
Making Economic Policy in an Illiberal Era:

The Southeast Asian Experience

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Making Economic Policy in an Illiberal Era: The Southeast Asian Experience*

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Abstract

In the current global environment of authoritarian populism, the retreat from economic liberalism and the appeal of anti-globalization movements, this paper investigates the effects on and responses of five middle-income Southeast Asian economies, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. While their political histories and institutional capabilities vary greatly, these economies have a history of at least moderately fast economic growth for extended periods, and of increasing regional and global economic integration. We argue that most of the factors behind the discontent with globalization in the rich economies are not present to the same degree in these countries, and that there has therefore been no major retreat from the economic policy settings that have underpinned their past economic success. However, there are no grounds for complacency. Economic growth is slowing in some of the countries, economic insecurity remains widespread, and the development of durable independent institutions has lagged economic growth.

JEL codes: F02, F60, H12, Z18

1. INTRODUCTION

The current era is arguably the most unsettling since the end of World War II. The past decade has witnessed the rise of illiberalism, populism, anti-globalization movements, economic nationalism and democratically elected authoritarian leaders. These so-called ‘strong men’ are setting much of the global narratives: Donald Trump, Vladimir Putin, Recep Tayyip Erdogan, Rodrigo Duterte, Jair Bolsonaro, Viktor Orban, Boris Johnson, and others. Combined with slower economic growth, rising inequality, disaffection with traditional politics, and rising illegal/unofficial migration flows in many countries,

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Please note that this paper was written before we saw the conference country papers on Malaysia, Philippines, Thailand and Vietnam.
the liberal, rules-based international order is being seriously undermined. The global community appears unable to reach agreements on issues as diverse as climate change, global trading arrangements, the movement of people, and the control of nuclear armaments.

Although these leaders have generally derived their legitimacy at least in part from electoral success, they appear intent on weakening the independent institutions that underpin a modern democratic state. Indeed, according to Diamond (2019), a ‘democratic recession’ is occurring: 62% of countries with a population greater than one million people were ‘democratic’ at the turn of the century. That figure has since fallen to 51%. According to the 2019 Edelman Trust Barometer, based on its survey of 26 countries and territories (mostly G20 members), respondents in the majority of cases selected ‘distrust’ over ‘neutral’ or ‘trust’, a broadly similar finding to that of previous years. The annual Freedom House survey of 195 countries and 14 territories refers to a continuous decline in political rights and civil liberties since 2005. The annual Reporters Without Borders reached a similar conclusion.

In this paper we ask how has Southeast Asia (henceforth referred to as ASEAN, Association of Southeast Asian Nations) responded? Are these global currents – trade wars, threats to rules-based multilateralism, authoritarian populism, so-called identity crises, and increasing disenchantment with ‘elites’ – finding resonance in the region and, if so, do they portend a fundamental change in the region’s development strategies and trajectories? These are mostly open, moderately dynamic economies to which international issues and ideas are quickly transmitted. They are also relatively small economies,1 and their economic prosperity has derived in no small measure from an open, rules-based international environment. This applies particularly to the most open economies of the region, including three in our sample, Malaysia, Thailand and Vietnam.

For reasons of space we limit the topic in two respects. First, in view of ASEAN’s great diversity in practically every respect – size, population, living standards, political history, institutional features and much else – we limit the study to five middle-income countries: Indonesia, Malaysia, Philippines, Thailand and Vietnam. These five have a combined population of about 580 million people, 89% of the region’s total.2 They have all experienced extended periods of economic dynamism for some or all of the recent decades and they are all at least moderately open economies. None has experienced serious economic difficulties since the 1997-98 Asian financial crisis, although highly export-oriented Malaysia and Thailand were adversely affected by the slowdown in global trade in 2008-09.

1 Small obviously only in an economic sense. Their combined population is about 650 million people, with Indonesia the fourth most populous nation in the world.
2 The other five ASEAN states are atypically rich (Singapore), tiny (Brunei), small and authoritarian (Cambodia and Laos), and in the early transition stages from decades of isolation (Myanmar).
Second, to the extent possible, we focus primarily on economic policies and outcomes rather than the broader political and institutional issues that are the subject of much international debate. For the record, Freedom House classifies Indonesia, Malaysia and the Philippines as ‘partly free’ and Thailand and Vietnam as ‘not free’. In recent years according to this survey, Malaysia has become more free, following its 2018 general elections, while Thailand has become less free, principally as a result of the military coups of 2006 and 2014 and the heavily managed 2019 elections.

Our organization is as follows. Section 2 provides context, surveying some of the recent global literature on the subject and reviewing the economic trajectories of the five countries. Section 3, the main part of the paper, examines recent economic and policy developments in these countries according to the yardsticks that are commonly viewed as either precursors or outcomes of the departure from liberal, open and inclusive economies. Section 4 summarizes our main arguments.

2. THE CONTEXT

To set the context we briefly review some of the pertinent literature on this topic (mostly from and about rich economies) and the five economies.

2.1 Origins of Rising Illiberalism and Populism

The vast literature on rising global illiberalism and populism has both common elements and those that are specific to time and place. Much of the English-language literature focuses on the two major Anglo countries, and is therefore dominated by Brexit in the UK and rise of Donald Trump in the US. It is not necessarily relevant to middle-income developing countries with very different economic dynamics, politico-institutional systems and development policy challenges. A general feature of populism is political movements with ‘anti-elite, authoritarian, and nativist tendencies’ (Eichengreen, 2018), together with a rejection of technocratic governance and global capitalism. Although a topic of much contemporary analysis, economic historians remind us that populist movements have always been present, certainly since at least the emergence of capitalism.

A common element is dissatisfaction with economic (and sometimes political) liberalism. In the words of two of the world’s most prominent current leaders: Liberalism has ‘… outlived its purpose [because] … the ruling elites have broken away from the people.’ (Vladimir Putin, Financial Times, 28 June 2019.) ‘Politicians prospered but the jobs left and the factories closed. The establishment protected itself, but not the citizens of our country. Their victories have not been your victories. Their triumphs have not been your triumphs.’ (Donald Trump’s 2017 inauguration address.)

Socio-economic grievances are at the core of much of the discontent. Stiglitz (2019) articulates their dimensions in the case of the US: the growing wealth disparities, the ‘rust-belt’ states deindustrializing and falling behind (and the
despair graphically portrayed by Vance (2016) and others), and the growing health disparities based on educational disadvantage, compounded by intergenerational effects, as documented in great detail by Case and Deaton (2017). The impact of the 2008-09 global financial crisis, and the perception that the perpetrators of the crisis were largely unaffected, has exacerbated this deep disaffection.3

In the search for solutions (and scapegoats), Fukuyama (2018) emphasizes the links between socio-economic grievances and the importance of identity politics, including ethno-religious factors and opposition to large migration flows, which are in turn fanned by social media and exploited by populist leaders: ‘Identity is the theme that underlies many political phenomena today, from new populist nationalist movements, to Islamist fighters, to the controversies taking place on university campuses. We will not escape thinking about politics and ourselves in identity terms.’ (pp.182-3)

These critiques draw on some of the earlier concerns about the adverse effects (real or perceived) of globalization (see for example Rodrik, 2012): rising intra-country inequality, the power of global institutions such as the International Monetary Fund, and issue-based protests that morph into generalized attacks on globalization (for example, environmental movements), again fanned by social media and inadequate social safety nets. Noland (2020) shows how these various factors are manifested in rising US protectionism, a trend that he believes is likely to transcend the Trump presidency.

The inequality issue is particularly relevant in this context for three reasons. First, as Milanovic’s (2016) ‘elephant curve’ clearly shows, since 1990 global inter-personal inequality has been declining. This has been driven mainly by declining inter-country inequality, that is, some developing countries, mainly in East Asia, growing faster than the rich economies. In aggregate, this factor has outweighed the rising intra-country inequality recorded in many countries. Second, the effects of rising inequality are particularly pernicious in the slow-growth rich countries. Its effects are ameliorated in higher-growth developing countries since the living standards of the poor are at least rising, albeit at a slower rate than those of the rich. These diverging outcomes facilitate an understanding of why much of the opposition to globalization has tended to come more from the rich countries (and the slow-growth poor countries) rather than from the more dynamic developing countries.4 Third, there is emerging cross-country evidence of a link between populism and inter-generational mobility (IGM), that is, countries in which populism is more pervasive tend to be also those with lower levels of IGM. This is the so-called ‘Great Gatsby Curve’,

3 Or as Goodhart (2017) puts it, the divide is between the ‘Anywheres’ and the ‘Somewheres’, the comfortable, educated, mobile professional classes, and those who are less educated, geographically less mobile and whose jobs are disappearing owing to technological change and import penetration.

4 In Milanovic’s schema, the first two groups are represented approximately by the lower two deciles and deciles six to nine, while the dynamic middle populates deciles three to five. The super-rich in the rich countries are in the top few percentiles.
the negative association between IGM and the Gini index of disposable income, and in turn the prevalence of populism.\textsuperscript{5}

These manifold grievances are then exploited by populist politicians. Eichengreen (2018) clearly articulates the connections: ‘Poor economic performance, which manifests itself in slow or no growth, feeds dissatisfaction with the status quo. It fosters support for populist alternatives when that poor performance occurs on the watch of mainstream parties. Rising inequality augments the ranks of those left behind, fanning dissatisfaction with economic management. Declining social mobility and an absence of alternatives reinforce the sense of hopelessness and exclusion. Rapid economic change heightens insecurity—the sense that even if there is no lack of opportunity now, there will be a lack of opportunity in the future—when the political establishment fails to buffer the effects.’

That is, populist/authoritarian politicians are able to skillfully exploit these economic and identity grievances – the dislike of technocratic elites (for example, in central banks and finance ministries), of those employed in rich financial centres, of the residents of capital cities, of migrants and ethnic diversity, of supra-national institutions, and a multitude of conspiracy theories. Since these political leaders are adept at whipping up discontent, but are unable or unwilling to address the underlying grievances, their political longevity is highly variable: either they remain in power by undermining the independent institutions of the state (including the media and the pillars of a robust and open political system), or they are quickly disposed of at the next political opportunity.\textsuperscript{6} \textsuperscript{7}

This literature provides some guidance on the sorts of socio-economic conditions and economic policies that are triggers for, or at least associated with, the rise of populism and illiberalism. We now turn to examining these various factors in our five-country study.

\textsuperscript{5} Iversen and Soskice (2019, chapter 5) explore these connections among the OECD economies. See also Dani Rodrik, ‘What’s Driving Populism?’, Project Syndicate, July 9, 2019.

\textsuperscript{6} That these characterizations of populist politicians are broadly applicable is illustrated by the following recent commentary on Matteo Salvini, widely considered to be the most influential figure in contemporary Italian politics: “The problem is that Mr Salvini has not risen to pre-eminence by solving or showing how he might solve any of Italy’s obvious malaises. … He has won support, rather, by the well-tested populists’ method of finding others to blame. … There are two favourite enemies: migrants and Brussels.” (The Economist, July 13, 2019)

\textsuperscript{7} The classic study of the failure of populism to address fundamental development problems in developing countries is that of Sebastian Edwards (2010) on Latin America.
2.2 The Five Economies: An Overview

For half a century, Southeast Asia has been the world’s most economically dynamic region. Four countries (Indonesia, Malaysia, Thailand, Singapore) were among the seven developing East Asian ‘miracle’ economies identified in the World Bank’s 1993 study. These four were also included among the 13 very high growth economies (out of a total of 150 economies) over the past century in the 2008 Growth Commission report. Were the latter study being undertaken now, Cambodia and Vietnam would qualify for inclusion, with Laos and the Philippines (the latter for long the ‘East Asian exception’) nearly qualifying. Annual GDP growth of 7% implies that per capita income is doubling at least every 14 years. Thus per capita incomes in these economies have risen at least six-fold, and sometimes a good deal more, over the past half-century.

These economies have also become increasingly open and economically integrated, both regionally and globally. Three (Malaysia, Singapore, Thailand) were in the very small group of ‘always open’ developing economies according to the Sachs-Warner criteria. Indonesia began to open up in the late 1960s and the Philippines in the 1980s. Vietnam led far-reaching ‘Doi Moi’ reform in the three Indo China economies from the late 1980s, and even Myanmar has emerged from decades of self-imposed isolation. These liberalization strategies have been reinforced by ASEAN’s slow, cautious but uni-directional adoption of what Hadi Soesastro referred to as a model of ‘outward-looking regional economic integration’ since the signing of the ASEAN Free Trade Area (AFTA) agreement in 1992, and subsequently the adoption of the ASEAN Economic Community in 2015. Significantly, there was no reversal to this trend during the 1997-98 Asian financial crisis, in spite of general unhappiness with the role of the IMF, and during the 2008-09 global financial crisis. The rising economic dynamism of China from 1978 and India from 1991 has generally (but not always) reinforced these trends, through powerful demonstration effects sometimes referred to as ‘competitive liberalizations’.

We also note in passing that there is little if any correlation between these growth dynamics and reform episodes on the one hand, and the type of political regime on the other. The least open political regime among the five, Vietnam, has arguably been the most vigorous reformer this century. But democratic Indonesia and the Philippines have also achieved some notable reforms. It is arguably the case that reform has been slower in the two more advanced economies, Malaysia and Thailand, even as one (Malaysia) has become more democratic in recent years, while the other (Thailand) has regressed.

Moderate to rapid economic growth has resulted in commensurate, broadly-based improvements in living standards. Poverty has fallen quickly, to the point

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8 The criterion for inclusion was average annual GDP growth of at least 7% for at least a decade.
9 This term gained wide currency through its articulation by Fred Bergsten of the Peterson Institute. In the Southeast Asian context it has been popularized by, among others, one of Indonesia’s leading economists and policy makers, Mari Pangestu.
where extreme poverty has been almost eliminated in Malaysia and Thailand (Warr, 2015). Other social indicators such as life expectancy and education have improved substantially. We return to the issue of living standards in the following section.

3. SOUTHEAST ASIA: FOLLOWING THE GLOBAL TRENDS?

We now focus on economic policy making and outcomes in the five ASEAN countries, examining in particular whether the variables identified in the global literature on populism and authoritarianism are also playing out in this region. To the extent possible our narrative is empirically rooted, organized into five broad areas and based on internationally comparable survey data and various socio-economic indicators.

3.1 Attitudinal and ‘Life satisfaction’ Surveys

First, do we obtain insights from the various cross-country attitudinal and ‘life satisfaction’ surveys? We report the findings for these five countries and some comparators from two widely used sets of international survey data: the Gallup Survey of life satisfaction and the Pew Survey that probes various attitudes towards the global economy. These are subjective surveys, the answers depend in part on the context in which the question is asked, and the sample sizes for these countries are small. But they are the best comparative data available, and the results are at least indicative.

The Gallup Survey data for 2017 are reported in Figure 1 for the ASEAN countries and some comparators. They are graphed with country GDP per capita data on the horizontal axis. For what the data are worth, they suggest that life satisfaction rises with per capita income, but as expected the relationship is non-linear, with satisfaction in upper middle-income Thailand being broadly similar to much richer Japan and Singapore. Vietnam, Indonesia and China are similar according to this metric, and substantially higher than India. The concept is somewhat fuzzy, and other non-income factors are also relevant, including obviously security and freedom. But at least one can conclude that on average the life satisfaction of citizens in these countries does not differ significantly from their per capita income and other social indicators, relatively speaking. It also appears to be improving over time.

Figure 1. Life Satisfaction and Per Capita GDP

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10 Deaton (2013) notes that East Asian countries tend to record lower satisfaction than their peers for any given income.
Several Pew Survey questions shed some light on attitudes towards globalization. As reported in Table 1 these include questions on the link between trade and employment, trade and wage levels, and the effects of foreign investment. The different responses between East Asia and the US are revealing. Only one in five of the US respondents believed that trade is good for jobs, whereas over half of the respondents in Indonesia, the Philippines (two countries noted for their strong nationalistic sentiments in many respects) believe this, while respondents in Malaysia and Vietnam viewed the employment effects positively. Similar magnitudes were evident for the trade-wages question (as they were in China and even India), with late-reforming but dynamic Vietnam the most positive of all. The views on the effects of foreign investment were generally somewhat less positive, but still more positive than those in the US in all the East Asian countries.

Table 1. Attitudes towards Globalization

<table>
<thead>
<tr>
<th>Does trade with other countries lead to job creation, job losses or does it not make a difference?</th>
<th>Does trade with other countries lead to an increase in wages of workers?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Job creation</strong></td>
<td><strong>Job losses</strong></td>
</tr>
<tr>
<td>Indonesia</td>
<td>63</td>
</tr>
<tr>
<td>USA</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>67</td>
</tr>
<tr>
<td>India</td>
<td>49</td>
</tr>
<tr>
<td>Philippines</td>
<td>56</td>
</tr>
<tr>
<td>Malaysia</td>
<td>57</td>
</tr>
<tr>
<td>Thailand</td>
<td>43</td>
</tr>
<tr>
<td>Vietnam</td>
<td>78</td>
</tr>
</tbody>
</table>

*Effect of foreign companies buying domestic companies on country.*
<table>
<thead>
<tr>
<th>Country</th>
<th>Good</th>
<th>Bad</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>41</td>
<td>53</td>
<td>6</td>
</tr>
<tr>
<td>USA</td>
<td>28</td>
<td>67</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>39</td>
<td>50</td>
<td>11</td>
</tr>
<tr>
<td>India</td>
<td>56</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td>Philippines</td>
<td>66</td>
<td>30</td>
<td>4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>45</td>
<td>44</td>
<td>11</td>
</tr>
<tr>
<td>Thailand</td>
<td>41</td>
<td>53</td>
<td>6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>59</td>
<td>32</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Pew Research Center, 2014

With the usual data caveat, these country differences suggest that the assertions developed from the US/UK literature may not necessarily be a useful analytical prism through which to view the ASEAN countries’ political economy constructs. Such a conclusion is also consistent with the findings from the ‘Elephant Curve’ referred to above.

3.2 Living standards

In these moderately dynamic economies living standards have generally been rising. There are relatively few cases of stagnation on any scale, much less regress.\(^{11}\) Figure 2 presents head count poverty estimates according to the World Bank’s international poverty lines for lower-middle economies.\(^{12}\) The data show very clear improvements in general living standards. For both Malaysia and Thailand head count poverty according to this measure is now negligible, reflecting their graduation to the upper middle-income group. For Indonesia and especially Vietnam the decline in poverty incidence has been dramatic: 71% to 10% for the latter, and 80% to 32% for the former. Poverty has declined more slowly in the Philippines, from 44% to 32%, reflecting both its slower growth until recently and the intractability of its poverty conditions.

Figure 2: Poverty Incidence, 1999-2015

\(^{11}\) See World Bank (2017) for a general survey of poverty and inequality in developing East Asia.

\(^{12}\) We use the $3.20 (PPP, 2011 prices) poverty line, the most widely used such indicator for middle-income developing economies. Poverty at the lower $1.90 line is now very low in all five countries. Note that these data (and those for the following figure on inequality) are from the World Bank’s Povcal dataset, which are in turn derived from national household survey data, over which is inserted the (arbitrary) poverty lines.
These poverty data provide reassuring evidence of broad-based improvements in living standards, of Angus Deaton’s (2013) ‘great escape’ from destitution. But it is important not to overstate the achievements, especially in the three poorer countries. First, there are regions that are not enjoying the benefits of economic growth. These include western Mindanao and the Sulu Archipelago in the Philippines, the two Papua provinces in Indonesia, and the three southern border provinces of Thailand.\(^\text{13}\) In addition to their lagging socio-economic indicators, these three regions share some common features: there are ethnic and/or religious differences from the national mainstream; they are geographically distant from the national economic hubs; and to some extent (especially for Papua) they were incorporated into the modern nation state in somewhat controversial circumstances. In Papua in particular there is resource abundance, and frequent disputes over the distribution of natural resource rents. The ongoing political unrest in these three regions is both a cause and a consequence of their lagging economies. The most serious case of protracted insurrection and conflict, and the sharpest economic disparities with the rest of the country, is the Autonomous Region of Muslim Mindanao (ARMM).\(^\text{14}\)

Second, particular household attributes are consistently associated with poorer outcomes, including female-headed households, those in isolated regions, and those primarily employed in agriculture. In Vietnam the sizeable ethnic minorities, which are often also spatially isolated, constitute the country’s most serious poverty challenge (Tarp, 2017). In Malaysia too, ethnicity is a key feature of income inequality, with profound political implications, as ethnic Malays constitute about 74% of bottom 40% of household incomes.

A third caveat is that, while most of the population has graduated from poverty, significant numbers remains economically insecure. Catastrophic health events and loss of employment can easily push people below the poverty line,

\(^{13}\) See Resosudarmo et al (2016) for a comparative examination of the three regions.

\(^{14}\) See Hutchcroft (ed, 2016) for a detailed study.
especially in view of the fact that many households are still clustered close to the poverty line (Ravallion, 2016). Urbanization and smaller families are also weakening traditional family and community support systems, while except for Malaysia comprehensive pension systems to support an ageing population are in their infancy.\textsuperscript{15} Moreover, in spite of recent progress with targeted and conditional cash transfers, these countries are yet to develop modern welfare states that protect their citizens from precipitous declines in living standards. As Table 2 shows, at less than 1\% of GDP social assistance expenditures in all five countries (and developing East Asia in general) are very modest. These programs are expanding in coverage and size, while targeting remains rudimentary. On a positive note, the fiscal position of all these countries is sound, and thus there is considerable scope for expanding the programs with stronger tax efforts.

\textsuperscript{15} Nevertheless, it is important not to overstate the extent of insecurity. Comprehensive, extended and reliable longitudinal panel data on living standards are rarely available. But arguably the richest social survey data base of this type among the five countries – the Indonesian Family Life Survey (IFLS) – shows that over the period 1993 to 2014 there was much progress and very little regress. Unpublished World Bank analysis (as reported in Hill, 2019) of these data show that, for the period as a whole, more than half the individuals who were in the lowest income group (the ‘poor’) at the beginning of the period had moved into either the third group (‘aspiring middle class’) or the top group (‘middle class’). Moreover, the great majority (87\%) who were middle class at the beginning of the period remained in this or the ‘aspiring’ group.
Fourth, inequality also determines how responsive poverty is to economic growth. The inequality story in these five economies is a diverse one, with gradual convergence to moderately high levels (Figure 3; see also Sumner, 2018). ¹⁷ Malaysia and the Philippines inherited highly unequal enclave economies from the colonial era and, despite various redistribution measures (pursued most actively in Malaysia), inequality has remained fairly high, especially in the Philippines, where it has proven to be intractable (Clarete, 2018). With their extensive smallholder rice economies, inequality was historically lower in Thailand and Vietnam. As Pasuk and Baker (2016) and others have shown, Thai inequality began to rise quite quickly in the 1970s, much of it reflecting the growing disparities between Bangkok and the rest of the country. However, it has declined significantly in the past decade. On independence Indonesia also inherited an enclave, dualistic economy. But by the mid 1960s all foreign property had been nationalized and inequality was very low. Thereafter it remained fairly stable, until the early 1990s when it began to rise, a process interrupted by the Asian financial crisis. Perhaps paradoxically, inequality has risen significantly in the post-1999 democratic era (Suryahadi and Al Izzati, 2019). Vietnam is also beginning to travel down this path in the wake of its liberalizations (Tarp, 2017). Thus, in most countries the

¹⁶ The following is a description of terminology:
Notes: ‘Coverage’ denotes percentage of population participating in social assistance programs (including direct and indirect beneficiaries).
‘Extent of benefits’ denotes total transfer amount received, as a share of total welfare of recipients.
‘Beneficiary incidence, poorest quintile’ denotes percentage of program beneficiaries belonging to the poorest quintile (of the post-transfer welfare distribution).
‘Benefit incidence, poorest quintile’ denotes the percentage of total program benefits received by the poorest quintile.

¹⁷ Note that some countries estimate the Gini index on the basis of income while others use expenditure. (The resulting Ginis can differ by 3-5% as a result.) But the country methodologies are at least consistent over time and are therefore an accurate indication of trends.

Table 2. Social Assistance – Coverage, Extent and Targeting

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Spending (% of GDP)</th>
<th>Coverage</th>
<th>Extent of Benefits</th>
<th>Extent of Benefits (poorest quintile, %)</th>
<th>Beneficiary Incidence (poorest quintile, %)</th>
<th>Benefit Incidence (poorest quintile, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.7</td>
<td>53.9</td>
<td>na</td>
<td>na</td>
<td>30.3</td>
<td>na</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.7</td>
<td>82.8</td>
<td>1.7</td>
<td>6.5</td>
<td>22.7</td>
<td>20.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.6</td>
<td>27.4</td>
<td>11.6</td>
<td>20.9</td>
<td>41.9</td>
<td>45.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.5</td>
<td>70.4</td>
<td>3.7</td>
<td>2.5</td>
<td>24.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.5</td>
<td>20.9</td>
<td>16.5</td>
<td>20.5</td>
<td>41.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Developing EA&amp;P</td>
<td>0.6</td>
<td>45.5</td>
<td>5.5</td>
<td>7.8</td>
<td>32.4</td>
<td>12.5</td>
</tr>
</tbody>
</table>

growth elasticity of poverty has been declining. But it is important to emphasize that there has been an undeniable general improvement in living standards in all five countries, driven primarily by economic growth.\textsuperscript{18}

**Figure 3: Inequality, 2000-17**

![Graph showing Gini Coefficient from 2000 to 2017 for Indonesia, Malaysia, Philippines, Thailand, and Vietnam.]


A fifth caveat concerns intergenerational mobility (IGM), and the extent to which inequality is transmitted across generations. As a result of the large emerging World Bank data base a picture of IGM is beginning to emerge.\textsuperscript{19} For developing countries, the expected negative association between IGM and income inequality also appears to hold, with education being the key channel. In Indonesia, for example, the data suggest that ‘Parental circumstances continue to strongly influence children’s outcomes, starting in early childhood.’ These influences are revealed in various education, health, employment and income outcomes across generations. In most developing countries the reliable database is confined mainly to education and health indicators, but it is likely that a similar set of determining variables will apply to the IGM income estimates as better data become available.

### 3.3 Macroeconomic populism?

Political populism invariably results in adventurous macroeconomic policies, including budget deficits and pressure on central banks to pursue accommodating monetary policies. The fiscal deficits result from populists’ short time horizons, adherence to voodoo economic doctrines, a reluctance to tax their wealthy supporters, and a desire to meet at least some of the demands

\textsuperscript{18} For reasons of space we have not included discussion of other dimensions of living standards, including education, health and nutrition. These are also improving in all five countries (World Bank, 2017).

of their mass voting base. The pressure on central banks typically derives from populist leaders’ distrust of independent economic policy institutions (like central banks) and a preference for easy money, in some cases also as a means of facilitating crony bailouts.

These policies resonate less in East Asia than elsewhere, given the region’s history of generally low inflation and fiscal prudence (Corden, 1996). This has also been the case for the majority of our five ASEAN countries, especially Malaysia and Thailand, which in turn explains the rarity of economic crises and hence interruptions to the process of rising living standards. In most countries the finance ministries tend to be staffed by technocratic professionals. There have of course been exceptions. Three of the five – Indonesia, Malaysia and Thailand – were badly affected by the Asian financial crisis, although not because of fiscal profligacy. Indonesia in the mid 1960s and Vietnam in the mid 1980s experienced hyperinflation. The Philippines had a history of boom and bust macroeconomics until the new central bank (the BSP) was established in 1993.

Figure 4 charts fiscal balances (as a percentage of GDP) since 2000. The data clearly affirm the fiscal moderation among the five for most of the period. In some cases – for example Indonesia and Thailand – legislated fiscal rules further reinforce the prudence, which also provided room for fiscal stimulus packages during the global financial crisis.20 Except in a few cases, the norm is fiscal deficits of around 3% of GDP, which in economies growing at 5% or more implies stable or declining public debt to GDP ratios. This does not of course imply that there are no budgetary problems in these countries. On the contrary there are many, including weak tax efforts, inefficient SOE sectors, contingent liabilities (including in the now better regulated financial sectors), corruption in public procurement processes, a lack of progressivity in tax structures, opaque expenditure allocations, and much else. But at least these are problems of efficiency and distribution, that do not undermine macroeconomic policy settings.

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20 See Sangsubhan and Basri (2012). Note also the special case of Malaysia, which has on occasion run much larger fiscal deficits, but which have been supported by high domestic savings rates (some of it owing to the compulsory saving scheme known as the EPF), hence resulting in current account surpluses for most of this century.
In parallel with these strong finance ministries, central bank professional quality and policy independence has improved in all five countries. Globally central banks are under attack. As one leading former central banker has noted, ‘Populists believe they have a mandate from “the people” to wrest control of institutions from the “elites”, and there is nothing more elite than pointy-headed PhD economists speaking in jargon and meeting periodically behind closed doors in places like Basel, Switzerland.’

In Southeast Asia Malaysia and Thailand had historically strong central banks, while in Indonesia and the Philippines they were reformed after the major economic crises of 1997-98 and 1984-86 respectively. In most of the five central banks have legislated or de facto independence. They have generally adopted modern monetary policy best-practice of inflation-targetting and floating exchange rates. They are also not required to finance budget deficits. Only in Vietnam could it be said that its central bank – the State Bank of Vietnam – is directly subject to the will of the government of the day, and in turn to its extensive state-owned banking sector.

The various attempts at assigning metrics to central bank quality generally confirm these observations, with Bank Negara Malaysia and the Bank of Thailand the historical leaders among the five economies. Central bank quality can also be assessed according to various ‘performance indicators’, most notably inflation outcomes and financial sector efficiency and stability (in the latter case where the sector remains under the purview of the central bank). With the partial exception of Vietnam, inflation has been at least moderately low in the five economies this century. Prudential regulation of the banking sector has also been greatly improved in the wake of the Asian financial crisis. The occasional banking crisis and scandal – such as Indonesia’s Bank Century in 2008 and Malaysia’s 1MDB (on which see Wright and Hope, 2018) – and the opaque nature of the large state bank sector in Vietnam have not yet

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21 Raghuram Rajan, ‘Central Banks are the Fall Guys’, Project Syndicate, July 31, 2019.
endangered financial stability, including crucially during the 2008-09 global financial crisis.

3.4. Trade and commercial policy

Trade policy features prominently in the populist agenda. Populists are generally suspicious of globalization and its institutional underpinnings, particularly the World Trade Organization. This is partly owing to their ideological predispositions, partly a response to the demands of their political base that argues for restrictions on ‘unfair competition’ from imports, and partly the result of capture by vested interests exploiting these populist sentiments for private benefit. Large economies such as the US have the commercial clout to impose a return to bilateralism on its trading partners in exchange for market access, but this option is obviously not available for smaller economies such as these five.

As noted, the five economies have very different commercial policy histories and orientations, ranging from the ‘always open’ Malaysia and Thailand through to periods of international commercial isolation in the cases of Indonesia and Vietnam. But they have all become progressively more open since the 1980s, particularly in the case of Vietnam. The standard indicators of economic openness do not accurately detect all the nuances of trade and investment policy, but the general picture is clear enough. Merchandise trade is equivalent to more than 100% of GDP in Malaysia, Thailand and Vietnam, and typically in the range 50-70% for Indonesia and the Philippines (Figure 5). (The Philippine figure is considerably higher if services trade is included.) There is no clear trend in these trade shares over time, after allowing for the general slowdown in global trade in recent years, and specific factors at work in the case of Indonesia (declining commodity prices) and Malaysia (the declining importance of electronics trade).

Figure 5. Trade Openness, 2000-18

![Trade Openness Graph](source: CEIC)
The global trade alert data (see https://www.globaltradealert.org) largely corroborate this conclusion (Figure 6). This data set compiles data on ‘liberalizing’ and ‘harmful’ trade policy interventions for all major trading countries, measuring the number of such interventions rather than their intensity. The data suggest little overall change in the trade policy settings of the five economies since 2009, with the partial exception of Indonesia, where economic nationalism has risen again in recent years, particularly during the recent commodity boom and its aftermath (Patunru, 2019).

Figure 6. Trade Policy Interventions, 2009-18

Source: Global Trade Alert

This is not the place to discuss in any detail the factors that explain the maintenance of relatively open commercial policy regimes in these economies. Notwithstanding the great diversity, there are several common elements. These include the demonstrated gains from outward orientation and reform episodes, the export constituencies that outward orientation has created and sustained, the absence of serious exchange rate misalignment that could trigger protectionist pressures, the powerful neighbourhood and demonstration effects of the successful early liberalizers, and the power of global production networks that account for about half of intra-East Asian and intra-ASEAN merchandise trade and which can only operate in an open-economy environment.

ASEAN has been an important economic and political player in Southeast Asia’s outward orientation (Mahbubani and Sng, 2017). Although lacking high-level analytical capacity and rarely a significant international actor, the Association has been an effective forum for extending and multilateralizing national reform initiatives. At the margin it has also played a role in restraining trade policy...

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22 This trade occurs under the umbrella of the Information Technology Agreement, to which all the major electronics producers have acceded. The East Asian centred ITA is one of the few WTO successes in recent years. It has over 50 signatories, covers 201 products, and has annual trade of about $1.3 trillion.
backtracking among the member economies owing to the binding decisions that arise from its consensus-style procedures.

3.5 Institutional quality and governance

Much of the populist/authoritarian agenda focuses on the institutions of the state and civil society, particularly those that are considered to be independent of the political leadership of the day, and therefore potential sources of opposition resistance. Referring to the conservative ascendency in the US, for example, Stiglitz (2019, p.14ff) provides a useful checklist as part of ‘The Counterattack’: attacks on centres of knowledge (universities and science in general), on the judiciary, and on the media.

Institutions are embedded in a society’s history, politics and culture and are therefore not easily amenable to broad-brush comparative quantification. What is relevant for a society with a history of rugged individualism is unlikely to be applicable to an authoritarian, centralized state with weakly developed independent institutions. We therefore couch our analysis with reference to a set of widely used comparative indicators of governance and institutional quality, supplemented by surveying some of the detailed Southeast Asian country narratives.

There is a proliferation of survey-based international rankings and metrics of governance quality. They are all somewhat subjective. Many embody the political preferences of the sponsoring organization. For the purposes of this paper we employ the World Governance Indicators (WGI).23 They are arguably the most comprehensive, rigorous and tested data set in the field. They are also available for more than two decades, and therefore predate much of the contemporary trend towards illiberalism and populism. The WGI comprise six separate indicators: voice and accountability, political stability, government effectiveness, regulatory quality, control of corruption, and rule of law.

Figure 7 presents the indicators for the five economies over the period 1996-2017. We group them in turn under the headings of political governance, economic governance, and legal governance.

Political governance: In the case of Indonesia the political governance series (Figures 7.1 and 7.2) are trending upwards over time. Voice and accountability obviously jumped sharply in the late 1990s in the transition from authoritarian to democratic rule, as does political stability as conditions were normalized in the early 2000s. Malaysia’s lowest ranking is for voice and accountability, but these data predate the 2018 elections. Until that point, Malaysia had had 61 years of continued one-party dominance. It appeared that this dominance and the deeply entrenched ethnic redistribution priorities would permanently consign the country to a lower-growth future. However, the dramatic and

23 For details see: https://databank.worldbank.org/source/worldwide-governance-indicators
unexpected 2018 election result has at least opened up the possibility of major institutional-political change and economic renewal.24

For the Philippines there is also no overall trend.25 Most of the indicators were declining during the aborted Estrada presidency (1998-2001) and that of Macapagal-Arroyo (2001-10), when political events overshadowed reforms, but they generally improved during the Aquino presidency (2010-16). The data do not substantially cover the controversial Duterte presidency commencing in mid-2016. The contemporary literature on this country26 struggles to explain the recent turn in Philippine politics, including the rise of ‘illiberal democracy’. From 2010 to 2016 President Benigno Aquino III presided over a strong economy with an able reformist cabinet. He was succeeded in 2016 (Philippine presidents are allowed only one six-year term) by President Rodrigo Duterte, in free and fair elections, and whose rule has been characterized by the authors as a ‘monomaniacal pursuit of a violent crackdown on drug pushers and users which has resulted in thousands of deaths in less than one year in office.’27 (p.41) He has weakened the judiciary and attacked the independent media28 (along with many of the country’s traditional allies, most notably the US). However, President Duterte retains widespread electoral support, at about 80% according to most polls. In the May 2019 mid-term elections his supporters were strongly endorsed, and the president now has full control of both houses of Congress.

24 For the new Pakatan Harapan government this includes reforming the long-established electoral gerrymander and greater independence for the Election Commission. See Thomas Fann, ‘Malaysia Begins Rectifying Major Flaws in its Election System’, ISEAS Perspective, no. 55, 2019.
25 See Mendoza and Olindo (2018) who comprehensively discuss the Philippine political and economic environment.
26 See for example the contributors to Deinla and Dressel (eds, 2019).
27 According to official police statistics since mid 2016 these extra-judicial killings have totaled about 6,600 people. Estimates of human rights groups have been much higher, around 27,000. The issue is now the subject of a UN Human Rights Council investigation.
28 A major media target has been the independent, respected news website, Rappler. Its chief executive, Maria Ressa (a Time Person of the Year in 2018), has been financially harassed and arrested, and is now facing prosecution.
Figure 7: Governance Indicators

Figure 7.1: Voice and Accountability

Figure 7.2: Political Stability and Absence of Violence

Figure 7.3: Government Effectiveness

Figure 7.4: Regulatory Quality

Figure 7.5: Control of Corruption

Figure 7.6: Rule of Law

How can the Philippine events be explained in the context of a historically strong economy? Apart from the absence of compelling alternative candidates in the 2016 presidential election, the best that most observers can (plausibly) come up with is a combination of factors – the failure to make significant inroads into poverty and underemployment, a succession of corruption scandals, the so-called Mamasapano incident in southern Mindanao, and a sense that the drug problem was escalating. Another school of thought emphasizes the importance of ‘dynastic politics’ at the national and particularly the local levels of government. While undoubtedly a potent factor, the popular stereotype that ‘40 families run Philippine politics and the economy’ is arguably too simplistic. Whatever the case, there is no denying that the Philippines remains a puzzling outcome in contemporary Asia. But importantly, it needs to be noted also that the Duterte administration has maintained the general economic and social policy settings of the Aquino administration, and that growth has thus far remained reasonably robust.

Thailand is the one clear case of democratic regress among the five countries, owing to the coups of 2006 and 2014, and the heavily managed 2019 elections. It is beyond the scope of this paper to analyze the reasons for this regress, the origins of which are complex and contested. According to some analysts, the large regional inequalities have also impacted on national politics, in the sense that the opposition parties have secured their strongest support in the populous but relatively lagging Isan region of Northeast Thailand (Phongpaichit and Baker, 2016), consequently resulting in a continuing democratic stalemate. Other observers emphasize the importance of what is sometimes referred to as the country’s ‘five pillars’ (the military and the monarchy, in addition to the legislature, executive and judiciary), each with changing priorities and allegiances (see Wise, 2019).

During the 20th century the various coups, actual or attempted, had little effect on Thai economic dynamics since investors were confident that the fundamental business settings would remain unaffected. Indeed it is still the case, as portrayed in the components of Figure 7, that the country’s economic governance indicators have remained stable in spite of greater political uncertainty. However, economic growth has slowed, suggesting that the political factors are weighing on the investment environment. Such a view is supported by one of the country’s leading economists (Bhanupong, 2019), who argues that since 2006 Thailand has had an ‘underperforming economy’, and that ‘the coups have shattered the foundations of long-term growth’ (p.54). The

29 The Mamasapano incident was a major military debacle that occurred in January 2016. Forty-four members of the Special Armed Forces sent to capture an Islamic terrorist in southern Mindanao were massacred in a bungled operation.

30 The extensive research on this subject recognizes the power of these ‘political families’, while also emphasizing that they are ‘not impervious to socio-economic change’, and that ‘political clans also suffer from electoral setbacks’. (See Mendoza, Teehankee et al, 2015.)
country, he argues ‘… has been cursed by twin traps: the middle-income and the military coup traps.’ (p.246)

Vietnam resembles an earlier East Asian model, of very limited voice and accountability indicator, political stability, and steadily rising economic governance quality. As noted above, respondents in Vietnam were the most positive to a range of questions regarding globalization, presumably reflecting a confidence arising from its economic dynamism.

Economic governance: The two economic governance series, government effectiveness and regulatory quality (Figures 7.3 and 7.4), are stable over time, slightly increasing in some cases, and with no evidence of deterioration in the recent years of populism and illiberalism. This is consistent with these countries’ continued economic growth. The rankings for the five generally follow that of per capita GDP, which raises the usual issue of the direction of causality in the debate about the role of institutions as a determinant of economic growth. The only change of any significance is the dip and subsequent recovery in regulatory quality in Indonesia from the late 1990s to the early 2000s, reflecting the country’s far-reaching transition from authoritarian and centralized rule to democracy and decentralization.

The notion that ‘institutions rule’ has wide and intuitive appeal, but an overlooked dimension (emphasized by Bhagwati (2004) among others) is the key role that economic openness plays as a discipline on institutional quality. This is relevant in our analysis of the quality of economic governance in these five economies. For the very open Malaysian and Thai economies, and now also for Vietnam, deep international commercial engagement requires the intermediation of efficient economic institutions, which in turn moderates some of the potentially negative effects of political regress in recent years. The same pressures are also evident in the moderately open Indonesian and Philippine economies, particularly when political leaders set aspirational economic growth targets.

The pressure to improve the quality of economic governance is evident in the desire of governments to lift their ranking in the annual Ease of Doing Business calculus and other similar exercises.\(^{31}\) There is also the question of competitive business environments, especially for non-traded sectors with extensive regulatory barriers. Governments have established competition agencies of various quality and remit, and some of them are beginning to have an impact (see Schaper and Lee, eds, 2016).\(^{32}\) A further dimension, reflected in the legal

\(^{31}\) Indonesia for example has risen over 30 places in the last five years. There continues to be a debate over these numbers: whether for example an increase represents genuine reform or governments fine-tuning their responses to the metrics that govern them, and the extent to which the World Bank’s political preferences influence the rankings.

\(^{32}\) Whether for example these agencies have had an impact on ‘crony’ business sectors, and whether the extent of crony business activities can be accurately measured anyway, remain mute points. The Economist (March 15, 2014) for example has (heroically) attempted one such exercise, first identifying the
governance indicators (Figures 7.5 and 7.6), is the establishment of anti-corruption agencies, which have been established in each country. The evidence on the effectiveness of these agencies is mixed, but they have at least acted as a partial break on government excess.\textsuperscript{33} Some instances of egregious corruption can be addressed only through political processes, as in Malaysia’s 1MDB scandal (graphically portrayed by Wright and Hope, 2018). In the comparative corruption rankings, here also Indonesia shows the greatest progress, albeit from a low base, which constitutes one of the positive achievements of its democratic era. Various polls record that its national agency, known by the acronym KPK, is ‘… the most trusted institution in Indonesia’.\textsuperscript{34}

3.6 An Indonesian Case Study: the 2019 Elections

In this section, we provide a case study of Indonesia, for which there is no country paper in this conference. Our focus is on the results of the country’s 2019 national elections, where the presidential contest was between two coalitions, headed by the incumbent President Joko Widodo (popularly known as Jokowi), a moderate, secular, pragmatic politician, and the repeat challenger Prabowo Subianto, who ran a campaign with stronger populist, authoritarian and Islamic overtones. With their vice-presidential running mates, the two contestants were abbreviated respectively as JKW-MA (Jokowi-Ma’ruf Amin) and P-SU (Prabowo-Sandiaga Uno).

In advance of the election it was hypothesized in some quarters that Indonesian politics would be influenced by the inter-related global currents of populism and economic nationalism on the one hand, and an Islamic resurgence on the other. First, the attraction of populist economics was based on the premise that, although the economy has performed moderately well since the Asian financial crisis,\textsuperscript{35} as shown above inequality has risen substantially since around 2000, sectors where a government regulatory presence is generally pervasive, and therefore open to rent-seeking (casinos, defence industries, airports, natural resource sectors, etc). The country’s ‘rich list’, and the sectoral origins of their wealth, is then used to construct a ‘crony capitalism’ index, which in turn is linked to the country’s institutional strength. For what they are worth, of the 23 countries for which the index was computed, in 2014 Malaysia was ranked 3 (1 is higher crony capitalism), the Philippines 6, Indonesia 10, and Thailand 16. (For comparison, China is ranked 19 and the US 17.)

\textsuperscript{33} See for example some of the essays in Khoman (ed, 2012), which is actually a festschrift in honour of one of Thailand’s leading anti-corruption crusaders.

\textsuperscript{34} The quote is from Philips Vermonte, head of the country’s leading international think tank, the Centre for Strategic and International Studies. The KPK’s ‘obituary’ (Butt, 2011) has been written on several occasions, and it is under constant political pressure. But it remains a powerful agency. See also Simon Butt, 'Is Indonesia’s anti-corruption reform slipping?' East Asian Forum, August 7, 2019.

\textsuperscript{35} See for example the authors’ assessments in Basri, Rahardja, and Fitrania (2016) and Hill (2018).
with the expenditure gini increasing by about eight percentage points, before tapering off in the very recent past. This has coincided with the rapid expansion of upper secondary and tertiary sector graduates entering a somewhat sluggish labour market. Hence many of these graduates are not able to find jobs commensurate with their aspirations, in turn resulting in substantial educated-youth underemployment.

Second, economic nationalism continues to be a potent economic and political force in Indonesia (Patunru, 2019). Historically waves of economic nationalism have been associated with commodity cycles, in the sense that the sentiments are heightened during commodity booms. The most recent episode was the period 2005-14, when resource-rich regions, mainly off-Java, enjoyed rapidly rising incomes. By the time President Jokowi was elected in 2014, the boom was dissipating, but the nationalist sentiments remained powerful, and with it community expectations of continued resource abundance.

A third factor is religion. According to most observers, Indonesia has become more overtly religious in recent years, and many of its citizens are troubled by some of the global anti-Islamic rhetoric, in this the world’s most populous Moslem-majority nation. The political demise of the former Christian, ethnic Chinese governor of Jakarta, Basuki Tjahaja Purnama (popularly known as Ahok), and his controversial imprisonment in 2017 for allegedly insulting Islam, emboldened conservative Islamic groups and affected national political discourses. As a result, argue Mietzner and Muhtadi (2019, p. 173), 'Indonesia is now arguably in the middle of a slow but perceptible process of democratic deconsolidation.'

For all these reasons, the Indonesian electorate might have been attracted to the populist, anti-globalization agenda of the opposition presidential team, who in some respects conducted a similar campaign to the victorious President Duterte in neighbouring Philippines in 2016, albeit one tinged with Islamic characteristics. But the moderate incumbent won. Can we therefore conclude that Indonesia is not travelling down the road of economic populism (and religious intolerance)? The answer is a cautious but qualified yes. The factors explaining electoral outcomes are invariably complex and multi-faceted, including the electoral appeal of particular candidates, their party machines and funding, the general mood of the electorate, and various other idiosyncratic and local influences. Moreover, high-quality voting survey data are required. Indonesia has some exit poll data, to which we refer shortly, but the survey industry is still in its infancy.

In addition to the electoral appeal of the candidates themselves, analysis of voting patterns has focused on whether economic or identity/religious factors were the key determinant of electoral outcomes. We now briefly survey the evidence. An exit poll conducted by Indikator Politik (2019) concluded that middle class and educated voters tended to support the P-SU team. Another poll, by the Indonesian Survey Institute (LSI), showed that the JKW-MA ticket
was attractive to all voter segments except for young, first-time voters.\textsuperscript{36} The question therefore is why P-SU were popular among the young and educated voters? We argue that economic factors can help to explain this.

Statistics Indonesia (BPS) data show that, in line with the decline in the unemployment rate, the percentage of unemployed youth (defined as 15-24 years of age) also fell marginally, from around 22% in 2014 to 20% in 2018, as did the rate of youth underemployment from about 33% to 29%. But these encouraging developments need to be viewed with caution. The BPS data also show that the majority of these young unemployed have relatively high education achievement, at least graduating from senior high or vocational school (SMA, SMK) or tertiary institutions. In fact the percentage of youth unemployment with these higher education levels jumped from 60% in 2014 to 74% in 2018. The main drivers of this increase were vocational school graduates (from 23% in 2014 to 33% in 2018) and tertiary graduates (from 4.4% to 10%). In fact, the decline in overall youth unemployment was mainly driven by the drop in youth unemployment among those with lower education levels (junior high school or less), particularly among primary school graduates (from 55% in 2014 to only 10% in 2018).

The clear implication is that economic growth has not provided enough jobs for these better educated youth, at least jobs to which they aspired upon graduation. Rather, most of the jobs being created are in the informal and subsistence sectors, and these absorbed the less educated (and less ‘choosy’) job entrants.\textsuperscript{37} The electoral implication is that these better educated youth are dissatisfied with the performance of the Jokowi government, and they were therefore more likely to vote for P-SU, even though the presidential challenger did not articulate a clear strategy for addressing the problem. These young, better-educated voters could hardly be described as part of the ‘left behind’ group. Rather they reflect an economy, education system and labour market that is not meeting their expectations. The Indikator Politik presidential exit poll of 2,975 voters provides at least some support for these conclusions (Figures 8.1 and 8.2). Voters with elementary school or less voted decisively for JKW-MA, while junior high school graduates also preferred the incumbent. However, the better educated voted for P-SU, clearly so in the case of the tertiary educated. Lower income groups also voted for JKW-MA, while among higher income groups the vote was evenly split.


\textsuperscript{37} Manning and Devanto (2019) carefully examine employment trends during the Jokowi era, concluding there has been some revival of formal sector employment growth, reversing a decade of anaemic growth.
Figure 8.1: Presidential vote based on education (exit poll data)

![Bar chart showing presidential vote based on education levels](chart1)

Figure 8.2: Presidential vote based on income group (exit poll data)

![Bar chart showing presidential vote based on income levels](chart2)

Source: Indikator Politik Indonesia (2019)

Geographic voting patterns are also relevant in this the world’s largest archipelagic nation state, and these patterns illustrate the interplay of economic and ethnic/religious factors. The Indikator Politik data suggest that there were three major interrelated factors which explain the JKW-MA victory. The first is the strong support from Nahdatul Ulama (NU), a powerful Islamic group which promotes moderation, anti-radicalism, inclusiveness and tolerance, and which is particularly influential in Java. The significance of the NU factor is also a reminder that, as emphasized by Pepinsky (2019), there is no single ‘Islamic vote’ in Indonesia, but rather geographic variations that are shaped by a kaleidoscope of local economic, ethnic and cultural factors.

The second factor is ethnicity, and most of all the voting patterns of the traditionally dominant ethnic Javanese community. This group, located mainly in the provinces of Central and East Java, but also scattered throughout the country, constitute about 40% of Indonesia’s population. The JKW-MA vote
among this group rose 11% between the 2014 and 2019 elections, with the NU factor also boosting this outcome. Third, non-Moslem voters, who constitute about 12% of the population, voted strongly for JKW-MA, a preference also revealed in regional voting patterns in provinces such as North Sumatra, Bali and East Nusa Tenggara where they constitute a majority or a significant minority.

Probing the religious factor further, it is evident that Indonesia has become more overtly Islamic in recent years. Conservative Moslem groups like Front Pembela Islam (FPI, Islamic Defenders Front) have assumed greater political prominence. Some regional governments have adopted Shariah law (most notably Aceh in the country’s north-west), there are growing movements supporting underage marriage or anti-vaccine efforts, and there is a rising trend among female students and teachers to adopt head scarves (the hijab). Whether this is caused by ideology or other factors needs further study. Nevertheless, despite the increased political clout of conservative Moslems, the secular nationalist parties such as Golkar, PDI-P, Nasdem, Democrats and Gerindra continue to dominate the general elections, at both national and regional levels. As Mujani, Liddle and Ambardi (2018) show, in 1955 and since the resumption of open political voting in 1999, the more overtly Islamic political parties (PPP, PK/PKS, NU/PKB, PAN, Masyumi) have never achieved more than 40% of the votes, and usually a good deal less.

Moreover, economic factors continue to overlay what may appear to be religious variables. For example, the victory of the P-SU team in the more conservative Muslim regions of Sumatra, West Java/Banten, South Sulawesi and much of Kalimantan has been interpreted as signifying the rise of identity politics as manifested in religious-based voting behaviour. But the complex mix of economic and religious factors is illustrated by the relationship between commodity prices and electoral outcomes. The two major commodities are rubber and palm oil (CPO), both widely planted in the Sumatra provinces and palm oil in the case of Kalimantan. In the 2014 election prices were relatively buoyant (though beginning to taper off), while they were lower at the time of the 2019 election. In the more prosperous earlier times Jokowi performed more strongly, while in 2019 JKW-MA lost in most of the provinces. This is prima facie evidence to suggest that economic conditions played a significant determining role, with the usual caveat regarding two-factor analysis.

Figure 9. Jokowi Electability and Commodity Prices, 2014 and 2019

Further evidence supporting the confluence of factors, both economic and ethnic/religious, that shaped electoral outcomes is provided in Figure 10. This shows provincial economic growth (proxied by the annual percentage change in per capita median expenditure) between the two elections and the JKW-MA vote share (based on the Quickcount poltrack) for each province. The data indicate that JKW-MA generally gained more votes in provinces with higher economic growth. Consistent with these findings, a study by the leading Jakarta thinktank the Centre for Strategic and International Studies (CSIS, 2019) showed that the probability of voting for JKW-MA increased by 14 percentage points among voters who perceived that the economy was improving, whereas that probability declined by 16 percentage points among voters who perceived that economic conditions were deteriorating.

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We would like to thank Arief Anshory Yusuf, Universitas Padjadjaran for kindly sharing these data with us.
Nevertheless, the significance of ethnic/religious factors cannot be discounted. In Figure 10, for example, the two strongest JKW-MA provinces (Bali and East Nusa Tenggara) are non-Moslem majority provinces, while the next three are either Non-Moslem majority (Papua) or Javanese heartland provinces (Central Java and Yogyakarta).

There was therefore clearly a mix of economic and religious/identity factors at work in these electoral outcomes, in addition to the personal appeal of the candidates, their party machines, and a variety of local factors. But, contrary to expectations in some quarters, one can clearly conclude that thus far Indonesia is not travelling down the path of populism and economic illiberalism. Moreover, in the post-election period the statements of the winning President Jokowi have emphasized a mix of pragmatic and aspirational goals, including better education, technological advancement, a continued emphasis on infrastructure, faster employment growth, and stronger social safety nets. These are the utterances of a leadership focused on socio-economic development not populism.

4. SUMMING UP

There is no one single analytical political economy model that neatly encapsulates these five countries, but it is possible to make several general observations. First, the era of economic ‘exceptionalism’ has passed, and will probably never return. That is, they are no longer ‘miracle’ economies, expanding at multiples of global economic growth. But, second, ASEAN

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40 We thank Arief Anshory Yusuf, Universitas Padjadjaran, for kindly sharing these data.
continues to be one of the most economically dynamic regions in the world. In aggregate these economies are growing faster than the developing country average, and there is every likelihood that they will continue to do so.

Third, while the single-minded commitment to growth may have waned, many of the policy settings that explained the earlier rapid growth remain in place. Economic reformers have generally been able to persuade their political masters to support professionally managed central banks that are by and large free from political meddling, and to hold the line on any major reversals in commercial policy. The resultant fairly prudent macroeconomic management has therefore avoided economic crises that are often the trigger for a populist backlash.

Fourth, moderately fast economic growth has generated rising and fairly broadband-based prosperity, in contrast to the endemic poverty that was evident a couple of generations ago, especially in the three lower-income economies. There remains considerable economic vulnerability, and there are household groups and regions that have not enjoyed this rising prosperity. But these are a minority, and would not appear to constitute a large enough base to be captured by the false promises of authoritarian populism. Moreover, while social safety nets may be rudimentary, the combined effects of education, health and social transfers, alongside continued economic growth, have resulted in ongoing poverty alleviation. In these respects there are few if any parallels with the picture that is conveyed in the global literature that attempts to explain the rising populism and economic illiberalism.

However, fifth, institutional development generally continues to lag economic development in these countries. All the various governance and institutional indicators have their limitations, but taken together they paint a mixture picture, of at best gradual improvements in the rule of law, the quality of law enforcement agencies, the integrity of electoral systems, accountable governance, and independent checks on government excess. It might be posited that this is an area of vulnerability for these countries if economic dynamism were to slow. According to an optimistic scenario, institutional progress is a gradual and arduous process, and might be contingent on graduation to the ranks of developed countries.

Finally, notwithstanding these economic commonalities, the governance and political structures of the five are highly divergent. Vietnam, the most dynamic of the five, most clearly exemplifies an earlier East Asian model of growth-oriented, authoritarian political leadership, partially insulated bureaucracies, and a political compact with the populace of rapid growth alongside limited democratic space. Malaysia and Thailand are successful upper-middle income economies that are now grappling with the challenge of the so-called middle-income trap. In both cases the origins of their slower economic growth are primarily homegrown.

Indonesia and the Philippines swung from authoritarian to democratic states in very similar circumstances 12 years apart, with deep economic crises triggering the overthrow of long-lived presidencies. However, they have diverged
politically in very recent years. It might have been expected that Indonesia would be a more likely candidate to join the ranks of authoritarian populism. While the country has indeed become more openly Islamic, in 2019 the incumbent secular moderate was re-elected as president. As we show in the paper, a complex set of factors, economic and identity/religious explain this outcome. By contrast, in 2016 the Philippines, which is experiencing the longest sustained period of economic growth in its independent history, elected as a president the Southeast Asian leader who most closely resembles the global caricature of an authoritarian populist. It might be conjectured that the country’s slow progress in poverty reduction explains such an outcome. Nevertheless, there were also country-specific factors at work in the 2016 elections, including the absence of compelling alternative presidential candidates. Moreover, in the Duterte administration technically qualified professionals continue to run the main economic portfolios with economic orthodoxy the guiding principle. The president’s rhetoric, and his sanctioning of extra-judicial killings on an unprecedented scale, may resemble that of some of his fellow populists, but his economic policies do not.

References


