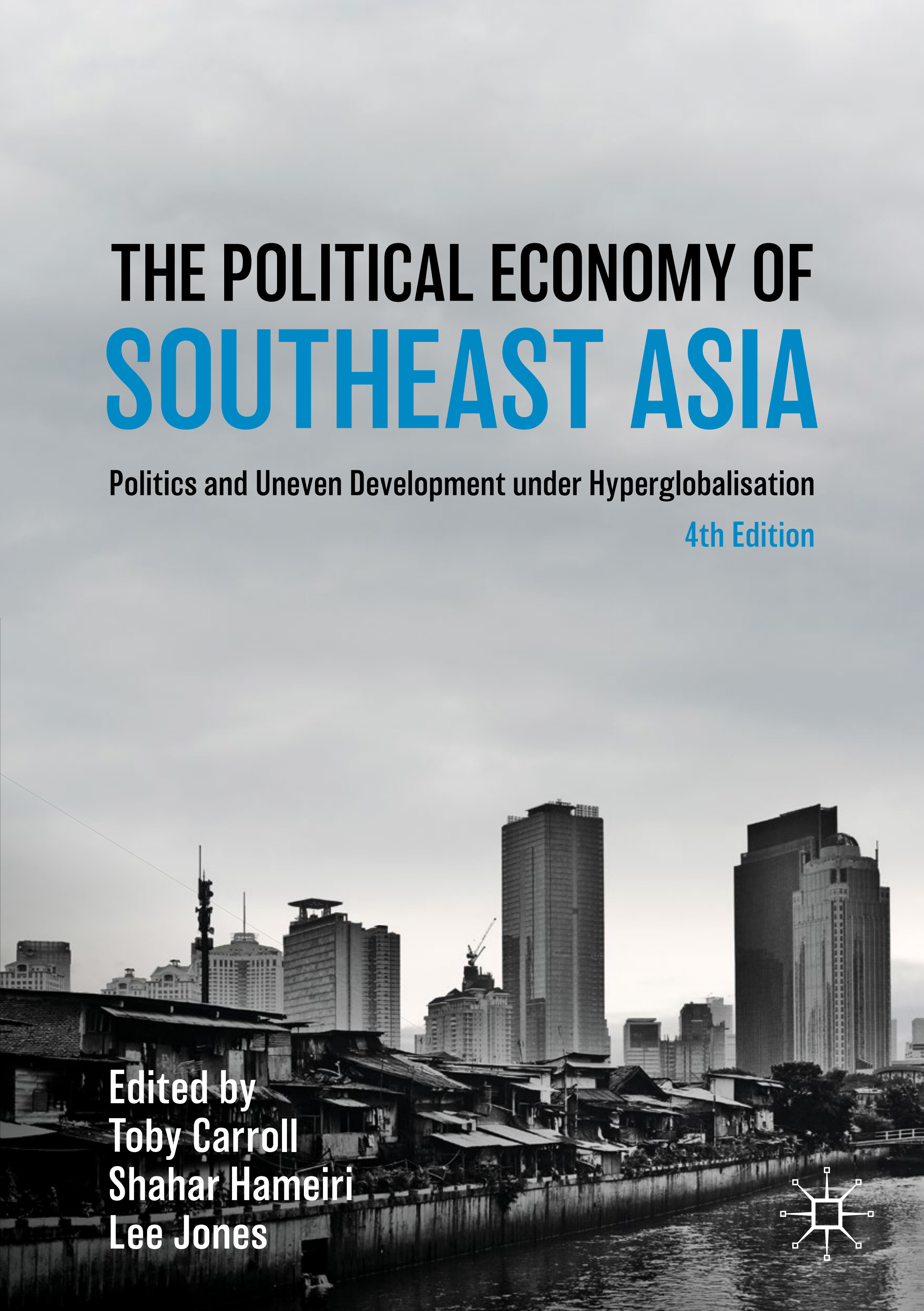

THE POLITICAL ECONOMY OF SOUTHEAST ASIA

Politics and Uneven Development under Hyperglobalisation

4th Edition

Edited by
Toby Carroll
Shahar Hameiri
Lee Jones

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Fourth Edition

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Preface

This book is the fourth edition in a series previously edited by Garry Rodan, Kevin Hewison and Richard Robison (1997, 2001, 2006). Together with two earlier books, *Southeast Asia: Essays in the Political Economy of Structural Change* (Higgott and Robison 1985a) and *Southeast Asia in the 1990s: Authoritarianism, Democracy and Capitalism* (Rodan et al. 1993), these texts established and consolidated what became known as the "Murdoch School" of political economy, with these scholars having established the Asia Research Centre at Murdoch University in Perth, Western Australia. The earlier volumes, together with other influential texts, like Robison's *Indonesia: The Rise of Capital* (1986), Rodan's *The Political Economy of Singapore's Industrialisation* (1989) and Hewison's *Bankers and Bureaucrats* (1989), challenged established literatures not just on Southeast Asia but on the nature of politics, institutions and social transformation under capitalism more broadly.

In the study of Southeast Asia, this scholarship constituted an important turn towards political economy, and an important departure from the work of those within area studies, comparative politics and orthodox economics. Murdoch School scholarship pointed to pivotal dynamics underway within the global political economy and how these trends were reshaping life in Southeast Asia. It focused on Southeast Asia not because it was unique but because, like any other region in a world interconnected for centuries by trade, colonialism and capitalism, it was an important point of entry from which to examine globally significant developments and the dynamics that shape their diverse local manifestations. In *Southeast Asia: Essays in the Political Economy of Structural Change,* Richard Higgott and Richard Robison (1985b) discussed countries in the region not as standalone entities to be studied in isolation, or categorised into different typologies; rather, they were considered in relation to the greater whole of the "New International Division of Labour" (NIDL): the dramatic shift in industrial production from developed to developing countries, the key aspect of what we now call "globalisation". Southeast Asia was host to several countries that looked to be following in the footsteps of other rare examples of late development, like Japan, South Korea and Taiwan. Their "developmental states" were at the very centre of scholarly debates on development, having seemingly disproven dependency theory, which never anticipated industrialisation beyond the established "core", while also posing thorny questions to orthodox economists and rational choice theorists. Notably, scholars battled over the degree to which states or markets were responsible for this unexpected but spectacular development (Amsden 1989; Johnson 1982; Rodan 1989: xiii).

The Murdoch School took a distinctive position in this debate, developing an analytical approach that, while universal in scope, was applied mostly to Southeast Asia. Like statists, Murdoch Scholars rejected many of the more deterministic positions within dependency theory and both rational choice and orthodox economics approaches. Inspired by Marxist understandings of capitalist social relations and development, the Murdoch School foregrounded *social conflict,* primarily between class forces, as central to explaining political and economic life. Southeast Asia—then undergoing dramatic economic growth and a manufacturing boom—was developing not because clever bureaucrats, isolated from deleterious social and political demands, were devising astute developmental policies, as the increasingly influential literature on the "developmental state" might have suggested, given its understanding of the Northeast Asian experience. Rather, state managers were being driven by contending social and political forces to develop their economies in particular ways, and their opportunities and constraints were heavily determined by global political and economic forces, notably the Cold War and the emerging NIDL. Rodan's description of his account of Singapore's startling development summarises the approach well:

> …this study challenges the dominant understandings of Singapore as a case where "correct" policies have made rapid industrialisation possible and raises questions about the possibility and appropriateness of emulation. Rejection of the dominant perspective on Singapore is made possible by the

> particular framework of this study which affords primary and thematic focus on the relationship between international capital and the Singapore state. It is this relationship which is both defined by, and at the same time helps to define, the emergence of a NIDL. Emphasis is also given to the social and political context of this relationship and the specific historical circumstances surrounding it. Within this framework, the successful implementation of the economic policies isolated by neo-classical economists and rational choice theorists as a fundamental cause of rapid industrialisation is seen here to be tied to various social and political conditions. These conditions make it possible to adopt policies which exploit the historically-unprecedented tendency of international capital to invest off-shore for the purpose of export manufacturing production (Rodan 1989: xiv).

Subsequent work by Murdoch Scholars investigated, dialectically, the consequences of this authoritarian, state-led development for political life in the region. While others waxed lyrical about the prospects of liberalisation and democratisation after the Cold War or the 1997–98 Asian financial crisis, Murdoch Scholars were sceptical. They studied and emphasised the class forces, power relations and ideologies arising from Southeast Asia's capitalist development: powerful politico-bureaucratic networks; dominant conglomerates, usually owned by small ruling cliques of families and "crony capitalists"; an illiberal, consumerist "new rich" and middle classes disinterested in democracy; a ravaged and disorganised working class and peasantry (Rodan et al. 1993). These were not propitious circumstances for democratisation, but conditions for authoritarianism and illiberalism to survive and thrive even amid economic liberalisation. Murdoch Scholars have subsequently shown that, given the weakness of socialist and liberal oppositions, ruling elites, most notably in Indonesia, have even managed to maintain their privileges following significant political liberalisation (Robison and Hadiz 2004). The first three editions of *The Political Economy of Southeast Asia* traced these developments across the region and, in particular, through country case studies.

As incoming editors of this path-breaking series, we faced formidable challenges. Thirteen years have elapsed since the third edition. Scholarly debates have changed—or even disappeared. China's rise as "factory of the world" has been a dramatic new phase of the NIDL. China's rapidly growing economy has provided stiff competition to Southeast Asia's manufacturing sector, but also new opportunities for investment, development financing and trade in raw commodities. And we have entered what the

United Nations Conference on Trade and Development calls "hyperglobalisation": the intensifying global spread of trade, production and finance, and associated vast imbalances in power and wealth. Our greatest challenge was to present an account of Southeast Asia's political and economic development that reflects the region's ever-greater enmeshment in pan-regional and global flows, as shown in Chap. 2, while not losing a sense of the considerable diversity that still characterises this part of the world. For example, we wanted to shed light on processes that we see across the globe, like the rise of populism, environmental degradation, and land-grabbing, and which can be seen holistically, as part of a specific era of capitalist social development. Yet we also want to convey a sense of why, for example, political regimes remain so heterogeneous.

Ultimately, we decided that the moment called for a thematic, rather than country-based, approach. Surveys of individual countries undoubtedly remain useful, but they can fall into the trap of methodological nationalism, whereby national-level analysis is overwhelmingly used to explain a given country's development. To the extent that this was ever true, it is certainly false in an era of hyperglobalisation. But neither do we wish to claim that international factors are more important than domestic ones. Rather, a thematic approach better captures the way that local, national developments are ultimately *intertwined* with regional and global ones, helping us to recognise both commonalities across societies and their shared causes.

Accordingly, this volume is divided into four parts. Part I, *Southeast Asia's Political Economy: Theory and Historical Evolution*, comprises two chapters: the first details competing theorisations of Southeast Asian political economy and explains the Murdoch School approach we use in this book; the second presents an overview of Southeast Asia's economic development from independence to hyperglobalisation. These chapters set up the wider theoretical and historical-sociological context for the rest of the volume. Part II—*Economic Development and Governance*—explores the main trends in economic and political governance across the region, discussing the evolution of domestic political regimes and contemporary political dynamics, and the transformation of statehood and regional governance. The third and fourth parts delve into particular areas of political economy, and how these relate to the evolving dynamic between economic and political development under conditions of hyperglobalisation. *Capital, State and Society* explores the nature of human society in Southeast Asia, discussing important themes like gender, migration, aid, and poor people's politics. These chapters are illustrated by case materials drawn from individual countries, some of them in comparative case studies. *Capital, State and Nature* explores how capitalist development occurs within, and is reshaping, the natural environment, covering issues such as environmental degradation, land use and agribusiness, and the extractives sector.

This melding of the theoretical, the thematic and the country-specific represents a cutting-edge approach in the study of Southeast Asia's political economy. Some of the material presented in this volume will naturally become outdated, as the conflicts and contradictions of hyperglobalisation, and increasing geopolitical tensions between the US and China, play out in the coming years. However, we hope that this volume will equip readers with the knowledge and theoretical tools to make sense of these future transformations. In 1986, Richard Robison opened his seminal book, *Indonesia: The Rise of Capital*, with the words: "The most revolutionary force at work in the Third World today is not communism or socialism but capitalism" (Robison 1986: vii). Although the term "third world" fell out of favour after the end of the Cold War, the substance of this statement remains as true now as it was then.

Toby Carroll
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We owe an enormous intellectual debt to Richard Robison, Kevin Hewison and Garry Rodan—the editors of the first three volumes of this series. Their leadership over three decades has been instrumental in the development of the "Murdoch School" approach, which this volume develops further. We have each benefited enormously from their intellectual legacy and personal mentorship. We thank them for their willingness to hand the series to us and for always respecting our editorial autonomy. In particular, we would like to thank Garry Rodan, who as Director of the Asia Research Centre played a particularly important role enabling this project. Without his encouragement and efforts to secure essential funding, this book simply could not have been produced. We also thank the contributing authors for participating in a workshop held at Murdoch University, Western Australia, in December 2018. Their receptivity to our vision for this volume, and the fine chapters they authored, were pivotal in making the volume what it is. Four other colleagues—Ed Aspinall, Chua Beng Huat, Kanishka Jayasuriya and Jeffrey Wilson—provided extremely valuable comments at the workshop, further supporting the editorial team.

We would like to thank our research assistants, Jan Mairhöfer and Ryan Smith, our copy-editor, Paula Bownas, and our indexer, Kate McIntosh. We are grateful for the support of our publishers, Palgrave Macmillan, especially Oliver Foster and Jemima Warren. The Asia Research Centre's administrator, Sia Kozlowski, deserves special acknowledgment, as her fine organisational skills were crucial in making the workshop a success.

Although universities are often caricatured as ivory towers and counterposed to the "real world", in fact, they are brutally exposed to the marketising forces that we explore in this book. Public funding is collapsing, while neoliberal managerialism is rampant. The space for critical inquiry is contracting, and academic standards are increasingly debased in the pursuit of income streams. It is a testament to the integrity and fortitude of the Murdoch School's founders and adherents that they have managed to carve out space for pioneering, critical scholarship over so many decades. They have created a large, thriving community of scholars, spanning generations and continents, far beyond its birthplace at the Asia Research Centre at Murdoch University. This volume testifies to the resilience and ongoing development of the Murdoch School, regardless of the travails of particular institutions. We hope that it inspires a new generation of researchers, particularly in Southeast Asia itself, to participate in its research agenda. Certainly, creating a better future for the region requires a clear-eyed understanding of the present.

Toby Carroll
Shahar Hameiri
Lee Jones
May 2019

Praise for *The Political Economy of Southeast Asia: Politics and Uneven Development under Hyperglobalisation*

"This is not only the best collection of essays on the political economy of Southeast Asia, but also, as a singular achievement of the "Murdoch School", one of the rarest of books that demonstrates how knowledge production travels across generations, institutions and time periods, thereby continually enriching itself. No course on Southeast Asia can afford to miss it as its core text."

—Professor Amitav Acharya, *American University, USA*

"This book—the fourth in a path-breaking series—demonstrates why a critical political economy approach is more crucial than ever for understanding Southeast Asia's transformation. Across a wide range of topics, the book explains how capitalist development and globalisation are reshaping the societies, economies and politics of a diverse group of countries, casting light on the deep sources of economic and social power in the region. This is a book that every student of Southeast Asia needs to read."

—Professor Edward Aspinall, *Australian National University*

"This book does what a work on political economy should do: challenge existing paradigms in order to gain a deeper understanding of the processes of social transformation. This volume is distinctive in three ways. First, it eschews methodological nationalism and focuses on how the interaction of national, regional, and global forces are shaping and reshaping systems of governance, mass politics, economies, labor-capital relations, migration, and gender relations across the region. Second, it is a bold effort to show how the "Murdoch School," which focuses on the dynamic synergy of internal class relations and global capitalism, provides a better explanatory framework for understanding social change in Southeast Asia than the rival "developmental state" and "historical institutionalist" approaches. Third, alongside established luminaries in the field, it showcases a younger generation of political economists doing pathbreaking work on different dimensions of the political economy of the region."

—Walden Bello, *State University of New York at Binghamton and Former Member of the Philippines' House of Representatives*

"This very timely fourth edition explores Southeast Asia's political economy within the context of hyperglobalisation and China's pronounced social-structural impacts on international politics, finance and economics over the past decade and a half. The volume successfully adopts a cross-cutting thematic approach, while also conveying the diversity and divergences among the Southeast Asian states and economies. This will be an important resource for scholars of International Relations and Comparative Politics, who need to take an interest in a dynamic and increasingly significant part of Asia."

—Professor Evelyn Goh, *Australian National University*

"This ambitious collection takes a consistent theoretical approach and applies it to a thematic, comparative analysis across Southeast Asia. The yield is impressive: the social, political and economic forces constituting the current conjuncture are not simply invoked, they are thoroughly identified and explained. By posing the deceptively simple questions of what is happening and why, the authors demonstrate the reciprocal relation between theory-building and empirical inquiry, providing a model of engaged scholarship with global resonance. Bravo!"

—Professor Tania Li, *University of Toronto*

"Counteracting the spaceless and flattened geography of much literature on uneven development, this book delivers a forensic examination of the unevenness of geographical development in Southeast Asia and the relations of force shaping capital, state, nature and civil society. This is the most compelling theoretical and empirical political economy book available on Southeast Asia."

—Professor Adam David Morton, *University of Sydney*

"A vital book for all scholars, students and practitioners concerned with political economy and development, this volume combines cutting-edge theory with rich and wide-ranging empirical analysis. It is terrific to see the continued success of this book with this fully revised fourth edition."

—Professor Nicola Philips, *Kings College London*

"*The Political Economy of Southeast Asia* has become a leading reference for students of the region. With its breadth of geographic scope, timely themes, clarity of prose and rigour of analysis, Carroll, Hameiri and Jones have ensured that with this fourth edition the volume will continue its landmark status. The book, which brings together prominent experts in the field, will not only be of immense interest to scholars studying Southeast Asia, but also those seeking to understand the multifaceted nature of the political economy of uneven development in contemporary capitalism."

—Professor Susanne Soederberg, *Queen's University, Canada*

"The Asia Research Centre at Murdoch University has long produced leading analyses of the social, economic and political developments in Southeast Asia. This volume carries on that wonderful tradition. It brings together top-class scholars to challenge our assumptions about one of the most dynamic parts of the world. This collection is a crucial read for anyone interested in understanding trends in Southeast Asia's development today and into the future."

—Professor Richard Stubbs, *McMaster University, Canada*

"This fourth volume in a distinguished series provides a welcome and timely update of the Murdoch School's distinctive approach to understanding the evolving political economy of Southeast Asia. Its theoretical depth and wide empirical scope will be of great value to scholars, students and practitioners seeking a systematic understanding of the political economy dynamics in the Asian region and, more broadly, of states and regions embedded in a complex, unstable global political economy."

—Professor Andrew Walter, *University of Melbourne*

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CHAPTER 7

The Internationalisation of Capital and the Transformation of Statehood in Southeast Asia

Faris Al-Fadhat

Introduction

The state has played a critical role in the development of Southeast Asia's political economy. As this volume demonstrates, this has not taken the form of so-called "developmental states", insulated from domestic social forces and autonomously directing economies. On the contrary, states and social forces interpenetrate and shape one another (Hameiri and Jones, this volume). A key relationship, especially for the purposes of this chapter, is that between the state and the capitalist class (the bourgeoisie). In the Cold War period, Southeast Asia's capitalist classes were relatively weak, depending on authoritarian regimes to repress left-wing political parties and provide favourable conditions for capitalist economies to develop (see Carroll, and Quimpo, both this volume). In practice, this led to the emergence of tight networks of business, political and economic elites, with rampant corruption, collusion and cronyism attending the emergence of

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new capitalist classes (e.g., Hewison 1989; Robison 1986; Rodan 1989). The consolidation of national states thus went hand-in-hand with the consolidation of national capitalist classes.

However, this chapter argues that this traditional Murdoch School proposition now requires some amendment in light of Southeast Asia's deepening insertion into the global political economy. Southeast Asia's rapid economic growth was achieved only by selectively liberalising national economies to international investment, networking the region into transnational production and trade networks (see Carroll, this volume). While certain fractions of national capitalist classes remained primarily interested in protecting their domestic markets from such tendencies, other fractions have increasingly pursued international strategies for capital accumulation. This is manifested through burgeoning cross-border company mergers, acquisitions and joint ventures. According to the *ASEAN Investment Report 2015*, cross-border capitalist expansion has become one of the most significant indicators of the region's economic development in recent years (ASEAN 2015: 30–32). The total value of mergers and acquisitions rose to US\$68.4bn in 2014, a 12% increase from the previous year and exceeding the figure for Japan for the first time, where mergers and acquisitions totalled US\$64.7bn (Darmayana and Meryana 2015; Ito 2015). This signifies the emergence of internationalised fractions of capital based in Southeast Asian territories (Al-Fadhat 2019).

For these groups, the state institutions that once served as a cocoon now serve as fetters on their further development—a perspective shared by transnational capitalists entering the region from outside. However, previous development processes have also led to key capitalist groups being directly incorporated into various state apparatuses (see Rodan et al. 2006). This gives transnationalising capitalists significant leverage to advance and safeguard their internationally oriented accumulation strategies by promoting the transformation of states. This manifests through the reduction of interventionist, developmentalist institutions in favour of a "regulatory state", whose reach extends across borders through various regulations and negotiations aimed at facilitating the overseas expansion of big businesses. This began in the 1980s with the adoption of export-oriented industrialisation policies to facilitate the engagement of local bourgeoisies with the global economy, evolving into the removal of barriers to flows of capital, goods and labour, towards the creation of larger markets. Hence, the political dominance of a transnationalised fraction of capital is organised in and through the internationalisation of the state.

Murdoch Meets Amsterdam: The State and the Rise of the Interior Bourgeoisie

The Amsterdam School of international political economy provides valuable theoretical insights that can be incorporated into the approach of the Murdoch School to help understand these developments. Amsterdam Scholars argue that internationalised fractions of capital have become important actors in the contemporary global economy through the process of transnational class formation, which gives rise to new socio-political alliances and forms of state (Jessop and Overbeek 2019; Overbeek 2004). Thus, changes in states' strategic policies towards promoting the global expansion of business activities have been shaped by complex social and political coalitions resulting from the increasingly international orientation of large-scale capital.

This development reflects important changes in the spatial organisation of capitalism and the state. Key to understanding these changes is the recognition that capitalism is never purely "economic" but always involves key political processes. Marx and Engels (1965 [1848]) famously noted that capital always tends to expand beyond existing territorial boundaries. Yet, as Palloix (1977) argued, the expansion of capital into an internationally coordinated market is no more a purely "economic" phenomenon than was the consolidation of national markets and the reorganisation of national bourgeoisie. Early "merchant adventurers" undertook risky international transactions on their own coin, developing private mechanisms of insurance. However, the development of large-scale international trade and investment required the provision of supportive infrastructure organised by the state, whether that be the "hard" infrastructure of roads, railways and ports to connect distant markets, and the security arrangements to safeguard these, or "soft" institutional infrastructure like treaties, laws and regulations to help govern economic interactions.

Palloix (1977) further theorised the development of capitalism globally in terms of three interrelated "circuits": the productive circuit (the production of commodities); the commodity circuit (the sale of these commodities); and the money circuit (the accumulation of capital as money). Each of these requires certain supportive infrastructure: a regime that pushes people towards selling their labour, legal rules that permit and govern the production of commodities and their exchange, the institution and maintenance of money and financial systems, and so on. In pre-capitalist societies, these things existed either partially or not at all. They had to be produced through the exercise of power, and typically it was ruling elites—organised in initially rudimentary but increasingly sophisticated states—that served this function. First city governments and centralising monarchs, and later regimes dominated by emerging bourgeoisies, helped to destroy feudal social relations that impeded the emergence of wage labour, and forcibly unified local markets, regulations and weights and measures into national spaces for capital accumulation. The productive power and taxation revenue unleashed by these transformations aided the emergence of powerful nation-states, especially in Europe. These states—and later their international organisations—were subsequently central in providing the infrastructure which allowed the expansion of capitalist classes beyond national markets, initially through outright imperialism and, more recently, through the more sophisticated mechanism with which this chapter is concerned: the transnationalisation of state apparatuses.

The transformation of statehood is intimately connected to the rise of international fractions of the capitalist class. After many years of capital accumulation within the cocoon of nation-states, large-scale enterprises emerge that can no longer "continue the accumulation process within the narrow horizon of the domestic market"; they represent a growing and eventually dominant fraction of a domestically operating capital that becomes intertwined with "external" capitalist dynamics (Tsoukalas 1999: 59). Such businesses, while "producing within a nation-state, can sell on global markets and reinvest in production beyond the borders of the nation-state in which the original production process took place" (Glassman 1999: 680). Therefore, they are no longer exclusively "national" but integrated within global and regional circuits of capital, production and value creation. Poulantzas (1978: 57) developed the concept of the "interior bourgeoisie" to denote this transformation of part of the "national" bourgeoisie into one that brought international competitive dynamics to bear on national political life. While its material basis is linked to a national political structure, the interior bourgeoisie also has deep ties with global capital and production chains, forming transnational power relations (Wissel 2006: 218–219). As Carroll et al. (2019) note, these international fractions of capital emerged through the broader structural story: "the intensified formation of the world market", a process of deepening economic globalisation. In this context, both fractions of capital and the state have been pressured to adopt market-conforming behaviours, further intensifying patterns of global capitalist relations.

Crucially, the growing domination of this internationalising fraction of capital, particularly since the 1980s, does not imply that the state becomes less important, as suggested by some scholars of the "transnational capitalist class" (e.g., Robinson 2007; Sklair 2001). On the contrary, its role has become more crucial to ensure the process of internationalisation of this interior bourgeoisie (Poulantzas 1974). Capital tends to expand and move at an ever-increasing pace across national borders, and thus seems to operate at an "international" scale. Nevertheless, the production and accumulation of value must necessarily take place in territorially bounded and place-specific locations. And this requires national institutions to manage economic policies and ensure the continued maintenance of conditions favourable to capitalist accumulation (Panitch and Gindin 2004: 17). Thus, the global expansion of capital still requires the state to play a role, but a revised one: the facilitation of transnational circuits of capital, as opposed to its earlier role in facilitating national-scale accumulation strategies.

This contributes to the transformation of the state, which further shapes the nature of statehood as a locus of political struggle in the accumulation process (Bieler and Morton 2014; Glassman 1999). This transformation involves the political and economic structure of the state being adjusted to suit changes in the formations, priorities and interests of dominant social forces—namely, the capitalist class, particularly its internationalising fraction. The transformed state's role is to help (re)produce the social relationships that underpin capitalist expansion beyond territorial frontiers (Jessop 2015; Jones 1997; MacLeod and Goodwin 1999). Furthermore, such internationalisation processes have led to the broadening of the political coalitions of bourgeoisies beyond state territories through both global *and* regional capitalist networks.

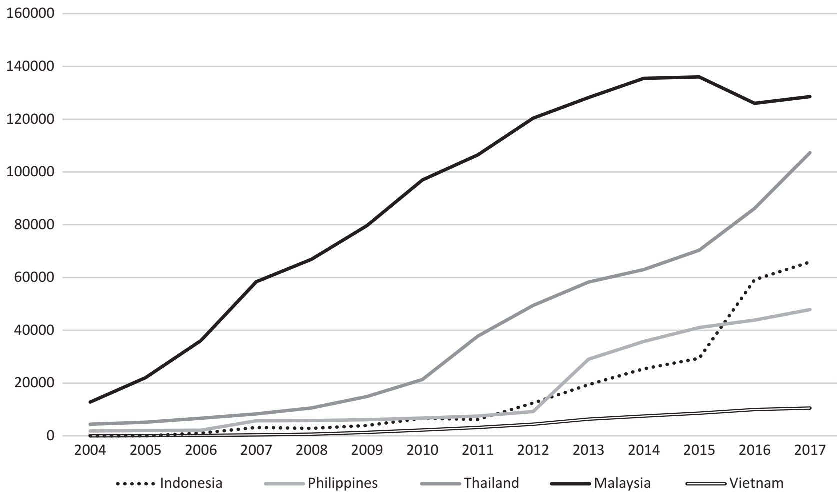
The Internationalisation of Capital, the State and Crony Capitalism in Southeast Asia

The Amsterdam School has studied these transformations in developed countries, but there is now solid evidence of the emergence of an "interior bourgeoisie" in Southeast Asia, too, along with associated changes in the nature of statehood. This section provides an overview of the internationalisation of capital in the region, and how this is reshaping governance in three key cases: Indonesia, Singapore and Malaysia. In each case, the emergence of an internationalised capitalist class fraction, initially cultivated by the state, has led to the restructuring of state power to facilitate the regionalisation of capital accumulation. The character of regionalisation is heavily shaped by the state–society relations established under previous accumulation regimes.

Most of this regionalisation has occurred since the 1997–98 Asian financial crisis. The crisis struck directly at the alliances between capitalists and state apparatuses in Southeast Asia, with many leading conglomerates apparently facing bankruptcy (see Carroll, this volume). However, in retrospect, we can now observe that many were able not only to recover relatively quickly but, perhaps more importantly, to integrate their operations into transnational capitalist networks. While their domination within domestic economies remains strong, many of these business giants have expanded their reach beyond national economic frontiers—something new for many, notwithstanding their growing global engagement from the 1980s onwards.

Data on outbound foreign direct investment (OFDI) clearly shows the growing internationalisation of capital (see Fig. 7.1). In the period 2004–17,

Fig. 7.1 OFDI stocks of selected Southeast Asian economies (US$, millions)



Source: UNCTAD 2018

the OFDI stock of Indonesia increased from zero to about US$65.9bn; the Philippines' OFDI increased from US$1.8bn to US$45.3bn; and Malaysian OFDI boomed, growing from US$12.8bn to US$128.5bn. The numbers would be even bigger if investments carried out by Southeast Asian companies' offshore holding companies outside of the region were included.

In this context, neoliberal agendas have been crucial in shaping the forms of governance and arrangement of economic activities that have emerged transnationally. Unilaterally, governments have restructured domestic states to facilitate the increasing flows of investment, production and trade. Governments have also increasingly sought to coordinate their regulations across national frontiers. This has given rise to informal and formal efforts to integrate markets across territorial borders, including at the regional scale (see Jones and Hameiri, this volume). Progress may be limited by contestations between fractions of capital: between internationalising fractions which stand to benefit, and residual "national" fractions that would lose out from market liberalisation; and between rival internationalising fractions emerging from different national contexts. These contestations shape the forms of state transformation and regional governance that emerge in practice. We will now turn to examine how these processes are unfolding in Southeast Asia.

The Internationalisation of Indonesian Capital

Suharto's New Order regime (1967–98) profoundly shaped the emergence of Indonesia's capitalist class. Authoritarian state-led development and patrimonialism consolidated a highly concentrated, domestically oriented capitalist class, undertaking very little international business activity, despite the export-oriented policies adopted in the 1980s (Crouch 1994; Robison 1986). However, the two decades since Suharto's fall have seen many Indonesian conglomerates venturing beyond the national economy. By developing relationships with foreign corporations to bolster their business operations, they have acquired a strong international orientation. This has been achieved through substantial investments into foreign markets; takeovers of foreign-based companies through mergers, acquisitions and joint ventures; and by playing a more significant role in regional value chains. While many large Indonesian companies continue to enjoy protection in the national market, particularly in the agricultural sector, they have also begun to advocate for further liberalisation at the regional level

(Al-Fadhat 2019). This illustrates the fact that capital is interested in making profit above all else, leading companies to support ostensibly contradictory governance arrangements insofar as these advance their interests.

Indonesian conglomerates dominate many domestic sectors, such as plantations, automobiles and mining. In the plantation sector—notably paper and oil palm—they have benefited from the conversion of vast areas of Indonesian forest for agribusiness, producing the largest plantation area of any Southeast Asian country. Unsurprisingly, the most notable business groups, such as Djarum, Sinar Mas, Gudang Garam, Salim, Rajawali, Royal Golden Eagle and Wilmar, have undertaken substantial investment in this sector. Their expansion has been supported by the conglomerates' foreign-listed management holdings and, importantly, by China's enormous investment in the region (Dewi 2013: 166). In the case of the automotive sector, business groups like Astra International and Indomobil (Salim's subsidiary) have formed joint ventures with Honda, Toyota and Suzuki to produce these brands in Indonesia for domestic and foreign consumption.

These traditional activities have been augmented by three new sectors that have expanded significantly in recent years: food and agribusiness, services (telecommunications, banking and real estate) and infrastructure. For example, conglomerates such as Royal Golden Eagle, Sinar Mas Group and Salim Group have established a strong position in the Asia-Pacific's food and agribusiness sector by acquiring companies in Singapore, Malaysia, Vietnam, China and Australia (First Pacific 2015; Golden Agri Resources 2017; RGE 2016). This regional expansion has allowed Indonesian businesses to move from their original strategy of producing goods domestically, for either domestic consumption or sometimes for export, to a vertically integrated strategy, controlling all stages of food production in value chains spread across the Asian region (Al-Fadhat 2018).

In the services sector, a similar expansion has been supported by strong economic expansion and population growth, indicating the region's large market potential (UNCTAD 2015: 41). A key example here is Lippo Group. In the real estate sector, Lippo Group consolidated its business under Lippo Karawaci—the largest property company in Indonesia—then collaborated with the Chinese state-owned China Resources Group and the Japanese company Mitsubishi Corp to expand across the region. Through mergers and acquisitions, Lippo's real estate portfolio has expanded into several Southeast Asian countries, including Singapore, Malaysia and Vietnam, in addition to Hong Kong, China and South Korea (Lippo Karawaci 2008; Lippo Limited 2016).

Indonesian business groups have also played a role in the expansion of regional investment in the infrastructure sector. Many projects have been launched by Southeast Asian governments in recent years to address issues like the notorious traffic problems plaguing the region's capital cities, especially Manila, Jakarta and Bangkok (Koyanagi 2017). Several infrastructure projects in Metro Manila, including power generation, water supply and toll-roads, have been undertaken by Indonesia's Salim Group through Metro Pacific Investments Corporation, under its First Pacific subsidiary (First Pacific 2006).

The regional expansion of this internationally competitive section of Indonesia's bourgeoisie has led to the internationalisation of the state (Hameiri and Jones 2015). These changes were enabled and shaped by the oligarchic power relations established under Suharto, which have entrenched dominant business interests within political and bureaucratic institutions. Major post-Suharto political parties have also been led and controlled by business elites. For example, during 2009–14, Golkar was led by Aburizal Bakrie, chairman of Bakrie Group; from 2010 to 2015, the National Mandate Party was led by Hatta Rajasa, owner of Arthindo Group; and Gerindra was established in 2008 by Prabowo Subianto, Suharto's former son-in-law, who runs energy, plantation, mining and forestry businesses through Nusantara Group.

Strategic ministries key to economic policies, such as the Coordinating Ministry for Economic Affairs, the Ministry of Trade, and the Investment Coordinating Board have also been linked to big business elites or their associates. For example, since 2004, every Minister of Trade has been drawn from the business elite. Mari Elka Pangestu (minister from 2004 to 2011) and Gita Wirjawan (2011–14) are co-founders of Ancora Capital Management (Asia); Muhammad Lutfi (2014) is the co-founder of the Mahaka Group; Rachmat Gobel (2014–15) is the chairman of the Panasonic Gobel Group; Thomas Lembong (who served 2015–16, before being made chairman of the Investment Coordinating Board), is the CEO of Quvat Capital; and Enggartiasto Lukita (2016–present), despite her technocratic credentials, is a close ally of Sofjan Wanandi, chairman of Santini Group.

This strong instrumental control of state power has allowed Indonesia's interior bourgeoisie to shift government economic policy towards facilitating further capital expansion across the region and smoothing

Indonesia's integration with the global economy. For example, supporting business groups' international expansion is integral to the Indonesian government's "Masterplan for the Acceleration and Expansion of Economic Development of Indonesia 2011–2025" (known as MP3EI). One of its priorities is to enhance the interlocking of conglomerates' operations with the regional circuits of capital, especially through the neoliberal regulatory project of ASEAN economic integration (Coordinating Ministry for Economic Affairs 2011; see Jones and Hameiri, this volume). MP3EI seeks to increase capital flows across the region by implementing the ASEAN Comprehensive Investment Agreement. This agreement attempts to bolster the region's attractiveness as a single investment destination by establishing a free, open, transparent and integrated investment regime for domestic and international investors. The agreement supports the internationalisation of competitive fractions of regional capital by promoting progressive investment liberalisation across the region, establishing principles of non-discrimination and transparency, protecting investors from confiscation, and creating investor–state dispute settlement mechanisms. ASEAN member countries are thereby pushed to support corporate expansion, joint investment and regional production networks (ASEAN 2009).

The Internationalisation of Singaporean Capital

The case of Singapore illustrates how the internationalisation of capital has been facilitated by the state, and has in turn shaped the state's restructuring. The cohesion between the state and capital, supported through the formation of political institutions and government policies, has pushed economic and political governance in Singapore in a direction that is neither liberal nor democratic (see Rodan and Baker, this volume). But, most importantly, this alliance has strengthened a globalised strategy of capital accumulation through state capitalism. The internationalising fractions of Singaporean capital mainly comprised government-linked companies (GLCs), with their transnationalisation facilitated by the state from the 1980s onwards.

The roots of Singapore's state capitalism lie in the strategies of the ruling People's Action Party (PAP), which has governed Singapore since 1959. The PAP had an uneasy relationship with the city-state's domestic capitalists, doubting both their political loyalty and their capacity to industrialise Singapore. Accordingly, the PAP regime pursued post-independence development largely through developing GLCs and attracting international capital. This was reinforced after 1965 when, following Singapore's expulsion from Malaysia, the extreme limits of the city-state's domestic market—just four million people—led the PAP to embrace export-oriented industrialisation (EOI) (Boswell and Chase-Dunn 2000; Yahya 2005). The Economic Development Board (EDB), established in 1961, spearheaded the drive to attract multinational corporations (MNCs) to invest in Singapore (Okposin 1999; Yahya 2005), while state policies created the necessary physical, technical and social conditions for industrial production (Chua 1997; Tremewan 1994). As a result, foreign direct investment (FDI) increased significantly. For example, in the manufacturing sector, FDI rose from S$157m in 1965 to S$995m in 1970, then S$3.1bn by 1974. Over the same period, the value of Singapore's manufactured exports jumped from S$349m to S$1.5bn, to S$7.8bn (Rodan 2006: 143).

The GLCs form the core of Singapore's interior bourgeoisie. GLCs have proliferated through three paths: partnerships with MNCs; spin-offs from defence industries; and privatised state monopolies and public utilities (Chua 2016: 502). By the 1990s, major GLCs had begun to venture overseas, supported by Singapore's foreign economic policy, which aimed to facilitate the internationalisation of Singaporean capital across the regional market (Wong and Ng 1997: 136). This strategy was spurred by structural limits to the expansion of Singapore's manufacturing sector in the mid-1980s, as well as the global economic recession in that same period. In addition to the small size of Singapore's domestic market, GLCs' expansion at home was also constrained by the wage increases authorised by the National Wages Council in the 1970s, which decreased the competitiveness of Singaporean exports. The oil shocks and global recession of the 1970s, coupled with growing competition from manufacturing bases emerging in other Southeast Asian countries added to GLCs' problems (see Carroll, this volume). Accordingly, in the mid-1980s, the PAP government's newly formed Economic Committee launched restructuring policies to shift the economy towards high-tech industries, seeking to attract more foreign MNCs to establish operations in Singapore, and urging GLCs to invest in regional and global ventures (*Asia Times* 2002; Muller 1994; Rodan 2016). This spurred many GLCs to begin offshoring their operations to lower-wage territories, initially in the neighbouring Indonesian islands of Riau.

The internationalisation of the Singaporean state was critical in supporting the GLCs' overseas expansion. The EDB and the Trade Development Board—later renamed International Enterprise Singapore or IE Singapore (a statutory board under the Ministry of Trade and Industry)—played a significant role in facilitating overseas investment and trade (IE Singapore 2016). In addition, the government established a sovereign wealth fund, the Government of Singapore Investment Corporation (GIC) in 1981 to support GLCs' international expansion. By 1983, the GIC had extensive investment overseas totalling S$3bn and involving 58 companies (Rodan 1989: 153–154; 2006: 144). By March 2014, Singapore's largest GLC, Temasek Holdings, boasted an investment portfolio of S$223bn (Temasek Holdings 2014: 6). According to the Sovereign Wealth Fund Institute, by 2018 GIC's overseas investment had reached S$467bn, making it the eighth largest sovereign wealth fund in the world (GIC 2018; Tan 2018).

The internationalisation of Singapore's capital and state has created new spaces of capital accumulation and associated regulatory projects. One of Singapore's early symbolic initiatives was the Growth Triangle, a project which had been proposed by Singaporean government since the 1980s and which officially began in 1990. The idea was for the Malaysian state of Johor and the nearby Riau Islands of Indonesia to combine with Singapore as a coherent, trans-state economic zone of complementary specialisations (Parsonage 1992; Smith 1997). The project was essential for Singapore as it provided a spatial fix for GLCs' structural limitations at home—rising wages and the declining competitiveness of its low value-added manufacturing sectors. Offshoring labour-intensive manufacturing to lower-wage adjacent territories enabled the GLCs to recover their international competitiveness (Dent 2003; Smith 1997). Meanwhile, Singapore itself was reconfigured to host non-regional MNCs engaged in higher-value, knowledge-intensive production, thereby supporting the city-state's industrial upgrading (Smith 1997). Importantly, the realisation of Singapore's transnational economic restructuring was enabled by the complementary shift of Malaysian and Indonesian policies towards EOI since the 1980s, which sought increased investment from MNCs and allowed the liberalisation of some industries.

The Singaporean government has also been the principal architect of the ASEAN Economic Community (AEC), a regulatory project designed to integrate the entire Southeast Asian regional economy and attract more foreign capital into the region. The PAP government proposed this regional governance regime during the eighth ASEAN summit in Phnom Penh in November 2002. The creation of an integrated regional market provides an important new scale of accumulation for Singaporean capital, as Singapore drives its GLCs to become dominant regional and global players (Tsui-Auch 2006: 107). While the Growth Triangle was primarily driven by Singaporean manufacturing capital, the AEC project instead sought to bolster Singapore's new position as a regional services hub, particularly for GLCs and their foreign partners operating in business, finance, logistics and distribution, communications and information. Singapore's competitive advantage in services is underpinned by its strategic location, its advanced physical infrastructure and its minimal restrictions on the movement of goods, services and production (Chia 2005: 9). The AEC aimed to reduce barriers to the expansion of these sectors across the region.

Unsurprisingly, Singaporean conglomerates now dominate the list of ASEAN's top 50 companies, holding four of the top five spots in 2014. Singapore Telecommunications (SingTel) was first, followed by Singapore's three biggest banks: DBS Group Holdings, Oversea-Chinese Banking Corporation and United Overseas Bank (*Nikkei Asian Review* 2014). This testifies to the enormous expansion of Singaporean investment in ASEAN markets since the AEC project was initiated. When the agreement to build the AEC was signed in 2003, Singapore's total OFDI from the corporate sector amounted to S$153bn, of which S$34bn was invested in ASEAN (Department of Statistics Singapore 2009). This increased to S$783bn in 2016, just a year after the AEC was officially launched, of which direct investment in ASEAN countries comprised over S$119bn (Department of Statistics Singapore 2016).

The Internationalisation of Malaysian Capital

The important role played by the state in facilitating the internationalisation of capital is also shown in the case of Malaysia. Here, the process is rooted in the state restructuring undertaken under the New Economic Policy (NEP). The NEP was introduced in the early 1970s in response to anti-Chinese rioting among indigenous Malays (aka *bumiputera*, "sons of the soil"), who resented the long-standing ethnic-Chinese domination of the Malaysian economy. The NEP was characterised by strong state intervention by the ethnic-Malay ruling elite, led by the United Malay National Organisation (UMNO), to redistribute wealth away from the Chinese and cultivate a Malay capitalist class. Over time, this intervention established *bumiputera* enterprises with a strong interest in internationalising their activities, and the political connections required to harness the state towards this end.

The NEP established a Malay fraction of the capitalist class in a variety of ways, including the encouragement of divestment by Western companies, the facilitation of joint ventures with ethnic-Chinese-owned businesses (so-called "Ali-Baba" partnerships), and the privatisation of state assets (Gomez 2006: 121). Through privatisation, former state managers and senior bureaucrats were transferred to the private sector, and many privatised assets were sold to companies whose owners were closely connected to UMNO. The government also used its control over the banking sector to direct capital towards favoured enterprises, including the provision of loans to purchase state assets (Gomez and Jomo 1997). As a result, the equity held by *bumiputera* businesses and government-managed *bumiputera* trusts increased from 2.4% in 1970 to 20.6% in 1995 (Gomez 2006: 121). Thus, state intervention promoted the rapid rise of ethnic Malay-owned business groups with intimate ties to political and bureaucratic elites.

In the mid-1980s, under Prime Minister Mahathir Mohamad, the state began to facilitate the internationalisation of capital through an EOI strategy. This process was part of Mahathir's grand vision for Malaysia to achieve developed nation status by 2020. It was also driven by the emergence of internationally oriented Malay capitalists, organised through the Bumiputera Commercial and Industrial Community (BCIC). Mahathir promoted a "Malaysia Inc." model, based on the experience of "Japan Inc.", whereby state intervention would promote domestic industry and aid its internationalisation (Chee and Gomez 1994). The Ministry of Trade and Industry, modelled on Japan's Ministry of International Trade and Industry, was tasked with driving EOI (Gomez 2009: 357), and determined the industrial sectors that private firms should venture into (Webster 2014).

One of the internationalisation strategies that emerged was state-mediated joint ventures between local capitalists and foreign corporations. An important example is Malaysian heavy industry, especially Heavy Industries Corporation of Malaysia (HICOM). This state-owned company collaborated primarily with Japanese companies to develop a variety of industries, ranging from steel, iron and cement production to car manufacturing (Gomez 2009). In the car sector, the government led negotiations with the Japanese firm Mitsubishi to establish the joint-venture

Perusahaan Otomobil Nasional (Proton), the Malaysian national car company, with HICOM holding a controlling interest. Edaran Otomobil Nasional was established by HICOM in 1985 to handle the sales of one of Proton's products. Following arguments between the Malaysian government and Mitsubishi on the transfer of technology, another joint venture was subsequently formed with Japan's Daihatsu, and Malaysia's second national car project was introduced through another joint venture, Perusahaan Otomobil Kedua (Perodua), between Japan's Mitsui and local firm United Motor Works, which was also under state control (Gomez 2009: 358). Mahathir also encouraged conglomerates to establish joint ventures with European manufacturers to produce new models of the national car. One project involved France's PSA Peugeot Citroën and the publicly listed Diversified Resources, controlled by UMNO politician Yahaya Ahmad (Gomez 2009).

In the early 1990s, Mahathir realised the importance of Chinese capital for promoting the country's industrialisation. As China opened up its economy, Mahathir saw this as potentially lucrative for Malaysian businesses. This led to a new economic liberalisation policy that included Chinese capital in Malaysia's development plans (Gomez 2009: 361). Mahathir's strategy was to urge greater business cooperation between Chinese and Malay businesses to enhance Malaysia's industry as well as to expand into the Chinese market—something that had not happened earlier following the NEP strategy. Entering China's enormous market was thus a means to further promote the internationalisation of Malay capital (Gomez 2009: 362).

The Malaysian state has also pursued regional integration to create new spaces of capital accumulation for Malay-owned enterprises. In 1990, before the ASEAN Free Trade Area (AFTA) was established, Mahathir proposed a regional free trade block called the East Asia Economic Caucus (EAEC), to encompass ASEAN member states, Japan, China and South Korea (Akrasanee and Stifel 1992: 44). The EAEC was considered a counterweight to the emerging regional blocs in Europe and North America, and signified the desire of Malaysian firms to access a broad export market in the region. The EAEC was never officially formed, as a result of Japan's reluctance and strong opposition from the US and Australia, but the ASEAN Plus Three grouping, formed after the Asian financial crisis, was a looser form of Mahathir's vision. In the interim, Malaysia shifted its attention to AFTA. The government's policies here illustrated just how closely state practices mirrored the interests of particular fractions of capital:

where trade liberalisation would benefit Malaysian businesses, the government strongly backed AFTA measures and their implementation, but foot-dragging ensued wherever liberalisation would undermine *bumiputera* businesses, such as the automotive sector (see Athukorala 2003: 31; Nesadurai 2003: 128).

Economic restructuring following the Asian financial crisis also saw more Malaysian capitalists seek to reorganise themselves on a transnational scale, spurring further transformations in the Malaysian state, manifested in strong (although, again, uneven) support for the AEC (Lee 2014; Tan 2015; see also Jones and Hameiri, this volume). One of the key factors driving this was a concern to reduce barriers for Malaysian firms wishing to access regional markets (Alavi 2014: 231). In the banking sector, for instance, Malaysia's two largest banks, Maybank and CIMB Group, are now among the largest banks in Southeast Asia. In 2014, they were ranked in the top 25 ASEAN companies by market capitalization (Nikkei Asian Review 2014). According to Nazir Razak, chairman of CIMB Group, the opening of the regional market has enabled CIMB to strengthen its business operations in terms of intra-ASEAN trade and capital investments (Razak 2016: 37; Tan 2016).

Conclusion

A key theme in Murdoch School scholarship has always been the analysis of the process by which capitalist classes form and become important political and social forces. This chapter has developed this scholarship further by examining the changing nature of the capitalist class, through its internationalisation in the 1990s and beyond. It has advocated for a fruitful and productive engagement with the Amsterdam School of political economy, which has focused on the formation of transnational capitalist class fractions, and its impact on the forms and outcomes of political order and alliances within the state (van Apeldoorn 2004; Jessop and Overbeek 2019; Overbeek 2004). Much of this work remains highly Eurocentric, but it does not need to be: there is clearly strong evidence of similar trends in Southeast Asia. The Murdoch School tradition provides an analysis of the development of the interior bourgeoisie in the specific circumstances of Southeast Asia's political economy, which can explain the specific forms of state transformation we witness as domestically nurtured businesses internationalise.

Bringing these two traditions together, this chapter has explained the recent transformation of the capitalist class in Southeast Asia and attendant transformations in the form and functions of the state. There has clearly been a substantial shift from the consolidation of nationally oriented bourgeoisies through statist policies in the 1970s and 1980s to the emergence of new internationally oriented fractions of capital, especially after the Asian financial crisis, and states' facilitation of their transnational expansion. The nature of this "interior bourgeoisie" and its political project, however, is shaped by the legacies of previous rounds of state-led development.

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