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Institutions and regional development in Southeast Asia

A comparative analysis of Satun (Thailand) and Perlis (Malaysia)

Edo Andriesse

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Glossary

Ali-Baba structures	Business ventures in which one Bumiputera and one Ethnic-Chinese actor is involved
Amphoe	District in Thailand, part of changwat
Baramee	Social esteem or prestige enjoyed by Thai politicians
Bumiputeras	The Malay and indigenous part of the population in Malaysia Literally: sons of the soil
Bumiputera policies	Affirmative policies that promote the socio-economic position of the Malays vis-à-vis the Ethnic-Chinese and Ethnic-Indians. Famously formulated as 'the elimination of identification of race with economic function'
CEO-Governor	Provincial governor in Thailand. Prime Minister Thaksin wished to introduce Chief Executive Officer styled management systems within the Thai civil service
Changwat	Province in Thailand. There are 76 provinces in Thailand
Chao Pho	Provincial godfather in Thailand
Dewan Negara	Senate in Malaysia
Dewan Rakyat	House of representatives in Malaysia
Disabling institutions	Institutions that lead to a divergence of corporate and worker well-being in the long term
EXCO	State Executive Council in Malaysian states
Elite capture	The appropriation of a particular portion of available resources by local elites
EM approach	Embedded mercantilism approach: Economic system in Southeast Asian countries consisting of a dual political economy, domestic coalitions and side payments
Enabling institutions	Institutions that lead to convergence of corporate and worker well-being in the long term
Human development	Convergence of corporate and worker well-being. Human development when 1) the local, independent corporate sector achieves sustainable competitiveness, thereby sustaining local employment, and 2) worker well-being is achieved
Informal institutions	Norms of behaviour and conventions
Institutional complementarity	Two sets of institutional spheres that operate in tandem, that jointly lead to a particular behaviour of economic organizations and particular economic outcomes
Formal institutions	Rules, regulations and contracts
Malay heartland	Malaysian states in which Bumiputeras (Malays) account for an above average share of the population

Menteri Besar	Prime Minister of a Malaysian State
MDR	Member of Dewan Rakyat in Malaysia
MP	Member of Parliament in Thailand
MPK	Majlis Perbandaran Kangar: Municipal council of Kangar
MRL	Malay Reserved Land: land that can only be owned by Bumiputeras
Negeri ilmu	Knowledge State
New Economic Policy	A set of policies introduced in 1971 in which Bumiputera policies are the most important (see above)
PAO	Provincial Administrative Organization in Thailand
Perdana Menteri	Prime Minister of Malaysia
Phuak	Political cliques at the provincial level in Thailand
Putrajaya	New administrative capital of Malaysia, located between Kuala Lumpur and the international airport
PSG	Perlis State Government
Rent-seeking	Expenditure of resources and effort in order to generate rents (excess income). Major inputs are often lobbying, political activity, bribing and other influencing activities
RM	Ringgit Malaysia
SEDC	State Economic Development Corporation: each Malaysian state has such a corporation
Sino-Thai	Ethnic-Chinese in Thailand
SLA	State Legislative Assembly in Malaysian states
Tambon	Sub-district in Thailand, part of amphoe
Tessaban	Municipality in Thailand
THB	Thai Baht
Thim	Highly informally operating political group at the amphoe level in Thailand, often part of a phuak
Trakun	Influential provincial family in Thailand
TRT	Thai Rak Thai, Prime Minister's Thaksin's political party
UMNO	United Malays National Organization: largest political party in Malaysia
VoC approach	Varieties of Capitalism approach: distinctive institutions and institutional complementarities lead to specific economic systems and economic performances, both at the regional and the national level

Preface

The so-called BRIC-countries (Brazil, Russia, India, and China) are given much attention in the media, whereas it is sometimes forgotten that there are so many other dynamic parts in the world. Southeast Asia is one of such parts. Even in the most peripheral regions in, say, Myanmar and LAO PDR so many things are going on. Anyway, Southeast Asia has always attracted my attention, perhaps due to my place of birth: Bandung (Indonesia), or as my father always says, 'born at the foot of the volcano Tangkuban Perahu'.

This book is concerned with regional development on the Thailand/Malaysia border. Although its primary focus is on human geography, I hope anthropologists, political scientists, economists and other social scientists dealing with Southeast Asia will find some chapters of the book worthwhile. Between September 2003 and November 2007 I had a very enjoyable and mixed academic life ranging from witnessing Rotary Club meetings in Satun to supervising students to writing papers for international conferences to interviewing politicians in Perlis.

My supervisors were Prof. Dr. O. Verkoren, Dr. A. van Westen and Dr. L. van Grunsven. Leo offered support in linking empirical findings to theoretical issues and in providing insights into Malaysian phenomena. Otto helped me to keep in mind the main arguments of the thesis and to make texts structured and logical. And despite his busy schedule, I could always enter Guus' room to ask a practical question, discuss an academic topic or borrow a book from his impressive personal library. They even took the time to visit me during the summer 2004 fieldwork. Thank you very much!

In Southern Thailand and Northern Malaysia many persons have contributed to this book. First of all, many persons working or studying at the Prince of Songkla University (PSU) in Hat Yai and Northern University of Malaysia (UUM) in Kedah. At PSU I had several interesting talks with Dr. Rotchanatch, working at the Faculty of Environmental Management who also prepared the summary in Thai. *Khop khun khrap*. Other persons whom I like to thank are Dr. Sutonya, Mr. Chaiya, Ms. Chongchit as well as the interpreters Ms. Fonn, Ms. Poon, Mr. Bus, Ms. Ann, and Ms. Lin. In Satun Mr. Viroth, Mr. Chalemporn, Ms. Yukuntorn and Ms. Janya provided many insights into provincial affairs and introduced me to other relevant persons. At UUM Dr. Roslan, working at the Faculty of Economics, offered much help, particularly during the second fieldwork. He is also the author of the summary in Malay. *Terima kasih*. I also would like to thank Prof. Dr. Hussain, Prof. Dr. Juhary, Ms. Wan Norhashima and the interpreters Mr. Sabri and Mr. Rahimi. In Perlis I am grateful to Mr. Wong, Mr. Bakar, Ms. Ramlah and the interpreter Ms. Chie Veng. At the end of this research project, Tom Shaw, based in the United Kingdom, corrected the English language.

Assistent in Opleiding (AIO) zijn op de Uithof in Utrecht betekende voor mij een paar jaar doorbrengen in het Van Unnikgebouw, kamer 320, inmiddels beter bekend als het AIO-park (of als gevolg van onomkeerbare internationaliseringprocessen PhD-plaza). Ik heb veel plezier gehad met mijn kamergenoten Paul Burgers, Leendert de Bell, Bram van Helvoirt, Jacques Haak

en Robert Nordeman. Met de eerste drie heren is een scala aan belangwekkende onderwerpen de revue gepasseerd en met Bram heb ik zelfs een artikel gepresenteerd op een conferentie in Brisbane. Jacques en Robert hebben naast het veelvuldig uitroepen van *hée* ook wetenschappelijk bijgedragen aan dit onderzoek door het toerisme in Satun en Perlis te vergelijken. Verder heeft Tjaard van Holten een interessant onderzoek gedaan naar de visserijcluster in Satun. Ik zal in het post-AIO-park tijdperk nog vaak aan hen denken.

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And finally I would like to thank Ms. Sutarat Sukapan from Nakhon si Thammarat for her patience. *Aosy: khop khun maak khrap samrap took sing took yang!*

Edo Andriessse

Utrecht, March 2008

1 Introduction

1.1 Background to the study

Regional differences in performance have been of all times. Throughout human history some areas have prospered more than others. Core areas, be they regions, countries or groups of countries, have emerged and have become centres of economic wealth, political power and cultural influence. Other areas belong to the periphery or semi-periphery. In the course of time, many prosperous areas experienced dramatic declines whereas less advantaged areas have managed to become more important. Thus there has been much dynamics in regional performance and diversity (Knox & Marston 2004, pp. 248-297, Rowntree et al. 2003, p. 1-47, Naerssen et al. 1997, De Pater et al. 1995).

At the department of International Development Studies (IDS) Utrecht University in the Netherlands, regional performance is a subject of particular focus within the research program *Regional Development in a Global Context*. This program is concerned with 'the diversity of local and regional development dynamics in developing countries, seen within the context of global forces' (Lindert & Van Westen 2006, pp. 10-11). The emphasis is on sustainable development processes, analysed from a geographical perspective. The research activities are grouped into four topics: 'production structures and patterns of spatial organisation, conditions of livelihood and livelihood strategies, governance and policy networks and resource base conditions and sustainable development strategies'. This thesis forms part of this IDS research program, and is concerned with economic and human development in non-core regions of Southeast Asia. Professor Hall Hill's (2002) remarks on the magnitude of differences in regional performance frame these issues well:

Jakarta's per capita income is over ten times that of Indonesia's poorest province East Nusa Tenggara. [In China] Shanghai's per capita income is seven times that of Gansu in the west. The incidence of poverty in comparatively rich capitals Jakarta, Kuala Lumpur and Manila is less than one-tenth that of some poor provinces in their hinterlands (respectively Nusa Tenggara, Kelantan and Bicol).'

A great deal of the intellectual inquiry surrounding these differences is concerned with *explaining* the patterns observed. Researchers from development studies, regional economists and economic geographers have come up with many theoretical and methodological approaches (Rowntree et al. 2003, Cypher & Dietz 1997, Lee & Wills 1997), but several shortcomings remain. Approaches based on regional factors such as comparative advantage (with respect to labour, capital or resource endowments) or geographical location do not address institutional and political relationships between central and regional tiers of government. On the other hand, (neo-) Marxist approaches tend to place too much emphasis on the exploitation of peripheral regions by core regions both within and between countries, at the expense of other relevant explanatory factors.

An approach that has gained much recognition in the last two decades is the institutional economic/geographical approach. The development of this approach can be considered as a logical step in light of the fact that many product and service markets do not operate as predicted by neoclassical economics. It also compensates for the shortcomings in (neo-) Marxist and structuralist theories, with their respective emphases on exploitation and dependency, and physical geographical characteristics, which can prove too crude to provide satisfactory explanations of developmental disparities over space. The ‘institutional turn’ in economic geography has also proven to be quite useful for explaining patterns of regional diversity. Following the institutional economist and 1993 Nobel Prize laureate Douglass C. North (1990) institutions are defined as formal constraints such as rules and contracts, and informal constraints such as norms of behaviour and conventions.

In this thesis regional performance is examined by comparing specific economic institutions that shape particular capitalist systems. Many authors have compared capitalist systems in the last four decades (cf. Knox et al. 2003, Gregory & Stuart 1992, Chandler 1990, Wallerstein 1979, Hoekveld 1971a & 1971b), but two publications have led to a renewed interest; Whitley’s (1999) book *Divergent capitalism: The social structuring and change of business systems* and Hall & Soskice’s (2001) book *Varieties of Capitalism: the foundations of comparative institutional advantage*. These comparative institutional theories offer interesting perspectives for the study of economic activities and performances. Inspired by these works, amongst others, this thesis explores variants of capitalism in a part of Southeast Asia; a setting in which this approach has hitherto received little attention. Moreover, this thesis does not focus on the dynamic core regions which are usually taken into account, but explicitly on two non-core regions, viz. the Malaysian state of Perlis and the Thai province of Satun which share a common border. While taking the theoretical and methodological approach from Hall & Soskice, the analysis will combine elements of an institutional perspective that is relevant for this part of the world, as will be explained in the following section.

1.2 Objectives of the thesis

Southeast Asia is a dynamic and highly diverse part of the developing world.¹ Moreover, it is one in which IDS researchers from Utrecht University have gained much experience on a variety of issues pertaining to regional development. Within Southeast Asia, the two countries Thailand and Malaysia were chosen for comparative analysis. As both countries have shaped their economies in quite different ways, with Thailand along a clear-cut market orientation and Malaysia with a more dominant role of the state, such a comparison would fit neatly within the Varieties of Capitalism approach, which emphasises different *national* institutional frameworks. Another important reason is that the Thai-Malaysian borderlands share a common physical geography, demographic profile, ethnic and cultural characteristics and until 1909, a common history. It is precisely because of these ‘commonalities’ that one might expect the differentiating role of national institutions to have shaped the regions.

The three objectives of this thesis are presented below. The first is the most important.

1. Investigate to what extent national institutions determine patterns of economic activity and economic performance in non-core regions in the developing world, as exemplified by the Thailand/Malaysia borderlands.

The Varieties of Capitalism approach strongly emphasises the role of national institutions. This point of departure contrasts with geographers who have increasingly stressed that institutions should also be studied at the regional level. As this study is concerned with regional performance and diversity, it aims to analyse the interplay of these two levels. In peripheral and rural areas it is possible that regional institutions, organisations and economic actors do not have a strong influence but that instead, national capitalist institutions determine the regional institutional framework and ultimately patterns of economic and human development. It is also possible that regional institutions are in fact (partial) copies of national institutions and that the latter are ultimately responsible for the nature and pace of development (consider for example the case of regions that import manufactured products to a great extent from other more advanced regions). The first and most important objective is thus to identify the relative importance of national institutions for regional performance in non-core regions. Although the 'commonalities' described above make the research areas chosen for this study suitable, non-institutional factors should not be forgotten. For example, Manasan & Chatterjee (2003) in their study of the Philippines mention that among others structural constraints, agricultural productivity, infrastructure development and fiscal inefficiencies are key issues for consideration in the study of regional development and diversity. It is possible as well that farmers and/or informal economic actors are more important for regional development than firms or governmental authorities.

2. Apply elements of the Varieties of Capitalism approach to investigate institutional arrangements in Southeast Asia's non-core regions.

Recent publications on comparative institutional approaches have stressed the need to investigate the influence of 'bundles' of institutions; in other words institutions that jointly lead to particular economic outcomes. Hall and Soskice have termed them *institutional complementarities*. Focus should therefore not be so much on individual institutions, but rather on interlocking sets of arrangements that jointly promote certain types of economic behaviour, while discouraging others. In adapting Hall & Soskice's model to the region one has to consider the dominant political and economic framework of Southeast Asia. Jayasuriya (2004, 2003) characterised this framework as *embedded mercantilism*. This is characterised as a competitive export-based growth strategy combined with support mechanisms for important domestic interest groups. More than most accounts of Southeast Asia's export economies, Jayasuriya's approach highlights the important role of domestic arrangements. It also enables the inclusion of ethnicity and (personal) power networks as structural elements in Southeast Asian varieties of capitalism. In a collection of essays entitled *Scarcity, Conflicts and Cooperation*, Pranab Bardhan (2005), a leading economist from the University of California, Berkeley, has convincingly shown that institutions cannot be dealt with in isolated from these two issues.

In this thesis therefore, varieties of capitalism are researched through the lens of Jayasuriya's embedded mercantilism approach in order to analyse the institutional foundations of capitalism in Thailand and Malaysia. In so doing, it recognises Sunley's (2003, p. 196) view that 'many recent studies of economic growth in geography have focused on high-productivity, high-cohesion forms

of growth, while leaving other less desirable, but widespread, types of growth under researched'. In fact, it should be recognised that millions of people still live in (semi-)peripheral regions.

3. *Contribute to the current debate on the Varieties of Capitalism approach.*

It is stated above that relatively unsuccessful regions have rarely been subjected to the institutional approach in economic geography. Thus from a theoretical point of view, there are several interesting questions to take up. Does a holistic approach contribute to a better understanding of regional diversity? To what extent is such an approach suitable for explaining patterns of development in unsuccessful regions in both the developed and developing world? How do institutions function in such regions? How do *disabling* institutions hamper or block economic growth? And closely related to the first objective, does the distinction between national and regional institutions lead to an enrichment of existing theories? Hill (2002) wrote with regard to the regional level that 'one final point often overlooked in the spatial development literature is that local-level dynamics and capacities can also make a difference. Here, regional case studies can be illuminating. More of this kind of research would greatly assist our understanding of regional dynamics.' It does indeed seem pertinent to pay attention to these factors, but also to their underlying causes.

1.3 Why the Thailand/Malaysia borderlands?

This study focuses on Thailand and Malaysia because, as will be demonstrated in chapter 3, the body of knowledge on economic institutions in Southeast Asia reveals that institutional arrangements in Thailand clearly differ from arrangements in Malaysia. Malaysia's economy is a typical example of a state-led economy, whereas neo-liberal arrangements (albeit considerably larded with cooperative elements) are much more important in Thailand (see for example Case 2005, Hewison 2005, Jayasuriya 2004, Barlow 1999 and Rodan et al. 1997). In order to obtain insights on the impact of these differences on regional diversity, the Thailand/Malaysia borderlands are chosen as research area because it enables to control for several *non*-institutional factors. The physical geography and resulting resource endowments are similar, the population structure consists of a majority of Muslim people of Malay descent alongside Thai and ethnic-Chinese minorities. The historical contexts of the two regions are also closely linked, particularly up until 1909. From the end of the 15th century up until this time, the entire border region had been ruled by regional Muslim leaders under suzerainty of Siamese Kings in Ayutthaya and Bangkok. In 1909 a permanent border between Siam and British Malaya was established. The area north of the border became part of Siam/Thailand, whilst the area south of the border came under British rule, and eventually part of an independent Malaysia in 1957. Each side of the border experienced very different trajectories of economic and human development in the 20th century, particularly after 1957. In light of these factors, an investigation into the role of *national* institutional arrangements in explaining these diverging trajectories is a promising one.

Next, it is obvious that borderlands have to be defined. It is worth first considering what is defined as a 'borderland'. A growing body of literature has considered this issue. Martínez (1994, p. 41) provided an interesting perspective in the case of the Mexico/USA borderlands. According to him, two types of borderlands could be distinguished: *core* borderlands, comprised of counties

in the USA and their adjacent municipalities in Mexico, and *greater* borderlands, made up of neighbouring states. This research follows this classification and is only concerned with core borderlands. In Thailand the provinces Satun, Songkhla, Pattani, Yala and Narathiwat could be considered as the core borderland as can many areas of Malaysia including Langkawi island, the districts Kubang Pasu, Alor Setar, Padang Terap, Sik, Baling in Kedah, Perlis, the area north of federal road number 4 in Perak and Jeli, Tanah Merah Pasir Mas, Tumpat and Kota Bahru in Kelantan (see Appendix 7 for a general overview of the border area).²

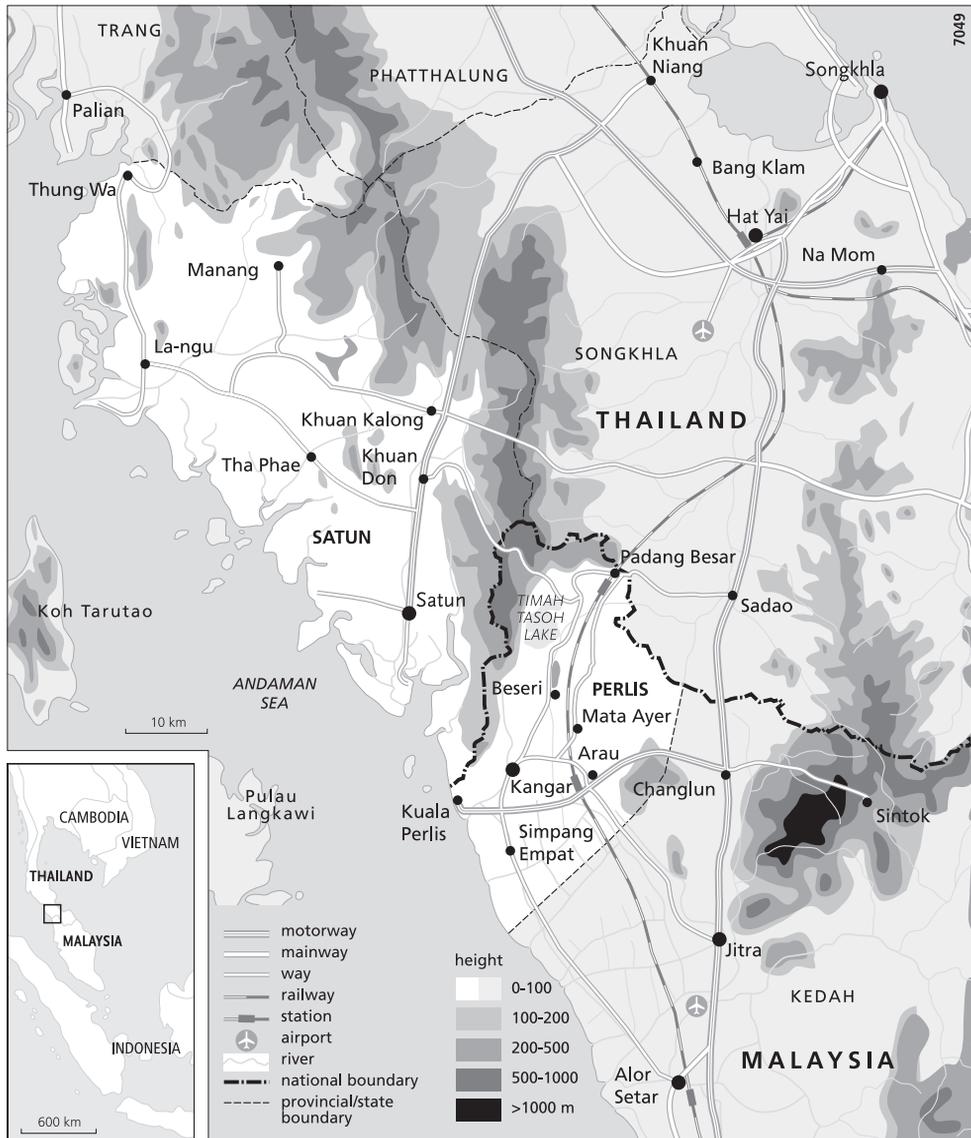


Figure 1.1 The research regions

Practical reasons have led to the choice of the province of Satun in Southern Thailand and the state of Perlis in Northern (peninsular) Malaysia. One is the uneasy security situation in the Thai provinces of Yala, Narathiwat and Pattani arising from long-standing ethnic-religious tensions, making empirical research in this part of the core borderland unfeasible (McCargo 2007, Andriess 2006).

Figure 1.1 locates the two study regions. Both regions are situated along the Andaman Sea and most inhabitants live on moderately populated coastal plains. Small and medium sized settlements can be found on these plains, but Satun and Perlis do not themselves host large urban centres. Hat Yai in Songkhla province and Alor Setar in Kedah state form the regional centres at each side of the core borderlands. The hilly areas are occupied mainly by national parks, as indeed is the entire Tarutao Island, although Langkawi Island belongs to Kedah state. Although roads (and a railway in the case of Perlis) connect Satun and Perlis to other areas, the regions are clearly situated at the periphery of their respective countries. In Satun, a large share of the labour force is employed in agriculture and its related industries, whereas the economy of Perlis is rather more mixed. After 1909 Satun and Perlis have increasingly experienced different trajectories of economic and human development. Perlis is currently a more advanced region than Satun, as will be shown in sections 3.3 and 3.4.

1.4 Outlining the study

As mentioned above, this study aims to explore the nature and functioning of institutions in two adjacent peripheral regions in Thailand and Malaysia. The problem statement is phrased as follows:

To what extent are economic and human development performances of the Malaysian state of Perlis and the Thai province of Satun impacted by differences in the national institutional framework?

Obviously, the word development is a very broad term and has been defined in many ways. It is beyond the scope of this thesis to formulate a perfect definition of development. Some authors even argue that a single correct definition cannot exist, because each theory creates its own definition (Malizia & Feser 1999). This thesis adopts the following normative conceptualisation of development at the regional/local level:

'I conceptualize development as the convergence of corporate and worker well-being. Local development from my perspective occurs when 1) the local, independent corporate sector achieves sustainable competitiveness, thereby sustaining local employment, and 2) worker well-being is achieved (Ettlinger 1999).'

Ettlinger further states that corporate and worker well-being is mutually dependent in the long run. It could indeed be expected that workers become less productive if their perception of their own well-being becomes too low, in which case they may opt to strike or try to find jobs elsewhere. But on the other hand, if firms are not competitive they cannot hire additional workers. Furthermore, it is clear from this definition that Ettlinger does not support development that is initiated by foreign firms who exploit workers and natural resources in the region and

expatriate profits to foreign headquarters. However, she readily admits that this phenomenon is commonplace, resulting in a divergence of corporate and worker well-being. This thesis uses Ettlinger's approach to identify whether and how economic institutions ultimately result in economic and human development.

Similarly to the concept of development, the term 'institutions' is also very broad, and can encompass a variety of different formal or informal, disabling or enabling, national or regional institutions. Disabling institutions are considered here to be those which lead to a divergence of corporate and worker well-being in the long term, whereas enabling institutions are those which lead to convergence. Furthermore, regional institutions function in a particular sub-national territory, whereas national institutions relate to an entire country. Based on the body of knowledge on capitalist institutions and regional development three empirical topics have been chosen.

- *Arrangements within the private sector*

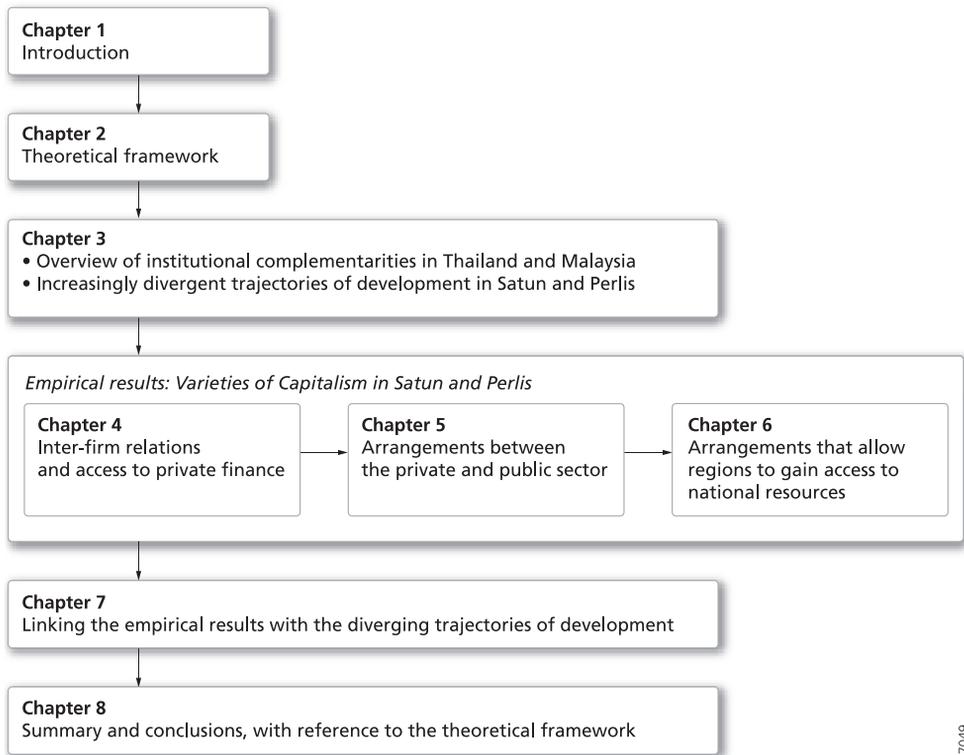
Comparative institutional economists and economic geographers have paid a great deal of attention to the functioning of firms; the former mainly on the national level and the latter on the regional level (Amin & Trift 1994, Van Grunsven 1998, Whitley 1999, Hall & Soskice 2001, Van Westen 2002, Yeung 2000, Cooke et al. 2004). At present, it is generally recognised that cooperation and coordination within the private sector shape specific capitalist systems. It is therefore necessary to explore if and how firms cooperate and coordinate business matters with each other. Issues to be investigated are institutional relations with suppliers, clients and competitors, the role of business and social associations and chambers of commerce, arrangements that shape access to start-up capital and daily working capital (as well as the geography of such arrangements).

- *Arrangements between the private and the public sector*

Although the firm has traditionally been the primary focus in the analysis of capitalist systems, several authors have stressed that the public sector should by no means be neglected (Barlow et al. 1999, Schmidt 2003, Jayasuriya 2003 & 2004, Baud 2004, Haggard 2004, Bardhan 2000 & 2005). Despite the prevailing neo-liberal tendencies underpinning deregulation and the liberalisation of state assets, national and regional public sector actors can still be relevant for capitalist development, especially in developing countries. The empirical chapters explore to what extent governmental authorities are involved in economic life, for instance through public-private partnerships.

- *Arrangements that allow regions to gain access to national resources for regional economic and human development.*

This topic is not derived from the varieties of capitalism approach, but from political economy and political geography publications that are concerned with regional development. It is possible that the institutional arrangements in which national resources are mobilised are more important for the corporate and worker well being of regions than institutional arrangements in which regional actors are involved. For example, in extremely peripheral and rural regions the private sector might be virtually absent. For such regions, regional development policies, processes of decentralisation and informal arrangements between actors in the capital and actors in the



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Figure 1.2 Outline of the study

regions might be very relevant (Hill 2002, Jomo & Wee 2003, Aspinall & Fealy 2003, Mansasan & Chatterjee 2003).

As mentioned in the third objective, ethnic and personal power networks will be included in the analysis of these three institutional topics. Figure 1.2 presents the overall structure of the study.

1.5 Research methodology

This section introduces some general methodological considerations for this research and a brief overview of the two periods of fieldwork undertaken. Detailed aspects of the research methodology as well as a list of all interviewees can be found in Appendix 1. According to Murray & Overton (2003, p. 21) it is possible to distinguish between three types of research; empirical-analytical, historical-hermeneutic and critical research. The first type takes the view that facts speak for themselves, and that science should seek to determine facts about observable objects. This approach proposes that processes and patterns can be predicted, but that normative and moral questions are to be avoided, as they cannot be measured scientifically. The second type rejects the empirical view of the world and considers facts as dependent on experience

and perception. The third type seeks to uncover non-explicit processes and relationships, and promotes progressive social change. In essence, this thesis follows the empirical-analytical type of research. The aim has been to gather empirical insights into causal relations based on as much objective data as possible. Nevertheless, there is occasionally some overlap with the other two types of research. Answers to questionnaire surveys and interviews always contain some subjective elements and should therefore be analysed with caution. Interviewees could have specific prejudices, could be misinformed or could be reluctant to disclose the truth, while researchers can equally misinterpret interview responses. Therefore interests, experiences and perception might affect answers. Engaging in surveys and interviews requires us to admit that historic-hermeneutic elements may affect interpretation. Furthermore, normative notions of economic and human development can to some extent be regarded as critical issues for researchers, as they imply an imperative to pursue and enhance processes of social change.

A further point to be made regarding the research design is the distinction between descriptive, explanatory and testing research (Baarda & Goede 2000, pp. 67-84). The main goal of descriptive research is to gather information about particular phenomena. The objective of explanatory research is to develop and formulate hypotheses by examining (causal) relationships between characteristics. This kind of research further requires a flexible methodology, because it is not certain what researchers might find in libraries, laboratories and in the field. In contrast, testing research investigates whether existing hypotheses derived from theories are valid. Looking at the three research topics, this thesis is essentially explorative, but also has some features of testing research. It is explorative in so much as the aim of this research is to identify what kind of institutional arrangements are present in Satun and Perlis; two little-studied regions in this respect. Therefore, the research methodology has not been totally fixed. Furthermore, there is a testing element to this thesis in answering questions regarding the validity of institutional economic and institutional geographical theories for peripheral regions in less developed countries.

Obviously, detailed empirical quantitative and qualitative data gathering requires primary research in the field. This study was carried out with a variety of methods, including desk research, questionnaire surveys, interviews and gathering of documents in Satun and Perlis. Other authors who have employed a similar strategy are Askew (2006), De Bell (2005), Van Dooren (2003), Demmers (1998), Saxenian (1994) and Shamsul (1986). Primary quantitative data were gathered from surveys, primary qualitative data from interviews and secondary data from desk and document research. In terms of primary data, insights into the private sector (firms, business associations and banks) were obtained mainly through questionnaire surveys. According to McLafferty (2003, p. 87) a survey is 'a research method for gathering information about the characteristics, behaviours and/or attitudes of a population by administering a standardized set of questions. Insights about the public sector and others were mainly sought by conducting semi-structured and open interviews. The former has 'some degree of predetermined order, but still ensures flexibility in the way issues are addressed by the informant' (Longhurst 2003, p. 119), unlike the latter. Conducting open interviews means the identification of broad topics, asking for opinions, issues that require long answers such as oral histories, long term and complex developments. The gathering of primary and secondary data was done during two periods of fieldwork. The first was carried out between June and December 2004 and mainly involved 2 large questionnaire surveys to develop a better understanding of the private sectors in Satun and Perlis.

Table 1.1 Number of interviewees

First fieldwork	Satun	Perlis
firms	38	39
associations	6	4
banks	7	9
car & motorcycle dealers	6	7
governmental authorities	12	10
governmental authorities in Bangkok/Putrajaya	2	1
others	5	4
sub-total	77	74
Second fieldwork		
firms	7	5
governmental authorities	4	7
politicians	9	7
regional press	2	4
governmental authorities in Bangkok/Putrajaya	3	3
others	4	7
sub-total	29	33
total	106	107

As can be seen in Table 1.1, 38 firms were surveyed in Satun, and 39 in Perlis. Virtually all large firms are included in the survey, whereas medium and small sized firms were sampled to get a representative overview of important industries in the regional economy. In addition, short surveys and semi-structured interviews were conducted with a variety of other organisations. Most firms in Satun are located in and around the capital of the province, whereas firms in Perlis tend to be more evenly spread throughout the state. The second phase of fieldwork was conducted between January and June 2006. It consisted of relatively long semi-structured and open interviews. The aim of this phase was to obtain insights for the second and third empirical topics. Attention was therefore paid to non-institutional factors such as ethnicity and personal power networks. The main source of this information was key informants. Often the snowball method could be applied, i.e. asking key informants to nominate other potential key informants. Some interviews were conducted outside the research areas, such as Hat Yai and Bangkok in Thailand, and Alor Setar and Putrajaya (the new seat of government, south of Kuala Lumpur) in Malaysia. The category 'others' in Table 1.1 refers to a mix of individuals who had a detailed knowledge about specific issues pertaining to the research areas. Aside from open interviews, an attempt was also made to undertake two social network analyses from the basis of the surveys. Analysing networks implies that researchers focus on *relations* between organisations rather than attributes/characteristics of organisations (Scott 1991). Unfortunately, this proved to be very difficult in Perlis.

Secondary data were collected during both stages of fieldwork from interviewees (for example corporate brochures and policy documents), statistical agencies in the national capitals

and the libraries of Prince of Songkla University (PSU) in Hat Yai and Northern University of Malaysia (UUM) in Sintok. Although the fieldwork generated a wealth of useful empirical results, three remarks should be made. First, fieldwork in Satun could not be done without interpreters. It should be acknowledged that working with interpreters can in some cases lead to slight distortion of information. Second, the findings on Satun do not refer to the period after the military coup of September 19 2006 which had a significant impact on the political situation. And the Perlis interviewees were often reluctant to disclose information, but fortunately some insiders were very forthcoming. Finally, for the sake of confidentiality the names of interviewees have been omitted in this thesis. Admittedly, this reduces the scientific ability to verify empirical results, but the protection of the interviewees takes priority. A more detailed overview of the research methodology can be found in appendix 1.

Endnotes

- 1 Singapore should be classified as a developed country and has by far the highest standard of living in Southeast Asia.
- 2 *Greater* borderlands would also include the provinces Phuket, Krabi, Trang, Nakhon Si Thammarat, and Phatthalung in Thailand and in Malaysia the rest of Kedah, Penang, the entire district Hulu Perak, the districts Selama, Kuala Krai, Machang, Pasir Puteh and Bachok in Kelantan and in Terengganu Besut and Setiu.

2 Theoretical Framework

This chapter provides the theoretical framework for the empirical analysis in subsequent chapters. The research questions have already been presented in section 1.3, but it is in this chapter that a full theoretical justification is given. The chapter begins with a brief introduction to the important concept of regional development. Section 2.2 initiates a discussion about possible conceptual approaches to the huge diversity of regional development patterns which can be observed around the world and introduces the ‘institutional turn’ in economic geography. Next, section 2.3 summarises the main concepts within neo-institutional economics and economic geography in order to gain a better understanding of the broader concept of institutions. Section 2.4 then focuses on the Varieties of Capitalism (VoC) approach. This comparative institutional approach forms the theoretical basis from which the analytical models in this study are constructed. Section 2.5 considers how the VoC approach should be reconfigured for empirical analysis at the regional level, as this approach is more typically applied to the national scale in the developed world. Finally, section 2.6 links the theoretical discussion with the research questions set out in the previous chapter.

2.1 Regional development and diversity

Development

This thesis is concerned with two major concepts: *development* and *the region*. This section presents a brief discussion of these concepts. Since the Second World War, a great deal of academic literature has been published on the subject of development problems in developing countries, numerous policies have been designed, implemented and subsequently abandoned, and much criticism has emerged on the notion of development itself. Despite these efforts, the fact remains that the quest for human and economic development in the South is far from finished. According to the United Nations Development Programme (UNDP), only 58 countries enjoyed ‘high’ levels of human development in 2003, 87 countries were classified as ‘medium’ and 31 with ‘low’ levels of human development. Following this categorisation, there are therefore a staggering 118 countries still classed as ‘underdeveloped’. Poverty levels have remained high. The percentage of people living below the income poverty threshold of US\$ 2 a day in 2003 was 22.4% in Brazil, 79.9% in India and 90.8% in Nigeria (UNDP 2005). Therefore, looking at the populations of some of the largest countries in the world also points to the fact that much of the world is far from developed.

Development efforts have essentially gained prominence in the post-colonial world. The process of decolonisation after the Second World War had put much developmental responsibility on the newly independent nations. Governments, supported by various intergovernmental organisations and non-governmental organisations (NGOs), were expected to lead billions of people to better lives through economic, social and political progress. However,

developmental outcomes have been unsatisfactory, particularly in Africa where many countries have experienced violent conflicts after decolonisation. But in other parts of the world poverty remains equally visible. In parallel, media in the 'West' often reports on rising poverty levels of various social groups in developed countries in Europe and North America. Even in developed countries there is still room for progress through more inclusive development.

During the process of decolonisation, development was often related to its economic dimension, whilst neglecting social and political aspects. In fact, development was frequently simply equated with economic growth; the increase of the gross domestic product (GDP) and GDP per capita. Consequently, developmental policies could be regarded as purely economic policies that concentrated on trying to stimulate the growth of agriculture, manufacturing and services. Although economic growth maintains a crucial position within the development debate, especially in neo-liberal thinking that prioritises the role of free markets, competition and a limited role of the public sector, several concepts have emerged since the 1970s that do not equate development directly with economic growth. In this regard *alternative* and *bottom-up* approaches have gained widespread support. Such approaches focus amongst other things on the basic needs of poor people, gender inequalities, participation and empowerment, the natural environment, collaborative planning and the role of civil society (Potter et al. 2004, p. 83). One of the most prominent academics in this field is the Indian Nobel Prize Laureate Amartya Sen, who considers development as freedom: freedom to exercise entitlements to sufficient food, live under a roof, acquire knowledge and skills, give opinions, participate freely in politics, and so on. Sen (1999a) views poverty as deprivation of capabilities and limited freedom. Therefore, he sees the enhancement of individual freedom as a 'social commitment'. The well-known Human Development Index (HDI) is influenced by Sen's ideas. The HDI, developed by the (UNDP) is a composite index measuring multiple deprivation. The index is based on three dimensions of capability:

- Longevity: a long and healthy life, as measured by life expectancy at birth.
- Knowledge: measure of the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight)
- Income: a decent standard of living, as measured by GDP per capita.

The HDI provides an alternative to traditional narrow focuses on income. Obviously, the HDI is not an exhaustive measure of poverty, because many aspects of development are not taken into account. It is clear that Sen's ideas have a strong normative and holistic character. According to him, development is much more than just economic growth. Robert Chambers (2005, pp. 184-197) takes a different view and argues that development is just 'good change', to be defined and redefined by each individual him or herself. He therefore believes that development practitioners and theorists should focus less on changing vocabularies and languages for development, but put primacy on the personal actions of individuals in both rich and poor countries.

An alternative perspective has emerged from postmodernism. To postmodernists, development 'involves the rejection of modernism and a return to pre-modern and vernacular forms, as well as the creation of distinctly new forms. It can be seen as a rejection against the functionalism and austerity of the modern period in favour of a heterogeneity of styles, drawing on the past and on contemporary mass culture' (Potter et al., p. 121-122). The rise of Postmodernism in academic theory has led to the emergence of so-called post-development theories. According to Sideway (2002) the aim of post-development is to problematise and/or

reject the whole question of development. This study follows Schuurman's (2000) criticism on this perspective. He states that as long as the majority of people in developing countries wish to get rid of hunger or under nourishment, get the prices right for their products, have access to education, adequate health care and transportation, post development theories are useless, because it advises poor people to forget about these wishes. And Nederveen Pieterse (2000) provides another useful critique: Post-development 'shows no regard for the potential and dialectics of modernity, democratisation, soft power technologies, reflexivity.' He further states that the end result of post-development is 'whistling in the dark' rather than a translation into 'a constructive position.'

The region

As the aim of this thesis is to investigate development at the regional scale level, it is necessary to define the region. What in fact is a region? This is a question that may be answered geographically, but could also be defined in terms of a specific economy, a specific culture or political sphere of influence. It becomes problematic when several factors are combined. Geographically, a region sometimes means a group of countries, but can also refer to a sub-national area. But how can the borders of regions then be identified? When is a region an economic, political or social spatial entity that is clearly different from other entities? Answering this question comprehensively is beyond the scope of this thesis, but box 2.1 offers some ideas. Here, the defining of regions is done politically: the national border, the provincial borders in Thailand and the state borders in Malaysia are used to look at regions. These borders have two important advantages. First, political borders are co-terminous with statistical databases and other secondary sources. Second, these borders are important for the political position of regions within a country.¹ The political functioning of regions is complex for various reasons. Each region considers itself as unique, and tries to develop itself in many fields in order to achieve greater absolute welfare and well-being, but also relatively compared with other regions in a country. Regional politicians are hence responsible for the regional population, and will bargain and negotiate in the capital city for more financial and other resources for a wide range of things such as education, housing, land-use planning etc (Flint & Taylor 2007, p. 261). Simultaneously however, a local government forms a part of the wider constellation of national government bodies. National and regional politicians together are the most important political actors in each country. Central governmental authorities have often identified regional borders, regard regional political organisations merely as instruments and frequently have the legal power to appoint regional politicians. Serious problems arise when actions and policies of such regional politicians (in fact marionettes of the central government) are detrimental to the inhabitants. In those cases interests and aspirations are dissimilar at different spatial scale levels. It is also possible that regions together with its politicians oppose central governments, which at very worst may lead to violence and even civil war. It should be noted that national politicians originate from particular regions, influencing perceptions, vested interests, policies and eventually outcomes. In short, the political position of regional agencies is difficult and could have positive as well as negative consequences for economic, social and cultural development. In the words of Flint & Taylor (2007, p. 261): 'the most important characteristic of the local state is the ambiguity of its role. This is because it is part of the central state apparatus, but it can also be used to oppose the central state'.

Once regional borders are identified it is also possible to consider all regions within a particular country as a hierarchical system, i.e. core, semi-peripheral and peripheral regions

Box 2.1 The nature of the region

De Pater et al. (2002, p. 48-49) distinguishes between a *uniform* region, a *homogenous* region and a *functional* region. A uniform region has one distinctive feature, for example high mountains or a predominantly Buddhist population; a homogenous region has several interrelated features, for example a combination of a hot climate throughout the year, beautiful wide beaches, famous gastronomy and a strong tourist industry while a functional region is an entity resulting from particular spatial flows and movements which are typical of one region, for example trade patterns. Often, functional regions are characterised by relatively large urban centres surrounded by a countryside containing smaller towns and villages. A polynodal region has more than one urban centre, such as Hat-Yai/Songkhla City in Southern Thailand and the Dutch Randstad. In case spatial flows and movements do not have similar patterns, it becomes difficult to define the borders of functional regions. In those cases space could be characterised as a mosaic and regions could become a construction of researchers, policy makers, politicians or even inhabitants themselves. In this regard Allen et al. (1998, p.3) state that a particular region is not a fixed and simple area. Regions are subject to a set of economic and social legacies and specific geographical patterns. According to them regions are 'social constructions' that are not fixed in space and time. Regions could become imaginations as well. This is especially present in the tourist industry in which tourist authorities try to attract as many tourists by cultivating particular images of an area with arbitrary or imaginary borders (De Pater et al. 2002, pp. 28-34). With respect to economic development Massey (1984) introduced a geological analogy. During the course of time each region gets its own *layers* of investment, but the patterns of layers are dependent on the suitability of regions for types of investments. For example, Metropolitan Cebu in The Philippines has layers of investments in domestic trade, foreign manufacturing firms as well as the tourist industry. It is noteworthy that places can be part of several *functional* regions. The economic borders of a region could be quite different from the social borders. On the one hand, it is arguable that traditional borders of a region are not appropriate anymore as a result of the internationalisation of economies. Trade in products and services, financial flows, and exchange of information and ideas have become increasingly mobile in the last decades. Perhaps contemporary layers of investments in Cebu have made the metropolis part of a large functional economic area with international dimensions. In contemporary patterns of global economic geography space has become 'slippery' while it remains to be seen how 'sticky' places are for a continuous influx of layers of investment (Markusen 1996). Some authors even claim that localities are currently inappropriate areas and that there is one global village. On the other hand, traditional borders might be still relevant if patterns of social interaction (kinship, friends, colleagues, etc) are taken as indicators.

(Terlouw 2001). Obviously, the position of regions in the hierarchy can change over time. For example, semi-peripheral regions can become core regions or peripheral regions. This research is preoccupied with the latter two regions. As will be clarified in section 2.6, national spatial hierarchies are expected to play a vital role for patterns of regional development. Research

question 5 will address the issue of the ambiguity of the role of the region and the issue of national spatial hierarchy in greater detail.

The preceding discussion revealed that the notion of regional development can be regarded irrelevant in the postmodernist construct of the world as a 'global village'. In this study the continuing presence of huge numbers of poor people in the world and the remarkable diversity of observed regional developmental patterns (see below) are assumed to be sufficiently convincing factors to pursue an investigation of economic outcomes at the regional scale level. That is why regional development is normatively conceptualised in the introduction as a convergence of corporate and worker well-being (Ettliger 1999). This thesis uses this conceptualisation to identify whether and how economic institutions ultimately result in economic and human development (see also chapter 7).

The geographical diversity of development

In chapter 1 it was mentioned that the increasing diversity of development has been dramatic despite processes of economic internationalisation. Table 2.1 gives an indication of this diversity. It shows the *human development index* for countries between 1975 and 2003. Norway has the highest score of human development, and Niger the lowest. Thailand and Malaysia, the two countries that are the subject of this thesis, have experienced considerable progress in human development compared to most African countries, which have performed worse. In Africa several countries had even experienced a negative trend between 1990 and 2003, such as Kenya, Cameroon and Botswana. Obviously, civil wars and other forms of violent conflict in Africa have had an extremely negative impact on human development. It remains to be seen whether the majority of African countries are eventually able to become countries with a medium human development and whether disparities between developed and less developed countries will decrease. Furthermore, there are huge differences of development within countries. The example of Italy illustrates that even in the developed world regional diversity can remain immense. This country is even member of the Group of Eight, but it has not managed to achieve balanced regional development between the north and south.

As stated previously, the geographical focus of this thesis is the Thai-Malaysian border area. Thailand and Malaysia are situated in Southeast Asia and are founding members of the Association of Southeast Asian Nations (ASEAN). Today ASEAN has 10 members with a total population of around 500 million people and it can be expected that Timor Leste will join

Table 2.1 HDI for selected countries

	1975	1990	2003	Rank 2003
Norway	0.868	0.912	0.963	1
Germany	?	0.888	0.930	20
Poland	?	0.803	0.858	36
Malaysia	0.615	0.721	0.796	63
Thailand	0.614	0.714	0.778	73
El Salvador	0.592	0.650	0.722	104
Cameroon	0.416	0.514	0.497	148
Niger	0.236	0.249	0.281	177

Source: UNDP 2005

Table 2.2 HDI for selected regions in Southeast Asia

Thailand		Indonesia	
Rayong	0.819	DKI Jakarta	0.756
Phatthalung	0.680	Bengkulu	0.662
Nong Bua-Lam Phu	0.632	West Nusa-Tenggara	0.578
Vietnam		Malaysia	
Ha Noi	0.835	Kuala Lumpur	0.861
Lam Dong	0.662	Perak	0.784
La Chao	0.486	Sabah	0.729

Sources: UNDP various years

ASEAN in the future.² Except for Singapore, Brunei and Timor Leste the space economies of Southeast Asian countries are characterised by a few huge metropolitan core areas together with many (semi-) peripheral regions. Metropolitan areas generally have much higher per capita incomes and much lower poverty levels than peripheral areas, although many poor labourers and unemployed people live in metropolitan areas as well. The high incomes are a result of modern manufacturing practices and the wide range of modern services that are concentrated in metropolitan areas. In contrast, the peripheral regions tend to be dependent on agriculture and small-scale manufacturing and services. Table 2.2 shows the regional diversity of development in four Southeast Asian countries. It is clear that there is much variation within countries, in particular in Vietnam. Rayong, the most developed Thai region, has a similar level of development as the Seychelles and Cuba (between Poland and Malaysia in Table 2.1) and Lam Phu has that similar to Morocco (between El Salvador and Cameroon). For the year 2000, Kuala Lumpur is comparable to Brunei Darussalam and Sabah to the Dominican Republic and Uzbekistan. These countries cannot be compared in Table 2.1 due to the difference in time. Furthermore, it should be noted that the aforementioned comparison should be made with some caution as the methodology of the various UNDP country offices is not entirely consistent. Hill (2002) claims that a remarkable feature of regional disparities in Southeast Asia is the diversity through time. In Thailand and Vietnam, regional disparities have been increasing due to concentrations of economic growth in Metropolitan Bangkok, Hanoi and Ho Chi Minh. In contrast, no clear overall trends have been observed in Malaysia, the Philippines and Indonesia. Many factors could be responsible for these unclear trends, among others developments in growth regions and in lagging regions. Researchers should also be well aware of the research methodology, i.e. the choice of indicators and (mathematical) methods used to analyse regional disparities could greatly influence outcomes (Hill 2002).³ Despite the sometimes difficult issue to obtain reliable insights into patterns of regional development, many Southeast Asian countries are trying to reduce regional disparities and achieve a more balanced spatial development. Section 6.1 outlines this issue for Thailand and Malaysia. The next section is concerned with theoretical explanations for the diversity of regional development.

2.2 Approaches to explain regional development

How can observed huge regional disparities be explained? Geographers and regional economists have not produced a single 'grand' theory that explains regional economic diversity within countries. Instead, several schools of thought have emerged that prioritise different factors. Regional development has long been studied by considering either internal or external factors as the main sources of change. Classical economic theory emphasises the role of the local 'resource endowment'. Regional economic activity is then seen as a result of the locality's comparative advantages in its exchanges with other localities (Ricardo 1817). In trade theory, these relative advantages may result from natural assets (minerals, soil fertility and climate) or from the characteristics of its population (labour, skills). Over time, concentrations of certain activities or economic assets can further consolidate regional advantages (as in agglomeration economies) (Lambooy 1999). What is typical of the neoclassical approaches is that the performance of regional economies is explained with reference to their internal characteristics, abstracted from external factors and forces. These are privileged by the authors of the (neo-marxist) '*dependéncia*' school, who have focused on the subordination of peripheral areas (especially in developing countries) in the international division of labour as a major determinant of regional performance. Power differences, rather than 'objective' presence of production factors are then seen as the main reasons why certain areas lag behind others in performance and well-being. A major geographical pattern resulting from such power differences is that of core and peripheral areas, as well as semi-peripheries which contain some elements of both (Wallerstein 1979). Some approaches have tried to combine internal and external factors. The (neo-) Keynesian school, for instance, is a mix of both as it highlights the role of the state. Increased economic activity and demand could be the result of more investments of regional private sectors, but also of national governmental policies or governmental spending in particular regions. Table 2.3 summarises the three main schools.

The schools have contributed to our understanding of what it is that enables regions to improve the living conditions of their residents. However, neither presents us with adequate explanations of the wide variety in economic and developmental performance observed at the regional level (Table 2.2). This variety could even be found among non-core regions (Hill 2002).

Following the transaction costs approach introduced by Coase (1937) and Williamson (1985), institutionalist theories have suggested further possible explanations for geographical variations (Harriss et al. 1995, Shepard & Barnes 2003). The fundamental insight underpinning this school

Table 2.3 Summary of three schools on regional economic development

	focus on	essential dynamic	ultimate outcome	role of the state
neo-classical	supply side	mineralising costs leads to increase in saving, investment and activity	specialisation and convergence	should facilitate free markets
(neo-)Keynesian	demand side	more jobs, leads to more spending and effective demand and activity	divergence	implement policies to stop divergence
neo-Marxist	social classes	exploitation of labour by capital	destruction of capitalism and dependency	incapable to influence ultimate outcome

Sources: Cypher & Dietz 1997, Malizia & Feser 1999.

is that regional advantage is not just due to the supply of production factors, but also results from the social setting of economic activity in a locality, in other words, the institutional framework (e.g. Amin 1999, Toyne 1995). The institutional approach in economic geography departs, in the words of Ron Martin, from *'the recognition that the form and evolution of the economic landscape cannot be fully understood without giving due attention to the various social institutions on which economic activity depends and through which it is shaped'* (Martin 2003, p. 77).⁴ It is generally assumed that *enabling* institutions provide a certain stability in the operation of economic actors, and may encourage or constrain regional development. This stability translates into a regionally specific development trajectory – a trajectory not completely shaped but certainly fostered by the course of developments that have taken place so far (Amin 1999). Trajectories are especially positive if institutions lead to increasing investments, or in Massey's terminology, eventually new layers of investment in successive economic eras (see box 2.1). By contrast, it is important to mention that *disabling* institutions are defined as those which are detrimental to capital accumulation and economic renewal.

The majority of institutional empirical studies deal with one scale level, i.e. regional institutions for regional development, and national institutions for national development. For example, Scott (2002) attributes regional development to five kinds of regional push effects: inter-firm transactional relations, local labour markets, structures of learning and innovation, institutional infrastructures and physical infrastructures. He theoretically bases these effects on a body of literature on geographical agglomeration.⁵ Hill (2002) on the other hand combines national and regional factors in his analysis of the Southeast (and East) Asian contexts. He argues that there are five factors that together explain the diversity of regional development; locational advantage, government policies, economies of scale and scope, natural resource endowments and local level dynamics and capacities. Although this presents an interesting mix of institutional and other factors, his analysis constitutes more of a summary than a theoretically sound framework. It does not, for example, address the interplay between the five factors. To some extent related with the institutional turn in economic geography is evolutionary economic geography. This branch of economic geography tries to explain regional economic activity by employing an explicit dynamic/historical approach, using concepts from evolutionary biology. Heredity, natural selection and mutation are changed into into routines (within firms), competition and innovation respectively (Boschma et al. 2002, p. 24). According to Boschma & Frenken (2006), an evolutionary turn in economic geography is useful for topics 'study of economic geography such as location behaviour of firms, the spatial evolution of sectors and networks, the co-evolution of firms, technologies and territorial institutions and convergence/divergence in spatial systems.'

Much of the current research on geographical variations in development focuses on the innovative capacity of regional economies. In a context of dynamic economic and technological change, the success of a territorial economy is to a large extent dependent on its ability to renew itself, adapt and foster the growth of cutting edge industries. This is a logical focus for the study of economic core areas, but it offers less scope in relatively peripheral regions that are essentially importers of knowledge produced elsewhere. Innovation matters for Satun and Perlis, but local innovative capacity is limited and does not explain much of the economic differences observed between the two regions. The key question of this study is to consider to what extent national institutions shape patterns of economic activity and economic performance in semi-peripheral regions. This is in view of the fact that internal conditions (resource base, assets) are quite similar, and there is no fundamental difference in external forces. While no two regions are

exactly alike, the neoclassical and dependency schools of thought are not able to account fully for the differences observed between Satun and Perlis. As a consequence, institutions here have to be seen as relatively static, but regional development outcomes as dynamic. It is assumed that *differences* between the Thai and Malaysian institutional frameworks have not increased since the introduction of the New Economic Policy in Malaysia in 1971. It is therefore not the aim here to look comprehensively at *institutional change*, but to some extent chapter 3 has an evolutionary character in the sense that it provides the historical context for the empirical analysis in subsequent chapters.

According to Martin (2003, p. 79) the basic question of an institutionalist approach to economic development is: *'To what extent and in what ways are the processes of geographically uneven capitalist economic development shaped and mediated by the institutional structures in and through which those processes take place?'* One of the objectives of this study is to scrutinise the interplay between *national* and *regional* institutions. For instance, a possibility is that regional development is the result of particular combinations of national and regional institutions. The sections 2.4 and 2.5 will show how institutional economic theories can be used for the study of this interplay. In the 1990s a complex web of explanatory concepts and spatial/regional concepts emerged within the field of economic geography for the study of the relation between institutions, innovation and ultimately regional development. Institutional approaches, however, are not without their problems. In a puzzling figure Lagendijk (2003) depicts eleven explanatory concepts including embeddedness, collective learning and institutional thickness, as well as seven spatial/regional concepts for example industrial districts and regional innovation systems. Many of these concepts are interlinked. As mentioned in the previous section, the theoretical basis in this thesis does not follow an economic geographical concept. There are three limitations of such approaches.

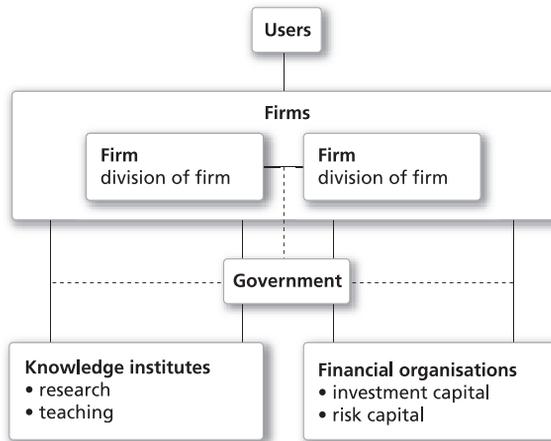
1. Many concepts have theoretical and practical problems. Markusen (1999, reprint 2003) has termed the contemporary concepts in regional studies *fuzzy*, because among other things the concepts are unclear and are difficult to operationalise. Consider the concept of institutional thickness. According to Amin & Thrift (1994) regional economic success does not only depend on economic factors, but also on social and cultural factors, in their words the 'institutional thickness' within a region. If the following four factors are present, a region's institutional framework is said to be thick:

- a plethora of institutions and organisations of different kinds
- high levels of interaction amongst these organisations
- these high levels of interaction must lead to collective representation of what are normally sectional and individual interests, to a process of socialising costs and to controlling 'rogue' behaviour
- mutual awareness that actors are involved in a common enterprise.

If all four factors are at work, 'it is a thickness which both establishes legitimacy and nourishes relations of trust, a thickness which continues to stimulate entrepreneurship and consolidate the level of *embeddedness* of industry'. Unfortunately, Amin & Thrift do not elaborate with methodological considerations as to how institutional thickness can be investigated empirically. It is therefore perhaps no surprise that very few empirical studies using this concept have been published, particularly in developing countries. Taylor (2005) not only finds the concept of institutional thickness 'chaotic', but he further claims that

'embeddedness fails to adequately consider the imperatives of capitalism', i.e. profits, return on investments and the accumulation of capital. According to him, embeddedness, trust and loyalty are 'paramount' in periods of economic growth, but 'the primary role of price becomes clear' during recessions.⁶

2. The majority of economic geographical concepts do not take into account the possibility of unequal power relations. Cumber et al. (2003) maintain that regarding industrial districts, regional innovation systems and learning regions 'questions relating to unequal power relations and clashes of conflicting social interests within such regions have been largely overlooked, reflecting the assumption that an emphasis on innovation and learning will serve the interests of all groups'. As Ettliger (1999) has noted there is often a divergence of corporate and worker well being, indeed suggesting that the interests of all groups are not simultaneously pursued. Fortunately, some empirical studies have recently shown that the theoretical foundations of any concept should include not only aspects of power *to...*, but also aspects of power *over...* (Beerepoot 2005, Sofer & Schnell 2003, Lyon 2003, and Taylor 2002).
3. Many concepts do not adequately facilitate the study of less successful regions. Many authors seem to prefer the study of *enabling* institutions, whereas they are reluctant to study *disabling* institutions in less successful regions (Cumber et al. 2003). For example, Scott's (2002) overview of empirical studies in low and middle income countries deals predominantly with successful cases. However, it is equally interesting to study economic, geographical and social dynamics in relatively less successful regions and to study how disabling institutions could block or delay regional development. Furthermore, many concepts tend to be biased towards urban regions. Before proceeding to the next section it is worth mentioning positive aspects as well. Regarding the spatial/regional concept of regional innovation systems evolutionary approaches in economic geography emphasise the role of knowledge creation in spatially embedded innovation systems in the relative success of territorial innovation systems (Cooke et al. 2004, Boschma et al. 2002). Although it might be sometimes analytically irrelevant for



Source: Boschma et al 2002, p 158

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Figure 2.1 A model for an innovation system

peripheral regions in developing countries, methodological aspects seem to be useful (Box 2.2). Figure 2.1 clearly distinguishes organisations/actors from institutions. In addition, the model enables the investigation of relations between institutions and the relative importance of specific institutions.

A focus on institutional systems and forms of institutional coherence may address these limitations more fully and therefore be better suited to the investigation of regional economic activity and performances in peripheral developing regions.

2.3 Institutions and economic development

Section 2.2 introduced the institutional turn in economic geography for the explanation of patterns of regional development. This section briefly discusses issues within the field of institutional economics and provides the backdrop against which section 2.4 will present the 'varieties of capitalism' approach. In 1993 Douglas C. North and Robert F. Vogel won the Nobel Prize for economics 'for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change' (Nobel Foundation 2005). Ever since, there has been no doubt that institutions matter in economic life. Especially the contributions of Douglas North are often quoted in institutional economic and institutional geographical studies. He has been one of the leading authors of the new institutional economics (NIE). The *old* institutional economics refers to theories developed in the 19th century, of which Thorstein Veblen and John Kenneth Galbraith were the most influential protagonists (Canterbury 1995, pp. 243-256). For a detailed account of NIE see for example Lin (1999), Harris et al. (1995), and North (1990). This section will give a brief overview of this work. The NIE can be considered as a critique on the neo-classical paradigm of free markets. It argues that completely free markets rarely exist in reality. The NIE does not agree with the neo-classical school of thought regarding the seven behavioural assumptions (see appendix 1) and their thinking therefore generates totally different outcomes, such as the notion of cooperation and the impossibility of universally free markets. NIE states that markets do not solely consist of the price mechanism. Instead, a variety of transaction costs exist, i.e. costs which appear during the process of buying and selling products and services, not the production costs.⁷

Examples are the costs of balancing information asymmetries; identify the hidden interests of individuals, the payment of public goods, production externalities and the unforeseeable future (Bates 1995). Neo-classical economists neglect these costs. Oliver Williamson (1985) has been one of the leading economists focussing on transaction costs. Put simply, this view posits that the lower the transaction costs, the better the functioning of markets. In cases where transactions costs between firms and their suppliers are very high, firms might try to buy these suppliers, resulting in lower transaction costs. Transaction costs can also be lowered by *institutions*. According to North (1990) institutions are 'the rules of the game in society or, more formally, the humanly devised constraints that shape human interaction.' Institutions are generally divided into informal and formal constraints, with the former being economic, political (and judicial) rules and contracts, the latter 'informal codes of conduct, norms of behaviour and conventions'. Note that North uses the words *constraints* and *institutions* interchangeably. In fact, enabling institutions increase supply of information, reduce transaction costs, increase trust

Box 2.2 Innovation in developing countries

The concept of regional innovation systems has become widely acknowledged as a suitable tool for investigating patterns of technological developments, economic activity and economic performance in regions in the developed part of the world. With respect to the developing world this concept is useful for dynamic urban regions such as Bangalore in India and São Paulo in Brazil. As innovation, in particular radical innovation, does not frequently take place in rural and peripheral regions in say, Bolivia, Mozambique and Tajikistan, it can be assumed that processes of innovation do not have major impacts on developmental trajectories. Adaptation and imitation are likely to play more decisive roles. Studying processes of regional innovation in developing countries requires taking into account the following aspects (Bell & Albu 1999, Visser 1999, Fromhold-Eisebith 2001, Fromhold-Eisebith & Eisebith 2003, Beerepoot 2005, Poon et al. 2006, Revilla Diez & Kiese 2006):

- the most technologically advanced firms in developing countries are often multinationals from developed countries. It remains to be seen whether such firms are willing to transfer relevant technologies to other firms. Furthermore, they are highly mobile, and a firm's headquarters could easily decide to move branches to other countries, for example when labour costs are becoming too high.
- Some multinationals from the developing world have invested in research & development facilities in technologically advanced countries. In those cases the production of knowledge does not take place in developing countries.
- Geographical proximity to technologically advanced countries could be beneficial. A good example is Batam Island (Indonesia) near Singapore.
- The position of owners of firms in product clusters is very important for patterns of knowledge diffusion.
- There is often a lack of human capital in order to engage in radical innovation. On the one hand quality of education should be improved, on the other hand many countries face a serious *brain drain* problem, in that highly skilled workers often migrate to Japan, Europe and the USA. Note that the European Union is currently making policy to further ease the arrival of such migrants with the introduction of a *blue card* (EU observer 2007).

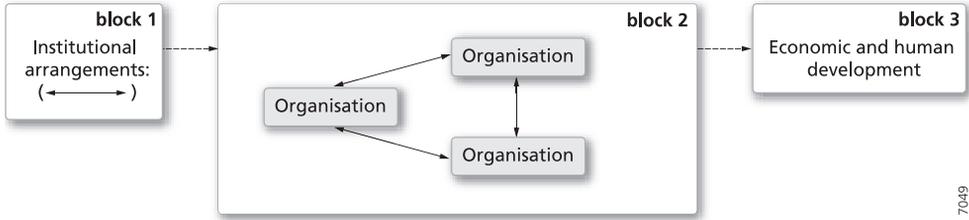
between economic organisations and individuals and ultimately reduce uncertainty in human (economic) relations (Harris et al. 1995). The role of institutions is to solve economic problems that cannot be adequately handled by the price mechanism (often called market failures). Hall & Thelen (2005), claim that 'institutions are best seen, not as a matrix of sanctions and incentives to which actors respond in relatively passive fashion, but as resources that actors use to attain their ends, in some cases switching from one institution to another when it seems more likely to serve their purposes.' These resources will only be successful if they function effectively. The better formal institutions are guaranteed by legal enforcement, the higher the effectiveness of those institutions. The effectiveness of informal institutions is less straightforward, but ideas around the role of trust (Fukuyama 1995) and social capital (see for example Putnam, 1995 and

Coleman, 1988) have contributed much to our understanding in this area. When agents trust each other, one agent has every reason to expect that that another agent will act along the lines of an informal agreement between the two agents, for example an oral or tacit agreement that functions as long as they know one another. Furthermore, the agent has every reason to expect that the other agent will not act in a way that would be detrimental to her/him. According to the World Bank's website, 'social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.' It is evident that it is difficult to precisely define the differences between informal institutions and social capital. This thesis therefore tries to avoid overlapping and unclearly defined concepts by following the institutional terminology.⁸

Besides the distinction between formal and informal institutions it is very important to consider the quality of institutions/constraints. Not each institution solves an economic problem. There are also institutions that reduce the availability of information, increase transaction costs, increase uncertainty and make various forms of coordination more difficult (Nooteboom 2000). In this regard a distinction can be made between an (effective) *enabling* institution and a (ineffective) *disabling* institution, which generate positive and negative outcomes respectively. In fact, this distinction is another reason to focus on institutions rather than social capital. Taylor (2005) has several problems with the concept of social capital. Among others he wonders why social capital is by definition perceived as a necessarily positive phenomenon in the existing literature, and not negative. The presence or absence and quality of formal and informal institutions, together with the effectiveness of their enforcement shape the institutional framework of a particular area. This institutional framework interacts with *organisations* in a particular area. *Organisations* include political bodies (political parties, regulatory agencies, etc.), economic bodies (firms, trade unions, etc.) and social bodies (churches, clubs, etc.) and educational bodies. Thus North clearly separates organisations from institutions. According to North's view on economic development the interaction between the institutional framework and economic organisations is of critical importance:

- 1 'The institutional framework dictates the margins at which economic organisations operate.' So, the framework could expand the possibilities of economic development, but limiting or even reducing these possibilities could result as well. Accordingly North (1990) states: 'Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activities that do not encourage productive activity'.
- 2 In the long term economic organisations operate differently as a result of technological developments and learning processes. Different operations influence the formal and informal constraints and the characteristics of their enforcement. For example, informal constraints can be transformed into formal constraints.

This study is concerned with the impact of institutions on economic and human development, thus the first part of the interaction. Furthermore, it focuses on the regional scale level.⁹ Figure 2.2 visualises this impact. In fact, Figure 2.1 is an operationalisation of the second block in Figure 2.2. The analytical models in section 2.6 will also be based on the second block. Eventually, the extent to which, and how, economic and human development is shaped by the institutional arrangements in which organisations operate is scrutinised. Because the patterns



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Figure 2.2 Institutions, organisations and economic and human development

of the interaction between the institutional framework and economic organisations do not change overnight a country or region may stay in a difficult position for decades. As North writes, ‘even if the institutional framework severely limits economic development and even if the involved economic organisations desire to improve the situation, it may not happen, because of the difficulty to change patterns, which have strong historical roots’ (North 1990). In other words, development trajectories can be highly path-dependent (Amin 1999). Note that the second part of North’s interaction has a dynamic character and resembles evolutionary economic approaches, but as mentioned before, this study is primarily concerned with dynamics of regional development. For future regional research an evolutionary economic approach is likely to be interesting because it can be expected that the Thai national institutional framework will change considerably due to the military coup of September 19, 2006. The new constitution might lead to new ‘rules of the game’, with direct impacts on patterns of regional development.

In the last two decades many different empirical studies have been published. Whereas institutional economic geographers have tended to be more concerned with informal institutions at the regional level, institutional economists have often focussed on institutions at the national level that lend themselves to analysis within formal mathematical models. One popular subject has been property rights and their enforcement. Fortunately, some institutional economists now opt for a broader view of institutions. In this respect Pranab Bardhan writes about ‘the narrow focus of the current literature on the undoubtedly important institutions that protect individual property rights’ (Bardhan 2005, p. 2). According to Bardhan, economic development in developing countries has been frequently blocked by a lack of enabling institutions relating to financial markets and land rights (Bardhan 2005, p. 11). For example, rural industrialisation programmes are easier to implement if enabling institutions relating to these two issues are existing. Besides the problem of selecting particular institutions it is also important not to view institutions totally in isolation from other issues that affect the behaviour of organisations. According to Aaron (2000) the impact of institutions on economic growth should by no means be overstated and Khan (1995) proposed a fusion of NIE and political economy analysis. Bardhan (2005, pp. 27-85) and Bardhan (2000) present a framework for combining NIE and political economy. He claims that power, in particular political power, is very influential for the nature of institutions. Disabling institutions often persist because of *distributive conflicts*. Moreover, these conflicts may be exacerbated because the actors that are able to demolish disabling institutions are not fully inclined to do so. He has mentioned land rights as a classic example. Land reforms and leasing out land to small tenants have been extremely difficult or unsuccessful because of monitoring problems, insecurity of tenure and landlords’ fears that the tenant will acquire occupancy right. Politicians have often been landlords severely limiting land reforms.¹⁰ Other frequently observed

problems are *rents* and *rent-seeking*. The first refers to incomes in excess of the acceptable minimum set by the recipient, whereby minimum incomes reflect the capabilities of the recipient, while the latter to 'the expenditure of resources and effort in creating, maintaining or transferring rents' (Khan 2000). The brief discussion on regions in the first section of this chapter has clarified that political power is an important issue at various spatial scale levels. Often countries have political geographies which are based on several kinds of territorial governmental authorities, from the village level to the central level. This section has presented rather general institutional economic issues. The aim of the next section is to introduce an analytical and comparative institutional approach that is suitable for regional empirical fieldworks in Southeast Asia.

2.4 Varieties of Capitalism and institutions

In chapter 1 the idea was introduced that studying the diversity of development in non-core regions could be effectively done by analysing the diversity of capitalist systems, both between and within countries. A comparative analysis of capitalist systems makes sense particularly because of the collapse of the former Union of Socialist Soviet Republics and the entry of capitalist institutions into Eastern European countries, China and Vietnam. Chinese manufacturing and services sectors have expanded dramatically since Mr. Deng Xiaoping initiated reforms in 1978 and China became a member of the World Trade Organisation on 11 December, 2001. Therefore, it would be unsurprising if explaining regional diversity could be done by scrutinising the diversity of capitalist systems.

More than 30 years ago Hoekveld (1971a) already wrote on the necessity of comparing economic systems and he claimed the following on differentiation among the group of capitalist countries:

Also the capitalist countries show a large variety, not only in terms of economic development (in Spain the pace of industrialization is very slow, whereas Sweden has already become a welfare state), but also in terms of the interaction between the market and the government (Hoekveld 1971b, p. 43).'

He then distinguished between countries in which governmental intervention plays a moderate role in the society at large (the United States and Canada) and countries in which it plays an important role (The Netherlands, West Germany and Sweden). Around the same time, Gregory & Stuart published the first edition of their book *Comparative Economic Systems*. They used the term *variants of capitalism* to compare national economic systems. For example, they termed the French system 'indicative planning in a market economy', the German system 'the social market economy' and for the Swedish system 'the welfare state in a market capitalist setting' (Gregory & Stuart 1992, pp. 195-254). A concept from the social systems of production school is Fordism. Fordism denotes mass production systems, hierarchical structures and relatively high wages for employees to stimulate consumerism. Henry Ford successfully implemented this strategy in the automobile industry. This concept recognises the relevance of institutions, but is quite problematic if one would like to compare countries within developing countries. Tickell and Peck (1995) have identified 8 variants of Fordism and classified Mexico, Brazil and South Korea in one group whereas France, the United Kingdom and Germany each belong to different variants (see appendix 2). Obviously, it is doubtful whether the European countries

are more heterogeneous than the former group of countries. The social systems of production school (also called regulation school) has contributed as well to theories of institutions and political power at the regional and local level. Well known concepts include formal and informal modes of regulation, the transformation from Fordism to post-Fordism (more flexible forms of economic organisation instead of mass production in large plants) and urban regimes (specific political modes of regulation that enhance economic development, often linked to political elites. Consider a special issue in the journal *Economy and Society* (1995, 24 issue 3), Jessop (1997) and Macleod & Goodwin (1999). The reasons why the social systems of production school has not been chosen as the analytical model in this thesis are outlined below.

A more extensive analysis of capitalist systems is provided in Knox et al. They state that 'for political-institutional reasons national economies cannot always be confined solely to creating the optimal conditions for the operation of global industries within them, because national politics reflects conflicts of group and regional interests over tariffs and trade, and national economies have distinctive trajectories in the development of the financial systems that underpin investment decisions by local firms' (Knox et al. 2003, p. 91). Furthermore, they have included a table in their book, based on Hutton (1995), with 31 institutional and ideological indicators leading to four dominant capitalist systems; American, Japanese, European social market and British capitalism (see also appendix 3). The preceding discussion shows that there is indeed an enormous diversity of capitalist systems. Many approaches enable the identification of different, often intangible, institutional arrangements but lack opportunities for a systematic and empirical analysis of institutions, relations between institutions and ultimately the impact of institutions on economic development. It is Hall & Soskice's (2001) Varieties of Capitalism approach (hereafter VoC approach) that offers an analytical model for systematic and empirical analyses.

Fundamental ideas of the VoC approach

The VoC approach has been developed to go beyond institutional and comparative theories that 'tend to miss or model too incompletely the *strategic interactions* central to the behaviour of economic actors' (Hall & Soskice 2001, p. 5). For example, empirical studies of the social systems of production schools mainly analyse modes of regulation from a rather abstract national or regional point of view instead behavioural interaction of specific economic actors such as firms. The VoC approach takes into account these interactions and enables to empirically study the impact of national institutions on national economic performances. Hall and Soskice consider the *firm* as the central organisation in a capitalist system. In order to develop and coordinate core competencies, firms must maintain many relationships in five spheres.

1. Industrial relations. Actually these are relations between the employer and the employees. Arrangements and contracts related to the work sphere (wages, wage bargaining and working conditions) continuously have to be settled and reviewed to enhance productivity levels of the firm.
2. Vocational training and education. The higher the education levels of the employees and the more eager employees are to learn all kinds of skills, the higher the quality of the core competencies of the firm.
3. Corporate governance. This sphere refers to the efforts of generating sufficient financial capital for the firm. Without money a firm cannot develop and coordinate its core competencies. Note that investors try to obtain high rates of return, so generally there are different interests between investors and firms.

4. Inter-firm relations. In order to secure a stable supply of inputs, firms need to have good relations with their suppliers. Equally important are the relations with (corporate) clients, as they generate the revenues of the firm.
5. Firm needs. Each firm has to have stimulating policies in order to ensure that employees are truly working in the interest of the firm. This sphere relates more towards the working mentality of the employees rather than the working conditions such as wages, but obviously these two overlap.

Thus each firm operates in a highly complex environment with many institutional relationships, either formal or informal. Furthermore, if two sets of institutional spheres operate in tandem, if they jointly lead to a particular behaviour of economic organisations and particular economic outcomes, then institutional complementarities emerge. Another protagonist of this term is Amable (2003). For example, flexible employee contracts enabling employees to easily switch to other employers might improve inter-firm relations as employees could work temporarily at the supplier's or client's firm. Figure 2.3 presents a model suitable for comparing varieties of capitalism. Note that Hall & Soskice regard the national institutional framework as the most important scale level. So for each country one could analyse what institutional relationships exist within the five spheres, what the quality of these relationships is and whether there are institutional complementarities.

Ultimately, the total set of institutional relations and complementarities leads to a specific variety of capitalism. The VoC approach does not consider the internationalisation of the economy as a dominant force leading to a global homogenous 'village'. Instead, as strategies of firms follow institutional frameworks 'our approach predicts systematic differences in corporate strategy across nations and differences that parallel the overarching institutional structures of the political economy' (Hall & Soskice 2001, p. 15). Moreover, each framework has its own *comparative institutional advantages* which are suitable for particular types of economic activities.

Researchers of the varieties of capitalism approach mainly concentrate on developed nations. The most common observation made by the approach concerns the dichotomy between liberal market economies (LMEs), notably the United States and the United Kingdom, and coordinated market economies (CMEs), notably Germany, France and Japan. Although Hall & Soskice recognise that particularly within CMEs, huge differences persist regarding institutional relationships and institutional complementarities, the dichotomy between CMEs and LMEs remains strong. A number of authors, Hall and Soskice as well, have studied the implications

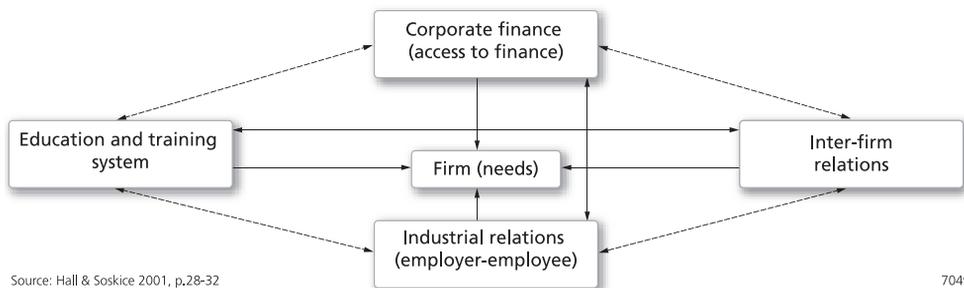


Figure 2.3 Institutional relations and institutional complementarities

Table 2.4 Characteristics of three varieties of capitalism

	market capitalism		managed capitalism		state capitalism	
	1950-1970	end of the 1990s	1950-1970	end of the 1990s	1950-1980	end of the 1990s
Government role						
policies towards business	liberal arbitrator	more liberal more arbitrator	enabling facilitator	still enabling still facilitator	interventionist director	newly enhancing much more liberal, but still seeks to influence newly bystander, moralizer
policies towards labour	bystander	more of a bystander	bystander	still bystander	organiser	
Business relations						
inter-firm relations	competitive contractual individualistic	more of the three	co-operative mutually-reinforcing network based banks	still co-operative, but loosening of networked-relations firm, banks and capital markets	state led state mediated	competitive, end of state mediation autonomous
investment sources	capital markets	capital markets			state	firm, capital-markets
time horizons	short-term view	shorter term	long-term view	less longer term	medium-term view	less medium term
goals	profits	shareholder values	firm value	shareholder values	national political-economic priorities	firm autonomy
Industrial relations						
management-labour relations	adversarial	neutral	co-operative	still co-operative	adversarial	neutral
wage bargaining	fragmented	radically-decentralised	co-ordinated	still coordinated	state controlled	radically-decentralised

Source: Schmidt 2003

of sets of institutional complementarities on innovation (Ahrweiler et al. 2005, Armingeon et al. 2004, Lane & Probert 2004 and Regini 2003). It is generally believed that the complementarities in CMEs lead relatively more to incremental innovation, whereas radical innovation occurs more in LMEs. Complementarities in LMEs, corporate governance focusing on current profitability and shareholder value, flexible and insecure labour markets and competitive inter-firm relations result in actions towards personal career advancement and great successes with respect to the enhancement of products and services in a relatively short time, thus indeed radical innovation. By contrast, corporate governance focusing on continuity rather than profits, inflexible and secure labor markets, cooperative inter-firm relations and many firm specific vocational training in CMEs result in long term actions and eventually incremental product and service innovation (Hall & Soskice 2001, pp. 39-41. This thesis focuses on the implications and effect of institutional complementarities as well, but it is likely that innovation will not play a decisive role. Instead, the focus of this thesis is on economic and human development and, similar to (Dorward et al. 2005), processes of catching-up. Moreover, it is highly questionable whether the dichotomy between CMEs and LMEs resembles realities in the contemporary capitalist world. Schmidt (2003) is one of the authors who argues that there are at least three varieties of capitalism in the European context, i.e. *market* capitalism in the UK, *managed* capitalism in Germany and *state* capitalism in France. Table 2.4 identifies the important traditional characteristics of these varieties as well as changes by the end of the 1990s. Three issues stand out.

First, the presence of state capitalism implies that firms are *not* necessarily the most important organisations within capitalist institutions. It is equally possible that firms together with governmental authorities form the backbone of the economy. Consider the dominant role of the latter in the spheres of inter-firm relations, investment sources (corporate governance in Hall & Soskice's terminology), the intervening and dirigiste character of policies towards business and goals.

Second and consistent with evolutionary economic geography, institutional arrangements are dynamic in the long term. Contemporary arrangements appear to be quite different compared with the period between the 1950s and 1970s. Industrial relations changed in market capitalist countries, business relations in managed capitalist countries and the role of the state changed considerably in state capitalist countries.

Third, rather than limiting analyses on the dichotomy between CMEs and LMEs, investigating varieties of capitalism from the viewpoint of a continuum from radical market capitalism to radical state capitalism seems to be more appropriate. Such a view is consistent as well with the observed diversity of development as discussed in section 2.1 (Rowntree et al. 2003, Leinbach & Ulack 2000, Naerssen et al. 1997, De Pater et al. 1995).

Varieties of Capitalism in Southeast Asia

Schmidt's (2003) and Hall and Soskice's (2001) objects of analysis are countries of the developed world, more often than not the 'core' nations within the world system (Terlouw 2001). The geographical focus of this thesis, Satun and Perlis, are part of countries that can be classified as semi-periphery. Fortunately, some scholars have paid attention to capitalist varieties outside the developed world such as Lane & Myant (2007) on Post Communist countries and Scheider (2004) on Latin America, but generally the developing world has remained seriously under-researched with respect to varieties of capitalism. This is a pity, because expanding the range of

countries enables the construction of a continuum of varieties, rather than keeping with just two or three.¹³

A clear difference between the core countries and other countries is that *national* economic institutions have relatively long histories in core countries. Semi-peripheral and peripheral countries are often relatively new as a result of decolonisation, newly drawn borders and independence after the Second World War (see section 2.1 as well). It is then logical to think of the implications of the VoC approach for those countries. Following Schmidt's (2003) terminology in Table 2.4, *the government role* and *goals* could be substantially different from core countries, for example economic policies could be biased towards nation-building efforts rather than profits and firm value. It is also possible that the firm is not the single central organisation within such capitalist countries. Another issue is the presence of the informal economy. In extremely poor and peripheral countries, it is not uncommon to find that the informal economy is larger than the formal economy (De Soto 2000).

Regarding Southeast Asia Fordist analyses have generated a somewhat radical view. According to Tickell & Peck (1995) Malaysia and Philippines belong to the variant of Primitive Taylorism, which can be characterised by 'Taylorist labour processes with almost endless supply of labour, bloody exploitation, huge extraction of surplus value, coupled with the presence of dictatorial states and high social tension'. The preceding passage is certainly a strong exaggeration of contemporary capitalist systems in Southeast Asia. For example, Van Grunsven (1998) has shown dynamic economic interaction within East and Southeast Asia, increasing integration of ASEAN countries concerning medium and high technological products, diaspora investments of ethnic Chinese into China and so on. In addition, Malaysia has not had an endless supply of labour. In 1990 foreign labour as percentage of the total labour force was 4%, but by 1995 it had already risen to 8% (EPU 1996, p.110), not to mention a substantial number of undocumented illegal foreign workers at that time. Other evidence that Tickell & Peck's comments are too radical can be read in Rowntree et al. 2003 and Leinbach & Ulack 2000. In this respect Yeung & Lin (2003) have argued that 'we are at a critical juncture in economic geography. There are unprecedented opportunities for mainstream economic geographers to give up long-standing European-American centric bias and develop theories that account for differences and differentiation in an era of accelerated globalization'.

Therefore, a relevant question that emerges is how, then, can institutional complementarities and comparative institutional advantages be analysed in semi-peripheral Southeast countries? An approach which has been explicitly developed for Southeast Asia and which could be considered as an Southeast Asian variety of capitalism (see the next section as well) is the *embedded mercantilism approach* (hereafter EM approach), originally designed by Pempel (1998) for the Japanese economy, and applied notably in a study by Jayasuriya (2003 and 2004). According to Jayasuriya sources of explanations for foreign economic and security policies of Southeast Asian countries should be more directed towards 'the domestic foundations of these policies', instead of 'outside in methodologies'. He asserts that many authors look predominantly at the effects of foreign direct investment (FDI), export oriented industrialisation (EOI) and export processing zones (EPZ) (Cypher & Dietz 1997, pp. 429-461). He does not claim that these effects were irrelevant for rapid economic growth, but instead posits that they should be connected with domestic institutional arrangements that have enabled and legitimised policies for FDI and EOI. An example of an 'outside in methodology' is a study by Ngai-Ling Sum (1998). In this study the EOI strategy is compared with accumulation regimes related to Fordism (Peripheral Fordism

versus Simple/Complex Exportism). Although the study provides insights into the trajectories of East Asian countries that have pursued the EOI strategy, it does not pay sufficient attention to various domestic institutional arrangements and interests. In Jayasuriya's view however, domestic coalitions have played important roles for the emergence of (foreign) economic policies as well. These coalitions are interesting from an institutional point of view because they have resulted from distributive conflicts and have often generated disabling institutions and ultimately suboptimal economic outcomes (Bardhan 2005). Pempel (1998, p 49), defines mercantilism as the advancement of 'macroeconomic interests of a nation-state through catch-up policies involving the protection and nurturance of domestic industries'. 'Embedded' refers to the nesting of this mercantilism in the wider society. Pempel states that the spectacular growth trajectory of Japan in the 1960s has been the result of a domestic coalitional framework between the national government, de facto the Liberal Democratic Party, and virtually every possible societal group: small firms, large firms, farmers, associations, etc. The Liberal Democratic Party was able to achieve 'macroeconomic success through ever more internationally competitive Japanese firms in high-value-added industries' (Pempel 1998, p.48), while simultaneously providing 'side payments' to the weaker parts of the society: 'rice farmers, small-business sector, semi-peripheral and peripheral regions lacking high-growth industries, and, increasingly industries in decline'. Thus Japanese *mercantilism* was *embedded* in a coalitional framework to maintain the goodwill of weaker parts in the society. In contrast, Japanese *mercantilism* in the 1990's had started to *dis-embed* (Pempel, 1998). As a result of the increased openness of the Japanese economy including the arrival of many foreign firms in Japan and the increased costs of many kinds of side payments, embedded mercantilism became an unviable institutional and political economy model. Jayasuriya (2004, p.26) states that the approach of embedded mercantilism is in Southeast Asia generally 'characterised by:

- a segmentation between the export-oriented and domestic economic sectors, creating a dual political economy;
- an overlapping of these divisions with distinct sections of capital; and
- a set of public policies to ensure that *side payments* from the more efficient export sectors facilitate a broad set of alliances between the two segments of the economy'.

Thus similar to Pempel's analysis of Japan Southeast Asian trajectories can be viewed along these three characteristics. Obviously, each national institutional system reflects trade-offs between various economic and political interests, but Jayasuriya has conceptualised these trade-offs nicely for Southeast Asian cases.

The second characteristic is concerned with overlapping between the export-oriented and domestic economic sectors. In this respect it is necessary to outline the role of government agencies (see box 2.3 as well). First, the public sector could cooperate with the private sector, possibly culminating in public-private partnerships. Baud (2004) claims that protective and supportive actions of the public sector are generally beneficial for economic growth, but have rarely been inclusive, e.g. in the case of trade unions, many working people and residents are often left out and hence there has been a lack of tripartite networks. In the Southeast Asian context, institutional relations between the public and the private sector are often attractive for rent seeking behaviour and forms of *ersatz* capitalism, i.e. taking advantage of governmental projects and marginal technological improvements rather than entrepreneurship based on new products, services, private consumption and innovation (Yoshihara 1988, Rasiah 1997). Second, governmental authorities themselves could often be regarded as firms. They purchase a wide

Box 2.3 The role of the state and uneven development

The EM approach differs from Evans' (1995) well-known concept of *embedded autonomy*. According to Evans the key characteristic of a developmental state is embedded autonomy: 'Autonomy implies that the state can stand alone, above the fray and beyond the controlling reach of vested interests which would seek to capture the power of the state and turn that power to their very specific, short-term advantage' (Cypher & Dietz 1997, p. 228). For an application of the concept of a developmental state to Thailand see Knippenberg (2003). This differs with the emphasis on domestic coalitions in the EM approach, i.e. the state as a party within coalitions rather than an autonomous state. In this respect Bardhan (2005, p. 30) argues that 'major economic transactions in the successful East Asian cases have often been relation-based rather than rule-based'. Addressing the role of the state through the EM approach is particularly suitable because the concept of embedded autonomy cannot explain the surprisingly strong pattern of uneven development. There are remarkable economic, political and social differences within the group of countries which supposed to have an autonomous but embedded state (Booth 1999, Leinbach & Ulack 2000, Jayasuriya 2003 & 2004, Knox & Marston 2004, pp. 248-297, Rowntree et al. 2003, p. 1-47). For example, although South Korea, Taiwan, Singapore and Hong Kong have often been grouped as the Asian Tigers, there have been considerable developmental differences between South Korea and Taiwan on the one hand and Singapore and Hong Kong on the other hand. The South Korean and Taiwanese governments have actively supported and to some extent financed the growth of a domestic private sector, whereas the Singaporean and Hong Kong governments have always tried to attract many multinational firms. A second example is the clear pattern of uneven and divers development within Southeast Asia. As will be clarified in the next chapter the role of the state in Malaysia is by no means the same as in Thailand. The EM approach, with its three characteristics, is relatively well able to link *relational* roles of the state with other elements of the society and therefore, to provide explanations for patterns of uneven development.

range of products and services from firms, for example simple office accessories, advices from consultancy firms and complex military equipment. Therefore, they continuously act as clients. Third, firms could be partly or wholly owned by a ministry or authority at the regional level as in the French case between the 1950s and the 1970s (Schmidt 2003).

Probably the biggest advantage of the third characteristic, side payments, is the possibility to study institutional and political arrangements in non-core regions. Indeed, public policies for semi-peripheral and peripheral regions could compensate for a lack of private sector dynamics. In fact, in traditional agricultural regions it is even possible that firms contribute very little to employment and income generation. In sum, the EM approach is likely to be a suitable approach, because it enables the investigation of institutional complementarities in Southeast Asian non-core regions. In chapter 3 an outline is given of the specific varieties of embedded mercantilism in Thailand and Malaysia.

Policy implications of the VoC and the EM approach

Before further theorising towards the analytical models it is relevant here to briefly discuss some policy implications of the VoC and the EM approach. Similar to the difference between the notions of LMEs and CMEs and their specific comparative institutional advantages, Hall & Soskice (2001, pp. 45-51) argue that economic policies should fit into existing frameworks. Economic policies are effective ‘if they are *incentive compatible*, namely complementary to the coordinating capacities embedded in the existing political economy’. Their main question is how to improve cooperation and coordination within the business community? Perhaps unsurprisingly, effective policies in LMEs are market incentives that eventually generate more radical innovation, whereas CMEs function better with good coordination oriented policies resulting in more incremental innovation. Similarly, it is logical to assume that state-oriented policies are the most suitable for countries with institutional complementarities based on *state capitalism* (Schmidt 2003), although this runs against neo-liberal arrangements that have come into full force since the era of USA’s President Reagan and UK’s Prime Minister Thatcher.

The policy implications of Hall and Soskice’s analysis generate worrying perspectives for persistent *disabling* institutions within a particular national institutional framework. What to do with a disabling institution if it is compatible with the existing national or regional institutional framework? Fortunately, Culpepper (2001) shows that new enabling institutions could be initiated and encouraged *de novo* and that policies for the regional level do not necessarily have to follow the national level. His first observation comes from the former Eastern Germany where new coordination-oriented policies have been successful after the German reunification despite a lack of coordinating capacities as a result of inherited communist institutions. His second observation comes from a French region (Arve Valley) in which coordination-oriented policies have been successful despite the presence of *state capitalism* at the national level. In both cases coordination policies have dealt with encouraging business associations to improvement vocational education and training. An important cause of success was that the public sector encouraged the improvement, but did not control business associations in their activities. Another possibility is coupling institutions with market conditions and level of intergovernmental support. Regarding large cities in the USA and Europe, Savitch & Kantor (2004) state that cities ‘navigate within bargaining contexts that distribute advantages between public and private actors and create expectations about power relationships’ (p. 156). They conceptualised four different bargaining contexts depending on market conditions and level of intergovernmental support.

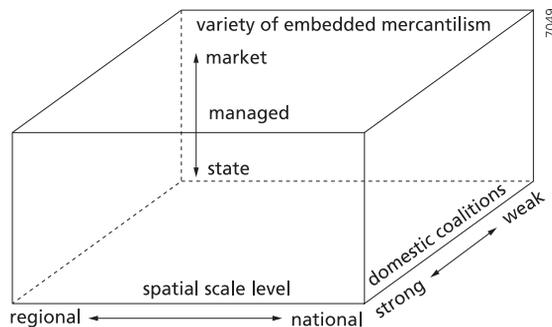


Figure 2.4 Policy space for economic development in Southeast Asia

In cities with diffuse intergovernmental support and unfavourable market conditions, the most disadvantageous situation, market centred policies have emerged (for example Detroit), whereas social centred policies have emerged in cities with integrated intergovernmental support and favourable market conditions (for example Paris, Toronto and Milan). Savitch & Kantor (2004, p. 309) furthermore agree with Hall and Soskice (2001) that the world is far from a global village: 'Divergence is very much alive. National policies continue to be heterogeneous. City resources are quite variable and that variation influences strategic alternatives'.

In the Southeast Asian context it is necessary to find national policies that fit particular varieties of embedded mercantilism. But based on Culpepper's observations one could think as well of regional institutional policies. This makes especially sense for regions in which specific regional institutions have a strong impact on economic activity and economic performances. A crucial factor for policy-making in Southeast Asia is the characteristic of domestic coalitions within the EM approach (Jayasuriya 2004 & 2003). Countries with strong and stable domestic coalitions could be quite able to formulate and implement long term economic policies. Instead, countries in which policy-makers are involved in politically motivated domestic coalitions or in which weak and often changing domestic coalitions prevail might face severe problems in implementing long term policies. The above presented discussion leads to a complex space for economic policy making in Southeast Asia. As displayed in Figure 2.4 economic policy makers should pay attention to the existing variety of embedded mercantilism, to the geographical scale level and to domestic coalitions. In chapter 8 to some relevant policy issues will be further discussed.

2.5 Varieties of Capitalism for empirical analysis

The sections 2.1 and 2.2 have clarified that there is much regional economic diversity within countries, and the preceding section explained that the VoC approach should be modified for empirical research in Southeast Asian non core regions. This section discusses the necessary steps to enable a sound empirical set up which takes into account the possibility of institutions at different spatial levels of scale. Although the VoC approach has not yet been applied frequently to the regional level, some economic geographers and development thinkers acknowledge the advantages of the VoC approach. Schamp (2003) for example, in a publication that investigates the possibilities of integrating institutions in economic geography, argues that as alternatives to regional innovation systems 'würden sich auch andere Konzepten für die wirtschaftsgeographische Analyse anbieten, wie etwa das der national business systems (Whitley 1999) oder das der Diversität nationaler Kapitalismussysteme (vgl. Hall & Soskice 2001)'. Moreover, the fact that the VoC approach was developed for the national scale level, should not hold researchers back to apply it to other scale levels: 'Die hier angelegte territoriale Begrenzung der beobachteten institutionellen Arrangements ist jedoch eine Frage der Empirie, nicht des institutionenökonomischen Ansatzes'.¹² Thus, following this argument it is plausible to include *national* institutions in the analysis of *regional* development. For example, Yeung (2000) mentions the possibility of institutions that shape the behaviour of business associations. Some operate regionally, but others could operate in several regions or in an entire nation, in other words parts of capitalist institutions could be regionally based, other parts nationally. From the field of development studies Dorward et al. (2005) have recognised the relevance of the VoC approach,

especially regarding the possibility of institutional arrangements that shape non-market forms of economic coordination. Indeed, as introduced in earlier sections, the firm might not be always the central organisation within capitalist systems in developing countries.

The preceding section has shown that Jayasuriya's EM approach with its focus on dual economies, overlapping and side payments could function as parts of enabling or disabling institutional complementarities. Many approaches do not have these advantageous features. Figure 2.5 presents the conceptual model for this thesis and shows how institutional complementarities are explored. As introduced in section 1.4, the following institutional spheres are empirically investigated. Firstly, private sector development by looking *at inter-firm relations* and *access to private finance*, both derived from Hall & Soksice's (2001) VoC approach and geographical studies such as Amin & Trift (1994), Van Grunsven (1998), Van Westen (2002) and (Yeung 2000). Regarding the former it should be noted that associations, especially business associations, could be important. Often firms tend to institutionalise relations with firms through business associations. For example, Helmsing (2001b) has shown that chambers of commerce play important roles for cooperation and networking within Latin American regional economies. Although the institutional sphere of inter-firm relations is a popular topic among economic geographers, it remains to be seen whether cooperation and coordination within the private sector is relevant in peripheral and rural regions. It is possible that firms maintain stronger relations with firms that are located outside the region or that inter-firm relations play relatively marginal role within the overall institutional framework, especially in regions which

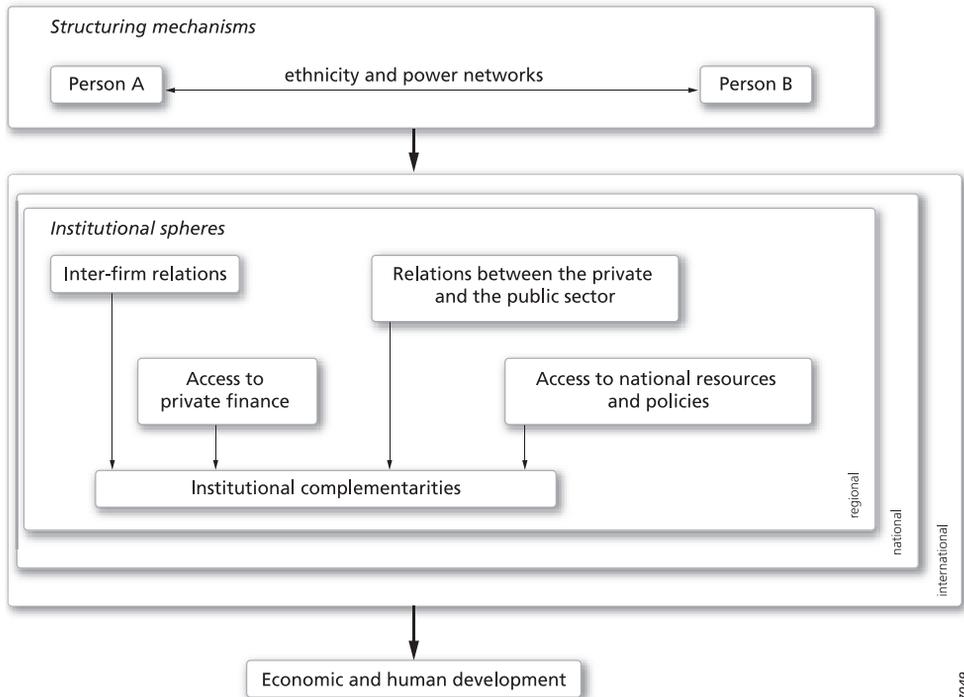


Figure 2.5 Conceptual model

rely heavily on side payments from the central government. Regarding the latter, *corporate governance* in Hall & Soskice's terminology, it is worth mentioning the frequent association with large (multinational) firms that seek financial capital at complex (international) financial markets. Obviously, banks might be important organisations that provide access to private finance, but in rural and peripheral regions other organisations and individuals should be analysed as well. Many studies on rural financial markets show that the functioning of rural financial markets is quite complex and could be substantially improved (Findlay et al. 2003, ADB 2000, Nagy & Adams 1996).

Instead of completely following Figure 2.3, the theoretical insights on capitalist institutions in Southeast Asia as discussed in section 2.4, have led to the spheres of *institutional relations between the private and the public sector* and *access to national resources (budgets and policies)*, sometimes more generally formulated as local-central relations. Barlow (1999), Jayasuriya (2003 & 2004), Haggard (2004), Bardhan (2005) and Maseland (2006, pp. 133-351) among others have demonstrated that governments could be equally as important as firms. With respect to inter-firm relations it is relevant to look at the activities of state-owned firms, the state as purchaser of products and services and public-private-partnerships (PPPs); with respect to access to private finance the public sector could (partially) own banks and financially support the private sector in a number of ways. These issues will be explored in chapter 5. Section 2.1 discussed the potential ambiguity of regional governments. On the one hand they bargain and negotiate in the capital city for more financial and other resources; on the other hand they form part of central governments (Flint & Taylor 2007, p. 261), particularly in heavily centralised countries. Consider issues of formal (regional) development policies, budgeting practices, waves of centralisation and decentralisation and informal institutions such as lobby activities, regional origins of civil servants and politicians working at central agencies and problems of accountability (Bardhan 2005, pp. 105-136; Nijenhuis 2002, Hill 2002, Blair 2000). Crook (2003), for example shows that decentralisation in Africa not only occurred for poverty reduction strategies, but also as a political vehicle for increasing power over local and regional politicians. And Park (2003) demonstrates that regional developmental patterns in South Korea were influenced by the origins of civil servants in the 1970s. Also within Southeast Asia such political geographical issues appear to be relevant, given the presence of domestic coalitions and side payments (Jayasuriya 2003 & 2004). Therefore, one of the empirical topics in this thesis is the institutional sphere of *access to national budgets and policies*. Moreover as mentioned in the previous section, side payments could be highly relevant in non-core economies such as Satun and Perlis. After all, the most important firms within a national economy are generally located in the core regions.¹¹ Next, Figure 2.5 depicts the possibility of two structuring mechanisms: the economic behaviour of actors could be seriously influenced by *ethnicity* and (*personal*) *power networks*, especially when formal institutions do not form the backbone of complementarities. For the East and Southeast Asian context Haggard (2004) states that researchers should 'dig beneath institutional arrangements to reveal the political relationships that create and support them'. Although Hall & Soskice (2001) recognise 'the strategic interactions central to the behaviour of economic actors', it is necessary to explicitly include power networks in the analysis. In fact, besides these interactions and firm characteristics such size and number of clients, the power of firms depends on relations of the owners and shareholders with more or less powerful owners and shareholders of other firms, chairmen of associations or political officials. Moreover, owners and shareholders might become political power holders themselves. With respect to the difficulties of industrial restructuring after the Asian financial crisis Carney

Table 2.5 Economic dominance of ethnic-Chinese in Southeast Asia

country	% of total population	% of total business output
The Philippines	1	40
Indonesia	4	50
Thailand	10	50
Malaysia	32	60

Source: Bjerke 2000

(2004) states that ‘economic power has concentrated in the hands of a small number of politically connected incumbents who are in a position to perpetuate their elite positions and frustrate the entry of new agents into the economy’ via so-called blocking coalitions. Other useful insights come from Lim & Stern (2002) and Gomez et al. (2002). They show that Southeast Asian relations between the private and public sector cannot be fully understood without examining power, political business and corruption. Furthermore, as outlined above, politics are likely to be very relevant for patterns of access to national budgets and policies. It should be noted as well that personal networks are often closely related to kinship, friends, ethnicity (see below!) or a mix of these (Rutten 2003, Taylor 2002, Nijenhuis 2002, pp. 154-157, and McVey et al. 2000).

Ethnicity is included because it is widely recognised that they influence the nature of institutions in the developing world (Bardhan 2005, pp. 169-200, Mitchell 2003, Dwyer & Drakakis-Smith 1996). For this thesis two phenomena are suggested to be important. First, the role of ethnic-Chinese for entrepreneurship and economic development in Southeast Asia. In the literature on this subject the role of this group has often be highlighted (for example Wang 2003, Gomez & Hsiao 2003, Mackie 1999, Redding 1990). Table 2.5 clearly shows the economic importance of ethnic-Chinese. In peripheral regions in Thailand and Malaysia as well, one should not be surprised if institutional economic relations are structured along ethnic lines. Not only are ethnic-Chinese dominant as entrepreneurs, but this group is also often involved in specific intra-ethnic economic institutions, in other words ethnically specific ways of doing business. In this respect *guanxi* is a concept that one should have in mind. Guanxi can be considered as a set of specific informal institutions, which enables entrepreneurship and in which personalized connections are often key drivers. Park & Luo (2001) wrote that guanxi ‘reflects delicate fibres woven into every person’s social life and every aspect of Chinese society’ and is ‘transferable among parties, reciprocal, intangible and utilitarian rather than emotional’. In recent years a number of studies confirm the economic relevance of guanxi (see for instance Economist 2004, Gibb & Li-Jun 2003 and Michailova & Worm 2003). Second, ethnicity could structure local-central relations. For Africa Crook (2003) states:

‘If a regime is nervous about providing an institutional base for sub-national, regional or ethnic political rivals or even political separatists....then it will often adopt a decentralization scheme that deliberately fragments potential local power bases into smaller, weaker, politically insignificant units. This is often combined with central funding and control mechanisms that permit spatial redistribution and/or centrally focused patronage linkages.’

Note that Crook’s work clearly clarifies that ethnicity and power networks are *jointly* able to shape institutions. In an article on Central Asia Melvin (2001) convincingly demonstrates that

the role of informally arranged local-central relations could be pervasive as a result of complex ethnic and political patterns. Informal, ethnically based networks and patron-client relationships appear to be more important than formal institutions in Kazakhstan, the Kyrgyz Republic and Uzbekistan. Hence, these observations justify the inclusion of ethnicity into institutional analysis in the developing world. Within the institutional spheres Figure 2.5 displays the block of institutional complementarities. Perhaps the most important theoretical contribution of Hall & Soskice's VoC approach is the concept of institutional complementarity. As this research is an explorative one, it is far from certain what institutional complementarities can be found. It is equally possible that single institutional spheres have a direct impact on economic and human development or that some institutions are relatively irrelevant. Finally, economic and human development is perceived as a convergence of corporate and worker well-being in the long term (Ettlinger 1999). Therefore, not only is the GDP per capita important, but also socio-economic variables such as employment, the distribution of income, availability of education, health services, and roads and so on.

2.6 The research questions

This section presents the research questions which are based on the discussion in previous sections.

Obviously, it is necessary to investigate the socio-economic and economic-geographical features of the two regions. It is important to take these aspects into account when carrying out empirical research. More importantly, the economic and human development is, as introduced in chapter 1, ultimately the dependent variable.

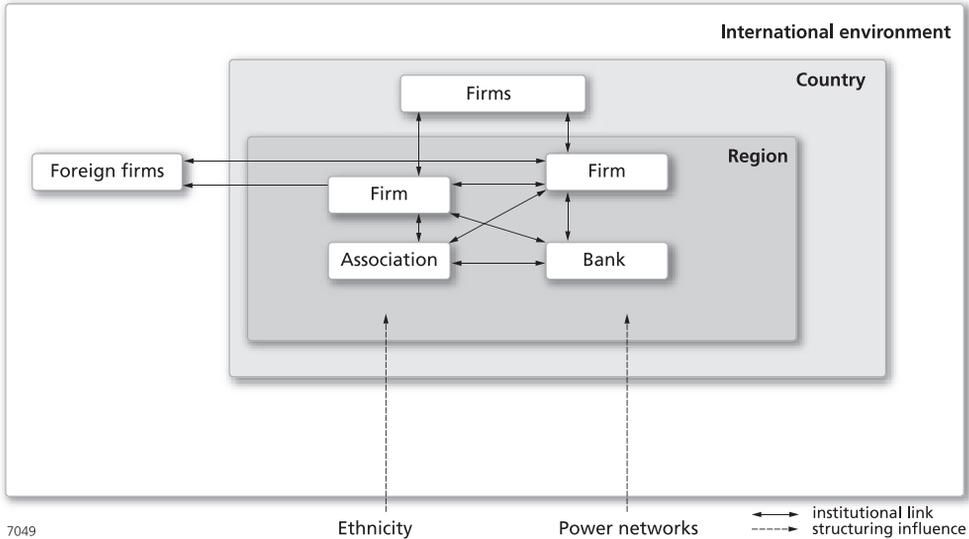
1. What are the main economic and socioeconomic characteristics of Satun and Perlis? What changes in economic and human development have taken place in the last two decades?

Figure 2.5 depicts four institutional spheres. Research questions 2 through 5 deal with these spheres. Questions 2 and 3 deal with the private sector. Figure 2.6 provides an analytical model for the analysis of institutional relations within the private sector. Methodologically, the model resembles Hall & Soskice's (2001) (Figure 2.3) and Boschma's et al. (2002) ideas (Figure 2.1). It should be noted that a clear distinction is made between organisations (the blocks) and institutional relations (the arrows). Furthermore, the model can be regarded as an extension of block 2 in Figure 2.2.

2. What institutional arrangements guide the cooperation and coordination among businesses and business people in both regions?

3. What institutional arrangements enable firms to obtain access to private finance in both regions?

Next, one should take account the possibility that public sector actors can be of uppermost importance within a regional variety of capitalism. The issues of ethnicity and (personal) power networks (see the previous section as well) are likely to play important roles. Ethnicity and power



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Figure 2.6 Analytical model for inter-firm relations and access to finance

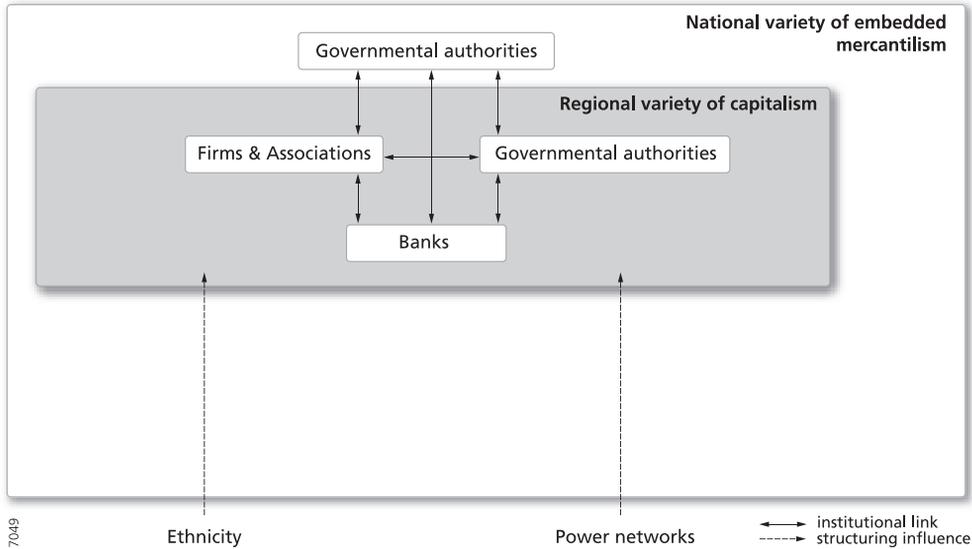
networks could heavily influence institutional arrangements. These issues are kept in mind when research questions 2 and 3 are addressed, but they can be more fully scrutinised if the public sector is included in the analysis.

4. *What institutional arrangements are in place for cooperation and coordination between the public and private sector in both regions?*

Besides regional organisations, national governments could shape regional development to a great extent. Section 2.4 provided embedded mercantilism as a suitable approach for Southeast Asia. Various domestic coalitions and side payments, both influenced by ethnicity and power networks, could have a deep impact on inter-firm relations and access to finance at the regional scale level, either directly by enlarging developmental resources and indirectly by enlarging or limiting the effectiveness of regional institutional arrangements. It is interesting to bear in mind the *geographical* component, because they could specifically target urban or rural areas or particular regions for many economic or political reasons. In many cases geographical side payments originate in relatively rich core regions and terminate in poorer semi-peripheral and genuine peripheral regions.

5. *What institutional arrangements allow both regions to gain access to national/central state resources for regional economic and human development?*

When the answers on research questions 2 through 5 are known it is possible to construct a second analytical model, Figure 2.7. At the regional level the term *variety of capitalism* is used, but at the national scale level *embedded mercantilism* is used to denote the difference in policy making autonomy. Even in highly decentralised countries regions are always part of a country



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Figure 2.7 Analytical model for institutional arrangements between the private and public sector

and do not possess full autonomy over all policy issues. Thus a country always has some degree of power over a region (see section 2.1 as well). Research question 6 explicitly deals with the impact of national institutional arrangements. The sixth question is concerned with finding explanations for the answers on research questions 2, 3, 4 and 5. It is investigated to what extent the regional varieties of capitalism are influenced by the national forms of embedded mercantilism, including political and ethnic issues.

6. How can the institutional arrangements mentioned above be explained: to what extent does the national institutional setting influence them?

The seventh question is concerned with the impact of national institutional frameworks on the economic and human development. In this respect research question 1 is the dependent variable, 2 through 6 can be regarded as independent variables and research question 7 establishes the link between the dependent and the independent variables.

7. To what extent and how do the institutional arrangements mentioned above affect the economic and human development performance of the two regions?

The final and eighth research question is concerned with the theoretical implications and does not need further argumentation.

8. What theoretical implications can be drawn from a comparative analysis of Perlis and Satun, especially with regard to role of institutions in regional development?

Endnotes

- 1 The fact that Satun and Perlis are border regions creates the possibility of studying border interactions between Thailand and Malaysia. However, this thesis is not concerned with border dynamics. Only appendix 7 makes further reference to this issue.
- 2 ASEAN was established in 1967 by Thailand, Malaysia, Singapore, Indonesia and the Philippines. Brunei Darussalam joined in 1984, Vietnam in 1995, Lao PDR and Myanmar in July 1997 and Cambodia in 1999 (ASEAN 2007).
- 3 In other parts of the developing world regional disparities of development are also pressing issues. In a long term perspective study concerning West Africa the OECD (1998) estimates that the coastal area between Benin City and Accra will ultimately have a population comparable to the USA east coast, with five cities of over one million inhabitants along a strip of land 600km long, whereas vast areas far from the urban zones will be much less densely populated. And Verkoren (2002, p. 7) argues that Latin America could be regarded as a world of extremely different regions.
- 4 By recognising social institutions economists have also entered the academic field of economic anthropology (Greenfield et al. 1979, Wilk 1996, Carrier et al. 2005). For instance, In Carrier et al. one can find chapters such as 'The anthropology of markets', 'Culture and economy' and 'Economies of ethnicity.'
- 5 For more on agglomeration economics see for example Jacobs (1984) and Ciccone (2002).
- 6 See for two empirical studies regarding embeddedness in developing countries Knutsen (2003) on Namibia and Zhou et al. (2003) on China. See for the concept of collective learning Beerepoot (2005) and Helmsing (2001a).
- 7 Obviously, NIE is also very different from neo-Marxist economic theories.
- 8 Admittedly, social capital focuses more explicitly on the importance of social networks, but if one decides to use social capital other forms of capital should be included in the analysis as well.
- 9 It is beyond the scope of this thesis to comment in depth on the link between economic and human development. In principle, it is possible that institutional arrangements could simultaneously be beneficial for economic development (income related trends), but disadvantageous for human development. In other words, arrangements are not always inclusive.
- 10 See Nugent & Robinson (2002) for an interesting empirical study.
- 11 With respect to building a continuum Lane & Myant (2007) have made a good start. For example, in their book Kazakhstan is referred to as 'A state-led liberalised market economy'.
- 12 Whitley's (1999) book on business systems, to whom Schamp (2003) refers, offers an applicable approach for the study of regional institutional frameworks as well, but the VoC approach has one theoretical advantage. Whitley distinguishes business systems and institutions and has identified interdependencies between them. This distinction generates a theoretical problem: How should the elements of business systems be defined if they are not institutions?
- 13 The institutional spheres of education and training, industrial relations and firm needs (Figure 2.3) are not included in the analysis, because this study aims to follow established economic geographic empirical studies that tend to focus on the *external* environment of the firm and because the insights on capitalist institutions in Southeast Asia have generated the priority to research the role of the public sector.

3 The national and regional context

This chapter provides the historical and geographical context for the empirical chapters. Section 3.1 puts Thailand and Malaysia in a comparative Southeast Asian perspective, and section 3.2 reveals the differences between the Thai and Malaysian varieties of embedded mercantilism. As was clarified in the previous chapter, the embedded mercantilism approach is suitable for the analysis of institutions in Southeast Asian non-core regions. The section analyses the roles of the following theoretical notions: a more or less 'dual' economy, overlapping and domestic coalitions, side payments, inter-firm relations and access to private finance. The empirical chapters will deal with these issues at the regional level, i.e. the research regions Satun and Perlis. The second part of this chapter is concerned with the introduction of Satun and Perlis. Section 3.3 is concerned with historical developments during the period when Satun and Perlis were heavily influenced by the Kedah Sultanate. Section 3.4 presents an overview of economic and social developments after the Anglo-Siamese treaty in 1909, when Satun's and Perlis developmental trajectories started to diverge. Furthermore, this section provides an answer to research question 1: What are the main economic and socio-economic characteristics of Satun and Perlis? What changes in economic and social performance have taken place in the last two decades?

3.1 Thailand and Malaysia in Southeast Asia

The previous chapter introduced the concept of human development as a broader tool to measure the social-economic advancement of countries and regions compared with the narrow focus on GDP per capita. The Human Development Index (HDI) includes four important characteristics of human life; life expectancy, literacy, school enrollment and gross domestic product per capita. The UNDP that calculates the HDI annually classifies both Malaysia and Thailand as countries with 'middle' human development (see section 2.3). From a Southeast Asian perspective statistics on human development show that the two countries are rather similar, but as will be explained below absolute differences between the two countries are quite large. The Tables 3.1 and 3.2 show human development indicators from the 2005 Human Development Report. In 2003 Malaysia had a HDI score of 0.796 (corresponding to number 61 at the world ranking), Thailand 0.778 (corresponding to number 73). In both countries, in particular Thailand, the GDP per capita contributes relatively significantly to the HDI, whereas education in Malaysia and life expectancy at birth in Thailand perform relatively badly. Note that this situation is the other way round for Vietnam and Indonesia. In these countries it is the life expectancy and education indices that contribute disproportionately to the overall HDI scores. In 2003 Singapore and Brunei had a much higher human development performance, but in a Southeast Asian context Malaysia and Thailand performed relatively well, especially when taking into account that the countries Cambodia, Lao PDR, Myanmar and Timor Leste remain less developed than Indonesia.

Table 3.1 Human development indicators, 2003

	life expectancy at birth (years)	adult literacy rate (% ages 15 and above)	combined gross enrollment ratio for primary, secondary and tertiary schools (%)	GDP per capita PPP (US\$)	Human Development Index (HDI) value	HDI rank	GDP capita rank minus HDI rank
Singapore	78.7	92.5	87	24481	0.907	25	-4
Brunei	76.4	92.7	74	19210	0.886	33	-4
Malaysia	73.2	88.7	71	9512	0.796	61	-3
Thailand	70.0	92.6	73	7595	0.778	73	-7
Philippines	70.4	92.6	82	4321	0.758	84	19
Vietnam	70.5	90.3	64	2490	0.704	108	16
Indonesia	66.8	87.9	66	3361	0.697	110	5

HDI values

	1975	1980	1985	1990	1997	2000	2003
Singapore	0.725	0.761	0.784	0.822	0.888	0.885	0.907
Brunei	?	?	?	?	0.878	?	0.886
Malaysia	0.615	0.659	0.695	0.721	0.768	0.790	0.796
Thailand	0.614	0.652	0.678	0.714	0.753	0.762	0.778
Philippines	0.654	0.687	0.693	0.720	0.740	0.754	0.758
Vietnam	?	?	?	0.617	0.664	0.695	0.704
Indonesia	0.468	0.530	0.583	0.625	0.681	0.680	0.697

Source: UNDP 2005

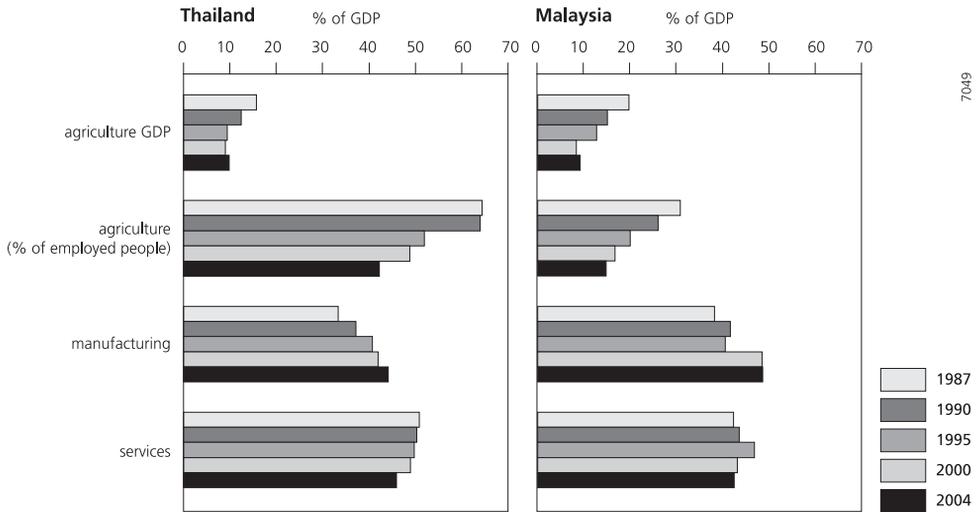


Figure 3.1 Structure of output (% of gross domestic product)

The second part of Table 3.1 compares human development trends between 1975 and 2003. In 1975 Philippines had a better HDI than Malaysia and Thailand, but not more than 10 years later Malaysia overtook the Philippines and ever since 1995 Malaysia and Thailand have performed better. The Philippines has experienced several decades of relatively sluggish economic development. One could also see that Vietnam has performed better than Indonesia between 1995 and 2003, due to the dramatic economic and political effects of the Asian financial crisis in Indonesia. For comprehensive introductions into Southeast Asia see for example Chia (2003) and Leinbach & Ulack (2000). Figure 3.1 shows trends in the economic structure of Thailand and Malaysia. One similarity and one difference stand out. In both countries the share of manufacturing has risen at the expense of agriculture and after 1995 services. A striking difference is that despite shrinking shares, a large part of the Thai labour force has remained within the agricultural sector. This is a clear indication that Malaysia is considerably more advanced industrially. Table 3.2 further confirms this observation, although there are also some indicators for which Thailand performed more similar to developed countries. For example Thai families have considerably fewer children than Malaysian families. According to the available statistics, unemployment in Thailand is surprisingly low, although do not fully take into account the informal sector. The Malaysian informal sector is substantially smaller. Appendix 5 provides a brief overview of the political and economic geography of the two countries.

3.2 Varieties of embedded mercantilism in Thailand and Malaysia

Embedded mercantilism until the Asian financial crisis

The EM approach was introduced in the previous chapter to denote the variety of capitalism in Southeast Asian countries. In each Southeast Asian country the national institutional framework consists of a particular mix of a dual economy, overlapping through domestic coalitions and

Table 3.2 Key indicators

	Thailand		Malaysia	
	1990	2005	1990	2005
proportion of population below				
1\$ (PPP) a day (%) in 2003		0.7		0.2
income ration of highest 20%				
to lowest 20%		7.7		7.1
Gini coefficient		0.420		0.443
total fertility rate (births per woman)	2.2	1.9	3.8	2.8
% of population aged 65+	4	7	4	5
economically active population				
% of working age population				
female	74	66.3	47.8	45.9
male	84.5	81.5	85.3	80.0
unemployment rate	2.2	1.4	5.1	3.5
paddy production (per capita. kg.)	308	417	104	85
destinations of exports top 3				
1	USA	USA	Singapore	USA
2	Japan	Japan	USA	Singapore
3	Singapore	China	Japan	China
sources of imports top 3				
1	Japan	Japan	Japan	Singapore
2	USA	China	USA	Japan
3	Singapore	USA	Singapore	China
fiscal balance (% of GDP)	4.8	0.1	-2.9	-3.8
government expenditure (% of GDP)				
health	1.2 (1995)	1.3	1.5	1.8
education	3.5 (1995)	4.1	5.5	5.4
defence	2.6	1.3	4.1	3.6

Source: ADB 2006

side payments. This section outlines the main features of embedded mercantilism in Thailand and Malaysia. It is beyond the scope of this thesis to provide an in-depth analysis of long term institutional change, but the focus instead is on the period after 1970, as it marked the beginning of the current Malaysian national institutional framework. Attention will also be paid to inter-firm relation and access to finance at the national scale level. Between 1970 and 1997, the beginning of the Asian financial crisis, Thailand and Malaysia had experienced a period of rapid growth of exports, inward foreign direct investment, domestic consumption and ultimately economic growth (Jayasuriya 2004, Jomo 2003, Dixon 1998). Table 3.3 summarises major political economic developments. It can be seen that domestic developments had had a large influence on trajectories of economic growth in both Malaysia and Thailand. Consider the *Bumiputera* policies

in Malaysia and so-called aggressive 'money politics' in Thailand. This is a first indication that explanations for economic development which focus solely on export oriented industrialization strategies are too narrow. Below five main characteristics of embedded mercantilism in Thailand and Malaysia are discussed.

1 The existence of a dual political economy

On the one hand, modern formal economies have emerged in both Thailand and Malaysia, with foreign direct investments, exports of manufacturing and the provision of internationally tradable services. In the beginning of the 1980s the contribution of manufacturing to the Malaysian and Thai GDP became larger than the contribution of agriculture. On the other hand, non tradable manufactured products and services and agriculture have been very important for farmers and domestically owned firms, often heavily subsidised by and linked to the central government. This duality can also be found geographically. Bangkok and its surroundings are by far the most important Thai areas for the modern internationally oriented economy. The only modern industry with a substantial presence in secondary cities and more peripheral areas is tourism. In Malaysia, the modern economy is largely concentrated in the states of Selangor, Penang, the southern parts of Johor and the federal territories (see appendix 6 as well). However, with regards to the domestically oriented economy there are two major differences. First, numerous Thai agricultural products such as rice, poultry, seafood, natural rubber, sugarcane and fruit have been very successful at international markets, whereas Malaysian agricultural products have remained relatively more within Malaysia with the exception of palm oil and natural rubber. Second, the New Economic Policy (NEP, often referred to as Bumiputera policies) in Malaysia (see Table 3.3) and its successors to a somewhat lesser extent have resulted in strong governmental support for farmers (which are often Malay) and state owned firms producing non-tradable products. In contrast, the central Thai government has supported the domestically oriented sector, but has not intervened directly to quite the same extent.

2 Overlapping and domestic coalitions

The internationally and domestically oriented economies have not been totally isolated from each other. After the Second World War, firms were established in Thailand that dealt with both segments of the economy, especially banks owned by Sino-Thai (ethnic-Chinese in Thailand). Banks and other firms have managed to acquire important interests in both export products and products and services for the local market (Hewison 1997 & 2001). The most famous examples are Thailand's biggest lender Bangkok Bank and one of Thailand's largest conglomerate Charoen Phokpand. Overlapping in Malaysia has been much less pronounced, but some large predominantly state-owned conglomerates, such as Sime Darby, have become major players in both export and local activities. Since the 1970s overlapping has been reinforced by major institutional coalitions between business and politics (see Table 3.3 as well). Nevertheless, the nature of the coalitions was markedly different. The most important feature of the Thailand's embedded mercantilism is the way domestic (provincial) entrepreneurs have found their way into politics. As active political actors, for example Members of Parliament, or by influencing indirectly (for example supporting a particular party), entrepreneurs have been able to secure their business interest. This process has been associated with 'money politics' (vote buying, Member of Parliament buying), corruption, rent seeking, provincial 'godfathers' and other mafia practises (Wingfield 2002, McVey 2000). Whereas in Thailand businessmen have become

Table 3.3 Major political economic developments and most important prime ministers (PM)

Year	Thailand	Malaysia
1947	military coup	
1948-1957	PM Plaek Phibun Songkhram: instable military rule, anti-communist, focus on agriculture, founding of Chinese owned banks	
1957-1969		independence, PM Abdul Rahman. establishment of UMNO, focus on ISI and FDI. economic system relatively Laissez-Faire
1963-1973	PM Thanom Kittichorn: formal development planning, focus on ISI, USA aid, beginning of exports	
1969		anti-Chinese riots
1970-1981		NEP: "to eliminate the identification of race with economic function". Strong government intervention, <i>Bumiputera policies</i> , focus on selective EOI and distributional policies (incentive investment act and rural development)
1973	start of democratic experiment, but with business in politics: major coalitions between military elites and businessmen	
1976	military coup	
1980-1988	PM Prem Tinsulanonda: robust economic growth despite crisis until 1985 and SAP's	
1981-2003	focus on EOI and FDI, weak line ministries, strong NESDB, Budget Bureau, Ministry of Finance and Bank of Thailand.	PM Mahathir's era. Jomo (2003) distinguishes three periods: - 1981-1985: extensive state intervention leading to heavy industrialisation, <i>sogoshoshas*</i> and Look East Policy - 1986-1997: gradual shift from distributional to growth-oriented policies, EOI, selective deregulation and privatisation, establishment of UMNO linked Bumiputera business elite. Asian financial crisis - 1997-2003: Capital controls, followed by attempt to to sustain economic growth. endurance of UMNO political business
1989-1997	accelerated economic growth, coupled with political instability (6 different PM's, aggressive money-politics, provincial 'godfathers')	
1997	Asian financial crisis, implosion of economy	
1997-2001	in October promulgation of 16th constitution Leekpai elected as PM (2nd time), in search for new growth model, endurance of money politics	
2001-2003	PM Thaksin: business cabinet, policies to improve competitiveness and massive side payments (Thaksinomics)	PM Abudallah Ahmad Badawi continuation of Mahathir's policies but with relatively more focus on agriculture. start of reforming GLCs.
2006	military coup without violence	

*Sogoshosha is a Japanese word and means 'large international trading firm'

Sources: Jomo 2003, Smakman 2003, Dixon 1998, Parichart et al. 1997, White 2004,

Pasuk & Baker 2004, Gomez 2002, Wingfield 2002, Krongkaew 1999

politicians, political leaders in Malaysia have 'nurtured' a Bumiputera business elite, closely linked to the United Malays National Organisation (UMNO) party (Gomez 2002 & 1994, Ritchie 2005).¹ Even after substantial privatisation programmes there remain many state owned firms (or government linked companies (GLCs) as they are generally called in the Malaysian media) and privatised Bumiputera firms are still heavily protected by the federal government. According to

Eyre & Dwyer (1996, p.183) the result of the Bumiputera policies was the emergence of 'a rentier class among the middle and the upper class Malays rather than true Malay entrepreneurship at a variety of levels'. Moreover, large ethnic-Chinese firms have not suffered much, because they have been able to obtain sufficient work via inter-ethnic cooperation and cooperation with foreign business partners, often with an ethnic-Chinese background as well (Gomez et al. 2001).²

3 Side payments that facilitate overlapping and domestic coalitions

The third characteristic of embedded mercantilism is side payments (Jayasuriya 2004 & 2003). In addition to formal side payments, Pempel (1998, p. 62) showed that politicians in Japan had favoured informal ways to use side payments for their home districts in order to increase the chances of being re-elected. While the political activities of Thai businessmen have been very important in the Thai political economy trajectory, financial transfers from export revenues to domestic sectors and weaker parts of the society have been the most important feature of Malaysian embedded mercantilism. There have been a variety of side payments, including rural development schemes, improving infrastructure in peripheral areas, subsidies for rice farmers and fuel and incentives to promote Bumiputera entrepreneurship (Rasiah 1997, Jomo 2003, pp. 1-33).³ In Thailand, side payments have been less pervasive and less encompassing. As can be seen in Table 3.3 Prime Minister Prem Tinsulanonda limited the power of line ministries in the 1980s, which resulted in inter-ministerial competition and lack of coordination of programmes targeted at weaker parts of the society (Krongkaew 1999). Another factor is that the Thai government has not had the luxury of huge revenues, in fact petroleum royalties, to finance side payments. The discussion of side payments reconfirms the need to address institutional diversity within Southeast Asian growth trajectories. Side payments can have a social dimension (allocation based on social groups), a geographical dimension (allocation to particular regions, *geographical* side payments) and as made clear in section 2.5, ethnic and political dimensions. Chapter 6 is concerned with formal and informal arrangements that influence the flow of side payments from central governments to Satun and Perlis and will also identify what dimensions are important.

4 Inter-firm relations

As noted in section 2.5 the regional variety of capitalism will also be analysed by investigating institutions within the spheres of inter-firm relations and access to private finance. In this section a brief description of these two spheres at the national scale level is presented, given the three characteristics of embedded mercantilism in Thailand and Malaysia. Section 2.5 also stated that it is necessary to take into account the role of ethnic Chinese as they have been very important in Southeast Asian economies. Following Schmidt's (2003) typology (see Table 2.4) inter-firm relations in Thailand could be described as a mix of competitive on the one hand and co-operative, mutually reinforcing and networked based on the other hand (Hewison 1997, White 2004), but Butler et al. (2003) found that much cooperation and dense personal and business networks do not automatically lead to better performances of firms. Sino-Thai have had a very large influence on Thai inter-firm relations. Mackie (2003) for instance, argues that they 'have been playing economic roles of great importance for well over two hundred years. As Thailand has never been formally colonized by a Western power, Sino-Thai capital has always been more important than Western capital, even between 1980 and 1997 when massive amounts of foreign direct investments arrived in Thailand. Therefore, it can be assumed that specific Chinese informal institutions which have been termed *guanxi* (see again section 2.5) are very

important for the Thai inter-firm relations. Indeed, the mix of competition, co-operation, mutual reinforcement and networks could be regarded as *guanxi*.

As was discussed above, the state has been important within the Malaysian embedded mercantilism. Inter-firm relations here are state-led and state mediated (Rasiah 1997, Gomez 1994). There are relatively many state-owned and Bumiputera firms that are among those successful in obtaining many contracts from the public sector. However, the impact of the public sector can vary to a considerable extent. Rasiah (2002) concluded that the Penang State Government, the Penang Development Corporation have had a strong impact on the successes of machine tool firms, whereas similar firms in Selangor have not been supported by the Selangor Development Corporation and did not use the available programmes offered by the federal government. Compared with Thailand *guanxi* is a less pervasive feature in Malaysian inter-firm relations. Nevertheless, it seems to have remained firmly in place among small firms which are not very dependent on the public sector. Gomez et al. (2003) argues that 'while owners of major Chinese enterprises are establishing inter-ethnic ties in a quest for Malay patronage, it appears that small-sized Chinese companies probably still adhere to the notion of intra-ethnic business cooperation as a means to counter the growing influence of well-connected Malays over the corporate sector'. As large Chinese firms are generally more active in the international economy, either as direct exporters or as suppliers for foreign investors, this division of ethnic-Chinese entrepreneurship is another confirmation of the existence of a dual political economy (the first characteristic described above).

5 Access to private finance

The last institutional sphere to be discussed is access to private finance. Thailand has a surprisingly rich history in this respect. Suehiro Akira (1989, pp. 110-121 & 154-171), a Japanese economist, wrote extensively about the history of the financial industry. Between 1930 and 1947 five Sino-Thai families dominated the business of rice milling and rice trade, notably exports. The Wanglee, Bulasak and Iamsuri families were Teochiu (Teochew), the Bulakan family ethnic-Cantonese and the Lamsam family Hakka.⁴ All five families set up banking and insurance companies to finance their other businesses and to reinvest their profits. After the Second World War some of these banks and insurance companies continued to grow coupled with the emergence of new Sino-Thai financial conglomerates. A good example of an old, but still existing bank is the Kasikorn Bank (formerly Thai Farmers Bank) established by the Lamsam family. Four members of these family still occupied positions in the Board of directors by 1999 (Hewison 1999). The most famous example of a post war bank is the Bangkok Bank established by the ethnic-Teochiu family Sophonpanich. The bank had been one of the largest financiers of the textile industry in the 1960s, 1970s and 'by the 1990s the group had extensive interests in various types of non-bank enterprises, notably petrochemicals' (Mackie 2003). According to Hewison (2001) the Bangkok Bank had holdings of over 20% in not less than 30 firms in 1999. It is thus safe to argue that Thai banks have been very instrumental in financing Thailand's economic development.

In Malaysia ethnic-Chinese entrepreneurs made substantial inroads in financial industries as well, but also two other actors played substantial roles. Before independence British banks financed colonial economic expansion, though the Malaysian federal government became very active in the financial industry after 1971, the start of the NEP. Foreign commercial banks held over 90% of the share of the banking market in 1957, when Malaysia became independent, but by 1997 controlled only 16.7% (Detragiache & Gupta 2004). Between 1957 and 1971 ethnic-

Chinese trading companies, banks and insurance companies flourished under relatively laissez-faire institutions, but according to Gomez et al. (2003) 'the Chinese tried unsuccessfully to protect their economic niches by getting public enterprises to concentrate their acquisitions of equity in business sectors controlled by foreigners' in the 1970s. Currently, the public investment agency Khazanah (2006) partly controls RHB Bank (30%), the Islamic Muamalat Bank (30%) and Bumiputera Commerce (21.39%). Governmental authorities have provided much financial capital for Malaysian firms, in particular Bumiputera firms (Smakman 2003, p. 159). A variety of authorities support businesses. Among others, the Council of Trust for the Indigenous people (MARA)⁵, part of the Ministry of Entrepreneur and Co-operative Development, provides for relatively soft loans, the Co-operative Development Department (JPS) manages many cooperatives and entrepreneurs can borrow federal funds via the Malay Chamber of Commerce (Saleh & Ndubisi 2006). Unfortunately, there is not much literature available on the access to finance for ethnic Chinese firms. One study that investigated the activities of small ethnic Chinese firms in a rural setting found that these firms obtained financial capital mainly from the firms' owners and their extended families, rather than from banks or the governmental authorities (Rutten 2003, p. 141).

Combining the five points discussed above leads to interesting institutional complementarities. In the Thai variety considerable overlapping between the internationally and the domestically oriented economy, guanxi inter-firm relations and an important role for banks has gone hand in hand. Therefore, following Schmidt's (2003) typology Thai capitalism until the Asian financial crisis parallels a *managed variety of embedded mercantilism*, mixed with some elements of the market variant, notably the relatively laissez-faire approach towards the domestically oriented economy (see Table 2.4 as well). In Thailand mercantilism is thus pursued through both the international and domestic economy, while it is embedded by the entrance of (provincial) economic actors in the national political arena.

The Thai case contrasts sharply with the Malaysian case. In Malaysia the state has actively intervened in the domestically oriented economy and has maintained strong institutional relations with virtually every group in society, i.e. Bumiputera entrepreneurs, ethnic Chinese entrepreneurs (albeit a rather disabling institutional relationship from the perspective of the Chinese), farmers, civil servants and foreign direct investors. Therefore, Malaysian capitalism is essentially a *state variety of embedded mercantilism*. Malaysian mercantilism is focused on the international economy, while the domestic economy is responsible for the embeddedness of this mercantilism via economic links of UMNO and extensive side payments. Table 3.4 presents a comparative typology of the Thai and Malaysian embedded mercantilism. In Malaysia a distinction is made between the international and the domestic economy as Malaysia's variety exhibits a strong dual economy. The characteristics are based on Hutton (1995) in Knox et al. (2003, p.92-93) who compared capitalist systems of developed countries (appendix 4).

Continuity and change after the Asian financial crisis

The devaluation of the Thai Baht on July 2, 1997 introduced one of the deepest financial crises in Southeast and East Asia's economic history. Problems were the most severe in Thailand, Indonesia, Malaysia and South Korea. In these countries the economy contracted, poverty levels and unemployment rates went up and many firms went bankrupt. In Indonesia President Suharto was forced to resign and, interestingly from an evolutionary point of view, a totally new institutional framework emerged in the aftermath of the crisis. The body of knowledge on the

Table 3.4 The Thai and Malaysian varieties of embedded mercantilism compared

Characteristic	Thai capitalism	Malaysian capitalism international economy	domestic economy
<i>Basic principle</i>			
dominant factor of production	labour	labour & capital	labour
reliance on price-mediated markets	medium	high	low
supply relations	close enduring	price driven	bureaucracy state led
industrial groups	medium	low	high
extent privatised	high	high	low
<i>Financial system</i>			
market structure	personal committed	anonymous securitised	bureaucracy
banking system	advanced	advanced	traditional regulated
stock market	medium	important	unimportant
required returns	medium	high	low
<i>Labour market</i>			
job security	low	medium	high
labour mobility	high	medium	low
pay differential	large	large	medium
skills	medium	medium	low
union structure	fragmented	firm-based	firm-based
strength	low	low	low
<i>The firm</i>			
main goal	profits	profits	stable jobs
role of top manager	boss-king hierarchy	boss-king hierarchy	boss-king hierarchy
social overheads	low	low	medium
<i>Welfare system</i>			
basic principle	liberal	liberal	state led ethnically based
degree education			
tiered by class	high	medium	medium
private welfare	high	medium	low
<i>Government policies</i>			
role of the government	limited enabling	limited enabling	strong interventionist
openness to trade	open	open	close
industrial policy	little	medium	medium
top income tax	low	low	low

Sources among others: Knox et al. 2003, pp 92-93 (based on Hutton 1995, p. 282), AMRC 2003, Todd et al. 2004, Pasuk & Baker 2004, Jomo 2003, Wingfield 2002, Gomez 2002, Wad 2001, Rodan et al. 1997, ILO 1995

causes of the crisis has tended to centre around three topics (Wade 1999, Whitt 1999, Haggard 2000, Raffer 2007). First, the crisis has been attributed to external shocks such as the depreciation of the US Dollar vis-à-vis the Japanese Yen between 1995 and 1997 and speculation of currency traders. Second, commentators from the Western world blamed Asian countries of internal deficiencies such as, ironically, excessive financial liberalisation, extreme mobility of financial capital, risky activities of expanding conglomerates and the build-up of huge non-performing loans. Third, some view the Asian financial crisis as a concerted effort of the International Monetary Fund, the White House and other 'powers' to more or less contain emerging markets, similar to the handling of the Mexican peso crisis in 1994 and the Argentinean crisis in 2001.

The Malaysian GDP (in constant 1990 prices) reached its pre-crisis level in 2000, the Thai GDP in 2002 and the Indonesian GDP only in 2003 (UN statistics division, 2005). However, the second part of Table 3.1 shows that the Thai and Malaysian HDI value in 2000, with GDP per capita adjusted for prices as one of the indicators, was higher than in 1997. Thus in terms of human development the negative effects of the crisis in these countries were gone as soon as three years after the crisis. There are three explanations for this outcome. First, the crisis was most severe in the manufacturing and services sectors, whereas agricultural production and agricultural prices at international markets were far less affected by the crisis. Many employees from the large cities returned to their old rural hometowns and could find some work. Second, the central governments remained their public policies regarding health and education which resulted in the relatively stable indicators of life expectancy at birth, adult literacy rate and enrollment ratios for schools. Third, the Malaysian federal government introduced some successful measures to tackle the Asian financial crisis, of which capital controls were the most controversial (Jomo 2003, pp. 191-215). But despite the relatively quick recovery of the socio-economic situation, the 1997 financial crisis coupled with the rise of China as major recipient of foreign direct investment led to pressures on existing institutional complementarities (Jayasuriya 2003, Perry 2003). Below an overview of these pressures and its effects.

According to Case (2005) the responses of the Malaysian federal government to the protests could be divided into four periods:

- September 1998 – late 1999: state interventions of which capital controls and corporate bailouts were the most important. Capital controls, which were put in place between September 1998 and February 1999 were designed to 'eliminate offshore Ringgit trade, limit speculative outward capital flows, protect the international value of the Ringgit and raise foreign exchange reserves (Jomo 2003, p. 195). Corporate bailouts sought to help the heavily affected firms, especially those owned by businessmen that were well-connected to the political leaders. This is a good example of how domestic coalitions work.
- Late 1999 – beginning 2002: neo-liberal reforms. On the one hand the general election of late 1999 in which the opposition party Parti Islam se-Malaysia (PAS) obtained around half of the Bumiputera votes generated a problem for UMNO. On the other hand, foreign investors increasingly worried about the investment attractiveness of Malaysia. Therefore, UMNO leaders were more or less forced to clean their image. They promised neo-liberal reforms and Prime Minister Mahathir even fired his long time right hand Finance Minister Daim Zainuddin because he was accused of helping business friends during corporate bailouts.
- Beginning 2002 – late 2003: new state interventions. As the neo-liberal reforms did not improve foreign direct investments and as anti-reform UMNO politicians 'whose fortunes depended on patronage as well as their networks with local business elites' regained

considerable power, the federal government revived support for 'local markets, especially agriculture, small business and services' (Case 2005).⁶

- Late 2003 – present: towards a pre-crisis equilibrium. In October 2003 Abdullah Badawi became Prime-Minister. It seems he has successfully established pre-crisis patterns, although with some neo-liberal flavours. He has implemented reforms regarding good governance (in particular within state-owned firms), but he simultaneously supports the domestically oriented economy, particularly the agricultural sector. In addition, in the 2004 general election UMNO performed very well and PAS lost many parliamentary seats.

In contrast to the Malaysian experience Thailand's embedded mercantilism was subject to more profound dynamics. The following account of events is largely based on Hewison (2005) and Pasuk & Baker (2004) and Baker & Pasuk (2005).

- September 1998 – January 2001: towards a neo-liberal project. Several months after the beginning of the crisis Prime Minister Chavalit Yongchaiyudh's cabinet agreed on a package of the International Monetary Fund (IMF) consisting of characteristically neo-liberal reforms, but in late 1997 this cabinet resigned as a result of enormous pressure from the urban middle class. Chuan Leekpai, leader of the Democrat Party became Prime Minister and was expected to bring about a 'cleaner' government compared to Chavalit's cabinet that was mainly made up of provincial bosses or godfathers' (Baker & Pasuk 2005, pp. 255-257.) Mr. Chuan fully cooperated with the IMF, but increasingly faced discontent among domestic businessmen. Dr. Thaksin Shinawatra, who established Shin Cooperation and became a telecommunications mogul, decided to capitalise on this massive disagreement and established a new party in 1998, the *Thai Rak Thai* party (Thais love Thais).
- February 2001 – January 2006: *Thaksinomics*. Thai Rak Thai won the 2001 general elections, making Thaksin Prime-Minister. Besides some provincial 'bosses', Thaksin appointed representatives from important Bangkok based business families.⁷ Between 2001 and 2005 neo-liberal tendencies were reduced and the business cabinet implemented populist policies for poor rural people. These policies led to a more important role of side payments. Other measures were the allocation of financial capital via state-owned financial organisations (see section 5.1 as well) and curtailing democracy by controlling newspapers and television channels and by increasing the power of *appointed* provincial governors. The populist policies (also called Thaksinomics) led to a unique absolute majority (61% of the votes) for the Thai Rak Thai party in the February 2005 election.
- February 2006 – present: political and institutional instability. By March 2005 it seemed that Thaksin could stay Prime Minister for many years to come, but 2006 was disastrous for him. September 19 2006, the military staged a coup and nullified the 1997 constitution when Thaksin attended a United Nations meeting in New York. Luckily, no single shot was heard during the coup nor its aftermath (box 3.1).

In conclusion, Malaysia's *variety of embedded mercantilism* (with *market* elements within the internationally oriented economy) experienced an uncertain period between 1998 and 2003, but after Abdullah Badawi assumed power, Malaysia has been returning to institutional complementarities that prevailed before the Asian financial crisis coupled with some modest reforms. Many observers expected that the Asian financial crisis would lead to new institutions. Admittedly, in recent years discussions appeared on the viability of Bumiputera policies (Gomez 2005), but it must be concluded that the institutional evolution of Malaysia shows a remarkable degree of path dependence.⁸

Box 3.1 Political instability in Thailand

A highly controversial TB 73.3 billion tax free deal (EUR 1.63 billion) in January 2006, in which the Shinawatra and Damapong families sold their Shin Corporation shares to Singapore's Temasek Holdings, resulted in the worst political crisis since 1992. Thaksin's children were accused of insider trading and Thaksin himself of giving his family corporation a special treatment in his capacity as Prime Minister. Huge crowds gathered in Bangkok and Thaksin saw no other way out than calling a snap election for April 2. However, the three largest opposition parties (including the Democrat party) boycotted these elections. On April 26 the King intervened in the political crisis with a speech leading to the nullification of the April 2 elections by the Constitutional Court, a new and politically more neutral Election Commission and new proposed elections. Nevertheless, Army Commander General Sonthi Bunyaratglin decided to stage the coup on 19 September 2006. A few weeks later Privy Councillor and retired General Mr. Surayud Chulanont was appointed as interim Prime Minister. After a referendum on the new constitution general elections were finally held in December 2007. The newly formed pro-Thaksin people's power party (PPP) won these elections. In February 2008 a coalition government was installed, led by PPP's leader Mr. Samak Sundaravej. Once again, the Democrat Party is the main opposition party. Meanwhile, Thaksin now lives in the United Kingdom and has taken over the Premier League soccer club Manchester City. Since the end of the absolute monarchy in 1932 Thailand coped with no less than 18 coup d' états. This structural political insecurity has undoubtedly had its influence on economic, human, and regional development, if only because ('old') institutions were abolished and new formal institutions were designed by the new powerholders after a coup. For as far as yet, it has been difficult to establish clear-cut relationships between military coups, institutional changes and (differences in) regional development.

Despite the shocking event of the Asian financial crisis, there were few incentives to change or remove disabling institutions and many pre-crisis arrangements remained intact. An important explanation seems to be processes of political lock-in, as UMNO politicians with economic interests wanted to maintain networks of patronage and crony capitalism in 2002. This trend is a good example of a *distributive conflict* (Bardhan 2005), as outlined in section 2.3.⁹ In sum, the Asian financial crisis has not generated a significant change for Malaysian's *state* variety of embedded mercantilism.

As a result of the IMF package Thailand shifted between 1998 and 2001 from a *managed* towards a *market* variety of embedded mercantilism. But in 2001 Thailand returned to the *managed* variety, albeit differently from pre-crisis characteristics. Different actors are engaged in domestic coalitions, side payments have become more important and the state became more powerful regarding access to private finance. As mentioned in section 2.2, it is assumed that differences between the Thai and Malaysian institutional frameworks have not changed dramatically since the beginning of the 1970s, but for the following three chapters it seems necessary to take into account the relevance of the evolution of the Thai *managed* variety since 2001. It is uncertain whether this variety will continue to exist.

3.3 Satun and Perlis as part of the Kedah Sultanate

Section 3.1 and 3.2 introduced Thailand and Malaysia and its institutional arrangements which have determined the economic history of both countries. The remainder of this chapter introduces the research regions; the province of Satun in Thailand and the state of Perlis in Malaysia. Table 3.5 shows a timeline for Satun and Perlis including major years for the Thai and Malaysian history. Until 1909 political and economic developments of Satun and Perlis were highly interlinked with each other's history, and that of Kedah. It is known that at least since the 8th century A.D. Kedah included the areas of what is now called Satun, Perlis and Penang Island. Between the 8th and the 11th century Kedah was a major region for trading, in particular as an intermediate point on the sea route between the Middle East and China. At the end of the 11th century, the empire of Srivijaya, based at Sumatra, became more important and Kedah lost considerable influence in Southeast Asia. Instead, Kedah became an agricultural region, producing rice.

The year 1422 was one of the most important historical dates as it has been estimated as the year in which the establishment began of Siamese control in Kedah, or Saiburi in the Thai/Siamese language (Ahmat 1984, p.12). Despite the presence of the Siamese and their demand for *bunga emas* ('golden flowers' – annual taxes consisting of golden and silver ornaments), the rulers of Kedah were relatively independent until the end of the 18th century. The Siamese king left many issues to the Kedah rulers. In 1474 the ruler of Kedah, Phra Ong Mahangwasa, converted to Islam. This happening led to a gradual popularity of the Islamic religion in the state. During the reign of Sultan Dhiauddin 1661-1687, a famous canal was built between an important palace near Kangar and Anak Bukit, 70 kilometres to the south. This canal is described as a remarkably advanced piece of infrastructure and greatly facilitated transport of agricultural products. In the 18th century the Sultan decided to build a new capital, Alor Setar, and left control of more remote areas such as Satun more and more to relatives. In 1786 the Sultan of Kedah ceded Penang Island to the British. The British became increasingly economically and politically powerful after 1786, whereas the Kedah Sultanate gradually lost its grandeur in the 19th century. Besides the arrival of the British other reasons were the economic rise of Ranong and Phuket (see below as well) and troubles between the Siamese and the Sultan of Kedah. The Siamese king accused the Sultan of Kedah Tuanku Ahmad Tajuddin of 'forgetting' that the Sultanate was under Siamese suzerainty. Therefore, he placed Kedah under direct control of the governor of Nakhon si Thammarat in the beginning of the 19th century. This seemed to have little effect, because in 1821 the Siamese king decided to invade Kedah. The result was several wars and brutal violence initiated by the Siamese (Box 3.2). In 1842 the Siamese king allowed the return of Sultan of Kedah, but under condition of a much smaller Kedah, therefore the king divided the Sultanate into the four areas of Satun, Perlis, Kubang Pasu and remaining Kedah. Both Perlis and Satun were again placed under the control of Nakhon si Thammarat.¹⁰ Nevertheless, many administrators of Satun and all Rajahs (ruler) of Perlis were relatives of the Sultan of Kedah. Thus the influence of the Siamese in Satun and Perlis should not be overstated.

Regarding economic relations Phuwadol (2002) and Dick & Rimmer (2003, pp. 186-216) state that the southern parts of Siam interacted much more with the British Straits Settlements (Penang, Malacca and Singapore) than with Bangkok between 1786 and 1909. There are three explanations for this pattern. First, according to Turnbull (1989, p. 111-112), despite the official policy of non-involvement, 'the British authorities were, in practice increasingly drawn into

the affairs of the interior from the 1830s onwards. The growth of capitalist enterprise in the Straits [Settlements] ports, the spread of commercial agriculture, the growing demand for tin in international trade and the influx of Chinese entrepreneurs and labourers to exploit these new opportunities created pressures for change'. Second, the distances and travelling times from cities such as Phuket, Ranong and Songkhla to the British Straits Settlements, in particular Penang, were less than to Bangkok (Figure 3.4). Because of the large distances the Siamese king did not possess detailed knowledge about the southern parts of his kingdom. Third, Penang Chinese, mainly *Hokkien*, were very instrumental in developing the southern parts of Siam with massive investments in tin mining, trade and transportation. One of the most impressive examples is the Khaw family.

Khaw Soo Seang was born in China in 1797 and arrived via Penang in Ranong. He became a wealthy trader and investor in tin mining and other businesses. Moreover, king Mongkut (Rama IV) appointed him as governor of Ranong in 1854 and rewarded him the title of Phraya in 1862, 'the second highest rank of conferred nobility.' Two of his sons 'followed in his footsteps to achieve positions of even greater power and influence'. The political and economic power of Khaw Sim Bee (1856-1913), his youngest son, extended from Ranong to Satun in the beginning of the 20th century (Cushman 1991, pp. 13-15). He also introduced the first rubber trees in Satun.¹¹

Box 3.2 Troubles in Kedah between 1821 and 1842

As mentioned in the beginning of this section, Satun and Perlis had been parts of Kedah for a very long time and therefore, they share a remarkably similar history until 1909. Particularly illustrative of this is the violent period between 1821 and 1842. As the Burmese Kings Bodawpaya and Bagyidaw tried to conquer parts of Southern Siam (including Phuket), The Siamese King wanted Kedah to help him fighting against the Burmese. The Sultan of Kedah Tuanku Ahmad Tajuddin was very reluctant to help and moreover delayed the annual *bunga emas*. Therefore, the Siamese King (Rama II) ordered the Governor of Nakhon si Thammarat to invade Kedah in 1821 and once more in 1824 to obtain direct control over Kedah. Actually, the Siamese wished to conquer Perak and Selangor as well, but the British succeeded to stop them by threatening to intervene with military power. The result was that Perak became a geographical buffer between the British and the Siamese. Both in 1831 and 1838, nephews of the Sultan of Kedah tried to drive out the Siamese by engaging in holy wars. An army of 10000 soldiers even reached Singgora (the contemporary city of Songkhla, see Figure 1.1 as well). Nevertheless, in both years the Siamese managed to re-conquer Kedah after several months. One of the reasons for the failure was that the British were eager to maintain peaceful relations with the Siamese and a weak Kedah, so they did not help the latter at all. They only allowed the Sultan to live in exile in the Straits Settlements (Penang and briefly Malacca). After the war of 1838 Kedah's royal family promised to pay the *bunga emas* regularly, leading to the return of Tuanku Ahmad Tajuddin to Kedah in 1842 (Turnbull 1989, pp. 112-115, Ahmat 1984, pp. 12-14)

Table 3.5 Timeline of Satun and Perlis until 1957

year	Thailand	Kedah/Satun & Perlis	Malaysia
		8-11th century: Kedah (Sai Buri in Thai language) State commercial centre. Kedah includes Perlis and Satun	
1422		beginning of Siamese influence in Kedah	
1474		ruler of Kedah, Phra Ong Mahawangsa is converted to Islam, becomes Sultan Mudzaffah Shah	
1782	beginning of Chakry dynasty with Rama I, new capital of Bangkok		
1786		the Sultan of Kedah cedes Penang to the British, followed by gradual decline of Kedah's importance. Moreover, Kedah under Siamese suzerainty, pays taxes to the Siamese	
1821		Siam invades Kedah	
1826			Malacca, Penang and Singapore form British Straits Settlements
1842		Siam returns autonomy to Sultan of Kedah, but the Sultan loses direct control of Satun, Perlis and Kubang Pasu to Siamese	
1855	Bowring Treaty: start of Western influence		
1860		start of arrival of substantial number of Chinese migrants	
1868	King Rama V. Chulalongkorn until 1910		
1895			Pahang, Perak, Negeri Sembilan, Johor and Selangor form federated states under British control
1898		Kedah regains direct control over Perlis and Satun	
1905		Perlis is financially assisted by a British advisor and borrows money from the Siamese	
1909	Anglo-Siamese Treaty	official border settlement: Satun under Siamese control (governor of Phuket), Perlis and Kedah two separate states under British control	Anglo-Siamese Treaty Perlis, Kedah, Kelantan and Teranganu become unfederated states
1926		Satun under control of governor of Nakhon si Thammarat	
1930		formal treaty between Perlis and the British	
1932	beginning of Constitutional monarchy with parliamentary government		
1933		Satun independent Siamese province	
1939	Siam changes its name into Thailand		

Table 3.5 Continued

year	Thailand	Kedah/Satun & Perlis	Malaysia
1942		Japanese transfer control of Perlis to Thai government during the Second World War	
1945	end of WWII	Perlis returns to British	end of WWII
1946	Rama IX, Bhumibol becomes King		
1948			founding of Malayan federation
1957			independence

Sources: Ahmat 1984, Wu 2003, BBC 2005, and visits to museums in Satun and Perlis

Thus capitalism penetrated southern Siam through British (notably the East India Company) and ethnic-Chinese interests.

Overall, Satun and Perlis benefited much less from Chinese-led economic activities compared with more favourably located regions. In fact, between 1842 and 1909 both regions were peripheral areas. In essence both were relatively sparsely populated, relied heavily on natural resources and were difficult to reach, particularly over land. Wan Ibrahim's (1970) report on an expedition of Cambridge University, led by Mr. W. W. Skeat in 1899-1900 reveals some interesting aspects about the region. At the time Satun was estimated to have a population of 25000, and Perlis 16000. Both Satun city and Kangar consisted of approximately 60 (shop) houses and annual revenues for the local governments were remarkably similar at \$26000 in Satun and \$27000 in Perlis.¹² Mr. Skeat's attested to the difficult location of the area during his travels, as it took him no less than 10 hours to reach Kangar from Satun Town. Although both governments had to pay annual bunga emas to the Siamese King, Penang was important in terms of trading. It should be noted that much of the economic activities had a subsistence character; exports and imports played a relatively marginal role. Regarding paddy planting, for example, Ahmat (1984, p.17) stated 'that most rice planters worked within a rather tightly knit subsistence framework. To supplement their diet, they engaged in a little fishing, the raising of poultry and the planting of various fruit trees in their *dusun* (orchard).' Furthermore, the Sultan of Kedah secured the services of his people through the institution of *kerah* (compulsory labour) and debt-slavery:

When a district chief needed labour to undertake work, such as clearing a river or the building of a mosque, all the men within reach were summoned through the village headman to undertake this forced labour, for which no payment was provided. As subjects of the sultan, who ruled through the chief, the locals were morally and politically obliged to submit themselves to this kind of work; refusal would have been considered as disloyalty to the sultan and resulted in grave punishment (Triantafillou 2004).

At the end of the 19th century, however, both Satun and Perlis became part of *resource frontiers*, 'a process of change which advances, a constant shifting and restructuring movement involving three interlocking elements – population, land and spatio-productive structure. The frontier is thus not simply a line or even zone but a dynamic process of spatial interaction in which unoccupied resource-rich regions are incorporated into national economic space' (Armstrong

1991).¹³ Note that the word *national* is not applicable until 1957 when Malaysia gained its independence. Pepper in the area surrounding Thung Wa and edible bird nests became export items for Satun, while tin mining began in Perlis. These developments were accompanied with the influx of ethnic-Chinese, in Satun working on the pepper plantations and in Perlis as mining labourers. Other (richer) ethnic-Chinese started the so-called *tax farms* (local monopolies farmed out to private persons) for toll posts, agricultural products and most famously for opium. In the Straits Settlements opium processing and trading was *farmed out* from the government to ethnic-Chinese for a period of three years whereas mine-owners in other colonial areas often managed to become 'opium farmers' themselves (See Wu 2003 for an extensive study on opium farms and other businesses in Kedah and the linkages with Penang).

It is therefore evident that political and economic developments in Satun and Perlis were quite similar during the 19th century. Politically, the two regions were influenced by the Kedah Sultanate and Kingdom of Siam and economically they first relied on subsistence farming, followed by a gradual transformation into resource frontiers, accompanied with the influx of ethnic-Chinese and increased trading linkages with Penang. The year 1905 was particularly interesting as political relations between 'Bangkok and 'London' led to the emergence of separate institutional arrangements. In that year the famous Siamese ruler Chulalongkorn (Rama V) offered the Rajah of Perlis two loans under the condition that the Rajah accepted the arrival of a British financial advisor, Mr. A.H. Duke.¹⁴ This event thus marked the beginning of the loss of Siamese control in Perlis and the beginning of the impact of two *different* institutional frameworks on Satun and Perlis – the Siamese framework in Satun and the colonial British framework in Perlis.

3.4 Diverging developmental trajectories after the Anglo-Siamese Treaty

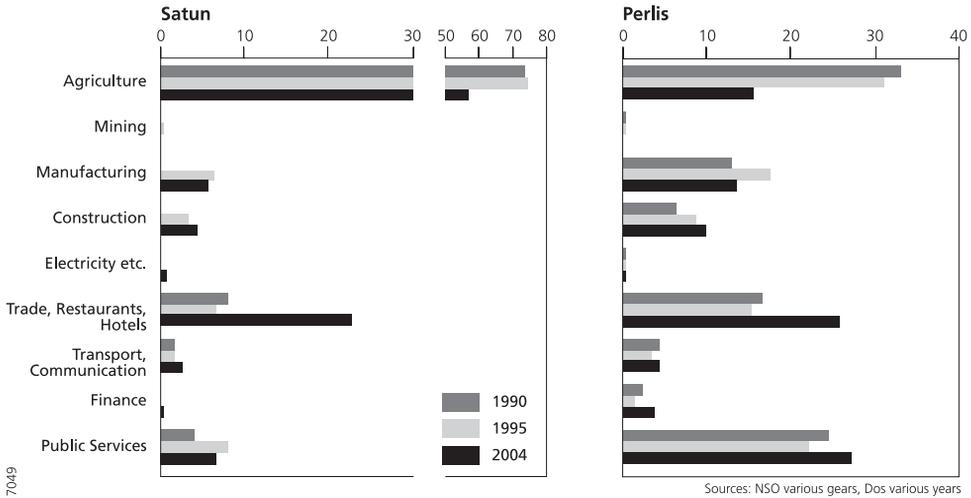
In 1909 the Anglo-Siamese treaty resulted in a permanent border between Siamese and British territory. The sultanates of Kedah, Perlis, Kelantan and Terangganu came under British influence whereas the areas northwards, including Satun remained under Siamese suzerainty. The Siamese king ordered the governor of Phuket to supervise Satun. Before the treaty both Satun and Perlis were essentially agricultural regions based on subsistence farming and increasingly produce for external markets, but in the beginning of the 20th century trajectories started to diverge considerably.

While other regions benefited from better transportation facilities by rail and sea, Satun province remained isolated. Moreover, tin was not found, and the pepper plantations collapsed after the First World War. As there were no side payments either it can be argued that the result was a retreat out of the resource frontier. By contrast, Perlis' economic development was quite impressive, especially between the First and Second World Wars. Tin mines and new rubber plantations generated much activity, the British implemented many new laws and regulations, the role of Sultans was reduced to symbolic rulers, the institution of *kerah* 'was abolished in order to meet the requirements of the new liberal market economy' (Wu 2003, p. 25), and a new railway through Perlis connected the British territories with Siam (Thailand after 1939) making Padang Besar an important border town (Figures 3.3). Perlis therefore increasingly benefited from the British capitalist imperatives and became better integrated with other British Malay regions compared with the peripheral location of Satun.¹⁵

After the Second World War the divergent paths of economic development continued. Satun, which became a separate province with an appointed Governor in 1933, remained relatively undeveloped. In the 1950s the central Thai government invited investors from outside Satun to open up agricultural land, though it did not intervene directly in economic affairs. However, few private investors were interested in Satun and until the end of the 1970s large parts remained forested. In 1978 the proportion of rubber area in total land was smaller than 9%, much smaller than in the surrounding provinces. The continued demand for natural rubber let many smallholders and some landlords and other investors decide to change the forest into rubber tree growing areas since the beginning of the 1980s. Only then became Satun seriously involved in the rubber resource frontier, whereas other Thai provinces were already filled with rubber trees. Developments that improved the accessibility of Satun were an improved road between La-ngu and Trang in 1972, the opening of Tarutao National Park in 1975, a new road between Satun and Perlis in 1984 and a ferry service between Satun and Langkawi after 1987. However, Satun had to wait until the mid 1990s before the road between Satun Town and Hat Yai was upgraded to a four lane semi highway.

After 1957 (Malaysia's year of independence) the Perlis' economy continued to perform relatively well, supported by the federal government. The tin mines in Perlis remained profitable until the late 1960s. It has been estimated that no less than 80000 people lived around the mines near Kaki Bukit village, north of Timah Tasoh lake. Furthermore, as a result of a communist insurgency the British relocated some Chinese labourers from other states and brought them as rubber tappers to Perlis in the 1950s (Osman et al. 2002). The NEP and its subsequent policies which were discussed in the previous section resulted in a strong involvement of the Perlis State Government (PSG) and the Malaysian federal government, financed by large (geographical) side payments. As introduced in section 2.4, side payments form the third characteristics within Southeast Asian embedded mercantilist arrangements. Examples of this include the Perlis State Economic Development Corporation (SEDC) which has been quite active for around four decades, engaging in a variety of economic projects (also see chapter 5).¹⁶ At the end of the 1960s the Federal Land Development Authority (FELDA) started a sugarcane plantation joint venture with the firm Perlis Plantations, owned by the famous Robert Kuok (White 2004) and the cement factory near Beseri became a real government linked company in 1975. One of the most striking developments in the last two decades is the further decrease of agricultural employment in Perlis. In fact, in 2004 a mere 15.4% of the labour force (persons above 15 years) worked in agriculture. Thus peripherality and agricultural regions are by no means a priori coincident concepts anymore.

In this respect Jonathan Rigg views traditional ways of looking at agricultural regions as becoming outdated, raising the need for new questions. 'Hitherto, concern with the minutiae of production – fertilisers, new crop varieties, labour inputs and the like – has tended to sideline agricultural and rural geography at a time when economic geography more widely, and especially industrial geography, was drawing inspiration from political economy and in the process flourishing' (Rigg 2001, p. 15). Indeed, it makes sense to look at political and institutional issues in rural and peripheral regions in which agriculture is becoming a marginal factor for regional economic development. For example, neglecting the impact of Malaysian Bumiputera policies could hamper the explanation for patterns of rural development. Rigg views rural areas as 'hybrid spaces of living and working'. This is to say that whilst rural areas still exist, the boundaries



7049
 Figure 3.2 Labour force (people above 15 years by industry)

between rural and urban, agriculture, industry and services, and other features are becoming blurred as each becomes increasingly interdependent (Rigg 2001, p. 156).

Figure 3.2 provides further insights into employment trends in the two regions. The surprisingly large share of services in the total Perlis' economy can be explained by the presence of many public services, as the figure shows that more than 25% of the total labour force is employed in public services in 2004. At present, the most important development strategy of the PSG is to become a '*negeri ilmu*' (knowledge state). In recent years Perlis welcomed several new schools and colleges, of which KUKUM, the Northern Malaysia University College of Engineering, is the most important. Figure 3.2 and Table 3.6 present an overview of socioeconomic trends and Figure 3.3 presents some economic-geographical information. As mentioned above, the growth of extracting latex from rubber trees has become an important activity for Satun. Palm oil contributes to agricultural produce as well, but the fisheries industry has grown dramatically in the last two decades. This industry is a relatively developed cluster in Satun with fishermen (partly from Myanmar), boat owners, cold storage firms, ice factories and one large fish canning factory (employing around 1300 workers) all operating in the province. The total quantity of seafood handled at two fishing ports (Figure 3.3) increased with 79% between 1991 and 2002, whereas the quantity handled at all Thai fishing ports increased only with 5%. For services Satun remains very dependent on Hat Yai in the province of Songkhla, one of the major economic centers in Southern Thailand. The opening of a four lane semi highway between Satun Town and Hat Yai in 1995 improved access considerably.

The data in Figure 3.2 and Table 3.6 indicate that patterns of socioeconomic development further diverged, in line with national differences. Perlis has become a more advanced region than Satun and it can be argued that the former has lost its role as a resource frontier. Table 3.6 shows that whereas Perlis' total population is lower than Satun's¹⁷, there are more teachers at secondary schools, more hospital beds and more cars.¹⁸ A new highway connecting Malaysia and Thailand at Bukit Kayu Itam in Kedah (just a few kilometres east from Perlis) seriously

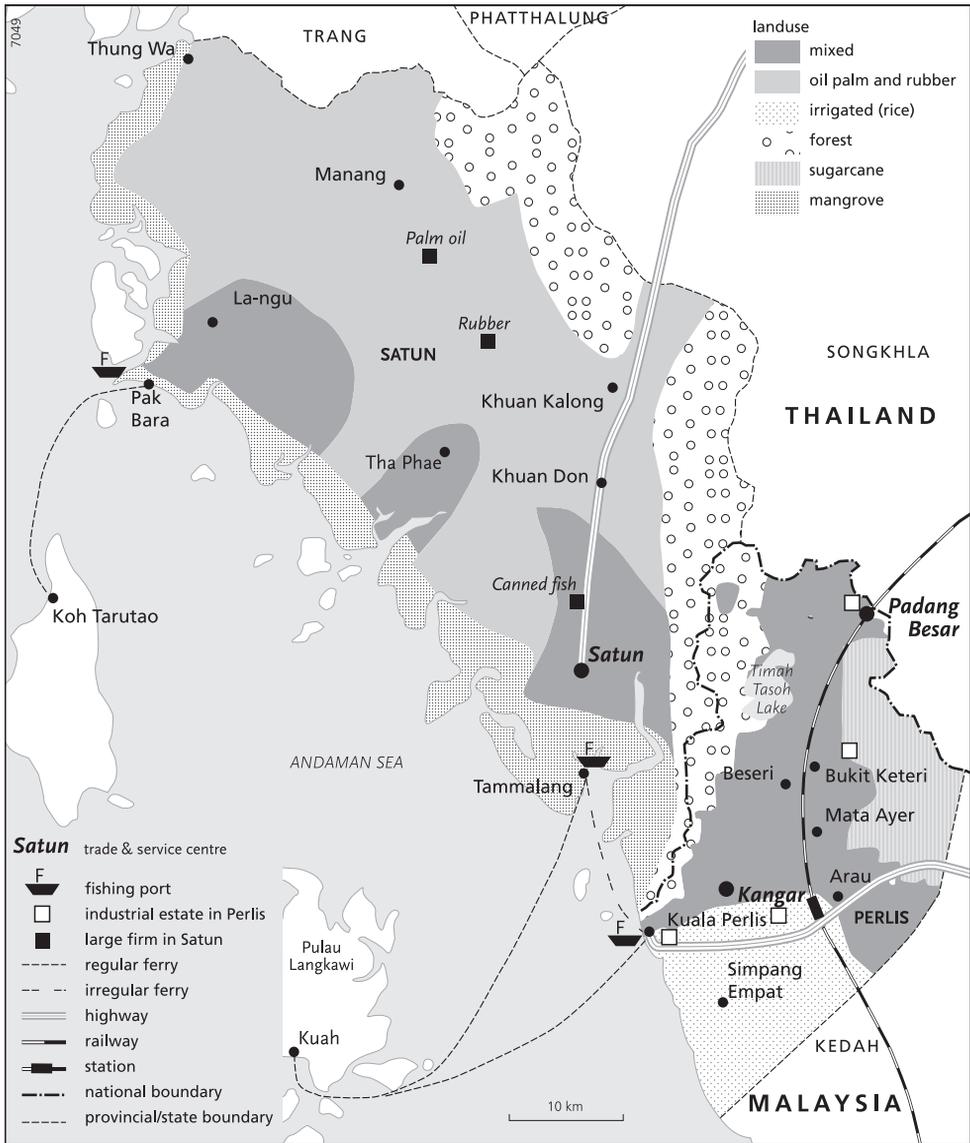


Figure 3.3 Economic map of Satun and Perlis

affected Perlis from 1994 onwards (Dick & Rimmer 2003). Rail transport declined in importance in comparison to road transport, and Padang Besar lost its position as the most important border city in the area. Figure 3.4 shows important routes of the dominant modes of transportation for three periods. As a result of the worldwide trend of containerisation, the border town of Padang Besar is currently regaining some of its importance. Containerised trade between Thailand and Penang port comprises the majority of freight forwarding at Padang Besar. Manufacturing seemed to have had its peak in the early 1990s, and after 1995 no new foreign firms invested

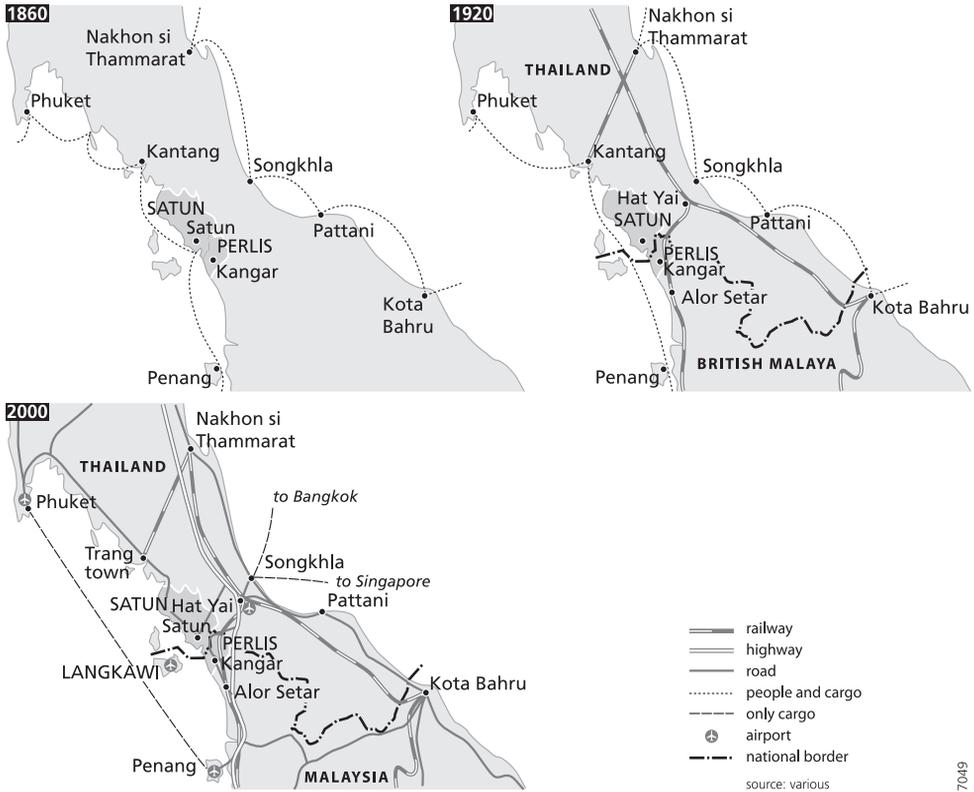


Figure 3.4 Historical developments of transportation networks

in Perlis. In fact, two foreign companies have left Perlis since this time – a rubber processing factory relocated to Songkhla province in Southern Thailand, and one garment factory decided to rationalise its Malaysian operations in Ipoh (in the state of Perak). A plausible explanation could be that the wage level became too high in Perlis. National data and regional minimum wage data for Thailand reveal that the wage level in Perlis is considerably higher than in Satun. Some firms and owners of fishing vessels in Perlis hire workers from Thailand, including some from Satun, because they accept much lower wages than Malaysian employees. Another interesting comparison is the minimum wage. The minimum wage in Bangkok is USD 114 per month, but in Satun just USD 88 (BOI 2007). In Malaysia there are no official minimum wages, but the Malaysian Trade Union Congress has proposed to establish a minimum wage level of USD 257 throughout Malaysia (MTUC 2007), thus roughly two times as high as in Bangkok. Based on these data it can be assumed that wages in Satun are considerably lower. The main benefit for Satun (and other provinces in Southern Thailand) is related to the rubber industry. Tapping rubber is a labour intensive and indeed, growing rubber trees in Perlis as well as in Kedah has started to decrease considerably.

Unfortunately, a comparison of the break down of gross regional products (GRP) is not possible, as the Malaysian federal government does not publish extensive data at the state level.

Table 3.6 Socioeconomic indicators

		1990	1995	2004
total population	satun	227000	244000	274000
	perlis	188000	209000	210000
total dependency ratio	satun	72.7	57.6	52
	perlis	66.8	68.3	64.5
% Muslim of total population	satun	67	?	68
	perlis	79	?	84
rice paddy area (hectares)	satun	14555*	?	8256
	perlis	46096	45378	52073
rubber tree area (hectares)	satun	39782*	?	40618
	perlis	11636	9312	?
number of teachers at secondary school	satun	547*	690	1105
	perlis	1037	1250	1970
number of hospital beds	satun	?	250	366
	perlis	404	404	404
registered motorcycles	satun	22393	32032	71155
	perlis	37666	?	39624
registered cars & pick ups	satun	3781	4666	10810
	perlis	8920	?	10969

*1993

Sources: NSO 2003. 1996. 1994 and DoS 2003. 1996.1990.

Nevertheless, this author's calculations indicate that the 2003 per capita GRP of Satun was USD 1630, but not less than USD 2589 in Perlis, and that Perlis' GRP was approximately one third larger than Satun's.¹⁹ These data confirm that Perlis is currently more advanced despite a common history until 1909, common demographic characteristics (an Islamic majority of Malay descent complemented with ethnic-Chinese and Thai minorities), a similar physical geography and despite the fact that both regions have been subjected to cross border development programmes, particularly since 1990.²⁰ As these commonalities cannot explain the divergent developmental trajectories, it is therefore pertinent to investigate to what national extent institutional arrangements have caused divergence. The following chapters will focus on three institutional topics. Here, the relevant organisations are briefly introduced.

In both regions *firms* are mostly small and medium sized, but there are remarkable differences regarding ownership. Satun's private sector is dominated by Sino-Thai people, whereas ownership in Perlis is mixed: there are ethnic-Chinese firms, bumiputera firms, (partly) state-owned firms and even five foreign firms. Cooperation within the private sector through (*business*) *associations* seems to be differently organised. The older ones in Satun which are still active are not focused on business. The eldest associations are two branches with their headquarters in Bangkok: the Islamic association, founded in 1942 and an association for Chinese immigrants named Chong Hua, founded in 1944. The former oversees all 195 mosques in Satun and is governed by a committee of 30 persons. The latter has around 500 members. In Perlis the eldest association

Box 3.3 The price of natural rubber and smallholders in Southern Thailand

Southeast Asia has been a major producer of natural rubber since a long time. In 1950 Malaysia produced 761000 tons and Thailand 114000 tons; in 2001 Malaysia's production volume was around the same as in 1950, whereas Thailand produced not less than 2300000 tons. Currently Thailand is the largest exporter and Thailand, Malaysia and Indonesia together produce 73% of the world production.

The majority of rubber production is carried out at smallholdings, but Figure 3.5a shows that the rubber price has been quite instable. Moreover, Figure 3.5b reveals that rubber smallholders in Southern Thailand are linked to international financial markets. This is a good example of the Thai economy which is considerably less dual than the Malaysian economy and in which agricultural exports still plays vital roles (see section 3.2 as well). The majority of natural rubber producers in Satun are Islamic smallholders who sell raw latex and (un)smoked rubbers sheets. Most of these products are traded at the central rubber market in Hat Yai before they are further processed and exported. The welfare of the smallholders heavily depends on the international demand for rubber products. Consider tyres for the transportation industry, rubber gloves, condoms

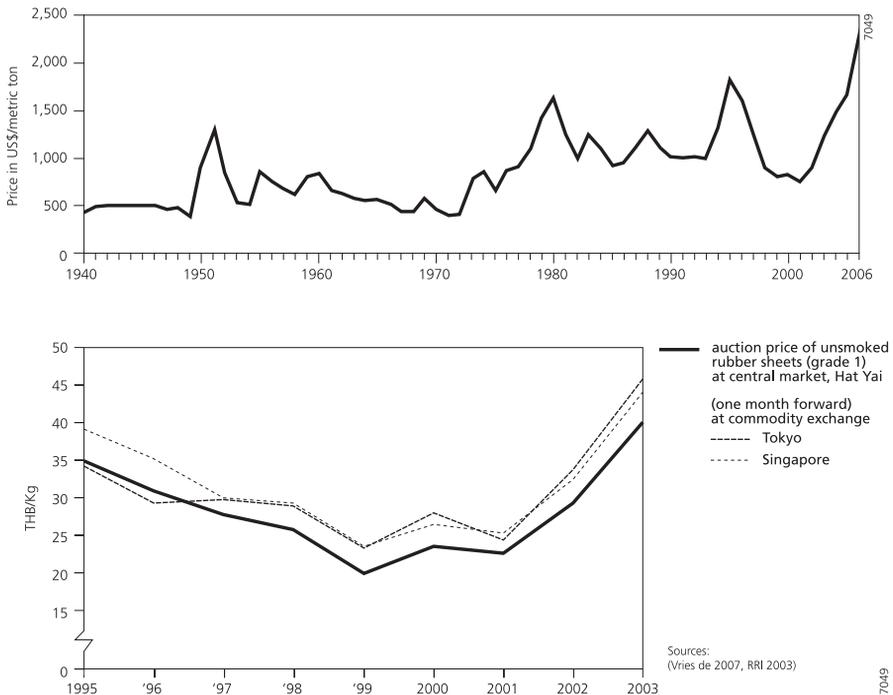


Figure 3.5 a Rubber price in US\$/metric ton, b Similarity between national and international rubber prices

and small rubber parts for advanced electronics. De Vries (2007) analysed some major problems for rubber smallholders in times of prices declines. She asserts that in such times returns decrease too as a result of low price elasticity. Since smallholders have no influence on this, they can merely wait and hope that the price will stay high, so that they will get sufficient income. After planting or replanting, rubber trees take about 5-7 years to become mature enough for harvesting rubber. During this period, smallholders are not able to get any income from the tree, though it does take up land and care. Also, because of this long timeframe, they are not able to react to changes in the rubber market. If prices are low, they won't be able to compensate by selling more, or if there is less demand, they are not able to produce less, resulting in an overflow of the rubber stock, and lower prices. They are completely dependent on decisions made years before and moreover on harvest, bad weather or tree diseases. Problems not tied with harvest and land but social difficulties are mainly related to access like little access to credit facilities and price information, difficult access to new technology and adverse power relations such a reliance on middlemen. Hence, the position of smallholders is quite vulnerable in many ways, and it's hard for them to change their own position and improve their lives. Currently, rubber prices are extremely high, but this will not last forever.

is the Chinese Hokkien association, founded in 1935, followed by the Chinese Chamber of Commerce, founded in 1946, both branches with their headquarters in Kuala Lumpur.

The Hokkien association is the largest with around 1000 members. Finally the Malaysian Chamber of Commerce represents the interests of Bumiputera entrepreneurs (see appendix 1 for a list of the interviewed associations). With respect to access to private finance it is relevant to know how many and what kind of *banks* are present in the two research regions. At the time of the first fieldwork 11 banks were present in Satun, of which 3 state-owned. Despite the fact that the majority of Satun's population is Muslim only two banks offer Islamic banking services. The Perlis' residents had the choice of 10 banks. The public sector has a large influence in the Malaysian banking system, but it is not exactly known what part of the shares it owns of each bank.²¹ Most banks in Perlis offer Islamic banking services as well. The last type of organisation to be mentioned, following the previous chapter, is the *governmental authority*. In both regions many public offices can be found, either regional or local authorities or branches of national authorities. 40 federal offices in Perlis are grouped together in the *wisma persekutuan* (federal building) in Kangar. Contrary to larger states Perlis has no district and the MPK (Kangar Municipality) has responsibilities throughout the entire state.²² Central and provincial authorities in Satun are mostly located in Satun Town, but the *amphoe* (district) and *tambon* (sub-district) offices can be found throughout the province.²³ From chapter 5 onwards the role of the public sector will be analysed. The empirical chapters establish the link between these organisations and institutional arrangements.

Socioeconomic performance within the national space economies

It is clear that Perlis is economically speaking a more developed region than Satun. It seems that Perlis has benefited from a *state* variety of embedded mercantilism, i.e. side payments to support

economic activities which are mainly carried out for the regional and domestic market have led to the embedding of Perlis within the overall Malaysian economy. Perlis contributes marginally to mercantilism, but side payments keep the state within the national institutional framework. Furthermore, the Perlis economy has transformed from a resource frontier into a mix of public services and a so-called *branch plant economy* (Pike et al. 2006). A considerable number of both private firms and state-owned firms are controlled by headquarters outside Perlis. Obviously, the analyses of primary data in the following three chapters will deal investigate this issue in greater depth.

By contrast, Satun's economic development has been far more dependent on its comparative advantages as a resource frontier (latex from rubber trees and seafood) and the extent to which the private sector has taken advantage of such frontiers. Thai governmental authorities seem to have played much smaller roles for Satun's economic development. Therefore, it can be concluded that Satun forms part of Thai agricultural mercantile system. Indeed, the cases of Perlis and Satun demonstrate that the Thai economy is substantially less dual in nature than the Malaysian. Nevertheless, Satun has remained an area of production, in contrast to some other rural regions in Thailand where agricultural production has become less crucial at the expense of consumptive activities such as education and tourism (Rigg & Ritchie 2002).

Comparing the socio-economic advancement of both regions leads to the suggestion that Malaysia's model is more successful. Nevertheless, if the development of the two regions is compared with other states/provinces in their respective countries, a different pattern emerges. Figure 3.6 shows that Satun's GRP per capita performed better than that of Perlis. It is likely that Satun's exceptionally high ratio for the year 2000 is also due to bad economic conditions in Thailand in the aftermath of the Asian financial crisis, but other data also confirm this better overall performance of Satun. In the year 2000 Satun ranked 14th out of 76 provinces in the Human Development Index, and Perlis ranked 9th out of the 14 Malaysian states (UNDP 2003 & 2004). Furthermore, in 2004 Satun's GRP per capita was the 26th highest out of 76 provinces, whilst Perlis' GRP per capita was comparatively much lower, ranked 11th out of 14 states (NSO 2005, UNDP 2006). Another potential indicator of the success of Satun could be migration. However, a closer look reveals that on the one hand, Satun experienced in-migration and a decline of the dependency ratio (Table 3.6) suggesting that people between 25 and 65 have arrived in the province to work, whilst on the other hand, Satun performs relatively badly within Thailand in terms employment according to UNDP (2006) statistics. Several interviewees in the course of this study from Perlis also mentioned that *out-migration* to urban areas such as Penang and Kuala Lumpur has led to substantial remittances. It is therefore not entirely clear which is more beneficial; in-migration to Satun or out-migration from Perlis. Overall, it must be borne in mind that from a Thai perspective, Satun is by no means a poor province. Indeed, it is widely known that rural provinces in the Northern and North-eastern Thailand are generally much poorer.²⁴ On the contrary, from a Malaysian perspective Perlis clearly belongs to the less developed states. The EPU has classified the states of Kelantan, Kedah, Pahang, Terangganu, Sabah and Sarawak as less developed as well (EPU 2003).

Expectations

Chapter two provided theoretical insights into institutional issues (embedded mercantilism) in Southeast Asian capitalist systems, a conceptual model, the research questions for this thesis and two analytical models for empirical analyses. Putting these insights together with the outcomes

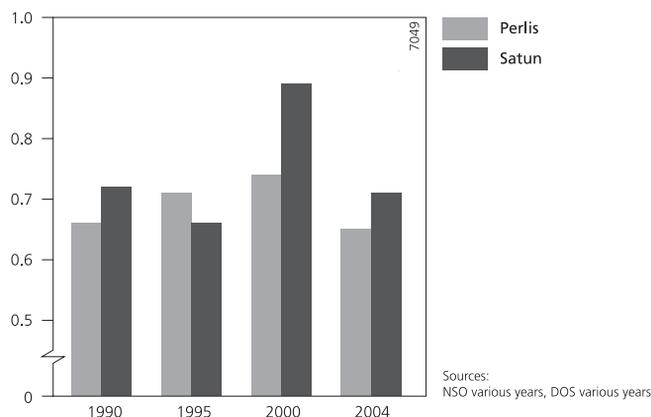


Figure 3.6 Ratio of GRP per capita to national average

of the national (Thailand versus Malaysia) and regional setting (Satun versus Perlis) enables the formulation of some expectations with respect to the research questions 2 through 5.

Research question 2: What institutional arrangements guide the cooperation and coordination among businesses and business people in both regions?

Inter-firm relations are relatively weak in both regions, because it is expected that independent entrepreneurs are not the dominant force within the capitalist systems of the two regions. As Satun is a resource frontier and located in the periphery the role firm of firms could be quite marginal. For Perlis governmental authorities (consider for example the Bumiputera policies and resulting side payments) and firms outside the state are expected to have a stronger institutional presence.

Research question 3: What institutional arrangements enable firms to obtain access to private finance in both regions?

The discussion in section 3.2 suggests that access to private finance is relatively more institutionalised through the public sector in Perlis, and that private banks and kinship ties play more crucial roles in Satun.

Research question 4: What institutional arrangements are in place for cooperation and coordination between the public and private sector in both regions?

Similarly to research question 3, it is expected that there are stronger institutional relations between the public and private sector in Perlis, as well as more public-private partnerships and more firms that are (partly) owned by the public sector. Section 3.4 already provided some examples of public involvement in the economy such as the SEDC.

Research question 5: What institutional arrangements allow both regions to gain access to national/central state resources for regional economic and human development?

It is quite difficult to anticipate the answer to this question. On the one hand, section 3.4 shows that side payments have been important for Perlis. On the other hand it is plausible to expect that socioeconomic advancement in Satun is impossible without substantial side payments either given the assumption of a relatively weak private sector (see research question 2). Defining expectations with regards to differences between Satun and Perlis is therefore not easy.

In addition, formulating more precisely is hampered by the explorative nature of this research. The exact institutional arrangements that exist in the region are not yet known. This is especially important in terms of the structuring mechanisms of ethnicity and personal power networks, which can only be fully explored in the field. The only outcome that perhaps may be anticipated is that differences in the role of ethnicity may not be particularly strong, as Satun and Perlis have long held common demographic characteristics. With respect to personal power networks, no publications were available that could shed light on particular networks before empirical data gathering took place. Finally, the explorative character prevents a precise formulation of possible institutional complementarities.

Endnotes

- 1 Political parties mainly represent ethnic groups – UMNO for Malays, MCA for Chinese and MIC for Indians.
- 2 In Thailand there are also ethnic-Chinese, but since the beginning of their arrival in Thailand they have been much more integrated, have Thai names and are important in business and politics (Pasuk and Baker, 2005, Cushman 1991). Section 4.4 explores inter-ethnic cooperation further.
- 3 Whether these policies have had success is doubtful (see box 5.1).
- 4 The Chinese names are Tan Huang Lee, Lo Joo Long, Hia Kuang Heng Lee, Ma Chin Seng, Ung Kwang Nguan Long respectively
- 5 Majlis Amanah Rakyat. This agency is part of the Ministry of Entrepreneur and Co-operative development.
- 6 Gomez (2005) writes, nevertheless, that in 2000 none of the 10 largest firms listed on the Kuala Lumpur Stock Exchange were Malay owned. 7 were owned by the government, 3 by the ethnic-Chinese. In fact, there are doubts as to whether Bumiputera policies are viable and whether they promote social justice and national unity.
- 7 Among others from the Chearavanont family who owns the Charoen Phokphand conglomerate, the Maleenont family (Bangkok Entertainment Group and the Jungreungreangkit family (automotive businesses) (Pasuk and Baker 2004, pp. 69-74).
- 8 Indeed, Boschma & Frenken (2006) assert that path dependence is a necessary concept in evolutionary economic geography.
- 9 A confirmation of the return to pre-crisis complementarities is the Ninth Malaysian Plan 2006-2011, released in March 2006. The plan could be considered as a real continuation of policies which began in late 2003.
- 10 Based on information from museums in Satun city and Kangar.
- 11 Based on information from Mr Bunserm, a historian from Satun.
- 12 It is not clear which dollar is signified by 's'.
- 13 Armstrong applied the notion of resource frontiers to Tanzania. Another study employing resource frontiers is Carvalho & Gertler (1990) concerning spatial planning in Canada
- 14 Based on information from the Kota Kayan history museum in Kangar.

- 15 There is no doubt that, the political and capitalist interests of the British (as well as the institutional changes associated with it) were beneficial for Perlis between 1909 and 1957. The huge investments in natural rubber, tin mining and railway developments are nice examples in this respect. In the post-colonial era, the importance of these investments was rapidly decreasing. However, Malaysian government had embraced quite a few of the former British institutional arrangements which impacted developments in Perlis. The foundation of the Malay Reserved Land (MRL) law, originally introduced by the British, is worth mentioning here as an example (see chapter 7). In a way one might argue that the institutional factors inherited from the British were for Perlis more important in (the early stages of) the post-colonial era than the non-institutional ones.
- 16 In each Malaysian state such a corporation was established.
- 17 The total population of Perlis might be lower in reality as states prefer to report a high number to the federal government in order to receive more grants. In this respect Thai data seem to be more reliable.
- 18 Unfortunately, it is not known how many pick-ups are registered in Perlis. Of the 3781 in 1990, 3034 are pick-ups, which are very popular in rural Thailand. Of 10810 in 2004, 7887 are pick-ups.
- 19 One should be cautious with these data. The Thai system of statistical data gathering, processing and archiving is sometimes not as advanced as in developed countries, whereas Malaysian states sometimes report favourable and convenient numbers to the federal level, for example to increase federal grants.
- 20 In 1993 the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) was established (Thant & Tang, 1996), but as the effectiveness of the IMT-GT considerably declined after the Asian financial crisis, promoting economic development at the Thai-Malaysian border has been reactivated with the establishment of the Thai-Malaysian Committee on Joint Development Strategy (JDS) for border areas in April 2004.
- 21 It is known that the public sector (partly) controls Bank Muamalat, Bumiputera Commerce, RHB and Bank Simpanan and the Agricultural Bank.
- 22 Below the district level are the *mukims* (sub-districts). There are 22 mukims in Perlis.
- 23 There are 7 amphoes in Satun (of which 1 has a minor status), 36 tambons and 276 *muban* (villages).
- 24 It is noteworthy as well that inhabitants in the provinces Pattani, Narathiwat and Yala, troubled as a result of ethnic-religious cleavages, have a higher standard of living than peasants in the North and North-eastern parts of the country.

4 Inter-firm relations and access to private finance

This chapter is the first chapter in which primary data is presented, interpreted and discussed. It is concerned with the institutional arrangements within the business community in the province of Satun and the state of Perlis. Following Figure 2.5, the focus is on inter-firm relations and access to private finance. These issues are subjects of research questions 2 and 3, i.e. what institutional arrangements guide the cooperation and coordination among businesses and business people in both regions? Cooperation and coordination refer to joint activities, actions and meetings of firms, both bilaterally and multilaterally through business or social associations. The third research question is ‘what institutional arrangements enable firms to obtain access to private finance in both regions?’, and hence this chapter begins to explore capitalist varieties. Are the two private sectors important within the regional economies? Do they have much in common or do they operate differently?

The data presented here are mainly insights from the firm surveys and interviews with (business) associations. In section 1.5 and appendix 1 one can find more on the research methodology. This chapter starts with an overview of the background of the surveyed firms. Next, section 4.2 deals with the analytical topic of inter-firm relations. Ways of doing business will be explored by looking at among others the frequency and nature of formal and informal meetings and the role of business associations. Section 4.3 continues with a discussion on access to private finance. How do firms obtain finance, what is the role of banks and how do financial markets shape access? Section 4.4 is concerned with the influence of ethnicity on the institutional arrangements. As outlined in Figure 2.5, institutions could be structured by ethnicity and personal power networks. The latter topic will be included in the analyses in chapters 5 and 6. Explanations of the institutional arrangements found will follow in chapter 7, as the findings in this chapter must be combined with other findings.

4.1 Background of the surveyed firms

Firms in Satun and Perlis

Sections 3.3 and 3.4 provided an overview of the economic history and presented the current situation of the regional economies of Satun and Perlis. The former is a resource frontier and the latter has transformed into a mix of branch plant/public services economy. This section introduces the surveyed firms. Before doing so, it will begin with a description of the private sector in the region more generally.

In Satun the Provincial Business Development Office resorting under the Ministry of Commerce has maintained a reasonably complete and reliable data base on commercial establishments. In 2004, 1065 establishments were registered, of which 488 under a legal entity – 115 companies limited, 369 limited partnerships and 4 ordinary partnerships, but no independent public companies limited. Bank offices are mostly branches of public companies

with headquarters in Bangkok. In Thailand a private limited company must have a minimum of 7 shareholders, and a limited partnership 2. Out of firms without a legal entity, 42% are located in amphoe (district) Muang, the district including Satun Town, and 33% in amphoe La-ngu (see Figure 3.3). Note that the province is divided into seven districts. Firms with a legal entity are much more concentrated in amphoe Muang – 66% of them are located in this amphoe, whereas 16% in La-ngu, leaving 18% for the other five amphoe's (NSO 2005).¹

Based on all the data gathered and observations made during the two periods of fieldwork, several types of firms can be identified. Despite an Islamic majority in Satun province, what is striking is that most firms are owned by Sino-Thai families and are independent, thus not a branch or subsidiary of firms outside the province. Walking through the old parts of Satun Town one can still see many wholesale and retail firms with Chinese texts above the entrances. Agro processing and retail and wholesale are major activities of the Sino-Thai firms. There are no industrial estates and export processing zones in Satun, a confirmation that the province is not a centre for large scale manufacturing, but instead is more suitable as a source of raw materials as discussed in the previous chapter. There are also livelihood enterprises in Satun. Such firms generally are Muslim-owned and operate within the informal economy, trying to survive from day to day.

Unfortunately, comprehensive firm data for Perlis proved to be difficult to gather. A list bought at the Companies Commission of Malaysia (SSM) turned out to be incomplete and somewhat outdated. Therefore, it is impossible to ascertain exactly how many firms are present in Perlis. However, it would be logical to assume that as the economy of Perlis is larger than Satun's, this implies that there are more firms. On the other hand, there are more relatively large firms in Perlis.² Anyway, travelling through the state one can observe four industrial estates (see Figure 3.3 as well). Shorubber, a Japanese firm, is located at the Jejawi industrial estate between Kangar and Arau and the cement plant Cement Industries of Malaysia (CIMA) at the Bukit Keteri industrial estate. Compared with Satun firms in Perlis are much more evenly distributed across the region. Another difference is the diversified nature of firms in Perlis. They include, but are not limited to small independent Chinese firms active in wholesale and retail and construction, larger ethnic-Chinese firms in the fisheries industry, state-owned firms, Bumiputera firms of which many are active in the construction industry and branches of foreign firms. The fact that many firms are controlled from outside Perlis (from other Malaysian states and other countries) makes Perlis a 'branch plant' economy. The presence of state-owned firms in Perlis makes it necessary to look carefully at the role of these organisations and their involvement in institutional arrangements. Indeed, as section 2.4 explained, Schmidt's (2003) interpretation of the VoC approach positions governmental authorities as potentially important actors within capitalist systems. Chapter five will explore this idea in depth.

Characteristics of the surveyed firms

With insufficient time to comprehensively survey every firm in the two regions, a sample-based survey was devised in order to gain the relevant insights. The firm survey covered virtually all of the large firms in both regions, as well as a sample of medium sized ones. Thirty eight firms in Satun have been surveyed (30 in amphoe Muang), and 39 in Perlis (20 in the capital Kangar). This means that 21% of the 185 medium and larger firms in Satun have been covered. As mentioned above, the true number of firms in Perlis is not known.³ This sub-section presents

Table 4.1 Number of employees of the surveyed firms in 2004

employees	frequency	%	Perlis	
	Satun			%
1-5	7	18	3	8
6-10	3	8	7	18
11-20	5	13	6	15
21-30	10	26	5	13
31-40	2	5	2	5
41-70	4	11	3	8
71-100	4	11	2	5
101-250	2	5	6	15
251-500	0	0	2	5
501-1000	0	0	2	5
>1000	1	3	1	3
total	38	100	39	100

Table 4.2 Trends employee number up to 2004

	established before 1989 trend 1989-2004		established before 2001 trend 2001-2004			
	Satun	Perlis	Satun	%	Perlis	%
increase	10	9	11	29	13	33
stable	7	4	16	42	10	26
decrease	2	4	0	0	3	8
established since 2001			7	18	7	18
no response			4	11	6	15
total	19	17	38	100	39	100

major background characteristics of the surveyed firms in order to get a full picture of the private sector in both regions.

Table 4.1 presents some data on the size of each firm.⁴ It is clear that the surveyed firms in Perlis are considerably larger than in Satun. However, in both regions there is one firm with more than 1000 employees. The average size of the surveyed firms is 73 employees in Satun and 127 in Perlis, a confirmation of the suggestion that firms in the latter region are larger. If the largest firm in each region is excluded the averages, the averages work out at 39 and 94 respectively. In Satun, Siam Tin Foods is by far the largest firm, employing 1300 workers and with a registered capital of THB 100 million. Shorubber in Perlis employs 1400 workers. Besides the current size of the firms one can also look at their growth in size. Table 4.2 consists of two parts: the first part shows trends of firms established before 1989 and the second part those that came into existence before 2001. The table suggests that the long term trend has been more impressive than trend between 2001 and 2004 in both regions. Perhaps this is due to the Asian financial crisis that particularly affected Thailand.

Table 4.3 shows some ownership characteristics of the surveyed firms. The business community in Satun is an almost entirely Sino-Thai one. This fits with the description made earlier in this section, and clearly creates issues around the balance of regional development,

Table 4.3 Ownership of the surveyed firms

	Satun	Perlis
total number of firms	38	39
firms with Chinese background	36	20
non-Chinese background	2	19
domestic firms	38	37
foreign firms	0	2
independent firms	33	27
branches	5	12
(partly) government owned	0	5
not government owned	38	34

particularly vis-a-vis local Muslim populations. Of the two non-Sino-Thai firms, one owner is a foreigner living in Satun, and the other is Thai. As the business community in Perlis consists predominantly of ethnic-Chinese and Bumiputera entrepreneurs, firms were sampled from Chinese and Bumiputera sources in order to be able to include enough of both ethnic communities.⁵ Furthermore, two foreign firms were surveyed, out of five foreign firms operating in the state. Besides ethnicity, the firms in Perlis are also diverse in terms of functional status (independent firm or branch) and public involvement. Compared with Perlis, firms in Satun are smaller and more independent.⁶

It is noteworthy to identify what kind of products the firms produce or what kind of services they provide. In Figure 4.1 a distinction is made between activity and industry. The former denotes the factual process of value added production, the latter the link with the industrial origin of the clients. This distinction is relevant for the identification of relevant industries within the regional economy. For example, a manufacturer of bricks who solely sells to construction firms is classified as part of manufacturing in terms of 'activity' and as construction in terms of 'industry'. Figure 4.1

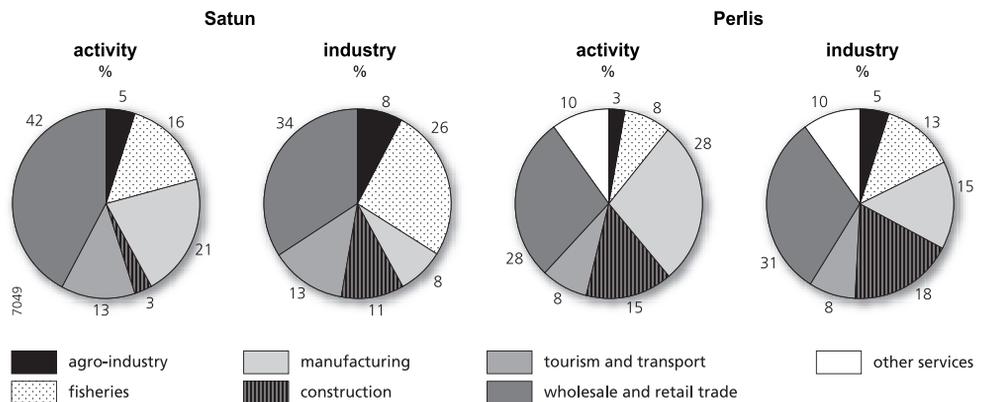


Figure 4.1 Economic structure of the surveyed firms

shows that firms in Perlis are diversified, especially regarding industries. This is compatible with the overall economic structure in Perlis, although manufacturing is somewhat underrepresented in the survey. The firms in Satun are mainly engaged in either wholesale and retail trade or fisheries. Namely, four ice manufacturers sell solely to the fishing industry, explaining the increase of 'fisheries' in the Satun industry pie chart. Furthermore, the service sector is not as developed as in Perlis, because there seems to be no 'other services'. Compared with Perlis, the firm survey is less compatible with the overall economic structure, because of agriculture. As the survey is focused on firms, agricultural sector workers (predominantly farmers) are automatically removed from the research population.

4.2 Inter-firm relations

This section deals with formal and informal inter-firm relations and addresses the second research question of this thesis. The institutional sphere of inter-firm relations forms one part of the VoC approach that can be investigated empirically. The expectation is that inter-firm relations in Southeast Asian economies are relatively weak compared with other institutional arrangements, because the assumed essential role of governmental authorities (Jaysauriya 2004 & 2003). This section and section 4.4 try to find out whether this is the case in Satun and Perlis. The impact of the Thai and Malaysian national institutional complementarities on the inter-firm relations is scrutinised in sections 7.1 and 7.2. The focus here will be on institutional relations within the two regions, but in case relations with firms outside the region appear to be relevant as well, they will be treated within the analysis too. More precisely, inter-firm relations refer to arrangements that firms can have with their suppliers, clients, competitors, both bilaterally and through associations. A major topic is the distinction between formal inter-firm relations (contracts) and informal and its interaction. For instance, are there combinations of formalised state-led inter-firm relations and trust relations among kin? Another important topic is joint activities of firms. Knowledge of these institutional arrangements was obtained by asking owners and managers of firms if and how they maintain such relations.

Geographical focus of the surveyed firms

In order to identify the geographical boundaries of firm linkages, respondents were asked to name their three most important suppliers and clients. However, in the case of a retail firm the three most important clients could not be identified and suppliers are mostly absent in the case of firms in the services sector. Figure 4.2 shows the geography of supply and demand. Satun's firms operating in virtually each industry need supplies from the national capital Bangkok, either directly or via Songkhla. Examples are ammonia for ice factories and consumers products to be sold in wholesale and retail firms. The dependence on Bangkok confirms that it is a real core area within the Thai economic geography (appendix 5). Out of 75 clients 56% are based in Satun, those outside Southern Thailand mostly buy processed seafood. Besides the location of suppliers and clients the surveys included a question regarding business trips by managers and owners. Visiting suppliers and clients, exploring new markets or attending meetings with business associations or government agencies reveal the geographical scope of the firms as well. The average frequency of business trips per month is 2.7, and 75% of the managers/owners regularly travel outside the region. The destinations are 'mixed in Thailand' or 'only Hat Yai,' so the geographical focus of

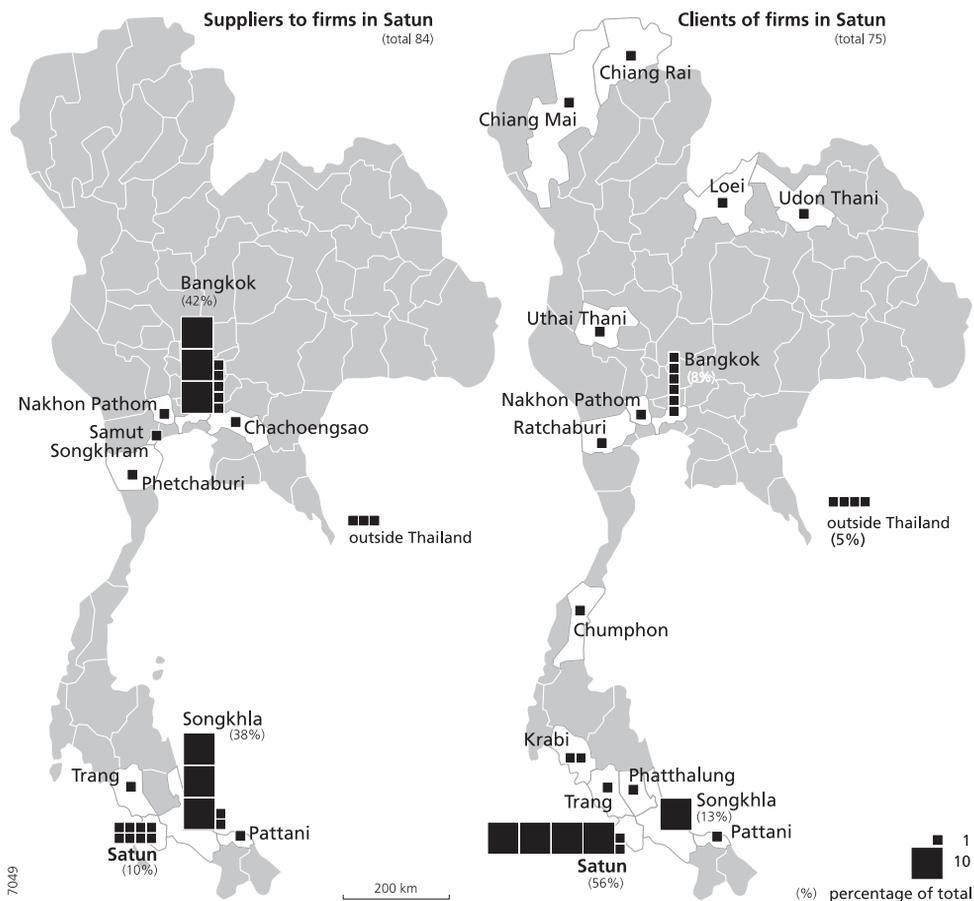


Figure 4.2 a-d: Geography of supply and demand

Satun's executives tends to be Southern Thailand. Figure 4.2 reveals that Perlis is better integrated within the national economy than Satun, as there is more geographical. For instance, Penang as one of the core areas plays a considerable role in terms of supply. Owners and managers of firms make business trips outside Perlis, but the variation in frequency is quite high. The most important destinations are 'mixed' and 'Kuala Lumpur'.

These geographical patterns indicate a number of things. Although the majority of demand originates in Satun itself, seafood production is transported to markets outside the province. Firms active in the fisheries cluster buy supplies that are required for fish processing, but sell processed seafood (packed and frozen seafood, fish oil, fish powder, etc.) at national and international markets. It can be argued that Satun's economy operates relatively autonomously, whereas Perlis' economy is more advanced in character, but relatively more dependent on the national economy. Products and services are sold in Kuala Lumpur and even foreign countries. This pattern is compatible with the observation of Perlis as a branch plant economy that was discussed in the previous chapter.

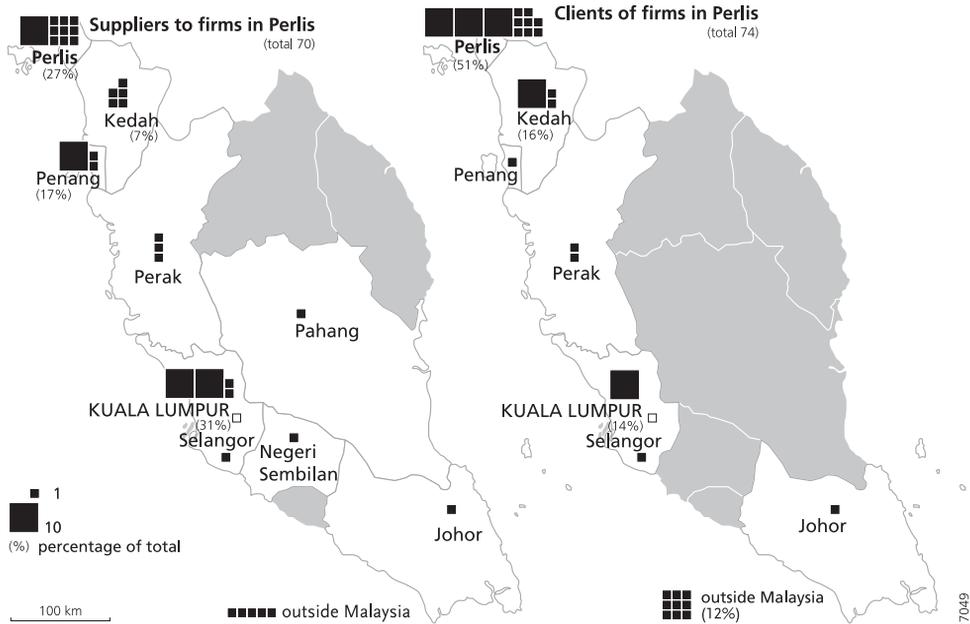


Figure 4.2 continued

Cooperation and coordination with the firms' suppliers, clients and competitors

In both research areas firms' executives were asked about their relations with suppliers, clients and competitors, because the aim is to explore to what extent the private sector collectively spur economic development. Sections 2.2, 2.3 and 2.4 clarified that working closely together in the private sector could lead to better performances. Obviously, the geographical focus is on Satun and Perlis, but where necessary the analysis goes beyond the research areas. The results regarding suppliers and clients are based on the three most important suppliers and clients and starts with Satun.⁷ A suitable starting point for analysis of the sphere of inter-firm relations is formal contracts. Section 2.3 clarified that transaction costs could be lowered by formal (including contracts) and informal institutions.

Table 4.4 shows that the majority of the firms in Satun do not work with formal contracts. It is striking that, although few suppliers are located in Satun, none of the surveyed firms had signed a formal contract with suppliers in the province itself. So firms mostly organise their business relations informally through ad-hoc telephone exchanges and verbal agreements. This

Table 4.4 Use of formal business contracts (%)

	Satun	Perlis
suppliers located inside region	0	58
all suppliers	37	66
clients located inside region	35	41
all clients	34	48

Table 4.5 Business and non-business meetings (%)

	Satun suppliers	clients	Perlis suppliers	clients
business meetings				
never	4	16	61	46
regular	96	84	39	54
non-business meetings				
never	32	29	37	32
regular	68	71	63	68
non-bus. meet. important?				
no	37	27	25	11
yes	63	73	75	89

first outcome suggests that inter-firm relations in Perlis parallel the notion of arm's length ties which are often observed in *market* capitalist systems; in Schmidt's (2003) terminology competitive, contractual and individualistic. In contrast, such relations in Satun appear to fit *managed* systems which generally cover the economies of countries such as Japan and Germany. Closely related to the organisation of supply and demand are business meetings and possibly non-business meetings. The frequency and nature of meetings could reveal additional patterns of business deals.

Table 4.5 only presents the results of meetings with suppliers and clients located in the two research areas, as there are virtually no differences with total suppliers and clients. It is obvious that business meetings occur relatively frequently in Satun. Therefore, the absence of formal contracts seems to be compensated for by an important role for business meetings. The respondents identified New Year dinners (especially Chinese New Year), family gatherings (mostly weddings) and occasionally playing golf as important contributors to good supply and demand relations, because 'one can get more acquainted with each other.' Besides institutional relations concerning the core business, firms could cooperate with suppliers, clients and competitors for a number of other reasons, for example the training of employees and joint investments. Theoretically, cooperation among firms could be an important part of the 'regional variety of capitalism'. However, cooperation with suppliers and clients seems not to be a major issue in Satun. Tables 4.6 and 4.7 display some remarkable outcomes. None of the firms with their most important suppliers in the province cooperates with these suppliers.

Overall, firms in Satun seem to cooperate more with one another. Cooperation with suppliers outside the province mainly involves the training of employees (to make them familiar with new supplies) or joint marketing. Activities that require a stronger commitment of firms do not appear to occur frequently. Furthermore, only 14% of these inter-firm relations have a formal character (signing of contracts). Cooperation with clients is a highly informal practise as well, with only 13% operating under a formal contract. Nevertheless, the biggest firm in Satun, the seafood processing firm Siam Tin Foods, cooperates extensively with its most important clients in the USA and Europe. They jointly innovate new products to pack up seafood.⁸ In contrast with Satun, formal contracts appear to be a more common phenomenon for firms in Perlis, especially regarding supply. Furthermore, regional supply and sales seems to be slightly more informally organised than total supply and sales. Firms engage in verbal arrangements or do not

Table 4.6 Cooperation with suppliers and clients (%)

	Satun	Perlis
suppliers inside region	0	20
all suppliers	47	27
clients inside region	25	0
all clients	28	13

arrange anything in cases without formal contracts, particularly with respect to clients. Looking at non-business meetings does not generate a clear pattern. The average number of non-business meetings is only 7 in Satun versus 8 in Perlis.⁹ One would have expected a similar result to that of the business meetings. Nevertheless, in both regions non-business meetings are considered to be helpful for supply and demand.

Table 4.6 indicates that cooperation with suppliers and clients is relatively unimportant in Perlis. Cooperation with competitors is quite widespread, but both in terms of occurrence and nature, firms in Satun have stronger linkages with competitors than their counterparts in Perlis. Firms in Satun coordinate more business issues, whereas firms in Perlis limit their joint undertaking to exchanging information and 'keeping in touch'. In both regions coordination mostly comprises of the exchange of clients. Firms that are extremely busy pass their orders to other firms and those with a lack of business try to find out whether they 'know some business somewhere.' Next, Table 4.7 reveals that cooperation with competitors occurs more frequently in Satun. Owners of wholesale and retail firms are especially fond of maintaining close links to competitors in order to obtain relevant information and coordinate business matters. For instance, 'La-ngu Store' selling construction materials borrows products from competitors when out of stock.¹⁰ This can be explained by the outcome that supplies generally come from far away (Figure 4.2). In Perlis several construction firms prefer to cooperate with their competitors. Section 5.4 pays more attention to this industry. The aforementioned results indicate that inter-firm relations in Satun are cooperative, mutually reinforcing and networked-based (Table 2.4), thus paralleling the model of managed capitalism (Schmidt 2003). According to (Hall & Soskice 2001, p. 21) such relations in Germany 'facilitate the diffusion of technology across sectors', but in the case of the provincial economy of Satun it smoothes supply and demand linkages. Obviously, this makes sense given the peripheral location of Satun within the Thai space economy. The

Table 4.7 Cooperation with regional competitors (%)

	Satun	Perlis
occurrence		
no	27	43
yes	73	57
nature		
information	41	33
new ideas	4	10
friends	7	24
coordination	48	33
total	100	100

results for Perlis are puzzling as its arm's length character parallels market capitalism rather than the Malaysian *state* capitalism as presented in section 3.2.

The role of (business) associations

Section 2.5 identified business associations as one of the possible organisations that play a role regarding cooperation within business communities. It is now recognised that they are frequently important for the reduction of transaction costs in developing countries, for instance by smoothening demand and supply linkages or reducing information asymmetries (Hall & Soskice 2001, Sforzi et al. 2003, Helmsing 2001b). This sub-section also looks at non-business associations as they could have a specific role for private sector development. Section 3.4 introduced the business associations which are present in Satun and Perlis. The functioning of associations has been investigated from two perspectives – the leaders of the associations and the firms. All the chairmen of associations were asked to estimate the number of annual plenary meetings, both business meetings (only relevant for the business associations) and social meetings.

The Rotary Club appears to be more active in Satun than Perlis. Although the Club only has 17 members they meet at least two times per month (see section 5.3 as well). An important question is to what extent (business) associations are organisations that institutionalise cooperation and coordination among businesses. In order to find an answer the firm surveys included questions about associations. Of the owners of the surveyed firms 73% are members of an association in Satun, whereas this percentage for Perlis is 68%. By far the most cited

Box 4.1 An ethanol factory in Perlis

Ferm Pro (Sdn. Bhd., private limited company) produces ethanol and is a subsidiary of the ethnic-Chinese firm Ancom (Berhad, public limited company). Ancom (www.ancom.com.my) is a large agricultural chemicals producer employing around 2000 employees and exporting worldwide. It was established in 1988 and currently employs 48 workers, with its headquarters in Kuala Lumpur. The main reason for setting up Ferm Pro in Perlis was an invitation from the sugar refinery Kilang Gula which produces molasses, a by-product from the processing of the sugarcane. Kilang Gula was eager to sell its molasses and has become the most important supplier; another important supplier is located in Penang. Ferm Pro has signed a long term contract with these suppliers, resulting in infrequent business meetings. The firm has around 100 clients from many different states with which they generally sign contracts. The three most important clients are one firm in Kedah, one in Johor Bahru and one in Selangor. Ferm Pro's sales department is constantly looking for new clients and the management has relatively many non-business meetings with clients – 12 times a year compared with an average of 8 of all the surveyed firms in Perlis. Ferm Pro is one of the few firms in Perlis with a formal joint venture with the public sector, in fact with the State Economic Development Corporation (SEDC). Ferm Pro owns the majority of the shares, is responsible for the daily management and initiated the joint venture, as they wanted to use rice husks from rice mills, owned by the SEDC, because rice husks are very suitable for the production of organic fertilizers.

Table 4.8 Importance of business associations

	Satun	Perlis
average business meetings per year	8	7
average social meetings per year	6	3
easier access to suppliers, %		
no	54	84
yes	46	16
easier access to clients, %		
no	50	62
yes	50	38

membership of an association is the Satun Chamber of Commerce, followed by the Satun Tourism and Chong Hua associations. Some firms are members of an industry specific association, but in spite of the importance of the fishery industry most firms are not member of the Fisheries Association. The managing director of the largest seafood company in Satun, Siam Tin Foods, has been chairman of the Federation of Thai industries, Songkhla Chapter (the division for the provinces Songkhla, Phatthalung and Satun). Virtually all members are located in the province of Songkhla, but apparently Siam Tin Foods is one of the ‘big players’ in Southern Thailand. Obviously, membership alone does not necessarily imply a benefit for the surveyed firms. Benefits may only be generated when owners and managers of firms attend meetings on a regularly basis.

Table 4.8 presents results concerning the frequency of meetings and their perceived impacts. Regarding social meetings (for example dinners, parties and golf tournaments) interesting differences have been found. Firms in Satun attend more social meetings per year and 50% of their owners stated that attending both business and social meetings lead to easier access to suppliers and clients. This is a confirmation that transaction costs are lowered by these relatively informal arrangements, and not by contracts. This result is consistent with economic geographical literature on inter-firm relations (Van Westen 2002, Helmsing 2001a&b). Associations can

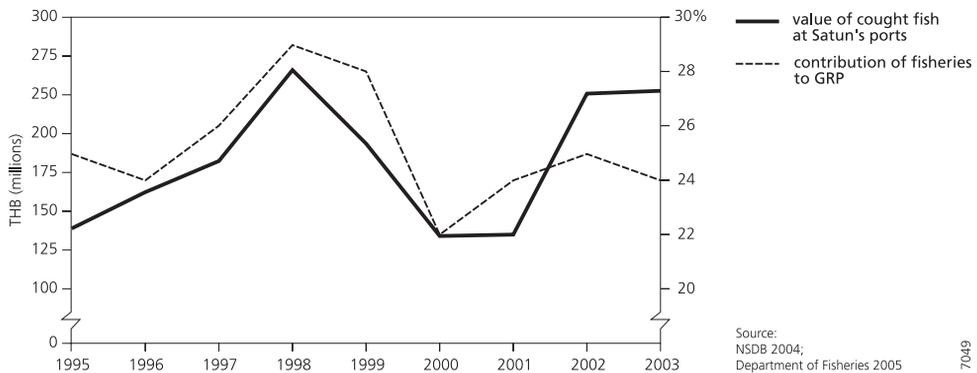


Figure 4.3 Fisheries' trends in Satun

also be beneficial for members because of cooperation with and lobbying at public authorities. Such activities can result in meeting business interests of the members. The interviews with the chairmen confirmed that overall, cooperation and lobbying is relatively common in Satun, with the Satun Chamber of Commerce being the most active. This chamber maintains an extensive network with other associations and with political organisations (see also the following chapter). Another example is the Thai Federation of Industries. As a result of the prominent position of the managing director of Siam Tin Foods, the Governor of Satun seems to appear to heed his opinion in particular. A final observation regarding Satun is the relative insignificance of industry-specific associations.¹¹

In Perlis, the Malay Chamber of Commerce appears to be the most active with two monthly business meetings. The Malay Chamber in Perlis has around 200 members and many members participate in working groups. The structure of membership reflects the ethnic divide. Memberships of the surveyed firms are equally divided between The Chinese Chamber of Commerce and the Malay Chamber of Commerce. Hence, the operation of business associations is clearly structured along ethnic lines (see Figure 2.5). The large Hokkien association also does not play an important role in industry-specific associations, which are based mainly outside the state. This is not surprising when taking into account that a considerable number of firms in Perlis are in fact branches.¹² Table 4.8 shows that the number of business meetings per year does not differ significantly from Satun, but it seems that the surveyed firms in Perlis tend to 'use' the associations more for informational purposes rather than expanding and maintaining their relations with suppliers and clients. Coordination and lobbying remains limited to the Malay Chamber of Commerce. The Malay Chamber maintains strong ties with many different authorities, but does not extensively cooperate with other associations. The Chinese associations seem to operate solely within the Chinese (business) community. Occasionally the Chinese Chamber meets other associations or a public agency, but these meetings tend not to result in fruitful cooperation or joint projects; instead they only tend to show a mutual acceptance.

Overall, the analysis of inter-firm relations in Perlis suggests that transaction costs are reduced by formal institutions such as contracts, and relatively impersonal contacts within business associations. It appears that informal institutions are not sufficiently strong to generate significant levels of trust. In contrast, trust and more informal, personalised and cooperative inter-firm relations are found more frequently within Satun's private sector. Even social associations play beneficial roles for entrepreneurship, as contracts are not necessary for the smooth functioning of economic activity in the region. These results form a first indication that the institutional economic arrangements are quite different despite all that Satun and Perlis have in common, most notably historical and demographic patterns as mentioned in section 1.3 and chapter 3. Another interesting observation is that inter-firm relations, contrary to the expectation in section 3.4, play crucial roles within the provincial economy of Satun. Despite the resource frontier character of the periphery, the private sector still very much thrives. Obviously, conclusive remarks regarding this issue can only be made after the investigation of other institutional arrangements in chapters 5 and 6. The following sub-section elaborates on the strong inter-firm relations in Satun by looking at a strategic cluster within the regional economy: the seafood cluster.

The seafood cluster in Satun

In the last two decades much has been written on clusters; a group of spatially concentrated firms operating in the same industry/value chain which cooperate to a certain degree. With respect to cluster formation in developing countries, recent publications have focused on topics such as the insertion of clusters in global value chains, collective learning within clusters, the position of workers in clusters and the role of business associations (Porter 1990, Visser 1999, Van Dooren 2003, Beerepoot 2005, p. 23, Gudmundsson et al. 2006, Van Helvoirt 2007). Although Satun and Perlis are neighbouring regions and are both located at the Andaman coast, seafood is a relatively less important commodity for Perlis. Cluster formation in Satun has evolved around the exploitation of the fisheries resource frontier, whereas no clusters can be identified in Perlis. The absence of clustering in Perlis will be explained in the next chapter. Section 3.4 already mentioned the remarkable growth of the seafood cluster in Satun and Figure 4.1 shows its large share within the firm survey. There are further comparisons that can be made. For example, Satun is a net exporter of seafood, whereas Perlis is a net importer. Fishing (excluding processing activities) accounts for 17% of Satun's labour force, but just 3% of the labour force of Perlis'. In addition, 75% of the fishermen working in Perlis do not originate from the area, but actually other countries, notably Thailand. Regarding processing activities in Satun Siam Tin Foods only employs around 1300 people, whereas not more than 1000 people work in the entire processing business of Perlis. Figure 4.3 shows that fisheries (again excluding processing activities) are also essential for Satun's gross regional product (GRP). Finally, compared with other Thai provinces along the Andaman coast, relatively many households are active within this cluster.¹³

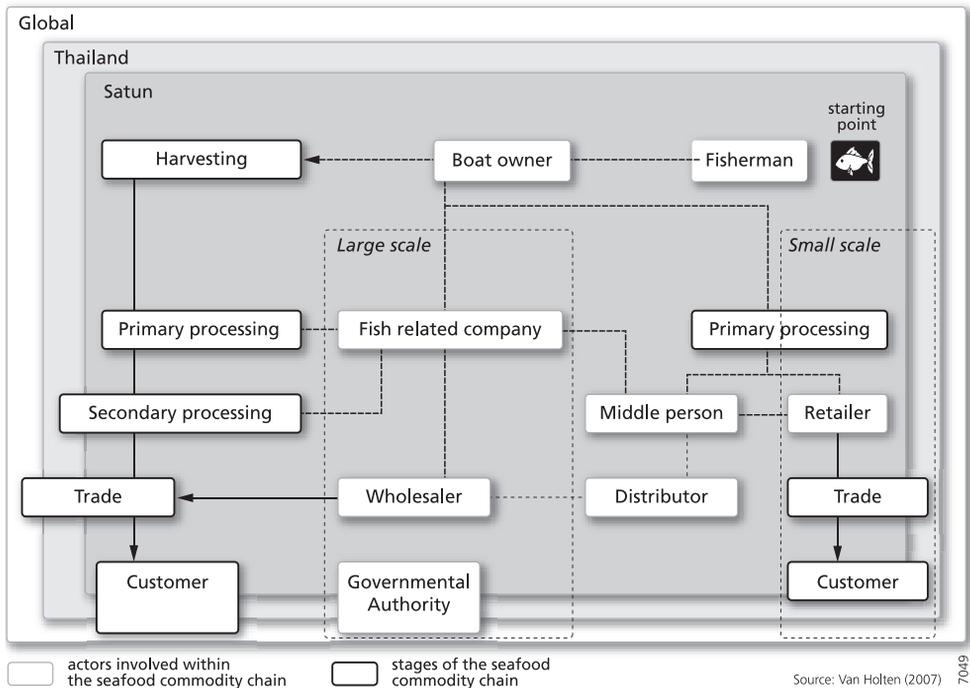


Figure 4.4 The seafood value chain in Satun

Van Holten (2007) conducted an empirical study on the seafood cluster and value chain in Satun. Recall that fishermen and firms are mainly located in Tammalang and Pak Bara. Figure 4.4 presents the value chain. The majority of boats in Satun belong to small scale fisheries.¹⁴ The large scale sector appears to be much more concentrated in Tammalang and Satun Town. In the former settlement there are three sizable processing firms, and in the latter Siam Tin Foods and two ice factories are based. Compared with the overall results of the firm survey there are relatively more formalised inter-firm relations. A good example is the ice factory Satun Saha Naam Kheng Pramong, located just north of Satun Town. This firm was established in 1979 (2522 according to the Buddhist time system). Most of the supplies are arranged by contracts, as the management of Satun Saha aim to secure a regular arrival of supplies. The firm has many clients, but there are between 20 and 30 major clients, mostly firms in the fisheries industry. But networking and trust based relations are important too. The fisheries association in Satun Town often organises informal meetings in restaurants. In general, the seafood cluster in southern Satun is relatively well integrated within the global seafood commodity chain. The seafood products are ultimately exported all over the world (see Box 4.2). By contrast, Van Holten found that the seafood cluster around Pak Bara has a smaller scale and that products are relatively less frequently sold at international markets. Strong informal and enabling institutions play crucial roles for fishermen, primary processors, middlemen and retailers. An example is an informal association called Hua Hin group. This group has around 300 members, mostly small scale fishermen. Frequent meetings are key in generating trust among members.

In conclusion, the small scale activities in Satun match the overall pattern of strong, informal and networked based inter-firm relations, whereas the presence of larger firms in the national and international commodity chains has resulted in a somewhat more professional way of conducting business, albeit much more informally than in Perlis. These results resemble Phyne's et al. (2006) research on the Norwegian salmon cluster who found cooperation inside a cluster of like-minded firms remained alongside buyer-driven processes and insertion into global food chains. These insights therefore suggest that local and regional institutions can continue to thrive despite insertion in global commodity chains and confirms that internationalisation of the

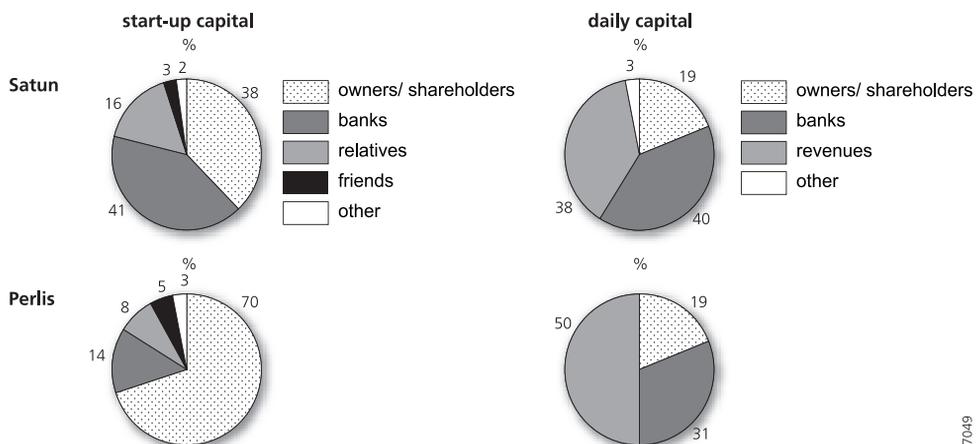


Figure 4.5 Most important sources of capital (%)

Box 4.2 Thai shrimps exports

Production of fish and shrimps can be divided in capture and aquaculture.

The former is most important for Thailand with 71 percent in terms of total fisheries production in 2004. For Thailand aquaculture plays an increasingly important role in food security. Capture consists mainly of marine water fishery, aquaculture produces mainly freshwater fish, and crustaceans are farmed in so-called maricultures. Freshwater aquaculture is functioning in the domestic market of Thailand, while brackish water produces high-value products for export. Markus (2007) analysed the economic activities of shrimp producers in Thailand. In the 19th century Thailand already cultivated fish species and crustaceans. The beginning of aquaculture cultivation started with the introduction of Chinese carps around Bangkok. In early days this kind of pond and rice-field culture was mainly for farmer's needs and domestic markets. Brackish water cultivation has developed in more recent years. The most important species of freshwater cultivation for Thailand are Nile tilapia, hybrid catfish, silver barb, giant river prawn and snakeskin gourami. Maricultures cultivate barramundi, grouper, white shrimps, giant tiger prawns and shellfish. Aquaculture is also important in terms of GDP contribution and it provides employment to approximately 1 million people in directly and indirectly relating industries. It is estimated that 90% of the products which are necessary before the export of processed and packaged shrimps are manufactured in Thailand itself (NESDB 2002). The export of shrimps internationally is particularly crucial, because of their high value. SEAFish for justice et al. (2006) states: 'Shrimps are a particularly high value commodity with huge demand in rich markets and they currently account for 1% of the global trade in fishery products by weight, but about 20% of world fishery exports by value'. Thailand's market share grew from 5 percent of the global shrimp supply in 1982 to a staggering 30 percent in 1994 (Flaherty et al. 1999). This increase was stimulated by high consumer demand, advancement in feeding techniques and 'Thailand's favourable agro-climatic and economic conditions consisting of a 2,600 km long and largely undeveloped coastline' (*ibid.*) In addition, national investments made by banks and multinationals (for example the famous Charoen Pokphand (www.cpthailand.com) has also led to the expansion of intensive shrimp production.

economy does not automatically lead to a homogenisation of institutional arrangements (section 2.4).

4.3 Access to private finance

This section aims to progress towards an answer on the third research question: 'what institutional arrangements enable firms to obtain access to private finance?'. As is discussed earlier Bardhan (2005) and Schmidt (2003) consider financial issues as essential parts of institutional frameworks. In developed countries firms can choose between many financial sources, but in many developing countries access to private finance can be difficult (see ADB 2000 with respect to Asia). Data

presented in this section do not only present results of the firm surveys, but are also derived from surveys and interviews with bank managers, leaders of (business) associations and some firms that are not included in the firm surveys, notably car and motorcycle dealers.

Access to start-up capital and daily working capital

In section 2.4 some theoretical comments were made on access to finance for firms in rural and peripheral regions. The two firm surveys included questions on this issue. The starting point is the distinction between start-up capital and daily working capital. Sources of these two forms of capital might be different as the establishment of a firm could require large sums of money. Moreover, the major source of daily working capital could be revenues, which are obviously not available in the case a firm has not yet been established. Figure 4.5 presents the most important sources of capital for the surveyed firms. In Satun three different sources are available to establish a firm whereas owners/shareholders are by far the most important for Perlis. Three findings need elaboration.

First, the relation of the firms in Satun with their most important source of capital: banks. For a resource frontier located in the periphery, banks play a surprisingly strategic role. Similarly to the relations with suppliers, clients and competitors, the surveyed firms were asked about meetings and cooperation with banks.¹⁵ The average business meeting per year with banks is 4, and social meetings 1.¹⁶ The banks in Satun sometimes organise financial seminars, but there is no cooperation comparable with the cooperative relations between firms and clients and competitors. Therefore, contrary to the inter-firm relations analysed in the previous section, the relations with banks remain relatively formal and are limited to the core business, i.e. financial transactions. A breakdown of these into particular economic activities reveals few surprises, in that capital intensive firms (seafood processing and construction) often use banks as their most important source for financial arrangements.

Second, banks seem not to play equally important roles as in Perlis, and in addition there are no striking differences between industries. On the hand this is compatible with the fact that 12 out of the 27 firms relying on owners are branches. It is likely that headquarters (and therefore also owners/shareholders) have thus far provided necessary capital for the establishment of firms. On the other hand, firms in Perlis are generally larger than in Satun. Therefore, one would expect a more professional financial management with more involvement of formal financial institutions, but this is not the case. Third, kin of the owners of firms in Satun sometimes provide the initial capital, particularly of owners of wholesale and retail firms. For example, the son of a jeweller set up a shop in the same street, selling mobile phones and communication accessories. These results are similar to outcomes of empirical studies in which the relevance of informal financial arrangements in Thailand have been recognised (World Bank 2005a, ADB 2000, pp. 311-353). The World Bank (2005a) attributed the presence of informal financial institutions in Thailand to the relatively high transactions costs faced by firms applying for loans at banks. These costs are relatively high, because banks face difficulties in enforcing loan agreements. Bank managers in Satun, however, did not complain about enforcement problems. Sources for daily working capital show more similarities between Satun and Perlis compared with start-up capital. The two most important sources are banks and revenues, but in Satun the percentage of respondents that identified banks as most important is almost the same as revenues while the surveyed firms in Perlis rely more on revenues. In both research areas none of the respondents stated that they depended on relatives for daily working capital, and so it seems that they are often only called

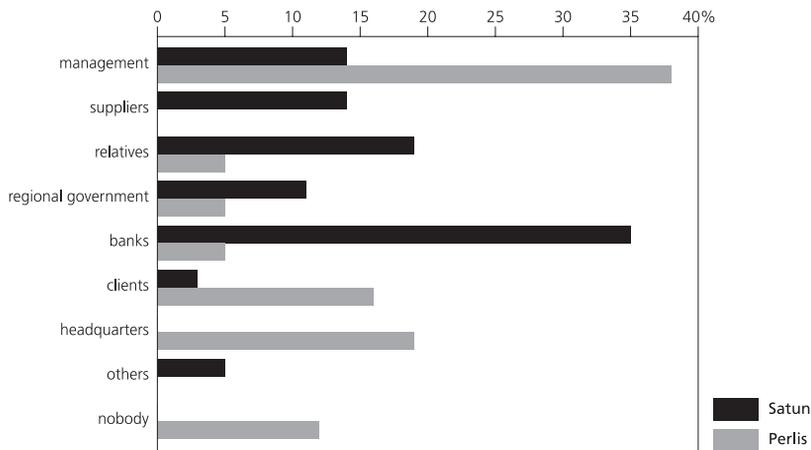


Figure 4.6 Most important organisation to call in case of a business problem

upon if large amounts of capital are required. The following section will provide more insights into the role of kin within wholesale and retail firms.

Closely related to access to finance, the respondents were asked who they generally called first in case of a business problem. Of course a business problem does not always imply a financial problem, but it is assumed that indirectly they are related on many occasions. In Figure 4.6 considerable differences can be seen. These differences are to a large extent the same as in Figure 4.5, especially regarding start-up capital. Banks are the most important for firms in Satun and owners (management and headquarters) in Perlis. Again, relatives appear to be actively involved in business life in Satun, where they are the second most important problem solvers identified. Finally, associations appear not to be important for access to capital; neither to establish a firm, nor for solving business problems. Moreover, many interviewees stated that business and social meetings of the association do not lead to easier access to finance either. However, as will be elaborated on more fully in the next chapter, the Malay Chamber of Commerce in Perlis offers small loans, subsidised by the federal government, to its members. Many Malay firms in Perlis appear to consider these loans as unsuitable for their businesses. Rather, they tend to rely on owners and revenues.

Ownership and capital accumulation

This section deals with the overall characteristics of capital accumulation. It has become clear that access to private finance is dependent on ownership and banks. In theory a potentially relevant characteristic is the legal entity of the surveyed firms, though no differences have been observed in Satun. In terms of start-up capital banks and relatives are equally used by partnerships and private limited companies. More important for the access to private finance and capital accumulation seems to be the history and geographical origin of owners of firms. This can be illustrated by looking at the largest of the surveyed firms. These firms enjoy the easiest access to finance and have accumulated the largest amounts of capital. In Satun three different groups of important owners exist, namely owners born in the province who are children of important businessmen, owners born outside Satun who migrated to the province to establish

Box 4.3 Car dealers in Satun and Perlis

A logical corollary of the dramatic increase in car usage over the last 20 years has been the establishment of a number of car dealers in the two research regions; an investment that requires a large amount of start-up capital and a good business network. Short surveys were conducted to reveal the ownership characteristics of the dealers. In Satun four of the five operating car dealers were surveyed, in Perlis five of the six operating. The table shows some characteristics of car dealers in both regions. Indeed most of the dealers have come in the last 20 years, although the dealers in Perlis have come relatively late given the fact that the use of cars there is more widespread than in Satun. Apparently, the inhabitants from Perlis bought their car outside Perlis if they did not want a Proton. Furthermore, except for the Proton dealer all dealers are branches and have owners from outside the region. Most dealers are part of a small conglomerate. For example, the owner of the Isuzu dealer in Satun has seven establishments in several provinces in Southern Thailand and the Daihatsu and Nissan dealer in Perlis is part of the old Tan Chong group, an important player in the Malaysian automotive industry. They became the franchise holder of Nissan in 1957. The owner of Proton in Perlis is an 'outlier' as he is not Chinese, but a businessman from Perlis itself. He set up businesses in Penang and has recently opened a Chevrolet dealer in Perlis. But overall it can be concluded that businessmen from outside control the sales of cars in both regions, an indication that the two regions remain too peripheral for large capital investments from within. In Satun the owners of motorcycles shops are businessmen from outside as well, mainly from Hat Yai, but in Perlis where the car is becoming the principal mode of private transport the motorcycle retailers are local Chinese.

Table 4.9 Ownership characteristics of car dealers in Satun and Perlis

Satun	year of establishment	functional Status	origin of owner	ethnicity of owner	other business
Honda	2004	branch Bangkok	Bangkok	Thai	real estate business in Bangkok
Toyota 1	1990	branch Hat Yai	Hat Yai	Sino-Thai	not known
Isuzu	1983	branch Hat Yai	Pattani	Sino-Thai	not known
Toyota 2	1997	branch Songkhla	not known	Sino-Thai	not known
Perlis					
Proton	1987	independent	Perlis	Malay	Chevrolet (see below) and businesses in Penang
Chevrolet	2004	independent	see above	see above	see above
Perodua	1994	branch Alor Setar	Alor Setar	Chinese	Mitsubishi dealer in Alor Setar
Inokom (Hyundai)	2004	branch Alor Setar	Alor Setar	Chinese	Perodua in Alor Setar and fuel station
Daihatsu & Nissan	1999	branch Kuala Lumpur	Kuala L.	Chinese	large automotive firm

a firm, and a small group of owners from outside who own a branch in the province (see Box 4.3 as well). The largest palm oil processing factory in the province is a good example. This firm is owned by an important Sino-Thai family conglomerate based in Phuket that developed a palm oil plantation in the 1950s under a national government programme to promote the development of border areas of Thailand and take advantage of the resource frontier. Contrary to Satun's case firms in Perlis rely much more on owners from outside. There are far fewer owners from the state itself who have managed to build up a big business. One exception is the Wayteam Group of Companies, owned by a Malay and mostly active in the construction business. Nowadays, the headquarters is based in Kuala Lumpur. All the largest firms are owned by two groups of owners. The first group is a mix of governmental authorities and large firms from outside Perlis. The second group of owners are international firms. At the time of the fieldwork (autumn 2004), five relatively large branches were operating in Perlis. Two of them have been surveyed – Shorubber, a Japanese glove manufacturer, who established one of their biggest production plants in Perlis in 1983 and Dragon and Phoenix, a garment producing firm owned by a businessman from Hong Kong.

The analysis of ownership characteristics indicate that access to private finance and capital accumulation in Satun province is a twofold process. The province has seen an accumulation of 'old' regional capital on one hand, but also an increasing inflow of capital from other parts of Southern Thailand and even Malaysia on the other. But in the last two decades 'old' regional capital has lost some of its share as recent investments have been more initiated by businessmen from outside. In Perlis all the largest firms have been established with external capital, reinforcing the idea that Perlis is a branch plant economy. Overall, the outcomes match the expectation on access to private finance as formulated in section 3.4. Hence, this suggests that national varieties of embedded mercantilism have a considerable impact on regional financial arrangements at the Thailand/Malaysian borderlands.

4.4 The influence of ethnicity on regional capitalist varieties

The conceptual models of Figure 2.5 display two issues that are likely to structure institutional arrangements: ethnicity and personal power networks. The latter will be discussed during the analysis of the public sector (chapter 5) and relevant national level policy frameworks (chapter 6), but the former is the topic of this section. To what extent and how does ethnicity interfere in the activities of the private sector? This section is somewhat more concerned with Perlis, because the regional economy is split into a Bumiputera one and an ethnic-Chinese one, whereas Satun's economy is predominantly run by Sino-Thai entrepreneurs. In section 2.5 it is mentioned that *guanxi* could play an important role for economic activity in Southeast Asia. Park & Luo (2001) conclude, based on a firm survey of 128 firms in Central China, that it is beneficial for market expansion and external relations, but not necessarily for profits. And Butler et al. (2003) found that Sino-Thai entrepreneurs value the increased access to information as a result of *guanxi*, but again the link with firm performances appeared to be less strong. Hence, the contribution of *guanxi* must not be overstated *a priori*. So how does ethnicity intersect with other business relations in the two research regions?

Inter-firm relations and access to private finance in Satun seem to be clearly influenced by a *guanxi* style of doing business, i.e. a traditional Chinese style with few formal arrangements,

many informal arrangements, an important role for friends and kinship and a strong reliance on reciprocity. Indeed, the outcomes of sections 4.2 and 4.3 reveal that doing business in Satun contains a large degree of *guanxi* features. There are very few formal contracts, many business meetings, a strategic role for business and non-business associations and kinship often has a supporting function. A good example is that several relatives are often involved in the private sector and are able to help each other when necessary. They are especially relevant for owners of wholesale and retail firms. This is quite logical as suppliers are often located in Bangkok which is far from Satun (around 1100 kilometres) and where clients are anonymous. This increases the likelihood of a relatively crucial role for kinship ties.

The presence of strong *guanxi* institutions among the Sino-Thai in Satun also means that the majority group of the provincial population, Islamic people of Malay descent, are rarely involved in entrepreneurship. There are few Muslims who own a firm in the province, and none of the firms in the survey is owned by an Islamic businessman or -woman. According to the manager of the Small and Medium Enterprise (SME) Bank in Satun there are some Islamic entrepreneurs in the tourism industry in and around La-ngu and Pak Bara but generally Muslims are employees, farmers or fishermen. Private sector development is thus by no means *inclusive*. With respect to inter-firm relations promoting inclusive private sector development is difficult as it would imply a decrease of the established *guanxi* institutions, an exclusive phenomenon for ethnic-Chinese entrepreneurs. Therefore, improved access to private finance perhaps better enables the inclusion of Muslim groups into the private sector. Regarding this issue the ADB (2006) promotes ‘inclusive rural finance markets’ which is concerned with both the financial needs of established entrepreneurs as well as with poor people who generally do not have access to formal loans. The Islamic population in Satun should get easier access to private finance. This requires the expansion of Islamic financial services, improving arrangements for people without sufficient collateral and learning from established informal arrangements.¹⁷ Hall & Soskice (2001, p. 12) also noted that formal institutions alone are rarely sufficient to sustain a relevant equilibrium in terms of coordination of business linkages.

In contrast to the Satun case, ownership in Perlis is segmented. The firm survey consists of 20 ethnic-Chinese firms and 19 Bumiputera firms. To what extent do they conduct business differently? It would be no surprise if the ethnic-Chinese firms display some of the *guanxi* features which were found in Satun, because they are in fact from the same ethnic group, i.e. Hokkien Chinese, who migrated from Fujian province in South Eastern China (nearby Taiwan) to Southeast Asia, due to their involvement in the agricultural sector, the mining sector or in trading.¹⁸ Table 4.10 shows the occurrence of various forms of inter-firm relations similar to the analysis in section 4.2. The percentages indicate that the ethnic-Chinese are by no means engaged

Table 4.10 Ethnic differences in inter-firm-relations in Perlis (%)

	Bumiputera	ethnic-Chinese
contracts	67	46
regular business meetings	58	32
regular non business meetings	77	61
cooperation with suppliers and clients	25	13
cooperation with competitors	65	42
membership of associations	74	63

in a truly *guanxi* style of doing business such as in Satun. It is that striking that Bumiputera firms have more regular business meetings, more non-business meetings, cooperate more and are more often members of an association. In addition, kinship seems not to be a very strategic element of doing business among the ethnic-Chinese. Of Satun firm owners surveyed, 16% mentioned that there are relatives among their suppliers and clients, but this was only true of 4% of the ethnic-Chinese firms in Perlis. In Satun, 37% answered that they have kin within the associations of which they are member, but in Perlis in fact no respondents answered the same. Surprisingly, the percentage for Bumiputera firms in Perlis is not less than 36%.

How can these outcomes be explained? Further analysis of the firm survey and interviews with ethnic-Chinese entrepreneurs lead to the following two explanations. First, one has to take into account the economic activities with which ethnic-Chinese firms are normally concerned. Out of the 20 firms, 9 operate within the retail and wholesale sector. Within this sector there are in general many suppliers and even more clients and the process of providing trading services is generally not very complex. Thus extensive usage of meetings and cooperation with suppliers and clients is often unnecessary. Second, ethnic-Chinese firms are not able to practice *guanxi* because they have to deal with suppliers and clients who are not ethnic-Chinese. For instance, public clients in Malaysia generally prefer to hire Bumiputera firms. This tends to lead to exclusion of the ethnic-Chinese, but they have found two ways to obtain work solicited by the public sector, which as discussed in chapter 3, is very influential in Malaysia. The first way is to become a subcontractor of a Bumiputera firm, who is then responsible for getting the work or tender from the public sector, but once acquired passes on the actual job to the ethnic-Chinese subcontractor. The second way is to establish a joint venture with Bumiputera shareholders who together own at least 51% of the shares. Two freight forwarders, included in the firm survey, have such a mix of shareholders. Both firms are located in Padang Besar and are active in road and rail transport in Thailand and Malaysia. Inter-ethnic subcontracting and joint venturing are often referred to as *Ali-Baba* combinations; Ali refers to the Bumiputera entrepreneur, Baba refers to the ethnic-Chinese one (Bardhan 2005, p. 195, White 2004).

The other institutional issue investigated was access to private finance. Figure 4.7 discloses the financial sources for start-up capital. Similarly to the results shown in Figure 4.5, owners & shareholders are by far the most important source, but with respect to ethnic-Chinese firms there is only one commonality with the firms in Satun, i.e. that the role of kinship should not be neglected (as in Figures 4.5 and 4.6). In case of a business problem, none of the Bumiputera firms claim to call relatives first to solve the problem, but 11% of the ethnic-Chinese firms in Perlis and 19% of Satun's firms say that they do so. A crucial difference is that banks have been much more important for Satun (41% of the firms) than for ethnic-Chinese in Perlis (only 17%).

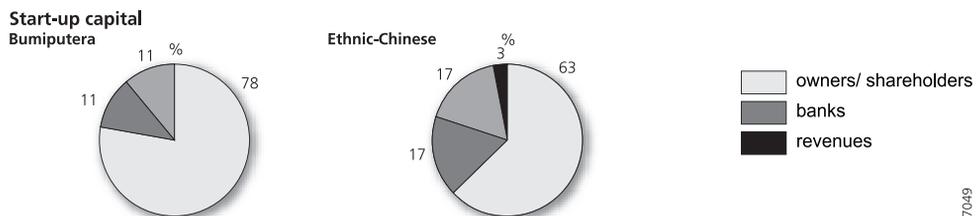


Figure 4.7 Access to start-up capital along ethnic lines

Box 4.4 Ethnic-Chinese and entrepreneurial isolation in Perlis

For ethnic-Chinese entrepreneurs involved in wholesale and retail activities, it is relatively difficult to survive in Perlis, let alone to expand their businesses. There are relatively few economic opportunities, as the activities are not suitable for 'Ali-Baba' combinations and governmental authorities do not support this group. Despite these limitations some firms have existed for a long time and have found ways to grow. An example is the wholesaler Chop Tai Sin. This firm was established in 1940 and currently trades in all kinds of products. The most important activity is buying dairy products from Dutch Lady (www.dutchlady.com.my) in Petaling Jaya and selling them to grocery stores in Perlis, notably in Kangar and Padang Besar for border trade with Thailand. Chop Tai Sin has over 500 clients. Another successful product is mosquito spray (the supplier is located in Kuala Lumpur). In 1989 Chop Tai Sin selling it had 10 employees; in 2004 the number had risen to 18. It is a real ethnic-Chinese firm, as the father of the most important shareholder came from China in 1938 and all other seven shareholders are relatives. The firm is not involved in extensive *guanxi* networks, a typical outcome for Perlis, but relatives have been the most important actors for start-up capital and for problem solving. One of the shareholders is a member of the Chinese Chamber of Commerce and another one of the political party Malaysian Chinese Association (MCA), and has been active within the Perlis Basketball Club, but the membership does not have a positive effect on the performance of the firms. In contrast, many interviewees in Satun stated that such memberships ease access to suppliers, clients, finance and facilitating actions of governmental authorities. Chop Tai Sin is a good illustration of a firm that can survive as a result of population growth and increased living standards of the Perlis' residents rather than benefiting from cooperation and coordination within the private sector. It remains to be seen what will happen with Perlis' wholesale and retail firms in the future. The number of clients could seriously deteriorate if the knowledge state strategy proves to be unsuccessful. Principally, this scenario could lead to much fewer inhabitants in the state.

Overall, inter-firm relations and access to private finance among ethnic-Chinese firms in Perlis do not depict an extensive practise of *guanxi*. From the body of knowledge on *guanxi* one would expect a presence of this way of doing business wherever (ethnic)-Chinese are present (Economist 2004, Bjerke 2000, Yeung 1999), but apparently this is not the case. Non ethnic-Chinese suppliers and clients prevent the emergence of informal institutions, which are typical for this way of doing business. The only *guanxi* style, similar to the activities of firms in Satun, is concerned with the role of relatives for access to start-up capital and modestly relatives in case of a business problem. Rutten (2003, p. 139), who investigated rural capitalists in neighbouring Kedah, also warns not to overstate the role of *guanxi*:

In a nutshell, the findings on the owners of combine-harvesters in the Muda area [irrigated paddy fields] show that the economic behaviour and lifestyle of this rural capitalist class are closely interrelated, and that differences in business strategy only partly coincide with differences between Malay and

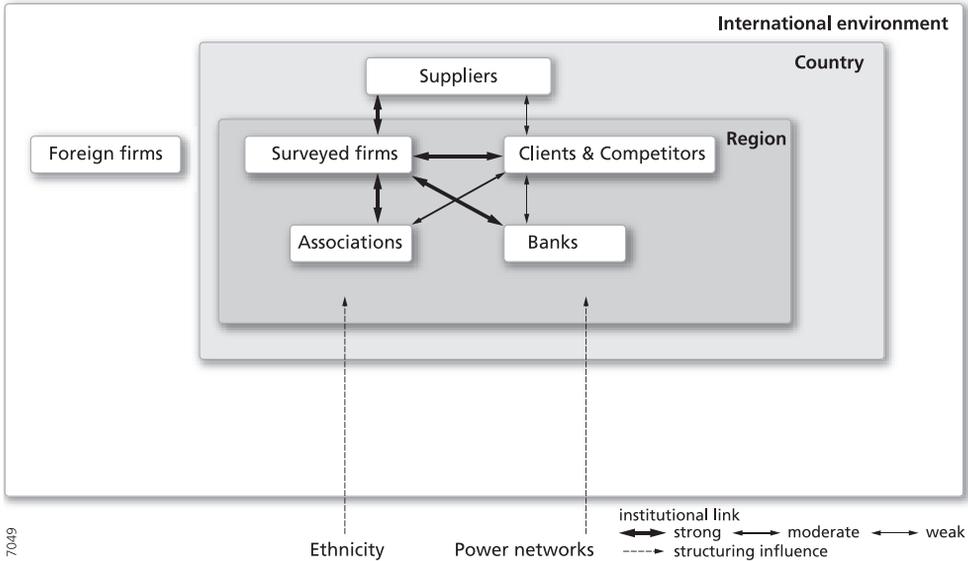
Chinese entrepreneurs, but are as much related to differences within the Chinese community. Lifestyle is therefore an important aspect of the business management of this class, which should not be viewed exclusively in terms of ethnicity.'

This observation matches ways of doing business in Perlis, although it is not only lifestyles that matters. As the public sector is an important player within the regional economy, non-guanxi institutions such as 'Ali-Baba' combinations are simply necessary to obtain sufficient orders. In another study of ethnic-Chinese economic activity, Eyre & Dwyer (1996) report results of a survey among 29 ethnic-Chinese small scale manufacturing firms in Georgetown, the capital of Penang Island. They found that these firms mainly hired ethnic-Chinese employees, operated highly separated from Bumiputera firms and even Penang's public sector, although many political positions within the Penang State Government are occupied by ethnic-Chinese. According to Eyre & Dwyer 'small Chinese entrepreneurs feel overriding distrust for a national government whose prime aim appears to them to be the promotion of Bumiputera interests.' Instead, 'it would be better to struggle on alone, relying on individual and family or of the local Chinese community.' Their findings do not match the Perlis case. It is likely that guanxi is more necessary for manufacturing processes than for wholesale and retail trade. Another factor might be the fact that 43% of the population in Penang is ethnic-Chinese, against 10% in Perlis. Hence, it can be assumed that the Bumiputera share of the entire Penang *business* community is much smaller than 57%, which would indeed increase the likelihood of an ethnic-Chinese way of doing business.¹⁹

In sum, this section has shown that ethnicity influences private sector development at the regional level, but one should certainly include other factors as well. Although the Chinese people in Satun and Perlis are in fact of the same ethnic sub-group, patterns of inter-firm relations and access to private finance are remarkably different. A guanxi style of doing business is normal in Satun, whereas ethnic-Chinese firms in Perlis face many constraints in adopting such a style. There is no closely-knit Chinese business community in the state. Instead, due to the sectoral composition of the Perlis' economy (little manufacturing opportunities for ethnic-Chinese) and the nature of clients, *inter-ethnic* cooperation seems to be a necessary condition in industries such as construction and transportation.

Conclusions

In this chapter an attempt was made to lay bare the institutional spheres of inter-firm relations and access to private finance within the regional varieties of capitalism of the Province of Satun and the State of Perlis. Following Schmidt's (2003) typology as presented in Table 2.4 it is possible to formulate two sets of institutional outcomes. First, firms in Satun maintain informal, personal, cooperative and networked based relations with suppliers, clients, and competitors, *and* banks are also important for the financial needs of firms. These relations are maintained both bilaterally and through business and non-business associations. Apparently, geographical distance does not matter much as the relations with suppliers, who are mainly located outside Satun, are strong as well. Therefore, the outcomes regarding inter-firm relations run against the expectation formulated in section 3.4. The peripheral location and the 'primitive' character of a resource frontier have not hampered the emergence of strong inter-firm relations. The observed institutional set could be interpreted as an *institutional complementarity*: as introduced in section 2.4 two institutions that *jointly* lead to a particular behaviour of economic organisations and



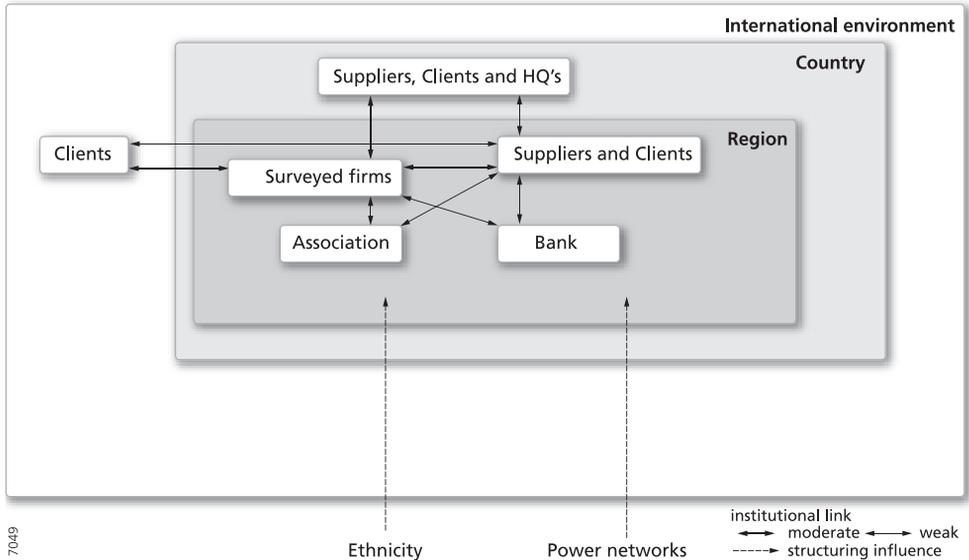
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Figure 4.8 Inter-firm relations and access to finance in Satun

particular economic outcomes. Section 4.4 demonstrated that this complementarity is heavily influenced by a guanxi style of doing business.

Figure 2.6 presented an analytical model to capture institutional outcomes, and Figure 4.8 visualises the outcomes for Satun. The thicknesses of the arrows indicate the strength of institutional relations. Note that (personal) power networks are not yet investigated. The complementarity in Satun appears to keep transaction costs relatively low as contracts are unnecessary and as Sino-Thai entrepreneurs are able to get the support of kin in case they are not given loans from banks.

Second, firms in Perlis maintain formal, relatively impersonal, contractual relations with suppliers and clients *and* firms rely on owners and shareholders for the access to private finance. Associations play a minor role for the maintenance of inter-firm relations and banks are relatively unimportant organisations for the access to private finance. Furthermore, the business community is split into two groups; Bumiputera and ethnic-Chinese entrepreneurs, preventing the presence of strong guanxi institutions, even among the latter group. Figure 4.9 depicts the results for Perlis. Compared with Satun the institutions are much weaker, foreign firms play a role as clients, and cooperation among competitors occurs relatively infrequently. From a theoretical point of view these outcomes are puzzling. It cannot be concluded that this is an institutional complementarity, because it neither matches a *market* regional variety of capitalism, nor a *managed* variety. The results for inter-firm relations suggest the presence of a market variety, but combining this sphere with access to private finance does not generate a satisfactory outcome. The next chapter starts to analyse whether the economic institutions parallel the Malaysian state variety of embedded mercantilism. The fact that several firms in Perlis are owned by the public sector indeed suggests that governmental authorities might be seriously involved in institutional arrangements. Finally, Figure 4.9 also depicts the character of the Perlis' economy



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Figure 4.9 Inter-firm relations and access to finance in Perlis

as a branch plant economy. Compared with Satun, Perlis maintains more institutional relations with economic organisations outside the region, including even foreign firms.

Endnotes

- 1 The amphoe's Tha Phae, Thung Wa, Khuan Kalong, Khuan Don and the subdistrict Manang.
- 2 See appendix 1 for a definition of large and small firms.
- 3 See again appendix 1.
- 4 Unfortunately, the number of employees is the only available indicator for a comparison of the size of the firms. However, one should keep in mind that the number of employees might be understated, because some employers, particularly in Perlis, are wary of the tax department becoming aware of actual figures.
- 5 There are very few Indian firms in Perlis, so no attention has been paid to them here.
- 6 Classifying the surveyed firms along legal terms gives the impression of firms operating less formally in Satun. Namely, there are no public companies limited and the most common business organisation is the so-called limited partnership, a simplification of and less formal structure than a private limited company. In Thailand a private limited company must have a minimum of 7 shareholders, a limited partnership only 2. However, a private limited company in Malaysia can have between 2 and 50 shareholders, but the majority of the private limited companies in Perlis has only 2 shareholders. Thus regarding the number of shareholders there is no large differences.
- 7 The questionnaire was designed to obtain detailed information about three most important suppliers and clients. The eventual *results* are based on firms who could identify their three most important suppliers and clients.
- 8 Moreover, this firm is the only firm in Satun with a R&D department.
- 9 These numbers should be considered as indicative. Namely, respondents were often not able to give the exact averages, only estimates.
- 10 The owner's father followed a typical migration route: from China to Malaysia before moving northwards.

- 11 An explanation for this trend could not be found.
- 12 Likely the managers of the headquarters are involved in the activities of the associations.
- 13 A variety of statistical sources were consulted for these comparisons.
- 14 In 2003 there were 4,179 fishing boats; 3,357 of them were outboard powered boats, 721 were inboard powered and only 101 were non-powered boats.
- 15 These questions were only asked to firms, which identified banks as their most important source of start and daily working capital. So for Perlis these questions were seldom asked as relations with banks are not a relevant issue.
- 16 Note that these averages for meetings with suppliers and clients are 24 and 7 respectively.
- 17 For trends in Islamic banking in Thailand see Haron & Yamirudeng (2003).
- 18 This information is based on interviews with various people with a Chinese background as well as on museums in both regions. There are many different Chinese people in Southeast Asia. For instance, relatively many Hakka live in and around Ipoh (Perak State) and relatively many Teochew/Teochiu in Bangkok (Wang 2003).
- 19 See also section 3.2 and box 5.1 for the reasoning behind this assumption.

5 Institutional and political relations between the private and the public sector

The previous chapter investigates institutional arrangements within the private sector. This one is concerned with arrangements between the private and public sector, which is the topic of the fourth research question, 'what institutional arrangements are in place for cooperation and coordination between the public and private sector in both regions?' As such, this chapter deals with the institutional spheres as depicted in the conceptual model (Figure 2.5). The previous chapter made it clear that informal institutional arrangements within the private sector of Satun are very strong, whereas firms in Perlis seem to cooperate and coordinate much less with each other. In addition, banks appeared to be relatively unimportant for access to private finance in Perlis. This chapter aims to investigate to what extent governmental authorities in both areas are involved in inter-firm relations and access to private finance. Furthermore, the role of (personal) power networks will be dealt with. As outlined in section 2.6 such networks could have a substantial influence on the nature of institutions. The chapter is structured as follows. Section 5.1 is concerned with institutional arrangements and section 5.2 with the political dimension of these institutions. Much attention will be paid to (personal) power networks and rent-seeking behaviour, concepts introduced in section 2.3. Sections 5.3 and 5.4 each elaborate on one specific but important case in each study region – Satun Town Municipality in Satun province and the construction industry in Perlis. As will be shown these two cases illustrate that a fusion of institutional and political economy would be a promising project. Following the conceptual model this chapter also includes ethnicity. Section 4.4 has already demonstrated the relevance of its structuring mechanism for private sector development.

5.1 Cooperation and coordination between the public and private sector

Public private partnerships and state-owned firms

The previous chapter revealed striking differences between Satun and Perlis regarding the operation and organisation of the private sector, but how does the public sector fit into the outcomes of Figures 4.8 and 4.9? Section 2.4 identified three possible issues. The public sector could cooperate with the private sector, possibly culminating in public-private partnerships, governments themselves could be regarded as firms, and firms could be partly or wholly owned by a ministry or authority at the regional level, as was the case in France between the 1950s and 1970s (Schmidt, 2003). In addition to these three issues this section will discuss financial arrangements as well. A suitable starting point for analysis is public-private partnerships (PPPs), a phenomenon which has often been investigated in institutional studies. In general such partnerships refer to programmes of close cooperation between the public sector and firms to achieve specific goals by jointly managing public and private resources. Table 5.1 shows the extent of such cooperative linkages.

Table 5.1 Cooperation with firms with governmental authorities

Nature of Cooperation	Satun		Perlis	
	firms	%	firms	%
sponsoring	19	50	5	13
joint project	3	8	3	8
voluntary work	3	8	0	0
nothing	13	34	31	79
Total	38	100	39	100

It seems that most firms in Perlis do not undertake much joint working with governmental authorities. Two of the three joint projects in Perlis concern joint ventures – Organic Gro, a company owned by the State Economic Development Corporation (SEDC) and Ferm Pro (see Table 5.2 as well) and a water treatment plant set up by independent power plant TTPC, a construction firm, and the Perlis State Government (PSG). The remaining project is a public-private committee between international traders and the customs department to facilitate border trade with Thailand. The majority of directors of the interviewed regional authorities stated that cooperation and coordination are generally organised through business associations, notably the two Chambers of Commerce. However, there are two contradictory issues. First, some interviewees have a different opinion on this matter. The chairman of the Chinese Chamber of Commerce mentioned that the Perlis' government neglects the Chinese business community, and the director of the MARA, the Council of Trust for the Indigenous People, views the Malay Chamber of Commerce as a rather inactive association. Second, some firms included in the survey are (partly) owned by the public sector (Table 4.3), and the SEDC is heavily involved in the regional economy. On the one hand this state-owned organisation could be regarded as a governmental authority as it manages four industrial estates (see Figure 3.3). On the other hand it is technically speaking a firm as it has investments in the construction, agricultural and tourism industries (Table 5.2).

Table 5.2 Firms (partly) owned by the SEDC

Pens Holdings	Construction
Pens Industries	Construction
Organic Gro	Agro industry
Perlis Essential Oil	Agro industry
Perlis Agricultural development	Agro industry
Putra Palace hotel	Tourism
Brahmana hotel	Tourism
Bukit Ayer resort	Tourism
Snake farm	Tourism
Golf park	Tourism
Paintball	Tourism

Furthermore, the sugarcane plantation and refinery Kilang Gula, the cement plant CIMA, the property developer Perlis Holdings and others are (partly) owned by the government. The results of the Perlis firm surveys about public-private partnerships should therefore be interpreted with some caution. In many cases, the entrepreneurs were reluctant to talk about the institutional and economic links with the public sector. Indeed, Rutten (2003) argues that successful Bumiputera entrepreneurs in Kedah, a neighbouring state of Perlis, wish to maintain an image of

Box 5.1 State Economic Development Corporations in Malaysia

Before the era of Prime Minister Mahathir (1981-2003) State Economic Development Corporations (SEDCs) in Malaysia were in fact organisations that implemented the economic visions of the Economic Planning Unit. According to Doraisami (2005) SEDCs in the 1970s 'were involved in the promotion of Malay entrepreneurship through partnerships with Malay firms as well as engaged directly in production of goods and services which provided employment and know-how for Malays. Access to generous funds from the central government and easy access to credit led to a proliferation of SEDC subsidiaries and their activities. Some of them are now large and have even invested in other Southeast Asian countries. For example, the Johor Development Corporation has invested in the palm oil business in Indonesia and Papua New Guinea.

Nevertheless, Mahathir applied a somewhat different strategy by making SEDCs prime vehicles for the nurturing of a *Bumiputera managerial* class. Jesudason has termed this class 'orang korporal', Chong (2005) wrote about 'Melayu [persons] as a professional and managerial class' and Mahathir himself (1998, p. 121) noted:

'Today Bumiputera big business is managed effectively by Bumiputera entrepreneurs and managers, whose skills and business knowledge are second to none. These people have apparently acquired and mastered the new [managerial] culture.'

It should, in fact, be seriously doubted whether the skills and business knowledge of these groups really are 'second to none'. Several SEDCs have made considerable losses over the years and the successful Penang SEDC (www.pdc.gov.my) is partly run by ethnic-Chinese (Doraisami 2005, Van Grunsven 2006). Its chairman is the Chief Minister of Penang, and it is a job that is always filled by ethnic-Chinese due to the ethnic composition of the population. In addition, Bumiputera equity (including SEDCs) as a percentage of total equity is still relatively small. In 2004 ethnic-Chinese accounted for 26% of the total population, but owned 39% of the share capital of limited companies, whereas Bumiputera individuals (who account for 65% of the total population), Bumiputera organisations and trust agencies owned a mere 19%. Foreigners owned 33% of the share capital (EPU 2006). Malaysia wishes to reach the status of a developed country by 2020, but it will probably take longer to substantially increase the share of Bumiputera equity. Another threat is increasing inequality between orang korporal and relatively poor Bumiputeras. According to Jesudason (1997), the class structure of the indigenous society is sometimes overlooked in socio-economic analyses of Malaysia.

independence. In Satun, the sponsoring of public projects, in particular community development events, is the most frequently mentioned link between the public and private sectors. In most cases these events are initiated by tambons (sub-districts). Furthermore, none of the three joint projects (see Table 5.1) are joint ventures. The projects consist of informal meetings between a travel agency, a ferry service and a hotel and the provincial government to promote tourism. The fisheries department disclosed an activity concerning product development with Siam Tin Foods, by far the largest firm. The Satun Chamber of Commerce and to a lesser extent the Satun Tourism Association maintain contacts with public agencies, but the cooperation has an ad hoc character. Overall, the interviews with associations and the public sector indicate that institutional relations between them are weak and relatively insignificant.

The public sector as a business client

As mentioned in section 2.5 governmental authorities can also play a vital role in the regional economy as business clients. The firm surveys have generated interesting differences. In Satun 13% of the three most important clients of the surveyed firms are government agencies, whereas this percentage for the most important client is 15%. In Satun they mainly buy 'simple' products from wholesale and retail firms for their daily activities. In most cases, larger orders are delivered by firms from outside. It seems Satun's firms are either too small or operating in industries which are not relevant to large public projects, for example the fisheries industry. By contrast, in Perlis 31% of the three most important clients and no less than 41% of the most important client are governmental authorities. Section 3.4 mentioned that the Perlis' economy is to a considerable extent dependent on public services. In recent years, the education strategy, a new highway and public investments in tourism and residential housing have resulted in many construction projects for the construction industry. In this respect, *Jabatan Kerja Raya* (JKR, the public works department) occupies a central position as this department manages the tenders for the construction projects. The crucial role of the public sector in Perlis parallels Schmidt's (2003) proposed *state* capitalism with state-led and state-mediated inter-firm relations (see Table 2.4 as well).¹ Not surprisingly given the so-called Bumiputera policies for the promotion of Malay entrepreneurship, 87% of the firms selling to the public sector are Malay and only 13% ethnic-Chinese. The Chinese, as in the case of Satun, mainly sell 'simple' wholesale and retail products. Finally, the new schools and colleges have also started to rent many existing buildings. Driving through Perlis one can indeed find many buildings, including those intended for the private sector that are now occupied by schools and colleges.

The public sector and access to private finance

Besides the involvement of governmental authorities in the operations of firms, they can also be found to be active in the provision of finance for firms. In section 2.3 Bardhan (2005) is cited who has proposed a broad view towards institutional arrangements, rather than merely focusing on contracts, property rights and the enforcement of these arrangements. In this regard he asserted that with respect to financial issues in successful East Asian countries, governments of these countries have been involved in 'intervening in the capital market sometimes in subtle but decisive ways, using regulated entry of firms and credit allocation to promote and channel industrial investment, underwriting risks and guaranteeing loans, establishing public-development banks and other financial institutions and encouraging nascent parts of financial markets' (Bardhan 2005, pp. 14-15). In countries with a variety of state capitalism the state can

serve as the most important organisation as a source of investment (Table 2.4). It therefore makes sense to analyse to what extent the public sector has been active in terms of facilitating access to private finance.

In section 4.3 a clear difference was noted with regards to the sourcing of start-up capital, with Satun's firms often using banks and firms in Perlis mostly relying on owners. The aim of this sub-section is to identify to what extent governmental authorities shape patterns of access to finance. Access to banks for firms must be associated with corporate banking while financial transactions between individuals and families and banks are generally classed as personal banking. Bank managers were asked to estimate the importance of personal versus corporate banking. In Satun the ratio personal/corporate banking was 58/42. In addition, clients of banks in this province relying relatively more on personal banking tend to save more, while clients relying relatively more on corporate banking tend to borrow more. The Satun provincial government seems to leave access to private finance to the private sector itself. No single programme or policy can be related to supporting the financial needs of firms. Furthermore, neither are the Satun offices of the Department of Commerce and the Department of Industry financially active. Both departments only promote businesses by organising training events and marketing activities such as exhibitions and by providing regulatory information.² This is not to say that the public sector is totally absent. In fact, some banks are actually at least partly state-owned. The two most important state-owned banks with offices in Satun are the Krung Thai Bank and the Small and Medium Enterprise Development Bank (SME Bank). As mentioned in section 3.2 'the era of "bank capitalism", in which the commercial banks had dominated the capital market, slipped into the past' after 2001 (Pasuk & Baker 2004, p. 110). Prime Minister Thaksin Shinawatra increasingly tried to allocate credit via state-owned financial organisations. For example, 'Krung Thai Bank and other state banks were told to be more expansive in their lending policy to compensate for the commercial banks' nervousness'. Indeed, interviews with bank officials in Satun revealed that Krung Thai Bank lends relatively more money to corporate clients. The ratio of saving/borrowing among Krung Thai's corporate clients of Satun is 5/95 while the average ratio overall is 40/60. The SME Bank provides relatively soft loans, but is also very active in supporting nascent SME's. Moreover, it is surprising that they have a considerable number of Muslim businesspeople as clients, given that the majority of clients at the general banks are Sino-Thai.

The case of Perlis is remarkably different. The activities of the interviewed banks are for 84% concerned with personal banking, only 16% with corporate banking. Moreover, saving and borrowing seems to be equally important. These results are in line with the idea that banks are more important for firms in Satun than in Perlis. Public agencies, especially at the federal level, are very active in facilitating access to private finance in Perlis. They support the Malay business community in three ways. First of all, state-owned firms can easily obtain financial capital through various governmental authorities. Often a state-owned firm has close links with a particular authority. Second, as in Thailand some general and Islamic banks are partly or wholly state-owned, meaning generally lower interest rates. It is interesting to see how the SEDC is financed. They directly borrow money from the federal government *and* the state-owned Bank for Development and Infrastructure. But the majority of firms do not go to banks for start up capital, so it is questionable whether offering relatively cheap bank loans is an effective means to this end (see section 7.2). Third, many authorities support the businesses of the Malay population in Perlis. These include *Majlis Amanah Rakyat* (MARA, the council of trust for the indigenous people) who offer affordable office and commercial space for rent and provide relatively soft

loans; the Co-operative Development Department in Perlis, that manages 78 cooperatives with a total of 53000 members (in 2004) and a total registered capital of RM 35 million; and the Malay Chamber of Commerce, through which entrepreneurs can borrow federal money. Malay firms can also buy cheap land at the industrial districts managed by the SEDC. The ethnic-Chinese business community on the other hand does not have access to all these financial opportunities, and they have to survive without governmental support.

The empirical results of this section indicate that the weak inter-firm relations in Perlis which were revealed in the previous chapter are somewhat compensated for by influential institutional arrangements with the public sector. Firms themselves are somewhat reluctant to admit the fact that the public sector plays an important role as entrepreneur, as client and as provider of private finance. This outcome suggests that Schmidt's (2003) notion of state capitalism is indeed necessary. However, one could doubt the effectiveness of the financial role for the public sector, as firms mainly use start-up capital from their owners rather than other sources. With respect to Satun it seems that governmental authorities are, in the words of Schmidt, facilitators and enablers (Table 2.4), who normally do not intervene directly in the regional economy. This observation is compatible with the strong private-led inter-firm relations noted. The following sub-section illustrates institutional differences by looking at the tourism industry.

The private and public sector within the tourism industry

Haak & Nordeman (2007) did a comparative analysis on the role of the public sector with respect to tourism development. This study is especially interesting in the sense that it analyses institutional arrangements within an industry that is not a key driver of the regional economy (see section 3.4). How do transportation firms, hotels and restaurants, travel and tour operators, etc. operate in such a difficult economic environment?²³ Satun's tourism market is, compared with Perlis', relatively biased towards foreign tourism. Ko Lipe, Tarutao National Park and the Wang Kelian border market between Khuan Don and the Timah Tasoh Lake (see Figure 3.3) are all popular with foreign tourists, despite the fact that environmental concerns and weather

Table 5.3 Firms within the tourism industry

	Satun	Perlis
total number of firms	26	24
firms with Chinese background	13	5
non-Chinese background	13	19
independent firms	25	15
branches	1	9
own building	19	9
rented building	7	15
(partly) government owned	0	3
not government owned	26	21

Source: Haak & Nordeman 2007

conditions mean that the first two of these attractions are only open during a period of six months of the year. It is the Ministry of Natural Resources and Environment that has custody of these two islands. Furthermore, Satun is a transit point for Thai tourists travelling to Langkawi. Visitors to Perlis like to go to Wang Kelian border market as well, the Snake farm and the Cave of Darkness.

Haak & Nordeman conducted a firm survey in both regions in 2004. Table 5.3 summarises the main characteristics of the firms. Compared with Table 4.3 there are relatively more entrepreneurs in both regions who do not have an ethnic-Chinese background. The group of non-Sino-Thai entrepreneurs in Satun's tourism business is a mix of Muslim, 'real' Thai and foreign people.⁴ The Muslim entrepreneurs are predominantly located in Pak Bara. The independent nature of firms is a similarity between Satun and Perlis, with few branches, many firm-owned buildings and no governmental involvement. But it should be noted that the public sector is not totally absent. National and regional authorities are involved in the tourist pier at Tammalang for the transfer to the Malaysian island of Langkawi (which belongs to Kedah state) and the local government manages the Phu Pha Phet Cave in the sub-district Manang. Facilities at the pier have just been improved and a new road was built improving the accessibility to the Cave. Compared with Satun and similar to the results presented above, the public sector

Box 5.2 The newly built Brahmana hotel in Kuala Perlis

Langkawi Island has become a famous national and international tourist destination (Figure 1.1). Malaysia Airlines even experimented with direct flights between the island and London. In order to benefit more from tourist flows, the SEDC of Perlis decided to build the large Brahmana hotel in Kuala Perlis on reclaimed land. Kuala Perlis functions as a transit point to Langkawi, especially for Malaysian tourists. The SEDC together with the PSG is trying to keep those tourists in Perlis longer in order to capture greater amounts of tourist revenue and ultimately boost local economic development. However, such a strategy gives rise to a major problem. Perlis cannot offer beautiful beaches and entertainment facilities comparable with Langkawi, and therefore increasing the supply of hotel rooms is a financially very risky strategy. Put simply, why would tourists stay longer in Kuala Perlis if they can easily take the ferry to Langkawi where much more attractions and facilities are available? As the SEDC also owns the Putra Palace hotel in Kangar, the public sector currently seems to dominate the entire accommodation business in the state. In fact, Putra Palace in turn manages Brahmana hotel, which has proven to be a more attractive option than privately owned hotels for local authorities wanting to organise seminars and other meetings. Another project is the Kuala Perlis waterfront promenade (costing RM 10 million) at which 27 commercial establishments can operate. This promenade was opened by the PSG in February 2006 and should stimulate an increase in visitors and business opportunities for locals (The Star 2006b). The nature of the construction projects suggests that the building process itself is sometimes more important than their subsequent use. The extent to which (personal) power networks and rent-seeking behaviour play a part in this phenomenon will be explored in the following three sections.

is much more involved in Perlis. Note that there are at least six (partly) state-owned firms in the Perlis tourism industry (Table 5.2). In addition, MARA took over the bus firm Perlis Liner in 2005 and renamed it MARA Liner. It is striking that revenues of the SEDC investments in tourism are not derived from tourists, but from the public sector. The investments in hotels, paid by the federal government, have not led to a substantial increase of tourists, but in fact to an increase of all kinds of meetings initiated by governmental authorities (Haak & Nordeman 2007). An extremely important client is the federal Ministry of education that organises many seminars in Putra Palace hotel and Bukit Ayer resort. This is a good example of the public sector as a business client. The public sector in Perlis is also a significant provider of private finance in Perlis' tourist industry. Firms mentioned 'loans from government' 6 times as a source of financial capital, whereas none did so in Satun. In addition, firms in Satun mentioned 'loan from bank' 8 times and 'loan from relatives' 7 times, but this was just 5 times and once respectively in Perlis. These results very much support the points raised section in 4.3.

5.2 The politics of cooperation and coordination

The theoretical considerations in chapters 2 have made it clear that (personal) power networks should be analysed alongside institutional arrangements. In terms of informal arrangements, particularly between the private and public sector, power networks can be a decisive factor for regional economic activity and regional development. These networks have emerged in various forms, both theoretically and in actual business practices. A general and associated concept is rent-seeking. The concept refers to the expenditure of resources and efforts in order to generate excess income. According to Khan (2000) rent-seeking has occurred in both developed and developing countries, but has tended to have greater impact in the latter, giving rise to illegal activities, increasingly accompanied by violent incidents and unproductive economic outcomes. Khan views lobbying, political activity, bribing and other influencing activities as major inputs and the allocation of licenses, the winning of tenders, the granting of monopolies and property rights as major outputs. Besides rent-seeking there are several other specific phenomena which have been the focus of study by political economists. Patron-client relationships have been shown to be an important aspect of local and regional politics. According to Scott (1972) a patron is 'an individual of a relatively high status who can use his/her own influence and resources to provide protection or benefits for a person of lower status (client), who reciprocates by offering his/her own resources.' With respect to Southeast Asia much has been written on other power relations such as elite capture (see the next chapter), political business (Gomez et al. 2002), corruption (Lim & Stern 2002), ersatz capitalism (Yoshihara 1988) and crony capitalism (White 2004 for the Malaysian case). The following section and the next chapter aim to explore relevant links between such power relations, institutional arrangements and ethnic patterns. Before exploring them it is necessary to briefly introduce regional political structures, starting first with the province of Satun.

The political structure of the province of Satun

The highest political official in the province is the Governor of Satun. Provincial Governors are appointed by the Ministry of Interior in Bangkok. In addition, each province has an elected Provincial Administrative Organisation (PAO), which in Satun has 24 members. Despite the

decentralisation efforts implemented after the 1997 constitution, Prime Minister Thaksin 'recentralised' regional politics between 2001 and 2006 with the introduction of the so-called CEO Governor policy (see also section 3.1). Satun is divided into 7 *amphoes* (districts), which are further divided into several *tambons* (Ministry of Interior 2005 and Mutebi 2004).⁵ Furthermore, there is one *tessaban muang* (defined as a town municipality with 10000-50000 inhabitants, more than 3000 people square km. and 18 members in the Municipal Council) and one *tessaban tambon* (7000-10000 inhabitants, more than 500 people per square km. and 12 members in the Municipal Council).⁶ Before 2003, mayors were elected by Municipal Councils, but since then they have been elected directly by the people. Satun Town is the *tessaban muang* as well as the capital of the province (see also Figure 1.1). Whilst the majority of the provincial population and within the *tessaban tambon* La-ngu is Muslim, the majority within Satun Town is Buddhist.

Networks and influence in Satun

In order to analyse the interactions between institutional arrangements and personal power networks, a number of surveys and both semi-structured and open interviews were carried out in Satun and Perlis between January and June 2006. Owners of firms and directors of public authorities were asked questions relating to professional meetings, informal meetings and perceived influence. These three factors are examined in order to attempt to uncover personal power networks and should be interpreted as proxies for political and economic influence. 'Professional' meetings refer to gatherings held in order to coordinate business, political and other serious matters, and 'informal' meetings refers to gatherings in which social activities (dinners, parties, weddings, etc.) may also be conduits for particular business interactions. The inclusion of actors is based on outcomes of the first fieldwork that was carried out in 2004.⁷ Figure 5.1 and

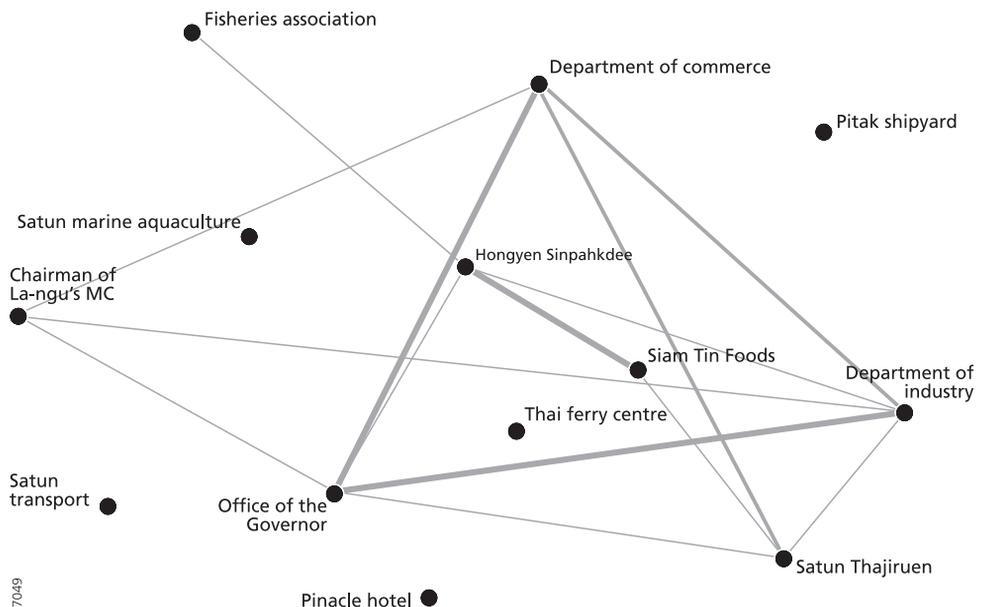


Figure 5.1 Number of monthly professional meetings in Satun

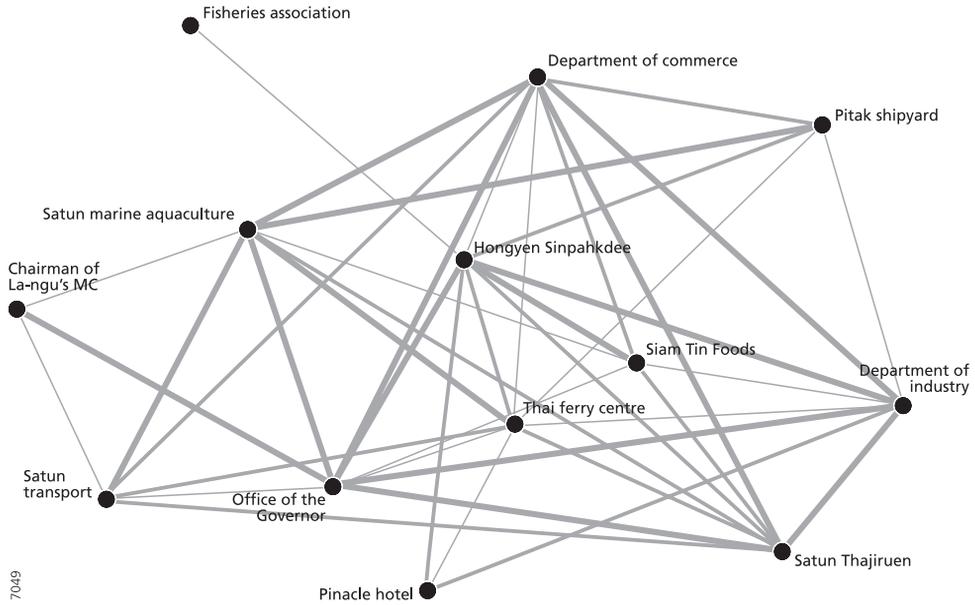


Figure 5.2 Number of informal monthly meetings in Satun

5.2 show two networks of monthly meetings. The thinnest connection represents 2 meetings per month, and the thickest connection 6 or more times per month.

The position of the nodes, and hence the organisations and actors themselves, are determined by a so-called spring embedded Gower metric scaling in Figure 5.2, which is calculated by the social network analysis software package *Ucinet for Windows* (see appendix 1). For easy comparison the Gower scaling in Figure 5.1 has been altered and instead, the nodes are moved in order to get identical network positions as in Figure 5.2 (appendix 8 shows the original network positions following the Gower scaling system). Furthermore, Table 5.4 provides a brief comparison of the two networks. ‘Degree’ refers to the total number of meetings. What stands out is the frequent usage of informal meetings, especially within the private sector. There are much more and much thicker connections in Figure 5.2 than in Figure 5.1. Not less than four nodes maintain 34 informal monthly meetings (an average of slightly more than once a day), i.e. Satun Marine Aquaculture, the Department of Commerce, Satun Thajiruen and the Office

Table 5.4 Network properties

	formal (Figure 5.1)	Informal (Figure 5.2)
mean degree	7.385	24
standard deviation	5.554	9.224
sum of degree	96	312
minimum	1	5
maximum	16	34
density	0.33	0.74

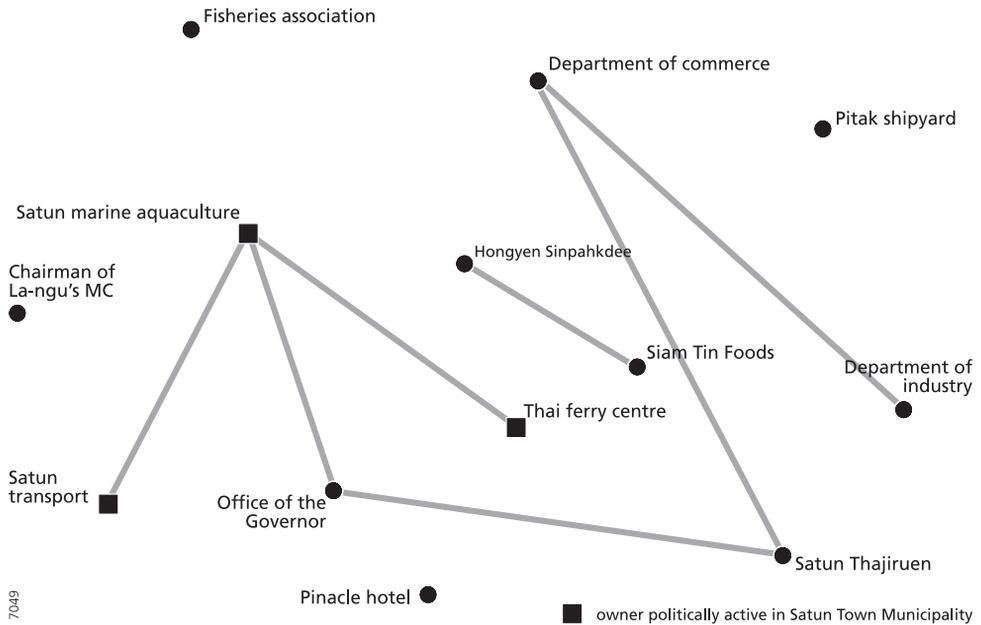


Figure 5.3 Frequent informal meetings in Satun (5-6 monthly only)

of the Governor. Also worth mentioning is that all the nodes have a degree between one and four.⁸ The ‘density’ of informal meetings (i.e the ratio of observed lines to the total number of potential lines.⁹) is much higher than the density of meetings found in the professional network. The results match the informal, personal, cooperative and network based character of inter-firm relations which were discussed in section 4.2. Several interviewees stated that this informality is a result of the relatively small size of Satun province.¹⁰ It is also likely that the ethnic-Chinese way of doing business as presented in section 4.4 is one of the causes. Professional meetings remain limited to the public sector, Hongyen Sinpakhdee and the large seafood firm Siam Tin Foods. As an important supplier, the former firm maintains good relations with the latter. Given the importance of the seafood cluster it is somewhat striking that the fisheries association does not conduct informal meetings to a great extent. The chairman of the La-ngu municipal council also occupies a relatively peripheral position with the network, which is perhaps no surprise as it is the only actor located outside amphoe Satun. Satun Marine Aquamarine appears to be the most strategically located node as it has the highest ‘betweenness’, a measure to calculate the position of a node on shortest routes between other nodes.¹¹

Obviously, the frequency of meetings does not automatically correlate with *power* networks. Moreover, some interviewees might have under- or overstated the number of monthly meetings. Therefore, it is not necessarily a suitable proxy and further investigation of the backgrounds of the actors is required. Consider Figure 5.3 in which 2 to 4 informal meetings per month are excluded. This figure combines data from the network survey and interviews. The high ‘betweenness’ of Satun Marine Aquaculture becomes less of an oddity in light of the fact that the owner is the current mayor of Satun Town and has invested in many other businesses, among others a well known air conditioned restaurant (one of the few in Satun Town) and a large rubber plantation,

and he is the franchisee of the two 7-eleven convenient stores in Satun Municipality.¹² The owner of Thai Ferry Centre, which provides services to Tarutao and other small islands is one of the three vice mayors, whose brother is also active in the tourism industry. Finally, the owner of Satun Transport, which has a monopoly on bus services from Satun Town to Hat Yai, is member of the Satun Town Municipal Council (MC) and his father was a well-known mayor of Satun Town during two consecutive periods between 1975 and 1988. One could even consider the owner of Satun Transport as a member of a *trakun* (influential family at the provincial level) as described in Askew (2006) and Nelson (2005).¹³ The three nodes discussed above have larger characters to highlight their political link with the Satun Town Municipality. According to Figure 5.2 and 5.3 Satun Thajiruen is also well connected, but analysis of the owners' background does not reveal a powerful network behind it. What seems to emerge is an interesting informal but powerful connection between leading entrepreneurs in the province and municipal politics in Satun Town. Only 2 of the 12 members of La-ngu Town MC are Sino-Thai and there are not leading entrepreneurs. The Muslim majority of La-ngu Town generally tends to elect Muslim councillors. The relatively closed network of Sino-Thai entrepreneurs who also serve as local politicians might lead to rent-seeking, a topic which is discussed further in the following section.

The actors in the previous three figures were also asked to rank 25 private and public organisations in terms of their influence for regional economic development. For each organisation they could answer 'much', 'some' or 'little' influence, similar to analysis conducted by Hewison & Maniemai (2000) in Northeast Thailand. The ranking is presented in Table 5.5. Compared with the findings of the formal and informal networks governmental authorities at the provincial level are perceived to be more influential than the leading entrepreneurs. However, section 5.1 clarified that the various departments maintain weak institutional linkages with the private sector. Therefore, it is likely that the interviewees somewhat overstate the influence of these departments. The extent to which the PAO really makes a difference for the regional economy is also questionable, as the Governor actually has more political and budgetary power. Moreover, although the chairman of the PAO is a businessman, the majority of the members are not representatives from the Sino-Thai dominated private sector. Interestingly, the interviewees think that the two Members of Parliament and the Member of the Senate, all representing the population of Satun, have much and some influence respectively. The role of these actors together with the Governor is analysed more fully in the next chapter because it is concerned with the national scale level, more precisely the role of the national government in Bangkok

Table 5.5 Actors perceived as being influential for Satun's regional development

much influence	some influence	little influence
Siam Tin Foods	STE import/export	Satun Transport
Satun Chamber of Commerce	Tung Tam Sao Rubber	Hongyen Sinpahkdee
Department of Industry	Thai ferry centre	Satun Thajiruen
Department of Commerce	Palm Thai Pattana	Pitak shipyard
PAO	Members of Satun Town MC	Pinnacle hotel
Office of the Governor	Fisheries association	Satun Aquamarine
Members of Parliament	Member of Senate	Rotary Club
Department of Fisheries	Wassana Travel and tours	Chong Hua association
		Members of La-ngu Town MC

regarding financial flows to Satun. Section 5.3 investigates why the institutional and political coalition between leading provincial entrepreneurs and Satun Town municipality is so strong. Furthermore, section 7.1 compares Satun's situation with domestic coalitions at the national scale level. As discussed in chapter 2, domestic coalitions are an established part of embedded mercantilist institutions in Southeast Asia (Jayasuriya 2004 & 2003).

The political structure of the state of Perlis

Compared with Satun, national party politics are much more visible in Perlis. Since Malaysian independence the head of the Perlis State Government (PSG), the *Menteri Besar* (MB) has always been the leader of the political party Perlis branch United Malays National Organisation (UMNO). This head is appointed as Perlis branch leader by the national leader of UMNO, but the population of Perlis votes for political parties to be represented in the PSG for a period of five years. The State Legislative Assembly (SLA) of Perlis consists of 15 elected members. In 2004 12 UMNO members were elected into the SLA, as well as 2 members of the Malaysian Chinese Association (MCA) and 1 member of the opposition Parti Islam Se-Malaysia (PAS). Because there are few ethnic Indians living in Perlis, the Malaysian Indian Congress (MIC) is generally not elected into the SLA. Out of these 15 members, 7 form the State Executive Council (EXCO), which can be compared with the ministerial cabinet at the federal level. The head of the EXCO, and thus the entire PSG, is the MB who can be compared with the *Perdana Menteri* (Prime-Minister) of Malaysia. Since 1995 the MB of Perlis has been Datuk Seri Shahidan Kassim.¹⁴ Important appointed officials of the PSG are the State Secretary, the State Financial Officer, the State Legal Advisor and the Speaker of the SLA. Below the state level, there are lower tiers normally comprising of several districts and city governments. As Perlis is very small, there is only one municipal council, *Majlis Perbandaran Kangar* (MPK, the council of Kangar Municipality) but no districts.¹⁵ The director of the MPK is appointed by the PSG, but the council is democratically elected. The MPK is also responsible for certain services in the whole state.

Networks and influence in Perlis

Unfortunately, many interviewees from the private sector in Perlis were unwilling to disclose their network of formal and informal meetings. Although this in itself does not prove anything, this unwillingness may be indicative of involvement in peculiar networks. Fortunately, the politics of cooperation and coordination could be investigated through interviews with key informants who were willing to disclose sensitive issues. These key informants are mostly businesspeople, politicians and members of the press. An interesting outcome of these interviews is the strategic position of the public sector for the regional economy. The active role of the public sector was discussed previously in sections 3.4 and 5.1. Several interviewees, however, went one step further. They stated that the economy of Perlis is heavily dependent on the MB, because he is politically powerful and because he exerts controls over economic issues, either directly or indirectly. One interviewee even stated that 'the economic system of Perlis cannot be described as a capitalist one', because of the enormous public involvement.

Several interviewees stated the significant involvement of the MB has led to various inefficient outcomes, for example the education strategy. KUKUM, a new university college mentioned in section 3.4, plans to build a new campus in Perlis between Arau and Changlun (see Figure 3.3). However, a campus near Kangar would be much more beneficial for economic

development. It is now feared that most benefits from the new campus (restaurants, shop lots, real estate for students and staff, etc.) will go to Changlun and Jitra in Kedah state rather than to Perlis, and that Kangar will become a 'sleeping city' after KUKUM leaves. Several interviewees suspect that the MB somehow has a personal economic interest in the proposed site between Arau and Changlun. One insider put it this way: 'the MB who has absolute power in the state has no emotional and political agenda to develop the state of Perlis, but only an individual agenda to increase his wealth'. Another said: 'EXCO members always refer to the MB during press conferences or interviews; they never dare to attribute initiatives to themselves. Politics in Perlis is a one man show.' The key informants mentioned the following organisations/actors as the most influential for regional economic development – the office of the MB, SEDC, Shorubber, the cement plant CIMA and Kilang Gula. Of these 5 organisations only Shorubber is a truly private firm, in fact a branch of a Japanese firm in the rubber processing industry. The Kilang Gula sugarcane plantation and refinery was built at the end of the 1960s and is now jointly owned by the FELDA Authority (part of the Ministry of Agriculture) and the Perlis Plantation Berhad Group (PPB Group), a large conglomerate in Malaysia set up by the famous Robert Kuok.¹⁶ Cement Industries of Malaysia (CIMA) is 53% owned by the government linked firm UEM.

Box 5.3 The Perlis State Economic Development Corporation (SEDC)

As Box 5.1 focused on SEDCs in general, this box looks more closely at the Perlis SEDC. Just like the state itself, the Perlis SEDC is relatively small, but nevertheless a very important local player. Perlis' SEDC was established in 1973. Its office has 47 employees, but via its 12 active subsidiaries it employs more than 500 people. Although an important job generator it has a somewhat problematic financial performance, and between 2002 and 2004 its assets stood merely 1.2 times higher than its liabilities (Auditor General 2006). One reason might be the easy opportunities to obtain soft loans from the public sector, in particular the state-owned *Bank Pembangunan dan Infrastruktur* (Bank for development and infrastructure). Another might be some imprudent investments. Consider for example the Padang Besar Development project, consisting of among others an industrial zone, residential areas, tourism facilities and a transshipment center (SEDC 2006). Padang Besar has a train station, but is by no means strategically located for road transport. In addition, the railway between Butterworth near Penang and Songkhla port in Thailand will not be expanded to a double track in the medium term, so it is highly questionable whether Padang Besar can be efficiently used as logistical centre for containers in the short term. Another example is a lack of tourists who visit SEDC owned tourist attractions. A striking feature within the SEDC is the powerful position of the MB. He controls at least 5 positions in the highest decision making unit, the board consisting of 12 members. The MB himself is the chairman and 4 other members, 3 officials within the PSG and 1 UMNO representative, report to him *de facto*. The other members are representatives from federal authorities. This setting allows for capturing of resources rather than the effective development of the regional economy.

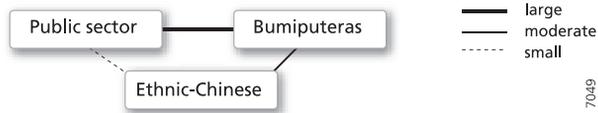


Figure 5.4 A simplified overview of networks in Perlis

A Chinese businessman started a small sand-grinding firm, which has eventually become a cement plant. The SEDC bought the majority of the shares in this firm in 1984, but in 1990 UEM bought CIMA (Gomez 1994). Several interviewees included the construction industry in their list of influential firms. One even chose the construction firms Bintong Construction, Ahzar/Gapura and Perlis Holdings as the three most influential in Perlis, because they are frequently involved in large construction projects. This feeds further into the discussion in section 5.1 in which the construction industry was linked with the educational strategy, whereby public educational organisations act as clients of the construction firms. Section 5.4 will deal in greater detail with the construction industry, as there are patron-client relationships involved.

Ethnic-Chinese firms were not mentioned as influential. Although they are important for economic development, particularly in wholesale and retail, and often functioning as subcontractors (see section 4.4), the majority of these firms do not maintain political connections, nor do their leaders become politicians. In general, the owners regard the public sector quite negatively. Some ethnic-Chinese entrepreneurs even complained that the public sector compete with their firms. One asked, 'How can Perlis have a flourishing private sector if the public sector directly competes with rather than supports the private sector?' Note that this question matches the identified public investments in the tourism industry as revealed in the previous section. All in all, the interviews with key informants lead to the identification of three types of networks (Figure 5.4): a relatively large network consisting of the public sector, notably the SEDC and its managerial class, and Bumiputera entrepreneurs, a very small and closed network consisting of the public sector and ethnic-Chinese and a moderately open network of Bumiputera and ethnic-Chinese entrepreneurs. More insights into these networks will be given in section 5.4.

Influential networks in the two tourism industries

At the end of section 5.1 a comparison was made between the institutional arrangements within the tourism industry of both regions. This section looks at the political dimension through a network perspective. Again, empirical data are derived from the analyses of Haak & Nordeman (2007). In Satun there appear to be two striking networks in informal institutions that are shaped by personal power networks. The most interesting is the network evolving around Mr. Sawas, owner of Wassana Travel and chairman of the Satun Tourism Association. Wassana Travel has been able to dominate the market of attracting tourists to Satun and transferring tourists between Bangkok and Langkawi. Many actors within Satun's tourism industry, even public sector officials, identify Mr. Sawas as a key individual in the sector. Indeed, he seems to be a patron within a strong informal social network that is very beneficial for his firm and partners. However, this power excludes actors who are not part of the network and those that have no interest in becoming members. One interviewee of Haak & Nordeman was of the opinion that only the most important members of the Satun Tourism Association have a say in tourism issues. Others are not invited or received an invitation only after the meeting had taken place. Although

this association is in theory a formal organisation its practices are very informal and it forms an enabling institution for a couple of strong incumbent firms, but acts as a disabling informal institution for existing small entrepreneurs, and potential newcomers face severe difficulties in influencing the association and in securing and expanding their business interests. The second network, very informally, is concerned with the Phu Pha Phet Cave in the sub-district Manang. As mentioned before, the local government manages this attraction. This tambon government has made a deal with one firm to exploit the cave and to attract tourists directly from Hat Yai. In fact, this somewhat mysterious deal can be considered as a rare occurrence of a public-private partnership in the province. Yet the problem for other firms is that they face great difficulties if they want to organise tours to the cave as the tambon government is reluctant to allow firms to benefit from the cave. This strange situation can only be maintained as long as the regional government (particularly the provincial Governor) or the national government remain unwilling to make the cave more accessible for more firms and tourists.¹⁷ The two networks reveal that strong informal institutions must not always be considered as positive and enabling, as discussed with respect to inter-firm relations and access to private finance in the previous chapter. They can also have disabling effects.

Informal arrangements within the tourism industry of Perlis occur less frequently. An indication is that only 12 out of 24 firms in Perlis maintain informal contacts whereas no less than 21 out of 25 firms in Satun maintain such contacts. There is one relatively formal network and unsurprisingly the SEDC, chaired by the MB, is by far the most important organisation in this network. As the public sector is the most important client for the tourist facilities, public-owned facilities obviously have an advantage over the private sector in winning contracts. Admittedly, the SEDC has generated employment, but as will become apparent in the next chapter, active intervention of the public sector in the tourism and other industries has had serious financial repercussions for the PSG. In chapter two it was proposed that this research follows, among others, Jayasuriya (2004 & 2003) with his emphasis on domestic coalitions and Bardhan (2005 & 2000) with his emphasis on distributive conflicts. These authors claim that domestic politics play essential roles for institutional economic arrangements and economic activity. The outcomes of this section indeed suggest that a purely institutional approach for the analysis of economic activity would miss some important relations between the private and the public sector, which are based on personal power networks. Consider the overlapping between Satun's leading entrepreneurs and the Satun Town Municipality and the power of the SEDC over economic issues in Perlis. The following two sections try to grasp more detailed insights into the interplay of institutions, personal power networks and ethnicity. Section 5.3 deals with the Satun Town Municipality and 5.4 with the construction industry in Perlis.

5.3 Case 1: institutions and politics within Satun Town Municipality

Institutional relations between the private and public sector in Satun appear to be weak (section 5.1). The only (somewhat mysterious) relation evident is concerned with the exploitation of the tourist attraction Phu Pha Phet Cave in which a tambon government has joined forces with one firm. Nevertheless, one cannot claim that the private sector is not involved in coordination and coordination with the public sector. The previous section has described an interesting connection between leading entrepreneurs and the leadership of Satun Town. In general, municipal politics

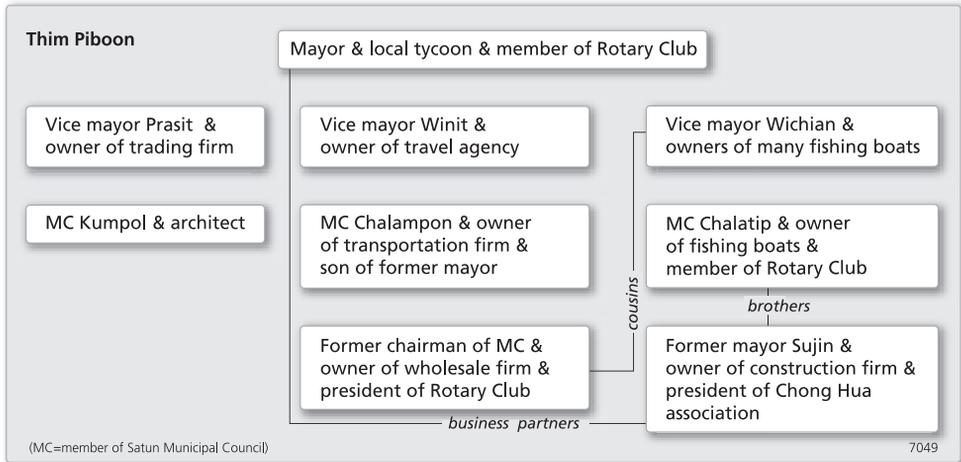


Figure 5.5 Important members of the Thim Piboon (mayor)

in Thailand, in particular in smaller municipalities have not evolved around national political parties. Instead, local elections are contested by *thims* (highly informal political groups). Askew (2006) is one author studied the functioning of two thims during the Hat Yai municipal elections of 2004. Members of the same thim often vote differently for elections in which national political parties are the main contesters. In large cities such as Hat Yai, however, national political parties have begun to influence municipal politics in order to increase their popularity.

In 1988 the mayor was elected by the municipal council (MC) of Satun Town and in turn the MC was for the first time directly elected by the inhabitants in 1990. Between 1990 and 2003 two thims were the main competitors for the MC – one relatively conservative group headed by the ethnic-Chinese businessman Mr. Sujin and one relatively progressive group headed by the businessman Mr. Namchai. Between 1990 and 1995, as well as between 1999 and 2003, *Thim Sujin* had a majority in the MC and Mr. Sujin was the mayor. In 1995, *thim Namchai* succeeded to obtain a majority in the MC and the position of mayor. Unfortunately for him, his group collapsed in 2003 and the opposing group captured all 18 seats in the MC; 2 members being Thai, 4 Muslim and 12 Sino-Thai. At the same time Mr. Sujin passed on the leadership to Mr. Piboon, his vice mayor between 1999 and 2003. Therefore, the group should now be called *thim Piboon*. Most interviewees consider Mr. Sujin as a man who represents the status quo, Mr. Namchai as a man with good ideas but a lack of action and Mr. Piboon as a doer but not a listener.

It is striking just how many local politicians are businessmen. Most of them have a core business combined with investments in shrimp farms and rubber tree plantations. Figure 5.5 shows interesting connections and complements Figure 5.3. In addition, each individual appearing in Figure 5.5 is Sino-Thai and there are strong links with the Rotary Club of Satun Province, whose members are also drawn mainly from the Sino-Thai business community. It is no surprise then that according to one member ‘each member has many hats’ and that Satun Town Municipality and Satun’s Rotary Club have a foreign partner from the same place – Edson Town’s Rotary Club in Canada. The close overlapping of Sino-Thai owned businesses, local politics and the Rotary Club can be found elsewhere as well, for instance in Phuket (Callahan

2002). La-ngu municipality and rural districts of Satun Sino-Thai have much fewer opportunities to win sufficient votes. Another factor is *baramee*. This is a well-known concept in the political culture of Thailand and can be translated with social esteem or prestige. Thim leaders continually seek to increase their baramee (Askew 2006, Nelson 2005). With respect to Satun the baramee of Mr. Chalampton's *trakun* (influential family) is likely to have played an important role in maintaining the support of the voters: Mr. Chalampton because he is a son of an influential and well-known former mayor and this former mayor because he was one of the founders of the ruling thim. In contrast to this achievement Mr. Namchai's baramee dramatically decreased

Box 5.4 Chao phos (provincial godfathers) in Thailand

According to Sombat (2000) Thai people consider a *Chao pho* as someone 'whose influence is recognised not only by his own people, but also by high-ranking government officials. In the eyes of the public a Chao pho is someone who can use his influence to further his interests in complete disregard of the law'. Related are the words *nak leng* and *phu mi itthipon*. The former refers to someone who has informal power over his community, but not over government officials. The latter means *man of influence*, including influence on government officials, and is generally related to a *Chao pho*.

The first generation of regional Chao phos were often Sino-Thai merchants who did not intervene in regional and local politics. They only *bought* protection and licences from government officials to secure their business interests. The second generation decided to become much more involved in local, regional and national politics. This generation started to achieve economic and political successes from the 1960s onwards. In 1991 the Police Department identified a total of no less than 168 Chao phos in Thailand. The most infamous Chao pho has been Mr. Somchai Khunpleum from Chonburi province (east of Bangkok), better known as Kamnan Po (normally a Kamnan is the highest ranking government official of a tambon). Kamnan Po was a very influential businessman with investments in many, mostly illegal industries, and whose influence even extended into national politics. Several Members of Parliament (including two of his sons) were elected as a result of his efforts. He maintained a huge network of assistants and financed election campaigns of politicians who would secure his business interests. Sombat (2000) included the following part of an interview with Kamnan Po:

I have a license for liquor sales in Chonburi province. At the amphoe level I am the sole distributor. At the tambon level, however, I divide it up among my men....As the central leader I never use the money I make for myself. Whatever profit I make, I use to help out those who are in trouble. I myself have many other businesses.'

Patron-client relationships are quite manifest. The Chao pho is generally a real patron surrounded by many clients, who may even be relatives. The power of Chao phos decreased considerably in 2001 when Prime Minister Thaksin Shinawatra appointed relatively many Bangkok based businessmen into his cabinet (Pasuk & Baker 2004) but the military coup of September 19, 2006 subsequently changed the political scene. It remains to be seen whether the new constitution leads to a new kind of Chao pho or to fairer elections and ultimately a more balanced democracy.

when his latex process factory went bankrupt, a fact that Thim Piboon likes to highlight when campaigning.

One individual is absent from the politics of Satun Town – the managing director of Siam Tin Foods, the largest firm in Satun (see Figure 5.3). He stated that he is unwilling to get involved in local politics, as he is too busy with his other investments in Tammalang Port and in Hat Yai, and with his chairmanship of the Songkhla Chapter of the Thai Federation of Industries.¹⁸ It seems that this particular man has transcended the provincial level and become an important businessman of Southern Thailand, and has evidently maintained many links to the seafood industry in Bangkok. This therefore indicates that while Thim Piboon has a regional character, generating *baramee* is not instrumental for successful businesspeople who operate nationwide and even sell products internationally.

Why are the leading entrepreneurs of Satun province heavily involved in the politics of Satun Town? Some might be interested in increasing the welfare and well-being of the citizens of Satun Town, but it is likely that these entrepreneurs are also motivated by opportunities for 'elite capture', in order to secure and expand their economic interests. However, the statutory and discretionary functions of municipalities do not provide many economic opportunities for leading entrepreneurs (UNESCAP unknown). Another possibility for expanding business portfolios is involvement in (semi-) illegal economic activities. Table 3.3 listed the notion of Chao pho (provincial godfathers) and McVey et al. (2000) and Wingfield (2002) present evidence of notorious Chao phos. Nevertheless, most interviewees stated that there are no Chao phos in Satun. Pasuk and Sungsidh (1994) found that they did emerge relatively infrequently in Southern Thailand, but probably more important for Muslim dominated provinces is the fact that Sino-Thai businessmen rarely interact with politicians and that those businessmen face difficulties in getting elected into provincial and national bodies. Figure 5.3 shows that the only possibility to lobby the central government is to ask the help of the mayor, but many interviewees considered it a waste of time as they did not consider the Governor to really represent Satun's population.

The results presented so far reveal that the reason for entering municipal politics as an established informal institution is not principally rent-seeking and elite capture, because there are insufficient incentives to benefit from these practices. As Municipal Councillor one is not able to enrich oneself or to somehow direct public funds into private hands. Rather, it is the only way for leading provincial entrepreneurs to organise themselves beyond associations, to have a certain degree of political influence and to generate *baramee*. *Baramee* is beneficial for doing business in Satun province and local elections, but does not help in establishing economic and political links with actors outside the region. Illustrative of this is the managing director of Siam Tin Foods, who does not feel the need to enter local politics. A major consequence of the Thim Piboon is a reinforcement of the isolated character of the Sino-Thai business network and accordingly, the exclusion of the Islamic majority from entrepreneurial networks. This situation differs markedly from average Thai arrangements in which 'the political power of Thai capitalists frequently places them in the position of patrons within their own patron-client networks' (Khan 1998). Box 5.4 gives an example of one of the most notorious patrons: Kamnan Po from Chonburi province.¹⁹ Finally, the role of kinship ties should not be underestimated. Figure 5.6 indicates that becoming active in Satun Town politics strengthens relations among relatives. After 2003, when Thim Piboon won all the 18 seats, the MC could even be regarded as group of business with many friends and relatives.

5.4 Case 2: institutions and politics within Perlis' construction industry

Political business in Perlis differs greatly from Satun. Section 5.2 revealed that the construction industry is important with respect to institutional relations between the private and public sector. In this section the political and personal dimension of this institution is investigated. Table 5.6 shows that the construction industry was very unstable between 1993 and 2002 in Perlis. In 2000 the Perlis' construction industry was larger than Kedah's, even though Perlis is 12 times smaller in terms of total land area, 8 times in terms of population and 6 times in terms of GRP. Indeed, at the end of the 1990s many new projects were being built. Unfortunately, there are no data available for 1996 or 1997 and the period 2002, but in 2006, as mentioned before, KUKUM university college was planning to build a new campus and a new road project started from Padang Besar through the sugarcane plantation directly to the new highway (Figure 3.3). In sum, it is logical to assume that the public sector was behind a boom at the end of the 1990s. As there are few economic opportunities in manufacturing, authorities such as the SEDC easily look at the construction industry, sometimes without giving serious thought to the use and long term sustainability of the buildings created. In other much larger and more favourably located Malaysian states, public investments are more readily allocated to agriculture and manufacturing. For example, the Pahang SEDC has subsidiaries involved in resource based manufacturing and paper and brick production, and owns a number of palm oil plantations (Pahang SEDC 2007). Nevertheless, one should be cautious with some of the data. For instance, the number of 21697 workers in 2000 in Perlis would mean 10% of the total *population* in Perlis, whereas other statistics indicate that only 11% of the total *labour force* was engaged in construction (DoS various years). The Department of Statistics has therefore either included labour migrants from outside Perlis in their calculations, or the number is overstated. Kedah's modest growth after 2000 could be explained by residential and commercial areas in the new growth centre of Sungai Petani near Penang and Butterworth.

In theory the public sector, by far the largest client for construction firms in Perlis, allocates projects to firms via competitive and open tender processes, managed by the JKR (public works department). In order to support small Bumiputera firms, large firms are not allowed to compete

Table 5.6 The construction industry in Perlis and neighbouring Kedah

	Perlis			Kedah		
	1993	2000	2002	1993	2000	2002
operating firms						
number	54	298	27	236	163	157
% of Malaysian total	0.8	5.9	0.6	3.3	2.7	3.6
labour force						
number	1343	21697	6029	15159	13224	16510
% of Malaysian total	0.3	4.7	1.3	3.4	2.9	3.6
value of assets owned						
RM (1000)	10222	264987	22302	144298	167291	163045
% of Malaysian total	0.2	4.0	0.4	3	2.5	2.7

Sources: DoS various years

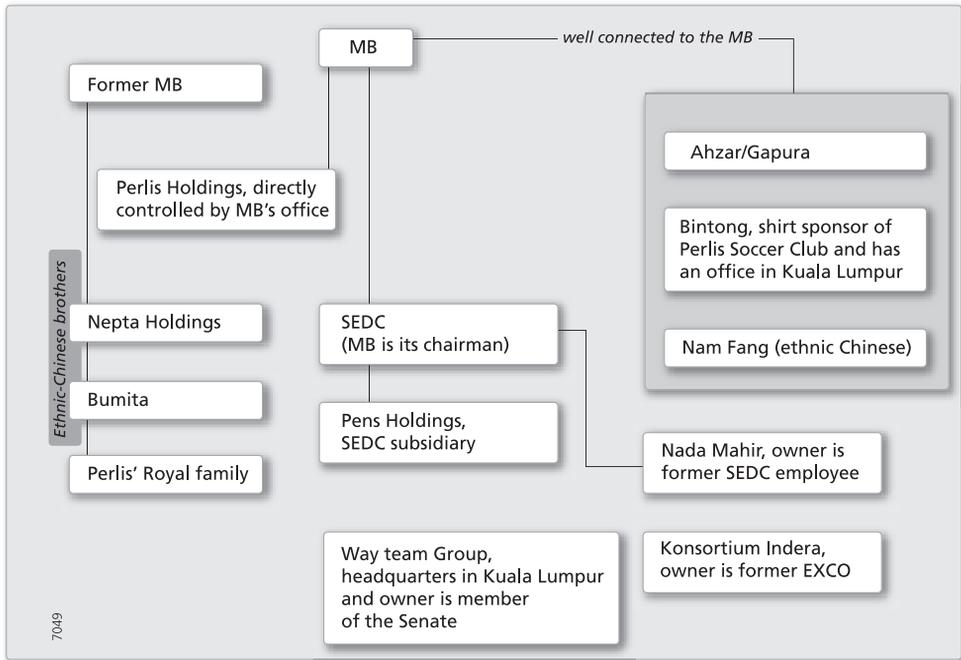


Figure 5.6 'Political business' in the construction industry of Perlis

for small tenders. For this purpose the Malaysian Bumiputera firms are divided into 6 classes: *A* through *F*. Class *A* contractors have a paid-up capital of at least RM 600001, and class *A* tenders are worth at least RM 10 million. Class *F* contractors have a maximum paid-up capital of RM 10000 and are allowed to compete for tenders below 200000 RM. Therefore, growing Bumiputera firms must upgrade their registration with the centre *Pusat Khidmat Kontraktor* (PKK), a part of the Ministry of Entrepreneurship and Cooperative development. In 2004 there were around 10 class *A* contractors in Perlis and around 20 class *B* contractors. The rest of the contractors were smaller. For large projects, contractors from all Malaysian states are allowed to compete for tenders. Nevertheless, the practice of tender processes in Perlis has often been very different from the theory of open competitive tenders. First, some entrepreneurs own firms with different classes which make them very successful in securing a relatively large share of tenders. For example, Ahzar Construction (class *B*) and Gapura Construction (class *A*) have the same owner. Second, several leading firms are wholly or partly owned by the public sector (Table 5.2). Third and most importantly, Figure 5.6 reveals close political relationships of ten large firms operating in the construction industry and relevant peculiarities. It is obvious that the MB occupies an extremely strategic and powerful position within the construction industry. Following on from the discussion in Box 5.4, one could also mention a particular form of rent-seeking; patron-client relationships. The JKR often functions as an instrument for the MB (seen to be the real patron) and often allocates tenders to firms following orders of the MB. The main reason for the MB to be so heavily involved in the construction industry is the opportunity to become wealthy. For many projects financed by the public sector (either the PSG or the Malaysian federal government), the MB is seen to somehow benefit via his clients.

One interviewee in this survey suspected that MB may even have a share in one of the important firms in Perlis. In other industries, these kinds of benefits are much more difficult to come by as the financial involvement of the public sector is limited. Another interviewee stated that four firms in particular have won many tenders; Konsortium Indera, Bintong, Ahzar/Gapura and Nam Fang. Therefore while firm owners in Perlis try to establish lucrative patron-client relationships, it is actually the MB that turns out to be the ultimate patron within virtually all inter-ethnic and public-private networks. Regarding the resource base of patrons Scott (1972) distinguished skills and knowledge, direct control of real property and *indirect office-based property*. Obviously, the MB's resource comprises mainly of indirect office-based property. As the highest political officer within Perlis he is able to allocate and manipulate tenders and engage in rent seeking activities. The major resource base of the clients, in this case contractors and property developers, is economic support. Scott also discussed the durability of patron-client relationships. In Perlis relationships appear to be relatively durable. The current MB has been in office since 1995 and there are few entries and exits within the construction industry. In other industries such patronage arrangements are less attractive in economic and financial terms, because either the public sector is not the main driver or it directly competes with the private sector, preventing the emergence of successful patronage. For instance, in Perlis' tourism

Box 5.5 The Governor versus the Menteri Besar

An analysis of the personal power networks which influence institutional arrangements reveals large differences between the position and opportunities of the two highest political officials in the research area: the Governor of Satun and the Menteri Besar (MB) of Perlis. An important point to note is that the Governor almost always comes from outside the province, appointed by the Minister of Interior, whereas the MB is an inhabitant of Perlis and his party has to be elected into the PSG by the population of Perlis. It can therefore be assumed that the MB is able to capitalise both on his knowledge of the state and his indirect office-based property while he is in office, particularly when he is MB for more than one term. Unfortunately for Satun, the job of Governor is considered as a stepping stone to more important Governor positions of larger Thai provinces. This unfortunate perception leads to a frequent change of the Governor (average of every 2 years instead of 4) and therefore short-term policies, relatively weak personal networks and weak personal links with the province. Moreover, the Governor of Satun is often a non-Muslim. The comparison of Satun and Perlis indicates that a democratically elected regional government does not necessarily imply the emergence of a *clean* government. With Prime Minister Thaksin's power ending abruptly during a military coup in September 2006, it is possible that decentralisation efforts will be resumed and that the PAO will begin to emerge as the most powerful political organisation in the future. This might generate elite capture within the PAO in many provinces, but for the Muslim-dominated provinces in Southern Thailand it might result in somewhat more trust in the Thai political system and less violence in the troubled areas.

industry the PSG competes with private entrepreneurs rather than working with tenders or the arrangements described above.

At the end of section 5.2 three networks were identified. Several firms clearly belong to the traditional network consisting of Bumiputera firms (the clients) and the public sector (the patron), but Nam Fang is an interesting firm as it has ethnic-Chinese owners. How does this firm succeed in getting many projects? In fact, it appears that it often teams up with a Bumiputera firm who acts as the main contractor, whereas Nam Fang is the sub-contractor and is responsible for the actual work. It is a perfect example of an 'Ali Baba' combination. In addition, the owner of Nam Fang has been able to develop a close personal relationship with the former MB (1988-1995) as well as with the current MB (1995-present). Together with its Bumiputera partner Nam Fang is engaged in many projects among others a new bridge crossing the railway in Arau, a part of the new road through the sugarcane plantation and a part of the *Mini Putra Jaya* project, the relocation of the main building of the PSG. The case of Nam Fang demonstrates an overlapping of two networks: one closed network consisting of the public sector and ethnic-Chinese firms and one 'Ali-Baba' network consisting of Bumiputera and ethnic-Chinese firms (Figure 5.4). This last network is moderately open as both groups of firms are able to try to establish business linkages and as one group is not necessarily more powerful than the other. Section 4.4 gave an example of such a network in the freight forwarding business.

Two other remarkable companies with ethnic-Chinese shareholders are Bumita and Nepta. These ethnic-Chinese shareholders are brothers and their father maintained a good relation with the former Raja of Perlis. Hence, the two firms operate in a network consisting of the public sector and ethnic-Chinese firms which is small and closed as a result of the difficulty the latter group faces in initiating connections with powerful, in this case even royal, representatives of the Malaysian public sector. In the core regions of Malaysia, however, such networks appear to be somewhat more open, due to Bumiputera policies that 'caused Chinese business to seek patrons among local and national Malay politicians, bureaucrats and businessmen' (Lim & Stern 2002). The discussion of the construction industry confirms the overall power of the current MB and the symbolic presence of tender processes, in particular with respect to large projects in which class *A* or *B* contractors are involved.

Unfortunately, there is no recently published literature available in English at the state or lower level that offers comparative material. Apparently, Thailand, the Philippines and Indonesia are more open to foreign academics.²⁰ It is therefore no surprise one of the last sensitive publications on the regional level, in this case *kampung* (village) politics, was published in 1986, and reprinted in 1990 and 2004 (Shamsul 1986).²¹ Below is an insightful piece of evidence from this work. Mr. Suhin had been a member of the Selangor State Legislative Assembly between 1959 and 1974, and in 1974 he was asked to step down by the UMNO headquarters. Shamsul (1986, p. 177) wrote the following:

'Suhin had his own reasons for wanting the *Wakil Rakyat* position [Legislative Assembly membership] to remain in his family. Firstly, the introduction of the NEP had increased his political power within the district bureaucracy. Secondly, and as result of having the new power it enabled him not only to decide on the distribution of development benefits within the district, but also to participate in the "business of development". This he did by establishing a private family business, together with rich local Chinese businessmen to build various public buildings,

the tenders of which were awarded to his company by the then district development committee in which he was an active and influential member'

Although Shamsul's observation is very insightful, and offers scope for comparison with present day Perlis, it would also have been interesting to compare personal power networks with more contemporary regional cases in Malaysia. It is possible for example that such networks have changed in regions which have been influenced by the internationalisation of the economy such as Johor Bahru, and those in which manufacturing has become important. Another possibility is that power networks are more complex in other states because they are much larger and because there are more bureaucratic levels of public decision making.

Conclusions

This chapter has explored a number of institutional complementarities in addition to the one identified in the previous chapter. Regarding Satun, strong inter-firm relations and an important role for banks are complemented with weak institutional economic mechanisms between the private and the public sector. Furthermore, the cultivation and persistence of inter-firm relations are dependent on personal power networks within the politics of Satun Town Municipality. These inter-firm relations are structured by ethnicity, and many of the leading entrepreneurs and local politicians are of Sino-IThai ethnicity. The picture in Perlis is very different. Weak inter-firm relations and a relatively unimportant role for banks are compensated by the strong institutional and political presence of the public sector. The PSG and other governmental authorities are very active with respect to economic activities, providing access to finance and political business, in particular within the construction industry. Therefore, this industry appears to exemplify Jayasuriya's (2004 & 2003) notions of an inward looking domestically-oriented economy and domestic coalitions, the 'embedded' part within embedded mercantilism.

There are two remarkable differences between the province of Satun and the state of Perlis. First, the political activities of Sino-IThai entrepreneurs in Satun remain limited to becoming active in local politics and generating *baramee*, because they are generally not elected into national political bodies, as the Islamic majority normally votes for Muslim political candidates. In Perlis owners of important firms, Bumiputera and a few ethnic-Chinese try to establish working patron-client relationships, because it is the only way to win lucrative tenders and survive economically. The MB is found to be the ultimate patron within virtually all inter-ethnic and public-private networks in this region. In chapter 6 it will be investigated how and why the rent seeking behaviour of the MB is financed. Secondly, the leading entrepreneurs in Satun experience difficulties maximising their economic they are generally too small to expand to other provinces. The relatively isolated position of the Sino-IThai prevents the emergence of vigorous rent-seeking. By contrast, leading Bumiputera entrepreneurs in Perlis are able to expand their business ventures through strong networks and by benefiting from Perlis' branch plant economy. Some entrepreneurs have even established offices in Kuala Lumpur for easier access to relevant economic and political networks.

This chapter has furthermore demonstrated that Hall & Soskice's (2001) dichotomy between LMEs and CMEs seems to be too simplistic a concept for developing countries. Considering the dominant role of the public sector Schmidt's (2003) classification including the possibility of *state* capitalism is likely to be more appropriate. Another important issue is the structuring mechanism of (personal) power networks for institutional relations. The presented outcomes reveal that neglecting such networks would greatly limit the reach of institutional economic

analyses at the regional level. As Bardhan (2005 & 2000) among others has proposed, this idea of a fusion of institutional economics and political economy seems to make better sense of the actual political-economic relations we see in these two regions.

Endnotes

- 1 By contrast, inter-firm relations show more similarities with a system of *managed* capitalism. More conclusive comments on classification will be made in chapter 7.
- 2 Interviews with the directors of the two departments.
- 3 In 2003 Satun welcomed 11118 tourists who stayed overnight, of which 21% were foreign tourists. These numbers for Perlis were 77687 and 5% respectively. Unfortunately, the number of visitors (overnight visitors plus excursionists) to Perlis is not known, but a total of 443345 people visited Satun in 2003, of which 13% were foreign visitors.
- 4 In this context 'real' Thai refers to Buddhist people without Chinese and Muslim of Malay descent.
- 5 Note that the preceding overview is concerned with the period before the military coup of September 19, 2006.
- 6 There is no *tessaban nakbon* in Satun (more than 50000 people and more than 3000 people per square km.).
- 7 See also appendix 1 for a fuller elaboration of the research methodology.
- 8 Note that connections which represent 1 monthly meeting are not included in the figures, for the sake of visual clarity. Furthermore, as the average meetings could also be the result of pairs of which one of the nodes answered to maintain zero meetings with the other node, excluding 1monthly meeting leads to somewhat more reliable figures.
- 9 (13 nodes makes $13*12/2=78$ lines).
- 10 The director of the Department of Commerce, for example, felt that it was normal to have many informal meetings 'in such a small province.'
- 11 Its betweenness is 5.9, whereas the second best node is Siam Tin Foods with 2.2.
- 12 7-eleven is an international chain. In Thailand Charoen Pokpand is the franchise holder has the license to run the supermarkets, but in turn this conglomerate is the franchisee to provincial stores.
- 13 Examples of trakun are the Suwannawong family in Songkhla, the Chaisaeng family in Chachoengsao and the Tiyaphairat and the Chongsuthanamani families in Chiang Rai.
- 14 Important Malaysians could be awarded special titles. Men could become, from low to high, Datuk, Datuk Seri, Tan Sri and Tun. Women could become Datin, Puan Sri and Poh Tuan and are given these titles in case their husbands receive a corresponding title.
- 15 The state of Kedah is divided into 11 districts.
- 16 Moreover, this is a good example of a so called Ali Baba combination (see section 4.4).
- 17 Haak & Nordeman suspect that there is also a third somewhat conspiratorial network of tourism entrepreneurs in Pak Bara, perhaps involved in illegal activities, but collecting strong evidence for this network was beyond the scope of their work.
- 18 The Songkhla Chapter is responsible for the provinces Songkhla, Patthalung and Satun.
- 19 In turn, the Thai case is different from the Philippine case in that while 'while post-war Thai business and politics were characterised by 'competitive clientelism' which allowed for economic growth propelled by new market entrants, 'monopoly clientelism' in the Philippines served to consolidate the position of oligarchic families and prevent the emergence of new competition' (Lim & Stern 2002).
- 20 See for insightful studies for example Sidel (1999) and Billig (2003) on Cebu and Negros in the Philippines, Aspinall & Fealey (2003) and Hadiz (2004) on several regions in Indonesia.
- 21 Sidel (1999) also refers to this book in the absence of more recent similar publications.

6 Access to budgets and policies for regional development

Chapters four and five have analysed institutional arrangements at the regional scale level. This chapter deals with the interaction between the national and the regional level and aims to answer the fifth research question as formulated in section 2.6, i.e. 'What institutional arrangements allow both regions to gain access to national/central state resources for regional economic and human development?' Whereas Hall & Soskice's (2001) varieties of capitalism approach is primarily preoccupied with the private sector and entrepreneurship, chapter 2 offered the theoretical insight that (geographical) side payments can also be important for economic and human development in sub-national regions within developing world countries, particularly those which are peripheral and without an influential private sector. Side payments can be described as payments to the relatively weak parts of society in order to increase living standards, but also to legitimise export-oriented industrialisation (Jayasuriya 2004 & 2003). Effective side payments thus ensure the embeddedness of mercantilist policies. In addition, it is necessary to pay attention to both formal and informal arrangements and the ethnic and political dimension of these arrangements (Crook 2003, Melvin 2001, Figure 2.5).

Section 2.1 showed that countries consist of core, semi-peripheral and peripheral regions (Terlouw 2001). Obviously, the latter two try continually to improve their position within the national hierarchy. Thailand is divided into 76 provinces and Malaysia into 13 states. Each region in these two countries strives to attract as much policy and financial assistance as possible from national governmental authorities. The interface between the national and the regional level may well produce conflicts, particularly in that regional actors sometimes disagree with the action of national governments (Flint & Taylor 2007). It is therefore pertinent to find out what enabling or disabling institutions are in place in both Satun and Perlis.

Section 6.1 gives a background of regional development policies in Thailand and Malaysia and their impacts on Satun and Perlis respectively. Section 6.2 investigates formal institutional arrangements which guide the transfer of budgets and implementation of policies. Sections 6.3 and 6.4 reveal to what extent informal institutional arrangements play a role in gaining access to developmental assistance. Obviously, formal and informal arrangements are often connected, but for the sake of theoretical insights and clarity it is useful to initially separate them in empirical analyses.

6.1 An overview of (regional) development policies

The national policy environment in Thailand

This chapter very much relates to the third characteristic of embedded mercantilism which is (*geographical*) *side payments*; a concept introduced in section 2.4. Pempel (1998) and Jayasuriya (2004 & 2003) assert that side payments have been necessary to maintain compliance and stability.¹ The analysis below starts with the national policy environment in Thailand. The focus

is on regional development plans, but general plans are also considered where they have relevant geographical consequences for the research regions.

Although side payments have not been the most important part of the Thai embedded mercantilism, at least until the Asian financial crisis, Thailand has witnessed a tradition of (regional) development plans, especially since 1977. These plans are part of the *National Economic and Social Development Plans* (NESDPs), prepared by the National Economic and Social Development Board (NESDB) based in Bangkok. Since the 1980s three planning phases can be identified. Prime Minister Prem Tinsulanonda (Table 3.3) made the NESDB a central planning agency, whereas he more or less sidelined line ministries (Krongkaew 1999). The period between 1988 and 2001 could be characterised as a period of instability. The power of line ministries was dependent on the political background of its ministers and the NESDB was no longer supported by a powerful prime minister. It can be argued that Prime Minister Thaksin virtually disregarded the entire 9th Plan. According to Pasuk & Baker (2004) he started to implement his own economic and social policies in 2001 and sidelined the NESDB. 'Thus the 9th NESDP (2002-2006) has become redundant. In addition to national plans Thailand has been involved in international development plans that are not necessarily well integrated with the NESDPs. The most comprehensive is a plan for the Greater Mekong Subregion (GMS). The GMS is made up of Vietnam, Lao PDR, Cambodia, Thailand, Myanmar, and the Chinese province of Yunnan and aims to develop and integrate the entire area with a wide range of projects. Another international plan is the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) (Thant & Tang 1996).³ Regarding the border area Malaysia/Thailand 'there are currently 11 mechanisms/committees established bilaterally or multilaterally' (JDS 2004).

What have been the major features of the implementation of the NESDPs? Influenced by international trends, the 4th and 5th NESDP (1977-1986) stressed the need for policies creating regional growth poles (Kaothien & Webster 1998, Suksawat & Poon 2007). It was widely believed that economic growth in regional growth poles would lead to trickle down effects to rural communities. However, at the end of the 5th NESDP it had become clear that this strategy did not yield the desired results, and led in turn to the formulation of a very growth oriented and urban focused 6th NESDP. Therefore, regional development policies in this sixth plan did not result in intentional side payment to weaker parts of the society. Attention to regional disparities returned with the 7th NESDP (1992-1996). The focus, then, had been on deconcentration of national economic development, bottom-up approaches and a shift from growth-oriented to people-centred development, complemented with decentralisation of regional economic policy-making since the 8th Plan (1997-2001) (Kaothien & Webster 1998).⁴ Indeed regional development policies in the 8th Plan focused on the empowerment of community-based organisations, local learning networks and the role of Non Governmental Organisations (NGOs). Currently, two policies touch on the issue of regional development.⁵ The first issue is the transfer of huge payments to the poor.⁶ As the majority of poor people in Thailand live in rural and peripheral areas, notably in North-eastern Thailand, these policies have affected regional development patterns. Farmers in the Northeast have benefited from various pro-poor policies. The second issue is a cluster policy. Each province has been geographically clustered with other provinces and each cluster has been instructed to design and implement their own development strategy. The fact that the Ministry of Interior monitors this programme illustrates the current weakness of the NESDB.

Policies affecting Satun

As a province without a large city Satun has not benefited from the growth pole strategy, as designed in the 4th and 5th NESDP. During the 7th NESDP the Board of Investments designated Satun as investment promotion zone 3, meaning that firms are offered relatively many incentives.⁷ Moreover, Satun was included in a group of 22 provinces with extra privileges among the 56 zone three provinces (BOI 2005a). It is clear that Satun was considered as such to be a real peripheral and lagging region, but in so far the zone 3 designation is concerned, there has not been a substantial increase in the number of firms as a result. An example of the tendency to decentralise was a publication in 2002 by the NESDB office for Southern Thailand titled 'A strategy for the economic development in Southern Thailand,' based on the IMT-GT framework: promoting economic development by integrating Northern Sumatra, Northern Malaysia and Southern Thailand (Thant & Tang 1996). However, the most important IMT-GT plan is the stimulation of the urban corridor Songkhla-Hat Yai-Penang-Medan, paying less attention to the rural regions.⁸ The only major role for Satun in the NESDB plan is the inclusion in the marine eco-tourism zone of Southern Thailand.

Overall, it is clear that the province has been at best marginally affected by the regional economic plans. Nevertheless, this is not to say that the NESDPs have not been important for Satun. In fact, three national parks have hitherto been established in the province a result of the environmental chapters in the NESDPs. The largest park is Tarutao national park, consisting of Tarutao Island and 50 other small islands. As the effectiveness of the IMT-GT has declined considerably after the Asian financial crisis due to various problems such as the economic and political crisis in Indonesia and the unrest in Southern Thailand (see also the next section), the promotion of economic development at the Thai-Malaysian border has been the focus of reinvigoration efforts with the establishment of Thai-Malaysian Committee on Joint Development Strategy (JDS) for border areas in April 2004. For Satun in particular, important projects have included a regular ferry between Tammalang and Kuala Perlis, the upgrading of the road linking Khuon Don and Beseri in Perlis coupled with a Sunday border market (already operating, Figure 3.3).

The cluster policy seems to be the most important strategy at the moment, and Satun and Songkhla provinces now form one cluster.⁹ The overall developmental vision for the cluster is the following *shopping list*: 'World's rubber hub, two sea ports, southern provinces of commerce, tourism, and education' (Songkhla province 2005). Nevertheless, based on its peripheral character it is unlikely that the province will achieve a more central position within the Thai space economy. In the long term a Pak Bara deep sea port could improve the status of Satun, but it still highly uncertain whether this port will be built.¹⁰

The national policy environment in Malaysia

Compared with Thailand, (regional) development plans as side payments to weaker parts of the society are a much more widespread phenomena in Malaysia. There are three explanations for this difference. First, extensive planning and implementation function as legitimisation of the Bumiputera policies. It is assumed that effective planning outcomes maintain the goodwill of all ethnic groups. It is therefore logical that the most important planning agency, the Economic Planning Unit (EPU) forms a part of the Prime Minister's department. Second, Malaysia enjoyed political stability during Mahathir's period (1981 – 2003). Third, the country has been lucky as it has had the continuous availability of resources to finance the implementation of policies.

Oil (petroleum) royalties for the Malaysian government hovered at around 9% of total federal government revenues between 1990 and 2005 (EPU various years), whereas this percentage in Thailand was only 1.0% in 2000 and 1.4% in 2005 (Bureau of the Budget various years). The EPU in Putrajaya is continually engaged in formulating a wide range of plans. The broadest plans are the *Outline Perspective Plans* (OPPs), followed by detailed five-year *Malaysia Plans*. With respect to regional development these Plans are quite complex because each thematic chapter includes ideas for specific regions. Hence, spatial policies consist of truly regional policies coupled with pieces of thematic policies. In turn the state of implementation and effects of the Malaysia Plans are monitored by the *Mid-Term Reviews* (MTRs). Another feature of the OPPs and Malaysia Plans has been the integration with other policies such as the Industrial Master Plans (IMP) and international policies such as IMT-GT.

As in Thailand, active regional planning started with the growth pole strategy. The 1st OPP (1970-1990), the period of the *New Economic Policy* and incorporating the 2nd through the 5th Malaysia Plans stressed the need to stimulate both urban and rural growth centres in peripheral areas. The rural growth centres were often completely new small towns. According to (Aslam & Hassan 2003) the growth pole strategy was complemented by three other strategies, the first of which being the development of new agricultural land by the purposely created Federal Land Development Authority (FELDA). FELDA has actively set up new areas for all kinds of agricultural activities. Second, the dispersal of industrial sectors has been a major part of the development policies, especially after the publication of the First IMP 1986-1995 (Jomo, 2003). Another policy tool is the Incentive Investment Act. Since 1986 firms are attracted to invest in the states of Sabah and Sarawak and the designated Eastern Corridor¹¹ with generous incentives (MIDA 2005). Third, by implementing Integrated Agricultural Development Projects (IADPs), the Malaysian government has tried to offer comprehensive development projects to support the rural population. In the 2nd OPP (1991-2000), also called the *New Development Policy* and incorporating the 6th and 7th Malaysia Plans, the focus had somewhat shifted from distributional to growth-oriented policies (Jomo 2003).¹² Therefore the relevance of the growth pole strategy gradually declined and the stimulation of manufacturing in the less developed states became more important in comparison with agriculture. The Second IMP reinforced the focus on manufacturing.

The most important characteristic of the 3rd OPP, particularly stressed in the 9th Plan, is the focus on a knowledge based economy. Even rural areas are included in the strategies that aim to create knowledge intensive activities, e.g. enlarging human capital, technological capabilities, biotechnology and the use of information technology. However, there remain options for more traditional spatial policies like promoting rural growth centres, resource based manufacturing and craft industries and providing more infrastructure and social amenities. Bumiputera policies which began in the 1970s have remained in place until the present day (see also section 3.2) and have been beneficial for rural areas where the majority of the population is Malay. In August 2006, the Third IMP (2006-2020) was released. This plan has three broad aims: new development initiatives, promotion of growth areas and enhancing the enabling environment. Chapter 21 of this plan is entirely devoted to making Malaysia a global *Halal* hub, i.e. the production and trade in Halal goods and services (MITI 2007). With respect to implementation MITI refers to the 9th Plan in which it is stated that Northern peninsular Malaysia should lead the development of the Hub (*ibid.*).

Policies affecting Perlis

Perlis is far more influenced by (regional) development policies than Satun. Regional policies during the period of the 1st OPP have resulted in three features. In general, it is interesting to see that the various development phases in Perlis correspond nicely with Massey's (1984) concept of layers of investment in time (Box 2.1). Indeed, travelling through Perlis one is able to identify various layers in the economic landscape. Examples include the following.

1. An agricultural layer. In 1971 FELDA started a joint sugarcane plantation and refinery project with Perlis Plantations Bhd. Nowadays around 400 settler families stay at the FELDA area. The total sugarcane area comprises about one-ninth of the total land area (see Figure 3.3).
2. A manufacturing layer. Since 1975 Perlis is home to the large partly state owned cement factory (CIMA). Moreover, in the 1980s foreign firms came to Perlis, because of investment incentives (until 1986), proximity to natural resources (latex from the rubber trees) and low wages.
3. A mixed layer reflected in the MUDA Agricultural Development Authority (MADA) scheme. It has been an irrigation scheme in the southern part of the state. This scheme comprises 80000 hectares in Kedah, 16000 hectares in Perlis and involves hundreds of rice farmers.

In the 1990s the benefits for Perlis from regional development policies gradually declined, but at the start of the 3rd OPP the federal government agreed to financially support a new four-pillar development strategy for Perlis. These four pillars were agriculture, manufacturing, knowledge and education, and tourism. Most striking is the third pillar, which indicates an intention to become a *negeri ilmu* (a knowledge state). This is consistent with the 3rd OPP regarding knowledge based industries as formulated in the 8th Malaysia Plan and the 2nd IMP, but it remains somewhat strange that Perlis, in the far north, was the recipient of an educational layer of investment. In 2004 Perlis was already home to no less than 11 colleges. On the one hand the education strategy might be effective for the promotion of higher education in Malaysia, but on the other hand Balasubramaniam (2006) states that there has been an enormous increase of relatively expensive private universities. As these private universities are very attractive to relatively rich and bright students, it is questionable whether the public colleges in Perlis, which cater predominantly to Bumiputera students, will make Perlis a real and successful knowledge state. Perlis also enjoyed massive infrastructural investments, especially the new highway between Kuala Perlis and Changlun. Similar to Satun, the state is part of the JDS area. Projects with impacts for Perlis are the same as the aforementioned projects for Satun, complemented with the expansion of traffic facilities and establishment of a Sunday border market at the Padang Besar border crossing (Figure 3.3). The newest strategy for Perlis, outlined in the 9th Malaysia Plan and the Third IMP, is to make the state a Halal hub. A first step of this Halal layer of investment is a RM 10 million Halal park currently being built near Padang Besar.

Policies for the two tourism industries

Similar to the previous chapter, this section presents some comparative insights from one specific industry – in fact the tourism industry, as investigated by Haak & Nordeman (2007). These authors paid attention to various policy related topics, some of which are concerned with direct governmental involvement, some of which with indirect involvement, most notably human resource development for the tourism industry. Major policy documents that they studied are the

Table 6.1 Budgets for the Malaysian tourism industry (RM million), current prices

plan	allocation	expenditure
6th, 91-95	746.3	559.0
7th, 96-00	605.5	484.2
8th, 01-05	1009.0	783.6
9th, 06-10	1847.9	?

Source: EPU various years

7th and 8th Malaysia Plans, the 8th and 9th NESDP and a document called Tourism Policy of Thailand (TPT 2003).

For Thailand, the most important issue mentioned in the three plans is to become a central tourism hub within Southeast Asia. In order to achieve this target, the instrument employed is ‘cooperating with neighbouring countries’. However, the TPT 2003 also mentioned that Thailand should create ‘a different picture than that of the surrounding countries’. It is surprising that the instrument applied here is rather vague and intangible. Other targets are to bring in local communities and firms to operate in the tourism industry, increase promotional activities and political decentralisation. But these targets do not have any associated instruments, and therefore it remains unclear how targets should be achieved. In terms of human resources, policy makers outline their intention to introduce international standards for personnel, skills and services, but it is not clear what these standards exactly are and how the targets can be reached.¹³ Admittedly, it is possible that the documents in the Thai language are somewhat more specific. The policy environment in Satun province can also be said to be quite ‘blurred’. The Ministry of Tourism and Sports has an office with six employees in Satun, but in practice the Tourism Authority of Thailand (TAT) office in Hat Yai is the main policy developer. Furthermore, the allocation of budgets depends on cooperation between the CEO-Governor, the TAT, the Satun Tourism Association and other governmental authorities. As discussed in section 5.2 the tourism association functions as a vehicle for the interests of some powerful entrepreneurs rather than the tourism industry at large. The overall result appears to be a lack of implementation of policies, although Haak & Nordeman detected the setting up of thematic festivals to attract tourists and some actions to improve statistical data gathering. Instead, it is the private sector that usually takes initiatives within the tourism industry.

The situation in Malaysia is remarkably different. Policies are more continuous, better structured and more often implemented. In addition, Table 6.1 shows that the formulation of policies is accompanied with definite financial allocations and expenditures, something virtually absent in Thailand. This can be seen in the matching of policies and implementation during the 7th Malaysia Plan period. The target was to improve accessibility to Malaysia and within the country. Several clear instruments to achieve that target were formulated, like the completion of Kuala Lumpur International Airport, the North-South expressway and the improvement of the rail connection with Thailand and Singapore. Malaysia has also introduced the National Occupational Skills Standards (NOSS). These NOSS are connected to the National Tourism Human Resource Development Council (NTHRDC) and the National Vocational Training Council (NVTC), both responsible for the development and implementation of NOSS. MARA and the National Productivity Corporation (NPC) are identified in the plan as responsible for

Table 6.2 Perceptions of regional economic problems

Satun		Perlis	
most important	second problem	most important	second problem
<i>perception of the private sector</i>			
infrastructure	opportunities	land availability	opportunities
government	'closed province'	opportunities	government
resources	resources		population
<i>perception of the regional press</i>			
tourism	education	untapped potential	land
	government	government	population

the training of personnel. Specific information about training, goals, and so on, can be found at these organisations. Within Perlis the State Tourism Action Council (STAC, employing not less than 12 civil servants), a branch of the federal council, cooperates with the Perlis State Government (PSG) to implement federal guidelines and themes. As mentioned in section 5.1 and 5.2, the SEDC is heavily involved in tourism industry as well.

A comparison of the two industries shows that strong dirigiste national institutional arrangements (Table 2.4) are beneficial for the structuring and financing of development policies. On a more negative note, implementation is sometimes quite slow. Table 6.1 shows that implementation does not necessarily follow implementation in the same year and that private sector initiatives are frequently hampered. The outcome in Perlis is a public sector led tourism industry in which tourist facilities often do not match the demands and preferences of the visitors who come to Perlis. In other words, national institutional arrangements can often lead to a neglect of comparative advantages at the regional level.

Perceived regional problems

Before investigating access to national assistance for regional development it is important to briefly address the opinion of non-government related actors in Satun and Perlis. What do they think about economic problems, and do their opinions match the policies? The firm survey and interviews with the regional press leads to Table 6.2. The regional press in Satun think that there is a lack of tourism development in the province compared with other Southern Thai provinces. They complain not only about the limited facilities in Satun, but also about few tourist arrivals as a result of the ongoing ethnic-religious problems in the Muslim dominated provinces of Pattani, Yala and Narathiwat (see for example McCargo 2007 and Andriessse 2006) for an overview of these problems). As the majority in Satun is Muslim as well, tourists tend to avoid this province. Tourism fits nicely with the cluster policy for Satun and Songkhla, which among others focuses on the promotion of eco-tourism, and the issues identified in the previous section. Owners of firms perceive accessibility (infrastructure and 'closed province') and a lack of resources as main obstacles for development. From neighbouring provinces it is indeed relatively time consuming to reach Satun Town and La-ngu Town, but the attention for resources is somewhat surprising. There are few natural resources in the area, but it is likely that large firms from outside Satun would benefit most if they were present. An issue that both the private sector and regional press

mentioned is bad governmental policies. These opinions give further credence to the fact that the overall framework for regional development policy in Thailand is weak.

The perception of the private sector and the regional press in Perlis does not fit quite so neatly with the actual policies being carried out there. The former group complains about the lack of economic opportunities locally, and the latter about a lack of untapped economic potential. In this respect the private sector does not consider the industrialisation efforts of the 1980s and recently the negeri ilmu strategy as sufficient, whereas the regional press thinks that Perlis itself still has considerable potential, in particular regarding innovative, modern agro-businesses and certain areas of manufacturing. One interviewee stated that Perlis should try to benefit more from its location near Thailand by producing and exporting high-end products from the agro-industry and manufacturing in which Malaysia has a comparative advantage over Thailand. A topic that the private sector and the press agree on is a lack of land suitable for development but they do not mention anything related to the peripheral position of Perlis. Rather, Perlis is perceived to be located not too far from important cities.

To conclude this section, regional development policies form a much more important part of side payments in Malaysia than in Thailand. An essential advantage for Malaysia has been oil (petroleum) revenues to finance policies.¹⁴ Nevertheless, in the case of Perlis, the implementation of policies does not always seem to be effective, and does not match the perceptions of entrepreneurs and the regional press. Policies fit better with perceptions in Satun, but there is a serious lack of factual implementation, leading to a somewhat chaotic private sector led industry.

6.2 Formal access to development assistance

Regional development policies can only be implemented if there are sufficient institutions that enable financing and implementation. In addition, as mentioned in section 2.3, enabling institutions should be enforceable. Legal action, or in the case of informal institutions trust, should ensure the intended outcomes of institutions when actors or organisations are not initially willing to work towards them of their own accord. Financing and implementation could be arranged by a wide variety of public organisations. They could be arranged nationwide or on a regionally specific basis, structurally or occasionally. This section investigates patterns of Perlis' and Satun's formal access to budgets and policies. Unfortunately, the comparative analysis is hindered by a limited availability of data for Satun. Therefore, the analysis starts with a relatively comprehensive investigation of Perlis.

Side payments to Perlis

As Malaysia is a federation the organisation of side payments to states has had two channels. On the one hand funds are transferred to the state governments. During the preparation period of each Malaysian Plan the state governments have to send a financial proposal for developmental projects to EPU in Putrajaya. The EPU writes the Malaysian Plans and ultimately approves or rejects the proposals. For smaller projects, state governments are allowed to send proposals several months before the end of the fiscal year, running from January 1 until December 31. On the other hand development funds are transferred to federal offices in each state.¹⁵ These transfers occur within single specific agencies.

Table 6.3 Ranking of federal development allocation per capita for selected states*

Plan	Period	Perlis	Kedah	Selangor	Penang	Sarawak	Kelantan
3rd	1976-80	10a	10b	12	8	4	5
4th	1981-85	7	6	5	13	10	3
5th	1986-90	4	8	7	12	9	3
6th	1991-95	2	5a	3	9	5b	7
7th	1996-00	1	6	12	8	4	13
8th	2001-05	1	5	13	6	3	11
9th	2006-10	1	9	12	10	5	8

*ranking based on calculations excluding Federal Territories

Sources: Jomo & Wee 2003 and own calculations based on various sources

Since the beginning of the NEP federal development funds to all states have increased dramatically, except in the early 1990s, during the 6th Malaysia Plan, when growth oriented policies led to a decline of side payments intended for distribution of welfare. In the 3rd Malaysia Plan (1976-1980) the allocation for Perlis was RM 156 million, in the 6th Plan (1991-1995) RM 505 million and RM 2201 million in the 9th Plan for the period 2006-2010 (all current prices). According to Jomo & Wee (2003), 'the smaller states of Melaka, Pulau Pinang and Perlis have been allocated the most development funds in relation to area.' Indeed, the federal expenditure for Perlis during the 8th Plan was 1.1% of the total development budget, but Perlis occupies merely 0.2% of the total land area. Moreover, only 0.9% of the total Malaysian population lives in Perlis and 0.7% of the total GDP is generated in Perlis. It is also noteworthy that the actual expenditure during the 6th, 7th and 8th Malaysian Plan was higher than the initial allocation at the beginning of each plan. This indicates that regional developments policies for Perlis are actually financed and implemented.

Another interesting indicator is the development allocation per capita. Table 6.3 shows that Perlis has ranked very favourably since the beginning of the 7th Malaysia Plan. It is obvious that Penang and Selangor as relatively rich states have not received as high per capita allocations. The relatively high investment in Selangor during the 6th Plan probably reflects a shift from distributional towards growth- oriented policies. Furthermore, it is noteworthy that several relatively rich states received more developmental assistance per capita than some relatively poor states throughout many Malaysia Plans. The generous funds for Perlis financed the policy outcomes as mentioned above of which industrialisation in the 1980s, new highways, schools and colleges and new residential areas were the most expensive. The total cost of the university college KUKUM was RM 800 million, while RM 400 million was spent on the highway between Changlun and Kuala Perlis. The construction of a new highway between Padang Besar and Changlun started in 2006 and a Halal Hub is envisaged. Finally, occasional expenses are often paid by the federal government as well, such as RM 16 million to farmers affected by the floods of December 2005 and RM 25 million for the painting of bridges over a highway.

The main task here is to find an explanation for the preferential treatment of Perlis. Why has the federal government transferred so much money to the region? One explanation is the bad financial position of the PSG. According to several interviewees, the PSG finds it difficult to pay its own civil servants without the help of the federal government. Malaysian states often rely

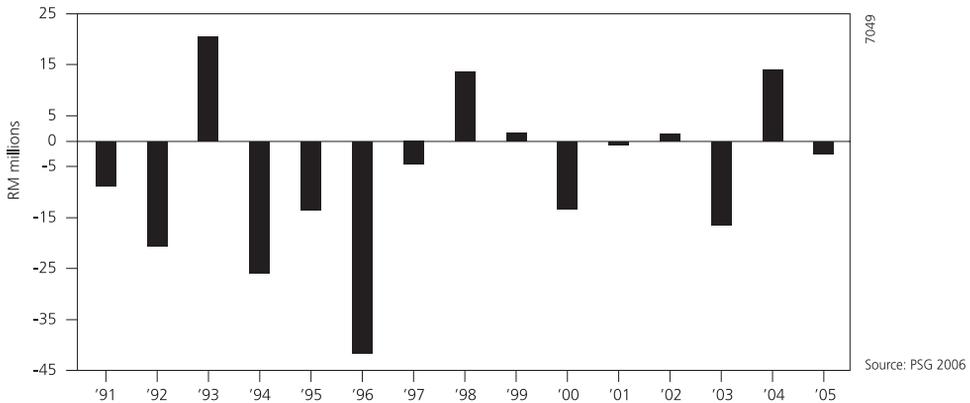


Figure 6.1 Revenues minus expenditures of PSG (RM millions)

on natural resources for their revenue. Perlis as a small state has few natural resources and, from the perspective of the private sector in particular, limited land availability (Table 6.1). The land problem is further discussed in section 6.3.

Box 6.1 The new highway between Padang Besar and Changlun

In the 8th Malaysian Plan several new roads were proposed, one of which being a 39km. highway between Padang Besar and Changlun (See Figure 1.1). The execution of this project appears to have experienced some delay, because construction began in 2006. In fact, it was initially proposed that the main Malaysian North-South highway would end in Padang Besar, but as a result of political issues the highway now ends at the border in Bukit Kayu Itam, between Changlun and Sadao in Southern Thailand. The new highway is likely to have a minor impact for passenger transport, but should facilitate cargo transport in particular coming from or going to the train station and logistics center at Padang Besar. However, as mentioned in box 5.3 it remains to be seen to what extent Padang Besar can develop into a successful logistics center without double tracking the railway in the short term. Therefore it will not be a surprise if the new highway is as underutilised as the oversized highway between Kuala Perlis and Sintok. As a result of Prime Minister Abdullah Badawi’s policy, large construction projects are increasingly being tendered in phases in order to benefit more contractors. The new highway is being constructed by three contractors: one from outside Perlis and two from Perlis. One Perlis contractor is a subsidiary of the Bumiputera partner of Nam Fang (see Figure 5.6) and the other Perlis’ contractor is believed to have a link with Nam Fang as well. Note that Nam Fang is well connected to the Menteri Besar. So Badawi’s policy seems not to function perfectly in this case. Overall, the construction of the new highway is a good example of how the economic elite at the state level captures side payments from the federal level.

Figure 6.1 shows that revenues, including grants from the federal level, were smaller than expenditures in most years between 1991 and 2005. For the fiscal year 2006 a large budget deficit is expected (The Star 2005) and in general, federal grants make up around 50% of total revenues. Besides low revenues it is also questionable if all expenditures are necessary and effective. For example, section 5.1 described some of the business ventures that the PSG is involved with, that have limited chances to make profits.

To compensate for large expenditures state governments are allowed to borrow money from the federal government. Most of the loans have a rather soft character. Borrowing has led to large level of liabilities compared with assets and moreover a growing difference between assets and liabilities after 2002, which can be seen in Figure 6.2. Figure 6.3 further confirms the poor financial situation of Perlis. The large ratios for Sarawak could be explained by huge areas of state-owned land in that particular state. Sarawak and Penang have more assets than liabilities (ratios of more than 1), while it is surprising that Kedah, a state with more opportunities for the governmental authorities than Perlis, performs worse than Perlis. Furthermore, Perlis appears to

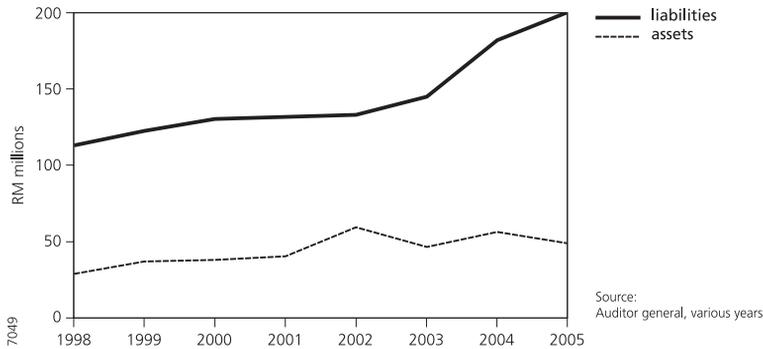


Figure 6.2 Development of assets and liabilities of PSG (RM millions)

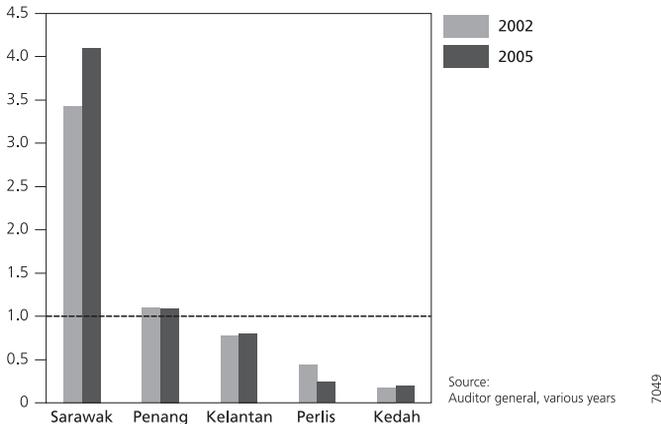


Figure 6.3 Assets divided by liabilities for selected state governments

be the only state with a serious deteriorating trend in public spending deficits (from 0.44 in 2002 to 0.24 in 2005).

The analysis of the finances of the PSG reveals two features. First, the relatively large level of funds from the federal government to Perlis, thus grants and soft loans, seems to be a necessary condition for any developmental progress. As many interviewees have argued, ‘not many things would happen in the state without help from the federal level’. This is a clear example of a region that is very dependent on national institutional arrangements and it nicely illustrates Flint & Taylor’s (2007) point of the ambiguity of regional governments. On the one hand the PSG is part of the Malaysian bureaucracy, on the other hand it aims to receive as much developmental assistance as possible from the federal government. Second, sending financial proposals to the federal level have been a highly successful strategy for Perlis thus far, and the federal government has not shown much concern for Perlis’ poor track record regarding balancing payments. It is as if federal civil servants have a genuine commitment to develop Perlis’ economy. The next section investigates to what extent informal factors play a role in securing national budgets and beneficial policy outcomes.

Side payments to Satun

In contrast to Malaysia the NESDPs of Thailand do not contain such a detailed financial component. As discussed in the previous section, the Thai Plans can be seen as presentations of economic and social ideas rather than as effective planning documents. Moreover, ruling political parties have often had policy interests that differ substantially from the Thai Plans. Therefore access to national budgets and policies is achieved in a much less structured manner than in Malaysia. Each year regional and local governments send their financial proposals to national authorities several months before the beginning of the new fiscal year (running from October 1 through September 30). Before 1997 line ministries were relatively powerful, and between 1997 and 2003 *amphoes* and *tambons* were given more control and responsibilities over their budgets as a result of decentralisation efforts, but since 2003 the Ministry of Interior and the appointed CEO-Governor has become more influential and the expense of the control exerted by line ministries (Pasuk & Baker 2004). The CEO governor’s budget proposals sent to the Bureau of the Budget are currently the most influential documents, but in this respect Krongkaew (1999) and Mutebi (2004) mentioned the heterogeneity of Thai civil servants. There have many different interests, bureaucratic conflicts and much inter-ministerial competition. In addition, regional

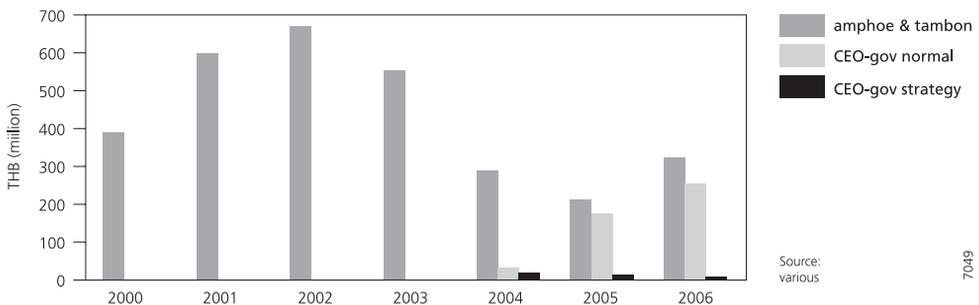


Figure 6.4 Funds for Satun province (THB millions)

and local governments can apply for funds throughout the year for special projects below the threshold of THB 50 million, under which they are permitted to manage projects. National authorities always manage projects above THB 50 million directly from Bangkok. Unfortunately, detailed and reliable data is hard to find at sub-national levels. There are three reasons for this lack of data.

- Different organisations are responsible for the transfer of funds (line ministries, the department of provincial (changwat) administration, the department of local (amphoe and tambon) administration, the bureau of the budget and the comptroller general), which creates an unclear situation and sometimes considerable overlap. It is therefore difficult to calculate the total amount of funds that each province receives annually.
- The institutional relationship between the central and local governments changes frequently due to the political situation. Interests of politicians are generally more important than planning documents (Pasuk & Baker 2004). This affects methods of data management as well.
- It seems that the national government is just beginning to develop reliable and detailed time series regarding financial flows to sub-national governments, led by the Bureau of the Budget, one of the divisions of the Prime Minister's Office.

Therefore, data concerning development funds, revenues and expenditures and assets and liabilities are difficult to analyse. Information about Satun was gathered relatively more through interviews.

In Figure 6.4 an attempt is made to present the total budget for Satun. Unfortunately, data from before 2000 are not available. The figure should be interpreted with some caution because of the reasons mentioned above and because it is not clear whether budgets are included for the Provincial Administrative Organisation (PAO, *o-bo-jor* in Thai). The impact of Prime Minister's Thaksin's CEO-Governor policy is very clear. Since 2004 Satun's Governor has increased its budgetary power. The *normal* budget is usually aligned with provincial offices of the line ministries, but the CEO-Governor can freely decide how to spend the *strategy* budget. The budgets for Satun have resulted in investment in projects concerning infrastructure, facilitation of eco-tourism, rubber tree planting and the fisheries industry. At the end of the 1990s a new four lane road between Hat Yai and Satun Town dramatically improved the accessibility of Satun Province and in 2006 a project was initiated to upgrade the road between Satun Town and La-ngu. However, as can be seen in Table 6.2, the private sector is not yet content with the situation. Indeed, it remains true that the road to Satun Town has a dead end ('closed province'). It has no connection to Malaysia. Another plan is an eastern bypass at Satun Town to ease the traffic flow through the town centre. The southern part was completed in 2005 for THB 5.78 million, but the northern part cannot be built, as several interviewees estimated that the Ministry of Natural Resources and Environment controls between 30% and 40% of the total land area in the Province of Satun, including the necessary land for the northern part of the eastern bypass. A solution to this problem has not yet been found, not even at the level of the CEO-governor. According to the private sector survey respondents, tourism development near Pak Bara, on Tarutao Island has also been hindered by the actions of the Ministry of Natural Resources and Environment. Nevertheless, if projects are implemented they often are too large for the relatively small contractors from Satun. For example, the contractor for the sports complex comes from Phuket. A long term comparison similar to Table 6.3 is not possible, but Figure 6.5 in which the seven most Southern Thai provinces are compared suggests that Satun and Yala have

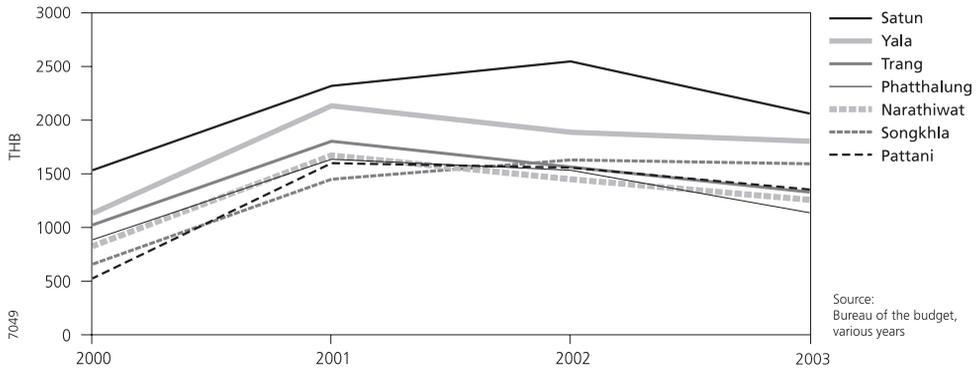


Figure 6.5 Budget per capita for 7 Southern Thai provinces (THB)

a considerably favourable position.¹⁶ One plausible explanation for this is that Satun is in the process of catching up with the construction of basic services that other provinces in Southern Thailand already have.

A major difference with Malaysia is that regional and local authorities in Thailand are not allowed to borrow money from the central government. Therefore, their spending power is quite limited and assets are always much higher than liabilities. In Satun, public assets were at least four times higher than public liabilities between the fiscal years 2003-2005 and in the neighbouring province of Trang at least three times higher.¹⁷ In addition, provincial offices of the line ministries are financially controlled by the headquarters. Revenues of provincial offices are not spent in the same province, but are transferred to Bangkok. Thus provinces do not have autonomous budgetary powers. Because the situation for Satun is not clear it is difficult to precisely calculate which region, Satun or Perlis, is more successful in obtaining finance and beneficial policies. The analysis presented above suggests that the formal Malaysian arrangements are more beneficial for Perlis than the Thai arrangements for Satun. The following comparison gives a similar indication. If one compares the total federal development expenditure in Perlis of the 8th Malaysia Plan with the data in Figure 6.4, taking into account that the price level is roughly two times higher in Perlis¹⁸, the annual allocation for Perlis was RM 1713 per capita between 2001 and 2005, whereas the allocation for Satun was not more than RM 459 per capita. The allocation per capita for Perlis was therefore 3.7 times higher. However, this comparison is neither totally reliable, nor does the discussed analysis provide satisfactory explanations of the reasons behind the patterns of access. In the next section it is investigated to what extent patterns of informal access generate better answers.

6.3 The influence of informal arrangements on side payments to Perlis

How and to what extent have informal arrangements, influenced by (personal) power networks, had an impact on access to national budgets and policies? How are formal arrangements reconfigured, bypassed or even neglected? What organisations and individuals play crucial roles with respect to informal arrangements? Those are the main questions considered in this section and the next. In section 2.4 Pempel was mentioned as the author who introduced the

concept of embedded mercantilism. He showed that in the case of Japan side payments can be personally motivated, i.e. that 'conservative politicians used the public works budget and various regional development schemes to transfer huge sums to their home districts' (Pempel 1998 p.62). Obviously, personal motivations are also related to distributive conflicts that could lead to disabling institutional arrangements (section 2.3). With respect to decentralisation Bardhan (2002, p.?) asserts that 'any discussion of delivery of public services has to grapple with issues of capture of governments at different tiers by elite groups more seriously than is the custom in the decentralisation literature.' Section 5.2 mentioned *elite capture* as one form of rent-seeking behaviour. This section and the next will address this issue in order to identify the extent to which political and economic elites take advantage of arrangements in the sphere of access to national budgets and policies. Elite capture refers to 'the appropriation of a particular portion of available resources (from example from international donor agencies) by local elites and let the poor people have the leftovers only' (Khan 1998). According to Bardhan 2005 (p. 96) 'the capture problem of local democracies can have severe implications in areas with marked social and economic inequalities. In many situations decentralisation may leave the poor grievously exposed to the mercies of the local overlords and their malfeasance.' Crook (2003) further noted that elite capture in Africa 'has been facilitated by the desire of ruling elites to create and sustain power bases in the countryside.'

Similarly, politicians in Thailand and Malaysia might have specific political and economic outcomes in mind and favour their home regions. Like the previous section, the analysis starts with Perlis. As mentioned before, relatively large proportions of money are transferred annually from the federal level to the PSG. On the one hand a very difficult financial position of the PSG makes this transfer a necessary condition for any public investments in Perlis, but on the other hand the extensive public investments, in particular in education and infrastructure, seem to exceed normal requirements. Does this excessiveness have anything to do with informal arrangements?

Civil servants working at both the PSG and federal offices in Perlis, where they prepare proposals annually and for each Malaysian Plan, were asked about the role of personal contacts in Putrajaya, the city between Kuala Lumpur and the international airport where the federal government has most of its offices. The majority of the interviewees from the public sector regarded personal relationships with civil servants in Putrajaya as an opportunity for beneficial outcomes of development policies and expenditures. However, they went on to say that the allocation process of the Malaysian Plans as outlined in the previous section is quite structured and formal, which limits the scope of influence of personal relationships. The role of civil servants should therefore not be overstated.

Compared with civil servants Perlis' Members of the *Dewan Rakyat* (MDRs, House of Representatives) in Putrajaya are more powerful. MDRs are elected for a period of five years. The Dewan Rakyat has 219 members, of which three are from constituencies in Perlis – Padang Besar, Kangar and Arau. Currently all Perlis MDRs are UMNO members and two are very powerful as they are appointed as a federal Ministers.¹⁹ Datuk Azmi bin Khalid, Padang Besar constituency, is currently Minister of Natural Resources and Environment, though originally he was a businessman who worked amongst other places at the CIMA cement factory in Perlis. Datuk Mohd Radzi Sheikh Ahmad, Kangar constituency, is Minister of Home Affairs and a real career politician. In addition he is secretary general of UMNO, son of the first *Menteri Besar* (MB) of Perlis and close to *Perdana Menteri* Abdullah Badawi. The third MDR, Arau

constituency, is Datuk Seri Syed Razlan Putra Syed Jamalullail. He is a special case because he is the brother of the *Raja* (Sultan) of Perlis. Each MDR has formal access to funds to be spent in their constituencies, but this institution has a very informal character, because the MDRs decide how to spend it. For example, Datuk Seri Razlan has invested in sophisticated agricultural experiments and projects. Overall, it seems that the MDRs are not interested in engaging in forms of elite capture as their political activities transcend the limited boundaries of Perlis, and as they face little competition during elections. For instance, as a member of the royal population Datuk Seri Razlan is held in high esteem by the population. Thirty years ago Ong (1976) already concluded that regional development initiatives, especially in rural areas, were likely not to be dependent on MDRs. As long as the UMNO remains virtually uncontested in Perlis for Dewan Rakyat elections, this situation will persist.

How does the Perlis MB fit into this pattern, and does he have access to the two federal ministers who are originally from Perlis? In sections 5.2 and 5.3 the powerful position of the MB within Perlis' politics and economy was revealed. He is a *patron* and owners of Bumiputera firms and has a number of ethnic-Chinese firms among his *clients*. The clients need him in order to obtain sufficient orders from the public sector and to win as many tenders as possible. The current MB has been able to sustain his role as a patron by securing side payments from from 'Putrajaya' to Perlis. In addition, he has *captured* a part of these payments to increase his popularity. A good example is the construction of a new community college in his home kampung (Tambun Tulang). Therefore, the more federal side payments targeted at Perlis, the more profit the MB can make by securing rents of the construction contracts through his connections. Indeed, it is said that the current MB has become wealthy through such arrangements.

Power networks appear to be an important structuring mechanism for access to national budgets and policies in two ways. First, the MB's relation with the Perdana Menteri is pivotal. Between 1986 and 1995, Tan Sri Dr. Abdul Hamid bin Pawanteh was the MB and Datuk Seri Shahidan Kassim assumed this position in 1995. The latter had had a good relationship with former Perdana Menteri Dr. Mahathir. According to insiders, this had greatly facilitated extensive capturing and circulation of public funds through the Perlis' economy, as described in greater detail in sections 5.2 and 5.4. In 2003, when Mr. Abdullah Badawi became Perdana Menteri, things changed considerably, because the current MB's relation with Mr. Abdullah is not as good. In fact, Mr. Abdullah was reportedly minded to replace Dato Seri Shahidan as the Perlis UMNO leader just before for the State Assembly elections in 2004, but there were no alternatives available and the current MB is considered to be a successful lobbyist. Another problem for Dato Seri Shahidan is the three MDRs of Perlis. As he does not have particularly good personal relations with them either he cannot cooperate with them in order to secure federal side payments and influence economic policies. One of the MDRs even agreed with the regional press coverage concerning 'bad' economic policy in Perlis and the opinion that there is significant untapped economic potential in the region (Table 6.2). The appointment of two MDRs as federal ministers has further weakened the MB's influence in Putrajaya.

Tan Sri Dr. Abdul Hamid was active in various private businesses between 1995 and 2003 after which he was appointed by the King as president of the *Dewan Negara* (Senate) in Putrajaya.²⁰ During his position as MB Tan Sri Dr. Abdul Hamid was much less involved in elite capture and other forms of rent-seeking. In fact, he formulated some of the policies for which his successor claimed credit. He is well respected, because he initiated the development of basic services and infrastructure for many remote *kampung*s (villages) in Perlis such as paved

roads and electricity. Although he secured fewer federal funds than his successor, he is currently influential for some leading entrepreneurs in Perlis, both Bumiputera and ethnic-Chinese. One insider put it this way, 'our Tan Sri is able to open doors [for business].' It is indeed logical that the job of president of the Dewan Negara generates influence and respect all over Malaysia.²¹

The second way in which networks of power are influential is the geopolitics of Bumiputera policies for the *heartland* states. The Malay heartland refers to states in which Bumiputeras account for greater than average share of the population. Therefore, these states function as the power base for the political party United Malays National Organisation (UMNO). According to Gomez (1994, p. 280) 'UMNO's vast patronage machinery has been pivotal in enabling the party to win and maintain the electoral support of rural Malays, its primary power base'. A major contender for leadership is the opposition party Parti Islam Semalaysia (PAS), which was able to obtain considerable influence in parts of the heartland, especially Kelantan and Terengganu. Terengganu was punished by the *capturing* of its government (to follow Jomo & Wee (2003) terminology), by forcing the transfer of oil revenues to the federal budget. Perdana Menteri Dr. Mahathir then allocated funds, initially intended for Kelantan, to other states including Perlis

Box 6.2 Changing factions within UMNO

The personal relations between UMNO politicians be it between federal and state politicians or among state politicians, could have been the result of power struggles at the Federal UMNO level. This box highlights three struggles. In 1987 the election for the UMNO presidency was a very dramatic event. There were two factions, at that time called *Team A* and *Team B*, the former headed by Dr. Mahathir and the latter by Tengku Razaleigh. *Team A* won the election, after which Tengku Razaleigh decided to start a new party (which lasted less than ten years). At that time Dr. Abdul Hamid and Mr. Shahidan supported *Team A*, whereas the current Perdana Menteri Abdullah Badawi and current federal ministers from Perlis Mr. Radzi and Mr. Azmi supported *Team B*. According to one insider from Perlis it is therefore no surprise that the Perdana Menteri appointed Mr. Radzi and Mr. Azmi as federal ministers and that his relation with the Menteri Besar is not particularly strong. On the other hand, the political conflicts between Dr. Mahathir and Mr. Anwar Ibrahim at the end of the 1990s more or less overruled the events of 1987. Mr. Abdullah Badawi decided not to follow Tengku Razaleigh after his defeat in 1987 and was appointed by Dr. Mahathir at increasingly important posts culminating in the job of Deputy Perdana Menteri. Mr. Anwar Ibrahim was sacked as Deputy Perdana Menteri in 1998 and was even jailed in 1999, accused of corruption and sodomy, whereas he belonged to *Team A* in 1987. In autumn 2003 Mr. Abdullah succeeded Dr. Mahathir as Perdana Menteri (*cf.* Nathan 1988, Crouch 1996 and Singh 1998 for comprehensive accounts of tensions within UMNO). Recently, however, Dr. Mahathir has become one of the most aggressive critics of the Pak Lah (as Mr. Abdullah is often called) government. Malaysiakini (2007) describes the conflicts as 'the gloves are off and the fight is on between two political titans'. It remains to be seen whether this fight within UMNO will lead to a destabilisation of UMNO, new factions and whether it will effect on political and affairs at the Perlis state level.

as a punishment for the support to PAS. That is the reason why Kelantan's ranking collapse dramatically in Table 6.3. Thus it can be concluded that the PSG had been lucky that Dr. Mahathir somewhat overruled the Malaysian Plans in order to punish pro PAS states.

The outcomes of informal institutional processes and arrangements suggest that the economic strategies for Perlis are often used as an excuse to pour huge federal funds into the state, which are ultimately circulated through various industries such as tourism, construction and education. Therefore, it can be concluded that network formation and patron client relationships within Perlis, as presented in section 5.4 (particularly Figure 5.6) is financed through a political (and personal) tie directly from the Perdana Menteri to the MB. A logical question that emerges is the issue of opportunity costs. For example, the interviewees never mentioned programmes to support the so-called 'hardcore' poor people, whereas the incidence of hardcore poverty in Perlis, 1.7%, is higher than the average for peninsular Malaysia, 0.7% (EPU 2006). Where the poor are targeted, business interests often seem to reap the largest benefits. For example, a 14 storey flat has recently been built in Kangar for poor people, but they instead prefer to reside in kampungs

There are two other relevant issues to be discussed. The first is the role of the Royal family. Between 2001 and 2006 the Raja of Perlis had also been the Malaysian King.²² Formally, the royal family has no influence on economic matters, but behind the scenes they are sometimes able to influence outcomes. Consider the case of KUKUM, as previously discussed. The 7th Malaysia Plan (1996-2000) and the Second IMP (1996-2005) identified the need for more technical higher education. It was clear that one of the technical university colleges would be set up in Northern Malaysia. This college was established with enormous support of Universiti Sains Malaysia (USM) in Penang. The Chancellor of USM happens to be the wife of the Raja, so it is not a surprise that KUKUM came to Perlis and that the present Chancellor of KUKUM is the son of the Raja, Mr. Syed Faizuddin Putra Jamalullail.

The second issue is land problems. The private sector in Perlis perceives land availability as a major economic problem (Table 6.2). Indeed, five actors are responsible for a highly fragmented ownership structure. Perlis is a very small state, but a sizeable 11% of the total available land is leased out to the sugarcane plantation and refinery PPB Group until 2061. Furthermore in terms of regulation, the area along the border with Satun is a national park (see also Figure 3.3), and there are also special regulations for the MADA rice scheme in the southern part of the state. In addition, the state is affected by a continuation of federal regulations concerning the so-called Malay Reserved Land (MRL), and as such 90% of the land in Perlis suitable for non agricultural development is classified as MRL, but Malay owners often do not develop their land and are also reluctant to sell it. The lack of land which is legally and economically suitable for developmental projects leads to personal power plays. Two examples are the proposed site for a KUKUM campus and a piece of land centrally located in Kangar. An ethnic-Chinese entrepreneur wanted to buy this piece in order to build a hotel, but the PSG disagreed and has successfully blocked the purchase. What is more, federal agencies are not able to intervene as land is constitutionally a responsibility for state governments (see the table in appendix 5). In the KUKUM case federal funds are used for the continuation of elite capture rather than effective policy implementation.

Overall, the analysis reveals that the position of MB is a very strategic one, because he/she is the most important person to lobby for side payments. In fact he links the federal government with the regional patron-client relationships. In this respect the MB acts as a representative of the Perlis' population, and not as a part of the Malaysian bureaucracy (Flint & Taylor 2007). Perlis as a very small state is currently heavily overrepresented in the federal cabinet with two

ministers. In theory this could lead to an increase of positive developmental effects for Perlis and easy access to the Cabinet for the MB. It is therefore unfortunate for the MB that he does not maintain a warm relationship with the cabinet. In addition, as mentioned in section 5.3, his relationship with the respected and influential Tan Sri Dr. Abdul Hamid isn't very warm either. Therefore, since 2003 the economy of Perlis has not been able to benefit much from, as one interviewee called it, 'a golden age of politicians from Perlis'. Indeed, informal arrangements were more enabling between 1995 and 2003, the period when *both* Dr. Mahathir and Mr. Shahidan Kassim were in power. Obviously, a beneficial circumstance was the emergence of PAS in Kelantan leading to additional side payments for other parts of the Malay heartland. Nevertheless, such arrangements simultaneously have a disabling character, because the MB can capture them easily to enrich himself or to please his clients. This disabling character forms a plausible explanation for the dissatisfaction of the regional press and to a lesser extent the private sector with the policies implemented (Table 6.2).

6.4 The influence of informal arrangements on side payments to Satun

As discussed in section 6.2 it was difficult to investigate formal arrangements with respect to side payments for Satun and to judge whether these arrangements are in fact successful, due to overlap, frequent political and administrative changes and inadequate data. But what can informal arrangements reveal? Just as in Perlis, civil servants in Satun were asked about their personal relationships with civil servants in Bangkok. The interviews indicate that close personal relationships with civil servants in Bangkok ease and speed up the transfer of funds. Civil servants in Satun often know several colleagues in Bangkok as many civil servants, even at the amphoe level, are appointed by central governmental authorities. Many therefore come to work in various different provinces during their careers, but maintain close contacts with Bangkok. A main difference with Perlis is the absence of structured and well planned national developments plans. This absence appears to have greatly enhanced opportunities for informal personal networking.

For several decades until the end of the 1990s Thai local governments 'faced a multiplicity of problems: inadequacy of revenue, low popular support and participation, internal conflicts within the bureaucracy, poor cooperation with external agencies, weak and inadequate authority to perform functions, and unsuitability of administrative structures' (Mutebi 2004). The new 1997 constitution attempted to enhance the capacities of local and regional authorities, but Prime Minister (PM) Dr. Thaksin Shinawatra resolutely shelved this constitution and instead implemented the CEO-Governor policy. According to civil servants in Satun this has made *personal* networks relatively more important for the Governor. After all, he has controlled the majority of budgets coming from Bangkok since 2003. Membership of one of the ruling political parties is also an important factor. For example, in November 2004 the Ministry of Interior appointed a Governor linked to the ruling party, *Thai Rak Thai* (TRT, or 'Thais love Thais'). Several interviewees were quite optimistic, as they anticipated that the decision would result in more development funds for Satun. Other interviewees, however, consider the current CEO-Governor as '*a slave of Thaksin*' with a minimal interest in developing the province, who is concerned primarily with personal advancement and promotion to more sizable provinces. The

fact that most Governors of Satun are not Muslim is in itself significant, as it has clearly created a psychological distance to the majority of the population.

But perhaps the most important structuring mechanism regarding Satun's access to national budgets and policies is an *absence* of personal networks between Members of Parliament (MPs) and provincial businesspeople. MPs in Satun are nearly always drawn from the majority Muslim population in the state, whereas the business community mainly consists of Sino-Thai entrepreneurs. As explained in section 5.3 (particularly Figures 5.3 and 5.5), this community operates within a highly isolated network made up of bilateral ties, business and social associations and the municipality. Compared with more 'average' Thai provinces there seems to be a distinct *lack* of informal institutional arrangements in Satun. Although *Chao phos* (Box 5.4) have undoubtedly succeeded in obtaining successful outcomes for themselves, their elite capturing behaviour has also had beneficial outcomes for their home provinces. Hewison & Maniemai (2000), for example, report the benefits for Khon Kaen province in Northeast Thailand attributable to the Sino-Thai businessman and Chao pho Mr. Charoen Phattanadamrongchit. This particular individual also had extensive political power, especially behind the scenes:

'He is courted by political parties and candidates, and tends to support these on the basis of his assessment of the individuals involved and his own interest, rather than a particular party of ideological position.'

It is exactly such whealing and dealing that Satun has missed (the negative aspects of self enrichment notwithstanding). Hence, the entrepreneurial Sino-Thai network in Satun is neither effectively linked to opportunities of elite capture by MPs, nor by the CEO-Governor. There appears to be no fusion of economic and political power and instead this isolated network survives by taking advantage of Ricardian comparative advantages (Ricardo 1817), maintaining strong *guanxi* institutions (section 4.4) and exploiting employees, who are partly labour migrants from Myanmar. What's more, entrepreneurs who outgrow Satun Province operate at the national level and tend to remain disconnected from the inward-looking network and the MPs. The Managing Director and major shareholder of the large Siam Tin Foods is the prime example of this. He prefers to be active within the Thai Federation of Industries rather than Satun Town Municipality or the Rotary Club. The ultimate outcomes are a lack of representation of Satun's private sector in Bangkok, insufficient commitments to increase living standards and a divergence of corporate and worker well-being as suggested by Ettliger (1999).

Satun's MPs represent the Islamic majority, but are generally only able to do so on a small scale. The Thai Parliament consists of 500 MPs; 400 elected from constituencies, 100 from party lists. On February 6 2005, TRT obtained 375 seats, and the Democrats (*Prachatiapat*) only 96 seats. Smaller parties obtained the remaining 30 seats, and the Democrats won both seats for Satun in February 2005. The two constituencies in the province are Satun Town and La-ngu which together cover the entire province. Before the elections the Democrats also controlled the two constituencies. Mr. Thanin Jaisamut was MP for Satun Town between 1992 and 2005, and subsequently served as MP for La-ngu in 2005. However, only nine months into his service he was 'red-carded' by the Election Commission on charges of electoral fraud (Bangkok Post 2005), leading to a by-election and a renewed victory for the Democrats. In Satun Town Mr. Asi Mahamatyungkee was elected as MP in 2005.²³ He was born in the province of Narathiwat, but moved to Satun 20 years ago to escape ethnic religious tensions. It appears that TRT had tried to *buy* votes during the 2005 elections in Satun. Mr. Newin Chidchob, TRT deputy-

Box 6.3 Pak Bara deep sea port: the interplay of formal and informal access

For decades Thai central authorities have thought about competing with Singapore's port by constructing a canal at a narrow area of the Peninsula, for example the Isthmus of Kra near Ranong. In recent years, as a result of PM Thaksin's desire to launch several 'mega projects', the idea of bypassing Singapore has received a revival. In 2005 a feasibility study was conducted to identify possible projects, leading to the Pak Bara deep sea port to be connected with Songkhla port by a new railway (see Map 1). The port should be able to handle 700000 twenty feet equivalent unit's (TEUs) annually and the costs are estimated at THB 4.8 billion. On the one hand formal arrangements might lead to the actual implementation of the project. Studies are required in addition to the environmental impact assessment already carried out, the project must be approved by Parliament and the Ministry of Transport, and the Bureau of the Budget must deal with budgetary issues. On the other hand, informal arrangements are likely to play a more influential role. Leading entrepreneurs in Satun and several provincial authorities are lobbying to fast-track implementation, but some citizens of Pak Bara and La-ngu worry about the negative impact of the port for tourism and the environment. MP Mr. Asi even considers the port as merely a project to benefit a minority financially (similar to many construction projects in Perlis). According to some interviewees another factor was that PM Thaksin prioritised other mega projects in Northern and North-eastern Thailand to please his electorate. In short, the Pak Bara deep sea port is a good example of the interplay of formal and informal access to a final policy decision and, in this case, TB 4.8 billion. Nevertheless, the military coup of September 19 2006 has changed the entire political situation. It remains to be seen if the deep sea port will ever in fact be realised.

Minister of Agriculture and campaign leader for the provinces of Satun and Phatthalung, was accused of offering THB 100000 to each tambon if TRT would win the election. According to one interviewee, the Newin case was 'talk of the town' in the province. Moreover, the CEO-Governors of these provinces were perhaps involved in this practise of money politics as well (Nation 2005a&b).

Besides the disconnectedness of entrepreneurs with MPs inter-party politics has also hampered central support to Satun. The Democrats have been popular in many Southern Thai provinces including Satun since its founding in 1946 (Pasuk & Baker 2005, Askew 2006). This has caused difficulties when they belong to the opposition in Bangkok. Each MP is allowed to spend THB 5 million annually for developmental work in their constituencies, but according to one MP it indeed makes a difference what political party one belongs to: 'Implementation of our projects in constituencies is much easier if one is a MP for TRT', said one. Conversely, Satun's MPs have an easier time when the Democrats are in power, such as between November 1992 and July 1995 and between November 1997 and January 2001. For example, Mr. Thanin Jaisamut was able to secure funds for infrastructural projects and undertook some successful lobbying on proposals for the Pak Bara deep sea port. Compared with the Perlis case, such periods of overlapping political interests remain very short. In addition, the comparison with Perlis is

striking as 3 Perlis' MDRs clearly have more influence in the Dewan Rakyat of 219 members than 2 MPs representing Satun in the Thai Parliament of 500 members.

It is striking that PM Thaksin Shinawatra was directly involved in party-politics in many provinces during the campaign for the February 2005 elections. He visited provinces to promise more funds after the elections once TRT won the local elections. Thaksin was very popular in Northern and North-eastern Thailand, but he also wanted to win votes in the southern provinces. On August 26 2004 he visited Satun for a couple of hours. The CEO-Governor offered him a paper, entitled '*Welcome Prime Minister Dr. Thaksin Shinawatra,*' containing an overview of Satun's development, '*five requested projects to the Prime Minister*' and '*projects to be pushed forward by the central government.*' The total costs of the five projects requested were estimated at THB 357.2 million and include the completion of the eastern bypass road and a sports complex. The bypass do this day has not been completed because the proposed route runs through protected land, though construction of the sports complex began in 2006. Therefore just as in Perlis, land matters also impinge on economic development initiatives. The projects to be pushed forward mainly relate to the Pak Bara deep sea port (Box 6.3).

Finally, there are two other issues to consider. The first is prevailing national attitudes towards the so-called 'troubled south'. When Bangkokians think about Southern Thailand, they quickly have in mind the provinces of Pattani, Yala and Narathiwat in which more than 3000 people have been killed since the beginning of 2001. Consequently, Songkhla and Satun province have received a lack of attention from policy makers (Nation 2007b). Second, besides the Parliament there is also a Senate in Bangkok. The Senate consists of 200 members not permitted to be part of any political party, thus theoretically eliminating the influence of party politics. Nevertheless, during the Senate election of April 2006, the media accused several candidates of being somehow linked to political parties (The Nation 2006). The province of Satun is only represented by one member; between April 2006 and September 2006 the teacher Mr. Suriya Panchor. In general most interviewees regard Satun's Senator as unimportant for access to development budgets and beneficial policies.

Overall, one must conclude that Satun has generally not been successful in accessing national budgets and beneficial policy outcomes between 2001 and the military coup of September 19 2006, having more successful in the 1990s when the Democrats were in power twice. The results of the investigation discussed above suggests that a considerable share of developmental funds are tapped into via informal arrangements, rather than structured allocation procedures and expenditures that are recorded by the Bureau of the Budgets (on which Figures 6.4 and 6.5 are based). The two main reasons are a lack of ties between entrepreneurs and politicians and inter-party politics. TRT has been a party of the Northern and North-eastern Thailand and the Democrats of Southern Thailand. Northeast Thailand has become especially important during elections as it hosts several provinces with a large of number potential voters such as Nakhon Ratchasima, Ubon Ratchathani, Khon Kaen and Udon Thani.

Conclusions

Section 2.5 identified the need to study the sphere of access to national budgets and policies, to identify potential domestic coalitions and side payments, and to explore the possibility that the private sector is not the main driver of regional economic activity (Jayasuriya 2004 & 2003). The outcomes of this chapter clearly confirm that this sphere forms an important part of the two regional varieties of capitalism. In addition, this chapter again demonstrates the relevance of

the structuring mechanism of personal power networks. Consider the issues of elite capture by the Perlis' MB and the absence of a network that connects the economic with the political elite in Satun. It is also important to acknowledge that it is often the interplay between formal and informal institutions that determines outcomes for economic activity.

The Malaysian state variety of embedded mercantilism appears to result in (regional) development policies, formulated in the five year Malaysia Plans that are more often than not effectively implemented. Malaysian policies legitimise the state variety of embedded mercantilism and are therefore, relatively structured, detailed and integrated with other policy themes such as agricultural, industrial, social and international policies. As a consequence, policies and side payments have a strong impact on actual regional economic outcomes. Informal institutions enable the MB to engage in elite capture, but only within the limits of the Malaysia Plan, prepared by the EPU. One insider from Perlis neatly summarised these arrangements in saying 'we have laws, but within the interpretation of the laws, inter-personal relations are important.' One could argue that in Thailand such laws are completely neglected or bypassed and instead (a lack of) informal institutions have a direct effect on outcomes. Plans are merely a by-product of the Thai managed variety of embedded mercantilism and are not necessarily always implemented. In sum, domestic coalitions have been more important than side payments.

Although inter-party politics is certainly present Satun does not form a strategic province within the national geopolitics of side payments. It is then safe to argue that Satun has experienced a double 'periphery trap'. Geographically, the province is far from Metropolitan Bangkok and politically it is squeezed between peripheral provinces with more potential voters, particularly in Northeast Thailand and the troubled provinces of Pattani, Yala and Narathiwat that receive much attention from policy makers and the national press. Another major cause of this marginalisation is the inability of leading entrepreneurs to lobby central government, because they are not connected to the Members of Parliament who represent the Islamic Majority. These findings again run somewhat against the tentative expectations as formulated in section 3.4, i.e. the private sector is actually more important than expected (Chapter 4), whereas side payments contribute less than was anticipated at the outset of this study.

The political economy of side payments is markedly different in Perlis. Here, intra-UMNO personal networks play a crucial role. The good relation between Perdana Menteri Dr. Mahathir and the current MB has resulted in the approval of proposals to be incorporated into the Malaysia Plans, whereas the bad relation between the MB and the MDRs limits effective cooperation and coordination. Politically speaking Perlis does not belong to the periphery. Perlis, as part of the Malay heartland is strategically important for the leading UMNO party. UMNO politicians need the Perlis voters and are thus willing to transfer a great deal of federal funds to this tiny state. Therefore, Perlis' voters have a certain degree of bargaining power. It is obvious that they are dependent on the federal government in terms of economic opportunities, but in terms of political arrangements they exert a degree of influence.

Endnotes

- 1 According to the World Bank (2005b, p. 204) 'chronic regional underperformance can give rise to many concerns and threaten national unity, lost economic potential, unfairness in regional opportunities, potential instability, loss of social cohesion and adverse social consequences, including higher crime and disease.'
- 2 The populist policies of Thaksin were termed Taksinomics (Pasuk & Baker 2004, p. 99).

3 This plan also aims to integrate the Malaysia/Thailand border region together with Northern Sumatra in
Indonesia. Both the GMS and IMT-GT are financially supported by the Asian Development Bank.

4 Deconcentration refers to the spread of economic development from the core area to the periphery;
decentralisation refers to the spread of economic policy-making from the core area to the periphery.
Decentralisation efforts were based on the new 1997 constitution, aimed at securing a more democratic
political system, at the national as well as different regional levels (Wingfield 2002).

5 Note that the discussion here does not deal with the post-coup 2006 period.

6 For example affordable health care (THB 30 for basic hospital consultations), a fund of THB 1 million for
each village, the financing of the One Tambon (district), One Product (OTOP) programme (Pasuk & Baker
2004) and the distribution of cows to poor farmers (Bangkok Post 2005).

7 Zone one comprises the Bangkok Metropolitan Region, zone three comprise the poorest and most peripheral
provinces.

8 In 2007 the ADB published a new IMT-GT road map. The fact that the core areas of Selangor, Negeri
Sembilan and Melaka have been included in the triangle, suggest that the original triangle offered insufficient
opportunities for economic integration.

9 Other clusters in Southern Thailand are Yala-Pattani-Narathiwat and Trang-Phatthalung-Nakon si
Thammarat.

10 Obviously, such a port could seriously damage the natural environment in amphoe La-ngu.

11 The states of Kelantan, Terangganu, Pahang and Southeast Johor.

12 In 1991 Prime Minister Mahathir announced Vision 2020: a growth-oriented vision to become a fully
developed country by 2020.

13 Illustrative of this is that one policy is concerned with the minor issue of standardisation of toilets at tourist
sites.

14 Recently, Malaysia announced an agreement to build an oil pipeline from Kedah to Kelantan which would
bypass the dangerous Malacca Straits due to piracy and robbery and the important port of Singapore (BBC
2007). Note that Thailand also aspires to compete more directly with Singapore (see box 6.3).

15 See Appendix 5 for the responsibilities of the federal and state governments.

16 With respect to Satun's budget, Figure 6.4 and 6.5 use the same data. 2004 and 2005 are not included in
Figure 6.5, because the CEO-Governor budgets for other provinces were not compiled.

17 Based on interview with a civil servant of the Bureau of the Budget in Bangkok.

18 Based on experiences of the author during the two fieldwork periods.

19 110 members in the Dewan Rakyat come from UMNO. The ruling coalition of UMNO, MCA and MIC,
generally called the Barisan Nasional, occupies 199 seats.

20 There are 70 Members in the Dewan Negara of which 44 Members are appointed by the King on the advice
of the Perdana Menteri and 26 by a SLA. The Senators from Perlis are all UMNO members.

21 Two other Senators from Perlis are the brother of the current MB and Mr. Wan Nordin. The interests of
the former are obviously closely aligned with those of the MB, but it is not known to what extent Mr. Wan
Nordin has helped the current MB.

22 The King of Malaysia rotates among Rajas and Sultans of the states. Between December 2001 and December
2006 Malaysia had Tuanku Syed Sirajuddin Ibni Al-Marhum Tuanku Syed Putra Jamalullail as king.

23 As a result of a political crisis (see also section 3.2) a new election was held on April 2 2006, but this was
boycotted by the Democrats. In 38 constituencies including Satun Town, a second round was necessary as the
winner of 2 April failed to get 20% of all the votes. After the coup of September 19 2006 the Parliament and
Senate were forced to cease functioning.

7 Institutional complementarities and regional economic activity

In the chapters 4, 5 and 6 four institutional spheres of Satun's and Perlis' variety of capitalism were analysed and discussed: inter-firm relations, access to private finance, the relation between the private and the public sector and access to national budgets and policies for regional development. The findings were obtained by gathering primary data from two firm surveys, social network surveys, semi-structured and open interviews with a variety of organisations and relevant individuals. However, these three chapters have a highly explorative character and do not pay much attention to explanations for the empirical findings. The aim of this chapter is to identify whether specific institutions are enabling or disabling for the regional economy, to provide explanations and to integrate the regional with the national level. This chapter is structured around two main themes: First, the impact of national institutions on the empirical findings of the previous three chapters is investigated. This impact addresses research question 6 as presented and justified in section 2.6: How can the institutional arrangements found in chapters 4, 5 and 6 be explained: to what extent does the national institutional setting influence them and to what extent are they unique for Satun and Perlis? Section 7.1 deals with the Thai institutional framework and Satun, and 7.2 with the Malaysian framework and Perlis. Second, an analysis is carried out of the impact of the two capitalist systems on patterns of regional development. This issue addresses research question 7: To what extent and how do the institutional arrangements found in chapters 4,5 and 6 affect the economic and human development performance of the two regions? Section 7.3 will investigate enabling and disabling institutional complementarities.

Table 7.1 National institutional complementarities

	Thailand's Managed variety	Malaysia's State variety
Inter-firm relations	competitive plus...cooperative, mutually reinforcing and networked based	state led and state mediated in the domestic economy
Access to private finance	major role for banks and kinship	major role for state
Relation between private and public sector	public sector as facilitator & bystander, money politics	public sector is interventionist & director, Bumiputera policies
Access to national budgets and policies	relatively unimportant aspect of side payments unstructured and unstable money politics	relatively important aspect of side payments structured and detailed five year plans

Based on sections 3.2 and 6.1

Before starting with the first part it is worthwhile to briefly recall the national institutional complementarities. Section 2.4 has outlined the theoretical foundations of these complementarities and in sections 3.2 and 6.1 one can read comprehensively about the Thai and Malaysian situation. Table 7.1 provides a summary which is useful for this chapter.¹ Two enabling institutions can be considered complementary if the presence of one increases the returns from the other (Hall & Soskice 2001 p. 17). Conversely, disabling institutions reinforce their negative impacts. An enabling complementarity is for example the various institutions originating from Malaysia's *state* variety of embedded mercantilism that have clearly benefited the Bumiputera population in Malaysia. A disabling complementarity in Thailand is the combination of weak relations between the private and the public sector, money politics and limited side payments. This has led to a process of geographically unbalanced economic growth. Bangkok is a real core region and primate city, whereas secondary cities and regions host much less economic activities (see appendix 6 well). Note that the four institutional spheres follow the sequencing of investigation in the chapter 4, 5 and 6. Inter-firm relations and access to private finance are directly derived from the Varieties of Capitalism approach. The relation between the private and public sector deals with the Southeast Asian embedded mercantilist characteristics of a dual political economy and overlapping, whereas access to national budgets and policies mainly deals with side payments.

7.1 The impact of the Thai institutional complementarities

The empirical analysis of the previous three chapters enables an integrated presentation of regional institutional complementarities and their relation to the national level political framework, complemented with an improved understanding of the structuring mechanism of ethnicity and (personal) power networks. At the end of chapter 4 empirical outcomes of inter-firm relations and access to private finance were presented in two analytical models showing various institutional complementarities (Figures 4.8 and 4.9). Similarly, Figures 7.1 and 7.2 provide an overview of the variety of capitalism found in Satun and Perlis, with power networks explicitly integrated into the models. As in Figures 4.8 and 4.9, the thickness of the arrows indicates the strength of institutional relations, but a major difference relates to the size of the text of the organisations or people: the larger the text, the more political power the organisation or person has. This section and the next compare Figures 7.1 and 7.2 with their respective national institutional frameworks and eventually provide explanations for the two models.

1 Inter-firm relations

Figure 7.1 clearly illustrates the networked and co-operative institutions of the private sector. Firms maintain strong relations with other firms in Satun, particularly clients and competitors. In addition, associations help with the activities of the private sector by providing easier access to suppliers, clients and finance and by engaging in lobby activities. A crucial feature of inter-firm relations in Satun is ethnicity. Virtually all leading entrepreneurs, often operating in several industries simultaneously (fisheries, trade and rubber plantations), are Sino-Thai. This has led to a *guanxi* style of doing business, i.e. much informal cooperation and coordination among Sino-Thai entrepreneurs based on trust and kinship, leading to reciprocal benefits. These findings match the general Thai picture of cooperation, mutual reinforcement and a large

role for networking. Sino-Thai groups play vital economic roles in many other regions as well. Another similarity is the involvement in international economic networks. Section 4.2 showed that ethnic-Chinese entrepreneurs in the fisheries industry from Satun and Perlis trade with one another. This example is just one of many within strong transnational networks of ethnic-Chinese in Southeast Asia (also called 'Bamboo networks', Dieleman & Sachs 2006, Perry 2003). Many, but not all Sino-Thai are involved in international networks. Callahan (2002) reports about North-eastern provinces where Sino-Thai seem to have a surprisingly 'provincial' attitude towards economic activities.² Nevertheless, one cannot claim that Satun's inter-firm relations are a perfect copy of the national scale. There is one difference between Satun and Thailand in general, in that there seems to be no genuine balance between competition and cooperation. In fact, due to the small number of entrepreneurs who know each other very well, strong demand for seafood from other parts of Thailand as well as from other countries, cooperation prevails over competition, positioning the Sino-Thai as a little embedded business group. In contrast, Sino-Thai in more 'typical' Thai provinces are better integrated within the society at large, but also face more competition from each other.

The Islamic majority are generally not active as entrepreneurs, and more frequently relate to Sino-Thai groups through employer-employee type relationships. In contrast, Sino-Thai entrepreneurs in other Thai provinces maintain business relations with non Sino-Thai groups, most notably real Thai people (Hewison 1997, Cushman 1991). Callahan (2002) even argues that the two groups 'have intermixed to such an extent that they are difficult to differentiate.' It is indeed the case that economic, but perhaps more importantly social integration between Thai and Sino-Thai has been much easier than between Sino-Thai and Malay Muslims who form the majority in Satun. This seems to be a plausible explanation for the extensive reliance on *guanxi* in Satun with important roles for friends and kinship ties. Without close cooperation and coordination Satun's Sino-Thai would probably encounter severe difficulties with their economic

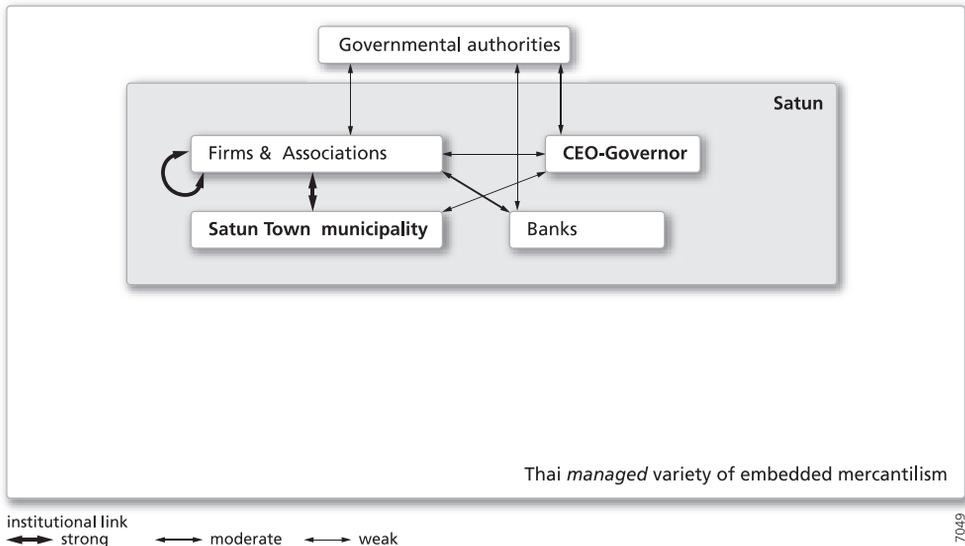


Figure 7.1 Institutional and political relations in Satun

activities, especially when demand for products and services is low. In other words, it can be concluded that the sphere of inter-firm relations in Satun is heavily structured by ethnicity.

2 Access to private finance

Figure 7.1 shows a relatively thick arrow between the private sector and banks. Indeed, the analysis in section 4.3 has demonstrated that banks are essential for access to start-up capital, daily capital and for solving financial business problems. However, owners of firms and owners' relatives play important complementary roles. Consequently, Satun's firm owners are ultimately able to reduce financial risks as they are financed in multiple ways and are not overly dependent on loans with relatively high interest rates. Box 4.3 further illustrated the relevance of owners from outside the province, with the example showing that starting and operating car and motorcycle dealerships requires much financial capital. Entrepreneurs from Satun do not have access to large amounts of money. Siam Tin Foods, by far the largest firm in Satun, is also owned by someone from outside Satun. A weak institutional relation (a thin arrow) between banks and central governmental authorities in Figure 7.1 indicates that some banks are owned by the state and that Prime-Minister Thaksin's cabinet tried to direct credit at specific economic activities and industries between 2001 and 2006 in order to further enhance economic development (Pasuk & Baker 2004). A comparison of Satun with Thailand generally shows similar institutional arrangements. Therefore it can be assumed that there are no specific regional institutions at work within this institutional sphere. The Asian Development Bank (ADB 2000, p. 341) estimated that 'there are few reasons to expect that, because of expanded formal finance, informal finance [in Thailand] will completely disappear.' The Bank attributed this estimation to high transactions costs of getting small formal loans, a topic which was discussed earlier in section 4.3.

3 Relation between the private and public sector

Chapter 5 revealed weak institutional relations between the private and the public sector in terms of inter-firm relations and access to private finance, but a strong political connection between the private sector, Satun Town Municipality and the Rotary Club. The remarkable extent of the Sino-Thai character of these relations was also shown. The Satun Chamber of Commerce and the Chong Hua association further strengthen this ethnically biased convergence of entrepreneurship and local politics, because many members in the Chamber are Sino-Thai and the Chong Hua association was formed explicitly for this group. Therefore, the same leading individuals meet each other often in these various organisations.

The research findings for Satun differ substantially under the Thai *managed* variety of embedded mercantilism. Below is a comparison of the two main issues as mentioned in Table 7.1. First, the political- and institutional economic literature on Thailand (most notably Pasuk & Baker 2004, Wingfield 2002 and Dixon 1998) discussed the facilitator and bystander roles of the state for various sectors and industries, for example agriculture, manufacturing and tourism. It is also widely known that the Thai military has had significant economic interests and that the public sector became relatively active in providing access to private finance via state-owned banks during Dr. Thaksin's Shinawatra's Prime-Ministership (Pasuk and Baker). Although the Thai Ministry of Agriculture and Cooperatives has a considerable presence in Satun to facilitate fisheries and the cultivation of rubber trees, most governmental authorities seem to be virtually absent. The public sector in Satun does not own firms, there are no public-private partnerships and the public sector does not act as a serious client. In addition, the two fieldworks did not

reveal any signs of economic involvement of the military in Satun.³ A plausible explanation for the absence of the public sector is a lack of economic opportunities and the peripheral location of the province. The activities of public agencies are heavily coordinated from Bangkok and there are indeed many more suitable provinces for non-agricultural activities. Another explanation relates to the patterns of access to national budgets and policies as discussed below.

Second, interesting results in chapter 5 are the absence of province-wide *trakun* (influential families), notorious *Chao phos* (provincial godfathers) and *phuak* (provincial informal political cliques). According to Pasuk and Sungsidh (1994:97) 'people in the South in particular have shown more resistance to vote buying and other forms of influence which have allowed Chao phos to take a dominating role in electoral politics in other regions⁴: in many provinces *thims* (informal groups at the local level, see section 5.3 as well) form a section of a *phuak*, but in Satun a *thim* is independent and seems to have no connections with other localities in the province. Nelson (2005) has conducted an insightful study on *phuaks* in the province of Chachoensao, east of Bangkok. The following extract is a good summary of how they work.

*'Voters ...favour their own phuak and "punish" the rival phuak. Knowing that one belongs to the same phuak encourages communication and cooperation. Conversely, it also makes one wary of people from other phuak, as well as with contacts whose affiliation one does not know. Neutrality, then, may be expressed in the phrase the provincial police commander used in his capacity as a member of the Provincial Election Commission (PEC): "mai pen phuak kap khrai loei" (I am in nobody's clique whatsoever).'*⁷

Furthermore, Nelson argues that a *phuak* usually organises itself to be able to contest for every possible election, from national elections for the parliament and the senate, to the PAO, municipal and tambon elections. In Satun, nevertheless, all these elections seem to be contested much more independently from each other. Ethnicity is the main reason why there are no province-wide *phuaks*. A rural Islamic majority with a Sino-Thai community that dominates the private sector and politics within the provincial capital does not give rise to *phuaks* in the way that Nelson (2005) describes, or Askew (2006) in the case of Songkhla province. As a result of the ethnic divide between the rural areas and Satun Town a *phuak's* influence remains limited to one of the two areas.⁵ More importantly for this thesis, elections are much less related to economic interests, because many candidates are not involved in business. This has led to the absence of notorious Chao pho, less money politics and less corruption. Regarding the national level some critics even claim that corruption during Thaksin was worse than in 1990s when many Chao phos were actually national politicians.⁶

4 Access to national budgets and policies for regional development

Figure 7.1 depicts a weak institutional relation between Satun Town Municipality and the appointed CEO-Governor. This illustrates a main problem of getting access to national budgets and policies for regional development. The benefits of coordinating business interests via the municipality remain quite limited. As can be seen in Figure 5.3 the owner of the shrimp farm Satun Marine Aquaculture, who is simultaneously mayor and the head of the ruling *thim*, meets the CEO Governor relatively frequently, but the fieldwork has not revealed effective cooperation and cooperation between these two individuals for regional development. By contrast, the CEO-Governor is very powerful (consider the large text size in Figure 7.1) and has a close connection

to central governmental authorities. In addition, the leading Sino-Thai entrepreneurs are not able to become Members of Parliament, because they lack an effective support base.

It is now possible to identify three reasons as to why Satun faces great difficulties in getting sufficient support from Bangkok. First, access to national budgets and development policies is not well organised, as formal institutions that guarantee structured planning and implementation of development objectives are weak (Table 7.1.). Second, central authorities are not eager to put many side payments into Satun when the Cabinet is not led by politicians from the Democrat Party and because the job of CEO-Governor of Satun is not popular (Box 5.5). Third, leading entrepreneurs cannot ‘bring’ business and development projects from Bangkok to Satun via the Parliament and entrepreneurship is not the priority of the Islamic MPs. Their first priority seems to be the general interests of the Muslim population in Southern Thailand. These three reasons also explain the limited involvement of the public sector with respect to public-private partnerships.

Obviously, the first two reasons can be attributed to the Thai managed variety of embedded mercantilism, which hold for other Thai provinces as well. The Democrat Party is traditionally strong in all 14 provinces of Southern Thailand which make the level of side payments to this area subject to the political situation in Bangkok. A good example of the informal and politically motivated character of side payments was the campaign visits of Prime Minister Thaksin before the February 2005 elections in which he promised to finance projects before and after the election should the population vote for his *Thai Rak Thai* party. Painter (2005) has called this phenomenon the ‘politicisation of the budget process’. According to him, Thaksin allocated more than THB 200 billion between April 2004 and September 2004 during his campaign visits to many provinces. The other factor is related to the popularity of the job of Governor and the resulting lack of commitment and long term policies. It can be assumed that other provinces face the same problem, for example small and remote provinces in North-western and North-eastern Thailand.⁷ The third reason, however, is a special one that only applies to the Muslim dominated provinces of Yala, Narathiwat, Pattani and Satun. Together with the absence of provincial wide

Table 7.2 Thailand’s managed variety in Satun

	Thailand’s Managed variety	Outcomes in Satun
Inter-firm relations	competitive, cooperative, mutually reinforcing and networked based	less competition, more cooperation exclusive domain of Sino-Thai
Access to private finance	major role for banks and kinship	similar
Relation between private and public sector	public sector as facilitator & bystander money politics	in some industries public sector virtually absent less money politics
Access to national budgets and policies	relatively unimportant aspect of side payments unstructured and unstable ‘money politics’	similar, but no Sino-Thai businesspeople in parliament

phuaaks these informal institutions are real regional institutions and thus cannot be attributed to the national institutional framework.

Taking all the four parts together, Table 7.2 compares Satun's specific variety of capitalism with Thailand's managed embedded mercantilism and provides an answer for research question 6 as formulated in section 2.6 and at the beginning of this chapter. It can be concluded that Satun's variety can be explained by Thailand's Managed Variety model to a considerable extent, but one should take into account the structuring mechanism of ethnicity. Inter-firm relations, the relation between the private and the public sector and access to national budgets and policies are influenced by the ethnic division of a rural Islamic majority and an entrepreneurial Sino-Thai minority, mainly based in Satun Town.

7.2 The impact of the Malaysian institutional complementarities

Figure 7.2 presents a model of institutional complementarities for Perlis, based on the empirical outcomes of the previous three chapters. The discussion follows the same sequence as the discussion for Satun. A limitation for this section is that few authors conducted research on the four institutional spheres in other Malaysian states. For example, with respect to personal power networks that influence the relation between the private and the public sector, Shamsul (1986) remains the most up-to-date and authoritative source. Therefore, comparison is only possible with literature that covers Malaysia in general.

1 Inter-firm relations

The outcomes of the analysis in chapter 4 have clearly demonstrated that inter-firm relations are weak. Firms prefer to sign contracts, do not cooperate extensively with one other and associations seem not to enhance inter-firm relations much. Therefore, the half circle representing inter-firm relations in Figure 7.2 is much thinner than the one in Figure 7.1 and reflects an atomistic private sector. Another striking outcome is the absence of a genuine guanxi style of doing business among ethnic-Chinese entrepreneurs. The most important explanation for weak inter-firm relations is the dominant influence of the public sector. Governments own a considerable number of firms and often act as clients. This topic is elaborated on more fully below.

Overall, the institutional outcomes in Perlis parallel the Malaysian variety of Embedded Mercantilism (see Section 3.2 and Table 7.1 as well). The only difference is the absence of guanxi among small ethnic-Chinese entrepreneurs. One explanation given in Section 4.4 is the fact that many entrepreneurs are active within the wholesale and retail sector in which strong relations are less of a necessity compared with the manufacturing or more advanced services. Another factor could be the generally marginal position of ethnic-Chinese people in Perlis. Whereas 26% of the total Malaysian population is ethnic-Chinese, this percentage is only 10% in Perlis. Practising guanxi is therefore likely to be limited by a lack of socio-economic and socio-cultural organisations and festivities. Indeed, the results show that the Chinese Chamber of Commerce and the Hokkien Association do not play strategic roles compared with the Chamber of Commerce and the Chong Hua Association in Satun. Moreover, there is no active Rotary or Lions Club. On the one hand, it can be assumed that research in other states where Bumiputeras are by far the largest ethnic group (Kedah, Kelantan, Terangganu, Pahang and Sabah) would generate similar results; on the other one would probably find more guanxi in states with a larger

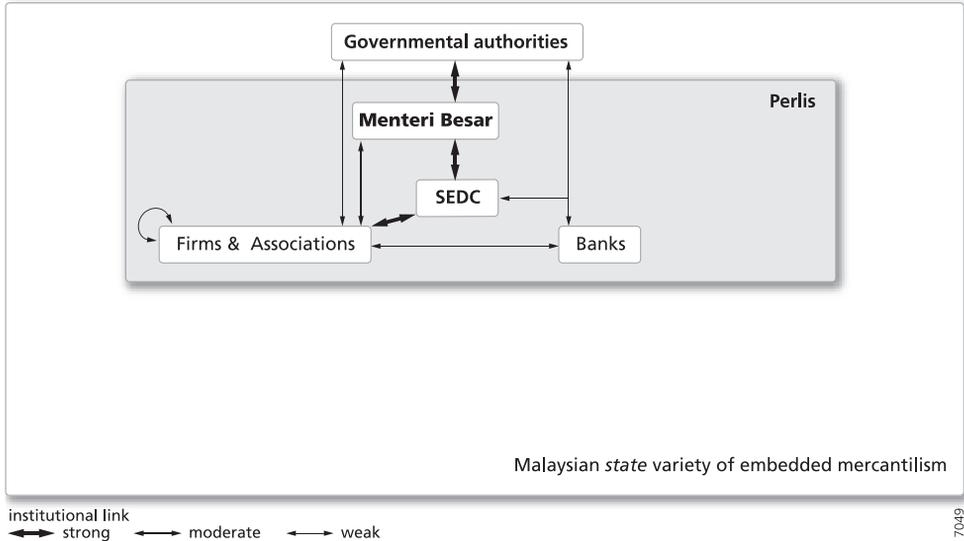


Figure 7.2 Institutional and political relations in Perlis

presence of ethnic-Chinese. Furthermore, this thesis does not pay any attention to ethnic-Indians as they only make up 1.3% of the Perlis' population (8% of the total Malaysian population) and because there are negligible numbers of entrepreneurs from this group in Perlis. In fact, there are more migrants from Thailand than ethnic Indians, but they are generally employees or work temporarily in agriculture or fisheries.

2 Access to private finance

Figure 7.2 depicts a very thin arrow between firms and associations and banks, but a thicker arrow between banks and governmental authorities at the national level. This again is an indication of the dominant role of the public sector in economic life. Firms rely preponderantly on owners and headquarters for their financial needs, whereas banks are evidently not important. Figure 4.5 showed that only 14% of the surveyed firms in Perlis mentioned banks as the most important source for start capital. The Central Bank of Malaysia (2006) has estimated that 13.4% of Malaysian small and medium firms use banks as their main source, a strikingly similar result. Indeed, most firms in Perlis are of a small or medium size as well.

In a similar way to Satun, ethnic-Chinese firms in Perlis also rely financially on kinship structures, but the similarity does not hold for banks. Saleh & Ndubisi (2006) mention 'limited access to private finance and capital' as one of the challenges for the future of Malaysian small and medium firms. The following observation seems to be a good explanation for this challenge: 'the banking sector has constituted an important vehicle for the transfer (redistribution) of funds and assets to the Bumiputera community under the NEP and as a result industrial development in general has been a second priority for the banking sector (Smakman 2003, p.159). The next topic will deal more with financial policies for Bumiputeras and will reveal that the regional institutional sphere of access to private finance can be explained by Malaysian's state variety of embedded mercantilism.

3 Relation between the private and public sector

The investigation of the relation between the private and public sector in chapter 5 has laid bare an overwhelming influence of the public sector on economic activity in Perlis. Even inter-firm relations and access to private finance cannot be fully understood without taking into account the presence of the public sector, either the Perlis State Government (PSG) or the federal government. Therefore, it is no surprise that these authorities are important organisations in Figure 7.2. The Menteri Besar (MB), the SEDC and the federal government are relatively powerful and play important roles for the regional economy and maintain institutional relations with firms, associations and banks. Governmental authorities account for 41% of the most important clients of the surveyed firms. In addition, the SEDC has many tentacles into the private sector, in particular with respect to construction, property development and tourism and they facilitate Bumiputera entrepreneurs with their businesses. A newspaper article in *The Star* (2005a), illustrates the influence of the public sector in saying 'Menteri Besar Datuk Seri Shahidan Kassim said the state was focusing on further development in the agriculture, industrial and services sectors' followed by a long list of public projects. Another article shows how the PSG tries to invite proposals from the private sector to set up a new cinema without questioning the viability of such a project. In fact, cinemas in Perlis have closed in the past because of a lack of revenues (*The Star* 2005b). The state-led and state-mediated character of inter-firm relations is certainly not a regional institution. Table 7.1 shows that it is one of the elements of Malaysian's state variety of embedded mercantilism. The investment holding arm of the Malaysian government, Khazanah Nasional, had interests in 44 so-called government-linked companies with a market capitalisation of more than RM 200 billion in 2004 (USD 53 billion, *New Straits Times* 2004a), including cement factory CIMA as mentioned in sections 4.1, 5.1, and 6.1.⁸ Thus again, the outcomes for Perlis can be explained by the national institutional framework. One special case is Penang in which the dominance of the public sector seems to somewhat diminish: 'On the basis of the industrial automation industry in Penang we propose that a 'model' of autonomous evolution is gaining relevance vis-à-vis the idea of planned state-orchestrated, or – milder – state assisted industry development' (Van Grunsven 2006). As Penang is one of the globalised enclaves in Malaysia (see section 3.2 as well), it is perhaps not a surprise that the role of the state has decreased.

The public sector in Perlis, and in particular the federal government is also very active in facilitating access to private finance. As discussed in section 5.1 various organisations help Bumiputeras with access to private finance. Despite this help, owners and headquarters are more important to these groups than formal banks. Saleh & Ndubisi (2006) have termed access to private finance in Malaysia as 'limited'. There seem to be three explanations for the failure of the public sector to bring banks closer to small and medium firms. The first and the second explanations are based on Saleh & Ndubisi, the third on the two fieldwork periods and Eyre & Dwyer (1996):

- 'There are too many agencies, or channels for SMEs without effective coordination (this leads to a lack of transparency to the target groups).'
- Small firms are reluctant to disclose their financial situation to banks. Indeed, very few interviewees wanted to give reliable answers on financial questions during the two periods of fieldwork.

- Ethnic-Chinese, who are disproportionately active as entrepreneurs, view banks as pro-Bumiputera and anti-ethnic-Chinese organisations. Section 4.3 showed that many banks cater to Bumiputera and Muslim clients.

Figure 7.2 shows the overall power of the MB, complemented by the SEDC and governmental authorities at the federal level. The investigation of the construction industry in section 5.4 has clearly demonstrated the involvement of the MB in economic activity. He controls one major property developer directly, is chairman of the SEDC board, has a decisive influence on the tender process and has close connections to some leading construction firms. In fact, no large project can start without the approval of the MB. As mentioned before, recent studies at the state level are unavailable, but Gomez (2002 & 1994) has convincingly presented evidence of political business for Malaysia in general.⁹ In section 5.4 an insightful citation is given of Shamsul (1986) whose study was concerned with the local level. According to Shamsul ties between business and politics, especially the dominant UMNO party, became more personalised in the 1990s compared with the 1970s and 1980s as a result of intra-party rivalry. This, he says, 'also permitted party leaders to spread risks from political patronage'. In a long table Gomez lists 38 businessmen who were close to important political figures, most notably Dr. Mahathir Mohammed and Mr. Daim Zainuddin who were Prime Minister and Minister of Finance respectively in the 1980s and the 1990s. The table includes the famous businessmen Halim Saad and Tajudin Ramli, former UMNO politicians, three sons of Dr. Mahathir, four ethnic-Chinese and one ethnic-Indian. Overall, Gomez considers UMNO's influence over the corporate sector as 'overwhelming' because of its 'hegemony over the state and its direct and indirect control of key enterprises' and he anticipates that intra-party politics will continue to affect corporate activities. Section 5.4 has mentioned some striking examples of a typical Malaysian institution – 'Ali-Baba' combinations (Bumiputera firms who team up with ethnic-Chinese firms to secure more tenders). Major ethnic-Chinese firms are also dependent on personal power networks related to UMNO as this party often control positions that have a say in manipulating and awarding tenders and other lucrative public projects. Nevertheless, Gomez et al. (2001) argue that Ali-Baba combinations are not only beneficial for ethnic-Chinese. They argue that 'the government has recognised the importance of Chinese – and foreign – capital for sustaining growth and promoting industrialisation since the mid 1980s.'

4 Access to national budgets and policies for regional development

Figure 7.2 also represents the strategic role of federal authorities and the MB regarding access to national budgets and policies for regional development. In chapter 6 it was clarified how formal and informal institutions influence patterns of this access. Relevant formal institutions are the mechanisms of the Malaysia Plans as well as budgetary allocation processes. The Malaysia Plans set the tone for the regional development policies, including initial development expenditure for each State. Good examples for Perlis are industrialisation policies in the 1980s and the new ideas in the Ninth Plan to make Perlis a *Halal* hub (see section 6.1). Another striking outcome is the bad financial position of the PSG and its financial dependence on the federal governmental authorities. This is not the only case in Perlis. The *New Straits Times* (2004b) wrote an article titled *Several States, agencies 'on verge of bankruptcy'*. The Malaysian Auditor-General Tan Sri Dr. Hadenan A. Jalil was quoted in this article:

'Some agencies build resorts and justify this as spending in their account books. But would a resort enhance the position of the agency?'

Consider the interests of the Perlis SEDC in tourism which were discussed in section 5.1. The SEDC partly owns two hotels, one *resort* and three entertainment establishments (see Table 5.2). *Circulation* of federal side payments through various industries in the state seems to be more important for the Perlis' elite than the effectiveness of fund allocations. A major reason is that circulation generates many lucrative construction projects. The active role of the public sector can thus be explained by the generous flow of side payments from the federal level to the states. This flow is not only determined by the formal Malaysia Plans, but also by informal institutions structured by personal power networks. The most crucial aspect seems to be the relation between MBs and national (UMNO) leaders. The closer the relationship between a particular MB and national leaders, the more opportunities for the MB to receive large budgets and to benefit personally from these budgets via connections and other forms of political business.¹⁰

It is clear that there is a strong complementarity between the spheres of relations between the public and private sectors and access to national budgets and policies (Figure 2.5). A good example is the construction industry. Many construction projects are the results of regional development policies formulated in the Malaysia Plans. These Plans have a formal character, but do not form a straitjacket. There remains considerable room for informal manoeuvre. When Mr. Abdullah Badawi became Prime Minister he delayed the implementation of several major construction works, but the 9th Plan seems to bring the construction industry to new heights: 'The construction sector has emerged as one of the biggest winners in the Ninth Malaysia Plan with the approval for quite a number of large infrastructure projects after two years of absence' (The Star 2006b). And 'Penang folks have every reason to smile as the state will be getting the long-awaited second Penang Bridge, estimated to cost RM 2.6 billion, the monorail project (1.2 billion) and Penang Outer Ring Road (1 billion)'. Although there is indeed much congestion on Penang Island, it is worth remembering that the Prime Minister himself is originally from Penang. The extent to which such projects are based on a purely needs based analysis is therefore questionable. The attention for construction also means that enormous amounts of money are circulated through various governmental authorities at the federal and state level, because there are many construction and related firms which are partly owned by the public sector. For example Khazanah Nasional has interests in Perlis' firms and the Perlis' SEDC has interests in one property developer and one construction firm.

Overall, the comparison of Perlis and Malaysia indicate that the Malaysian state variety of embedded mercantilism has an enormous impact on the Perlis' variety of capitalism. Inter-firm relations and access to private finance are state-led and state-mediated, the public sector in Perlis is certainly interventionist and a director and development projects in Perlis are outcomes of regional development policies that are designed in 'Putrajaya' (see Table 7.1 as well). There are no specific circumstances which create specific regional institutions, such as ethnicity in Satun. Therefore, it can be assumed that research in other similar peripheral Malaysian states would generate similar results. Currently, Kelantan is likely to be the only outlier as not UMNO, but the Islamic PAS party controls this state¹¹, which can be expected to affect national budgets and policies for regional development. In the second part of this chapter attention is turned to the impact of national (and regional) institutional frameworks on regional developmental performances.

7.3 Enabling institutional complementarities and economic activity

Sections 7.1 and 7.2 have dealt with explanations for the institutional outcomes as presented in chapters 4, 5 and 6. The national institutional framework appears to determine the regional institutional framework to a large extent in Perlis, whereas ethnicity has caused the emergence of specific regional institutions in Satun. This section is concerned with the link between institutions and economic and human development and, as mentioned in the beginning of this chapter, attempts to answer research question 7. Figure 2.1 visualised both the link between institutions and organisations and economic and human development. In fact, Figures 2.6, 2.7, 4.8, 4.9, 7.1 and 7.2 are continuations of the second block in Figure 2.1. As discussed in chapter 2 formal and informal institutional complementarities can have an enabling or a disabling character. Enabling complementarities lead to comparative institutional advantages, whereas disabling complementarities lead to comparative institutional disadvantages (Hall & Soskice 2001, Nooteboom 2000, North 1990).

As discussed in sections 3.4 and 3.5 Perlis is considerably more advanced than Satun in terms of economic and human development. Perlis' gross regional product per capita is 1.59 times larger than Satun' and while fisheries and rubber trees cultivation are important in Satun in terms of employment and income, the economy of Perlis relies much more on public services, in particular education. Agriculture plays a relatively marginal role. A surprising finding is that Perlis has actually performed worse than Satun if one compares the ratios of gross regional product per capita to the national average (Figure 3.6) and the HDI ranking within Malaysia and Thailand. In 2000 Perlis ranked 9th of out of 14 Malaysian states, whereas Satun ranked 14th out of 76 Thai provinces. According to Balasubramaniam (2006) growth in Malaysia has remained uneven with the Malay heartland lagging behind the core regions. In addition to the HDI UNDP Thailand has embarked on a comprehensive project titled the Human Achievement Index (HAI). UNDP Thailand published a first report in 2003, a second one at the beginning of 2007. The HAI is related to the common HDI, but consists of many more components and indicators (8 components and 40 indicators). The results confirm the favourable position of Satun in Thailand. In the 2003 report Satun ranked 30th out of 76 provinces, in the 2007 report even 20th (UNDP 2007 & 2003). How can these performances be explained? This section labels the institutional outcomes of the previous two sections as enabling or disabling and assesses its impact on patterns of economic activity and performances.

Institutional advantages for entrepreneurship

There is one important enabling institutional complementarity in Satun: a guanxi style of doing business coupled with a major role for banks and kinship structures regarding access to private finance. Easy access to private finance has reinforced the smooth operations of the private sector. This complementarity seems to have greatly facilitated the growth of and profits in the fisheries cluster, and to a lesser extent wholesale, retail and tourism. Figure 3.2 indicates that trade and tourism has grown rapidly between 1995 and 2004, but it is safe to assume that a considerable share of trade is seafood to other Thai provinces and abroad. Guanxi institutions within the cluster coupled with a major role for banks and relatives have generated informal institutions such as secure supplies (for example ice), jointly searching for clients, helping each other in case of productive or financial problems, connections with other provinces (and with Malaysia) through kinship ties and friends. In addition, entrepreneurs can reduce their financial risks by

borrowing money from banks, business partners and/or relatives simultaneously. Business and social associations, especially the Satun Chamber of Commerce and the Rotary Club, further strengthen this institutional complementarity.

In essence, it is a Thai complementarity, but as mentioned in section 7.1, the strong reliance on *guanxi* is also due to the position of the Sino-Thai minority surrounded by an Islamic majority. In more 'average' Thai provinces Sino-Thai people are better embedded within the wider society, both socially and culturally. The overall result in Satun is a closed entrepreneurial network, i.e. the Sino-Thai form a small business group isolated from the wider society, and it is difficult for Muslim would-be entrepreneurs to become a part of this network because the networks of trust within it are highly dependent on ethnicity. It could therefore be argued that this network has been enabling in the medium term, but it may well be *disabling* in the long term. Effective human development, including convergence of corporate and worker well-being as outlined in section 2.1 (Ettlinger 1999), is not expected to take place if the majority of the population is not at all involved in the private sector. Up until now, the Islamic majority has tended to be employees of the Sino-Thai, fishermen or smallholders. Hadjimichalis & Hudson (2006) have recently claimed that economic networks have been viewed too positively in many studies. According to them, economic networks are not always 'innovative, democratic, adaptive, resilient and open.' Indeed, the case of Satun shows that a closed economic network can indeed be effective for the emergence of certain industries, but does not necessarily generate inclusive economic and human development. Sino-Thai entrepreneurs are not likely to be fully interested in their employees and human development of the province. Instead they seem to be preoccupied with their own well-being. A good indication is the discrepancy between the employment component and the income component in the UNDP Thailand Human Development Reports. In the 2003 Report Satun ranked 27th (out of 76 provinces) in the income component, but 70th in the employment component and in the 2007 Report 20th and 55th respectively. Thus in terms of income Satun performed better than the Thai average, but in terms of employment much worse. This suggests that the distribution of income is skewed, with rich Sino-Thai entrepreneurs at one extreme and poorer farmers (predominantly rubber smallholders) and fishermen and employees at the other.

The effect of inter-firm relations and access to private finance in Perlis is markedly different. In Perlis there is an institutional complementarity of state-led and state-mediated inter-firm relations *and* the financial reliance on owners (limited access to banks). In section 7.2 the important role of governmental authorities within these two institutional spheres was discussed. Bumiputera and successful ethnic-Chinese businesspeople do not look to each other, but to the public sector for business opportunities, whereas small ethnic-Chinese firms try to survive on their own. Furthermore, despite public efforts to support access to private finance via state-owned banks and other organisations, most entrepreneurs do not seem to use them frequently. Overall, there is not much cooperation and cooperation within the private sector. It can further be assumed that the Malaysian state variety of embedded mercantilism limits the growth of the private sector in rural areas. First, governments intervene in industries in which they might not be the most suitable actors. Second, the rather difficult and chaotic patterns regarding access to private finance reinforce the limitations for private sector development (Saleh & Ndubisi 2006). Third, ethnic-Chinese entrepreneurship is severely limited by the Bumiputera policies. One member of the Chinese Chamber of Commerce put it this way: 'The government should support the development of the *entire* private sector, not hinder development'. Another

limitation is the requirement for firms in several industries that at least 51% of the shares should be controlled by Bumiputeras. This requirement makes it extremely difficult for starting ethnic-Chinese entrepreneurs and contributes to the absence of *guanxi* which has been so beneficial in urban regions in Malaysia and probably in many other Southeast Asian regions including Satun. Several entrepreneurs from Perlis are already considering moving to Southern Thailand. According to one ethnic-Chinese shareholder (holding 49% of shares in a large logistical firm), 'Thailand welcomes ethnic-Chinese very warmly. The Board of Investment arranges everything for you and you can start quickly.' Perlis, Kedah and perhaps even Penang should therefore not be surprised if these entrepreneurs move their businesses to Southern Thailand in the future, especially when the Asia Free Trade Area (AFTA) comes into full force on January 1, 2010 (ASEAN 2007).¹² These entrepreneurs could maintain their operations in Malaysia, but establish their headquarters in a region far more attractive in legal and financial terms.

Institutional advantages for human development

Unfortunately, there is another significant disabling complementarity in Satun. In fact, it is a triangular one – the public sector is virtually absent, regional development policies are weak and Satun's businesspeople have little influence in 'Bangkok'. The results from chapters 5 and 6 and sections 7.1 and 7.2 indicate that the public sector has a facilitating role for agriculture and fisheries, but does extremely little to support manufacturing and services. This is a serious problem as rural development will tend to be more dependent on non-agricultural activities in the future (Ashley & Maxwell 2000, Rigg 2001). What will happen when marine resources of the Andaman Sea become depleted? What will happen when the demand for latex (from rubber trees) reaches a critically low level? The hobbyhorse of current (regional) development policymakers is the envisaged Pak Bara deep sea port near La-ngu which should have a multiplier effect for other activities in the province, but it remains to be seen whether and when this port will be built. A deep sea port could actually impact negatively on tourism and the environment.¹³ A lack of policy implementation compounds the absence of the public sector within the manufacturing and services sectors.

A complicating factor is the limited room for manoeuvre of Satun's leading businessmen, who are disconnected from the central government. In other words, central authorities in Satun and provincial authorities, which are both largely controlled by 'Bangkok', are not encouraged to increase their facilitator and bystander's role in Satun. In most other Thai provinces the public sector is more clearly present in economic and social life and leading businesspeople are generally more involved in national politics. MPs from these provinces could 'bring back' more projects and funds for entrepreneurship and general economic and human development to their provinces. For example, there is currently no university in Satun, whereas almost every Thai province has at least a campus. The Prince of Songkla University, based in Hat Yai has campuses in Suratthani, Phuket, Trang and Pattani. One could observe from Table 3.6 that there are fewer teachers at secondary schools and hospital beds than in Perlis, but Satun has more inhabitants. Overall, it can be concluded that side payments that facilitate overlapping and domestic coalitions (see section 3.2 as well) do not have positive effects on Satun. The triangular disabling complementarity has led to a consistently weak position of the public sector in Satun with limited chances to access side payments from the central government, especially when the Democrat Party is in opposition at the national level. Note that Southern Thailand, including Satun forms a stronghold for this party.

To a great extent the situation in Perlis appears to be the opposite of the Satun case. The triangular disabling institutional complementarity for Satun is an enabling one in Perlis. Section 7.2 concludes that the Malaysian state variety of embedded mercantilism influences Perlis' variety of capitalism to a large extent. Furthermore, no specific regional institutions have been identified. The influence of the Malaysian *state* variety consists of the following complementarity. The public sector intervenes in the regional economy and is often a director, regional development policies for the state are relatively stable and structured and the relation between the MB and the PM had been beneficial between 1995 and 2003. Similar to the French government between the end of the Second World War and the beginning of the 1970s (see Table 2.4 and Schmidt 2003), the Malaysian government has been heavily involved in the domestic economy. They still control many firms, the Development Corporations in several states belong to the largest employment generators and they support Bumiputera business communities with a variety of programmes. Regional development policies reinforce the strong role of the public sector in peripheral regions and form a strategic tool for the realisation of the public involvement in the regional economy. In fact, these policies could be regarded as *geographical* side payments (also see section 2.5). The cultivation of a close relationship between the MB of a particular state and national UMNO leaders adds a dynamic informal institution. States could benefit much more from 'Putrajaya' if the MB is close to national leaders. Luckily for Perlis, MB Datuk Seri Shahidan Kassim was close to Perdana Menteri Dr. Mahathir.

Without this triangular complementarity Perlis would not have been able to transform its economy from an agricultural one into one based on manufacturing (mainly between 1980 and 1995) and services from the mid 1990s onwards. Figure 3.2 shows that a meagre 15% of the total labour force is employed in agriculture and fisheries. The federal government has (partly) supported the CIMA, the sugarcane plantation and refinery, the Perlis SEDC with its many interests, the arrival of foreign firms, the new highway between Kuala Perlis and Changlun, the education strategy with its new University College KUKUM and many other smaller projects. Geographical side payments, envisaged in the Ninth Malaysia Plan will lead to a so-called *Halal* (food) hub, a new campus for KUKUM and a new highway between Padang Besar and Pauh (running between Arau and Changlun). As mentioned in section 7.2, the construction industry will benefit enormously from the Ninth Plan. According to the Master Builders Association Malaysia 'the money to be pumped into the sector would spread and spur domestic consumption spending, sustaining employment of a large construction workforce and utilisation of locally produced equipment and materials' (The Star 2006). This is exactly what happened in Perlis during the construction boom for the education strategy (Table 5.6). As several construction firms and educational organisations are controlled by the public sector, it can be argued that circulating money through the public sector has increased employment and eventually led to higher standards of living in Perlis. Another interesting example is the tourism industry (section 5.1). The investments in hotels, paid by the federal government, have not led to a substantial increase of tourists, but to an increase of all kinds of meetings, conferences and seminars, initiated by the *public sector* (Haak & Nordeman 2007). Ultimately, the triangular complementarity has also led to a convergence of corporate and worker well-being, because several major corporations in Perlis are state-owned and are meant to generate employment for Bumiputeras rather than making profit. Furthermore, the strong role of the public sector in this triangular complementarity has resulted in a relatively advanced level of services for employees such as health, education, new residential areas, public parks, a new highway, etc.

Disabling institutions

Besides the triangular complementarity described above, there are several separate disabling institutions. Institutions pertaining to land use matters appear to be relevant both in Satun and Perlis. Chapter 6 revealed that land matters influence patterns of regional economic development. In Satun the Ministry of Natural Resources and Environment owns between 30% and 40% of the total land. There are three national parks in Satun, five national reserved forests and three special areas reserved for wildlife. Economic development within all of these areas is prohibited. Some interviewees wanted to invest more in the tourism industry, but they feel blocked by this ministry. This situation can therefore be regarded as disabling for economic development. However on the contrary, this acts as an enabling institution for the preservation of the natural environment. From the point of view of Thailand in general preserving the

Table 7.3 Enabling and disabling institutions and other factors for Satun and Perlis

	Satun	Perlis
enabling institutions	guanxi style of doing business (medium term) + easy access to banks	public sector as interventionist and director + regional development policies important, structured and stable + good relation between Menteri Besar and PM Dr. Mahathir between 1995 and 2003
disabling institutions	guanxi style of doing business (long term) public sector virtually absent + regional development policies relatively unimportant, unstable and unstructured + businesspeople have little influence in 'Bangkok' poor status of job of Governor much land owned by Ministry of Natural Resources and Environment	state-led and state-mediated inter-firm relations + limited access to banks highly fragmented structure of land ownership and land use
enabling other factors	strong (inter)national demand for rubber and seafood wages	foreign direct investment out-migration and remittances
disabling other factors	peripheral location	wages

'+' indicates the presence of an institutional complementarity

environment makes much sense as many other provinces are already polluted and spoiled by excessive developments in manufacturing and tourism. Consider manufacturing at the so-called Eastern Seaboard (between Bangkok and Rayong), tourism at the crowded islands of Phuket and Koh Samui and the many golf parks that have had a detrimental impact on the environment and require huge amounts of water resources (Leinbach & Ulack 2000). Perlis has been affected by a highly fragmented pattern of land use, which hampers and delays investments, infrastructure and ultimately human development according to several interviewees (see Section 6.3). Many interviewees answered that prices in neighbouring Kedah are significantly lower. For Malaysia in general, a negative effect of the MRL regulations has been the emergence of continually idle paddy land. At the end of the 1970s, 18% of the total Malaysian paddy land was idle, but in Perlis none was idle (Vincent & Ali 1997). The worst performing states were Johor (40%), Negeri Sembilan (63%), and Pahang (55%). This confirms the pressure on land in this small state. The last disabling institution to be discussed is the job of Governor in Satun. As presented in Box 5.5 and further discussed in section 7.1, the job of appointed Governor in Satun is not a popular one. Most Governors wish to be promoted to larger provinces as soon as possible. According to many interviewees, this had led to a lack of effective long term visions and serious policy commitments to develop the province. A solution could be to introduce elected Governors, similar to Bangkok, provided that effective checks and balances limit the emergence of vigorous rent seeking, Chao phos, MP buying and vote buying (Wingfield 2002).

This section has demonstrated that institutions and institutional complementarities have certainly played important roles for the emergence of specific industries and specific economic trajectories in the research areas. To conclude this section, Table 7.3 summarises the main drivers of economic and human development in the two study regions. In addition, non-institutional factors were introduced in section 3.4 and should not be neglected.

Conclusions

In a lecture in 1999 the Nobel Laureate Amarty Sen (1999b) mentioned the following on institutional complementarities in Asia:

'The "old strategy" [pre-1997 financial crisis] on which the major successes of East and Southeast Asia have been based is the use of the complementarity of different institutions, and in particular the creation of social opportunities through public policy that crucially supplement the functioning of the market. In this radical approach, Japan led the way, followed by the successful East and Southeast Asian economies.'

This chapter has investigated the nature of institutional complementarities and its effect on patterns of economic and human development in Satun and Perlis. When non-core regions are the object of study Sen's observation can be complemented by two remarks.

First, at the regional level institutional complementarities could either be a product of national complementarities or be regional products. Sections 7.1 and 7.2 have shown that the regional institutional framework of Satun can be explained to some extent by national institutional complementarities, but ethnicity has produced a specifically regional institution – the isolated Sino-Thai business community concentrated in Satun Town. In contrast, the Malaysian state variety of embedded mercantilism is by far the most important explanation for the institutional setting in Perlis. This variety has even resulted in the marginalisation of traditional regional institutions.

Second, it is important to look at the spatial effects of institutional complementarities (section 7.3). The Thai managed variety of embedded mercantilism has created social opportunities through public policy, but inhabitants of Bangkok and surroundings (the core region), benefit disproportionately from these opportunities. In peripheral regions entrepreneurs can take advantage of complementarities relating to private sector development, but the complementarities relating to human development appear to be quite weak. In the case of Satun this has resulted in a divergence of corporate and worker well-being. The Malaysian state variety of embedded mercantilism has led to a comparative institutional advantage in generating human development in non-core regions. This explains why Perlis is a more advanced region than Satun in absolute terms of economic and human development.

According to Sen (1999b) new strategies for East and Southeast countries should pay more attention to social security, participatory policies and transparent accountability. This makes sense especially when policymakers and politicians wish to attain inclusive economic growth, both from the perspective of balanced regional development and of social or ethnic divisions. Therefore, countries with managed and market varieties of embedded mercantilism should work towards institutional complementarities that are *enabling* for human development. The disadvantage of a state variety is that it can hamper private sector development in non-core regions as the public sector is sometimes too dominant in certain industries.

Endnotes

- 1 The terminology in Table 7.1 is similar to Table 2.4 on varieties of capitalism in the UK, Germany and Japan.
- 2 This finding is somewhat puzzling as North-eastern provinces are located relatively close to Lao PDR, but there are apparently few suitable opportunities to engage in international trade.
- 3 The military is currently planning to establish its first base in Satun as a result of the ethnic-religious tensions in the provinces of Narathiwat, Yala and Pattani, but it remains to be seen what the economic effects will be.
- 4 Pasuk & Sungsidh (1994) mention the presence of notorious Chao phos in no less than 25 Thai provinces in the beginning of the 1990s.
- 5 Moreover, Sino-Thai in La-ngu municipality play relatively marginal roles, because this municipality is much smaller and because the Sino-Thai own much smaller firms than in Satun Town.
- 6 The Bangkok Post reported the following allegations of an NGO in 2004: 'It [corruption] all began with the monopolisation of political, financial and state powers by the "Thaksin Regime", which allowed business groups owned by 10 families to win all state bids and projects.' In another article in the same newspaper the renowned Thai economist Mr. Ammar Siamwalla stated that 'corruption is not a cancer but it is at the heart of Thai society. In some state agencies, officials do not know how to work without kickbacks or corruption. But what deserves more consideration is that although people know that corruption is bad, they always compromise with it.'
- 7 The National Economic and Social Development Board (NESDB) is thinking of proposing *elected* provincial Governors, but currently this organisation does not have much influence on policy (Bangkok Post 2006). A danger of elected Governors, however, is increasing money politics at the provincial level. Therefore, without mechanisms that limit money politics electing Governors could be quite risky.
- 8 As of December 31 2006, the website of Khazanah Nasional shows interests in 32 listed firms and 24 unlisted firms including the car producer Proton, Malaysian Airlines, Bank Muamalat, RHB Bank, Tenaga Nasional and Pos Malaysia (Khazanah 2006).
- 9 Furthermore, one interviewee confirmed the control of MB over public construction projects by saying that 'in each state the MB is somehow involved in the tender process.'

- 10 Obviously, not each MB is equally interested in making personal profits, but the analysis of chapter 6 and Gomez (2002 & 1994) and Shamsul (1986) suggest that political business in Malaysia has become a normal phenomenon.
- 11 Between 1999 and 2004 PAS ruled Terangganu as well, but UMNO regained control in 2004. The ethnic-Chinese party MCA is traditionally strong at Penang Island, but this state is rich and is by no means peripheral.
- 12 In 2010, all import duties will be eliminated for the six original ASEAN members (Indonesia, Singapore, Malaysia, Thailand, The Philippines and Brunei Darussulam) and in 2015 Vietnam, Lao PDR, Cambodia and Myanmar will join them. As a result of the ethnic-religious tensions in Yala, Pattani and Narathiwat, it is not likely that ethnic-Chinese entrepreneurs from Kelantan will quickly move to the other side of the border (see also appendix 7).
- 13 In turn, a polluted environment further reduces the scope for eco-tourism which is currently being promoted in Satun by the Tourism Authority of Thailand.

8 Looking back and looking forward

This chapter provides a summary of the research findings and explores their implications for the body of knowledge on varieties of capitalism and regional development and performance in Southeast Asia. This chapter consists of four sections; first a brief retrospect, followed by a presentation of the research findings following the sequence of the eight research questions. Section 8.3 then gives an interpretation of the findings, and section 8.4 closes this final chapter by offering suggestions for policy related matters and further research.

8.1 Retrospect

The study of relationships between regional performance and varieties of capitalism within Southeast Asia has remained an interesting and challenging topic. To mention some examples of these relationships: the entrance of Vietnam (still controlled by the Communist Party) into the World Trade Organisation (WTO) in January 2007, continuing socioeconomic disparities in virtually each Southeast Asian country and the striking variety of economic institutions within the Association of Southeast Asian Nations (ASEAN). Consider the differences between highly internationalised and technologically advanced Singapore and inward looking and impoverished Myanmar. Although it is evident that capitalist institutions have made further inroads in Southeast Asia, it is far from certain how particular institutional arrangements should be classified and how institutions will change in the future. What seems reasonably certain however, is that the traditional dichotomy of liberal market economies (LMEs, notably the USA) and coordinated market economies (CMEs, notably Germany and Japan) may prove to be an unsuitable lens through which to scrutinise the performance of non-core regions. For example, Vietnam, with a similar population to Germany, is neither a LME, nor a CME. In light of this problem, geographers Peck & Theodore (2007) ask:

The more excessive forms of geographical reductionism trammel variety down to a dubious, unidimensional continuum – running more or less directly from Germany to the United States. Where should we locate China, India, and Brazil in this picture? And what do their modes of growth reveal, not only about the bandwidth of contemporary capitalist variety, but also about the interpenetrating nature of capitalist development at the global scale?

This thesis has been concerned with the bandwidth of capitalist variety within Southeast Asia and has made an effort to apply elements of the *Varieties of Capitalism* approach as developed by Hall and Soskice (2001) to Thailand and Malaysia. The institutional turn in economic geography has proven to be valid and useful for explaining patterns of regional development in the developed world. Many empirical works were published concerning the four 'newly industrialising countries' (Singapore, Taiwan, South Korea and Hong Kong SAR), Baden

Württemberg, the so-called Third Italy and Silicon Valley. Nevertheless, remarkably few publications employed an institutional approach for non-core regions in developing areas. From a theoretical and methodological point of view, then, it was and is interesting to scrutinise to what extent the institutional turn makes sense in such areas.

The province of Satun in Southern Thailand and the state of Perlis in Northern Malaysia, two neighbouring non-core regions, were chosen

- to identify, explore and unravel capitalist institutions and
- to investigate its impact on patterns of economic activity and human development (conceptualised as the convergence of corporate and worker well-being).

These two regions were thought to be promising research sites as it was possible to control for three non-institutional factors; hence increasing the likelihood of a major role for national institutions. The two regions shared not only a common history until the Anglo-Siamese Treaty of 1909, but also have a common physical geography and demographic profile (an Islamic majority of Malay descent). To accommodate for the rigid dichotomy of LMEs and CMEs, the varieties of capitalism approach was modified in two important ways. First, the variety of *state* capitalism was included in the range as governmental authorities are quite influential actual in terms of institutional relations and institutional complementarities in many developing countries. Second, the embedded mercantilism approach was introduced as this approach has been developed explicitly for the analysis of institutional and political economy issues in Southeast Asia (Jaysasuriya 2004 & 2003). In short, this approach asserts that each economy shows certain characteristics, namely segmentation between the export-oriented and domestic economic sectors creating a dual economy, an overlapping of these divisions, and a set of public policies to ensure that side payments facilitate a broad set of alliances between the two segments of the economy. This approach is particularly suitable as it enables the inclusion of two mechanisms that are assumed to structure institutional arrangements: ethnicity and (personal) power networks.

Chapter 2 provided the theoretical background and discussed the various comparative approaches that are incorporated in the conceptual model, as well as providing a justification for the research questions. Chapter 3 presented an overview of economic institutions in Thailand and Malaysia and introduced the research regions Satun and Perlis. Recall that this study explored and interpreted institutional arrangements by a priori taking into account the following difference: National institutional complementarities in Thailand have many features of a *managed* (coordinated) variety of embedded mercantilism, but also some of a *market* (liberal) variety, whereas Malaysia's complementarities is essentially a *state* variety, complemented with some *market* features. In order to obtain insights into the impact of differing capitalist varieties at the regional level four empirical topics were explored. Chapter 4 has dealt with the topics of inter-firm relations and access to private finance; Chapter 5 with relations between the public and the private sector and Chapter 6 with access to national budgets and policies. Each of these three chapters analysed both formal and informal arrangements. Furthermore, chapter 4 included the mechanism of ethnicity and chapters 5 and 6 both ethnicity and (personal) power networks. Next, findings related to the four institutional topics were compared to the national framework in Chapter 7, and in so doing this thesis paid attention to the spatial boundaries of economic institutions. This chapter also discussed the impact of institutions on patterns of regional development and performance.

8.2 Research findings

This section presents the answers on the research questions which were formulated in section 2.6.

1. *What are the main economic and socioeconomic characteristics of Satun and Perlis? What changes in economic and social performance have taken place in the last two decades?*

Both regions are located peripherally within their respective countries. Satun province is located in the far south of Thailand, and neighbouring Perlis in the upper north of (peninsular) Malaysia. For many centuries the two regions shared a common history. They belonged to the Kedah Sultanate which in turn was politically dependent on the Siamese/Thai King in Ayutthaya and later Bangkok. With respect to the economy, agricultural production was the dominant activity complemented with some trading with the British Strait Settlements up until 1909, when Perlis became a part of the British colonial empire, leaving Satun part of Siam/Thailand.

Despite several commonalities Satun and Perlis have experienced a remarkable divergence of economic activity and human development after 1909. Perlis enjoys a considerably higher standard of living than Satun, because its economy transformed from an agricultural state into a state dominated by services, especially public services (see Table 8.1). In addition, the state's economy is characterised by a mixture of public services and branch plants, whose headquarters are located elsewhere. Satun has been able to take advantage of its resource frontier (natural rubber and seafood), leaving a relatively minor role for manufacturing and services. Interestingly, Satun province does not perform poorly compared with other Thai regions. It is widely known that the North-eastern part of Thailand faces the highest poverty levels. In contrast, Perlis clearly belongs to the least developed states of Malaysia. This observation should be kept in mind when

Table: 8.1 Socioeconomic profiles of the two research regions

	Satun	Perlis
major development trajectory	maintained its position as resource frontier	from resource frontier to branch plants and public services
major products and services	seafood (fresh and processed) natural rubber	public services (education) construction agro-processing
wages	low	relatively high
migration	in-migration (declining dependency ratio)	out-migration (remittances)
major mode of transport	motorcycle	car
dominant economic groups	Sino-Thai	Bumiputeras and ethnic-Chinese
economic performance from national perspective	good	bad

addressing the issue of policies that try to attain more balanced patterns of regional development (research question 5) and the role of national institutions (research questions 6 and 7). The identified institutional complementarities will be discussed in the sub-section on the 7th research question.

2. *What institutional arrangements guide the cooperation and coordination among businesses and business people in both regions?*

Varieties of Capitalism within the *private* sector have been mainly scrutinised following Hall & Soskice's (2001) and Schmidt's (2003) insights and terminology. Inter-firm relations in Perlis can be described as state-led and state-mediated, formal, contractual and relatively impersonal. Such relations are maintained with suppliers and clients, both of which are located both inside and outside Perlis. Table 8.1 shows the presence of two dominant groups: Bumiputera (literally sons of the soil: Malays) and ethnic-Chinese (predominantly *Hokkien* entrepreneurs). The outcomes of the firm surveys reveal that there is relatively little cooperation and coordination between these two groups, perhaps best reflected by the relatively unimportant role of business associations. Business associations are structured along ethnic lines, and do not seem to stimulate entrepreneurial activity. Their roles remain limited to the dissemination of business information.

Such institutional arrangements are markedly different in Satun. Sino-Thai business people operate within a dense network characterised by informal deals, and personalised and cooperative relations with suppliers, clients and competitors. Supplier firms are often located outside Satun, and clients and competitors inside. In addition, informal arrangements within business and social associations lead to high levels of trust and easier access to suppliers and clients. As can be seen in the conceptual and analytical models in chapter 2, this study has included ethnicity as one of the structuring mechanisms for institutional arrangements. Indeed, the research findings about inter-firm relations in Satun demonstrate that ways of doing business are structured strongly along ethnic lines, with the Sino-Thai way referred to as *guanxi*. Although *guanxi* can be found in other parts of Thailand and Southeast Asia as well, it seems to be exceptionally strong in Satun because the Sino-Thai entrepreneurs operate in isolation from the majority of the population which is Muslim of Malay descent. People from the latter group rarely opt for entrepreneurial professions, but are more typically rubber smallholders, fishermen and employees within firms.

3. *What institutional arrangements enable firms to obtain access to private finance in both regions?*

One of the institutional spheres that should be analysed according to Hall & Soskice (2001) is corporate governance, rephrased in this study as access to private finance. In Perlis access to private finance is predominantly institutionalised through the firms' owners and shareholders. As Perlis could be partly classified as a branch plant economy these owners and shareholders are often located outside the state. Formal financial arrangements via business associations such as soft loans are available, but private actors appear to be somewhat unwilling to use them. Access to private finance in Satun is institutionalised through three channels – banks, owners/shareholders and relatives. Banks also play an important role within the Thai institutional framework (see the answer to research question 6 in this section) and the role of owners/shareholders and relatives, as well as inter-firm relations in general, should be seen within the context of *guanxi*. The *guanxi* way of doing business results in flexible arrangements in which financial needs are met by activating business partners, relatives and friends who share mutual trust. Furthermore, informal

interactions within associations such as the Chamber of Commerce, the Chong Hua association and the Rotary Club reinforce levels of trust.

4. What institutional arrangements are in place for cooperation and coordination between the public and private sector in both regions?

Theorising Varieties of Capitalism in Southeast Asia has led to attention being paid to the role of the public sector for economic activity (Bardhan 2005, Schmidt 2003 and Jayasuriya 2004 & 2003). Governmental authorities could cooperate with firms, act as clients of firms and also fully or partially own firms. For instance, 55% of the shares of Singapore Airlines, one of the most highly regarded and profitable airlines in the world, are owned by the government of Singapore. But what arrangements involving the state could be identified in Satun and Perlis?

To start with the latter region, the empirical outcomes revealed that the public sector has an overwhelming institutional presence. Inter-firm relations are state-led and state-mediated, the public sector facilitates access to private finance by providing a variety of financial opportunities for Bumiputeras and a considerable number of firms are actually owned by the public sector. In fact, many institutional arrangements involve the State Economic Development Corporation (SEDC), which manages four industrial estates, frequently initiates real estate projects and has extensive investments in the tourism, agriculture and construction industries. In other words, the public sector is a real *interventionist and director*. The findings further demonstrate that personal power networks structure these institutional arrangements. The Menteri Besar of Perlis is also the chairman of the SEDC's board and has a great say in economic decision making, particularly regarding the construction and real estate industry.

From an institutional point of view coordination and cooperation between the public and private sector is virtually absent in Satun. There are no public private partnerships; governmental authorities do not own firms and they purchase relatively few products and services from the private sector. Therefore, the private sector is more or less left to fend for itself. In case rubber prices decrease or fisheries resources start to deplete, Satun's economy might experience severe problems. The Sino-Thai entrepreneurs have tried to compensate for little governmental support by becoming politically powerful, but as a result of the Islamic majority they have only managed to be elected as members of the Municipal Council and mayors of Satun Town and La-ngu Town. The results nicely demonstrate how domestic coalitions, a key element of the EM approach, differ at the regional level.

5. What institutional arrangements allow both regions to gain access to national/central state resources for regional economic and human development?

Normally the Varieties of Capitalism approach does not take into account local-central relations, but this issue is highly relevant for peripheral regions in Southeast Asia and forms a part of Jayasuriya's (2004 & 2003) third characteristic of capitalist systems in Southeast Asia: a set of public policies to ensure that side payments facilitate a broad set of alliances and to ensure the goodwill of the relatively weak parts of society. This issue was therefore included in the conceptual model of this study. In Perlis, side payments from the Malaysian federal government to Perlis have been relatively effective and formally arranged. The most important informal arrangements have been personal power networks within the dominant political party, UMNO. Transforming Perlis from a resource frontier into a so-called negeri ilmu (knowledge state) with many schools and colleges would not have been possible without the large amounts of federal money.

Side payments have been much less beneficial for Satun. In fact, (regional) development policies have appeared on paper, but the implementation and financing have been heavily dependent on informal institutional and political arrangements. Satun's economic and human development is hampered by a limited influence of its Members of Parliament, the lack of representatives of the Sino-Thai business community in Bangkok and continuing inter-party politics. When the Democrat Party, who has traditionally had a stronghold in Southern Thailand, is an opposition party, Satun seems to receive less side payments than when it is not. In addition, the appointed Governors of Satun do not have the sufficient incentives to formulate and implement effective long term plans, as they more often than not seek to be promoted to more important provinces.

6. How can the institutional arrangements mentioned above be explained, i.e. to what extent does the national institutional setting influence them?

As mentioned above, Malaysia essentially has a state variety of embedded mercantilism, and Thailand a managed variety. Combining the empirical outcomes for Perlis with the national picture reveals that regional capitalist institutions fit a national state variety profile. The pervasive influence of the public sector in the economy, in fact the state as interventionist and director and the large amounts of side payments that Perlis receives, is a result of Malaysian institutional complementarities. These seek to ensure that a part of revenues from the export oriented sectors are transferred to the weaker parts of the society, i.e. the Bumiputeras who are mainly working in the domestically oriented economy. Since the start of the New Economic Policy in 1971, the federal government has sought to enhance the socioeconomic position of the Bumiputeras vis-à-vis the ethnic-Chinese and to a lesser extent the ethnic-Indians. It can be concluded that national institutions seem to prevent the presence of regional varieties of capitalism in truly Bumiputera states. The ethnic-Chinese in Perlis cannot engage in a guanxi way of doing business because the strength of institutional arrangements between the public and private sector and because of the dependency of Perlis on side payments from the federal government. These patterns are reinforced by intra-party politics on a national scale. A relatively close relation between Menteri Besar Shahidan Kassim and Perdana Menteri Dr. Mahathir has eased the flow of side payments to Perlis with which the state could invest in physical infrastructure, schools and colleges. It has resulted in a process of continuous circulation of public finances through the state.

In Satun national institutional complementarities cause the emergence of regional capitalist systems as well, but to a lesser extent. Some patterns within the institutional spheres, such as access to private finance, and institutional/political mediated access to national budgets and policies parallel Thai arrangements. In Thailand firms are able to obtain financial capital through banks and kinship ties of owners, while geographical side payments are relatively more unstructured, unstable and heavily influenced by personal power networks. However, national institutions are not strong enough to marginalise or overrule regional institutions. With respect to the relations between the public and private sector there are differences as well. Whereas the Thai public sector can be characterised as, in Schmidt's (2003) terminology, facilitator and bystander, Satun's public sector is virtually absent for manufacturing and services. This is partly due to the extremely peripheral location of the province. It can be argued that the influence of the public sector in Thailand decreases in concentric rings from the capital and core area Bangkok. Another difference is that there is much less money politics. Satun's entrepreneurs are not able to 'buy' themselves into national politics, whereas many (Sino-Thai) businessmen from other Thai provinces and from Bangkok have managed to become national politicians. A high

profile example of a man who did exactly this is the telecom tycoon Dr. Thaksin Shinawatra, a *Hakka* Chinese whose great-grandfather migrated from China to Siam (as Thailand was called in the 19th century), and who was Thailand's prime minister between 2001 and September 2006.

7. How and to what extent do the institutional arrangements mentioned above affect the economic and human development performance of the two regions?

For Satun the *disabling* triangular complementarity of an absent public sector, ineffective regional development policies and the lack of influence of businesspeople in the central government has led to a process of hanging at Thailand in institutional and political terms. The central government is insufficiently concerned about the living standards of the Islamic majority in the province and side payments rely too much on informal arrangements structured by personal power networks. Furthermore, the *guanxi* style of doing business is a disabling institution in the long term as its closed character does not lead to inclusive private sector development with a significant role for Islamic entrepreneurs. It can be concluded that economic growth in Satun has been accompanied with a divergence of corporate (Sino-Thai minority) and worker (the Islamic majority) well-being (Ettlinger 1999). The fact that Satun's economic and human development compares favourably to other parts of Thailand should be attributed to the strong external demand for natural rubber and seafood and to the comparative advantage of relatively low wages.

By contrast, the transformation towards an economy dominated by services in Perlis is caused by an *enabling* triangular complementarity. The public sector in Perlis acts as interventionist and director, effective regional development policies have been implemented and a good relation existed between the Menteri Besar and the Perdana Menteri. The success of the dynamic construction business and the efforts of the Menteri Besar to make Perlis a negeri ilmu would not happen without this complementarity. The complementarity of state-led inter-firm relations and limited access to private finance on the other hand is classified as *disabling* as it hampers the blossoming of ethnic-Chinese entrepreneurship. One should not be surprised if the substantial numbers of ethnic-Chinese continue to migrate out of the state in the future. Nevertheless, although the Perlis' economy has benefited from the extensive involvement of the federal government, the financial position of the Perlis State Government (PSG) has deteriorated in recent years and one could even introduce the term *reverse* divergence of corporate and worker well-being, meaning that worker well-being has started to become *higher* than the corporate well-being. Note that the PSG (partly) owns several firms, making it and its finances a component of the 'corporate' side.

8.3 Interpreting the results

The aim of this section is to interpret the results by answering the eighth research question:

8. What theoretical implications can be drawn from a comparative analysis of Perlis and Satun, especially with regard to the role of institutions in regional development?

Five implications are identified below, progressing more or less from specific to general topics.

1. Mirror image

It can be concluded that Satun and Perlis form an institutional mirror image to a considerable extent. In the former, economic growth is pursued through firms that cooperate extensively with each other coupled with a weak public sector, whereas in the latter a dominant public sector tends to initiate economic activities and the private sector follows. Illustrative of this mirror image is the divergence of corporate and worker well-being in Satun, and their convergence in Perlis. With respect to Satun it is noteworthy that it is not, in Schmidt's (2003) terminology, *market* capitalism that has resulted in divergence, but a specific type of *managed* capitalism. This type is characterised by Sino-Thai entrepreneurs operating in a closed network which excludes employees from equal socioeconomic advancement and from becoming active as entrepreneurs. Thus the mirror image should be viewed neither in a traditional market versus state dichotomy, nor in terms of Hall & Soskice's dichotomy of LMEs and CMEs. Capitalist varieties appear to be too complex to be conceptualised by such classifications.

2. Balanced regional development

The mirror image leads to the suggestion that balanced regional development is attained more easily in state varieties of embedded mercantilism. The Malaysian federal government has poured large amounts of funds into its peripheral regions and the case of Perlis demonstrates that increasing economic and human development can result. Dominant public sectors are able to generate off-farm employment, provide schools and health agencies, reduce socio-economic inequalities within regions and integrate peripheral regions into the wider domestic economy. From a budgetary perspective however, it is possible to question the opportunity costs of attaining balanced regional development. For instance, what is the economic sustainability of Perlis' strategy to become a *negeri ilmu* (knowledge state)? What happens if governmental authorities, given trends of deregulation in the Malaysian higher education, gradually lose control of the placement of students to universities and colleges (Lee 2004)? Moreover, governments are rarely able to maintain such high levels of investment. Therefore, in times of budgetary crises peripheral regions might lose substantial support from national governments.

A managed variety of embedded mercantilism is less suitable for peripheral regions, particularly if structuring mechanisms prevent the emergence of enabling institutions for the long term. The case of Satun shows that ethnicity structures institutions with respect to private sector development. Luckily for the province farmers and fishermen have been able to benefit from external demand for natural rubber and seafood, but regions that have few opportunities to capitalise on external economic developments might experience long term socioeconomic problems. Nevertheless, an advantage for inhabitants of peripheral regions in managed and market varieties is that they are not exposed to budgetary risks at central governments.

3. Role of ethnic-Chinese

The comparative analysis further reveals that although demographic, cultural and ethnic characteristics are roughly similar, their interaction with regional and national economic institutions produces markedly different ways of doing business. Ethnic-Chinese groups are popularly held to possess culturally intrinsic entrepreneurial skills, but the full blossoming of *guanxi* also depends on the wider institutional setting. For instance, pervasive state-led institutions could prevent the emergence of specific ethnic ways of doing business. This study, then, suggests that views of Southeast Asian-wide homogenous entrepreneurial patterns among

ethnic-Chinese as put forward by predominantly management scholars should be nuanced. In fact, entrepreneurial patterns appear to be articulated by specific national institutional contexts. It would also be interesting to investigate how ethnic-Chinese entrepreneurs operate in purely *market* varieties that offer little room for coordination and cooperation within the private sector. Are guanxi practises still maintained in such economic environments?

4. Methodological implications

What methodological implications can be drawn from the study of national institutions and peripheral regions? This study has opted for a relatively holistic view of institutions. It did not purely apply Hall & Soskice's (2001) institutional spheres, but instead integrated institutions pertaining to the public sector and allowed for the scrutiny of underlying mechanisms, i.e. ethnicity and (personal) power networks. Also interesting to consider is to what extent is Thailand similar to the Japanese managed variety of capitalism and Malaysia to the traditional French state variety of capitalism. In other words, is Schmidt's (2003) typology of market capitalism, managed capitalism and state capitalism suitable for Southeast Asian countries (Table 2.4)? The comparison of Thailand with Japan reveals that Thailand seems to host several institutional arrangements that share some similarities with market capitalism. Inter-firm relations are quite competitive and the public sector is not very active in the economy. The sphere of access to private finance shows that Japan has a more advanced financial structure than Thailand. Malaysia's spheres of inter-firm relations and access to private finance within the domestically oriented economy are quite similar to France between 1950 and 1980, but Malaysia's economy is also based on a relatively liberal internationally oriented economy. The brief comparisons lead to two issues. First, Schmidt's typology offers no space for the possibility of dual political economies. Second, it does not take into account the sphere of access to national budgets and policies which Jayasuriya's (2004 & 2003) EM approach does take into account. In Japan partnerships between various governmental authorities and the private sector increasingly shape regional development policies and outcomes (Kitajima 1998), whereas money politics and personal power networks still have a large influence in Thailand. Furthermore, regional development policies were designed in top-down fashion in France (Rogers 2006), but the Menteri Besars of Malaysian states are sometimes quite successful in attracting side payments if they are able to nurture effective informal relations with national political leaders. Finally, a difference is that the French government was primarily concerned with social inequalities, whereas the Malaysian Bumiputera policies were directly targeted towards the 'elimination of race with economic function' (EPU 1971).

In sum, the VoC approach is very instrumental in providing methodological rigour. It clearly separates institutions from organisations and it provides a framework with which institutional complementarities can be investigated, but comparing Southeast Asian with developed capitalist systems turns out to be rather problematic.

5. Theoretical implications

What theoretical implications can be drawn for the study of national institutions and peripheral regions? This study has clearly shown that institutions *matter*. Merely looking at infrastructure, comparative advantages or classical dependency relations pertaining to the international division of labour would not have generated many insights into the observed differences in economic and human development between Satun and Perlis. The comparison has led to relevant differences

regarding institutional complementarities and eventually to regional varieties of capitalism and regional performance and diversity.

National institutions are likely to play important roles in regions that are situated in countries with a state variety of embedded mercantilism such as Malaysia. Perlis as part of the Malay heartland is heavily dependent on federal institutions and political connections with Putrajaya for economic growth and human development, whereas regional institutions cannot emerge as a result of this strong reliance on the federal government. Research in other parts of the Malay heartland such as Kedah, Terangganu and Sabah is likely to generate similar outcomes except with respect to the land issue. It can be expected that the governments of other states are able to generate more revenues and royalties from their land as these states are much larger than Perlis. Similarly to Malaysia, regional diversity in Lao PDR, Cambodia and Myanmar could be shaped by a state variety of embedded mercantilism. Although Cambodian capitalist institutions have shifted away somewhat from a state variety, it can be expected that the public sector in these three countries is still very much involved in institutional and political arrangements which have an impact on patterns of regional diversity.

In countries with a managed or market variety of embedded mercantilism, institutional complementarities and regional diversity could be relatively more easily structured by regional factors. The case of Satun, with its Islamic majority, demonstrates that national economic institutions are not strong enough to overrule the regional institutions of a closed network of Sino-Thai entrepreneurs. Within the Southeast Asian context complex interplays between national institutions, regional institutions and regional diversity are likely to be found in Indonesia, the Philippines and Vietnam. The former two countries are vast archipelagos, increasing the likelihood of differences between the many islands. Within the International Development Studies department at Utrecht University, current research focuses on the impact of regional institutions on regional diversity in the Philippines. Preliminary findings suggest that competitive relations in regional economies vary to a large extent, from coexistent in Negros Oriental, co-opetitive in Cebu (a mix of competition and cooperation) and cooperative in Bohol (Van Helvoirt 2007).¹ This line of research therefore demonstrates that multiple levels of spatial scale should be taken into account, because:

- Regional institutions can overlap with, or differ from national institutions;
- A regional economy can contain a mixture of regional and national institutions;
- National institutions can marginalise or even overrule regional institutions.

At a more abstract level, this study provides some clues to the study of differences between peripheral regions in general. Much research, particularly (action) research in policy environments, has focused on non-institutional factors. For instance, The World Bank (2005b, p. 204) has come up with a taxonomy of peripheral regions based on poor people per square kilometre and market access. In this framework North-eastern Thailand and peripheral regions in Bangladesh are regions with a high poverty density and a low market access, while old industrial regions in the UK and the USA are shown as having low poverty density and high market access. But as such, this taxonomy does not provide much explanatory power for the causes of regional underperformance. An institutional approach towards peripheral regions could have considerable potential. At a theoretical level, one possibility would be constructing a model that focuses on four kinds of institutions: formal, informal, enabling and disabling. In such a model it would be challenging to focus on regional economies that are severely obstructed by disabling formal and informal institutions. Following the institutional topics investigated in this study

another possibility is constructing a taxonomy of opportunities for private sector development and opportunities for access to national budgets and policies (local-central relations). Inter-firm relations and access to private finance that lead to the inclusion of all groups in entrepreneurial life are likely to be better than arrangements that exclude or exploit specific parts of the population. With respect to access to national budgets and policies peripheral regions are likely to be successful if they are able to continuously receive central government grants and soft loans and circulating them through various industries. The case of Perlis has demonstrated that this can be quite beneficial. Obviously, regions that neither have opportunities for private sector development, nor for access to national budgets and policies find themselves in a problematic situation. From a policy perspective, such regions are very challenging. Consider for example the fact that policy makers often are actually responsible for inequitable distributions of central resources to peripheral regions.

For peripheral regions in Southeast Asia an interesting trend to keep in mind is the continuing strengthening and deepening of the ASEAN free trade area (AFTA). It could have a major influence on economic activities. In the long term national public sectors could have, similar to trends in the European Union, fewer legal mandates to directly intervene in economic affairs. Coupled with an increase of mobility of goods, labour, financial capital and ideas, the role of *regional* enabling institutions could become more strategic in fostering regional development and harmonious convergences of corporate and worker well-being.

This section closes with an overarching answer to the problem statement:

To what extent are economic and human development performances of the Malaysian state of Perlis and the Thai province of Satun impacted by differences in the national institutional framework?

In Perlis the national institutional framework has a tremendous influence on the development performance. The transformation into an economy based on (state owned) branch plants and public sector activities and the increasingly higher standard of living compared to Satun could not have been achieved without the support of the federal Malaysian government. Although several national institutions are present in Satun its development performance is also influenced by two other factors: *regional* institutions structured by ethnicity and (inter)national demand for seafood and natural rubber. Therefore, looking at differences between national institutional frameworks certainly makes sense, but researchers and policymakers should not neglect the interplay between national and regional institutions and possible external factors.

8.4 Policy implications and future research

Although this research is not a policy oriented one it is interesting to comment briefly on the policy implications of the results. Four questions are posed after which further research possibilities are proposed.

Policy implications

1. How can we deal with historically rooted disabling informal institutions that are bad for economic and human development in the long term?

A good example of such an institution is the *guanxi* style of doing business in Satun with its closed network of Sino-Thai entrepreneurs. This network is disabling in the long term because it hinders the entrance of Muslim entrepreneurs into the private sector, causing a divergence of corporate and worker well-being. Recall that the Muslim people of Malay descent form the majority within the province. Policies that try to be '*incentive compatible*, namely complementary to the coordinating capacities embedded in the existing political economy' (Hall & Soskice 2001, pp. 45-51), might lead to a reinforcement of socioeconomic divergence, whereas policies aiming at demolishing the closed network of Sino-Thai might experience a lack of cooperation of the Sino-Thai and eventually out-migration of this ethnic group. For the entire Malay heartland there is one problem with the notion of incentive compatibility as well. Given the presence of Bumiputera policies this would mean that ethnic-Chinese and ethnic-Indian entrepreneurship would continue to be marginalised in the rural states. Hence, policies that drive human development are not necessarily effective for economic growth and *visa versa*.

2. *What are the (policy) implications of personal power networks that may frequently change the nature of institutions, particularly relating to the access to national budgets and policies?*

Chapter 6 has revealed that the volume of side payments that regions are able to extract from central governments is partly dependent on complex personal networks of more or less influential politicians such as Governors, Members of Parliament, businessmen-turned-politicians and ministers. The informal institutions pertaining to arrangements between central and regional governmental authorities are enabling if personal power networks lead to high levels of side payments, but are disabling if such networks lead to low levels. The relationship between the MB in Perlis and the Perdana Menteri in Putrajaya is an insightful example. Between 1995 and 2003 a close relation between these two personalities had been beneficial for the flow of side payments to Perlis, but Mr. Abdullah Bedawi, Perdana Menteri since October 2003, has had a much colder relation with the MB. According to several interviewees this relationship has become a disabling institution in Perlis. It is obvious that policies for regional economic and human development are difficult to design and to implement if financial aspects are partly dependent on such informal institutional arrangements. Equally problematic is finding a balance between top-down and bottom-up policies. Top-down policies tend to neglect informal institutional arrangements that do not have the same influence on each region within a particular country whereas bottom-up policies provide incentives for rent-seeking behaviour and could lead to outcomes which are beneficial for the most powerful regional individuals.

3. *What can be done about regional economies in which the public sector is highly ineffective or even virtually absent?*

The triangular disabling complementarity in Satun of a virtually absent public sector, ineffective regional development policies and insufficient representation of Satun's businesspeople in Bangkok is very difficult to change, because it is partly a result of the managed variety of embedded mercantilism in Thailand. This holds as well for position of the Governor. Perhaps it can only be demolished in case this managed variety changes dramatically; in other in words, in case the national institutional framework changes. Therefore, it remains to be seen how the

17th constitution, approved in a referendum on August 19, 2007, will lead to better economic and human development performances in Thailand's non-core regions.

As a result of the Asian financial crisis, King Bhumibol Adulyadej gave a speech in December 1997 in which he promoted the principles of a so-called sufficiency economy, based on concepts such as harmony, reasonableness, self-immunity and moderation. In the following years sufficiency economy became a popular topic and the UNDP Thailand Human Development Report 2007 is entirely devoted to this topic. However, the Economist (2007) accused the UNDP of being 'a sucker for this sort of new-age waffle'. On the one hand, it is indeed difficult to combine the principles of the sufficiency economy with the established capitalist system. On the other hand, reducing societal stress and environmental pollution perhaps requires a totally new economic philosophy. Besides the case of Thailand, the issue of ineffective public sectors is relevant as well in other Southeast Asian non-core regions.

4. How can the long-term sustainability of economic policies that are dependent on public involvement be ensured?

In contrast to the Satun case, the public sector is the dominant driver for economic and human performance in Perlis. Nevertheless, there is a threat in the long term. Until now the strong involvement of the public sector in the domestic economy is financed by revenues from the international economy, i.e. revenues from activities in the core regions Kuala Lumpur, Penang and Johor and royalties from oil exports. It remains to be seen how many years (geographical) side payments and the domestic economy can be financed by the international economy (Jayasuriya 2004 & 2003). Indeed, the entire Malaysian *state* variety of embedded mercantilism might be challenged in the future. What happens if foreign investors decide to cease their operations and relocate to other countries? What happens if the oil reserves seriously diminish? What happens if the dominant political party UMNO somehow loses its power? Given a lack of rural informal institutions, what happens in rural areas if governmental authorities retreat?

Future research opportunities

The results of the comparison of Satun and Perlis offer a variety of opportunities for further research in order to increase the body of knowledge on regional performance and regional diversity. Five research topics are identified below.

- As Satun turned out to be an outlier in Thailand in terms of institutional complementarities, research in 'average' Thai provinces might lead to a better understanding of Thai institutional complementarities.
- In Southeast Asian countries without a pervasive institutional presence at the national level of the public sector, notably Thailand, the Philippines and Indonesia, it makes sense to conduct (comparative) empirical research on the interplay between national and regional institutions.
- Based on evolutionary economic geographical insights it is possible to start longitudinal studies of institutional change at the regional level. Nevertheless, regional institutional time series are often not available and primary data gathering over a long time requires a huge research effort.
- For a fuller understanding of the impact of institutions on differences between peripheral regions more theoretical and empirical research is welcome. A possibility would be to explore

the validity and usefulness of institutional taxonomies by testing them in the field. Another possibility is to investigate comparative institutional advantages in light of frictions between economic growth and human development.

- There seems to be a need for more knowledge on *informal* institutions, particularly from the viewpoint of inclusive private sector development and access to national budgets and policies. It is relevant to search for policies that reduce the scope for disabling informal institutions and facilitate or even invent enabling institutions. Admittedly, this will be difficult as historically rooted informal institutions cannot be easily set aside.

Endnote

- I Van Helvoirts study is, therefore, comparable to this thesis, and could be considered as a thematic follow up investigation, but in a different part of Southeast Asia and with some different theoretical and empirical perspectives.

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Appendices

1 Research methodology

Section 1.4 provided insights into general methodological considerations, while this appendix presents a detailed overview of the methodological aspects of this study. More precisely, the ins and outs of the two fieldworks are discussed below. The appendix starts with a time schedule of the research.

- September 2003 – May 2004

Literature review, short visit to the research area, among others to establish links with the Prince of Songkhla University (PSU) of Hat Yai and the Northern University of Malaysia (UUM) in Sintok and preparing the first fieldwork

- June 2004 – December 2004

First fieldwork

January 2005 – December 2005

Analysis of first fieldwork, writing some draft chapters, preparing second fieldwork

- January 2006 – June 2006

Second fieldwork

- August 2006 – October 2006

Three months unpaid leave for an internship

- November 2006 until completion

Analysis of second fieldwork and writing

First fieldwork: June 2004-December 2004

Doing fieldwork in Thailand does not require special legal actions, but foreign researchers in Malaysia must apply for a research pass, issued by the Economic Planning Unit in Putrajaya. The entire application process took around 3 months. Based on the literature review and other preparing activities several questionnaires and semi structured interviewed were designed at Utrecht University. As the first fieldwork began in Satun, they were translated by interpreters at the Prince of Songkla University in the Thai language. Next, the most important and by far the longest survey, the firm survey, was tested in Hat Yai. Ten tests were conducted among relatives and friends of the interpreters who owned or managed a firm. Analysing the test surveys resulted in some necessary changes:

- The test survey was too long and took much time. Therefore, some less relevant questions were deleted.
- Several questions were too general. They had to be formulated more precisely.
- Interviewees were generally reluctant to answer questions relating to the financial trends of firms (turnover, profits and losses, etc). Unfortunately, these questions had to be deleted. Only the trend in number of employees could be maintained.

The overall result was a firm survey consisting of 89 questions in Satun and 83 questions in Perlis. The survey took between 45 and 90 minutes depending on the activities of the firm and the interviewees' willingness to talk. The difference accrues from the difference in legal ownership structure. Firms in Satun were sampled from an extensive digital list of the Department of Commerce in Satun. Unfortunately, there is no single reliable governmental authority that registers all firms in the formal economy of Perlis. Hence, sampling there had to be carried out through various sources. The most important sources were (incomplete) lists from the Malay Chamber of Commerce, the Chinese Chamber of Commerce, Malaysia's Company Commission (SSM), and the Perlis State Economic Development Corporation. The aim of sampling in Perlis was to get a roughly equal share of Bumiputera owned and ethnic-Chinese owned firms as the economy is dominated by these two groups. Firms with less than 5 employees were considered as small, between 5 and 300 as medium and more than 300 as large.

In both Satun and Perlis firms were approached in person. If possible, the survey was conducted immediately, if not an appointment was made. Virtually all surveys and interviews in Satun were conducted by interpreters because the majority of the people in Satun didn't speak sufficient English. In contrast, in Perlis 50% of the surveys and interviews were carried out by the researcher himself, 25% by a Bumiputera interpreter and 25% by an ethnic-Chinese interpreter. Managers and owners of relatively large firms were generally able to communicate in English, but people working in small firms prefer to speak in Malay or Chinese (mostly Hokkien). Bringing a Bumiputera interpreter to ethnic-Chinese firms or the other way round appeared to create distrust, thus that was avoided if possible. Somewhat surprisingly, the non-response in Satun was very low. Only 6 out of 44 firms' representatives refused to participate. In Satun 30 firms are located in amphoe (district) Satun, 5 in amphoe La-Ngu and 3 in amphoe Khuan Kalong (see Figure 1.1 as well). In Perlis 48 firms were approached, but 9 refused to participate. The location of the firms is more evenly spread across the state: 20 in Kangar, 6 in Kuala Perlis, 5 at the industrial estate between Kangar and Arau, 4 around Chuping (east of Beseri) and 4 in Padang Besar. In addition to the firm survey, questions were asked to business and social associations and (semi) governmental authorities. The presence of relevant associations and authorities became clear during the firm surveys, but also by travelling through the research areas. Actually, the questions consisted of a survey part and a semi-structured interview part. Below a summary of the nature of the questions. Finally, short questionnaires were prepared for banks and car and motorcycle dealers.

Questionnaire for the private sector

Questions about the firm

Questions to/about the owners

Basic and institutional economic questions on

- Supplies
- Demand
- Business associations

(Semi) Governmental authorities

Opinion on regional development

Access to private finance

Final questions

Questionnaire for business (and social) associations (37 questions)

Basic information

Activities

Opinion on regional development

Access to finance

Questionnaire for (semi) regional governmental authorities (53 questions)

Basic information

Regulatory environment

Information provision

Budget access for regional development activities

Cooperation with (business) associations and other governmental authorities

Orders to firms for regional development spending

Formal and informal cooperation with firms

Personal meetings

Opinion on regional development of Perlis

After conducting the surveys and semi-structured interviews the answers were translated in English if necessary. Results were subsequently put into the statistical computer programme SPSS. Unfortunately, few statistical analyses could be done as there are virtually no data on a ratio scale. Most data have at best an ordinal scale. Complicating is the fact each individual has its own configuration of results. Two examples: 1. The analysis of clients is hampered in the case of retail firms, because they have too many clients. Obviously, the owners or managers of such firms cannot know everything about their clients. 2. Investigating the impact of associations on institutional relations with suppliers and clients is hampered by the fact that some firms are member of one or more associations but do not have suppliers (in the case of service firms in Perlis) or are retail firms. Therefore, combining attributes of actors in SPSS proved to be very difficult and would have led to (too) small researchable numbers of actors. Instead, SPSS has been useful for data management and simple analyses.

Second fieldwork January 2006-June 2006

The goal of the second fieldworks was to obtain insights into a variety of institutional and non-institutional issues. In contrast to the first fieldwork, it did not mainly focus on the private sector, but on the interaction of the private sector with the wider society, predominantly the public sector and political organisations. As this interaction often is a sensitive matter, semi-structured and open interviews had to be prepared with great care. The first step was to discuss the methodology with some researchers at Utrecht University with experience in investigating sensitive social issues. Next, interesting warnings come from Nelson (2005) who investigated political issues in Chachoengsao, east of Bangkok. 'One needs to keep in mind that Thai (local) politics is a highly exclusive and secretive affair. Most of it is not played out on a public stage, nor is the public normally allowed to observe what really happens. Data collection becomes difficult when conducting research in settings where informal processes are dominantly important compared to formal ones'. He even stated that doing such research can be dangerous for the researchers themselves. These warnings perhaps explain as to why so few studies have been conducted on local politics in Malaysia. The most authoritative publication remains an anthropological study

by Shamsul (1986). Another factor is the limited availability of time. Gaining trust with insiders normally requires a long period of being in the field.

The duration of the interviews varied considerably. Some were completed after 30 minutes, the longest took 2 hours. Sequencing the questions from neutral to sensitive proved to be beneficial. Most interviews comprised of around 15 questions. In order to get reliable information, answers from the interviewees were cross-checked and compared with other answers and results. The political results as presented in chapters 5 and 6 were mainly generated by several contributing factors. The Thai interpreter was well informed, cautious, but eager to know more about sensitive issues. And the researchers met some insiders who were not afraid to disclose much information. Interviews with members of the regional press appeared to be highly informative as well. Overall, interviewees in Satun were much more outspoken than Perlis' interviewees. A good indication was the fact that almost all Satun's interviewees accepted the use of a voice recorder, whereas this device could hardly be used at the other side of the border. Perhaps a suitable explanation for this difference is the outcome that there seems to be few illegal political practises in Satun compared other Thai provinces, whereas the Menteri Besar in Perlis appears to sometimes think of himself rather than the welfare and well-being of the state and its population. Secondary data played a very marginal role during the second fieldwork, but witnessing some (informal) meetings and celebrations contributed to the fieldwork, for example at the Rotary Club and Satun Town Municipality in Satun and Ramadan celebrations in Perlis.

Initially, the idea of revealing a *social network* of important economic and political organisations in both regions was appealing as it might contribute to the analysis of institutional arrangements. As mentioned in section 1.4 this was very difficult in Perlis. The advantage of social network analysis is that it explicitly focuses on relations between agents rather than characteristics and attributes of agents (Scott 1991). 'Relational data are contacts, ties and connections, the group attachments and meetings, which relate one agent to another and so cannot be reduced to the properties of the individual agents themselves'. In recent years several interesting empirical studies have been published using social network analyses. For example Agapitova (2003) on innovation systems and industrial transformation in Russia, Knoke (2001) on the important role of business networks in the contemporary political economy and Wada (2003) on main brokers and actors in the civil society of Mexico during the Post-revolutionary period (1964-1982), the neo-liberal transition period (1983-1994) and the neo-liberal consolidation period (1995-2000).

Knowledge about meetings could contribute to formal and informal institutional arrangements and the political dimension of those arrangements. This is especially the case if relational outcomes are eventually combined with characteristics of the actors. Hence, based on the obtained insights from the first fieldwork 16 actors in Satun and 18 actors in Perlis were confronted with the following two network questions: 'How many times a month does your company/organisation have *professional* meetings with the owner/director or manager/senior officials working at the following companies/organisations...?'. The interviewees were thus asked to estimate monthly professional meetings with 15 actors in Satun and 17 actors in Perlis. The same question was asked for *informal* meetings. The paired results were averaged and then rounded off to single digit numbers. Results were entered into the software programme Ucinet 6 for Windows (Borgatti et al. 2002). The figures in chapter 5 pertaining to professional and informal meetings are drawn with this programme. For Satun only 2 actors were removed as a result of an incomplete data set, but unfortunately many actors in Perlis' private sector were

reluctant to answer monthly meeting questions. The positions of the nodes in Figures 5.2 and 5.3 are based on a spring embedded Gower metric scaling, including the options *node repulsion* and *equal edge length*. It consists of an iterative fitting process (100 iterations) ‘to locate the points in such a way as to put those with smallest path lengths to one another closest in the graph.’ (Hanneman & Riddle 2005). For easy analysing node repulsion creates some separation between nodes would otherwise be located very closed to one another and equal edge length leads to more or less similar distances between adjacent nodes. According to Hanneman & Riddle it is important to recognise that ‘there is no “right way” to use space in a graph’. Therefore, it is analytically not incorrect to move the nodes in Figure 5.1 in order to get identical network position as in Figure 5.2. For the sake of completeness, appendix 8 shows the professional meetings network using a spring embedded Gower scaling iteration. Besides these questions the actors were also asked to consider their perception of economic influence of other actors. The results for Satun (25 actors) are presented in Table 5.5; results for Perlis were again insufficient and unsatisfactory. Overall, insights from Perlis relied much more on open interviews. In theory newspapers could be a useful secondary source, but as Satun and Perlis are small regions, very few articles on the political situation in these regions were found, both in English language newspapers (Bangkok Post, The Nation, The Star and New Straits Times) and Thai newspapers (with the help of interpreters). Instead, newspapers were helpful for background information on the national scale level. Finally, below all interviewees are listed.

Table A1 Interviewees during first fieldwork

name	activity	function of interviewee
<i>Satun</i>		
Firms		
(registered capital, million baht)		
Marine Aquaculture (25)	fisheries	owner
Pakbara fish powder (4)	fisheries	general manager
San Sia frozen product (3)	fisheries	manager
Siam Tin Foods (100)	fisheries	manager
Hongyen Siphadakee (40)	fisheries	manager
Pakbara Frozen Seafood (5)	fisheries	manager
Hongyen Tammalang (20)	fisheries	manager
Saha satun nam khang (20)	ice factory	manager
Nam khang Satun (10)	ice factory	audit manager
Frozen Water Lang Gu (7)	Ice factory	co-owner
Satun Transport (>1)	public transport	owner
Wassana Travel (>1)	travel agency	owner
Thai Ferry Centre (26)	transport/tourism	general manager
Pinnacle Wangmai Hotel (25)	hotel	general manager
Sinkiat Hotel (15)	hotel	manager
Kumpol construction (3,5)	construction	owner
Andaman Construction (1,5)	construction	owner
Satun Thaijrueen (50)	construction	personnel manager
Satun Materials (4)	construction materials	director
Lang-Gu Store (6)	construction materials	owner

name	activity	function of interviewee
Satun Concrete (15)	producing paving blocks	manager
Palmthai Pattana (61)	palm oil	engineering man
SKP Para Wood (10)	rubber wood	manager
Tung Tam Sao Rubber (60)	latex processing	plant manager
Siam City Supermarkt (1)	electric appliances	owner
Printing business (>1)	printing	manager
Satun Services (2)	telecom equipment	co-owner
Sinchai Satun (1,3)	fuel and oil	accounting
Stationary Store (>1)	electric spare parts	owner's son
Clocks' shop (1)	selling clocks	general manager
T-shop (>1)	mobile phone shop	owner
Sin Jarean (1,6)	newspapers	owner
Ing-Ong-Sam trading (1,5)	trading with Malaysia	co-manager
Tong Ho D'store (5)	supermarket	owner
IT zone (2)	computer shop	director
Rung Rueng (>1)	selling vehicles	owner
STE import/export (1)	export-import	manager
Super Satun (>1)	general store	assistant manager

Associations

Fisheries association		secretary
Chong Hua association	for Sino-Thai	chairman
Chamber of Commerce		chairman
Thai Federation of Industry		
Songkhla Chapter		chairman
Rotary Club		several members
Islamic financial cooperative	lender organisation	secretary

Banks

Siam Commercial		manager
Kasikorn bank		normal employee
Krung Thai bank		manager
Thai military bank		assistant manager
SME development bank		assistant manager
Islamic bank of Thailand		normal employee
Krung Thai bank, Islamic function		assistant manager

Car and Motorcycles dealers

Honda	car	employee
Toyota 1	car	manager
Toyota 2	car	
Isuzu	car	manager
Honda	motorcycle	manager
Suzuki	motorcycle	assistant manager

name	activity	function of interviewee
Governmental authorities		
Department of rubber replanting		director
Department of fisheries		director
Ministry of agriculture		director
Department of commerce		director
Land office		assistant director
Community development		assistant director
Ministry of natural resources and environment		director
Department of industry		director
Department of rural roads		assistant director
Satun Town municipality		civil servant
Office of the Governor		chief
Office of the Governor		governor
NESDB in Bangkok		senior director
Ministry of Interior in Bangkok		policy analyst

Others

Retired civil servant	Mr. Viroth
Academic at Prince of Songkla University, Hat Yai	Dr. Rotchanatch
Islamic committee, Satun Province	Mr. Khoree
NESDB Songkhla	Mr. Prapan
Office of the Governor, Satun	Ms. Janya

name	activity	function of interviewee
	<i>Perlis</i>	

Firms

Pens Holdings	construction	general manager
Nada Mahir	construction	owner
Prowijaya enterprise	construction	owner
Konsortium Indera	construction	owner
Bintong Construction	construction	owner
Ahzar construction/Gapura	construction	owner
Iamko Metal	construction materials	clerk
Bumita Properties	property developer	purchasing man.
CIMA	cement	assistant man.
Chai gee	fisheries	director
Tak lean	fisheries	manager
Keat Lean	fisheries	managing dir.
Perlis Ice Works	ice factory	clerk
Atlas Edible Ice	ice factory	director
Waterdragon	fishing nets	HRM officer
EQS management	consultant	owner
HDL management	consultant	owner

name	activity	function of interviewee
Globonus	logistics	2nd shareholder
Eng Thai	logistics	director
Chop Chin Huat	wholesale	owner
PB Hong Lee trading	wholesale	director
Chop Tai Sin	wholesale	owner
RMTeam superstore	shopping centre	HRM officer
The Store	shopping centre	manager
Bann Edar	equipment	owner
Zhulian	healthy foods	owner
ZU engineering	air conditioning	owner
Shorubber	gloves	HRM officer
Dragon & Phoenix	textiles	HRM officer
Hpa Industries	herbs & medicines	marketing man.
Kilang Gula	sugarcane	HRM officer
Better Scoop	vinyl floors	factory man.
Ferm Pro	producing ethanol	laboratory officer
Putra Palace	hotel	operations man.
Zatikimia	cleaning service	owner
HMG North Trading	trade	director
TTPC	power plant	executive secretary
Emas Hajjah Hajjah	jewellery	sales officer
Kang Giap	mixed	manager

Associations

Chinese chamber of commerce	chairman
Malay chamber of commerce	executive director
Hokkien association	secretary
Fisheries association	chairman

Banks

Bank Simpanan Nasional	manager
Public Bank	manager
Bank Islam	normal employee
Affin Bank	manager
Muamalat Bank	manager
Bumiputra Bank	assistant manager
RHB	senior advisor
MAY Bank	manager
Hong Leong Bank	normal employee

Car and motorcycle dealers

Chevrolet/Hicomobil	car	
Proton	car	owner
Perodua	car	owner
Inokom/Hyundai	car	

name	activity	function of interviewee
Dahaitsu/Nissan	car	
mixed	motorcycle	owner
Honda	motorcycle	owner
Governmental authorities		
Economic Planning Unit		director
State Economic Development Corporation		secretary
Fisheries Development Authority		director Perlis
Dep. of Town and Country planning		director
Department of Cooperatives		civil servant
Department of Agriculture		director
State Legislative Assembly		speaker
MARA		director
MADA		engineer
MIDA in Alor Setar		advisor
Economic Planning Unit in Putrajaya		director regional economics
Others		
Latex processing factory	Mr. Jackie Chin	
Entrepreneur	Mr. Safie Bakar	
Entrepreneur	Ms. Ramlah	
Employee of Mediequip		

Table A2 Interviewees during second fieldwork

Name	activity	function of interviewee
<i>Satun</i>		
Firms		
Thai ferry Centre	transport/tourism	owner
Pinnacle Wang Mai hotel	hotel	manager
Hongyen Sinphakdee	fisheries	manager
Pitak shipyard	shipyard	owner
Siam Tin Foods	fisheries	managing director
Satun Transport	public transport	largest shareholder
Satun Thaijuren	construction	manager
Governmental authorities		
Office of the Governor		chief
Department of commerce		director
Department of fisheries		director
Department of industry		director

Name	activity	function of interviewee
Politicians		
Provincial Administrative Organisation		member
Provincial Administrative Organisation	Mr. Pornchai	chairman
Satun Town municipal council	Mr. Apiwat	chairman
Satun Town municipality	Mr. Piboon	mayor
Satun Town municipality	Mr. Namchai	former mayor
La-ngu Town municipality		mayor
La-ngu Town municipal council		chairman
Parliament	Mr. Asi	member
Parliament	Mr. Thanin	former Member
Regional press		
The Nation (English)		reporter
Bangkok Post (English)		reporter
Authorities in Bangkok		
Bureau of the Budget		civil servant
Comptroller General		civil servant
Department of Local Administration		civil servant
Others		
Chuang Hua association	Mr. Sujin	chairman
Rotary Club	Mr. Chalemporn	chairman
Fishery association	Mr. Charnchai	secretary
provincial historian	Mr. Bunserm	
Name		
<i>Perlis</i>		
Firms		
TTPC	power plant	executive secretary
Globonus	logistics	2 shareholders
Nam Fang	construction	purchasing manager
Entrepreneur	consultant	owner
Perlis Holdings	property developer	manager
Governmental authorities		
Perlis State Government		secretary
Perlis State Government		treasurer
Department of Land and Mines		assistant manager
Economic Planning Unit		director
RISDA		assistant manager
State Economic- Development Corporation		general manager & secretary

Name	activity	function of interviewee
Majlis Perbandaran Kangar		director
Politicians		
State Executive Council	Ms. Oui Ah Lan	member
State Executive Council	Datuk Zaihidi	member
Dewan Rakyat	Datuk Seri Syed Razlan Putra Syed Jamalullail	member
Dewan Rakyat & Federal Cabinet	Datuk Azmi bin Khalid	member
Dewan Rakyat & Federal Cabinet	Datuk Mohd Radzi Sheikh Ahmad	member
State Legislative Assembly	Mr. Sulaiman	speaker
Dewan Negara	Tan Sri Dr. Abdul Hamid Pawanteh	president
Regional Press		
The Star		2 reporters
Nanyang Siang Pau		reporter
Utusan		reporter
Authorities in Putrajaya		
Department of Local Government		director-general
Department of Housing		housing
Department of Public Works (JKR)		civil servant
Others		
KUKUM	Mr. Zul	deputy vice chancellor
KUKUM	Mr. Rusli	registrar
Universiti Utara Malaysia	Dr. Roslan	academic
Universiti Utara Malaysia	Mr. Musa	academic
Malaysian chamber of commerce	Mr. Omar Daud	executive director
Chinese chamber of commerce entrepreneur	Mr. Chang Ban Pao Ms. Ramlah	chairman

2 Behavioural assumptions of neo-classical and neo-institutional economic theory

Table A3 Behavioural assumptions

Neo-Classical	Neo-Institutional
1 the economic world viewed as an equilibrium	1 the economic world viewed as multiple equilibria
2 economic actors repeatedly face very similar choice situations	2 economic actors face unique and non-repetitive choices
3 actors have stable preferences	3 actors' preferences change over time
4 actors have complete information	4 actors do not have complete information
5 no equilibrium exists in which actors fail to maximise their preferences	5 economic outcomes are often non-equilibrate and actors often fail to maximise their preferences
6 combining 1 and 6: actors are maximizing	6 actors behave not only non-cooperative and maximizing
7 progress in economic understanding easy as a result of simple regularities regarding optimization equilibrium	7 behavioural assumptions of economists are inadequate for social sciences and understanding of institutions

Source: North 1990

3 Variants of Fordism

Table A4 Variants of Fordism

Type of Fordist regime	Characteristics of coupling	Examples
Classic	Mass production and consumption underwritten by social democratic welfare state	United States
Flex	Decentralised, federalised state. Close co-operation between financial and industrial capital, including facilitation of inter-firm co-operation	West Germany
Blocked	Inadequate integration of financial and productive capital at the level of the nation-state. Archaic and obstructive character of working-class politics	United Kingdom
State	State plays a leading role in creation of condition of mass production, including state control of industry L'état entrepreneur	France
Permeable	Relatively unprocessed raw materials as leaders of economy private collective bargaining but similar macro-economic policy and labour management relations to classic Fordism. Bastard Keynesianism	Canada, Australia
Delayed	Cheap Labour immediately adjacent to Fordism core. State intervention played key role in rapid industrialisation in the 1960s.	Spain, Italy
Peripheral	Local assembly followed by export of Fordist goals. Heavy indebtedness authoritarian structures coupled with movements for democracy, attempts to emulate Fordist accumulation systems in absence of corresponding mode of social regulation	Mexico, South Korea, Brazil
Primitive Taylorism	Taylorist labour processes with almost supply of labour. Bloody exploitation, huge extraction of surplus value. Dictatorial states and high social tension	Malaysia, Bangladesh, Philippines

Source: Tickell & Peck 1995

4 The institutions and ideological basis of the world's dominant capitalisms

Table A5 The world's dominant capitalisms

Characteristic	American capitalism	Japanese capitalism	European social market	British capitalism
<i>Basic principle</i>				
dominant factor of production	capital	labour	partnership	capital
public' tradition	medium	high	high	low
centralisation	low	medium	medium	high
reliance on price-mediated markets	high	low	medium	high
supply relations	arm's length price-driven	close enduring	bureaucracy planned	arm's length price-driven
industrial groups	partial, defence.	very high	high	low
extent privatised	high	high	medium	high
<i>Financial system</i>				
market structure	anonymous securitised	personal committed	bureaucracy committed	uncommitted marketised
banking system	advanced marketised	traditional regulated	traditional regulated	advanced marketised
stock market	regional	concentrated	regional	centralised
required returns	very important high	unimportant low	unimportant medium	very important high
<i>Labour market</i>				
job security	low	high	high	low
labour mobility	high	low	medium	medium
labour/management	adversarial	cooperative	cooperative	adversarial
pay differential	large	small	medium	large
turnover	high	low	medium	medium
skills	medium	high	high	poor
union structure	sector-based	firm-based	industry-wide	craft
strength	low	low	high	low
<i>The firm</i>				
main goal	profits	market share stable jobs	market share fulfilment	profits
role of top manager	boss-king autocratic	consensus	consensus	boss-king hierarchy
social overheads	low	low	high	medium, down

Table A5 Continued

Characteristic	American capitalism	Japanese capitalism	European social market	British capitalism
<i>Welfare system</i>				
basic principle	liberal	corporatist	corporatist social democracy	mixed
universal transfer	low	medium	high	medium, down
means-testing	high	medium	low	medium, up
degree education				
tiered by class	high	medium	medium	high
private welfare	high	medium	low	medium, up
<i>Government policies</i>				
role of the government	limited adversarial	extensive cooperative	encompassing	strong adversarial
openness to trade	quite open	least open	quite open	open
industrial policy	little	high	high	non-existent
top income tax	low	low	high	medium

Source: Knox et al. 2003, pp 92-93 (based on Hutton 1995, p. 282)

5 A brief overview of the political and economic geography of Thailand and Malaysia

In terms of demographic patterns, economic activity and legal political structure Thailand is a very centralised country whereas Malaysia is relatively more balanced. In 2003 Thailand's total population was around 62 million, of which 6.4 million people lived in Bangkok Metropolis. The largest secondary cities in Northern, North-eastern and Southern parts of the country, such as Chang Mai, Khon Kaen, Nakhon Ratchasima, Phuket and Hat Yai do not have more than 400000 inhabitants. In contrast, Malaysia's total population of around 25 million live more evenly distributed across the country. The federal territory of Kuala Lumpur inhabits 1.5 million people, Penang Island 1.4 million and the city of Johor Bahru 1.2 million. A similarity however, is the fact that regions surrounding the capitals are very densely populated: 567 per sq. km. in the State of Selangor surrounding Kuala Lumpur and an average of 747 per sq km. in five provinces the provinces, Nakhon Pathom, Nontaburi, Pathum Thani, Samut Prakan and Samut Sakon, bordering Bangkok Metropolis (NSO 2005, DOS 2005). In this respect Ginsburg et al. (1991) have termed these areas (thus large (capital) cities surrounded with densely populated regions) 'extended metropolises'. Other famous extended metropolises are Manila and Jakarta. Furthermore, in 2003 26% of Thailand's GDP was generated in Bangkok Metropolis whereas only 12% of Malaysia's GDP was generated in Kuala Lumpur (NESDB 2005, EPU 2003). Figures A1 and A2 depict the most important economic regions in Thailand and Malaysia. Thailand lacks large secondary economic centres like Penang Island and Johor Bahru, which is very near Singapore. An important feature of Malaysia is its multi ethnic society. 65% of the total population is Malay, the so called Bumiputera's, 26% is Chinese, 8% Indian and 1% from other countries.

Both Thailand and Malaysia are constitutional monarchies but Thailand consists of 76 provinces including Bangkok and Malaysia is a federation of 13 states and 3 federal territories (Kuala Lumpur, the new seat of government Putrajaya and the island of Labuan). In 1932 The Siamese king lost its absolute power and a constitutional monarchy was established. One year later Siam was structured into provinces. Currently, The Governor of Bangkok is elected, but the Ministry of Interior appoints the Governors of 75 provinces. One aim of the 1997 constitution was to decentralise the political and administrative system, but ex Prime Minister Thaksin Shinawatra, who was in office between February 2001 and September 2006 was not fond of political reform. Nelson (2005) even states that 'with the election on 6 February 2005, overwhelmingly won by Thaksin, all connection to the political reform project seem to have been lost'. Other authors, concerned about the limited positive effects of the 1997 constitution are Pasuk & Baker (2004, pp. 172-197) and Mutebi (2004). Chapter 6 assessed the impact of these issues on the province of Satun.

The federal constitution of Malaysia is rather complex as a result of historical and colonial developments. During the colonial time the British had specific agreements with each Malaysian

Table A6 Summary of federal and state government functions

Federal		State	
1	external affairs	1	Muslim law and custom
2	defence	2	land
3	internal security	3	agriculture and forestry
4	civil and criminal law and the administration of justice	4	local government
5	federal citizenship & alien naturalization	5	local public services
6	federal government machinery	6	state works and water
7	finance	7	state government machinery
8	trade, commerce and industry	8	state holidays
9	shipping, navigation and fishery	9	inquiries for state purpose
10	communication and transport	10	turtles and riverine fishery
11	federal works and power		
12	surveys, inquiries and research		Shared functions
13	education	1	social welfare
14	medicine and health	2	scholarships
15	labour and social security	3	protection of wild animals: national parks
16	welfare of aborigines	4	animal husbandry
17	professional licensing	5	town and country planning
18	federal holidays; standard of time	6	vagrancy and itinerant hawkers
19	unincorporated societies	7	public health
20	agricultural societies	8	drainage and irrigation
21	publications	9	rehabilitation of mining land and which has suffered soil erosion
22	ensorship		
23	theatres and cinemas	10	fire safety measures
24	co-operative societies	11	culture and sports, housing
25	prevention of and extinguishing fires		

Source: Jomo & Wee 2002

sultanate. Malaysia became an independent federation in 1957. Federal-state relations are not the same for each state. 9 Malaysian states, including Perlis, have hereditary rulers, 4 states are headed by an appointed Governor, but in all states the State Executive Council, headed by the Menteri Besar, is the most important. The federal government controls a wide range of issues, but regarding among others religion, land use and local governmental affairs, the state government is, at least constitutionally, the most important. Table A6 further depicts 6 functions for which both the federal and the State level are responsible. Furthermore, each state has its own constitution, obviously subordinated to the federal constitution. For example, Perlis' constitution specifies that Perlis follows the Muslim religion *Abli Sunnah Waljama'ah* whereas most other Malaysian states follow the *Shafie Mazhab* (*Mazhab* is a particular Islamic school of thought) (Kamar 2004). As mentioned in section 2.1 Allen et al. (1998) and Flint & Taylor (2007) convincingly describe the complex nature of a region. In this thesis a region is a formal political entity: In Thailand a province; in Malaysia a state. This is an appropriate choice for the comparison of Satun and Perlis as these two areas have roughly the same size. It would have been less appropriate if larger Malaysian states are the object of analysis, especially Sabah or Sarawak.

6 Core regions of Thailand and Malaysia

See figures A1 and A2 page 232 and 233.



Figure A1 The core regions of Thailand



Figure A2 The core regions of Malaysia

7 The Thai-Malaysian borderlands

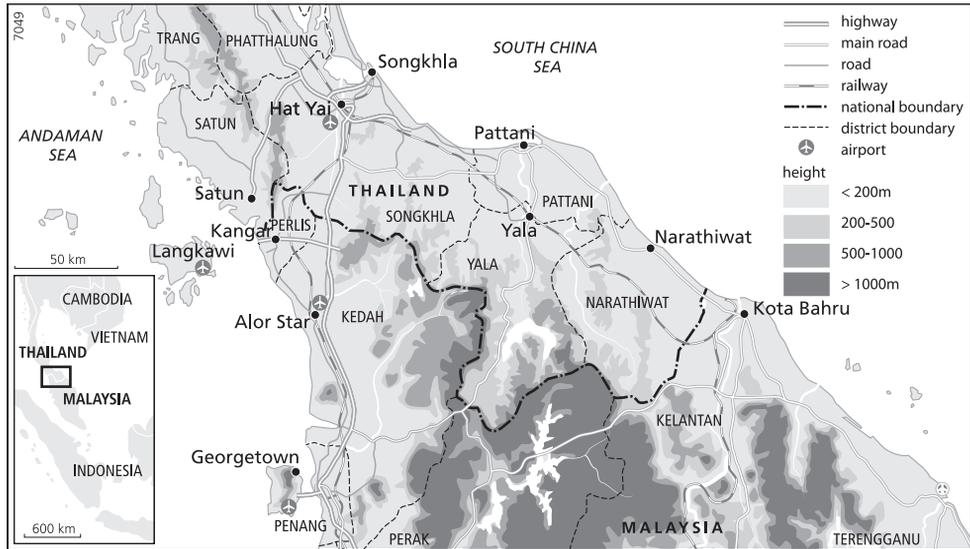


Figure A3 The borderlands

The map above (Figure A3) presents an overview of the Malaysian–Thai border region. The two research regions Satun and Perlis are both located at the most western part and along the Andaman Sea. It is striking that the entire border region is very heterogeneous. In fact, it is possible to split the border region in three parts. From west to east:

1. Perlis in Malaysia/Satun in Thailand. As discussed in section 3.3 Perlis and Satun shared a remarkably similar history and demography until the Anglo–Siamese Treaty of 1909. As a result of these trends, social interaction between Perlis and Satun has remained vividly. Many Islamic families continue to remain in touch with their relatives across the border and Perlis supports the Islamic Committee of Satun, especially during the Ramadan. In economic terms, however, border interaction remains relatively marginal. Since the border area is quite mountainous transportation, trade and tourist movements over land are time consuming. Travelling over sea is much easier and furthermore, much more attractive for smuggling. Detailed statistics are not available, but various interviewees mentioned that numerous goods are illegally traded at sea. To name some products: Malaysians buy seafood, rice and fruits from Thai ships and Thai buy cheap subsidised fuel and electronics.
2. Kedah in Malaysia/Songkhla in Thailand. Since 1994 this area has been a dynamic region with much economic interaction. In that year the Malaysian South–North highway reached the Thai border, after which Thai authorities upgraded the road to Hat Yai. Bukit Kayu Itam (north of Changlun) and Danok (south of Sadao, see Figure 1.1 as well) have become thriving business centres. Trucks between Singapore and Kuala Lumpur and Penang on the one hand and Bangkok on the other hand and large number of Malaysian, Thai and other tourists pass this point. A negative effect of this dynamism is the emergence of prostitution in Danok for Malaysian men.

3. Perak and Kelantan in Malaysia/Yala and Narathiwat in Thailand. The Thai Islamic provinces of Pattani, Yala and Narathiwat form the current troubled Southern tip of Thailand. In fact, since the signing of the Anglo-Siamese Treaty in 1909 these three provinces have been positioned in a problematic situation. The population is Islamic of Malay descent, they prefer to speak Yawi, a Malay dialect, but the Thai authorities have tried to incorporate these three provinces into the Thai nation-state. Although ethnic-religious tensions had emerged in earlier decades, the period 2002-2006 was very violent (McCargo 2007, Andriesse 2006, Croissant 2005). During the time of the empirical research in Satun and Perlis, one could read newspaper articles about violent incidents virtually each day. The tensions have resulted in little economic border interaction, but considerable social interaction between Kelantan and Narathiwat, Yala and Pattani. Thai authorities even fear that some radical extremists stay in touch with groups in Kelantan, currently the only Malaysian state where the Islamic party PAS is in power. Observers expected a decrease of problems after the military coup of 19 September, 2006, but throughout 2007 the violent incidents continued as if nothing was happened in Bangkok.

8 Satun professional meeting, spring embedded Gower metric scaling

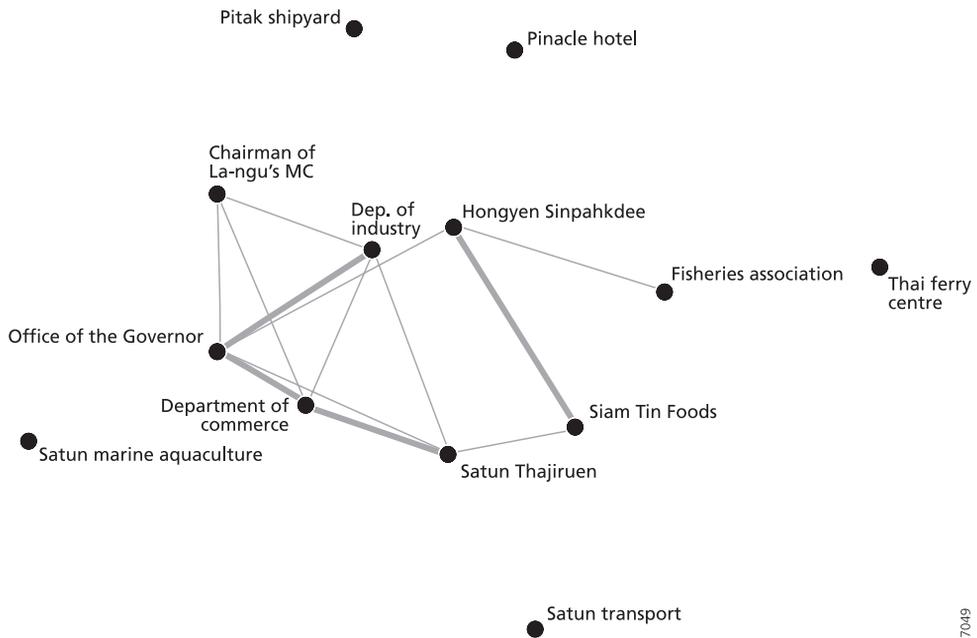


Figure A4 Initial network positions

Samenvatting

(summary in Dutch)

Instituties en regionale ontwikkeling in Zuidoost Azië

Een vergelijkende analyse van Satun (Thailand) en Perlis (Maleisië)

Hoewel bijna alle landen in Zuidoost Azië inmiddels in meer of mindere mate een kapitalistisch systeem kennen, blijven de verschillen in sociaal, economisch en politiek opzicht enorm, evenals de verscheidenheid in regionale ontwikkelingspaden.

Zo is Singapore is bijna niet te vergelijken met Laos of Timor Leste. Deze studie heeft geprobeerd meer inzichten te krijgen in de rol van *nationale* kapitalistische systemen voor het functioneren van niet-kernregio's en *regionale* ontwikkeling in Zuidoost Azië, in het bijzonder het grensgebied Thailand/Maleisië. Regionale ontwikkeling is hierbij gedefinieerd als een proces waarbij convergentie van werkgevers- en werknemerswelzijn optreedt in een subnationaal gebied (Ettlinger 1999).

Theoretische achtergrond

Het bestuderen van kapitalistische diversiteit gebeurt al decennia lang vanuit verschillende perspectieven. Eén van die perspectieven is de vergelijkende institutioneel economische benadering. Hall & Soskice (2001) en Whitley (1999) hebben deze benadering in een nieuw daglicht geplaatst door aandacht te vragen voor de *samenhang* van instituties. Regels en contracten zijn formele instituties; gedragsnormen en gewoontes informele instituties (North 1990). Beide vormen kunnen effectief of ineffectief zijn voor regionale ontwikkeling. Patronen van economische activiteit en prestaties zouden niet zozeer worden bepaald door losse instituties, maar door de interactie van bepaalde instituties. Hall & Soskice (2001) spreken in dit verband over institutionele *complementariteiten*. Misschien hun bekendste bijdrage aan de economische literatuur is het benadrukken van verschillen tussen zogenaamde Angelsaksische en Rijnlandse instituties: een liberaal model geënt op vrije markten en radicale innovatie versus een model waarin markten worden gereguleerd en waarin innovatie geleidelijk plaatsvindt. Er zijn echter tal van aanwijzingen dat deze 'Westerse' dichotomie te sterk is voor Zuidoost Azië. Daarom is Hall & Soskice's benadering op twee punten aangepast:

- Omdat overheden vaak een belangrijke rol blijken te spelen in Zuidoost Aziatische economieën is de dichotomie uitgebreid met de optie van een staatsgestuurde economie. Schmidt (2003) onderscheidt hierbij *markt-* (*Angelsaksisch*), *gecoördineerd-* (*Rijnlands*) en *staatskapitalisme*.
- Aandacht voor variëteiten van institutionele complementariteiten die relevant zijn in Zuidoost Azië, maar geen plaats hebben in de dichotomie van Hall en Soskice. Deze zijn onderzocht aan de hand van Jayasuriya's (2003 & 2004) *ingebod mercantilisme* benadering. In zijn opvatting kunnen exportgeoriënteerde strategieën niet los worden gezien van binnenlandse constellaties. Zuidoost Aziatische kapitalistische systemen hebben drie elementen gemeenschappelijk: een duale politieke economie (internationale- versus nationale

georiënteerde activiteiten), een bepaalde overlap tussen deze twee segmenten (vaak door middel van binnenlandse politieke en economische coalities) en beleidsinstrumenten die zorgen voor (financiële) steun aan zwakkere groepen in de samenleving. Een groot voordeel van de laatste twee elementen is de mogelijkheid persoonlijke machtsnetwerken en etniciteit te integreren in institutionele analyses.

Onderzoeksmethodologie

Binnen het grensgebied Thailand/Maleisië zijn de Thaise provincie Satun en de Maleisische staat Perlis als onderzoeksregio's gekozen omdat deze regio's de mogelijkheid bieden te controleren voor de volgende drie niet-institutionele factoren: beide gebieden zijn geen kernregio's in hun eigen land, hebben ongeveer dezelfde natuurlijke hulpbronnen, hebben een bevolking die in meerderheid Islamitisch van Maleisische afkomst is. Daar komt nog bij dat beide regio's een gemeenschappelijke geschiedenis hebben tot het Anglo-Siamese Verdrag van 1909. Door dit verdrag werd Satun definitief een onderdeel van Thailand en Perlis van Maleisië. Nadien liep het economisch ontwikkelingsproces in toenemende mate uiteen. Satun is een regio gebleven gericht op landbouw, visserij en de agrarische verwerkende industrie, terwijl Perlis is getransformeerd tot een regio waarin publieke diensten dominant zijn en waar de levensstandaard ongeveer anderhalf keer zo hoog is als in Satun. Een koppeling van het uiteenlopend ontwikkelingsproces en de gemeenschappelijke niet-institutionele factoren suggereert dat de rol van *nationale* institutionele complementariteiten belangrijk zijn voor regionale ontwikkeling.

Empirisch onderzoek heeft zich gericht op de volgende vier institutionele/politieke sferen:

- relaties binnen het bedrijfsleven
- toegang tot bedrijfskapitaal
- coalities tussen het bedrijfsleven en de publieke sector
- toegang tot beleid en financiële steun van de centrale overheid

De eerste en tweede sfeer komen voornamelijk voort uit de theorieën van Hall & Soskice (2001) en Schmidt (2003), het derde en vierde aspect uit Jayasuriya (2003 & 2004). Het combineren van Schmidt en Jayasuriya heeft geleid tot de volgende observatie: in essentie heeft

Tabel I: Ingebed mercantilisme in Thailand en Maleisië

	Thailand	Maleisië
relaties binnen het bedrijfsleven	competitief plus coöperatief veel netwerken	staatsgestuurd in de binnenlandse economie
toegang tot bedrijfskapitaal	grote rol voor banken	grote rol voor de overheid
coalities tussen het bedrijfsleven en de publieke sector	overheid is 'faciliteerder' maar veel informele 'duistere' arrangementen	overheid is interventionist voorkeursbehandeling voor de Maleisiërs t.o.v. etnische Chinezen en -Indiërs
steun van de centrale overheid	zwak ontwikkelingsbeleid met 'duistere' arrangementen	sterk ontwikkelingsbeleid

Thailand een *gecoördineerde variëteit van ingebed mercantilisme* en Maleisie een *staatsvariëteit van ingebed mercantilisme* (zie Tabel I).

Het empirisch onderzoek bestond uit twee delen. Tussen juni 2004 en december 2004 werden enquêtes gehouden bij bedrijven. In Satun werden 39 bedrijven geënquêteerd, in Perlis 38. De bedrijven in Satun zijn vooral gevestigd in het *district* Satun; de bedrijven in Perlis zijn gelijkmatiger verdeeld over de regio. Daarnaast bestond het veldwerk uit semigestructureerde interviews met andere organisaties. Het tweede deel van het empirisch onderzoek duurde van januari 2006 tot juni 2006 en had als doel meer inzicht te krijgen in de derde en vierde institutionele/politieke sfeer. Semigestructureerde en open interviews werden gehouden met ambtenaren, ondernemers, politici, journalisten en academici. Sommige interviews vonden buiten de onderzoeksregio's plaats: Hat Yai en Bangkok voor Satun en Alor Setar en Putrajaya (de nieuwe administratieve hoofdstad van Maleisië) voor Perlis. Voor het identificeren van persoonlijke machtsnetwerken is er bovendien geprobeerd een sociale netwerkanalyse uit te voeren. Dit is goed gelukt voor Satun, maar als gevolg van een uitermate lage respons mislukt voor Perlis. De twee veldwerken hebben uiteindelijk geleid tot enquêtes/interviews met 213 actoren.

Bevindingen

In hoeverre bepaalt het Thaise *gecoördineerd ingebed mercantilisme* de vier institutionele/politieke sferen zoals boven beschreven en de regionale ontwikkeling in Satun en in hoeverre bepaalt het Maleisische *staatsingebed mercantilisme* de vier sferen en de regionale ontwikkeling in Perlis? Dat is de vraag die hieronder beantwoord zal worden. Tabel II geeft een overzicht van instituties en institutionele complementariteiten die voortkomen uit het empirisch onderzoek. De tabel geeft ook niet-institutionele factoren aan die eveneens een invloed blijken uit te oefenen op regionale ontwikkelingspaden.

De belangrijkste oorzaak voor het huidige sociaal-economisch verschil tussen de twee onderzoeksregio's is een *effectieve triangulaire complementariteit* voor Perlis: een publieke sector als interventionist en directeur plus een sterk regionaal ontwikkelingsbeleid en tenslotte een goede relatie tussen de Menteri Besar (hoofd van de regering van Perlis) en de Maleisische premier tussen 1995 en 2003. Deze complementariteit heeft gezorgd voor enorme financiële transfers van 'Putrajaya' naar Perlis waarmee de regering van Perlis heeft kunnen investeren in infrastructuur, toerisme en publieke diensten, met name onderwijs. Deze investeringen hebben op hun beurt geleid tot een toename van de werkgelegenheid en een convergentie van werkgevers- (in feite vaak de overheid) en werknemerswelzijn.

Tegenover de positieve ontwikkeling in Perlis staat een minder goede ontwikkeling in Satun. Dit is te wijten aan een ineffektieve triangulaire complementariteit in Satun. De publieke sector is er nagenoeg afwezig, het regionaal ontwikkelingsbeleid is er zwak en de invloed van ondernemers in 'Bangkok' gering. In de afgelopen twintig jaar heeft Satun de ineffektieve instituties enigszins kunnen compenseren door een *effectieve* complementariteit: een *guanxi* stijl van zakendoen en makkelijke toegang tot banken. Guanxi is een set van omgangsvormen onder (etnische)-Chinese ondernemers waarbij informele en persoonlijke relaties een grote rol spelen. Sino-Thai (etnisch-Chinese) bedrijven profiteren van de sterke vraag naar visserijproducten. Er kan zelfs gesproken van een visserijcluster (eigenaren van vissersboten, ijsfabrieken, verwerkende fabrieken, opslag en transport, groot- en detailhandel). Echter, op de lange termijn is de ontwikkeling negatief,

Tabel II: Instituties and andere factoren voor Satun en Perlis

	Satun (Thailand)	Perlis (Maleisië)
effectieve instituties	guanxi stijl van zakendoen (middellange termijn) + makkelijke toegang tot banken	publieke sector als interventionist en directeur + sterk regionaal ontwikkelingsbeleid + een goede relatie tussen de MB en premier tussen 1995 en 2003
ineffectieve instituties	guanxi stijl van zakendoen (lange termijn) publieke sector nagenoeg afwezig + zwak regionaal ontwikkelingsbeleid + geringe invloed van ondernemers in 'Bangkok' slecht imago van gouverneursbaan Ministerie van Milieu controleert veel land	staatsgestuurde relaties binnen het bedrijfsleven + beperkte toegang tot banken zeer gefragmenteerde eigendomsverhouding van land
effectieve andere factoren	sterke (inter)nationale vraag naar rubber en visserijproducten lonen	buitenlandse directe investeringen migratie
ineffectieve andere factoren	perifere ligging	lonen

'+' geeft een institutionele complementariteit aan

omdat het Islamitische gedeelte van de bevolking (dus de meerderheid) niet deelneemt aan dit ondernemersschap. Zij zijn boeren, vissers en werknemers gebleven en de Sino-Thaise werkgevers zijn onvoldoende geïnteresseerd in het verbeteren van de levensstandaard van hun werknemers. Er is daardoor een divergentie van werkgevers- en werknemerswelzijn opgetreden.

Een vergelijking van de twee tabellen leert dat gevonden instituties in Perlis grotendeels kunnen worden verklaard door de *nationale* instituties. De publieke sector drukt een enorme stempel op het handelen van bedrijven in Perlis en de federale overheid financiert in feite de gehele economie. Een goed voorbeeld is de bouw van nieuwe scholen en technische colleges en het betalen van salarissen van docenten. Zonder federale steun zou het verschil tussen Perlis en Satun veel minder groot zijn. De Maleisische instituties – vooral een *ineffectieve* complementariteit van staatsgestuurde relaties binnen het bedrijfsleven en beperkte toegang tot banken – zorgen er ook voor dat etnisch-Chinese bedrijven in Perlis niet goed kunnen groeien.

Nationale instituties in Thailand blijken een kleinere rol te spelen voor de regionale ontwikkeling van Satun. Zo verklaren *regionale* instituties, beïnvloed door de complexe

etnische structuur, de sterke aanwezigheid van guanxi. Terwijl er in het Thaise bedrijfsleven een mix is van competitie en samenwerking, domineert samenwerking in Satun, omdat Sino-Thaise ondernemers in een gesloten guanxi netwerk opereren te midden van een Islamitische meerderheid. Een ander verschil tussen nationale en regionale instituties is de toegang tot steun van de centrale overheid. In een gemiddelde Thaise provincie kunnen ondernemers vaak in Bangkok lobbyen voor beleids- en financiële steun via bijvoorbeeld parlementsleden, maar de ondernemers in Satun onderhouden geen contacten met Islamitische politici die Satun in Bangkok vertegenwoordigen.

Naast instituties beïnvloeden niet-institutionele factoren eveneens patronen van regionale ontwikkeling. Zo profiteert Perlis van een paar buitenlandse bedrijven en van financiële steun van migranten die elders in Maleisië een baan hebben gezocht. En ondernemers in Satun hebben baat bij lage lonen, maar daar is de perifere ligging mede debet aan een lastige bereikbaarheid, een bijna afwezige publieke sector en een slecht imago van de gouverneursbaan. Gouverneurs van Satun willen doorgaans zo snel mogelijk overgeplaatst worden naar populairdere provincies.

Implicaties

Tot besluit kunnen op basis van de bevindingen vijf slotopmerkingen geformuleerd worden.

1. Eigenlijk vormen Satun en Perlis een institutioneel spiegelbeeld. In Satun speelt de private sector een leidende rol in het economisch leven en is de publieke sector relatief zwak, terwijl het beeld in Perlis precies het omgekeerde is. Echter, het spiegelbeeld vormt geen klassieke tegenstelling tussen markt en staat omdat het bedrijfsleven in Satun – grotendeels in Chinese handen – een sterk samenwerkend karakter heeft (guanxi).
2. Waarschijnlijk is een land met een *staatsvariëteit van ingebed mercantilisme* het best in staat harmonieuze regionale ontwikkeling te bewerkstelligen. Een sterke publieke sector heeft namelijk veel mogelijkheden om te interveniëren in de binnenlandse economische geografie. Op de lange termijn kunnen er wel problemen ontstaan indien de financiële middelen ontoereikend blijken te zijn voor een continue steun aan arme regio's.
3. De literatuur betreffende etnische-Chinese ondernemers in Zuidoost Azië behoeft enige nuancering. Uit de vergelijking van Satun en Perlis is naar voren gekomen dat deze groep niet homogeen is en dat het economisch handelen ook afhangt van specifieke nationale institutionele arrangementen.
4. Methodologisch is de benadering van Hall & Soskice (2001) en Schmidt (2003) geschikt voor vergelijkende studies, omdat institutionele complementariteiten gestructureerd onderzocht kunnen worden, maar het blijft moeilijk Zuidoost Aziatische vormen van kapitalisme te vergelijken met traditionele 'Westerse' voorbeelden.
5. Vanuit het Zuidoost Aziatische perspectief is het aannemelijk dat nationale kapitalistische systemen vooral invloed uit te oefenen op regionale ontwikkelingspaden in landen met een *staatsingebed mercantilisme*. In landen met een *gecoördineerd- of markt ingebed mercantilisme*, (naast Thailand zijn dat Indonesië en de Filipijnen), lijken regionale instituties een relatief grotere invloed te hebben. Binnen International Development Studies, Universiteit Utrecht, wordt de rol van regionale instituties nu onderzocht in een comparatief onderzoeksproject in de Filipijnse regio's Cebu, Bohol en Negros Oriental.

Deze studie heeft verder aangetoond dat vergelijkende institutionele analyses niet zonder meerdere ruimtelijke schaal niveaus uit de voeten kunnen:

- regionale instituties kunnen overeenkomen of verschillen van nationale instituties;

- er kan een mix zijn van regionale en nationale instituties;
- nationale instituties kunnen regionale instituties marginaliseren of zelfs terzijde schuiven.

Tenslotte biedt deze studie aanknopingspunten om sociaal-economische verschillen tussen niet-kernregio's te onderzoeken en verklaren. Er kan bijvoorbeeld gedacht worden aan theoretisch en empirisch onderzoek op het gebied van ineffectieve informele instituties voor de slechtst presterende regio's of aan een taxonomie van 1. mogelijkheden in de private sector en 2. toegang tot beleid en financiële steun van de centrale overheid. Deze twee institutionele dimensies blijken een aanzienlijk deel van regionaal economische activiteiten en prestaties te kunnen verklaren.

บทสรุป

(summary in Thai)

บทบาทของสถาบันและการพัฒนาภูมิภาคในเอเชียตะวันออกเฉียงใต้ การวิเคราะห์เปรียบเทียบกรณีจังหวัดสตูล (ประเทศไทย) และรัฐเปอร์ลิส (ประเทศมาเลเซีย)

ประเด็นสถาบันที่เกี่ยวข้องกับภูมิศาสตร์เศรษฐกิจได้นำไปสู่การศึกษาเกี่ยวกับผลการดำเนินงานของภูมิภาคต่าง ๆ ในประเทศที่พัฒนาแล้วจำนวนมาก ภูมิภาคที่ประสบความสำเร็จ เช่น นครโตเกียว และเมืองบาเดินเวอร์ทเทิมเบอร์ก ในประเทศเยอรมนี มักถูกนำมาเป็นกรณีตัวอย่างบ่อยครั้ง เพื่อแสดงให้เห็นว่าการเสริมสร้างขีดความสามารถให้กับสถาบันทั้งที่เป็นทางการและที่ไม่เป็นทางการสามารถกำหนดรูปแบบของกิจกรรมทางเศรษฐกิจและการพัฒนาเศรษฐกิจได้ วิทยานิพนธ์นี้พยายามตรวจสอบว่าความเข้าใจในมิติด้านเศรษฐกิจที่เกี่ยวข้องกับสถาบัน ตามแนวทางของดักลาส นอร์ธ ซึ่งได้รับรางวัลโนเบล เมื่อ พ.ศ. 2533, แนวทางระบบทุนนิยม (varieties of capitalism) ของฮอลล์และซอสโคซ์ (2544) และตามแนวทางระบบพาณิชย์นิยม (embedded mercantilism) ของจายาสूरียา (2546, 2547) สามารถนำไปประยุกต์ใช้กับพื้นที่อื่น ๆ ในเอเชียตะวันออกเฉียงใต้ได้มากน้อยเพียงใด บทสรุปนี้รายงานผลการศึกษาวิเคราะห์เชิงเปรียบเทียบกรณีจังหวัดสตูล ในภาคใต้ ของประเทศไทย และรัฐเปอร์ลิส ในพื้นที่ตอนเหนือของประเทศมาเลเซีย ระหว่างเดือนมิถุนายน และ เดือนธันวาคม พ.ศ. 2547 เดือนกุมภาพันธ์ และเดือนมิถุนายน พ.ศ. 2549 โดยอาศัยข้อมูลจากการสำรวจและสัมภาษณ์กลุ่มเป้าหมาย รวม 213 ราย ซึ่งประกอบด้วยผู้จัดการหน่วยธุรกิจ ข้าราชการ ผู้จัดการธนาคาร สมาชิกหนังสือพิมพ์และนักการเมืองที่เกี่ยวข้องในพื้นที่

คำจำกัดความ

- สถาบัน หมายถึง กฎระเบียบในการปฏิบัติของสังคม หรืออาจหมายถึงข้อจำกัดที่มนุษย์เป็นผู้กำหนด เพื่อควบคุมปฏิสัมพันธ์ระหว่างมนุษย์ด้วยกัน ทั้งนี้สถาบันที่ได้รับการเสริมสร้างขีดความสามารถเป็นประโยชน์ต่อการพัฒนาเศรษฐกิจและมนุษย์ ในขณะที่สถาบันที่ไม่ได้รับการเสริมสร้างขีดความสามารถมักเป็นอุปสรรคต่อการพัฒนา โดยในวิทยานิพนธ์นี้ได้แบ่งแยกสถาบันและองค์กรออกจากกันอย่างชัดเจน
- สถาบันที่เป็นทางการ หมายถึง กฎระเบียบ รวมทั้งการติดต่อทางเศรษฐกิจ การเมือง (และตุลาการ) ต่างๆ
- สถาบันที่ไม่เป็นทางการ หมายถึง ข้อควรประพฤติ/ปฏิบัติ ปทัสถานหรือธรรมเนียมปฏิบัติที่ไม่เป็นทางการต่าง ๆ

คำถามสำหรับการวิจัย

ความแตกต่างด้านโครงสร้างเชิงสถาบันระหว่างรัฐเปอร์ลิส ประเทศมาเลเซีย และจังหวัดสตูล ของประเทศไทยส่งผลกระทบต่ออะไรบ้างต่อการดำเนินงานเกี่ยวกับการพัฒนาเศรษฐกิจและการพัฒนามนุษย์ในภูมิภาคดังกล่าว

ผลการวิจัย

รัฐเปอรลิสส์จัดว่ามีความร่ำรวยกว่าจังหวัดสตูลมากพอสมควร เนื่องจากโครงสร้างเศรษฐกิจได้เปลี่ยนแปลงจากรัฐเกษตรกรรมเป็นรัฐบริการ โดยเฉพาะอย่างยิ่ง การบริการสาธารณะ ซึ่งอาจจัดเป็นระบบเศรษฐกิจแบบโรงงานสาขา (branch plant economy) การเปลี่ยนแปลงดังกล่าวเป็นผลจากการพัฒนาโครงสร้างด้านสถาบันของประเทศไทย เช่น การนำเข้าเครื่องจักรและยานพาหนะ ซึ่งนำไปสู่การลดอำนาจของเครือข่ายประชาคมที่วิวัฒนาการมาในระยะหนึ่งทั้งในส่วนของรัฐบาลรัฐเปอรลิสส์และในส่วนขององค์กรพัฒนารัฐเปอรลิสส์ นอกจากนี้ยังมีปัจจัยอื่นนอกเหนือจากสถาบันที่ควรนำมาพิจารณาด้วย ได้แก่ การอพยพประชากรและการส่งเงินออก ในขณะที่จังหวัดสตูลมีข้อได้เปรียบในด้านทรัพยากรธรรมชาติ โดยเฉพาะอย่างยิ่ง ยางพาราและอาหารทะเล โดยโครงสร้างเชิงสถาบันของประเทศไทยเปิดโอกาสให้สามารถใช้ประโยชน์จากทรัพยากรธรรมชาติและส่งเสริมให้เกิดการพัฒนาในภาคเอกชน แต่โครงสร้างสถาบันจำเพาะกลุ่มพื้นที่ซึ่งเป็นเครือข่ายแบบปิดของกลุ่มนักธุรกิจเชื้อสายจีน ส่งผลให้เกิดความแตกต่างด้านความเป็นอยู่ของกลุ่มธุรกิจและคนงาน ในส่วนของปัจจัยสำคัญอื่นที่ไม่ใช่ปัจจัยสถาบัน ได้แก่ ความต้องการยางพาราและอาหารทะเลจากต่างประเทศที่ยังอยู่ในระดับสูง การวิจัยนี้แสดงให้เห็นว่าการศึกษาด้านภูมิศาสตร์เศรษฐกิจในส่วนที่เกี่ยวข้องกับสถาบันเหมาะสมที่จะนำไปตรวจสอบพัฒนาการทางเศรษฐกิจในภูมิภาครอบนอกและปลายทางของอนุภาคเอเชียตะวันออกเฉียงใต้ หากมีความสนใจในมิติสถาบันที่ไม่เป็นทางการและที่ส่งผลให้เกิดการลดทอนขีดความสามารถทางเศรษฐกิจ โดยควรคำนึงถึงข้อเท็จจริงในเชิงโครงสร้างของสถาบันที่มีหลายระดับในแต่ละภูมิภาค/ประเทศต่อไปนี้ด้วย

- สถาบันในระดับภูมิภาคอาจจะเหมือนหรือแตกต่างจากสถาบันในระดับชาติ
- อาจมีการผสมผสานของโครงสร้างสถาบันในระดับภูมิภาคและระดับชาติได้
- สถาบันระดับชาติอาจเข้ามาถ่วงดุลหรือแทรกแซงสถาบันในระดับภูมิภาคได้

งานวิจัยนี้ยังพบว่าปัจจัยอื่นที่ไม่ใช่ปัจจัยสถาบันยังคงมีบทบาทเช่นเดียวกัน โดยจะต้องพิจารณาถึงปัจจัยด้านเชื้อชาติ การเมือง ภูมิศาสตร์ การอพยพของประชากร ตลอดจนทฤษฎีความได้เปรียบโดยเปรียบเทียบ

Ringkasan

(summary in Malay)

Institusi dan pembangunan wilayah di Asia Tenggara

Analisis perbandingan antara Satun (Thailand) dan Perlis (Malaysia)

Kemunculan perspektif institusi dalam ekonomi geografi telah menjana banyak kajian mengenai prestasi wilayah-wilayah di Negara maju. Wilayah-wilayah yang berjaya seperti Tokyo, di Jepun dan Baden Württemberg, di Jerman sering digunakan sebagai kes empirikal untuk menunjukkan keupayaan institusi-institusi yang berbentuk formal dan tak formal dalam menentukan corak pembangunan dan aktiviti dalam sesebuah ekonomi. Tesis ini cuba meneliti sejauhmana perspektif-perspektif institusi, yang dipelopori oleh Douglas North (1990) seorang pemenang Hadiah Nobel, kepelbagaian pendekatan kapitalisme Hall & Soskice (2001) dan pendekatan mercantilisme terangkum (*embedded mercantilism*) Jayasuriya (2004 & 2003), berupaya diaplikasikan kepada wilayah-wilayah terpinggir di Asia Tenggara. Kajian ini melaporkan hasil penemuan dari analisis secara perbandingan antara Satun, di selatan Thailand dan Perlis, di utara Malaysia. Antara Jun 2004 dan Disember 2004 serta antara Febuari 2006 dan Jun 2006, sejumlah 213 responden telah dikajiselidik dan ditemubual: pengurus firma, kakitangan kerajaan, pengurus bank, wartawan dan ahli politik di wilayah tersebut.

Definisi:

- Institusi: peraturan-peraturan dalam masyarakat, atau secara formalnya, kekangan-kekangan yang membentuk interaksi antara manusia. Malah, institusi-institusi *pengupaya* (*enabling institutions*) adalah berfaedah kepada pembangunan manusia dan ekonomi manakala institusi *penghalang* (*disabling institutions*) mengekang pembangunan. Tesis ini dengan jelas membezakan antara organisasi dan institusi.
- Institusi formal: peraturan-peraturan dan kontrak-kontrak ekonomi, politik (dan kehakiman).
- Institusi tak formal: syarat-syarat perlakuan tak formal, norma-norma tingkahlaku dan peraturan-peraturan yang digunakan.

Pernyataan Masalah

Apakah kesan akibat daripada perbezaan-perbezaan dalam kerangka institusi antara negeri Perlis, di Malaysia dengan wilayah Satun, di Thailand keatas prestasi kedua-dua wilayah dari segi pembangunan ekonomi dan manusia?

Hasil Kajian

Perlis boleh dikatakan lebih maju daripada Satun, kerana ekonominya telah ditransformasikan daripada sektor pertanian kepada ekonomi yang didominasi oleh sektor perkhidmatan, terutamanya perkhidmatan awam. Selain daripada itu ekonomi Perlis juga mempunyai ciri plant economy dimana terdapat cawangan firma-firma (trans) nasional beroperasi di Perlis.

Kerangka institusi di Malaysia menyumbang kepada transformasi ini, walaupun ianya juga telah menyebabkan jaringan kuasa (*power networks*) memusat kepada Kerajaan Negeri Perlis dan Perbadanan Kemajuan Ekonomi Perlis. Faktor-faktor bukan-institusi yang harus diambil kira ialah penghantaran wang (*remittances*) dan migrasi keluar. Satun telah berupaya untuk mengambil peluang atas kelebihan sumbernya, terutamanya makanan laut dan getah asli. Kerangka institusi di Thailand telah membolehkan pengeksploitasian sumber alam dan pembangunan sektor swasta, tetapi kewujudan institusi wilayah yang khusus, iaitu jaringan usahawan Cina-Thai yang rapat, telah mewujudkan jurang kebajikan antara korporat dan pekerja. Selain daripada itu, faktor-faktor bukan-institusi yang penting ialah permintaan antarabangsa terhadap makanan laut dan getah yang tinggi. Kajian ini menunjukkan bahawa perspektif institusi ekonomi geografi adalah sesuai untuk meneliti keterbelakangan dan keterpinggiran ekonomi wilayah-wilayah di Asia Tenggara apabila perhatian diberikan kepada institusi-institusi pengupaya dan institusi-institusi tak formal. Selain daripada itu skala ruang pelbagai peringkat (*multiple levels of spatial scale*) juga seharusnya diambil kira:

- Institusi-institusi diperingkat wilayah mungkin berbeza ataupun sama dengan institusi-institusi diperingkat nasional.
- Kemungkinan wujud campuran atau pertindihan institusi, iaitu antara institusi diperingkat wilayah dengan institusi diperingkat nasional
- Institusi-institusi diperingkat nasional boleh mengeneipikan atau memansuhkan institusi-institusi diperingkat wilayah.

Akhirnya, faktor-faktor bukan-institusi masih mampu memainkan peranan yang penting seperti hubungan etnik, politik, geografi, migrasi dan faedah berbanding.

Curriculum Vitae

Edo Andriessie was born in Bandung (Indonesia) on October 27 1979 and raised in Doetinchem (The Netherlands). After the completion of High School (VWO) at St.-Ludgercollege in Doetinchem, he studied International Economics & Economic Geography at Utrecht University. His master's thesis dealt with relationships between air transportation and regional economic development in the Philippines and Indonesia. In September 2003 he started his Ph.D. research project.

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