

# **The Impact of National Institutions on Economic Development in Satun (Thailand) and Perlis (Malaysia)**

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## **Abstract**

It is widely recognized that a variety of formal and informal institutions could be explanatory variables for patterns in economic activity and economic performances, but there seems to be two analytical gaps with current institutional studies. Firstly, not much attention has been paid to the (potential) interaction of various spatial levels of scale. Secondly, few studies concerning regional institutions deal with countries with a medium or low level of development. The aim of this article is to analyze the impact of *national* institutions on *regional* arrangements between the private and the public sector. In addition, an attempt is made to include politics in the analysis. A comparison is carried out of the province of Satun in Southern Thailand and the state of Perlis in Northern Malaysia, two peripheral regions within their respective national space economies.

**Keywords:** National Institution, Economic Development, Thailand, Malaysia, Satun, Perlis

## 1. Introduction

It is widely recognized that a variety of formal and informal institutions could be explanatory variables for patterns in economic activity and economic performances. Institutional economists tend to focus on formal institutions such as property rights, whereas economic geographers have paid relatively much attention to informal institutions such as cooperation and coordination among relevant organizations within a national or regional economy. From an economic geography point of view the institutional approach departs from ‘the recognition that the form and evolution of the economic landscape cannot be fully understood without giving due attention to the various social institutions on which economic activity depends and through

The comparison leads to interesting insights into patterns of regional development. The results of the Perlis case raises some doubts about the sustainability of the Malaysian’s *state-led* variety of embedded mercantilism as the performance of its less-favoured regions depend much on transfers from a relatively wealthy public sector. What will happen with the Bumiputra-sector that remains so closely linked with the state? Malaysia has proven some of its critics wrong before, but the sustainability of its embedded mercantilist model is as yet unproven. Thailand in contrast, famous as a showcase of primate city development and a more market-driven economy, has starker discrepancies between different parts of the country. Regional economies such as that of Satun stand very much on their own feed. The weakness of Thailand’s *managed* variety of embedded mercantilism revolves more around the role of business groups assuming positions of political power, possibly leading to insufficient levels of social cohesion.

which it is shaped' (Martin, 2003: 77). Nevertheless, there seems to be two analytical gaps with current institutional studies. Firstly, not much attention has been paid to the (potential) interaction of various spatial levels of scale. Authors engaged in East and Southeast Asia have been preoccupied with the influence of national institutions on economic development. (Barlow, 1999; Chand *et al.*, 2001; Deolalikar and Pernia, 2003; Haggard, 2004). Secondly, few studies concerning regional institutions deal with countries with a medium or low level of development (consider some chapters in Sforzi (2003)), but the majority deals with the developed world (Amin and Trift, 1994; Yeung, 2000; Regional Studies, 2003; Cooke *et al.* 2004). In an overview of regional development in East and Southeast Asia, Hill (2002) focuses on decentralization and regional finance (fiscal policies), but does not employ a comprehensive institutional approach.

The aim of this article is to analyze the impact of *national* institutions on *regional* arrangements between the private and the public sector and *regional* development. It is widely known that enabling national institutions have been beneficial for national development in Southeast Asia, but how do they influence regional development? In addition, an attempt is made to include politics in the analysis. Bardhan (2000, 2005: 27-86) has argued that power, in particular political power, is very influential for the nature of institutions. Disabling institutions often persist because of distributive conflicts. Moreover, these conflicts are exacerbated, as the actors that are able to demolish disabling institutions are not inclined to do so. A comparison is made of the province of Satun in Southern Thailand and the state of Perlis in Northern Malaysia, two peripheral regions within their respective national space economies. The objectives of this article are structured around three central questions:

- What institutional arrangements are in place for cooperation and coordination between the public and private sector in both regions?
- What are the political dimensions of these institutional arrangements?

- To what extent does the national institutional framework influence regional institutional arrangements and ultimately regional development?

A comparative institutional approach is applied to Southeast Asia: the *varieties of capitalism* (VoC) approach, as reintroduced and interpreted by Hall and Soskice (2001). As will be argued in the next section the VoC approach offers a useful analytical model for the regional level. It enables to study rather abstract institutional relations and relations between these institutions, the so-called institutional complementarities. The structure of the article is as follows: the next section introduces the VoC approach. This is followed by a short overview of the two research areas. The empirical part consists of three sections, namely one dealing with cooperation and coordination between the public and private sector, one with the political dimensions and one with the influence of national institutional framework. The article ends with concluding remarks.

## **2. Varieties of Embedded Mercantilism in Southeast Asia**

### **2.1 The Varieties of Capitalism approach**

The comparative analysis of capitalist systems offers possibilities to apply it to the fields economic and development geography. Kloosterman & Boschma (2005) suggest the combination of cluster studies with the business systems approach (Whitley, 1999) to be able to study ‘clustered innovation within wider institutional contexts’. And Schamp (2003), in a publication that investigates the possibilities of integrating institutions in economic geography, argues that concepts such as ‘national business systems’ or ‘varieties of capitalisms’ would present themselves as suitable alternatives to the concept of ‘regional innovation systems’. Moreover, the fact that these approaches were developed for the national scale level, should not hold researchers back to apply this approach to other scale levels: according to Schamp empirical analysis should define the spatial borders of institutional arrangements rather than a priori theoretical

notions.

The outline of the VoC approach is based on Hall & Soskice (2001). They argue that in order to develop and coordinate core competencies, firms must maintain many relationships within five spheres: industrial relations, vocational training and education, corporate governance, inter-firm relations and firm needs. Therefore, each firm operates in a highly complex environment with many institutional relationships, either formal or informal.<sup>1</sup> Furthermore, relations exist between the five spheres, so between particular sets of institutional relationships. Hall & Soskice (2001) have termed these sets *institutional complementarities*. These complementarities eventually lead to specific varieties of capitalism. Germany's famous in-house skills training programmes, for instance, in which firms provide their own personnel with vocational skills on-the-job, have implications for employee relations (long-term reciprocal commitments, relatively low labour turnover as workers tend to have firm-specific skills). It also calls for matching arrangements in areas such as finance (relatively long-term commitments by 'house banks', as investments take relatively long to mature), business strategy, and inter-firm relations (cooperation in joint skills development programmes, no poaching of each others personnel). Such complementary sets of institutions, Hall & Soskice (2001: 17-21) argue, endow countries with specific comparative institutional advantages. The German institutional framework is strong in promoting incremental improvements in especially process technology. Radical innovation, in contrast, is easier in strongly market-oriented economies. Although the VoC approach in principle applies to the whole range of national economic systems, in practice its elaborations tend to be confined to comparing Coordinated

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<sup>1</sup> In this article the definition of North (1991) is followed. "Institutions are the rules of the game in society or, more formally, the humanly devised constraints that shape human interaction. Institutions are generally divided into formal and informal institutions. Formal institutions are economic, political (and judicial) rules and contracts; informal institutions are informal codes of conduct, norms of behaviour and conventions". Thus North clearly separates institutions from organisations.

Market Economies (CMEs such as Germany) on the one hand with Liberal Market Economies (LMEs, e.g. Britain and the US) on the other. Schmidt (2003) is one of the few authors who argues, that there are at least three varieties of capitalism in the European context, namely *market* capitalism in the UK, *managed* capitalism in Germany and *state* capitalism in France. Others have attempted to define a Mediterranean variety of capitalism that combines a strong coordinating role of the state with a large and independent sector of small-scale artisanal (family) businesses and a social security system characterised by high job protection but low transfer payments. However, developing countries are as yet not well accounted for, and are generally forced into categories that have been defined in the North. The ‘Varieties of capitalism’, for all the gaps that may still exist in available work, does have the advantage of offering an opportunity to empirically test (aspects of) political-economic systems that otherwise seem suspended in mid air.

## **2.2 Varieties of Capitalism in Southeast Asia**

How could the analysis of economic institutions discussed above be adapted to the conditions of Southeast Asia? This in a way that allows useful comparison yet without forcing these societies into a conceptual straightjacket that does not correspond with local realities? Some clues may be garnered from work on ‘embedded mercantilism’ in East Asia by Jayasuriya (2003, 2004). Jayasuriya borrowed the concept of embedded mercantilism from Pempel (1998), who has coined the concept to denote the specific accumulation regime that enabled Japan’s spectacular economic growth in the 1960s and on. According to Jayasuriya sources of explanations for foreign economic and security policies of Southeast Asian countries should be more directed towards ‘the domestic foundations of these policies’, instead of ‘outside in methodologies’. In his view domestic coalitions have played an important role for the emergence of foreign economic policies. Precisely these coalitions are interesting from an institutional point of view, because these coalitions have resulted from distributive

conflicts and have often generated disabling institutions and ultimately suboptimal economic outcomes (Bardhan, 2005). Pempel (1998: 49) defines mercantilism as the advancement of ‘macroeconomic interests of a nation-state through catch-up policies involving the protection and nurturance of domestic industries’. ‘Embedded’ refers to the nesting of this mercantilism in the wider society. Jayasuriya (2004: 26) states that the concept of *embedded mercantilism* is in general ‘characterised by

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

With due variations between the different Southeast Asian countries, the success of the strategy was built on the ability of the national governments to forge a coalition among the major interest groups in society. This meant on the one hand, giving ample room and support to the export sector so as to become internationally competitive and spearheading economic growth. On the other hand does the model hinge on securing sufficient support from other sections of society, by means of sufficient ‘side payments’ to prevent them from becoming disaffected. Thus, mercantilism (pursuit of export industrialisation) was embedded in a coalition framework that maintained the goodwill of weaker parts of society, be they farmers, small domestic industries, peripheral regions, etc.

**Table 1** Thailand’s Managed Variety and Malaysia’s State Variety of Embedded Mercantilism

	<b>Thailand</b>	<b>Malaysia</b>
existence of a dual political economy	agriculture also successful at international markets, state is enabler, facilitator	clear dual political economy: globalized enclaves with domestic protected markets, state is interventionist, director
overlapping and domestic coalitions	Sino-Thai entrepreneurs active in both domestic and international economy entrepreneurs often active in politics	Nurturing of Bumiputera business elite, closely related to UMNO joint ventures between ethnic Chinese and Malay firms
side payments	relatively moderate until 2001, afterwards more important	huge, many different kinds of side payments
inter firm relations	competitive plus...cooperative, mutually reinforcing and networked based	state led state mediated
access to finance	major role for banks	major role for state

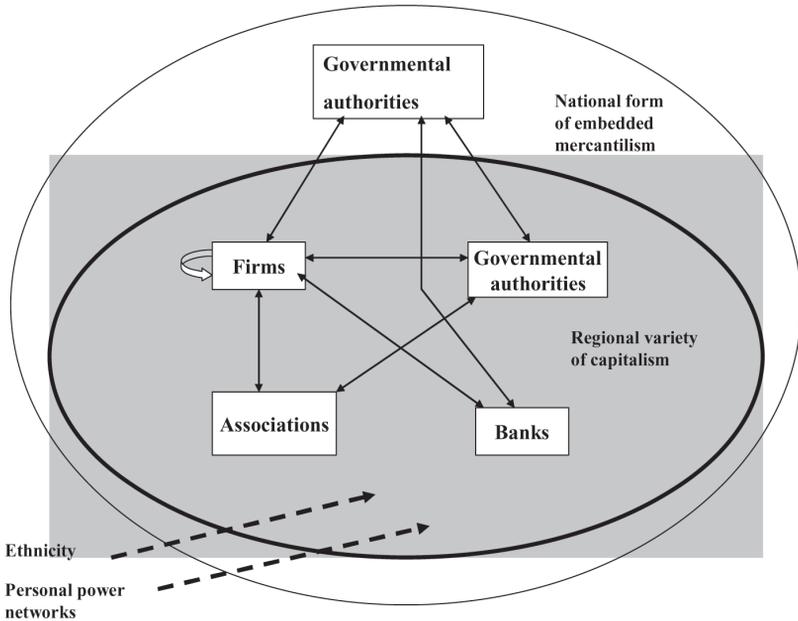
Sources: Case 2005 Hewison 2005 Pasuk & Baker 2004 Jayasuriya 2003 Jomo 2003 Gomez 2002 Wingfield 2002

### 2.3 Towards an Analytical Model

In order to make the VoC approach suitable for the research areas the approach has to be modified in three ways. Firstly, The VoC approach has to be made suitable for *geographical* analysis. This article investigates arrangements between the private and public sector from the spheres of *inter-firm relations* and *corporate governance*,

because of two reasons. The first one is that these two spheres could be easily combined with the embedded mercantilist notions of a dual political economy, overlapping and domestic coalitions. Table 1 compares embedded mercantilism in Thailand and Malaysia, including the spheres of inter-firm relations and access to finance. Insights from Satun and Perlis will be compared with table 1 later on. The second reason is that these two spheres, in particular *inter-firm relations*, have also been investigated by economic geographers focusing on regional economies. Known concepts are embeddedness, institutional thickness and collective learning, but in recent years some authors increasingly argue that these concepts are used too easily, randomly mixed and too vague to apply for empirical research (Markusen, 2003; Taylor, 2005). In contrast, the VoC approach is likely to offer empirical applicability because it clearly distinguishes institutions from organizations and because the powerful notion of *institutional complementarities* might be very useful to eventually explain differences in economic performances.

Regarding *inter-firm* relations it should be noted that governmental authorities and associations could be important: governmental authorities because they often purchase a wide range of products and services (they could be considered clients) and moreover, firms could be partly or wholly owned by a ministry or authority at the regional level; business associations, because firms tend to institutionalize many relations via business associations. *Corporate governance* is often associated with large (multinational) firms that seek finance at complex (international) capital markets. For Satun and Perlis the simpler *access to finance* seems to be a better phrase. Banks, either private or partly or wholly state owned might be important organisations that provide access to finance.



**Figure 1** Analytical Model for Institution Arrangements between the Private and the Public Sector

Secondly, it is relevant to pay attention to *ethnicity*, as it could influence institutional relationships and economic performance to a large extent (see for example Bardhan 2005: 169-200). The most striking phenomenon is the role of ethnic Chinese for Southeast Asian economic development. In the literature about Southeast Asian economic development the role of this group has often be highlighted (Mackie, 1999; Bjerke, 2000; Wang 2003; Gomez and Hsiao 2003). In peripheral regions in Thailand and Malaysia as well, one should not be surprised if institutional relations are structured along ethnic lines. Thirdly, *personal power networks* are often determining institutional relations between the private and the public sector in developing countries. With respect to the difficulties of industrial restructuring after the Asian financial crisis Carney (2004) states that ‘economic power has concentrated in the hands of a small number

of politically connected incumbents who are in a position to perpetuate their elite positions and frustrate the entry of new agents into the economy' via a so-called blocking coalition. Other useful insights come from Gomez *et al.* (2002) who convincingly present evidence of the personal linkages between politics and business in East and Southeast Asia. Furthermore, relatives and friends often play an important role (see for example McVey, 2000; Taylor, 2002; Rutten, 2003). It is thus expected that these factors have maintained a significant role in peripheral regions. The three modifications have led to an analytical model, distinguishing organizations and institutions (the arrows) as presented in figure 1.<sup>2</sup> The model should be able to identify specific regional varieties of embedded mercantilism.

**Table 2** Basic Indicators of Satun and Perlis, 2003

	<b>Satun</b>	<b>Perlis</b>
total population	270000	210000
Islam %	68	85
structure of Gross Regional Product (GRP) %		
agriculture	60	16
manufacturing	8	17
services	32	67
employment in agriculture %	58	17
per capita GRP in US\$	1630	2589
GRP in US\$	439830000	564402000

*Sources:* Various.

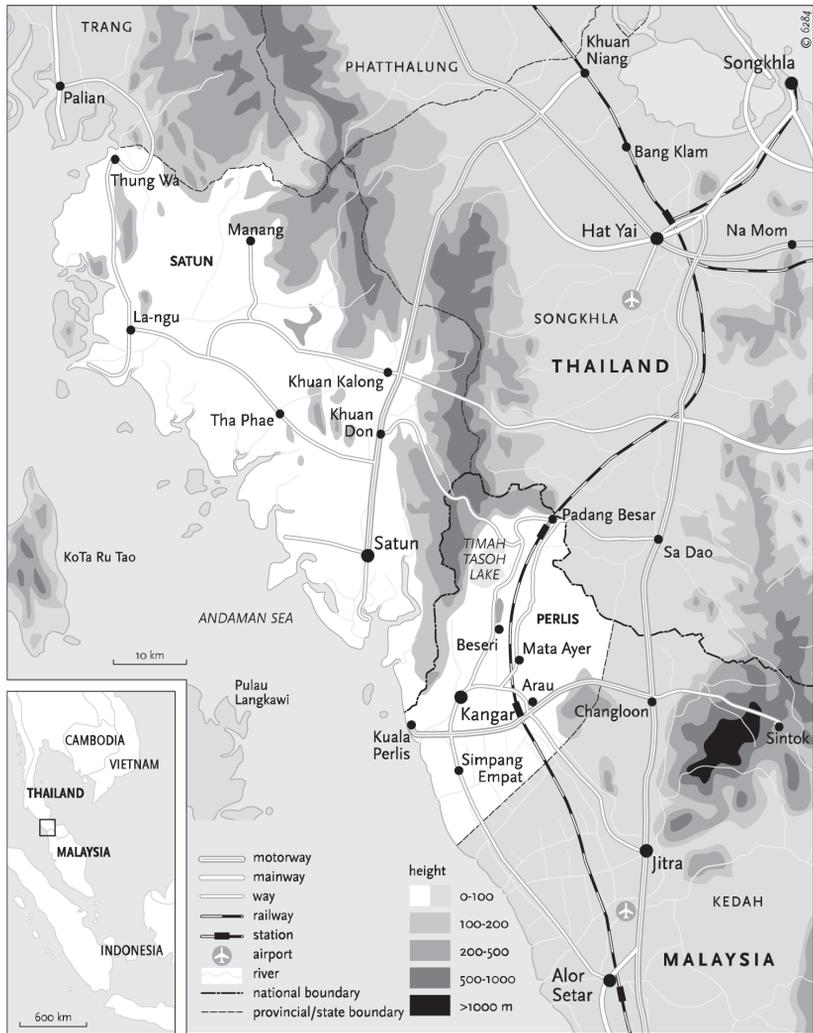
<sup>2</sup> Similar analytical models could be found in Boschma *et al.* (2002, p. 158), Taylor (2002) and Hall and Soskice (2001, pp. 28 and 32).

**Table 3** Socio-economic Indicators

		<b>1990</b>	<b>1995</b>	<b>2004</b>
total population	Satun	227000	244000	274000
	Perlis	188000	209000	218000
total dependency ratio	Satun	72.7	57.6	52
	Perlis	66.8	68.3	64.5
% Islamic people	Satun	67	–	68
	Perlis	79	–	84
paddy hectares	Satun	14555**	–	8256
	Perlis	46096	45378	52073
rubber hectares	Satun	39781**	–	40618
	Perlis	11636	9312	–
number of teachers secondary school	Satun	547**	690	1105
	Perlis	1037	1250	1970
number of hospital beds	Satun	–	250	366
	Perlis	404	404	404
registered motorcycles	Satun	22393	32032	71155
	Perlis	37666	–	39624

\*\*1993

*Sources:* NSO, 2003, 1996, 1994 and DoS, 2003, 1996 and 1990.



### 3. The Research Areas

The research area is comprised of the Thai province of Satun and the Malaysia state of Perlis, neighbouring areas that have a lot in common but belong to markedly different countries (figure 2). Perlis and Satun share similar physical environments, coastal plains used for

rice cultivation intersected with limestone ridges often planted with rubber trees. Their populations are remarkably similar, mostly Muslim Malays complemented by ethnic Chinese business communities and, in Satun, reflecting its affiliation with Thailand, a Thai population largely in urban areas, many of whom have moved in as civil servants. In addition, they share a common history. For centuries the Siamese (Thai) have had considerable political influence in the northern parts of contemporary Peninsular Malaysia. Ahmat (1984: 12) estimates that 'Siamese control in Kedah was established in 1422'. At that time the Malay Sultanate of Kedah<sup>3</sup> was relatively large and included Satun and Perlis. Between 1813 and 1909 political control of Satun and Perlis shifted several times between the Sultanate of Kedah<sup>4</sup> and direct supervision by the Siamese. In 1909 The Anglo-Siamese treaty was signed, which led to the permanent separation of Satun and Perlis<sup>5</sup>. Satun became a 'real' Thai province in 1933 and Perlis a Malaysian state in 1957, the year of independence for Malaysia from Britain. At present, both are relatively peripheral areas on the border of their respective countries.

In spite of all similarities, Satun and Perlis currently show rather different economic profiles (see tables 2 and 3). Although the majority of Satun's population is Muslim, Sino-Thai generally own the firms in the province. By far the two most important industries in Satun are the rubber and fishery industry. The rubber industry mainly remains limited to the extraction of latex from the rubber trees, but the fishery industry is a relatively developed cluster with fishermen (partly from Myanmar), boat owners, cold storage firms, ice factories and one large fish canning factory (Siam Tin Foods, employing more than 1000 workers) all operating in the province. In 2004 fishing (thus excluding fishing-related activities) accounted for 26% of the GRP. For services Satun is very dependent on Hat Yai in the province of Songkhla, one

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<sup>3</sup> Saiburi is the Thai word for Kedah.

<sup>4</sup> Which has thus been under suzerainty of the Siamese.

<sup>5</sup> Except during the second world war when the Siamese were briefly given control of Perlis by the Japanese.

of the major economic centers in Southern Thailand.

Perlis has a clearly more advanced and diversified economy. Rice and sugarcane are the main crops of Perlis, the state hosts a cement factory and a modern private power plant, the construction sector is booming, but public services are the main contributor to the GRP. The most important development strategy of the Perlis State Government (PSG) is to become a 'negeri ilmu' (knowledge state). In recent years Perlis welcomed several new educational institutes, of which KUKUM, the Northern Malaysia University College of Engineering, is the most important. Finally, it is important to note that the business community in Perlis consists of two different ethnic groups: Bumiputeras (Malays; literally sons of the soil) and ethnic Chinese.

## **4. Cooperation and Coordination between the Private and Public Sector**

### **4.1 The Research Data**

The research focuses on coordination and cooperation between medium and larger firms and governmental authorities, because it can be assumed that these firms have the largest impact on the specific regional variety of embedded mercantilism.<sup>6</sup> Moreover, a considerable part of the smallest firms could be situated in the informal economy, an area beyond the scope of this article. Between July 2004 and December 2004 two firm surveys were carried out complemented with interviews with associations (5 in Satun, 4 in Perlis), governmental authorities (14 in Thailand, 12 in Malaysia) and banks in Satun City, Hat Yai, Bangkok, Kangar, Alor Setar and Putra Jaya.<sup>7</sup> The two surveys include virtually all large firms in both regions. The medium

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<sup>6</sup> In Thailand firms with a registered capital below 1 million baht have been excluded; in Malaysia sampling has been based on various documents as registered capital was not available.

<sup>7</sup> Recently, many governmental authorities have transferred their offices from Kuala Lumpur to Putra Jaya.

sized firms have been sampled.<sup>8</sup> The surveyed firms in Satun are mainly engaged in either wholesale and resale trade or fisheries, whereas the surveyed firms in Perlis operate in many industries, thus better representing the regional economy. As the business community in Perlis consists of ethnic Chinese and Bumiputra entrepreneurs, firms have been sampled from both groups. Table 4 shows some ownership characteristics of the surveyed firms.

**Table 4** Ownership of the Surveyed Firms

	<b>Satun</b>	<b>Perlis</b>
total number of firms	38	39
firms with Chinese background	36	20
non-Chinese background	2	19
domestic firms	38	37
foreign firms	0	2
independent firms	33	27
branches	5	12
(partly) government owned	0	6
not government owned	38	33

*Source:* Firm surveys.

## **4.2 Cooperation and Coordination between the Private and Public Sector**

Investigating the institutional relations within the two regional economies, Andriesse (2006) found the following sets of complementarities:

- ‘In Satun, firms maintain informal, personal co-operative and network-based relations with clients and competitors, directly

<sup>8</sup> In Satun 38 firms have been surveyed, in Perlis 39. Out of 185 medium and larger firms in Satun it means that 21% of the total population has been covered. In Perlis the estimated number of medium and larger firms is 275, leading to a coverage of 14%. These percentages are assumed to be sufficient for a representative sample of the medium and larger firms in the two regions.

and via associations *and* banks and relatives are important for access to finance.’

- ‘In Perlis, firms maintain formal, relatively impersonal, contractual relations with suppliers and clients, with a limited role for associations *and* owners/shareholders provide most financial capital.’

Firms in Satun tend to be in touch with each other while their counterparts in Perlis tend to act in relative isolation. Two possible explanations present themselves for the differences observed. First, Satun’s business community is almost entirely made up of Sino-Thai, and the importance of networking in the province corresponds with the Chinese *guanxi*-style of operating (Rutten, 2003: 211; Park and Luo, 2001). In Perlis, ethnic Chinese account for roughly half of local businesses, while the remainder is composed of a few foreign establishments, some state firms, and Bumiputra-led firms - in part under the protective umbrella of the Malaysian state. It is precisely the role of the state that presents the second explanation of the different relation patterns between the two regions. This sub section addresses this role. Table 4 reveals that none of the surveyed firms in Satun are partly government owned whereas this amount in Perlis is six. Likely the most important organization in Perlis is the State Economic Development Corporation (SEDC). On the one hand this state owned organisation could be regarded as a public authority as it manages four industrial estates. On the other hand it is a firm as it is involved in township development and it partly owns many firms: 2 in the construction industry, 3 in the agro industry and 6 in tourism. Furthermore, the sugarcane plantation and refinery, the cement plant CIMA and the supplier of electricity TTPC are partly owned by mostly federal governmental authorities. Surprisingly however, 79% of the firms surveyed in Perlis stated that they do not cooperate at all with the public sector, whereas this percentage in Satun was only 34%.<sup>9</sup> Apparently, firms in Perlis were somehow reluctant to be associated

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<sup>9</sup> Cooperation in Satun mainly involves sponsoring community activities.

with the public sector.

Besides owning firms, governmental authorities could be important for firms as clients. The firm surveys indicate that in Satun 13% of the three most important clients of the surveyed firms are public authorities, whereas this percentage for the most important client is 15%. These percentages clearly differ from the Perlis' case where 31% of the three most important clients and 41% of the most important client are authorities. In Satun authorities mainly buy 'simple' products from wholesale and retail firms, but in Perlis the construction industry turns out to be important. Construction firms frequently manage to obtain orders from the public sector. In this respect the three most important governmental clients are the public works department JKR, the SEDC and the cement plant CIMA. Not surprisingly given the federal policies to stimulate Malay entrepreneurship, 87% of the firms selling to the public sector are Bumiputra and only 13% Chinese. Therefore, it is obvious that authorities in Perlis are to a great extent involved in the regional economy. They own many firms and purchase many products from firms. Conversely, the Satun's economy seems to be a far more private sector led.

### **4.3 Access to Finance**

In addition to the involvement of governmental authorities in the operations of firms, they could be active as well regarding the provision of finance for firms. The aim of this sub-section is to identify to what extent public authorities shape patterns of access to finance. The results of the interviews with governmental officials indicate that the Satun provincial government seems to leave access to finance for the private sector to the privates sector itself. No single programme or policy could be related to supporting the financial needs of the firms. Furthermore, the Satun offices of the Department of Commerce and the Department of Industry are financially active either. Both departments only promote businesses by organising trainings and marketing activities such and exhibitions and by providing regulatory

information.<sup>10</sup> This is not to say that the public sector is totally absent in the sphere of access to finance. In fact, some banks are (partly) state owned. The two most important state-owned banks with offices in Satun are the Krung Thai Bank and Small and Medium Enterprise Development Bank (SME Bank). The Krung Thai Bank opened its office in Satun in 1966 and the Ministry of Finance mainly owns it. Pasuk & Baker (2004) argue Prime Minister Dr. Thaksin Shinawatra increasingly tried to allocate credit via state owned financial organisations. For example, 'Krung Thai Bank and other state banks were told to be more expansive in their lending policy to compensate for the commercial banks' nervousness' (Pasuk & Baker, 2004: 110). Indeed, the interviews with bank officials revealed that Krung Thai Bank lends relatively more money to corporate clients: the ratio of saving/borrowing among Krung Thai's corporate clients is 5/95 while this ratio is 40/60 among all interviewed banks in Satun. The SME Bank provides relatively soft loans, but is also very active in supporting starting SME's. Moreover, it is surprising that they have a considerable number of Muslim businesspeople as clients; namely, the majority of clients at the general banks in Satun are Sino-Thai. But in recent years some Thai banks have started to open Islamic branches (Haron and Yamirkudeng, 2003). For example, since 2002 the Krung Thai Bank has been operating an office for Islamic banking in Satun.

In contrast with Satun, governmental authorities, especially at the federal level, are very active regarding access to finance in Perlis. They support the Malay business community in three ways. First of all, state owned firms can easily obtain financial capital at various authorities, because they maintain good relations. Secondly, like in Thailand some general and Islamic banks are (partly) state-owned, lowering the interest rate for clients. It is interesting to see how the SEDC is financed. It directly borrows money from the federal government and the state owned Bank for Development and Infrastructure, whereas

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<sup>10</sup> Interviews with the directors of the two departments.

its revenues and assets have remained quite low (Auditor General, various years). Thirdly, many governmental authorities support the businesses of the Malay population in Perlis. MARA<sup>11</sup> has cheap office and commercial space for rent in Perlis and provides for relatively soft loans, the Co-operative Development Department in Perlis manages 78 cooperatives with a total of 53000 members in 2004 and a total registered capital of 35 million Ringgit, entrepreneurs can borrow federal money via the Malay Chamber of Commerce and Malay firms can buy cheap land. The Chinese business community has to survive without public support. They mainly rely on the owners of the firms and relatives and they do use banks rather infrequently.

The empirical results of the previous and this sub-section suggest that Satun resembles the Thai *variety of embedded mercantilism*. In Satun inter-firm relations are cooperative and network based, banks are the main source of investment and the provincial government does not directly intervene in the economy. The economy of Perlis seems to be part of the *Malaysian variety of Embedded Mercantilism*. Both with respect to doing business as to financing business the public sector is active, especially via the SEDC.

## **5. The Politics of Cooperation and Coordination**

Besides the degree of involvement of governmental authorities it is relevant to investigate to what extent the aforementioned patterns between the private and the public sector are influenced by (personal) power networks. We start with Satun Province followed by Perlis State. The previous section revealed that Satun's economy is led by the private sector. As mentioned before, almost all businesspeople in Satun are Sino-Thai. Some of them, operating in the fishery industry, live nearby La-ngu, but most of them live in Satun Municipality (see figure 2). Are business and politics really separated or do they exist in a different way? The firm surveys and interviews have generated

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<sup>11</sup> Majlis Amanah Rakyat: The council of trust for the indigenous people. This agency is part of the Ministry of entrepreneur and co-operative development.

interesting patterns of personal power networks. In Satun they have lead to close relations between business and municipal politics.

**Table 5** Business and Municipal Politics in Satun in 2004

Owner	Businesses	Politics	Peculiarities
A	many businesses	mayor, vice mayor under Mr J	member of rotary club
B	export-import	vice mayor a	
C	export-import	none	president of chamber of commerce and former business partner of Mr. B
E	ferry service and travel agency	vice mayor b	brother owns large restaurant and chalets
F	Architect	member of municipal council	
G	construction materials	former president of municipal council	member of rotary club
H	public transport	member of municipal council	son of a former appointed mayor
I	fishing boats	member of municipal council	president of rotary club
J	construction	former mayor	president of Chong Hua association, former president of Lion Club and older brother of Mr. I

*sources:* Firm survey and interview with Rotary Club.

Table 5 shows nine important businessmen in Satun with their (former) political activities and peculiarities. The first municipal elections ever in Satun Municipality were held in 1990. So far, national political parties have not played a major role in the elections, only local informal groups. Mr J. headed the conservative ‘Local Development Group’ (LDG) between 1990 and 2003 and was mayor between 1990 and 1995 as well as between 1999 and 2003. Between 1995 and 1999 a more progressive group possessed municipal power, but in 1999 the party ceased to exist. Apparently, many businessmen decided to become active in municipal politics. The nine businessmen in table 6 are all Sino-Thai and are active in associations as well, especially the Rotary Club. According to one Rotary Club member ‘each member

of the Rotary Club has many hats'. Therefore, it is no coincidence that Satun Municipality cooperates with Edson Town in Canada and that Edson's Rotary club financially support Satun's Rotary Club with their community projects. Thus while there are no formal public-private partnerships there is a dense network of informal relations between the private sector and Satun Municipality.

The power of the Satun's businessmen described above should not be overstated. Currently, the provincial Governor, appointed by the Minister of Interior, seems to be the most powerful person in Satun. With the implementation of the Chief Executive Officer (CEO)-Governor policy in 2003, introduced by Prime Minister Thaksin, CEO-Governors have gained more power over lower level governmental authorities (Amphoe's), Satun Municipality and Tambon's). Furthermore, they 'were given new authority over the line ministry bureaucrats in their provinces' (Pasuk & Baker 2004: 188) and they now control a large share of the available budgets for regional development.<sup>12</sup> Satun's Mayor and the president of the Chamber of Commerce frequently meet the Governor. Close to the CEO-Governor as well is the managing director of the Siam Tin Food.<sup>13</sup> He has been the president of the Federation of Thai Industries, Songkhla Chapter and frequently advises the CEO-Governor on matters relating to the economic development of Satun Province.

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<sup>12</sup> In fact, inter-ministry rivalries and competition have been useful features of the Thai political economy (Krongkaew, 1999).

<sup>13</sup> Interview with the Managing director of Siam Tin Foods.

**Table 6** Power Networks in the Construction Industry of Perlis, 2004

Firm	Politics	Peculiarities
A	crony of MB	sponsor of Perlis soccer team
B	crony of MB	
C	directly controlled by the MB's office former member of executive council	property developer, involved in large project at Padang Besar
D	member of Senate	headquarters in Kuala Lumpur
E	owned by SEDC	
F	owned by SEDC	construction materials
G	None	former manager at SEDC, also owner of security firm
H	None	property developer, involvement of Perlis royal family
I	None	

*Sources:* various.

The relation between business and politics in Perlis differs greatly from the situation in Satun. In the previous section it was clarified that the PSG, especially the SEDC, intervenes in the economy to a great extent, in particular the construction industry is important. Below the political dimensions of these relations are discussed. Table 6 discloses the close relationships between nine Bumiputera firms operating in the construction industry, politics and relevant peculiarities. Three differences between Satun and Perlis can immediately be observed. Firstly, instead of the municipal level in Satun the *state* level is very important in Perlis. Secondly, businessmen do normally not become politicians, but maintain relations with governmental authorities at the state level. Thirdly, there are state-owned firms in Perlis.

In most cases the Public Works Department JKR manages the tenders for construction projects. Bumiputra firms normally compete for the projects, but it is striking that Bumiputra firms often subcontracts the projects to ethnic Chinese subcontractors, based in Perlis or in Kedah. Therefore, ethnic Chinese firms do the actual construction while Bumiputras are the main contractors. Several interviewees mentioned that firms who have good relationships with the First Minister of Perlis, the Menteri Besar (MB), are often very successful in winning projects. The MB is a powerful figure in Perlis as he is the

head of the Perlis State Government (PSG) and the head of the United Malays National Organization (UMNO), the dominant national political party since independence. Thus in contrast with the Satun case, national politics is very important. In addition, the MB is chairman of the board of SEDC and head of many committees. Besides construction firms, table 6 includes two property developers, one directly controlled by the MB's office and one related to the Raja of Perlis, the 'king' of Perlis. Furthermore, the owner of firm E is an outlier as he is politically active in federal politics. Moreover, it is interesting that the headquarters are in Kuala Lumpur. It eases competition for construction projects in Perlis initiated by the federal government.

Overall, the MB and SEDC seem to be the most powerful; the MB because he has much political power, the SEDC because it occupies a strategic position between the private and public sector. Lower level governmental authorities, such as Kangar Municipality and rural local authorities do not have relevant power. Furthermore, two groups in the private sector do not maintain political links. The ethnic Chinese business community is forced to survive in a Bumiputra-dominated environment. The second group are the foreign firms. Apparently, they do not feel the need to secure interests by establishing political links with the PSG.<sup>14</sup>

## **6. The Impact of National Institutions**

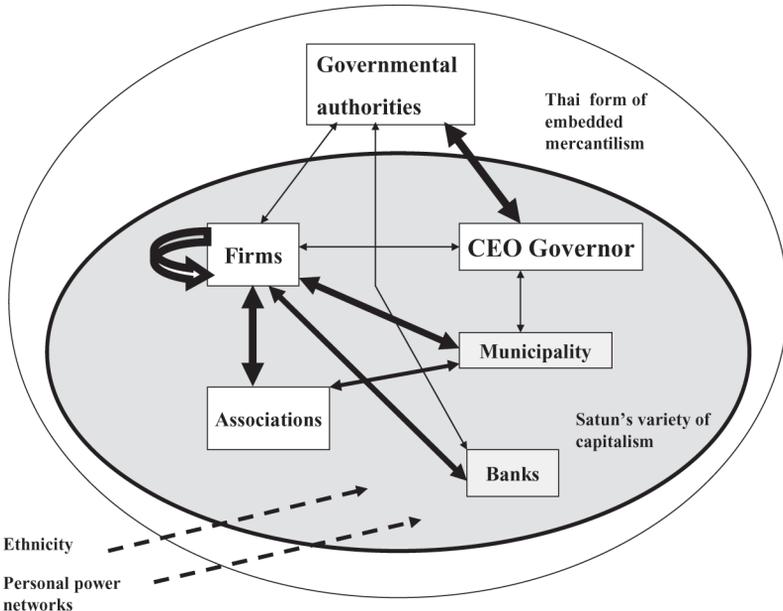
### **6.1 National Institutions and the Regional Variety of Embedded Mercantilism**

This section investigates the impact of the national institutional framework and tries to link institutional arrangements with regional developmental outcomes. Figure 3 and 4 summarise the findings of the Satun's and Perlis' variety of capitalism and their nesting in the national varieties of embedded mercantilism. The thickness of the arrows

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<sup>14</sup> Only Mediequip, a firm from the USA, has a symbolic political link, in fact with the Perlis royal family.

shows the strength of institutional relations and in addition to figure 2 the size of the words indicate the level of power.

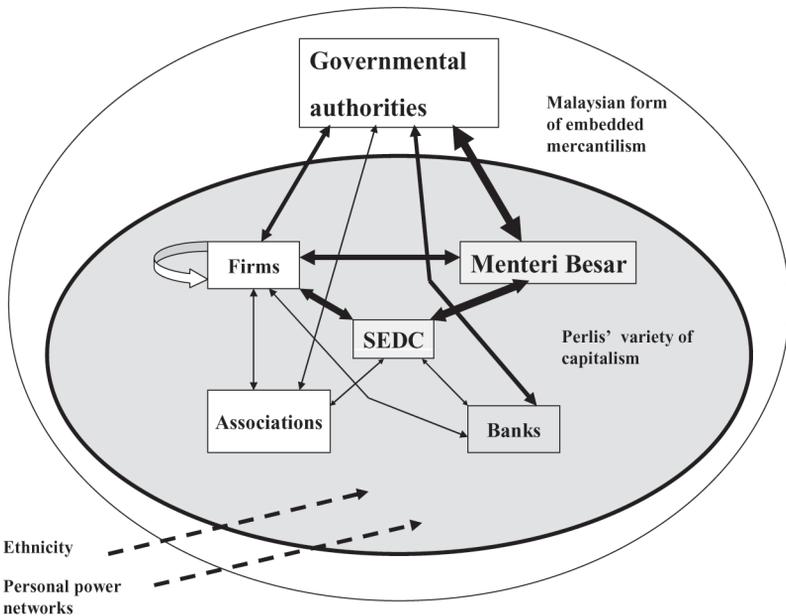


**Figure 3** Analytical Model for Institution Arrangements between the Private and the Public Sector in Satun

Figure 3 clearly illustrates the networked and co-operative relations of the private sector, the connection between the private sector and Satun Municipality and the power of the CEO Governor, albeit rather institutionally isolated from the regional organisations. Although various ministries control political and budgetary affairs in Satun, they do not directly intervene in the economy. Instead, the private sector is the leading actor in the economy. This finding fits into the Thai variety of Embedded Mercantilism: similar to the export-oriented sector, developments in domestic economic sectors are left to relatively free markets (see table 1 as well). Therefore, the most important reason for the presence of *managed capitalism* in Satun seems to be a considerable

laissez faire approach towards domestic economic sectors. Complementary institutions are the traditionally important role of banks as major providers of financial capital and a Sino-Thai business community, internally connected through strong guanxi institutions. Thai banks, generally owned by wealthy Sino-Thai families, have been well known as organisations that provide access to finance (Hewison, 1999). Only in recent years the state-owned banks have become more important.

The findings for Satun can be found in other Thai provinces as well. Callahan (2002) has described similar relationships between Sino-Thai businessmen, politics and the Rotary Club in Phuket and Askew (2006) has investigated in detail the functioning of informal political groups in Hat Yai. However, the Satun is somewhat special because guanxi institutions are reinforced by the finding that the Sino-Thai business community does not intensively interact with the



**Figure 4** Analytical Model for Institution Arrangements between the Private and the Public Sector in Perlis

Muslim population. It is difficult for Satuns' Sino-Thai to become national politicians, because the Muslim majority generally votes for Muslim candidates. In contrast, in average Thai provinces Sino-Thai have been able to become national politicians (McVey *et al.*, 2000; Nelson, 2005). Thus in Satun personal power networks do not evolve along average Thai structures.

Figure 4 shows the strong institutional relations and the power of the public sector, notably the MB and the SEDC. Without the public sector the private sector would be seriously marginalised. The presence of *state capitalism* in Perlis with such an important economic and political role for public organisations is a perfect copy of the Malaysian variety of Embedded Mercantilism (see table 1 as well). This can be illustrated by the many public financial organisations in Perlis that support the domestic Bumiputra private sector. Furthermore, domestic economic sectors have been able to grow as a result of many domestic coalitions. In addition, the federal government has transferred huge side payments to relatively weaker parts of society (Jomo & Hui, 2003). Each year PSG receives extra grants from the federal level and needs to borrow money from public financial organisations. Consider for example the current education strategy for Perlis. The total costs of the new Northern Malaysia University College of Engineering are around 800 million Ringgit, whereas the total annual revenues of the PSG are less than 100 million Ringgit.<sup>15</sup> In addition, the fact that the MB is close to federal UMNO officials is likely to ease federal support. Thus the MB, but also the SEDC, is powerful because they are able to influence the allocation of financial capital from the federal government. The above-presented analysis makes it logical that inter-firm relations have never had the change to develop, even among the ethnic Chinese firms, since they are often indirectly dependent on the public sector as well. One retired SEDC employee even stated that Malaysia could not be regarded a capitalist country, because of this

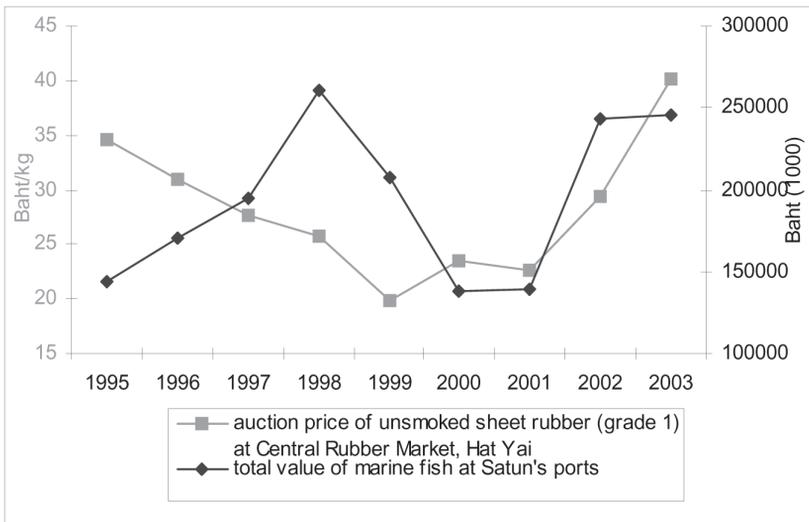
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<sup>15</sup> Interviews with the speaker of the Perlis legislative assembly and the MARA director of Perlis.

dependency.<sup>16</sup> As there are no contemporary studies available on regional politics in Malaysia it is difficult to compare Perlis with other Malaysian states. Shamsul (1986) also revealed personal power networks in the construction industry, but his study mainly dealt with one kampung (village), not with the state level. Moreover, two decades have passed since this publication.

### 6.2 Embedded Mercantilism and Regional Development

To what extent do the institutional arrangements as presented in figure 3 and 4 influence patterns of regional development? That is the main question of this sub section. In the tables 2 and 3 one could see that Perlis is clearly a more advanced region than Satun: Perlis has a higher GRP per capita and agriculture does not play an important role. As is discussed above the private sector is the main driver of the



**Figure 5** Trends in Agricultural Markets

<sup>16</sup> As an example he mentioned the many governmental authorities that support the private Bumiputra sector in Perlis, such as the PSG, the SEDC, Yayasan Islam, MARA and Kangar Municipality.

economy in Satun. However, (international) agricultural markets have been drivers of economic development as well.

Figure 5 shows trends in the important rubber and fisheries industries. Satun's rubber smallholders and large owners of plantations are dependent on the rubber price. After 1999 rubber prices increased as a result of the spectacular economic growth of China (FAO, 2004). Except for the years 2000 and 2001 the fisheries industry has contributed to Satun's economic development to a great extent. A variety of Sino-Thai firms operates in or is dependent on this industry. The impact of national institutions can be clarified using this industry. Cooperative and networked based inter-firm relations and easy access to finance help to benefit from the generally lucrative demand for fish. Governmental authorities are engaged in facilitating policies, but they do not intervene in the fisheries industry. Thus national institutional complementarities in the fisheries industry (little governmental intervention, a *guanxi* style of doing business and easy access to finance) coupled with regional political coordination via the municipality has contributed to Satun's economic development.

**Table 7** Federal Development Expenditure in Perlis

		(RM million)
6th plan	1991-1995	537
7th plan	1996-2000	1260
8th plan	2001-2005	1799
9th plan	2006-2010	2201*
*allocated		

*Sources:* EPU, various years.

The impact of a state variety of embedded mercantilism with clear domestic coalitions and a continuous flow of side payments on the economic development of Perlis is pervasive. Between 1990 and 1995 new domestic and foreign manufacturing firms arrived at Perlis' industrial estates, managed by the SEDC. New manufacturing activity led to an increase of people working in manufacturing (see table 3). However, after 1995 investments have been decreased and

since 1995 no new foreign firm has arrived in Perlis.<sup>17</sup> Moreover, Perlis experienced a decrease of the total population between 1995 and 2000. Likely, temporal Thai and Indonesian labourers were fired during the aftermath of this crisis. As mentioned before, Perlis now aims to become a 'knowledge state'. This aim has led to a boom in the Perlis' construction industry, benefiting in particular contractors close to the MB and the SEDC. The current strategy, nevertheless, is very vulnerable. Due to few employment opportunities in Perlis and deregulation and liberalization of the higher education system it is highly questionable whether this will ultimately result in a structural increase of the total population, more jobs and a higher GRP per capita (Lee, 2004). Moreover, without approval and funding by the federal government, the PSG would not have been able to embark on the knowledge state strategy. Table 7 shows that massive amounts of money have been transferred to Perlis. The federal expenditure for Perlis during the eighth plan was 1.1% of total development budget, but 0.9% of the Malaysian population live in Perlis, 0.7% of the total Gross Domestic Product and only 0.2% of total land area.

## 7. Concluding Remarks

This article has revealed remarkable differences between Satun and Perlis. A rather *managed* variety of embedded mercantilism coupled with a Muslim majority in Satun Province has led to a very isolated, but autonomous Sino-Thai business community, politically linked to the Satun Municipality. The level of side payments from the central government to Satun depends on the political situation in 'Bangkok' and the policies of the powerful CEO-Governor, but as many Governors perceive Satun as a stepping stone to larger provinces, often many short term policies emerge. Embedded mercantilism in Malaysia is led by a very interventionist federal government. Both the political and economic elite in Perlis are dependent on 'Kuala Lumpur'.

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<sup>17</sup> Interview with an official of the Malaysian Industrial Development Authority in Alor Setar.

The Bumiputra business community benefits from easy access to finance and orders from the PSG, but funded by the federal government. The PSG would have enormous financial problems if 'Kuala Lumpur' did not transfer massive amounts of money.

Malaysia's institutional framework insisting on promoting the economic position of its Malay majority, has done much to spread the fruits of growth. A closer look at regional development, however, raises some doubts about the sustainability of the Malaysian model, as the performance of its less-favoured regions depend much on transfers from a relatively wealthy public sector. This especially (but not only) in the form of construction projects funded by the federal government. Malaysia's oil wealth and rapid growth in recent decades has enabled it to spend relatively lavishly, but how long will this last? What will happen when the state is forced to cut its spending, and many such projects cannot be sustained? What will happen, specifically, with the Bumiputra-sector that remains so closely linked with the state? Malaysia has proven some of its critics wrong before, but the sustainability of its state-led model is as yet unproven. Thailand in contrast, famous as a showcase of primate city development and a more market-driven economy, has starker discrepancies between different parts of the country. It is less generous in its support of poor regions, although it does support side payments to especially rural constituencies that hold the key to electoral victory. There are signs that democratisation has heightened the need for such support programs. Nevertheless, regional economies such as that of Satun stand very much on their own feet. The weakness of Thailand's managed model revolves more around the role of business groups assuming positions of political power. If this reaches too blatant extents of self-serving uses of public resources, then the country's capacity of side payments may not be sufficient to ensure the necessary level of social cohesion.

Therefore, the outcomes of the Malaysian and Thai model show that national institutions and personal power networks should be included in the analysis when regional economic activities and performances are investigated. Neither can differences between regions

be explained by focusing only on regional institutions, such as regional innovation systems which are increasingly used for regions in developed countries, nor by focusing only on by regional factors such as comparative advantages, ethnicity or history. Instead, analyzing regional development requires a comprehensive research method that links a variety of institutions with personal power networks.

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