Regional Varieties of Capitalism in Southeast Asia

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Abstract

Integrating the concepts of social capital, informality and geo-institutional diversity more explicitly in theories of capitalist diversity opens up new and promising avenues for further regional research in less developed countries. The case of Laos demonstrates that economic integration with neighbouring countries is leading to specific regional varieties of capitalism, new state-business relations as well as new local-central relations. Although the institutional complementarities generate economic growth they neither translate into thriving small and medium companies, productive employment nor inclusive development. This calls for theories and policies that reorient capitalist formal and particularly informal institutions from growth towards development.

Keywords: Laos, inclusive development, regional development, ethnicity, informality

Introduction

Increasingly, the regional varieties of capitalism (regional VoC) approach, which took its point of departure in the analysis of the Western OECD economies, augmented by Japan, is also being employed for non-Western and developing countries. In 2009 the journal Economy and Society (volume 38, issue 1) published a special issue focusing on Latin America, entitled “Latin American Capitalism: Economic and Social Policy in Transition” (MARTÍNEZ et. al, 2009). In the same year, the Asia-Pacific Journal of Management published a special issue on varieties of Asian capitalism (volume 26, issue 3). The latter volume emphasised the need to scrutinise the coevolution of institutional arrangements and firm behaviour, the role of the state and the relationship between
institutions and sustainable development (ANDRIESE and VAN WESTEN, 2009; CARNEY et al., 2009; TIPTON, 2009). Also, the Socio Economic Review (volume 11, issue 2) has recently discussed Asian capitalism (STORZ et al., 2013). The diversity of capitalism in Asia is further investigated in Witt’s and Redding’s (forthcoming) handbook entitled The Oxford Handbook of Asian Business Systems, with the key content of the countries’ part being summarised in WITT and REDDING (2013), highlighting two outcomes. First, with the exception of Japan the scrutinised countries cannot be classified as a classical liberal market economy, coordinated market economy or French style state-led economy (SCHMIDT, 2003). Second, the findings demonstrate the relevance of institutional diversity with respect to social capital, culture, informality and multiplexity all across Asia.

Accordingly, the characteristics of Asian capitalism may be outlined as follows. First, social capital needs to be reconsidered as a combination of institutionalised trust in organisations and interpersonal trust. As institutionalised trust is relatively low in many Asian countries, it is no surprise that family business groups and conglomerates have emerged over the course of history. This has enabled executives and owners of these organisations to navigate entrepreneurial and governmental waters through interpersonal networks while minimising uncertainty associated with third parties. Second and related to social capital, Asian capitalism involves a substantial degree of informality. De facto informal ways of doing business have frequently impacted economic activity and performance more than de jure formal laws, regulations, contracts and agreements. Actors in the private sector, but also farmers and even governmental authorities themselves find it more efficient and effective to circumvent formal arrangements by processes of defection and reinterpretation (HALL and THELEN, 2009). STORZ et al. (2013) point out that the related types of informal institutions have remained under-researched and thus they propose to pay more attention to this complex topic in future research. Third, it may be useful to follow WITT and REDDING (2013) as they observe the presence of multiplexity in Asian capitalist diversity, namely the existence of multiple capitalist systems in one country. They particularly point out the simultaneous existence of state-owned and private sectors and argue that the presence of multiplexity raises important questions on the preconditions that support the coexistence of multiple varieties of capitalism in the same institutional space. From this follows a question pertaining to institutional convergence: if we allow for multiple equilibria within the same national context, then firms may create their own equilibrium points.

Most important from a point of view of geo-institutional differentiation and multi-scalar analyses is the fact that multiplexity generally also exhibits a distinctive spatial character (YANG, 2007; VAN HELVOIRT, 2009; Andriesse et al., 2011). Spatial inequality and growth asymmetries frequently characterise development trajectories in developing countries. As Yeung (2007) proposed, economic geographers are well positioned to respond to the problem of methodological nationalism (PECK and THEODORE, 2007) and to embark on spatially fine grained empirical analyses. Even in small countries such as the Lao People’s Democratic Republic (hereafter simply referred to as Laos) the variegated evolution of foreign direct investments might have created different regional varieties of
capitalism (ANDRIESSE, 2011). Economists, business and management scholars usually employ the varieties of Asian capitalism approach for studying large countries, obviously most notably China and Japan, as well as countries with much innovative capacity such as Singapore, Hong Kong, South Korea and Taiwan. However, integrating social capital, informality and multiplexity more explicitly in theories of capitalist diversity opens up new and promising avenues for further research that reconsiders often neglected economic and social structures on the regional level of the least developed countries, thus reorienting the common focus on large firms and government towards often neglected actors such as small and medium enterprises (SMEs) in agrarian and labour-intensive industries. Also, this allows for a reconsideration of policy problems such as poverty reduction and inclusive development from a regional perspective.

This paper begins with an overview of the comparative capitalisms approach in non-Western and developing countries. This is followed by a section discussing the recent findings on diversity of as well as within Asian capitalist systems. The focus is on the emerging economies in Southeast Asia. The next section then addresses the case of Laos: a state-led frontier economy. It will demonstrate the relevance of scrutinising regional varieties of capitalism informed by social capital, informal institutions and multiplexity and in so-doing, it delivers an account of geo-institutional differentiation in a less-developed country. Finally, in this paper institutions, the formal/informal, enabling/disabling, national/regional, rules of the game, are distinguished from organisations and actors.

**Comparative capitalisms in developing countries**

In the last decade non-Western, developing countries have increasingly been included in the varieties of capitalism literature. Most research focuses on Latin America, notably on the relationship between capitalism and social policies, and East Asia, focusing on the successes of pre-1990 Japan, China and the Asian Tigers. Nevertheless, increasingly academics have focused on Southeast Asia and Africa as well. For instance, PEDERSEN and MCCORMICK (1999) discussed Africa’s business systems, DORWARD et al. (2005) and POULTON et al. (2006) connected Africa’s agricultural opportunities to institutional complementarities and OCHIENG (2008) in general favoured coordinated market economies over liberal types as it has a strong focus on stakeholders rather than firm shareholders. An important development is the search for more varieties and a continuum rather than a dichotomy of liberal market economies and coordinated market economies. The emerging literature points out that the role of the state is an essential element in many varieties (TIPTON, 2009; MARTÍNEZ et al., 2009; BECKER, 2012; WITT and REDDING, 2013) and as will be elaborated below also regional (sub-national) states for the analysis of regional varieties, as opposed to earlier approaches putting the firm as the heart of empirical scrutiny and stressing its centrality in any capitalist variety. It now frequently appears that the state occupies a crucial role in economic activity, either in a positive enabling or negative disabling way. Indeed, the successes of large countries (Brazil and China), smaller countries (such as Malaysia, Chile and Uruguay), failures in state capacity across the global South and the
resurgence of left-wing governments in Latin America since 2000 necessitates a detailed examination of state-business, state-society and local-central relations. Although several authors have concluded that the Washington Consensus era ended with the collapse of Lehman Brothers in 2008, one can begin to wonder whether civil servants, politicians and policymakers have ever considered this consensus in the first place in China, the Republic of Korea, Russia, Brazil and others (THE ECONOMIST 2012a). In the case of East Asia analysts have written on the successes of the Beijing-Seoul-Tokyo (BeST) Consensus and the Beijing Consensus: a political economic model in which a visible hand not only facilitates but steers and where necessary intervenes in markets in order to create global competitiveness, export success and a vibrant urban middle class (LEE and MATHEWS, 2010; RAMO, 2004). Although several Asian countries have tried to follow this consensus to a certain extent state actors in poorer countries are frequently involved in neo-patrimonial, predatory, personal and familial deals lowering institutionalized trust and increasing the scope for disabling informal institutional arrangements (EVANS, 2005; CARNEY and GEDAJLOVIC, 2001; ANDRIESSE and VAN WESTEN, 2009; WITT and REDDING, 2013; NATTRASS, 2013; ZHANG and WHITLEY, 2013).

The explicit inclusion of the role of state in comparing capitalist diversity has generated various varieties. In a study on welfare regimes MARTÍNEZ FRANZONI (2008) identified three types using a cluster analysis: 1. a state-targeted (Argentina and Chile), 2. state-stratified (Costa-Rica, Brazil, Mexico, Panama and Uruguay) and 3. informal familialist (twelve other Latin American countries). She argues that “with a few exceptions, such as Ecuador and Venezuela, countries of the informal-familialist regime type were late industrializers and adjusted their economies radically. They were highly stratified at that time, and they continue to be so today. As one of the consequences, the proportion of spouses with paid work reflects family strategies that are deployed to compensate for low wages and weak or non-existent public policy.” This is a more fruitful exercise than capturing the Latin American experience in its entirety into the singular variety of “hierarchical market economy”, based on the notion that many diversified business groups internalise business transactions (SCHNEIDER and SOSKICE, 2009). WITT and REDDING (2013) also carried out a cluster analysis based on the following indicators: education and skills formation, employment relations, financial system, inter-firm networks, internal dynamics of the firm, ownership and corporate governance, social capital and the role of the state. Five clusters of business systems are detected: (post-)socialist economies, advanced city economies, emerging Southeast Asian economies, advanced Northeast Asian economies and Japan (fitting into the coordinated market economy group). It is problematic to allocate these five clusters in any continuum. Rather, they represent distinct varieties with unique institutional formal and informal arrangements (Table 1).

In sum, the study of capitalist institutional arrangements and its evolution in developing countries requires a reconsideration of the modi operandi of the “orthodox” varieties of capitalism school. Three issues stand out that have so far received little attention in the human geographical literature. First, economic growth has been accompanied with rising socio-economic inequality. Inequality is the highest in Latin American countries, and the Asian Development Bank (ADB), is also starting to worry more about the threats of excessive social, economic and spatial inequality.
While shared growth prevailed in the high performing Asian economies during the 1970s and 1980s, as pointed out in WORLD BANK (1993), inequality has markedly risen in the last two decades and the Kuznets curve is starting to lose its validity. In countries such as the Philippines growth of the gross domestic product does not sufficiently translate into reductions in unemployment, underemployment and the percentage of people below the poverty line. Therefore, choosing economic growth as a dependent variable is too narrow (TUROK, 2011).

Opting for inclusive development appears to be more instructive and valuable. That would make the regional VoC approach analytically more relevant for developing countries and expand the comparative tools for institutional inquiry. According to KANBUR and RAUNIYAR (2010), pro-poor growth is insufficient as many countries have witnessed rising inequality amidst falling poverty levels. They claim that the millennium development goals are a reasonably suitable tool to measure inclusive development. An advantage of inclusive development is the possibility to take into account non-income inequalities such as inequality along ethnic lines. In both Latin America and Southeast Asia indigenous populations are underrepresented as entrepreneurs, employers and managers, whereas descendants of southern European migrants in the former and ethnic Chinese in the latter own a disproportionate share of economic assets. Inequality, ethnicity and increasingly class are obviously major issues in African countries as well. NATTRASS (2013) paints a rather bleak picture of South Africa that is now part of the BRICS group. In the first post-apartheid years the country was heading towards a coordinated market economy, but evolutionary dynamics, mainly race-state-business relations, “created a variety of capitalism which provides CME [coordinated market economy]-like support for the employed, patrimonial and increasingly corrupt support for sections of black business, whilst effectively excluding the predominantly unskilled, unemployed from the fruits of growth”.

Second, in the “global South” the informal sector has played an essential and influential role in economic life. For instance in India, generally seen as an emerging economic powerhouse and a potential competitor of China given its more favourable demographics in the long run, only 7% of the total labour worked in the formal registered sector around 2000 including access to the formal social security system and provisions under the labour law (HARRISS-WHITE, 2010). Furthermore, she contends that the informal sector has created relatively more jobs since the early 1990s when India started to liberalise and deregulate. The presence of the informal economy has led to the introduction of a new variety of capitalism: “informally dominated market economies”. Using Mozambique as a case study DIBBEN and WILLIAMS (2012) analysed institutional arrangements in in the sphere of employment relations. Trade unionization, collective bargaining, skills training and social security are much weaker and looser in the informal sector, but one should not ignore the organizational capabilities within this sector. However, a major obstacle is that informal sector organisations have limited influence at the national level. DIBBEN and WILLIAMS conclude that Mozambique’s variety resembles to some extent some southern European countries, yet the introduction of a new variety based on informality is preferred. This has major implications for the study of employment relations and labour issues in developing countries. For example, what is the impact of social identities (class, caste in the case of India, religion, ethnicity, gender, family) on informal arrangements, how do the
formal and informal interact with one another (HARRISS-WHITE, 2010) and are policies to formalise existing informal arrangements always advisable?

Third, WITT'S and REDDING'S (2013) observation that informality and social capital need to be further explored should be deepened by paying more attention to influential families and a national and regional level. Extended families obviously form a source of social security in informally dominated market economies with relatively undeveloped formal welfare regimes (MARTÍNEZ FRANZONI, 2008) and long lasting political dynasties and competition between dynasties influence institutional arrangements (e.g. IQBAL, 2012 on Pakistan; MENDOZA et al., 2012 and BBC, 2012 on the Philippines). Furthermore, many business groups are well connected to the state/certain national politicians (GOMEZ, 2009; ZHANG and WHITLEY, 2013), and perhaps most importantly, the boundaries between business and politics are often very difficult to locate in case millionaires turn politicians. Good examples are Thailand’s former Prime-Minister Thaksin Shinawatra (PASUK and BAKER, 2004), President Horacio Cortes of Paraguay and in the developed world former Italian Prime-Minister Silvio Berlusconi. And at the regional level the Osmeña family of Metropolitan Cebu in the Philippines is one of the best examples (VAN HELVOIRT, 2009: 155-192; Lange 2010). Integrating families would also do justice to calls for considering more rigorously the role of ethnicity and personal capitalism (CARNEY and ANDRIESSE forthcoming).

**Multi-scalar varieties of Southeast Asian capitalism**

This section examines regional VoC in the countries which are member of the Association of Southeast Asian Nations (ASEAN). Probably the first overview of Southeast Asia informed by the body of knowledge on varieties of capitalism is TIPTON (2009). Regarding the role of the state he made the interesting distinction between state direction and state capacity. State capacity (the ability to translate policy into desired action) has been generally low in the Southeast Asian states, whereas state direction (the extent of control over markets) decreased during the transition from the import-substitution to the export-oriented industrialisation era. Holdings, state-owned and family business groups have been mainly responsible for the export successes and governments’ policies have greatly contributed. This resulted in a neglect of SMEs, even in Singapore where “there are relatively few successful entrepreneurs..., and compared to other Chinese of Southeast Asia, Singaporean Chinese are unlikely to engage in entrepreneurial behaviour” (TIPTON, 2009). Tipton further complained that neither ASEAN nor its member states have implemented effective policies to encourage the establishment of SMEs and innovation in SMEs. This omission explains to some extent the lack of inclusive development and growing inequality in Southeast Asia. The section of the labour force that is unable to work for the successful business groups or to connect to those groups indirectly through supply and demand linkages falls behind and often works in the informal sector. In addition to the formal-informal sector duality another challenge in Southeast Asia is an emerging middle income trap. It remains unclear how Thailand and Malaysia can take the next step and how the developed country status can be achieved. It appears to be difficult to transform from export-oriented industrialisation to
strategies whereby innovative capacity and knowledge intensive industries are gaining prominence. Political instability, vested interests (personal capitalism), processes of institutional lock-in and a lack of reforms in education and skills formation stymie transformative capabilities. This political economic model could be described as embedded mercantilism (JAYASURIYA, 2003; ANDRIESSE and VAN WESTEN, 2009). The Philippines, Indonesia, Vietnam are likely to face a similar situation (OHNO, 2009; IMF, 2013).3

Nevertheless, there is substantial variety and dynamics within Southeast Asia. Table 1 gives an overview of contemporary varieties of capitalism in Southeast and East Asia. The classifications are based on rigorous comparative institutional analyses. For several countries it gives a clue as to how institutional arrangements are evolving. For instance, in Thailand personal capitalism is gaining strength (see also ZHANG and WHITLEY, 2013) and the role of the state in Vietnam has decreased somewhat although one should acknowledge substantial elite resilience (GAINSBOROUGH, 2010: 156-176). In terms of poverty reduction and inclusive development the country stands out as a relative success story (BEESON and PHAM, 2012). Economic growth has trickled down faster to the poor compared to other countries in transition such as Cambodia, Laos and India as well as the emerging economies of Thailand and Indonesia (see for instance KERBO, 2011: 136-157 where Vietnam is compared to Cambodia). Although ethnic minorities still face many problems in improving their livelihoods, the Overseas Development Institute (ODI) included Vietnam in both the top 20 absolute achievers in poverty reduction and top 20 relative achievers in terms of progress relative to the millennium development goals targets (ODI 2010: 4). Another welcome development is the

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Country</th>
<th>Capitalist variety</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Post-) socialist countries</td>
<td>China</td>
<td>Authoritarian capitalism</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>From failed developmental state to hybrid market capitalism</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>Post-state capitalism</td>
</tr>
<tr>
<td></td>
<td>Laos</td>
<td>Frontier capitalism</td>
</tr>
<tr>
<td>Advanced city economies</td>
<td>Hong Kong</td>
<td>Hybrid capitalism as catalyst</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>Open-led state capitalism</td>
</tr>
<tr>
<td>Remaining Southeast Asian countries</td>
<td>Indonesia</td>
<td>Oligarchic capitalism</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>Personal capitalism</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>Inequality-trapped capitalism</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>Post-developmentalist capitalism</td>
</tr>
<tr>
<td>Advanced Northeast Asian countries</td>
<td>Republic of Korea</td>
<td>Plutocratic state-led capitalism</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>SME-oriented capitalism in transition</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>Coordinated capitalism between institutional change and structural inertia</td>
</tr>
</tbody>
</table>

Source: WITT and REDDING, 2013 (clustering based on their statistical analysis)
absence of outright land grabbing in Vietnam (SIKOR 2012). This contrast with the Philippines where capitalism results in exclusive growth patterns (BALISACAN, 2003).

Regarding variegated multi-scalar analyses it is necessary not only to include the regional, but also the international scale (PECK and THEODORE, 2007). In the economic spaces of Southeast Asia it is evident that the ethnic Chinese way of doing business based on guanxi, a specific set of informal institutions (PARK and LUO, 2001), remains a vivid element. This pertains both to large business groups operating in urban areas as well as small-scale entrepreneurs. YEUNG (2006) points out three aspects of continuity of Chinese capitalism in Southeast Asia: 1. “the family firm as a central element in organizing ethnic Chinese capitalism 2. strategic deployment of ‘Chineseness’ and Chinese identities; and (3) Chinese culture as strategic resources for business expansion”. One of the best examples in Thailand is the Charoen Phokphand, a multinational with massive agro-processing and other investments in mainland China. Its owners, the Sino-Thai Chearavanont family, is the richest family in Thailand with an estimated worth of US$ 14.3 billion (YEUNG, 1999; FORBES 2013). Indeed, ethnic-Chinese from many Southeast Asian countries are now investing in mainland China. Henceforth, bearing in mind that certain varieties of capitalism have international dimensions would also avoid methodological nationalism. In other words: “…it is certainly possible that Chinese culture and identity will remain an important set of strategic resources for Chinese Southeast Asians to engage in a form of economic organization that is neither entirely Chinese in its nature and ethnic composition nor bounded within national political-economic institutional contexts like its counterparts elsewhere” (YEUNG, 2006). This does not only pertain to the ethnic Chinese in Southeast Asia, but also to expanding Indian business interests in the Middle East, international value chains managed by ethnic Koreans in China and others.

The remainder of this section explicitly focuses on regional -institutional differentiation and inclusive development in the Philippines, Thailand and Malaysia. National institutions interact in a complex manner with regional institutions. First, there could be institutional geographical overlap between national and regional institutions. Second, regional institutions could steer or block developments in a coexistent and co-evolutionary manner with national ones. Third, national institutions could marginalize regional institutions due to powerful national organisations and actors. Fourth, the dimensions of formal versus informal institutions and enabling versus disabling institutions additionally complicate multi-scalar varieties. And fifth, related to the second point, CROUCH et al. (2009) advise to engage in more industry specific studies in order to understand how actors in industries behave. According to them they might follow the national institutional framework, but could also try to circumvent it and foster other institutional arrangements that are more conducive to the sector requirements for international competition. ”

In light of this potential analytical complexity Andriesse et al. (2011) linked regional VoC to the global value chain approach. GEREFFI (2013) argues that this approach remains vivid “in a post-Washington Consensus world”, yet new governance structures and geographical concentration can be expected as a result of the larger influence of emerging economies in the Global South. Linking global or national value chains to regional institutional inquiry offers the possibility to explicitly take into
account multi-scalar variety and to scrutinise the interdependence of international economic linkages and regional diversity. For instance, the ways of benefiting from foreign direct investment or trade opportunities depends on regional actors and governance structures.

Table 2: regional variety in Southeast Asia

<table>
<thead>
<tr>
<th></th>
<th>Cebu</th>
<th>Negros Oriental</th>
<th>Bohol</th>
<th>Satun</th>
<th>Perlis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic geographical nature</td>
<td>Market-driven exports of manufacturing and services</td>
<td>A post-colonial plantation economy</td>
<td>A small-scale farming economy</td>
<td>Market-driven agro-industrial economy</td>
<td>A state-driven service economy</td>
</tr>
<tr>
<td>Multi-scalar political-economic networking</td>
<td>Public – private coordination</td>
<td>Strong: ‘boosterist’ alliance</td>
<td>Exclusive: political and business elite is the same, social polarization</td>
<td>Limited: restricted to personal elite alliances</td>
<td>Limited: elites divided by ethnicity and religion</td>
</tr>
<tr>
<td></td>
<td>Strong: mutual dependence</td>
<td>Strong: alliances of planters, elite well-represented in Manila</td>
<td>Top-down: dependence on Manila</td>
<td>Top-down: dependence on Bangkok</td>
<td>Strong within Bumiputera sector</td>
</tr>
<tr>
<td></td>
<td>Role of ethnicity</td>
<td>Moderate: many Filipino-Chinese entrepreneurs</td>
<td>Strong; economic and political dominance by mestizo elites</td>
<td>Strong: duopsony of Filipino-Chinese tycoons</td>
<td>Strong: economic dominance by Sino-Thai families</td>
</tr>
<tr>
<td></td>
<td>Inclusive/exclusive aspects of value chains and regional VoC</td>
<td>Value chains</td>
<td>National protective policies; no upgrading</td>
<td>Tycoons prevent inclusion of outsiders</td>
<td>Relatively inclusive access mechanisms for locals, based on personal contacts</td>
</tr>
<tr>
<td></td>
<td>Regional VoC</td>
<td>Competition for access to foreign buyers reduces social capital</td>
<td>Relatively inclusive access mechanisms for locals, based on personal contacts</td>
<td>Relatively inclusive access mechanisms for locals, based on personal contacts</td>
<td>Exclusion of Muslim majority, except as labour</td>
</tr>
<tr>
<td></td>
<td>Source: ANDRIESSE et al., 2011: 168, 173</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Table 2 examines the regional perspective on varieties of capitalism in Southeast Asia, based on a research project on regional economies in the Philippines, Thailand and Malaysia. Bohol, Cebu and Negros Oriental are located in the Visayas in central Philippines, while Satun in Thailand and Perlis in Malaysia straddle the Thailand-Malaysia border. Interestingly, Satun and Perlis shared a similar history until then Siam and British Malaya agreed on a permanent border in the Anglo-Siamese treaty of 1909 and still share similar social identities, most notably an Islamic majority. Table 2 consists of three parts: the upper part gives the most important industries in each region; the middle part unpacks institutional and political-economic outcomes governing the regional economies and the third part connects these outcomes to the nature of insertion in the national or global economy as well as the extent of inclusive development, the latter of which is a prime concept in this paper. The table shows that the interplay between national institutions, local-central ties and ethnicity determine the relative influence of regional institutions. Regional institutions, for instance the ethnic Chinese way of doing business in Perlis, are blocked by the powerful impact of Federal Malaysian policies to support and expand the Bumiputera sector. This is a good example of marginalisation of regional institutions. In the three Philippine cases distinctive regional institutions can be detected, due to the absence of a
coherent national VoC and traditionally strong regional elites, if not dynasties. Regional elitism in Cebu, Negros Oriental and Bohol also contributes to exclusion mechanisms, most notably with respect to the development of value chains and the regional VoC in Cebu.

Map 1: Laos

This is consistent with Philippines’ classification as inequality-trapped capitalism (Table 1). In terms of the impact of regional VoCs on the extent of inclusive development it is important to recognize that “social and cultural capital can foster cooperation at the local level while excluding certain segments of the population (ANDRIESSE et al., 2011:172).” This implies that regional institutions can be enabling for economic growth while disabling for inclusive regional development. For instance, policy makers generally favour strong business associations such as chambers of commerce and industry-specific associations in order to stimulate regional collaboration, regional institutional thickness (AMIN and THRIFT, 1994:15), and cultivating a sense of regional belonging. Yet, when those associations tend to exclude specific groups along ethnic, religious or other social dimensions, fostering inclusive development is becoming difficult.
The next section zooms in on Laos, a country in transition where capitalist institutions just started to emerge after 1986. Due to major institutional changes and rapid responses of Lao and neighbouring actors in the last two decades, Laos provides a key example for regional diversity in Southeast Asia. It could also serve an illustration of what might happen in Burma/Myanmar in the coming decades. The opening up of this country, with China, India and Thailand keen to invest could trigger similar process of geo-institutional differentiation.

Regional variety in Laos

This section partly draws on ANDRIESSE (forthcoming) and ANDRIESSE (2011). Laos as a territorial entity is a product of the colonial era, in which the French sought to disconnect the area east of the Mekong River from the economy and culture of Siam (contemporary Thailand) (IVARSSON, 2008). In addition, the Vietnam War caused enormous havoc in Laos, with communists and pro-North Vietnamese forces fighting non-communists, largely made up of ethnic minorities such as the Hmong people. In 1975, the Lao People’s Revolutionary Party (hereafter referred to as the Party) claimed victory and has ruled the country ever since. Laos, however, remained a purely communist country for only eleven years. The Party, facing external debts and an economy in shambles and in the light of economic reforms in the USSR and China announced the New Economic Mechanism (NEM) in 1986, similar to Vietnam’s Doi Moi reforms and associated economic opening-up (STUART-FOX, 1997:195-201). The NEM has been responsible for the entry of capitalist institutions, privatisation, a remarkable opening up of markets and the influx of foreign direct investment (FDI). Nevertheless, the political system has remained authoritarian. The Politburo of the Communist Party is in firm control of most political activities and the Secretary-General of the Party is also President of the Republic.

Laos’s population of 6.4 million is small in the Southeast Asian context, as is the economy; moreover, around 70 percent of the labour force works in agriculture. In the latest UNDP Human Development Report, Laos is ranked 138 in the human development index (HDI), with a value of 0.543. Cambodia has exactly the same ranking while Timor-Leste is ranked above Laos (134) and Burma/Myanmar below (149) (UNDP, 2013: 146-147). Net official development assistance received accounts for 6.2 percent of the gross national income. This is 6.9 percent in Cambodia, but only 2.9 percent in Vietnam (UNDP, 2013: 184). Clothing, wood products, and processed foods have a high potential for export and thus are useful from an inclusive development perspective (generating employment and limiting environmental pollution, if managed well), but in the contemporary Lao political economy, the booming industries are copper- and gold-mining and hydropower; industries that generate little employment and degrade the natural environment (UNDP, 2006; DIE, 2009). Laos aims to be a kind of battery, as it were, for neighbouring countries. At the end of 2010 the completed Nam Theun 2 dam (NT2) and hydropower facility began selling electricity to Thailand.

The current trends in Lao mining and hydropower are part of a wider economic geographical phenomenon which can be described as a transnational resource frontier, and international economic spaces. Thai companies, for example, have invested in sugarcane plantations in Southern Laos, the
Chinese state-owned copper importer Minmetals owns a copper and gold mine in Savannakhet province, Chinese and Vietnamese are involved in rubber plantations in the northern and southern provinces respectively, and the NT2 dam is a complex project involving direct investment by Thailand and France (SHRESTHA, 2010). The resource frontier ‘captures empirical reality concerning the political economy of rapid and uneven development in the country’ (BARNEY, 2009:150). It should be noted, however, that foreign investors have not only made inroads in resource frontiers, but also in manufacturing industries such as clothing and motorcycle assembly.

Institutional complementarities

On the basis of the institutional spheres of education and skills formation, employment relations, financial system, inter-firm networks, internal dynamics of the firm, ownership and corporate governance, social capital and the role of the state it is possible to identify three institutional complementarities:

1. A strong interventionist role of the state in the general political economy, a state-mediated financial system, state-mediated inter-company relations, and the suppression of trade unions have jointly led to a capitalist variety in which large companies that are somehow connected to the Party, either through patronage or partial government ownership, can flourish. On the other hand, it has resulted in disabling arrangements for SMEs. Ordinary entrepreneurs find it very difficult to obtain access to finance; business organisations do not support SMEs, and consortia of state-owned enterprises and foreign companies are the main beneficiaries of this model.

2. The absence of inclusive employment relations, improved but still low levels of educational attainment, low wages, insufficient levels of social capital, and the government’s approval of exploiting natural resources have resulted in a frontier mentality. A ‘first come, first served’ arrangement steers a considerable part of the frontier economy, whereby business interests force farmers, fishermen, smallholders, and villagers to relocate to make way for large-scale frontier operations in hydropower, mining, and plantations. The lack of education and a narrow base of civil society make protesting difficult, if not impossible. This complementarity explains the current trajectory of rapid but uneven growth. The danger in the long term is increasing socioeconomic inequality. This is why Laos’s variety can be labelled frontier capitalism (see Table 1).

3. A virtual absence of corporate governance and on-the-job skills formation, a hierarchical internal firm structure, and the lack of trust-based inter-company relations within industries have created an institutional vacuum. Instead of industries endowed with institutional thickness, institutional thinness prevails, and firms in Laos’s major industries are not embedded in well-organised global value chains (except for mining), industrial districts (WHITLEY, 1999: 43-44; ANDRIESSE et al., 2011). Consider the clothing industry. Many actors, including the government, knew that the industry would see the end of the Multi-Fibre Arrangement and was likely to experience difficulties once preferential trading regimes for the
least developed countries were toned down, but relevant stakeholders have conducted few concerted efforts to enhance the capabilities of the industry (RASIAH, 2009).

**Geo-institutional differentiation, social capital and informality**

The complementarities described above provide a general overview of the prevailing national institutions and the resulting political economy as well as lack of inclusive development. But as mentioned in the introduction of this paper a *regional* perspective requires a closer look at geo-institutional differentiation, social capital and informality. Table 3 connects capitalism in Laos to three geographical scales: the international scale of the Greater Mekong Subregion (GMS), the national scale and the regional (sub-national) scale. Laos is geographically a rather fragmented country and as it has influential neighbouring countries, it is possible to identify several blends of frontier capitalism. In southern Laos Thai and Vietnamese corporate actors, supported by chambers of commerce, governmental authorities are actively investing in large scale plantations, contract farming, mining and trading activities. With respect to the rubber industry PINKAEW (2012) showed that the central government in Vientiane plays a relatively minor role in some of the new provincial arrangements:

*This provincial administration has direct bilateral relations and Memoranda of Understanding with 16 individual provinces in Vietnam, mostly in the field of agricultural production, but also education and tourism. Several senior members of the provincial staff can communicate in Vietnamese and Champasak is keen to foster relations with Vietnamese investors. Thus, many of the early negotiations between companies and Champasak province were underpinned by a series of diplomatic arrangements between provinces. It should be noted that land concessions at the provincial level sometimes did not follow Laos’s land law.*

<table>
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<th>Table 3: Multi-scalar analysis of variety of capitalism of Laos</th>
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<tr>
<td><strong>Greater Mekong Subregion</strong></td>
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<tr>
<td>Financial system, ownership and corporate governance</td>
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<tr>
<td>Inter-firm relations</td>
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<tr>
<td>Labour mobility</td>
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<td>Multilateral organisations</td>
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<td><strong>Laos as a nation state</strong></td>
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<td>Role of the national state</td>
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Social capital | Low institutionalised trust
---|---
Education and skills formation | Secondary education needs to be improved
Gender inequality | 
Little on the job training | 
Employment relations | Labour as input factor rather than human capital

The "regional world" of Laos

| Role of the provincial state | Accountable to Vientiane, but increasingly active as interventionist in the economy, especially in frontier industries |
| Social capital | High village based interpersonal trust |
| Ethnicity | Complex relations between Lao people and the many ethnic minorities |
| Inter-firm relations | Increasing number of deals with Vietnamese, Chinese and Thai firms, depending on geographic location |

Sources: RIGG, 2009; COHEN, 2009; PINKAEW, 2012; ANDRIESSE, forthcoming

The institutional outcomes in Champasak serve to illustrate two points: First, it is a clear example of defection by a provincial government rather than the private sector. In this case national formal institutions are deemed ineffective and instead new cross-border arrangements are forged. Second, the Party in Vientiane is not all-powerful. Other actors such as provincial governments increasingly mingle in economic affairs. Furthermore, ROMYEN (2010) demonstrated how complex land dealings are in contemporary Savannakhet. In a paper on the sugarcane business in Savannakhet, she showed that large Thai firms have heavily invested in plantations since the mid-1990s. Nevertheless, increasing economic openness does not mean that deals are made in a ‘free’ land market. Instead, negotiations on long-term land concessions are politicized and involve Thai sugarcane business executives, the Thai government, the Lao government, chambers of commerce, brokers and lobbyists. Moreover, she contends that the Thai side is in a more favourable position to benefit from the emerging corridors in Laos, as Thai firms have much more capital available and experience with the rules of the game entrenched in current geo-institutional settings in the GMS. Meanwhile, in northern Laos the Chinese have secured interests in an array of economic activities including casinos and rubber plantations. The government of Laos, even the Lao military and Chinese companies backed by Chinese governmental authorities perceive large scale rubber plantations as the civilising way forward for the upland populations (COHEN, 2009). Yet, certain ethnic minorities themselves, not backed by organisations, have also been able to benefit from new rubber opportunities on the Laos China borderlands using informal arrangements structured by kinship and other forms of interpersonal trust (STURGEON, 2013). Thus the increasing integration between the regional scale and the GMS scale results in complex frontier economy dynamics in which not only Lao, Vietnamese, Thai and Chinese firms and provincial governmental authorities are involved, but rather unexpectedly also weaker parts in society such as ethnic minorities and rubber smallholders. As such there is a need to recognise the potential emergence of pockets of spontaneous inclusive development.

Besides geographical variation in the power and influence of the Party, things in Vientiane are also changing. In the medium run, informality, notably the role of important families, will increase amidst continuing low institutionalised trust (Table 3), difficulty to do formal business and capability
to enforce contracts. Laos ranks 163 in the WORLD BANK’s (2013: 3) ease of doing business list. This compares unfavourably to the other (post-) socialist countries as classified by WITT and REDDING (2013) (Table 1): China 91, Vietnam 99 and India 132. And Cambodia, together with Laos the other small country located between Vietnam and Thailand, is doing better as well with a rank of 133. It is therefore no surprise that informality and families are essential for doing business. After 1975 senior Party members increasingly engaged in traditional Lao forms of social capital, giving jobs to extended relatives and loyal retainers. As Laos state capacity has been relatively low (compared to the neighbouring countries except Cambodia), competition between networks of influence and patronage cohering around senior Party officials became a part of political life (STUART-FOX, 2006).

For the majority of the population, nevertheless, the Party is something rather abstract and the people need to cultivate interpersonalised trust in their communities. Informal arrangements based on kinship, friendship, ethnicity, and village origin play very important roles. Such social identities often ‘regulate’ job-seeking in the clothing industry in Vientiane, initiating (irregular) migration to Thailand and many other forms of economic survival. In the communist era of 1975–1986, hierarchy, reciprocity, and village patronage structured social life, but nowadays many find it difficult to cope with the capitalist features of urban individualism and competition. Migrants arriving in Vientiane without connections in the city have considerably higher chances of becoming beggars, prostitutes, criminals, or drug-addicts (REHBEIN, 2007), while urban Lao people look down upon ethnic minorities. In sum, it cannot be expected that nationwide more neutral forms of social capital will emerge anytime soon. The findings on regional varieties of capitalism in Laos complicate the idea that policymakers can transform the GMS into a level playing field, wherein formal institutions and more roads bring about smooth integration and connectivity (Table 3). Instead, regional actors, be they firms, provincial governments or rubber smallholders, reinterpret and even defect from national institutions. This process is informed by social identities such as ethnicity and linguistic familiarity and generates a mosaic of formal and informal institutions at the regional level.

**Conclusion**

This paper has demonstrated that a multi-scalar approach towards varieties of capitalism in Southeast Asia generates a better understanding of processes of capitalist modernisation, given the persistence of regional diversity. Institutional complementarities might be enabling for certain business communities and general economic growth, yet prevent inclusive development and result in socioeconomic and spatial inequalities due to social identities, various interactions between national and regional institutions, vested interests and distributive conflicts. In other words, the way various institutions interact might not be beneficial for all involved actors in the economic sphere. For instance, the case of Laos revealed that the weak position of employees, insufficient levels of social capital, and the government’s approval of exploiting natural resources promote an economic environment in which business thrives at the expense of weaker sections of society. Given rising inequality in Asia there is a need to connect regional varieties of capitalism stronger to the concept of
inclusive development as well as the millennium development goals. The ODI concluded that one of the ways to achieve the millennium development goals is to have “sound macro-economic policies, open trade, and recognition and active management of the complementary roles of market and state” (ODI, 2010: 10). Several questions arise from the latter part of this statement. What exactly does this complementary role entail? Is the role actually always complementary? What is the impact of informality, social capital and geo-institutional differentiation on this complementary role? How can national and regional policymakers get rid of disabling institutions and institutional lock-in while facilitating new enabling complementary roles? And how does it differ between industries (Crouch et. al., 2009)? For instance, the health industry is important. Health is a major theme in the millennium development goals, the industry is set to grow tremendously as a result of ageing and there is a complex web of state-owned hospitals, private hospitals, a variety of clinics, insurance firms, public health agencies, informal traditional health systems, etc. etc. in many developing countries. And while education and skills formation occupy a strategic place within the varieties of capitalism approach, health is rarely researched.

For the above questions to be answered comprehensively this paper concludes with suggesting two policy recommendations and two topics for advancing theories on regional VoC. First, many developing countries need to invest more in education and skills formation in non-core areas. The evidence on Laos demonstrates that a lack of education and skills formation seriously hampers the emergence of inclusive development. A stronger focus on human capital formation makes it easier and more effective to benefit from formal institutional reforms (decentralisation schemes, growth poles, spatially targeted industrial policies, etc.) and increasing connectivity. It would also allow citizens to cope better with potential negative side effects such as environmental degradation and to increase chances of success in case of migration. Second, RODRÍGUEZ-POSE (2013) points out that a carefully crafted balance between strategy and the right institutions is essential for regional inclusive development. Indeed, national and international organisations often design good strategies for specific regions in developing countries, yet ignore the disabling regional informal institutions on the ground. In this regard smarter sequencing seems to be of paramount importance. Building a road, establishing product or service clusters or setting up an investment agency in Laos and many other developing countries before getting the regional institutions right will not work, especially if entrepreneurial activity is influenced by ethnicity or other social identities. For any strategy to be effective enabling institutional complementarities should be sufficiently thick and the disabling ones as thin as possible. To refine theories on regional VoC it is instructive to consider more explicitly the notion of regional personal capitalisms (ZHANG and WHITLEY 2013, CARNEY and ANDRIESSE, forthcoming). Despite all the decentralisation schemes in which transparency, accountability and the virtues of good governance are promoted, familialism, personalism and overlapping economic and political interests continues to thrive in regional capitalist varieties. These features have so far not been adequately dealt with in regional theoretical inquiry. Another phenomenon that deserves more attention is the complex interplay between national and regional states. Not only firms, but also
regional civil servants and politicians are increasingly well-positioned to reinterpret or defect from national institutions creating more complex multi-scalar dynamics.

References


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Endnotes

1 The relationship between income and inequality is now sometimes considered to follow a N or U trajectory rather than an inverted-U trajectory (PERRONS, 2011: 60; THE ECONOMIST 2012b). In general, there is now an increasing recognition that social and spatial inequalities should be dealt with, even during periods of economic growth (TOMANEY et al., 2011: 624-628). Moreover, since the collapse of the Lehman Brothers in 2008, inequality has received more political attention in the developed world. Politicians have the felt need to respond to the grievances of middle classes in the USA and Europe who are now dealing with the consequences of recession (STIGLITZ, 2013: ix-34).

2 In an insightful study on the dynastic politics and the composition of the 15th Congress in the Philippines, MENDOZA et al. (2012) wrote that “about 70% of the 15th Philippine Congress is dynastic. On average, political dynasties are spread across the different age and gender groups of legislators. So there appears to be little, if any, bias against the young or against women. But political dynasties tend to dominate the major political parties and, on average, are located in areas with relatively higher poverty levels and inequalities, and relatively lower average incomes.” They propose more research to reveal the causal direction and links between dynastic politics and poverty, but their analysis is consistent with BALISACAN (2003) who demonstrated that one of the significant variables explaining provincial poverty is local dynasties. They are not conducive to regional economic growth and restrict the access of the poor to basic services.

3 The notable exception in Southeast Asia is Singapore. Together with the other Asian Tigers Singapore has clearly been able to ‘break out’ from the middle income status
The research project name was *Differential regional development South East Asia*, led by Dr. Van Westen and funded by the Urban and Regional research centre Utrecht (URU), Utrecht University, The Netherlands. This project was part of a wider URU research programme entitled *Regional development in a global context*. Empirical fieldwork from 2004 to 2007 generated a wealth of regional knowledge on regional VoCs and value chains. A total of 194 firms, mostly SMEs, were surveyed and personal interviews were conducted in order to unravel the role of the local state, in particular political economic interaction and potential dependency on the national state. Thus besides taking into account geo-institutional differentiation a major strength of this project was its focus on SMEs as opposed to large business groups in most of the literature. Another feature was the role of ethnicity, notably the effect of ethnic Chinese entrepreneurship on value chains and regional VoCs. See ANDRIESSE and VAN WESTEN (2009) and VAN HELVOIRT (2009) for more detailed information.

The Bumiputera sector refers to economic activities of the Malay majority as opposed to the ethnic Indians and ethnic Chinese who are generally better off and control a disproportionate share of economic assets.

A limitation of ANDRIESSE et al. (2011) comparative analysis is that the informal sector was not covered in the empirical analyses. Most of the 194 SMEs are formally registered. More research is needed to capture institutional diversity and geo-institutional differentiation within this dynamic sector. DIBBEN’S and WILLIAM’S (2012) study on Mozambique and WILLIAMS and et al. (2012) on Bulgaria, Cyprus, Greece, Romania and Slovenia form good starting points in this context.

HALL and THELEN (2009) pointed out that defection forms a major element in institutional change. This outcome also resembles Crouch et al. (2009) insights of sector and regional specific actors who circumvent national institutional frameworks.