of the “long sixteenth century”. A related variable is the combination of the Atlantic and Pacific exchanges. According to the economists Flynn and Giraldez (2006, 244), “The birth of globalization occurred in 1571, the year that Manila was founded as a Spanish entrepôt connecting Asia and the Americas”. Anthony Reid observes that, in SEA after 1400,

Whole communities devoted themselves to cultivating pepper, clove, cotton, sugar, and benzoin [a resin used for making incense], and became dependent on the international market for their livelihood [...] The peak of the boom in Southeast Asia’s trade occurred during the period 1580-1630, as a result of the exceptional demand from China, Japan, India, and Europe. Price levels were high throughout the world during this period, largely as a result of unprecedented exports of silver from the Americas and Japan, and competition for Southeast Asia’s valuable products was intense. (Reid 1992, 467)

During SEA’s “age of commerce”, Melaka was “a Southeast Asian entrepôt par excellence” (Reid 1997, 63). Pires and others described it as a city larger than the Iberian cities. The motivation of the Portuguese in annexing Melaka included a wide assessment:

if they were only to take Malacca out of the hands of the Moors, Cairo and Mecca would soon be entirely ruined and Venice would then be able to obtain no spices except what her merchants might buy in Portugal. (Ting 1999, 45 note 65)

As occidental globalisation took the lead from circa 1800, Asia’s role as driver of the world economy receded. Asia’s comeback occurred gradually from the late nineteenth century onward; the significant episodes are familiar and include the Meiji Restoration in Japan (1868) and among postwar developments decolonisation, the Bandung conference (1955), the establishment of the Association of South East Asian Nations (ASEAN) (1967), Japan’s “economic miracle”, the rise of the Asian tiger economies, China’s reform (1978) and the rise of SEA economies, along with ideas of the “Pacific century” and the “Asian century”, cut short by the Asian crisis (1997–1998) and IMF influence.

Contingent categories

The categories SEA and NEA are contingent devices. SEA is a recent notion: “The concept of Southeast Asia evolved from the need of Europe, America and Japan to deal collectively with a set of territories and peoples that felt no particular identification with one another” (Kratoska, Raben, and Schulte Nordholt 2005, 11; Sutherland 2005). According to McVey (2005, 309), “Southeast Asia is neither a region of the heart nor of ambition”.

It is often noted that SEA as a category is a modern notion and is wedded to the paradigm of modernising states (nation building and economic growth) (McVey 2005; Owen 2005). Yet there are “many Southeast Asias” which intersperse in layers of precolonial, colonial and postcolonial cosmopolitanisms, in uneven assemblages of “networks and transitions” (Sutherland 2005), of commerce and diasporas, of state regionalism (ASEAN with modernising states as core components), of market regionalism (ASEAN repurposed for economic integration), global connectivity, consumer and knowledge culture.

East Asia in a geographical sense comprises China, Japan, North and South Korea and, in a broader definition, includes Taiwan, Mongolia and Russia’s far north-east. East Asia in the East Asian model and the World Bank’s East Asian miracle refers mainly to Japan, South Korea and Taiwan, but at times also includes SEA (Nederveen Pieterse and Kim 2012). NEA is a term of recent vintage, used in economic research and World Bank categorisations. It implies a distinction with SEA. Then the wider East Asia is an umbrella category comprising a South and North, and stands in contrast to South Asia and West Asia. All of these together have also been referred to as the Far East – that is, farther away than the Near East and Middle East – obviously in relation to Europe. While there is great depth to the historical field in the region, it holds different meanings in NEA than in SEA (Cohen 2000; Arrighi, Hamashita, and Selden 2003).

East Asia and SEA are recognised in literature and databases, so these notions are meaningful as tools to analyse development trajectories, with provisos. Since East Asia often refers to both NEA and SEA, this article uses the term NEA. And since Japan belongs to an earlier wave of industrialisation, in this discussion NEA mostly refers to South Korea and Taiwan, with China as a separate case.

In terms of GDP per capita, SEA is tiered, with Singapore and Brunei in the first tier, Malaysia, Thailand, Indonesia and the Philippines in the second or middle tier and Vietnam, Cambodia, Laos and Myanmar in the third. In this discussion, SEA mostly refers to middle-tier countries, the ASEAN-4. Mainland SEA further differs from the archipelagos, Indonesia and the Philippines. SEA has been strongly influenced by the Hindu and Sanskrit culture of the subcontinent (Coedès 1996 [1964]), while Vietnam (“Indo-China”) has long been exposed to Chinese influences.

Some discussions refer to the ASEAN-5, meaning Singapore, Malaysia, Thailand, Indonesia and the Philippines. However, Singapore is a city state like Hong Kong. Both function as Foreign-Trade Zones (FTZs), entrepôt ports, intermediaries in globalisation dynamics, offshore financial hubs and tax havens for neighbouring states. This includes a Monaco effect of low tax and low regulation havens, hospitable to tycoons and the rich. They are the highest living standards and the highest Gini index in the region (besides China), 0.45 and up, and they host the richest Asians, such as Li Ka-shing. Crony capitalism is institutionalised, with property as a key variable along with trade licenses and resource monopolies (Seagrave 1996; Studwell 2007). In terms of development profile they are outliers. They do not face the core problematic of modernity that all other countries in the region face: how to integrate the peasantry. Yet, although, or because, they are outliers they exercise influence in the region.

Singapore is like a gated community in the region, a dreamscape for Asia’s middle class that is described as “a nice piece of real estate in a lousy neighbourhood” (Wu 2001, 74). It comes with apartheid for unskilled migrant workers, similar to the Gulf emirates (Nederveen Pieterse and

Khondker 2010). Singapore is a hybrid of strong developmental state with liberal market ideology. Hong Kong, with a history of labour and social activism, acts as a counterpoint to China’s party rule. Hong Kong is also a media and film capital. With the rise (comeback) of Guangdong and the Pearl River delta, and financial services in Shanghai (Pudong) and Shenzhen, Hong Kong’s importance to China has receded and the “one state two systems” structure may come under pressure, although the larger question of Taiwan looms on the horizon.

Sectoral comparison of NEA and SEA

This comparison of trends in NEA and SEA considers agriculture, industry, services and state institutions. Table 1 offers general comparative data on NEA and SEA. Of note are the Gini indices for the different countries. Those of NEA approximate the Gini indices of north-west Europe (in the high 20s), while those of SEA are in a much higher league.

Table 2 offers general data on third-tier SEA countries. In relation to these countries the middle-tier countries look good, so this is a soft comparison, while the comparison with NEA is a tough comparison.

Table 1. NEA and SEA, comparative data (2014).

NEA	South Korea	Taiwan	Japan	
Population (millions)	50.22	23.4	127.3	
GDP (USD)	1.305 (trillion ^c)	474 (billion ^c)	4.902 (trillion)	
GDP per capita (USD)	25,977	31,900 (2008)	38,492	
HDI ^a (rank)	15/187	n. a.	17/187	
Literacy rate (%)	97.9	96.1	99.0	
Gini index	0.31 (2011)	0.34	0.376 (2008)	
CPI ^b (level)	107.67		100.4	
SEA	Malaysia	Thailand	Indonesia	Philippines
Population (millions)	29.72	67.01	249.9	98.39
GDP (billion USD)	312.4	387.3	868.3	272.0
GDP per capita (USD)	10,514	5,799	3,475	2,765
HDI (rank)	62/187	89/187	108/187	117/187
Literacy rate (%)	93.1	93.5	92.8	95.4
Gini index	0.42 (2014)	0.39 (2010)	0.41 (2011)	0.43 (2012)
CPI (level)	107.2	109.28	116.91	111.20

Sources: For GDP, population: <http://data.worldbank.org/country>, accessed 23 October 2014. For GDP per capita: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed 23 October 2014. For HDI: <http://hdr.undp.org/en/countries>, accessed 23 October 2014. For male/female literacy: <https://www.cia.gov/library/publications/the-world-factbook/fields/2103.html>, accessed October 2014. For literacy rate: <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS>, accessed 23 October 2014. For Gini index: <http://data.worldbank.org/indicator/SI.POV.GINI>, accessed 23 October 2014. For percentage urban population: <http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>, accessed 23 October 2014. For urbanisation rates: <https://www.cia.gov/library/publications/the-world-factbook/fields/2212.html>, accessed 23 October 2014. For work in agriculture: http://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?page=2&order=wbapi_data_value_2009%20wba, accessed 23 October 2014. For productivity (kg/ha): <http://data.worldbank.org/indicator/AG.YLD.CREL.KG>, accessed 23 October 2014. For agriculture as share of GDP: <https://www.quandl.com/c/economics/industry-share-of-gdp-by-country>, accessed 25 October 2014. For services as share of GDP: <https://www.quandl.com/c/economics/services-share-of-gdp-by-country>, accessed 25 October 2014. For male employment in industry: <http://data.worldbank.org/indicator/SL.IND.EMPL.MA.ZS>, accessed 23 October 2014. For female employment in industry: <http://data.worldbank.org/indicator/SL.IND.EMPL.FE.ZS>, accessed 23 October 2014. For household consumption as share of GDP: <http://data.worldbank.org/indicator/NE.CON.PETC.ZS>, accessed 23 October 2014. For percentage of workforce in services: <https://www.cia.gov/library/publications/the-world-factbook/fields/2048.html>, accessed October 2014.

Notes: ^aHDI=Human Development Index. ^bCPI=Consumer Price Index. ^c“Trillion” is one million million, or 10²⁷; “billion” is one thousand million, or 10¹².

Table 2. Comparative data for Cambodia, Vietnam, Laos and Myanmar (2013).

	Cambodia	Vietnam	Laos	Myanmar
Population (millions)	15.14	89.71	6.77	53.26
GDP (billion ^a USD)	15.25	171.4	11.14	n. a.
GDP per capita (USD)	1,008	1,911	1,646	n. a.
HDI ^b (rank)	136/187	121/187	139/187	150/187
Literacy rate (%)	74	94	72.7	93 (2012)
Gini index	0.318 (2011)	0.356 (2012)	0.3.2 (2012)	n. a.
Urban population (%)	20	32	36	33
Urbanisation rate (%)	2.13	3.03	4.41	2.49
Work in agriculture (%)	51	47	n. a.	n. a.
Productivity (kg/hectare)	3,097	5,430	4,046	3,551
Agriculture as share of GDP (%)	35.56	18.38	27.98	48.35
Industry as share of GDP (%)	24.25	38.31	36.21	16.21
Services as share of GDP (%)	40.19	43.31	35.81	35.44
Work in industry (% M,F ^c)	19 M 18 F	25 M 17 F (2012)	n. a. n. a.	n. a. n. a.
Consumption share of GDP (%)	82 (2011)	63	69 (2012)	n. a.
Workforce in services (%)	27.3	31 (2012)	20.6	23 (2001)

Notes: ^a“Billion” is one thousand million, or 10¹². ^bHDI=Human Development Index. ^cM,F=male, female.

Source: For data sources, please see Table 1.

Agriculture

Japan, South Korea and Taiwan all underwent postwar land reform with major ramifications. Land reform boosted agricultural productivity and, accompanied by broad educational and fiscal reform, instilled a fundamental egalitarianism in social structures.

According to Anne Booth, the agricultural development that occurred in much of SEA since the 1960s has been less egalitarian than in NEA, notably Taiwan,

because it has taken place in the context of an unreformed or partially reformed agrarian structure, where the distribution of land and incomes are more skewed, the labour intensity of agricultural production is lower, and linkages between on-farm and off-farm income growth are less pronounced [...] no country in Southeast Asia has pursued an integrated rural development policy. (Booth 2002, 41)

Much of SEA has been marked by large landholdings and low agricultural productivity, generating little surplus to fund industrialisation. Aristocratic strata or their functional equivalents continue to influence local and national politics (as was the case in Latin America until fairly recently). “Land reform programmes in Southeast Asia have been partial in coverage and hesitant in execution” (Booth 2002, 43), with the Philippines as a notorious case of continuing landlordism. In Thailand,

About 90% of the total privately owned land is owned by 10% of the population or about 6 million people [...] while 90% of the total population is owners of land of less than 1 rai (0.16 hectare). For Bangkok, the ratio between land owned by the top and bottom 50 owners is astronomically high at 291,608. These result in the problems of insufficient farmland for the poor in agricultural sector and unutilized land held speculatively by the rich. Since there is neither inheritance tax nor wealth-based land tax, the cost of holding unexploited land plots is almost non-existent and the severity of the problem tends to escalate. There is now a debate on a need to have land and other property taxes in order to stem further wealth concentration. But there is strong resistance from property owners, many of whom are MPs and senators. (Phongpaichit and Benyaapikul 2012, 22)

Phongpaichit and Benyaapikul (2012, 22) continue: “In Malaysia under the New Economic Policy after 1969, a land distribution project managed to redistribute public land (about 5

acres) to more than 500,000 landless households to grow oil palm”. In this regard Bumiputra affirmative action policies have paid off.

Modernisation of the countryside (cash crops, plantations, mechanisation, timber, mining) has been regionally diverse and uneven. The former socialist countries Vietnam and China reflect different itineraries, with major land distribution, intensive agriculture and higher agricultural productivity than in SEA.¹

A comparison of agricultural productivity in NEA and SEA shows a distinct pattern: intensive agriculture in NEA with high productivity per hectare (double the yield of most of SEA); larger landholdings; extensive agriculture (plantations, swidden cultivation); and lower productivity per hectare in SEA (Table 3). An outlier is Indonesia, with much higher yields per hectare, which is mostly due to Java, where high population density has long given rise to intensive cultivation.²

Industry

Japan and South Korea invested in heavy industry, following the German model. In Japan this included a military industry and navy. Investment in heavy industry meant long-term state investment and support, in short the developmental state (see Johnson 1982; Woo-Cumings 1999; Chang 2003). As Studwell observes, industrial policy fostered competition among enterprises, weeding out losers (rather than picking winners); export discipline, with government subsidies directly tied to exports; and financial prudence. Critical copying and, over time, technological upgrading and indigenous innovation have generated international brands such as Samsung, LG, Hyundai, Acer and Asus, all of which involve major and growing investments in research and development (R&D).

In SEA, in contrast, assembly industries that are part of global value networks predominate alongside light domestic industries (such as garments and agro-processing). The Singapore model of industrial development led by foreign direct investment (FDI) shaped trends in the region. Singapore chose FDI because of its small size, while its capacious and capable state sought to integrate FDI with policies of skills development and technology transfer.³ In Malaysia,

Successive Malaysian governments chose to mobilize foreign, rather than domestic, capital [...] this choice was probably seen as a way of limiting further capital accumulation among wealthier Malaysian Chinese, as it was they who would have been the primary beneficiaries of the state’s mobilisation

Table 3. Agriculture in NEA and middle-tier SEA (2014).

NEA	South Korea	Taiwan	Japan	
Urban population (%)	82.0	78.0 (2011)	92.0	
Urbanisation rate (%)	0.71	n. a.	0.57	
Work in agriculture (%)	7.0	5.2	4.0	
Productivity (kg/hectare)	6,489	n. a.	6,105	
Agriculture as share of GDP (%)	2.34	n. a.	1.22	
SEA	Malaysia	Thailand	Indonesia	Philippines
Urban population (%)	73	48	52	45
Urbanisation rate (%)	2.49	1.6	2.45	2.16
Work in agriculture (%)	13.0	40.0	35.0	32.0
Productivity (kg/hectare)	3,834	3,223	5,085	3,532
Agriculture as share of GDP (%)	9.33	11.98	14.43	11.84

Source: For data sources, please see Table 1.

of domestic capital for industrialisation purposes. Thus the use of foreign capital represented a way of avoiding politically sensitive ties between the state and local Chinese capital, as well as a means of ‘crowding out’ the latter’s influence on the Malaysian economy. (Henderson and Phillips 2007, 83)

FDI was concentrated in the electronics sector. Move the clock forward 40 years and Malaysia’s industrialisation has stalled. Rather than moving up the ladder of productivity, the industry remains locked in low-skill, low-value-added activities: “Rather than seeing a decisive increase in the demand for technical and engineering personnel, the Malaysian electronics industry has become increasing[ly] dependent on the import of lower skilled migrant workers” (largely from Indonesia) (Henderson and Phillips 2007, 91). While high-tech exports are a sizeable part of the manufacture exports of Malaysia (56.9%) and Thailand (31.1% in 2001), their R&D expenditures are a mere 0.5 per cent and 0.1 per cent, respectively.⁴ Henderson and Phillips (2007) find that after 35 years of specialising in electronics, Malaysia has generally not progressed beyond low-value-added assembly industry, even in the most advanced electronics industry in Penang. Recent research by Malaysian economists confirms this trend and notes an ongoing decline in the country’s exports of electronic parts and components (Tham, Yi, and Aziz 2014). Malaysia also invested in heavy industry, iron, steel and automobiles, but state support was criss-crossed by ethnic and party political considerations. In Malaysia the share of manufacturing in GDP stood at 27 per cent in 1990, 37 per cent in 2000 and 27.5 per cent in 2011 (services, 58.6%; agriculture, 7.3%; mining, 6.3%; and construction, 3.2%; see Table 4).

Thailand’s specialisation in the automotive industry has not paid off either. Phongpaichit and Benyaapikul (2012) find Thailand “[L]ocked in the middle-income trap”. “As Thailand has been in the middle-income trap for more than 20 years since 1987 [...] the country faces a challenge in sustaining growth and continuing to benefit from globalization”. Both countries, the most industrially advanced of SEA, now face growing competition from China. By 1990, write Henderson and Phillips (2007, 95),

China had exceeded Malaysia in terms of all FDI inflows, capturing 9 per cent of the world total, as against Malaysia’s 7 per cent. By 2002, China’s share of FDI inflows had increased to 33 per cent while Malaysia’s share had dropped to a mere 2 per cent.

Similar concern about Thailand’s relatively low technological capability in industry is voiced by Phongpaichit and Benyaapikul (2012, 11):

Increased demand from China has been a positive factor in recent years, but already China’s market is racing ahead, with consumers developing more sophisticated consumption patterns [...] Thailand may not be able to supply the increasingly sophisticated markets in China because Thailand is facing a middle-income trap, a situation where its technological development is too low to develop new products and move up the value chains.

For political reasons state policies often fostered costly, inefficient monopolies rather than competition and did not apply export discipline. Experiments such as aerospace (an “expensive failure” [Perkins 2013]) and automobiles in Indonesia have floundered. One near-exception, Malaysia’s Proton Saga, survives thanks to a joint venture with Mitsubishi and is sold only in neighbouring countries. Despite ample “technological populism” in the region (Mee 2012), R&D, science and innovation are at a much lower level in SEA than in NEA (Marginson 2014), which is reflected in tertiary education enrolment data. “Attempts by government agencies to promote technology transfer cannot succeed in the absence of a strong commitment to education, especially at the post-primary and vocational levels” (Booth 1999, 315). A common observation is that no SEA economy has generated internationally known industrial brands.

Table 4. The industrial sector in NEA and SEA (2014).

	South Korea		Taiwan		Japan	
Industry as share of GDP	38.55		n. a.		25.64	
Services as share of GDP	59.11		n. a.		73.15	
Work in industry (%) (M,F ^a)	20 M	13 F (2010)	n. a.	n. a.	33 M	15F (2010)
Consumption as share of GDP (%)	52		n. a.		61	
Workforce in services (%)	69.4		n. a.		69.8	
Exports as share of GDP (%)	53.92				14.73	
Tertiary education enrolment (%)	98 (2012)				61 (2012)	

	Malaysia		Thailand		Indonesia		Philippines	
Industry as share of GDP (%)	40.61		42.55		45.69		31.09	
Work in industry (%)	33 M	20 F	23 M	18 F	25 M	16 F	19 M	10 F
Services as share of GDP (%)	50.07		45.47		39.87		57.07	
Workforce in services (%)	53.5		48.2		47.9		53	
Wages as share of GDP (%)	32.3							
Consumption as share of GDP (%)	51		54		59		73	
Exports share of GDP (%)	81.87		73.57		23.74		27.92	
Tertiary education enrolment	36 (2012)		51		32		28 (2009)	

Note: ^aM,F=male, female.

Source: For data sources, please see Table 1.

Kunio (1998) characterises industrialisation in SEA as “technology-less”. Since there is no technology transfer to speak of and decision making is in the hands of multi-national corporations (MNCs) it may be viewed as dependent industrialisation.

So look closer and there *is* a difference in cityscapes: in SEA cities, the salient corporate logos are of international brands and banks, rather than national industries (besides Petronas, commodities and retail conglomerates). The skyline of Seoul, in contrast, has the neon logos of Samsung, SK, LG and Hyundai towering over the city. So while both NEA and middle-tier SEA are factory economies, they are different kinds of factory economies: national ownership and high tech in NEA, foreign ownership and low tech in SEA. If we would compare the value added and profits of manufacturing accruing domestically or to overseas firms in NEA and SEA (aggregate data are hard to get), the outcome would likely be greatly to the disadvantage of SEA countries.

Export-oriented industrial economies often practice wage repression in order to sustain competitiveness (as in Germany, China, Japan); this is also the case in SEA. In Malaysia the share of wages in GDP has been a low 32.3 per cent (the share of corporate and business profits is 64.8% and the government share is 2.9%; averages during 2009–2013 [Wong 2014]). Thailand’s policy approach is similar, with a “low and declining share of wages in factor income” (Phongpaichit and Benyaapikul 2012, 19).

The low wage regime matches the methods of labour control (with dormitories and curfews; Kelly 2002). Yet the share of private consumption in GDP is broadly at the same level in NEA and SEA (with the Philippines at 73%, even higher than the USA’s high rate of 72%). This is to a large extent enabled by private debt, which is made possible by low interest rates, as in the USA. (In the Philippines remittances also weigh in.)

The situation in SEA industry generates a twofold problem. First, industrial production has become more competitive and less profitable worldwide. With accelerated globalisation the

industrial sector has become increasingly dynamic, with tight margins, so the era of industrial export-led growth is coming to a close, except in high-end brand and original equipment industries. China's competition in manufactures adds pressure. Second, wage repression limits the domestic market, which is counterproductive to domestic demand at a time when export-led growth is drawing to a close.

Services

Industry as a share of GDP is shrinking and the service sector is growing in NEA countries, and they are headed towards post-industrialism, where Western countries have gone before. Besides logistics and finance, services in South Korea include design, marketing, entertainment and culture (Hallyu, K-wave). In South Asia, India's software and back office services represent a major niche.

Services are the largest economic sector in SEA (58.6% of GDP in Malaysia, 2011). With manufacturing mostly left to FDI, much wealth in SEA has gone into property and finance, or is invested outward. The FIRE (finance, insurance, real estate) sector is large in SEA. Malaysia developed a substantial financial sector and stock exchange and ranks third in the world's Islamic banking assets, with a 10 per cent share.⁵

Most services are nontradable so the sector is not dynamic, productivity is low and the inflow of labour is large. So wages are low ("McJobs"), except in the upper echelons, which is a worldwide trend. In SEA the informal sector is large. With industry winding down as driver of growth, what is the potential of service specialisations for development? In SEA urbanisation still has considerable growth ahead, unlike in NEA, and will be a major driver of demand for services (Zink 2014). Yet education and human capital pose barriers to higher service sector productivity.

In NEA banks have generally been under strict state regulation (reminiscent of the German tradition of public service banking). South Korea and Taiwan are rated investment grade in international finance. In SEA banks have often been subject to elite capture and state patronage has been driven by political considerations rather than long-term horizons (Studwell 2007). As the saying goes, "the best way to rob a bank is to own one".

States and political institutions

NEA societies show greater cohesion and states show greater continuity than those of SEA. Arguably, traditions of Confucian bureaucracy and meritocracy contribute to dedication to public service in Japan, Korea, Taiwan and China; to the idea of the intelligent state; and to developmental state capabilities. Here "Sinic circle" arguments are relevant (Cohen 2000; Kang 2010; Katzenstein 2012).

Marginson (2014, 91) discusses the "post-Confucian heritage zone" in relation to science and higher education and notes "four common features that have facilitated the take-off: the comprehensive Sinic state, Confucian education in the home, an effective response to Western modernisation, and economic growth sufficient to pay for educational infrastructure and research". This affects science systems in the region.

SEA political cultures have been markedly different. SEA states have often been analysed from a modernisation point of view and Weber's notion of patrimonialism (ruler or patron-centric economic regulation) echoes in many accounts. This approach views SEA societies as pre-modern holdovers with traits resembling European feudalism, so modernity in the region is a mix of patrimonial and modern traits. According to Wertheim (1993, 79),

What distinguishes the patron-client relationships in a ‘new state’ from their counterparts in a ‘feudal’ one, either colonial or pre-colonial, is the integration of these followings within formal organizations at a supralocal or national level, such as political parties or all kinds of unions.

Saxer views “transformation societies” as configurations with political institutions based on rural holdovers of patronage and kinship that are increasingly out of sync with a complex pluralistic economy. In such societies corruption both lubricates transition (by coopting new groups into the political system) and slows it down by eroding legitimacy (Saxer 2014, 3).

The history of SEA states has differed fundamentally from European feudalism. States such as Srivijaya, Melaka and Ayutthaya were maritime trading kingdoms or empires in which rule was based on the control of trade and duties from trade were the main source of revenue. Unlike feudal Europe they were urban, not rural, and port cities (such as Palembang, Malacca, Makassar, Aceh, Penang, Ayutthaya and Patani) played a key role. War played a significant part but the historical SEA states were trading formations, not military formations like Europe’s castle system. They have much more in common with the Mediterranean world of maritime trade (such as the Levant trade of Renaissance Europe) than with rural medieval Europe. The central task of rulers was balancing competition (rival trade networks) and cooperation (with groups representing diverse trade networks) while keeping conquerors at bay. The task of rulers was to shelter and benefit from trade, from through-flow rather than from production or manufacture. Abu-Lughod (1989) characterised Srivijaya as a “comprador state”. Cash crop production played a significant part and was linked to the trading networks. The trading religions of Buddhism and Islam exercised a major influence in the region, along with migrants and diasporas such as the Hadrami. To paraphrase Anthony King’s (1995) ironical observation, they were postmodern formations (heterogeneous, multicultural, hybrid, outward-looking) long before Europe became modern.

The NEA societies were state-centric and Confucianism is a state-centric outlook. From as early as the second century BCE, during the Han Empire, Han China sidelined feudalism and the aristocracy so there was no elite independent of the state. The Confucian bureaucracy was founded on competitive written examinations, a system that was finely honed by the time of Song China, and was established in Europe only in the nineteenth century. In contrast, the SEA states were ruler-centric and the relationship between rulers and subjects was hierarchical. In much of SEA ascribed status and the influence of traditional elites still looms large, an example being the sultans as heads of states in Malaysia. Thus, the SEA states were historically different both from feudal Europe and from state-centric NEA. According to Donghyun Park,

Southeast Asian countries do not have the strong tradition of a powerful and capable indigenous bureaucracy as did Japan and later Korea. The state could thus not play a dominant role in national economic development in Southeast Asian nations as it did in Northeast Asia even if it were willing to do so, for the simple reason that it was less able to do so [...] Therefore, they relied to a greater extent on market forces to dictate the evolution of their economies. (Park 2000, 237, 252)

Thailand is a case in point: “Thailand has never had an active industrial policy. Thailand’s lively and influential business sector operates under what is arguably the most *laissez-faire* business environment in Asia outside Hong Kong” (Park 2000, 240; see also Phongpaichit and Benyaapikul 2012).

Contemporary SEA states have been variously described as corporate-paternalist, neo-patrimonial, quasi-democratic, soft-authoritarian, repressive-responsive or generally authoritarian but developmentalist states (Saravanamuttu and Loh Kok Wah 2004, 363). They combine liberal market economies with pervasive patron–client relations, along with strategic groups and business lobbies. Thompson (2010, 179) defines strategic groups as “social networks connected by a common interest in the expropriation of key resources (not only material) and

capable of collective action”. Where institutions are weak, social networks fill the gap. The role of money politics and crony capitalism in the region has been extensively discussed (Jomo 2001). It comes through in marked differences between NEA and SEA in the Corruption Perception Index (Sang-hwan 2004). Between the literature of two decades ago on money politics in SEA and now, there has been little change in variables and perspectives.⁶

According to Saravanamuttu and Loh Kok Wah (2004, 263), “the Southeast Asian developmental state [...] thrived on KKN (*korupsi, kolusi and nepotisme*)”. This, however, is a contradiction in terms: it is not possible to have a developmental state and KKN, because the two institutions collide. Traditional elites (sultans, landlords, *priyayi*) colluding with strategic groups (business lobbies, ethnic Chinese entrepreneurs, compradors, the military) through formal political institutions yields alignments that do not add up to the kind of state autonomy and policy competence a developmental state requires. It is possible to adopt the rhetoric of the developmental state but not to deliver the product. The region’s developmental aspirations cannot be realised with the existing political institutions. Elites derive legitimacy from their developmental claims and objectives, here as elsewhere, but institutions and politics are out of step with development agendas. Mahathir’s administration in Malaysia is a case in point. Lest we fall back on culturalist interpretations (Confucianism works, look at Singapore), this requires institutional analysis. In each SEA country there are different reasons why developmental states do not, or only barely, function.

It is a general understanding that “the ‘flying geese’ of Pacific Asia were developmental dictatorships” (Thompson 2010, 185). In NEA this applies in the past tense (although democracy remains a major theme of discussion in the region) and development has been successful by many measures; in SEA rates of growth have been high but development has been limited and democracy is quasi or pseudo, fragile or fledgling. The specifics of KKN vary by country: for example, ethnocracy in Malaysia, the “network monarchy” in Thailand, landlordism in the Philippines or military rule and its legacies in Indonesia and Myanmar.

In Thailand conservative elites have been clustered around the monarchy (sheltered by the *lèse majesté* law) and the military with the support of much of the urban middle class. According to a report,

It helps that the bureaucracy and most of the wealthiest Thai families back the military government. These rich Chinese-Thai families, along with the Thai elites, control much of the country’s assets. In the course of the 20th century a small group [of] courtiers and businessmen have played their cards right with the monarchy and managed to join them. The result is that 0.1% of Thais own half the nation’s assets, a concentration of wealth that makes America’s mind-bogglingly unequal wealth distribution (where 0.1% of citizens own 22%) look like a socialist dream come true. (“Thailand’s Political Future: Changing of the Garb”, *The Economist*, 2 October 2014)

In Malaysia ethnic cronyism plays a key role. Nativist redress in Malaysia institutionalised ethnic cronyism in political institutions, produced “Bumiputra conglomerates” and a Malay rentier class in the economy and permeates education and civil society (Gomez 1994, Woon 2011, Milner, Embong, and Tham 2014). A *Financial Times* report notes that wealthy Malaysians are investing in Europe and the UK rather than in local companies and that “the one factor business people say holds back economic development are ‘pro-Bumi’ policies” (Bender 2013).

Malaysia’s National Culture Congress, convened in 1971, set forth the following platform:

1) The National Culture must be based on the indigenous culture of this region. 2) Suitable elements from the other cultures can be accepted as part of National Culture. 3) Islam is an important component in molding the National Culture. (Ishimatsu 2014, 81)

In 2014 the key elements of the ruling party's platform are no different: Malayness, Islam and the monarchy.

China effects

In the twenty-first century we enter an era of “globalization with Chinese characteristics” (Henderson, Appelbaum, and Ho 2013). Between Mahathir looking East in 1981 and looking East now, what has changed is that China has replaced Japan. Mahathir's East Asia Economic Caucus, proposed in 1990, did not materialise because Japan resisted the exclusion of Western countries. Now several projects of regional cooperation and “new Silk Roads” are ongoing and China effects crosscut several of them. Institutions that bridge NEA and SEA are ASEAN plus Three, the ASEAN Economic Community and free trade agreements (FTAs) with ASEAN, the Asian Development Bank, the Chiang Mai Initiative, China's Asian Infrastructure Investment Bank, Silk Roads projects, the FTA of the Asia-Pacific and US-backed Asia-Pacific Economic Cooperation (APEC) and Trans-Pacific Trade Partnership (TTP). These initiatives involve diverse centres of influence and types of capitalism. In exploring their significance it is appropriate to discuss how China fits into the NEA and SEA problematic.

China straddles and displays features of both NEA and SEA. The regional divide loosely overlaps with China's internal north–south divide, the Yangtze River. In terms of GDP per capita, Human Development Index (HDI) rank, Gini index and urbanisation rate, China broadly corresponds to middle-tier SEA (see Table 5). Ethnic diversity in Yunnan and western border zones parallels conditions in neighbouring SEA. Chinese diasporas crisscross Asia and have exercised a major influence in SEA. South China matches features of SEA, with assembly industries led by FDI (the Singapore model), massive investments by ethnic Chinese enterprises and tycoons in Special Economic Zones (SEZs) (since Deng Xiaoping), most of which are family-owned enterprises.

At the same time, in terms of agriculture (land reform, high productivity), industry (long-term state support, export-oriented growth), finance (macroeconomic targeting) and state institutions (quasi-Confucian bureaucracy), many Chinese trends and institutions parallel those of NEA. China's strong emphasis on science, innovation, tertiary education and long-term investments in Science and Industrial Parks (with strategic emphases on nanotech, biotech, aerospace and integrated circuits) parallels trends in South Korea and Taiwan. Major Chinese companies and state-owned enterprises (SOEs) now seek to emulate South Korea's chaebol, to “go global” and become “new champions”.

China's economic coordination has been termed market Leninism, socialist developmental state, socialism with Chinese characteristics, market socialism, capi-communism, Sino-capitalism, state capitalism, power-elite capitalism, party-state neoliberalism, an idiosyncratic coordinated market economy or CME (nearer to France than to the USA), capitalism beyond categorisation, capitalism-with-no-name; the literature counts no less than 17 contending labels (Peck and Zhang 2013, 367). However, for a nation that comprises a fifth of humanity should there be a single label? Why not, rather, recognise the coexistence and interspersions of multiple and contending capitalisms? Hybrid China comprises three different strands of capitalism. SOEs are the largest sector; second are family-owned small-to-medium enterprise (SMEs) that practice “network capitalism”, similar to ethnic Chinese-owned SMEs in SEA; the third strand are the public–private corporations of local governments, which are termed “clan capitalism” (Redding and Witt 2010; Nederveen Pieterse 2014b).

The Chinese state has been characterised as polymorphous and multi-organisational and as “moving in several, contradictory directions at the same time” (Peck and Zhang 2013, 378).

Table 5. Key data on China (2013).

Population (billions)	1.357
GDP (trillion ^a USD)	9.240
GDP per capita (USD)	6,807
HDI ^b (rank)	91/187
Literacy rate (%)	95.1
Gini index	0.421 (2010); 0.47 (2013)
Urban population (%)	53
Urbanisation rate (%)	2.85
Workforce in agriculture (%)	35
Productivity (kg/hectare)	5,934
Agriculture as share of GDP (%)	10.01
Industry as share of GDP (%)	43.89
Services as share of GDP (%)	46.09
Workforce in industry (% M,F ^c)	n. a. n. a.
Consumption as share of GDP (%)	34
Workforce in services (%)	36.1

Notes: ^a“Trillion” is one million million, or 10²⁷. ^bHDI=Human Development Index. ^cM,F=male, female.

Source: For data sources, please see Table 1.

China’s central state institutions are crosscut by decentralisation and local government power. China faces many major challenges and is undergoing multiple transformations (Roach 2009; Chi 2010; Nederveen Pieterse 2015a, 2015b).

As China is plural, so are its outward effects. The role of the state and SOEs in infrastructure, financial and aid initiatives overlap with but are not identical to the geopolitical forays of China’s security state. Other forces include the local government corporations that vie for market niches across the world and compete with one another, and the network capitalism of family-owned SMEs, which is also termed *guanxi* transnationalism (Crawford 2000; Beh 2008; Wang and Lin 2008). China effects vary with the international institutional setting; where norms are strong and institutions are dense, China adjusts (Reilly 2012; Gu 2014).

In the twenty-first century China has begun to shift its export-led model of growth to an investment and potentially a domestic-demand-led growth model. The “harmonious society” programme (2003) involved major infrastructure investments inland, changes in labour law and improvements in social security, followed by massive stimulus spending in the wake of the 2008 crisis. Infrastructure investment has been occurring at an unprecedented scale in China, with variable benefits depending on the design of infrastructure. “In just two years – 2011 and 2012 – China produced more cement than the US did in the whole of the 20th century” (Anderlini 2014). This is part of China’s economic rebalancing, part of putting its foreign currency reserves (USD 3 trillion holdings alone) to use and part of “globalisation with Chinese characteristics”.

China is exporting its investment-led growth model in loans and infrastructure development in Latin America and Africa, in the New Development Bank of the BRICS (Brazil, Russia, India, China and South Africa) and in the Asia Infrastructure Investment Bank (both established in 2014). In Central Asia it is involved in a new Silk Roads Economic Belt. In SEA, investments include a planned fast-train connection from Yunnan via Laos, Thailand and Malaysia to Singapore, along with a project of resuming the Maritime Silk Road, from Guangzhou to Indonesia and beyond (Nederveen Pieterse 2015a, 2015b). Japan competes with China in infrastructure and bullet train development in India and SEA. Chinese plans for new Silk Roads and fast-train connections to Central Asia, Europe and SEA will alter economic horizons, boost trade opportunities for SMEs and attract FDI. It breaks with regional centre-periphery and south-south

relations. Erstwhile peripheries (such as Xinjiang in western China) become pivotal locations in new cross linkages.

As China is investing in rising Asia, how should SEA engage these developments? China's overall effects in SEA broadly parallel those in Latin America and Africa. In brief, winners in comparative advantage are commodities and energy exporters and losers are exporters of low-end manufactures who stand to lose also in third markets (Coxhead 2007; Beeson 2010); unless they meet China's challenge by moving up the ladder of technology, improving productivity and speed-to-market, which, among others, Mexico, South Africa, Kenya and Tunisia have been able to do. Thus, China effects (1) are diverse, yet with an overall momentum; (2) boost growth that may come at a cost of deindustrialisation and resource depletion; (3) are a challenge that requires agency rather than simply an impact; and (4) should be viewed dynamically over time.

Conclusion

In sum, there is a pattern of difference between NEA and SEA in agriculture, industry and state institutions. Two dynamics landed SEA in the group of the Miracle Eight: growth and industrialisation. Both have been in question for some time. Growth is no longer the lone star and navigation has moved on (in China it is called "GDPism"). With the rise of emerging economies, growth is more widely shared and now the leading question, also in Asia, is the quality of growth: Is growth sustainable, is it inclusive and broad-based, does it bring wellbeing? (Nederveen Pieterse 2014a).

Growth in SEA was initially based on commodities exports (such as tin, rubber, palm oil, cocoa, timber and petrol in Malaysia). Next, the inflow of FDI in industry maintained above-average growth rates. But just as there is growth and growth, there is industry and industry. For instance, in the USA there is a steep difference between the old industries of the north-east (Fordist, unionised, high wages) and the industrial investments in the south and south-west, the sunbelt (flexible production, low taxes, low wages, no unions), which I have termed Dixie capitalism (Nederveen Pieterse 2004), a form of plantation capitalism with industrial technology. Most FDI in SEA, participating in global value networks with low-value-added assembly production, belongs to the latter category and does not hold much future. Where is growth going to come from next? In Malaysia "Islamic finance" and "Islamic economics" are among the narratives of redemption, along with innovation. China also features as an economic dreamscape, amid mixed reports. When countries such as Malaysia and Indonesia perform their usual balancing acts of the USA, Japan and China, they should take into account the development models that these entail. The Anglo-American liberal market economy (LME) approach relies on market forces while the state-coordinated development models of NEA and China are fundamentally different. While the twenty-first-century comeback of oriental globalisation opens new horizons, major challenges lie ahead.

What are the implications of the differences between NEA and SEA outlined in this article? First, the differences are regional pattern differences, not merely differences among countries. Second, they are to a significant degree historically rooted and embedded in social structures and institutions. Thus, the comparison cannot be taken in a mechanical fashion but rather in a signal and alert fashion. While the differences are ultimately political in nature, in the sense that they can be changed by political action, this is not a simple matter of social engineering.

What SEA countries need to do to move out of the middle-income trap include, in brief, (1) land reform to curb large landholdings and increase agricultural productivity; (2) fiscal reform towards progressive taxes; and (3) overhaul of the industrial model. In each SEA country there are different reasons why such measures are unlikely to be adopted (Bello 2015). Land reform

has been on the agenda in the Philippines for decades but has not been implemented. In Thailand, where the uprising of “red shirts” from the agricultural north-east has been countered by military rule aligned with the monarchy, land reform is not likely to be adopted (short of a further major political transformation, which the present balance of forces rules out). In Malaysia, likewise, the monarchy and the sultans are central political forces. In Indonesia and Myanmar the military are major landholders. Thus, agricultural reform is blocked by holdovers of feudalism, or of conservative Cold War modernisation or by a combination of both.

Overhaul of the industrial model entails: (1) gradually reducing reliance on FDI; (2) negotiating better terms with MNCs, including tech transfer and joint ventures; (3) providing incentives for domestic capital to invest in domestic industries; and (4) establishing science and industrial parks to set up niche industries and startups. The political reasons why industrial policy in SEA has not worked out (such as UMNO [United Malays National Organisation] rule in Malaysia) have not changed over the years. It is not likely that better terms with MNCs can be achieved on a bilateral basis, so this would require cooperation in ASEAN. However, ASEAN is not equipped for this and different countries have different interests. If firms such as Toyota were to reduce investment in Thailand and instead opt for Indonesia and Vietnam, essentially because of lower wages, this race to the bottom would divide countries’ interests and also means that 10 or 15 years from now Indonesia and Vietnam would find themselves in the same quandary as Thailand and Malaysia are today: stuck with low-value assembly industries and investors shopping for the next low-wage destination. ASEAN is an uneven ensemble of different capitalisms, like the EU. ASEAN combines CMEs (most countries, but with LME outlooks) and SME (Vietnam, Myanmar). The ASEAN-4 of Thailand, Malaysia, Indonesia and Vietnam could possibly cooperate, but only if they can overcome opportunistic short-termism.

The ongoing economic cooperation of ASEAN plus Three (China, Japan, South Korea) is more likely to institutionalise existing differences than provide a structural way forward for SEA (the same would apply to ASEAN plus Six). Cooperation with China also comes with economic and political asymmetries. In bilateral relations China has overwhelming leverage. China combining major investments in Silk Roads projects (high-speed rail links and Maritime Silk Road ports) with the Silk Road Fund and the Asian Infrastructure Investment Bank, and with territorial expansion in the South China Sea, puts SEA governments off balance. ASEAN cooperation would be necessary to negotiate wider terms of cooperation with China, also in the South China Sea, but this is unlikely to materialise for similar reasons that cooperation in ASEAN for combined industrial policies are not likely.

If political forces and elites in SEA are not able to turn economic models around, the likely course is muddling through (that is, the status quo), which will gradually lead to stagnation at a low level of development. Large countries such as China and India can attempt to climb out of the middle-income trap by buying brands and technology (Tata bought Land Rover and Jaguar, Lenovo bought ThinkPad, Geely bought Volvo and so on). How successful these strategies are remains to be seen; at any rate, such options are not open to firms in SEA. For the majority of the population in SEA the middle-income trap still represents an improvement of living standards in comparison to the past generation, but this sense of relative achievement will not last long.

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Notes

1. Booth notes: “Only in Vietnam has land reform created a more egalitarian land distribution than prevailed in the colonial era [. . .] and in recent decades [Vietnam] had a faster growth of per capita agricultural output than other countries in the region” (Booth 2002, 49; see also Khondker 2011).
2. See Geertz’s classic study of agricultural involution in Java (1963).
3. See, for example, Connors (1997), Mahizhnan (1999) and Park (2000).
4. See Table 2 in Henderson and Phillips (2007, 90).
5. In 2012 Iran accounted for 43 per cent of the world’s Islamic banking assets, with Saudi Arabia (12%) and Malaysia (10%) ranking second and third (“Islamic Finance: Big Interest, No Interest”, *The Economist*, 13 September 2014, 79).
6. See, for example, Hewison, Robison, and Rodan (1993), Gomez (1994) and Jomo (1995, 2001) compared with Gomez (2014) and Jomo and Hui (2014).

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