

Political Economy Analysis and Elite Interests in Asian Capitalisms¹

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ABSTRACT

In recent years, multilateral development institutions such as the World Bank and the Asian Development Bank have complemented their earlier institutionalist approaches to good governance for competitiveness with the organization of ‘political economy analysis’ research units. The introduction of political economy in the good governance agenda is in recognition of the limitations of ‘institutional economics’ in understanding development constraints, and in appreciation of ‘the political’ dimension of economic reforms in developing countries. However, this emerging ‘institutional political economy’ analysis would prove inadequate for both academic theorizing and development policy advice when specifically applied to the concrete cases of failed infrastructure projects associated with neoliberal policies for state restructuring and market reforms.

Cases examined are neoliberal reform initiatives in diverse socio-economic formations of the Philippines and Malaysia which have been plagued by controversies and allegations of graft and corruption involving factions of domestic elites and transnational capital. These show how vested elite interests actively mediate, negotiate, or effectuate the neoliberalization process. The empirical cases elucidate this elite dynamics vis-à-vis old and new patterns of accumulation interests in usurping or profiting from the neoliberalizing capitalist regimes of Southeast Asia.

A couple of interrelated phenomena of elite dynamics in the neoliberalization process figure prominently in the analysis of the examined cases: elite capture and elite conflicts. Firstly, the cases exhibit an *elite capture* of the ideology of neoliberalism and the process of neoliberalization through behaviours, decisions, and actions where vested interests from dominant local and transnational political-economic classes usurp the process to expand, protect, or promote their accumulation interests and, at the same time, profit from said ideology while effectively bastardizing the principle of competitive capitalism where no particular faction of capital is supposedly favoured. Secondly, the cases suggest that while there are political-business elite alliances in making the process of neoliberalization work, there are also *elite conflicts* arising from competing interests brought about by an enlarging space and sources for capital accumulation in Southeast Asia’s neoliberalizing regimes. The analysis of these empirical cases thus illuminate the structure-agency dynamics in capitalist development and the inherent conflicts—alongside class alliances—in accumulation.

The empirical examination also bring to light important differences in the elite interest-driven and conflict-ridden process of neoliberal capitalism between the Philippines and Malaysia. Significant contrast points in respective regimes are: the power structure, the prevailing economic development structure, and political institutions.

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INTRODUCTION

Multilateral development institutions such as the World Bank and the Asian Development Bank have recently complemented their earlier institutionalist approaches to good governance for competitiveness with the organization of ‘political economy analysis’ in their operations in developing countries. Accordingly, research units have been set up in these institutions which recruit a pool of political economy experts as development consultants. The introduction of political economy in their Good Governance agenda is in recognition of the limitations of ‘institutional economics’ in understanding development constraints, and in appreciation of ‘the political’ dimension of economic reforms in developing countries.

In 2009, World Bank consultants have outlined the Bank’s pro-active strategies in its development intervention particularly for developing countries that take into account the sociopolitical context of aid and technical assistance recipients. They propose a synthesis of the roles that the Bank has intended it to be for the last two decades — that is, as a knowledge bank and a reform coalition partner. They design a ‘good practice framework’ with ‘problem-driven governance and political economy’ (PGPE) analysis as a diagnostic tool to inform the Bank’s country strategies and operations. At the same time, they recommend active participation in building coalitions for reforms between the World Bank and local stakeholders, specifically factions of the local elite classes, whereby the Bank takes the role of an ‘honest broker’ (Fritz, Kaiser, and Levy 2009).

In April 2012, a conference was held in Washington to assess the impact of political economy analysis on World Bank operations under its Governance Partnership Facility. This then led to the publication in 2014 of the World Bank’s experience with problem-driven political economy diagnostic analysis of country-level and sector-specific reforms (such as electricity, agriculture, health, road services and infrastructure) applied to the circumstances of development intervention in eight countries: Mongolia, Morocco, Dominican Republic, Zambia, Ghana, Sierra Leone, Papua New Guinea, and the Philippines (Fritz, Levy, and Ort 2014). This monitoring and evaluation report enumerates a number of lessons from the Bank’s utilization of political economy diagnostic analysis, admitting its infancy, projecting its continuity, and noting that its ‘overarching contribution’ thus far is that ‘it has begun to change the mind-set of development practitioners’ to routinely take ‘political economy realities’ in development interventions (Fritz and Levy 2014: 24).

In June 2013, the Asian Development Bank also formulated a ‘guidance note’ on the use of political economy analysis in their operations in developing member countries. Its specific concerns as a diagnostic tool mainly focus on an understanding of: [i] interests and incentives of groups vis-à-vis development constraints and opportunities; [ii] role of formal institutions and informal social, political, and cultural norms in human interaction and political-economic competition; [iii] and the impact of values and ideas on political behaviour and public policy (ADB 2013).

This emerging ‘institutional political economy’ analysis designed by multilaterals would, however, prove inadequate for both academic theorizing and development policy advice when specifically applied to the concrete cases of failed infrastructure projects associated with neoliberal policies for state restructuring and market reforms.

All these research initiatives can be considered more of attempts at understanding ‘the politics of development’ towards a more politically informed approach to development with a focus on the understanding of incentives that drive decision-making of local elites and policy outcomes in developing countries. While this sounds seemingly ‘progressive’ and is undoubtedly a relevant and important research endeavour for the multilaterals’ neoliberalist agenda, it certainly falls short of being an analysis of the ‘political economy’ of development in the *critical* tradition that studies power relations behind the economy and that particularly interrogates the structural processes and elite vested interests intrinsic in neoliberal capitalist development.

This paper is an attempt to provide an alternative framework to understanding the political economy of externally-generated development interventions in developing countries. It puts forward a critical political economy approach to the study of capitalist development in diverse socioeconomic formations in Southeast Asia—specifically, the particularities of the elite-led neoliberalizing accumulation regimes of the Philippines and Malaysia. The discussion proceeds: from, first, a theoretically abstract presentation of a heuristic device to understanding capitalist development in the region in which elite vested interests shape processes of neoliberalization; then, secondly, to an exhibition of empirical case studies of recent infrastructure projects associated with neoliberal reform initiatives in the Philippines and Malaysia; and, finally, to an assessment of the similarities and differences in the studied country cases.

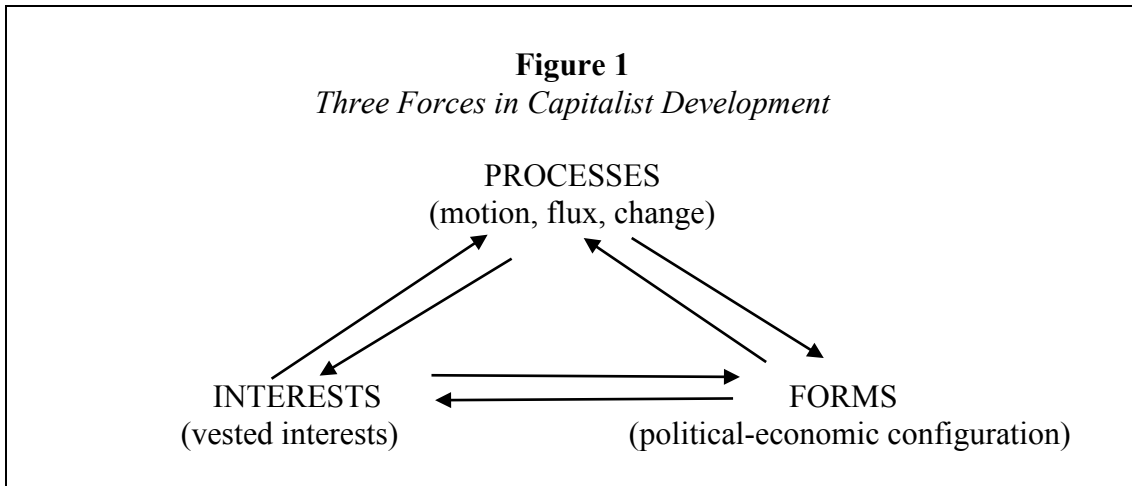
CONCEPTUAL FRAMEWORK: PROCESSES, INTERESTS, FORMS

The method of analysis of the study is to move from ideational abstractions to concrete historical processes through empirical evidence. At its most abstract, the conceptual framework for understanding the specificity of capitalist development outlines a simplified representation of a particular configuration of forces, namely: *processes*, *interests*, and *forms*. This is not to dispute that other factors or forces matter, but it is to illuminate the dynamism—rather than determinism or reductionism—of contemporary political economy in Southeast Asia so as to emphasize conflict, motion and flux in capitalist development.

Heuristic Device: Three Forces in Capitalist Development

As a heuristic device, three forces—which are either latent or manifest—interact in shaping capitalist development (Figure 1). In stylized format, the presentation of this study proceeds as follows:

Processes — Interests — Forms.



It is necessary to understand neoliberalization as a ‘process’ to imply motion, flux, and the possibilities of change. Interests specifically refer to ‘vested interests’ of individuals or groups who have stakes for personal, class, ethnic, ideological, political, economic, or financial gains. And ‘form’ is a particular political-economic configuration. All these forces interact with each other in shaping the evolution of capitalism, and their interactions constitute a specific dynamic of capitalist relations.

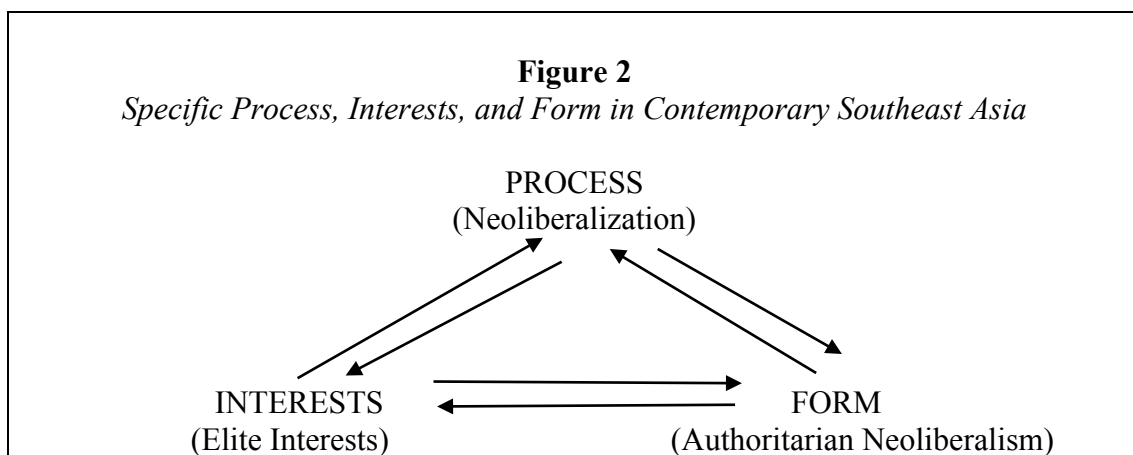
The relationships among these forces are neither mechanical nor predetermined hierarchically. Rather, causal relationship may be established depending on history and empirical study. Where relations between the forces are contingent, their specificity must always be an empirical question, that is one which must be answered by observing actual cases.

However, as a critical research, the focus of this study is more than on causality because it understands the dialectical relationship between these forces. The dialectics here is understood in three senses. First, all these forces exist together, not simply in causation but as *interrelations within a system of interacting moments*. That is to say, the three forces are an organic set of relations in which one cannot be separated from the other. Second, the dialectics deals with *conflicts in the internal relations of a structure*. As such, a phenomenon is approached in an open and fluid way, and hence it avoids mechanistic and reductionist interpretations of change. And third, against the broader reality in the overall structure, *rival forces and different tendencies also exist*. This means that there are other, alternative processes, interests, and forms interacting within the structure.

For the purpose of this paper, this heuristic device is applied to a conceptual framework that particularly encapsulates change and relations between processes, interests, and forms (Figure 2). It highlights conflicts in market-state-society relations

in capitalism, as well as its tendencies, specific to time and space. The framework is based upon a dynamic knowledge of structures akin to the epistemology of E.P. Thompson (1978) with ‘concepts appropriate to the investigation of process’, rather than on knowledge with ‘static conceptual representation’ (Thompson 1978: 275, as cited in Wood 1995: 79). Specifically, the conceptual framework depicts the interrelations between [a] the prevailing process of ‘neoliberalization’ (the production of commodity, institutions, policies, and relations associated with capitalism and the ideology of neoliberalism); [b] the dominant class relations, particularly among ‘elite interests’ (vested interests of political-economic elites at national and transnational levels); and [c] the emergent social form called ‘authoritarian neoliberalism’ (a social regime characterized by a neoliberal economic system in an authoritarian political structure).

The framework is designed to provide a picture of the particularity of Southeast Asian, Philippine, and Malaysian political economy at the present historical juncture. It does not assume a one-way determinism among the three forces. The question of origin—of which way the lines of force run—is always an historical question to be answered by a study of the particular case. Their relationships can be assumed to be reciprocal. As a dialectical relationship, the forces are not considered separately, but in relation to one another. Each force is seen as having the impact of others.



Indeed, there are many possible relationships that can be established in the framework. The analytical task is to identify the most significant relationships among these forces and concepts based on an empirical study of the specific cases of Southeast Asia, the Philippines, and Malaysia at a particular historical juncture.

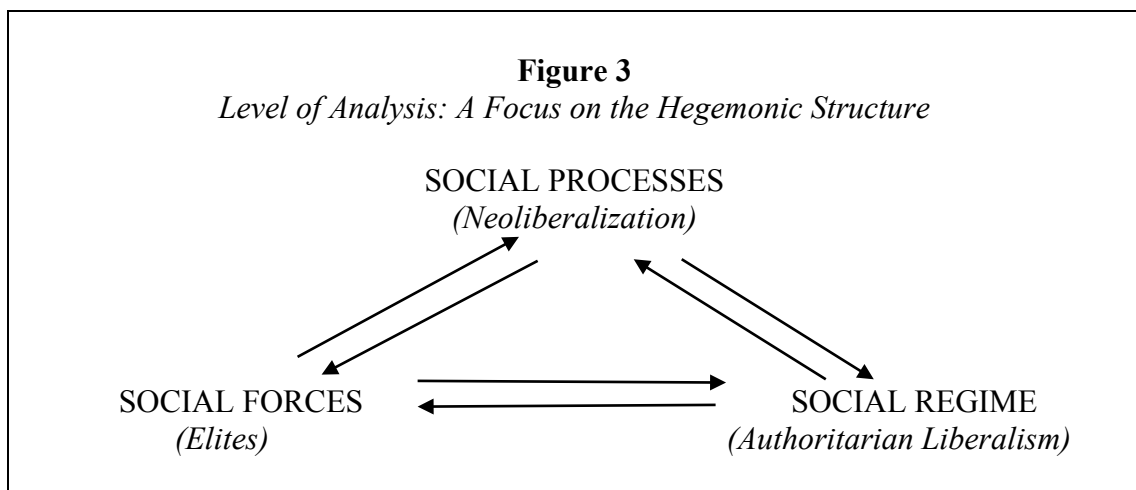
Level of Analysis

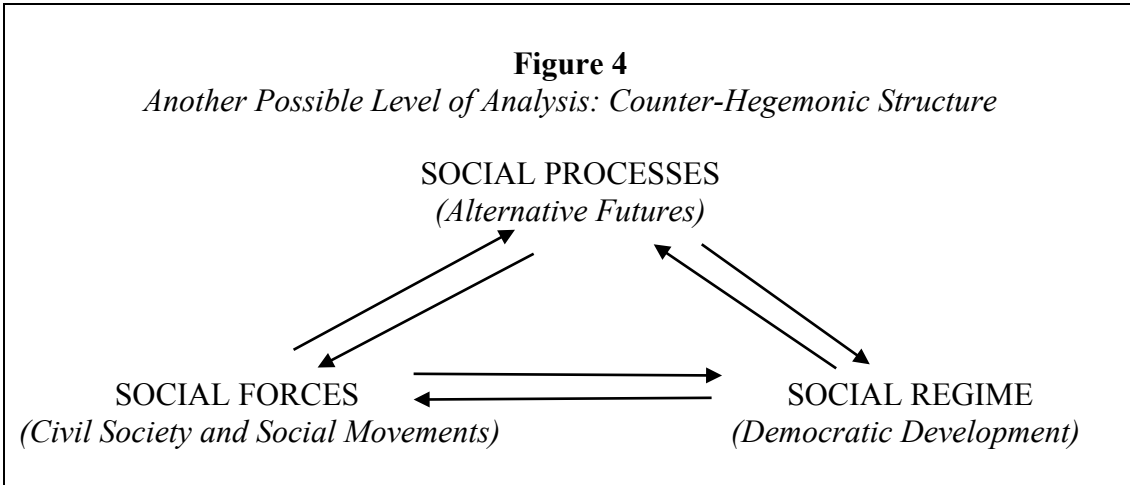
An understanding of the specificity of capitalist dynamics requires a specification of the level of analysis. Monocausal determinist approaches would founder on their inability to explain the complexity of the process of capitalist development and the social relations intrinsic in this process.

The dialectical method adopted in this study understands the inherent contradiction in any historical structure. In particular, it is the perspective that there are opposing tendencies within a structure: the hegemonic structure and a counter-hegemonic

structure. In epistemological terms, the hegemonic structure is not always a ‘social construct’ for who is ‘social’ here is not necessarily the people or society, but the powers that be. Hence, the hegemonic structure is most likely to be a ‘power construct’. The agents who drive a hegemonic structure in material and ideological aspects are not always uniform; they also have varied and conflicting material and ideological interests. To the extent that an alternative, counter-hegemonic structure overcomes the hegemonic structure, a new historic structure emerges. This new historic structure is subject to the same process of historical change, and as such it is contradictory and whose future depends on the enduring struggle between forces who want to retain the status quo and those who oppose it.

The focus of this study is on the enduring hegemonic structure in Southeast Asia (Figure 3). In particular, neoliberalization is regarded here as the prevailing social process in Southeast Asia; elites as the dominant social force in capitalist relations; and authoritarian neoliberalism as an emergent social regime in the region. It does acknowledge the existence of a counter-hegemonic structure and its potentials for social change at some points in the discussion. A much-detailed study on the dynamics within this counter-hegemonic structure is no doubt an important field of inquiry for another research project. For instance, another worthwhile research endeavour may focus: on different social processes other than, or as an alternative to, neoliberalization; on civil society and social movements as potent social forces driving these processes; and the possibilities of a different social regime like democratic development that envisions both democracy and development as organically political and economic categories (see Figure 4). The rationale for selecting the focus is to show that even within the hegemonic structure itself, capitalist dynamics in the region and in respective countries is also conflictual.



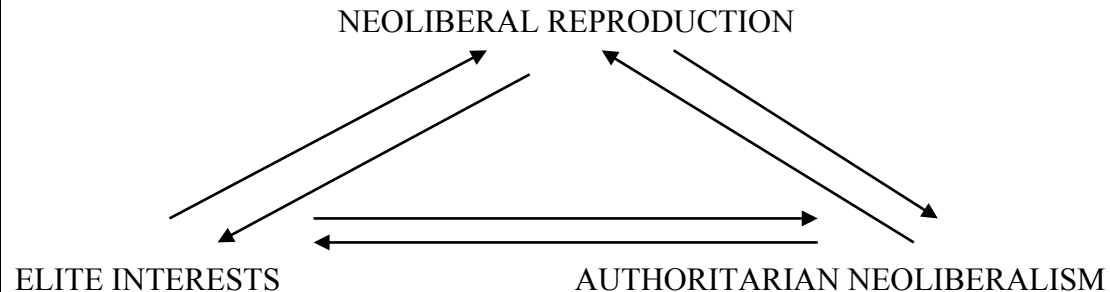


Just like other frameworks of analysis, the conceptual framework of this paper reflects precedence on what it deems to be (the most) significant impetus for the process of change. The study *does not* make any claim that neoliberalization is the only process in operation, that elites are the only actors at play, and that authoritarian neoliberalism is the only social form emerging in contemporary Southeast Asia. For sure there have been a plethora of research done in various contexts that focus on other actors, groups, agents, or identities that intervene in the processes of change and hence produced varying tendencies and social forms (see, e.g., Jenson, Mahon, and Bienefeld 1993; Jessop 1993; Peck and Tickell 1994; Amin 1994; Boyer and Drache 1996; Brodie 1996; Larner 2000; Appelbaum and Robinson 2005; Chase-Dunn and Gills 2005; Gills and Thompson 2006). It is simply to articulate that it is implausible to understand existing dynamics of capital accumulation in the region without examining the conflictual relationship of these dominant forces.

Specificity of Capitalist Development in Southeast Asia

The framework of this study—centered on the dialectical relationship between the concepts ‘neoliberalization’, ‘elite interests’, and ‘authoritarian neoliberalism’—is based broadly upon a critical comparative political economy approach that takes inspiration from classical Marxism, critical IPE, and social conflict theory and their applications to the circumstances of contemporary global capitalism (see Figure 5). Its critical orientation means that the purpose is not simply to conceptualize for the sake of conceptualization, but to explain the processes of historic transformation of capitalism in Southeast Asia, the Philippines, and Malaysia. Its comparative approach suggests that there is a comparable dynamic at work that drives the general capitalist process to assume particular forms in specific contexts.

Figure 5
*Conceptual Framework: Specificity of Capitalist Development
 in Contemporary Southeast Asia*



The question as to the reciprocity or to which direction the arrow of causality moves is a question of history. The present historical conjuncture is to be understood based on the most prevailing relationship among the several possible relationships that can be established in this heuristic device.

Three key concepts used in this paper have to be operationalized: neoliberalization, elite interests, and authoritarian neoliberalism. Each concept is already a phenomenon in itself in contemporary Southeast Asia. But an analysis of the interrelations of the three concepts and their mutually reinforcing tendencies is very significant in unpacking the complexity of the neoliberal phase of capitalist development in the contexts of enduring social relations in the Philippines and Malaysia.

For the particular purpose of this paper, the focus is only on the relationship between the two concepts neoliberalization and elite interests, and take the concept of authoritarian neoliberalism in another paper in the future.

Neoliberalization

The concept of **neoliberalization** refers to the prevailing political-economic process at this historical juncture. It constitutes two terms that need to be defined: neoliberalism and reproduction. ‘Neoliberalism’ understood here refers to that specific configuration of capitalism (liberalism plus new institutional forms), that specific ideology (market fundamentalism), that specific phase of capitalist development with the ascendancy of financial over productive capital (post-Fordism), those specific set of ten economic reform policies enshrined in the structural adjustment programmes (SAPs or the Washington Consensus), the specific class relation (real subsumption of labour to capital), and the specific process of capital accumulation (using money to make more money). Neoliberalism is fundamentally capitalism in a renewed form of ‘economic liberalism’ (Fine 2001; Cammack 2003; Harvey 2005; McNally 2011).

The idea of ‘reproduction’ in this study is not based on the mathematical formulation of Marxist economics on the reproduction schema (e.g., Trigg 2006), but

essentially on what classical Marxists understood as ‘capitalist reproduction’ that refers to ‘the process by which a specifically capitalist society evolves and reproduces its social relations on an expanding scale’ (Weeks 1981: 118). The concept was derived from Marx’s original conceptualization of ‘reproduction’ in *Capital I*:

Whatever the form of the process of production in a society, it must be a continuous process, must continue to go periodically through the same phases. A society can no more cease to produce than it can cease to consume. When viewed, therefore, as a connected whole, and as flowing on with incessant renewal, ***every social process of production is, at the same time, a process of reproduction.*** (Marx 1887, *Capital I*, ch. 23; emphasis added)

Thus, reproduction ‘involves both production and the setting up of conditions whereby production can continue to take place’ (Himmelweit 1991: 469).

It is best to understand neoliberalism as a process—specifically, ‘neoliberalization’—because it is not a fixed and functionally uniform configuration of capitalism (Peck and Tickell 2002). As a process, it is not monolithic or unilinear, but involves different aspects, tendencies, and contradictions.

The process of neoliberalization therefore constitutes capitalist production itself and the conditions created for its continued accumulation. In particular, this study focuses on two interrelated processes: [i] the reproduction of neoliberal market-oriented policies and institutions, and [ii] the reproduction of market-driven strategy of what David Harvey (2003a, 2003b, 2005) calls ‘accumulation by dispossession’. Here, the process of neoliberalization entails the reproduction of neoliberal institutions and policies and the reproduction of social antagonisms that spring from the strategy of accumulation by dispossession.

Particular attention is to the policies and institutions proposed, adopted, practiced, or legislated in the Philippines and Malaysia that elevate the private sector, private property and their attendant values to a dominant role in society. Neoliberalism, or the ‘Washington Consensus’, has ten key policy features as elaborated by John Williamson (1990, 1999): fiscal discipline, reordering public expenditure priorities, tax reform, financial liberalization, competitive exchange rates, trade liberalization, free entry and equal conditions for foreign direct investment, privatization of state enterprises, deregulation, and secure property rights (see also Fine 2001).

‘Accumulation by dispossession’ refers to the classical Marxist concept of ‘original’ or ‘primitive’ accumulation in capitalism. It implies both as a specific strategy for accumulation and the actual consequence of the process of neoliberalization. As Harvey (2006: 94-95) argues:

Capital accumulation is necessarily materially grounded in the web of socio-ecological life. But capital accumulation is not only about the production and circulation of surpluses as surplus values. It is also about the appropriation of the assets of others.

In the epoch of neoliberal globalization the state plays a crucial role in guaranteeing and promoting this process and strategy through its coercive apparatuses with monopoly over the use of force and through its legitimizing legal institutions.

For instance, the policy of privatization engenders new private property rights while dispossessing people of their previously held collective rights, ownership, and access.

With this specific operationalization of the concept of neoliberalization, it reflects the contradictory tendencies in the process. On the one hand, the reproduction of market-oriented institutions and policies drives a process towards convergence. On the other hand, the market-driven strategy of accumulation by dispossession necessarily induces social inequalities and resistance.

Elite Interests

The concept of **elite interests** refers to the dominant social forces who mediate, or who are implicated in, the process of neoliberalization. It comprises two terminologies—elites and interests—that need to be identified and specified. Who are the elites, and what are their interests?

Elites are individuals or groups of people who enjoy power and whose powers are derived from political position and/or economic wealth. This study focuses on these political-economic elites at domestic and international levels. The political elites pertain to incumbent government officials and their favoured allies in the Philippines and Malaysia, as well as elites in the bureaucracy and the technocracy. And the economic elites include both local business interests and transnational corporations.

Interests are stakes in the process of neoliberalization that are based on personal, political, economic, financial, ideological, class, familial, ethnic, or institutional considerations. Unlike some ideologies—such as neoliberalism, which is a set of established ideas—interests may be varied and oftentimes conflictive.

In this paper, the concept of ‘elite interests’ is understood as vested interests of political-economic elites in power and wealth accumulation at domestic and transnational levels. Since the process of neoliberalization is an evolving—rather than a fixed—regime of accumulation, elite interests are intrinsic to the formation of a particular configuration of political-economic power relations and the shaping of capitalist development.

Authoritarian Neoliberalism

The concept of **authoritarian neoliberalism** refers to an emergent social regime in Southeast Asia that has been a consequence of the social transformations in the evolution of capitalism in the region. In this paper, authoritarian neoliberalism is preferred to be categorized as a ‘social regime’, which is a specific form or configuration of political-economic relations within the society, rather than as a ‘form of state’, which has strong political and governmental connotation. As John Holloway (1994: 26) argues that to defetishize the notion of the state is necessary ‘to dissolve the state as a category...to understand the state not as a thing in itself, but as a social form, a form of social relations’.

Authoritarian neoliberalism is a social regime that combines a neoliberal market economy with political authoritarianism. In other words, it is a neoliberal economy embedded in an authoritarian political framework. The state form within this social

regime is an ‘authoritarian-liberal state’ that is oriented to the ideology and practices of political authoritarianism and economic liberalism.

While each of these three key concepts—neoliberalization, elite interests, and authoritarian neoliberalism—is specifically independent to each other, they have to be brought together in a dynamic framework of interrelations to understand the specificity of the changing shape of capitalism in Southeast Asia. Based on the dialectical framework outlined here, this paper argues that neoliberalization in Southeast Asia is replete with contradictions whose process is mediated at the national and transnational levels by conflicting elite interests and consequently engenders a contradictory social regime of institutionalizing and deepening authoritarian neoliberalism in the Philippines and Malaysia, respectively.

Comparative Analysis

A critical reading of contemporary Southeast Asia in this paper is both conceptual and comparative, and it understands political economy in its broader historical, social, and international contexts. Its approach is based upon comparison within the region and between two countries with diverse social relations. The region of Southeast Asia has been chosen because of its diversity, and within the region are the diverse cases of the Philippines and Malaysia. Both societies are diverse in terms of political regimes, economic structures, and cultural orientations. Broadly speaking, it is generally recognized, *inter alia*, that: [i] in the political sphere, the Philippines is a democratic and republican state with a presidential form of government, whereas Malaysia is semi-authoritarian with a parliamentary system; [ii] in the economic sphere, the Philippine economy is more service-oriented with purportedly more open market-oriented policies, whereas the Malaysian economy has a statist-nationalist capitalism and an explicit export-oriented industrialization project towards a stronger manufacturing sector and with a concern for national development of agriculture and services; and [iii] in the cultural sphere, the Philippine society is predominantly Catholic and can be said to be relatively heterogeneous whose heterogeneity is largely based on geographical fragmentation and ethnolinguistic differences—specifically the respective population’s provincial or geographical roots and languages—, whereas the Malaysian society is predominantly Muslim, ethnically diverse, and highly heterogeneous with different races—Malays (67.4%), Chinese (24.6%), Indians (7.3%), natives (in Sabah and Sarawak), indigenous peoples (like the Orang Asli), and *lain-lain* (others).

An analysis of diverse societies of Malaysia and the Philippines offers an insightful account on the different dynamics, strategies, and tendencies of capitalist development on specific national situations. It is not simply a study of two Southeast Asian societies at some random point of history, but of two especially significant and timely cases undergoing intense restructuring from conflicting domestic and international determinants, which shape peculiar social formations. Their suitability as test cases of general theoretical propositions about the relationships between state, market and society are all the more compelling because of the combined and uneven character of development in which the process of neoliberalization in these societies involves different stakes and interests and hence induces distinct changes in social relations.

The analysis is based upon comparison, rather than upon generalization, so as to highlight country specificity and the process of history. The distinctiveness of the historical process of transformation of the two different countries demands a comparative approach. However, while this paper looks for common causes in similar phenomena and processes at the regional level, it also identifies specific factors and dynamics on differences at the national level. In doing so, it avoids the pitfalls of overspecialization and excessive generalization.

EMPIRICAL CASE STUDIES³

Unpacking the complexity of contemporary capitalism in Southeast Asia involves an appreciation of an array of complementary, intersecting, or conflicting *interests* that constitute the *process* of neoliberalization. Accordingly, this paper investigates how and why domestic and international elites as dominant class and social forces mediate, negotiate, promote, or resist processes of neoliberal reproduction. A critical understanding of this dynamic requires an interrogation of ‘competitive capitalism’—which is a system and culture of competition where no particular faction of the capitalist class is feared or favoured in economic activities—as the ideal-type neoliberal reform and a recognition of the *realpolitik* of conflicting elite vested interests in shaping capitalist development.

A couple of objectives are set out in this paper—both of which are expected to contribute to the study of contemporary political economy of Southeast Asia. The first objective is to illuminate the question of agency as it interacts with the structural evolution of capitalist development. In doing so, it shows the *structure-agency dynamics* in the historical process of social change. It makes an argument that the process of neoliberalization is greatly shaped, yet intrinsically constrained, by its dependence on elite interests. By taking into consideration the impediments that stand in the way of neoliberalization, the process is examined *vis-à-vis* the social and material conditions in which it is deployed. Thus, the analysis here is not only critical of structural determinism, nor merely based on voluntarist interpretations, but it takes into account the social and political contexts in which neoliberalization takes place. Central to this is an understanding of the ways in which neoliberal policies and global accumulation mechanisms have been adapted, modified, or challenged given the historical particularities and circumstances of social relations at the domestic level. The second objective is to highlight another reality—one that is within social conflict theory—in Southeast Asian elite dynamics apart from the already established studies on ‘political-business alliances’ (Gomez 2002) and ‘interlocking elites’ (Case 1996, 2003). The aim here is to demonstrate that while there have been alliances and interlocking interests among elites in specific regimes for purposes of political stability and economic accumulation, there are also *conflicts* among vested interests particularly in the neoliberalization process.

To achieve both objectives, the discussions presented in this paper have conceptual, empirical, and theoretical implications for an understanding of capitalist

³ The cases on the NAIA-3 Dispute and the PKFZ Fiasco have already been discussed in another article by the author which are being considered for publication by the Latin American Council of Social Sciences, the Council for the Development of Social Science Research in Africa, and the International Development Economics Associates.

development in Southeast Asia. ‘Elite interests’ as a concept is understood ‘in class ways’ and differentiated from the notion of ‘ideology’. This particular conceptualization of elite interests proves to be appropriate, as well as necessary, in comprehending the evolution of capitalist relations at local and transnational levels as a result of the changing structures of accumulation brought about by the process of globalization and its underlying ideology of neoliberalism.

In empirical terms, the paper provides an exposition of recent infrastructure projects planned, initiated, and done through state dealings with capital as part of, or in relation to, neoliberal reform initiatives which have been embroiled in controversies and allegations of graft and corruption involving factions of domestic elites and transnational capital. Its aim is to show the elite-driven and conflict-ridden constitution of capital accumulation in emerging economies of Southeast Asia. Specifically, the empirical cases for both the Philippines and Malaysia give insights into the common pervasive themes of ‘elite capture’ and ‘elite conflicts’ that mutually constitute Southeast Asian neoliberalization processes. *Elite capture* means the usurpation, utilization, or appropriation of the neoliberalization process—as well as the neoliberalism ideology—by local and transnational elites to secure and advance their interests in the accumulation of wealth and power. *Elite conflicts* refer to the struggle, scramble, competition, contention, dispute, or rivalry between (inter-) and among (intra-) the dominant political and economic classes in pursuit of their particularistic interests in the accumulation opportunities opened up and made available by a neoliberalizing capitalist regime. For the Philippines, the cases studied are:

- [i] the NBN-ZTE deal (National Broadband Network project awarded to Zhong Xing Telecommunications Equipment Corporation, a telecommunications supplier based in China), the most controversial deal entered into by the administration of President Gloria Macapagal-Arroyo; and
- [ii] the NAIA-3 disputes (Ninoy Aquino International Airport Terminal 3), a multi-million US dollars long-running investment disputes between the Philippine government and a joint venture of a Philippine group of Filipino-Chinese business people (Philippine International Airport Terminals Corporation [PIATCO]) and Germany’s Fraport AG.

For Malaysia, two cases are also examined:

- [i] the Port Klang Free Zone (PKFZ) fiasco, a multi-billion ringgit scandal that is arguably Malaysia’s biggest corruption case regarding the dubious purchase of the 1,000-acre land area and its development as an integrated commercial and industrial free zone in Port Klang; and
- [ii] the Scorpene submarine scandal, a controversial procurement contract between Malaysia’s Defence Ministry and France’s state-owned shipbuilding company Direction des Constructions Navales (DCNS) which has been riddled with allegations of kickbacks and bribery.

These cases and issues have been chosen as concrete examples to show elite dynamics in contemporary Southeast Asian capitalism for two interconnected

reasons: firstly, they are related to the neoliberalization process which have ramifications for the principles and policy of neoliberalism; and secondly, they have taken the center stage of public debate since the beginning of 21st century capitalism in the Philippines and Malaysia. Hence, all these controversial issues reveal various dimensions of conflicting elite relations in the process of neoliberalization in their scramble for capital accumulation. To this end, the flow of discussion of the empirical cases proceeds as follows: first, it delineates the *context* of the cases which situates their association with, or relationship to, the respective neoliberal reform efforts and neoliberalization processes in the Philippines and Malaysia; second, it highlights the important *points of conflict* that inform and give essential inference about the particularities of capitalist development with emphasis on the conflicts in, and contradictions of, the neoliberalization processes in Southeast Asia.

In terms of theory, the discussions in this paper have implications for a number of theories on neoliberal globalization, capitalist development, and social change, particularly on Southeast Asian capitalist regimes. One, it challenges the hyperglobalist thesis that sees globalization as a seamless process completely dominated by global market forces. Two, it questions the class and economic determinism in some elements of ‘vulgar Marxism’. And three, it reifies the assumptions of social conflict theory in the specific accumulation regimes of the Philippines and Malaysia.

Philippine Case 1: The NBN-ZTE Deal

Context

The NBN-ZTE deal is considered the most controversial corruption scandal in the nine-year presidency of Arroyo. It involved the government awarding of the contract amounting to USD 329 million to Zhong Xing Telecommunications Equipment Corporation (ZTE), a Chinese state-owned transnational telecommunications supplier firm for the construction of a Philippine National Broadband Network (NBN) to improve and develop the communications capabilities of the government. This project was supposedly part of a neoliberalization process of partnering with the private sector within the privatization framework of build-operate-transfer (BOT) approach to infrastructure financing and procurement that later on became a direct Philippine government undertaking whose source of funding was a Chinese sovereign loan. It was a controversy that illuminated conflicting interests in the accumulation regime of various sections of the local and transnational elites—notably, functionaries from the Philippine government, a local businessman who belongs to an elite political family, a whistleblower from a Philippine government-controlled corporation, and a China state-owned transnational corporation—and whose dealings and transactions with each other were publicly revealed, condemned, or investigated by members of the Philippine Congress (both in the Senate and House of Representatives), the Supreme Court of the Philippines, media, private citizens, and civil society groups.

The configuration of conflicting domestic vested interests in the NBN-ZTE scandal is very well captured in the report of the Philippine Senate’s Committee on Accountability of Public Officers and Investigations (Blue Ribbon Committee) which conducted public hearings and inquiries in aid of legislation for several months. The report notes that:

[The NBN-ZTE controversy] is a story of how people in high places: the relatives of the most powerful men and women in government took advantage of their relationships, either with their parent or spouse, to cajole the Executive into entering a contract that would obtain something our country did not need, and that is manifestly disadvantageous to the Filipino people. It is about the war of the most powerful, most influential and most organized syndicates in government, some members of which are public officers, who were at each other's throats because of an alleged double-cross. It is about the never-ending battle among the political elite for economic power, domination and control. (Blue Ribbon Committee 2009: 4)

What is to be added in this narrative is the apparently active role of a transnational elite (ZTE Corporation) in the illegal transactions. The Blue Ribbon Committee report has recommended the investigation of ZTE Corporation to send a warning and market signal that foreign investors and corporations do 'not contribute or encourage the corruption of public officers' (Blue Ribbon Committee 2009: 3).

The Blue Ribbon Committee report's comprehensive exposition of the ins and outs of the controversy also described how conflicts among vested interests had by itself foiled the unscrupulous accumulation agenda of the elites involved in the transactions:

If people look at the opportunists in this scandal, they will consider that they are all scavengers and predators ready to feast on the carrions of their preys. And when they cannot get their rightful share of the booty, one of them squeals and they start pointing fingers at another. (Blue Ribbon Committee 2009: 4)

Even though President Arroyo had eventually cancelled the contentious NBN-ZTE contract, the experience from this controversy does not only provide lessons for policy reform (see, for example, Desierto 2009; Reside and Mendoza 2010; Rose-Ackerman, Desierto, and Volosin 2011) but it also significantly exhibits a constellation of conflictive interests and relations among members of the same elite class at domestic and transnational levels involved in this scandal-ridden infrastructure project associated with the country's neoliberalization process.

Points of Conflict

What the NBN-ZTE controversy has brought to light is the reality of the conflictive nature of the accumulation process in the Philippines even among members of the same elite class. A number of important points of conflict arise from this case both in the sense of social relations and in terms of ideological contradictions.

First, the controversy demonstrates an intra-elite conflict among power players within the same political class. This is clearly shown in the bribery allegations made under oath in the Senate hearings and through the media by a local businessman from a political family who also lost his company's bid for the project (Jose de Venecia III) and by a whistleblower who headed a government-controlled corporation (Rodolfo Noel Lozada) against sections of the incumbent political elites in government

(particularly, Benjamin Abalos and the President's husband). These revelations implicated the First Couple—President Arroyo and her husband Jose Miguel Arroyo—in these corruption and bribery allegations. As the Blue Ribbon Committee (2009: 1) report has explicitly stated:

In the middle of it all is a President who was unable to control and discipline her own men as they fight over their kickbacks. She kept her silence in the midst of the corruption-acquiescing and condoning the deed. The facts pointing to her may not be total, but the stink is perceived to have reached her office.

Second, the outcome of the controversy, which led to the contract's eventual cancellation, betrayed an inter-elite conflict. The government-to-government deal would have required some degree of alliance between transnational (China) and local (Philippine) elites but it resulted in conflicts between the governments of China and the Philippines and between the stakeholders among the elites in these countries. The nixing of the deal also meant the scrapping of prospective profits, shares, or commissions of the elites involved.

Third, the whole controversy reveals a conflict involving power players in all branches of the Philippine government. Elites in the executive branch were the main actors in the deal and the main subjects being investigated in the controversy. The elected representatives and senators in the legislative branch exposed the deal's anomalies and conducted investigations on those involved in the scandal. The Supreme Court initially issued an order to temporarily suspend the implementation of the contract and later on rendered the case moot upon the executive's cancellation of the contract. Private citizens, media people, and civil society groups also took part actively in this episode in which they had been engaged in campaigns, activities, and actions to raise public awareness about the issue and to exercise vigilance, including the filing of criminal complaints against erring government officials.

Fourth, the controversy showcases an instance of conflict between interests and ideology, specifically where elite vested interests trump neoliberalism's ideological considerations for competitive capitalism. One, it unmasks the contradiction between President Arroyo's ideology on neoclassical economics and neoliberal economic policy and her family's accumulation interests. The mere act of favouring a particular faction of capital (in this case, the Chinese firm ZTE) without a system of open competition among interested investors goes against the principle of capitalist competitiveness. And, two, the controversy exhibits a case that a transnational corporation is not necessarily a force of free market capitalism. There exists a tendency for a transnational elite to be complicit in illicit political-business transactions such as bribery attempts of domestic elites that encourage corruption. This tendency is implied in the recommendation of the Blue Ribbon Committee to conduct a thorough investigation on the role of the transnational corporation ZTE in the questionable contract and its possible involvement in illegal transactions.

Philippine Case 2: The NAIA-3 Dispute

Context

The controversies surrounding the NAIA-3 issue is symptomatic of a neoliberalization process in the Philippines undertaken through public-private

partnership (PPP) that is ridden with conflicts involving, notably, governments, foreign and local investors, domestic judicial institutions, and international arbitration institutions. It is about the nettlesome disputes between vested interests in connection with the construction of a public utility, the Ninoy Aquino International Airport Passenger Terminal III (NAIA-3). This long-standing political-economic and legal quagmire spans all post-Marcos administrations—basically, ever since the country has embarked on neoliberal policies.

During the presidency of Aquino in 1989, the Department of Transportation and Communications (DOTC) hired the expertise of Aéroport de Paris (ADP) to conduct a comprehensive study of the condition of Ninoy Aquino International Airport (NAIA) in Manila, to recommend developments needed for future growth of traffic, and to come up with a preliminary design for a new passenger terminal. In 1993, six Chinese-Filipino tycoons—namely, John Gokongwei, Andrew Gotianun, Henry Sy, Sr., Lucio Tan, George Ty, and Alfonso Yuchengco met with then President Fidel Ramos to express their investment interest in the construction and operation of a new airport terminal. These tycoons then incorporated the Asia's Emerging Dragon Corporation (AEDC) and submitted an unsolicited proposal under the build-operate-and-transfer (BOT) law for the construction of a new airport terminal (the NAIA-3) to the government through the DOTC and the Manila International Airport Authority (MIAA). The DOTC endorsed the AEDC proposal to the National Economic and Development Authority (NEDA), which then approved the project (see Supreme Court of the Philippines 2003, 2004).

In 1994, the DOTC formed the Prequalification Bids and Awards Committee (PBAC) to subject AEDC's approved proposal to competitive bidding and invite comparative proposals from alternative bidders. Another prospective bidder, People's Air Cargo & Warehousing Co., Inc. (PAIRCARGO), a joint venture of local and foreign investors competed for the NAIA-3 project. In the end, PBAC awarded the project to the PAIRCARGO Consortium. AEDC filed a court petition to nullify the bidding proceedings, specifically questioning PBAC's decision on the bases of, among others: one, PAIRCARGO's actual (rather than potential) financial capability; and two, the inclusion or appointment of foreign corporations for its prequalification bid (i.e., Germany-based companies Siemens and Lufthansa as contractor and facility operator, respectively) which violates the Philippine constitutional requirement of majority Filipino-owned and -controlled enterprises for the operation of a public utility. Eventually, however, AEDC had not proceeded with the case and the contract was awarded to PAIRCARGO.

In 1997, PAIRCARGO Consortium incorporated into the Philippine International Airport Terminals Co., Inc. (PIATCO) and entered into a 'Concession Agreement' with the Philippine government—through the MIAA and DOTC—for the build-operate-and-transfer arrangement of the NAIA-3. As a BOT scheme, the government gave PIATCO the franchise to build, operate, and maintain NAIA-3—including the collection of fees, rentals, and other charges—during the concession period of 25 years. After the concession period, which is also renewable for a maximum of 25 years, NAIA-3 shall be transferred to the Philippine government's MIAA.

PIATCO and its German partner Fraport AG Frankfurt Airport Services Worldwide (Fraport) started building NAIA-3 in 1997 and planned to finish the

construction in 2002. While the NAIA-3 contract with PIATCO-Fraport was completed during the Ramos administration, the contract has been considered one of the biggest cases of corruption in the succeeding administrations of Estrada and Arroyo. The Estrada administration made amendments to the contract in late 1998. This ‘Amended and Restated Concession Agreement’ (ARCA) was regarded to be even more disadvantageous to the government that ‘allegedly gave PIATCo much bigger revenues’ — which included contract terms ‘for PIATCo to collect terminal fees in US dollars while remitting government share in pesos, which would allow PIATCo to profit from the local currency’s depreciation; the state’s effective guarantee on PIATCo’s loans, making it a risk-free borrower; and the scrapping of PIATCo’s obligation to build underground tunnels to connect the three terminals, which would have cost it [PHP] 700 million’ (Tiglao 2011). The Arroyo administration, which came to power with an anti-corruption mandate upon the ouster of the short-lived Estrada administration, was also embroiled in the NAIA-3 corruption scandal. As Arroyo’s former presidential spokesperson and presidential chief of staff, Rigoberto Tiglao (2011), himself has noted: ‘Rumors circulated that PIATCo was able to quickly involve in their project powerful personalities in the new government of President Gloria Macapagal-Arroyo’. This is thus contrary to the promise made by President Arroyo early on her presidency when she announced the cancellation of the NAIA-3 contract in November 2002 upon the recognition that the NAIA-3 issue is ‘a test case of [her] administration’s commitment to fight corruption to rid ... [the] state from the hold of any vested interest’ and upon the determination of the Solicitor General and the Department of Justice ‘that all five agreements covering the NAIA Terminal 3, most of which were contracted in the previous administration, are null and void’ (Supreme Court of the Philippines 2003: fn. 5).

As President Arroyo proclaimed that her administration would not honour the NAIA-3 contracts, PIATCO sought arbitration proceedings before the Singapore-based International Chamber of Commerce (ICC) in March 2003. This move of PIATCO to recoup its investments was just the beginning of the long-running convoluted conflicts over the NAIA-3 project, broadly involving an alliance of transnational and domestic business elites (PIATCO-Fraport joint venture) versus the government (Republic of the Philippines).

Points of Conflict

Reflections upon the NAIA-3 saga can certainly provide important lessons for policy and institutional reforms. At the same time, it unravels the internal contradictions in the ideology of neoliberalism itself, particularly in the aspect where the normative logic of competitiveness has been falsified by the very ‘rationality’ of elites to act on the basis of their political-economic interests—in a word, behaviours and actions that do not necessarily follow the rules of free market capitalism. Importantly, the issue depicts an empirical manifestation of conflicts in the relations between elites within the process of neoliberalization whereby public-private partnership has gone awry and the elements of trust and shared interests in a purportedly political-business alliance has been ruptured.

First, the NAIA-3 controversy has evolved from a simple bidding competition between local investors to a network of conflicts involving states and transnational capital, as well as domestic and international judicial institutions. It spawned an inter-

elite conflict between, on the one hand, the PIATCO-Fraport alliance of local-foreign investors and, on the other, the Philippine state executives, legislature, and courts. International arbitration institutions (ICC and ICSID) and ‘external’ judicial bodies (High Court of Singapore) also factor in ostensibly not on smoothly settling investment disputes but on a tangled web of interest assertions and claims.

Second, the NAIA-3 case illustrates the structural contradictions in the logic and process of accumulation under conditions of neoliberal globalization: that is, the conflict between the *national* sovereignty of states and the *global* strategy of capital. Investor-state dispute resolution provisions in trade agreements do not only confer greater legal rights to foreign investors than domestic businesses, but such mechanism fundamentally encroaches on state sovereignty. International trade and investment regimes have given corporations the right to sue governments. However, governments cannot be entirely written off in enforcing capitalism’s accumulation agenda simply because governments have jurisdiction over accumulation issues at the level of states which intrinsically implicate the public sphere. While there seems to be an increasing conception that the accumulation strategy of the capitalist class operating in a globalizing world have become transnational and extra-terrestrial, the reality is that accumulation *per se*, particularly production and money, continues to be *materially* embedded in territoriality and *ideationally* tied to questions of legitimacy.

Third, the NAIA-3 mess reveals a conflict in the neoliberalization process between the idea of competitiveness and the practical concerns of private investors. The logic of competitiveness in neoliberalism not only demands states to compete with each other and observe free market competition; but it also compels firms and the private sector to be competitive. However, the graft and corrupt practices in the illegal awarding of contract to PIATCO is not only suggestive of the well-known susceptibility of government officials to corruption but also of a firm’s tendency to avoid transaction costs by resorting to building alliances with state functionaries through bribery. In other words, the case has shown how a firm’s strategy in pursuit of its accumulation interest may include the tactic of bribing government decision-makers and powerbrokers so as to avoid costly market competition.

Fourth, the NAIA-3 debacle reveals the conflict in the neoliberal policy of privatization through public-private partnership within the BOT scheme. BOT promises a private sector-led accumulation regime that spares the state the financial burden of constructing and running public utilities. In the case of the amended BOT contract with sovereign guarantee provisions for NAIA-3 construction and management, the Philippine government is being made to guarantee PIATCO’s obligations to its contractors, suppliers, and creditors. Moreover, as evident in the demands of PIATCO-Fraport for just compensation petitioned before local courts and international tribunals despite their business transactions done in bad faith, the Philippine state finds itself absorbing—or being pressured to absorb—the risks and costs of failures of both the BOT project and the market itself.

Malaysia Case 1: The PKFZ Fiasco

Context

The Port Klang Free Zone (PKFZ) fiasco has been considered as one of the biggest corruption scandals in the history of Malaysia involving big fish in the country's political arena and government institutions. The planned development of PKFZ was envisioned to emulate the success story of Jebel Ali Free Zone in Dubai, which was established in 1985 and currently recognized as the leading business hub in the Middle East. The PKFZ project, however, has turned into, arguably, the most scandalous financial fiasco in Malaysia that could have cost the country's taxpayers around MYR 12.5 billion in losses. But there is also a deeper dimension being revealed in this issue about the unfolding behaviour of elites vis-à-vis the neoliberalization process in Malaysia's political economy. It is about the tendential nature of entrenched domestic elites to appropriate surplus in the name of liberalization and 'free market'.

PKFZ is a regional industrial park with 1,000-acre land area located along the Straits of Malacca in Port Klang. As its name suggests, the area is declared a 'free zone' for supply chain management of a specific cluster of exports-oriented manufacturing industries and commerce where the principles and practices of free markets, free trade, free competition, free movement of goods and labour, and full foreign ownership of enterprises are supposedly observed. It is one of Malaysia's largest integrated free zones for industrial and commercial activities whose operations are sanctioned by the Free Zones Act of 1990 and the Ministry of Finance to promote entrepôt trade of manufacturing companies where importation of raw materials and other production inputs is duty free and the exportation of manufactured goods is facilitated through minimal customs formalities. Hence, the neoliberal policy of liberalization is to guide the economic activities of production and exchange in the area.

Port Klang became a free trade zone in 1993 as part of the government policy of making it a national load center and a regional transshipment hub within the medium- and longer-term government's privatization master plan consistent with the growth strategies of the *Sixth Malaysia Plan* for 1990-1995 and further outlined in the *Seventh Malaysia Plan* for 1996-2000. By 1998, despite these plans and the infrastructure facilities for trading offered by the port, more than a third of Malaysia's external trade amounting to hundreds of billions of ringgit continued to use Singapore ports. In its desire to capture market share, which would entail the reduction of trade diversion to Singapore, the Malaysian government aimed to improve Port Klang's status as a regional port hub (see Tull and Reveley 2002). Part of this vision was to make Port Klang a cost-effective alternative to Singapore and China for shipping companies servicing the Asian market. On 24 March 1999, the Malaysian Cabinet approves the project to boost and develop PKFZ as the country's leading container port to be facilitated by the Ministry of Transport (MOT), Ministry of Finance (MOF), and the Port Klang Authority (PKA). MOF then made a directive for the compulsory acquisition of land for the PKFZ and recommended that the development cost be self-financed through PKA's issuance of government-guaranteed bonds.

PKA is supposed to be the government's specifically designated regulatory institution to facilitate market operations in a neoliberalized economic area of Port Klang with privatized facilities and liberalized trading operations. As a statutory body created under the Port Authorities Act of 1963, PKA is planner, developer, regulator, facilitator, manager, and the state-mandated authority in the free economic zone of Port Klang. However, the narrative about the involvement of the political-bureaucratic elites with official functions and responsibilities in PKA in connection with the scandal surrounding the development of the PKFZ project depicts of a regulatory institution deciding and acting to the disadvantage of the government, to the distortion of free markets, and to the benefit of the vested interests of a few personalities.

Points of Conflict

A few notable points of conflict in the neoliberalization process in Malaysia arise from the PKFZ case. The first is the conflict between the 'old' existing relations of institutionalized crony capitalism and the 'new' emerging logic of disciplinary neoliberalism. In the PKFZ project, sections of domestic political-business elites with access to and influence over state decision-making institutions and functionaries have appropriated, or attempted to profit from, the neoliberalized economic activities in a free market zone to their personal interests and advantages. It appears that the market forces of neoliberalism have been subjected to Malaysia's established system of crony capitalism—thus, contrary to the perceived effect of the neoliberalization process to sweep away the vestiges of uncompetitive and market-distorting accumulation structure. This conflict between the opposing forces of crony capitalism and competitive neoliberalism is expected to persist until a hegemonic accumulation regime—secured through legitimacy and/or coercion—emerges with its peculiar norms, institutions, and practices for political-business relations.

Secondly, neoliberalization normatively aims to depoliticize accumulation, but it is actually a politicized process. In the case of the project to develop PKFZ as a free market space, the rules of engagement between state functionaries and the private sector were not based on market principles or government institutional regulations for markets, but on political wheeling and dealing. The domestic private company (KDSB) in this regard did not rely on market mechanisms, but on political connections with decision-makers in state institutions. As a result, instead of playing by the principle of competition that is supposed to be observed in a free economic zone, this domestic company has attempted to make the state the protector and guarantor of its private accumulation interests. At the same time, the company's partner political elites within state institutions have found this arrangement personally profitable. Thus, neoliberalization's objective of definitively securing market relations has been essentially captive of political relations.

Thirdly, the PKFZ case reveals how a regulatory institution (PKA) has been captured by a section of private vested interests where a politically-connected private company (KDSB) can make an acquiescing government agency (PKA and MOT) pay for a purportedly free market-oriented infrastructure project on non-market-based rates—in particular, the principal price of the land, the cost of development work, and their interest rates on deferred payments which are way above market rates. The

regulatory institution (PKA) that is mandated to balance market mechanisms with state interest has turned out to be acting against the general interest of free market capitalism and the particular interest of the state. PKA has favoured a politically connected domestic private firm (KDSB) and sealed agreements that put the state—specifically, the national treasury and the taxpayers—in debt, at risk, under liability, and at a gross disadvantage.

Finally, the political-business alliance in the PKFZ deal (i.e., the alliance between MCA politicians in the government agencies MOT-PKA and the private sector KDSB and its contractors) comes into conflict with erstwhile political allies and business partners. In the political sphere, this refers to the MCA politicians in the Transport Ministry and PKA who have been exposed, investigated, and charged by their MCA partymates and BN/UMNO coalition allies. In the business sector, it alludes to the terminated partnership between the domestic private company KDSB and the international private firm JAFZI. Indeed, while there had been political-business alliances in the project to make the free zone a more attractive and market-friendly investment site, this neoliberalization process itself has also delineated conflicts among political-business elite interests.

Malaysia Case 2: The Scorpene Submarine Scandal

Context

The ‘Scorpene Submarine Scandal’ refers to the Malaysian government’s controversial purchase of two submarines in 2002 from a French state-owned naval defense shipbuilding company DCN (now DCNS)⁴. It is a peculiar corruption allegation against high profile politicians implicating incumbent Prime Minister Najib and the network of the ruling UMNO coalition where Malaysia’s state-controlled mainstream media have been virtually silent about; however, it is being reported by some other independent local and international media. Interestingly, even after a few years since it has become public knowledge, this serious corruption issue amounting to about EUR 150 million of bribes and kickbacks is yet to be officially investigated by judicial institutions in Malaysia, while it is already being heard and investigated by authorities in France. Importantly, the scandal depicts of a compelling case about the conflict-ridden political economy of the neoliberalization process in Malaysia: in particular, a capture of neoliberal reform’s target activity of government procurement by sections of the elite political class deeply entrenched in state decision-making institutions together with their favoured local business elites.

Malaysia has long been resistant to international procurement rules and related agreements on the internationalization of markets since the establishment of the New Economic Policy (NEP) which, in effect, prefers local content for development projects and also protects national redistributive and developmental goals (McCrudden and Gross 2006). In this regard, Malaysia’s procurement system, which is a cornerstone of the country’s industrial policy and long-term national industrialization strategy, is a perennial target of neoliberal reformers since it is regarded to be a rather uncompetitive area of accumulation comprising a substantial

⁴ In 2007, DCN merged with Thales—which is a multinational company partially-owned by the French state whose business interests include defense—to become DCNS (Direction des Constructions Navales).

share of about 20 per cent of the country's GDP. This is perhaps best exemplified in a cable report from the US Embassy in Kuala Lumpur, dated 6 June 2006 during the Abdullah administration, released by *WikiLeaks* (2011) noting that 'Malaysia's procurement process falls short in three key areas: lack of transparency, outright corruption, and bumiputera requirements and preferences'. According to the cablegram, US firms operating in Malaysia

would like to see more discipline in the process so that procurement goes to tender through a definable, systematic and fair system. They also would like greater market access, perhaps through a phase out of bumiputera preferences over an agreed timeframe. Finally, they want a mechanism that would allow them to submit questions and complaints about tender awards and have them answered in a timely fashion. (Wikileaks 2011)

The US Embassy recognized that the elimination of bumiputera preferences 'would be an unrealistic objective' but it suggested that 'there are tactics with the potential to make this issue [of government procurement in the free trade agreements] more amenable to negotiation'. Thus, it was suggested that:

A more feasible approach might be to seek a "de minimis" level below which bumiputera preferences would be allowed to remain, but above which contracts would be open to international competition. Even this may be more than the Malaysian government could concede, but merely instilling discipline, transparency and responsiveness in the current system would make a big difference to U.S. firms. (WikiLeaks 2011)

Since the plurilateral treaty of the World Trade Organization (WTO) on Government Procurement Agreement (GPA) entered into force on 1 January 1996, Malaysia has not acceded to become a 'party' to this legally binding agreement. It is only recently that Malaysia has been accepted by the GPA committee to be an 'observer government' starting 18 July 2012. If Malaysia fully accedes as a 'party' to the GPA, it has to completely adhere to the principles of liberalization and rules-based world trade as well as observe transparency and open competition of both domestic and foreign suppliers on government procurement activities. Malaysia's accession to being an observer status signifies a certain degree of opening up of the government's procurement system in line with the transparency, accountability, and other liberalization requirements in the GPA. This acceptance to the GPA committee happened within three years of Najib administration's efforts to institute market-friendly reforms as particularly outlined in its government and economic transformation programmes (the GTP and ETP), the New Economic Model (NEM), and the Tenth Malaysia Plan (10MP) towards 'national transformation'. However, in the official document of the Ministry of Finance on 'Malaysia's Government Procurement Regime', dated November 2010, the scope of government's procurement preferences categorically reaffirms the fundamental ideals and features of the country's national industrialization strategy:

The Malaysian Government Procurement Policies, in general, provide support for the full achievement of the objectives and aspirations of the National Development Policy and Vision 2020 i.e. towards a developed nation status. The principal policies are as follows:

a) To stimulate the growth of local industries through the maximum utilisation of

- local materials and resources;
- b) To encourage and support the evolvement of Bumiputera (indigenous) entrepreneurs in line with the nation's aspirations to create Bumiputera Commercial and Industrial Community;
 - c) To increase and enhance the capabilities of local institutions and industries via transfer of technology and expertise;
 - d) To stimulate and promote service oriented local industries such as freight and insurance; and
 - e) To accelerate economic growth whereby Government procurement is used as a tool to achieve socio-economic and development objectives.

(Ministry of Finance Malaysia 2010: 1)

Nevertheless, even within its national industrial policy framework, Malaysia's procurement rules allow provisions for foreign participation on services and goods that cannot be produced and supplied by local sources. This is especially the case for the state's military defense requirements, which are mostly procured from highly industrialized developed countries with sophisticated high technology production systems and whose procurement is principally considered as a national security secret. However, for foreign procurements in general, the government would most likely set up a joint venture with a bumiputera private company through the method of direct negotiations with foreign suppliers and contractors instead of open international tenders. In this arrangement, the notorious partnership between the government and a bumiputera company emerges as a recipe for corruption and rent-seeking activities that have characterized political-business relations in Malaysia's accumulation regime. This system of patronage engagements between political-business partners in local accumulation processes appears to be the template for the government-bumiputera company joint venture's scandalous defense procurement of the Scorpene submarines from a foreign contractor.

Points of Conflict

The Scorpene submarine scandal implies the dynamics of elite capture and elite conflicts in the peculiar neoliberalization process of Malaysia's evolving accumulation regime. Firstly, the scandal presents a contradiction between the *ideal* behaviour of supposedly rational political-economic actors and the *actual* state decision-making as well as business strategizing in capitalism. Ideally, within a functioning neoliberal regime of competitive capitalism, procurement choices of the state are to be based on market rationality. Along this principle, the submarines should have been purchased by the Malaysian government on national security, financial, and other important technical military considerations. However, in the specific case of the submarine deal, the choice of procurement was largely defined not by the envisioned rationality of both state and market actors but by particular elites' personal interests in wealth accumulation through various calculated ways that include graft and corrupt practices.

Secondly, the controversy demonstrates the politics of elite interests *underpinning* the intended economic relations in the neoliberal reform of building institutions of competitiveness. The logic of competitiveness demands states to compete with each other to offer the best conditions and space for market transactions and accumulation. At the same time, it expects businesses to compete with each other based on the rules and principles of free market capitalism. In the case of the governments of the

transacting parties—France and Malaysia—in the Scorpene submarine deal, the logic of competitiveness has been enshrined in their respective objectives to establish market-friendly institutions. France has a national anti-corruption law and is a party to both WTO's government procurement rules and OECD's anti-bribery protocol. Likewise, Malaysia has anti-graft and -corrupt practices laws and even with a government procurement policy that is consistent with the ideology of *bumiputeraism* affirmative action—which prioritizes bumiputera firms, bidders, and contractors—it also compels local businesses to be competitive and the state to choose the most efficient and the most innovative private sector company as its procurement partner. However, elite bargain often trumps, offsets, or overwhelms institutions instead of the other way around as shown in this submarine deal case. Elites, specifically vested interests in states and the business sector, have the scope and means for strategic circumvention of institutionalized accumulation rules.

Thirdly, the procurement deals over the Scorpene submarines exhibit an *agential* conflict between competing elite alliances in the neoliberalization process. On the one hand, the enforcement of disciplinary neoliberalism needs a capital-state alliance to create a truly competitive capitalist accumulation structure through institutional reforms for good state governance and free market competition. On the other hand, there exist political-business alliances among elites in state institutions and in the ranks of capitalists with parochial vested interests in accumulating favours, rents, and profits.

Finally, the case illustrates a twofold function of bribery in a neoliberalizing accumulation regime. The first is that bribery can *bond state-capital relations* together. While state elites can demand bribes from capital in exchange for rents, capital can also use bribery as a tool to forge an alliance with state functionaries. The second point is that bribery is also an *arena of intense competition* among capitalists. This particularly suggests the aggressiveness in the dealing of French DCNS with Malaysia's Defense Ministry. As noted by the *Defense Industry Daily* (2012), a military purchasing news for defense procurement managers and contractors, '[t]he Franco-Spanish Scorpene diesel-electric attack submarine competes on the global market against an array of competitors, especially ThyssenKrupp HDW's U209/212/214 family'. Transnational corporations have the means to continue playing the 'old', pre-Anti-Bribery Convention in which the offering and receiving of bribes are legitimate practice for business and government transactions and as such constitute the 'rules of the game' of the capitalist regime of accumulation. It is specifically the case in the context of fierce market competition which impels capital to resort to bribery as key to access state rents.

COMPARISON AND CONCLUSIONS

Actual class and social forces shape the evolution of capitalist development. In particular, elite vested interests permeate through the process of neoliberal reproduction in Southeast Asia. This active interaction between elite interests and neoliberalization process reflects a specific configuration of power relations in the regime of accumulation.

A couple of interrelated mechanisms have emerged in the empirical expositions of this paper about Southeast Asia's contemporary political economy: [i] the structure-agency dynamics in the development of capitalism and [ii] the conflictual nature of accumulation. Firstly, the issues presented for both the Philippines and Malaysia have highlighted the scope of agency—particularly the dominant elite classes in politics and business—within the structures of an expanding circuit of capital in the context of the material and ideological opportunities for accumulation brought about by a globalizing economy and the ideology of neoliberalism itself. Secondly, the studied cases have shown that, alongside political-business alliances intrinsic in capitalist relations, there exist class and social conflicts naturally arising from the often-competing drive of vested interests to accumulate wealth and power.

The findings from these empirical cases have implications for theories of neoliberal globalization, capitalist development, and social change. Specifically, the interpretations from market fundamentalism, structural determinism, and pure voluntarism are being challenged. First, the study has falsified the hyperglobalist thesis based on the orthodox ideology of neoliberalism about the dominance of market forces and the rationality of the market logic in the era of globalization by presenting the reality that vested elite interests of local elites (with political affinity to states within which capital ultimately settles and operates) and of transnational capitalist elites (with business interests and strategies in emerging markets and developing economies) have the power and capacity to shape the process of neoliberalization. Second, it has illuminated the limitations of the fundamentally class and economic deterministic assumptions of some elements of vulgar Marxism by rendering 'the agential' visible in the structure of capitalist accumulation and by specifying 'the political' behind 'the economic' in the political economy of Southeast Asian neoliberalization. Third, it has concretized a social conflict theory to understand the dynamics of neoliberalizing accumulation regimes by particularly identifying 'the who' and explaining 'the how' in the conflict-ridden nature of accumulation regimes in the Philippines and Malaysia.

Neoliberalization processes in the Philippines and Malaysia are being driven and appropriated by conflicting elite interests. In principle, elites in these countries have no qualms about capitalist development and have a common drive for power and wealth accumulation. However, an overriding issue of conflicts is on who gets what, or who should get more, in neoliberalism's accumulation opportunities and how the neoliberal accumulation regime is to be organized. Thus, to understand the specificities of the evolving development of capitalism in Southeast Asia, it is necessary to decipher the dynamics of dominant elite class *interests* at stake and proactively involved in the diversifying accumulation processes under neoliberalism — i.e., particular interests of the elites in politics, business, and the economy which are sometimes converging and oftentimes conflicting.

Critical differences on elite class dynamics in the evolution of the neoliberalization process between the Philippines and Malaysia can be distinguished in three major aspects that characterize their respective accumulation regimes. The first and foremost contrast point is on the **power structure**, specifically state-capital relations, in the accumulation regime. Malaysia's distinctiveness is that it has an UMNO/BN-led state-party with a powerful political-business network embedded since independence (i.e., for about 60 years) whose vested interests are deeply entrenched,

and can be reproduced, in the regime's political-economic institutions. These established political-business alliances—notably, the system of consociationalism between actors in the state, domestic capital, and foreign capital—have historically institutionalized the culture of individualist economic transactionalism *together with* the agenda of the protection of particularist class and ethnic interests. On the other hand, elite interests in the Philippines are being articulated, negotiated, or advanced in an accumulation regime in which state control—and as such economic opportunities for capital—alternately circulates among competing sections of the elites through the country's regularly contested electoral democratic space. In this context, the wielding of political-economic clout is *contingent upon* whose faction of the political class, with their respective business partners, are in power.

The second contrast point is the accumulation regime's **prevailing economic development structure**, specifically the economic specialization or activity, in which elite interests are promoted in the neoliberalization process. In other words, this relates to the different economic contexts between elite interests in a neoliberalization *with* industrialization (i.e., Malaysia) and in a neoliberalization *without* industrialization (i.e., the Philippines). In Malaysia, the scandalous projects of PKFZ and Scorpene submarine are constitutive of neoliberal reform efforts in privatizing and liberalizing trade policy and government procurement which are accordingly linked to the country's national industrialization strategy. The state-party's UMNO/BN network of business cronies and political allies have long been well-placed in the regime whose strong relationships are forged and bounded together as important part of the country's enduring industrialization project. Consequently, these elites are well-positioned to influence and take advantage of virtually all accumulation opportunities from development projects and activities associated with the interconnected agenda for national industrialization and global competitiveness that basically require political decision-making, government sanctions, and state resources. In the Philippines, the controversial deals for the NBN-ZTE and NAIA-3 projects were supposed to be done in the spirit of the neoliberal policies of privatization and liberalization particularly through build-operate-transfer schemes and public-private partnerships. These infrastructure development projects were, on paper at least, simply tied to neoliberal market and institutional reform policies but not to any long-term politically planned industrial policy. While the industrializing economy of Malaysia has 'the usual suspects' in its accumulation regime coming from the age-old UMNO/BN political-business network, every incumbent administration in the Philippines presents itself with its own clique of politicians and favoured business elites with a relatively short-termist predisposition and a tendentially expedient accumulation agenda.

The third contrast point is the different **political institutions** of Philippine and Malaysian accumulation regimes that delineate—but not necessarily determine—elite behaviour within the larger polity and society. Authoritarian features in Malaysia control government apparatuses and the media that make it difficult to publicly reveal anomalies, let alone institutionally enforce punitive actions against corruption and other wrongdoings. In essence, the state-party dominates the executive, parliamentary, and judicial institutions as well as the influential means of socialization through mainstream media. This, therefore, poses tremendous challenges and difficulties, as well as risks, for opposition politics. On the contrary, post-Marcos dictatorship Philippines has been able to move towards a

democratization process and put in place some democratic rules and institutions, notably: the system of checks and balances between the executive, legislative, and judiciary; a relatively free press and vigorous media with activist investigative journalism; and a multitude of active civil society and social movements. This configuration of democracy provides an important institutional basis for public vigilance and opposition against elite misbehaviour and deviance in the conduct of political and economic activities. Arguably, political-economic actors in the Philippines accept, at least, the procedural rules of democracy that is why those accused of misconduct most often get investigated by executive and congressional bodies, prosecuted and tried in courts, and in some cases convicted.

Notwithstanding these contrast points, an overarching theme in this paper is that *elite capture* and *elite conflicts* pervade the process of the peculiar neoliberalizing capitalist regimes in Southeast Asia. Neoliberalization is expanding the circuit of capital accumulation beyond the nation-state and creating new capitalist class formation and pro-capitalist political forces; but, simultaneously, it is broadening a set of prospective clients from whom entrenched domestic elites can extract rents and appropriate profits. Dominant elite classes—at both the local and transnational levels—have strategies to profit from neoliberalism through the usurpation of the neoliberalization process itself consistent with their particularistic interests in the preservation and perpetuation of their personal stakes, social status, and class power. After all, the neoliberalization process, as well as the ideology of neoliberalism, is a fundamentally elite-led and elitist agenda. This, however, does not mean faithful conformity of the elites to orthodox neoliberal policies. As illustrated in the cases for both the Philippines and Malaysia, the *interests* of elites in the expansion of capital accumulation, particularly their behaviours and actions toward both the constraints and opportunities in the structures of accumulation under conditions of neoliberal globalization, often contradict the *ideology* of competitive capitalism. At the same time, it has become more palpable that there are inter- and intra-elite *conflicts* coexisting with the ‘old’ and the ‘new’ political-business *alliances* in the neoliberalizing accumulation regimes of the Philippines and Malaysia.

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