

# การพัฒนาภูมิภาคในเอเชียตะวันออกเฉียงใต้: รัฐเป็นผู้ริเริ่ม ดำเนินการหรือเกิดจากการขับเคลื่อนทางการตลาด มุมมอง จากการวิเคราะห์จังหวัดสตูล ประเทศไทยและรัฐเปอร์ลิส ประเทศมาเลเซีย

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## บทคัดย่อ

บทความนี้มีวัตถุประสงค์เพื่อนำเสนอผลการศึกษาวเคราะห์เชิงเปรียบเทียบนโยบายเศรษฐกิจและการพัฒนาภูมิภาคของสองภูมิภาคในเอเชียตะวันออกเฉียงใต้ คือ จังหวัดสตูล ซึ่งอยู่ทางตอนใต้ของไทย และรัฐเปอร์ลิส ซึ่งอยู่บนคาบสมุทรตอนเหนือของมาเลเซีย ภูมิภาคสองแห่งนี้อยู่ติดชายแดนและอยู่บริเวณรอบนอกพื้นที่เศรษฐกิจของประเทศ ประเด็นที่ศึกษามี 3 ประเด็น คือ หนึ่ง บทบาทของตลาดและการแทรกแซงของรัฐในการพัฒนาเศรษฐกิจในระดับภูมิภาค สอง บทบาทของรัฐในการวางแผนและการดำเนินการการพัฒนาภูมิภาค และผลการดำเนินงานสามเดือนไขทางการตลาดกับการพัฒนาเศรษฐกิจในภูมิภาค จากการศึกษาวิเคราะห์ในภาพรวมพบว่า ภาวะคุกคามต่อการแก้ปัญหาความไม่เท่าเทียมในภูมิภาคของประเทศไทยคือ การชดเชยหรือทดแทนที่ไม่ได้กำหนดรูปแบบที่แน่นอน

และตายตัว การชดเชยหรือทดแทน รวมถึงนโยบายพัฒนาภูมิภาคในประเทศไทยจะมีลักษณะที่ไม่มีการเปรียบเทียบแบบแผนชัดเจน และมักขึ้นอยู่กับการเมืองระบบพรรคและเครือข่ายส่วนบุคคล สิ่งเหล่านี้มีผลทำให้การพัฒนาในภูมิภาครอบนอกของไทยเป็นไปอย่างล่าช้า สำหรับประเทศมาเลเซีย การทำเศรษฐกิจแบบควบคู่กลับเป็นอุปสรรคสำคัญในการแก้ปัญหาความไม่เสมอภาคในภูมิภาคของประเทศ ในขณะที่เศรษฐกิจที่มุ่งเน้นการส่งออกค่อนข้างไปได้ดีแต่การลงทุนในเศรษฐกิจภายในประเทศที่ริเริ่มโดยภาครัฐยังไม่มีประสิทธิภาพและสิ้นเปลือง การที่รัฐสนับสนุนหรือกระตุ้นการลงทุนในภูมิภาคของประเทศที่มีข้อได้เปรียบในการแข่งขันแต่ยังขาดการพัฒนาอย่างจริงจังน่าจะให้ผลดีมากกว่าการมุ่งเน้นความเท่าเทียมกันระหว่างเชื้อชาติ

คำสำคัญ: การค้าขาย, การชดเชยหรือทดแทน, ประเทศไทย, ประเทศมาเลเซีย, ภูมิศาสตร์เศรษฐกิจ

## Regional Development in Southeast Asia: State-led or Market Driven?: Insights from Satun (Thailand) and Perlis (Malaysia)<sup>1</sup>

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### Abstract

The aim of this article is to present empirical results of a comparative analysis of economic policies and regional development in two regions in Southeast Asia. A comparison is made of the province of Satun in Southern Thailand and the state of Perlis in Northern (peninsular) Malaysia, two bordering and peripheral regions within their respective national space economies. Three questions are addressed: What is the interplay between markets and state intervention for economic development at the sub-national level?; To what extent have states designed and implemented regional development plans and what have been the outcomes?; And to what extent have market conditions determined regional economic development? Overall, this article claims that a crucial threat for reducing regional inequalities in Thailand is the unstructured and instable role of side payments. Side payments including regional development policies are relatively dependent on informal characteristics, in particular party politics and personal networks. This seems to delay development in peripheral and rural regions. Problematic for reducing regional inequalities in Malaysia is the extreme duality within the economy. The export-oriented economy operates relatively well, but the domestic-oriented economy is sometimes supported by ineffective and expensive investments initiated by the public sector. It would be better to align public investments somewhat more with the competitive advantages of Malaysian's lagging regions instead of focusing heavily on inter-racial equality.

**Keywords:** economic geography, embedded mercantilism, informal access, Malaysia, side payments, Thailand

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## Introduction

The space economies of Southeast Asian countries can be characterized by a few huge metropolitan areas together with many peripheral regions. The former generally have much higher per capita incomes and much lower poverty levels than the latter, although many poor labourers and unemployed people live in the metropolitan areas as well (Hill, 2002). The high incomes are generated by the fact that the majority of modern manufacturing and a wide range of modern services are concentrated in the metropolitan areas. In contrast the peripheral regions are dependent on agriculture and small-scale manufacturing and services. No clear consensus exists as to how the performances of Southeast (and East) Asian nations regarding modernisation of agriculture, industrialisation, foreign direct investment and ultimately economic growth can be explained (Robison & Hewison 2005 and Booth 1999). According to Scott (2002), 'the entire development debate since the Second World War has oscillated between those who are in favour of open markets, free trade and competition, and those who advocate sundry degrees of governmental intervention and coordination in the economy'. However, this debate has rarely been transferred to the field of regional development and regional economic policies. The aim of this paper is to present some empirical insights from the regional (thus sub-national) level. What is the interplay between markets and state intervention for economic development at the sub-national level? To what extent have states designed and implemented regional development plans and what have been the outcomes? And to what extent have

market conditions determined regional economic development?

This paper addresses these questions for two regions in Southeast Asia. A comparison is made of the province of Satun in Southern Thailand and the state of Perlis in Northern (peninsular) Malaysia, two bordering and peripheral regions within their respective national space economies. The structure of this paper is as follows: the next section presents a short overview of the political economy trajectories of the two countries, using the concept of *embedded mercantilism* in order to be able to view regional development from the wider national context. Next a comparison is made between the regional economic development policies of the national governments of Thailand and Malaysia. The paper follows with a brief economic geography of Satun and Perlis before focusing on the outcomes of regional development policies for the two regions and the outcomes of market conditions. Obviously, the paper ends with a conclusion. The findings presented in this article are based on secondary sources and interviews with governmental authorities between June and December 2004, complemented with some findings of a second fieldwork which took place between February and June 2006. The analysis is predominantly focused on the period between 1990 and the military coup of September 19, 2006.

## Embedded Mercantilism in Thailand and Malaysia

Thailand and Malaysia are classified by the UNDP as countries with a middle human development. In the 2004 Human Development

Report Malaysia has a Human Development Index (HDI) of 0.793 (corresponding to number 59 at the world ranking), Thailand 0.768 (corresponding to number 76).<sup>2</sup>

The process of economic development in Thailand and Malaysia has often been explained by the Export Oriented Industrialisation (EOI) strategy. This strategy aimed at developing export industries, in most cases by attracting international firms for production and assembling (Hewison 1997, Rasiah 1997). Indeed Malaysia started the EOI strategy in the mid 1970s, Thailand around ten years later. And indeed the two countries have experienced a period of rapid growth of exports, inward foreign direct investment and ultimately economic growth, especially between 1980 and 1997, the beginning of the Asian financial crisis.

However, according to Jayasuriya (2004, 21) sources of explanations for foreign economic and security policies 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. He has introduced *embedded mercantilism* as an applicable concept to analyse political economy trajectories in the Southeast Asian context. In this paper this concept is used, as it is very helpful to view regional economic policy-making from the wider national context. Jayasuriya (2001 & 2004) has borrowed the concept of embedded mercantilism from Pempel (1998).<sup>3</sup> Pempel uses the term to denote the

specific regime of accumulation in Japan during the 1960s. Pempel states that the spectacular growth trajectory of Japan in the 1960s has been the result of a domestic coalitional framework between the national government, de facto the Liberal Democratic Party, and virtually every possible societal group: small firms, large firms, farmers, associations, etc. The Liberal Democratic Party was able to achieve 'macroeconomic success through ever more internationally competitive Japanese firms in high-value-added industries' (Pempel, 1998, 49), while simultaneously providing *side payments* to the weaker parts of the society: 'rice farmers, small-business sector, geographical regions lacking high-growth industries, and, increasingly industries in decline' Thus Japanese mercantilism was embedded in a coalitional framework to maintain the goodwill of weaker parts in the society. In contrast, Japanese mercantilism in the 1990s had started to *dis-embed* (Pempel, 1998, 60 and 146). Jayasuriya (2004, 26) states that 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'.

<sup>2</sup>The HDI is based on four indicators, namely life expectancy at birth, adult literacy rate, enrolment in primary through tertiary schools and GDP per capita. 0 is the minimum score, 1 the maximum score (UNDP, 2004).

<sup>3</sup>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".

Thus similarly to Pempel's analysis of Japan Southeast Asian trajectories can be viewed along these three characteristics. Obviously, the focus of this paper is on Thailand and Malaysia. Publications on the political economy of these two countries, before and after the Asian financial crisis, provides substantial evidence for the applicability of the concept of embedded mercantilism. Although exports and foreign investors have greatly contributed to the economic development of Thailand, the role of domestic entrepreneurs, mostly Sino-Thai, should not be neglected (Hewison, 1997; 2001). They control many domestic economic sectors and are also engaged in export sectors. The most important feature of Thailand's embedded mercantilism is the way domestic entrepreneurs have found their way into politics. As active political actors, for example members of parliament, or by indirect influence, for example supporting a particular party, entrepreneurs have been able to secure their business interest. This process has even been associated with money politics and *jao pho's* (provincial godfathers) (Wingfield 2002 & McVey, 2000). Nevertheless, the export oriented sectors and foreign capital did not suffer much from the domestic coalitions between the political and economic sphere. Before the Asian financial crisis side payments seems not to have had a strategic role comparable with this coalitional framework. However, between 2001 and 2006, the period when Dr. Thaksin Shinawatra was Prime Minister, huge side payments had been transferred to farmers and the poor (Hewison, 2005). The military coup of September 19 2006 changed the entire Thai

political situation. Therefore, as of now it is not certain how the future of Thai's embedded mercantilism will look like. Hopefully there will be a new constitution before 2008.

Like in Thailand the EOI strategy in Malaysia has been coupled with domestic coalitions. The major goal of these coalitions was to achieve interracial economic equality, especially between the relatively *rich* ethnic Chinese and the relatively *poor* Malays. It is widely known that the Malaysian government has actively supported the Malay business community by creating government linked companies and a wide range of incentives for Malay entrepreneurship (Rasiah, 1997; Jomo, 2003). The government now owns many government linked companies and some very rich Malay businessmen have emerged with close ties to the federal government (Gomez, 2002). In addition huge side payments have been allocated to many weaker societal groups in virtually every part of the country. For example massive rural development schemes have been designed and implemented to increase the living standards of farmers, mostly Malay people. It seems that the Asian financial crisis has not generated a significant change for Malaysian's embedded mercantilism. There are some signs that Prime Minister Abdullah Badawi wishes a gradual de-politicisation of the government linked companies, but public policies coupled with massive side payments are likely to remain firmly in place (Case, 2005). In other words, mercantilism is expected not to *dis-embed* in the short term. However, it remains to be seen, for both Thailand and Malaysia, to what extent EOI strategies will be continued. Increasing *outward*

foreign direct investment (especially by Malaysian companies), the establishment of the Asian Free Trade Area and the rise of China as the world factory, might challenge the sustainability of EOI strategies. This paper explicitly deals with one specific part of side payments, namely regional development policies. The next section investigates the relevance of these policies and its implementation and funding for the embedded mercantilist regimes of Thailand and Malaysia.

### Regional development policies

Rapid national economic growth is often accompanied with increases in regional inequality. In Japan, during the 1960s, the coastal corridor between Tokyo and Osaka was by far the main growth area while the rest of the country benefited rather marginally from the economic development. Therefore, as noted above in the previous section, the Japanese government provided for side payments to 'geographical regions lacking high-growth industries'. In 1962 15 cities in lagging regions were identified to become new industrial cities, complemented in 1964 by six special areas for industrial consolidation. 'The result was a transfer of capital from Japan's major cities to its most under populated and industrially disadvantaged cities'. In addition to these neutral policies, politically linked policies also resulted in the support of disadvantaged regions: 'conservative politicians used the public works budget and various regional development schemes to transfer huge sums to their home districts' (Pempel, 1998, 62). Similarly

to Japan in the 1960s, the governments of both Thailand and Malaysia have tried to tackle regional economic disparities.

Although side payments, at least until the Asian financial crisis, have not been the most important part of the Thai embedded mercantilism, Thailand has witnessed a tradition of regional development plans, especially since 1977. These plans are a part of the *National Economic and Social Development Plans* (NESDP's), prepared by the National Economic and Social Development Board (NESDB) in Bangkok. The overview until the mid 1990s is largely based on Kaothien and Webster (1998). Influenced by international trends, the fourth and the fifth NESDP (1977-1986) stressed the need for policies creating regional growth poles. It was widely believed that economic growth in regional growth poles would lead to trickle down effects to rural communities. However, at the end of the fifth NESDP it had become clear that this strategy did not have the expected positive effects, which led to a very growth and urban oriented Sixth NESDP. Hence, regional development policies in this plan did not function as an intended side payment to weaker parts of the society.

Attention to regional inequality returned with the Seventh NESDP (1992-1996) the focus has been on deconcentration of national economic development, bottom-up approaches and a shift from growth-oriented to people-centred development, complemented with decentralisation of regional economic policy-making since the eighth plan (1997-2001).<sup>4</sup> Indeed regional development

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

policies in the eighth plan focused on the empowerment of community organisations, local learning networks and the role of Non Governmental Organisations (NGO's). The latest NESDP (2002-2006) has been prepared in the aftermath of the devastating Asian financial crisis. Influenced by the King of Thailand this plan proposed the concept of a 'sufficiency economy'.<sup>5</sup> This concept 'stresses the middle path as the overriding principle for appropriate conduct and way of life of the entire populace.' But regarding regional development policies the ninth plan can be considered as a deepening of the policies during the eighth plan.

It can be argued that Prime Minister Thaksin neglected the ninth plan. According to Pasuk & Baker (2004, 185) the Prime Minister started to implement his own economic and social policies in 2001 and sidelined the NESDB. Thus the NESDP (2002-2006) has become rather irrelevant. Nevertheless, two current policies touch the issue of regional development. The first issue is the transfer of huge payments to the poor people.<sup>6</sup> As the majority of the poor people in Thailand live in rural and peripheral areas, these populist policies affects regional development patterns. The second issue is the cluster policy. Each province has been geographically clustered with some other provinces and each cluster has been instructed to design and implement their own development strategy. The fact that the Ministry of Interior monitors this

programme illustrates the current policy-making weakness of the NESDB. In addition to the above-mentioned plans Thailand is involved in international regional development plans, which are not necessarily well integrated with the NESDP's. The most comprehensive one is a plan for the Greater Mekong Subregion (GMS). The GMS is made up of Vietnam, Laos, Cambodia, Thailand, Myanmar, and the Chinese province of Yunnan and aims to develop and integrate the entire area with a wide range of projects. Another international plan is the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) (Thant & Tang, 1996).<sup>7</sup> Regarding the border area Malaysia/Thailand (where the research regions of this paper are situated) 'there are currently 11 mechanisms/committees established bilaterally or multilaterally' (JDS, 2004).

Compared with Thailand regional development plans as side payments to weaker parts of the society have been a more widespread phenomenon in Malaysia. There are two explanations for this difference. The first one is political stability during Prime Minister Mahathir's period between 1981 and 2003 and the second one is the continuous availability of resources to finance the implementation of the policies. Petroleum royalties for the Malaysian government hovered around 9% of total federal government revenues between 1990 and 2005 (EPU, various years), whereas this percentage in Thailand was in 1.0% in 2000 and 1.4% in 2005

<sup>5</sup> In January 2007 UNDP Thailand even published a Human Development Report devoted to this concept.

<sup>6</sup> For example cheap health care (30 Baht for each simple consult at the hospital), a fund of 1 million Baht for each village, the financing of the One Tambon (district), One Product (OTOP) programme (Pasuk & Baker, 2004 p. 115) and the distribution of cows to poor farmers (Bangkok Post, 2005).

<sup>7</sup> This plans also aims to integrate the Malaysia/Thailand border region together with Northern Sumatra in Indonesia Both the GMS and IMT-GT are financially supported by the Asian Development Bank.



(Bureau of the Budget, various years). The Economic Planning Unit (EPU) in Putra Jaya is continually engaged in formulating a wide range of plans. The broadest plans are the *Outline Perspective Plans* (OPP's), followed by detailed five-year *Malaysia Plans*. In turn the state of implementation and effects of the MP's are monitored by the *Mid-Term Reviews* (MTR's). Like in Thailand active regional planning started with the growth pole strategy. The first OPP (1970-1990), the period of the *New Economic Policy* and incorporating the Second through the Fifth Plans stressed the need to stimulate both urban and rural growth centres in peripheral areas. The rural growth centres were often completely new small towns. According to (Aslam & Hassan, 2003) the growth pole strategy was complemented by three other strategies: firstly, the development of new agricultural land especially carried out by the Federal Land Development Authority (FELDA). has actively set up new areas for all kinds of agricultural activities. Secondly, the dispersal of industrial sectors has been a major part of the regional development policies, especially after the publication of the First Industrial Master Plan 1986-1995 (Jomo, 2003, 72). Another policy tool is the Incentive Investment Act. Since 1986 firms are attracted to invest in the states of Sabah and Sarawak and the designated Eastern Corridor<sup>8</sup> with generous incentives (MIDA, 2005). Thirdly, by implementing Integrated Agricultural Development Projects (IADP's), the Malaysian government has

tried to offer comprehensive development projects for the rural population.

In the second OPP (1991-2000), also called the *New Development Policy* and incorporating the Sixth and Seventh Plans, the focus had somewhat shifted from distributional to growth-oriented policies<sup>9</sup> (Jomo, 2003: 26). Therefore the relevance of the growth pole strategy gradually declined and compared with agriculture the stimulation of manufacturing in the less developed states became more important. The Second Industrial Master Plan reinforced the focus on manufacturing. Another feature of the second OPP was the integration of international policies within the five-year plans (EPU, 1996). Currently Malaysia's border regions are involved in three growth areas of which the already-mentioned IMT-GT<sup>10</sup>. 2001 was the beginning of the third OPP, the *New Vision Policy*, (2001-2010), elaborated on in the Eighth and Ninth Plans. The most important characteristic of the third OPP, in particular stressed in the ninth plan, is the focus on a knowledge based economy. Even rural areas are included in the strategies that aim to create knowledge intensive activities: enlarging human capital, technological capabilities, biotechnology and the use of information technology. However, there remains policy spaces for more traditional spatial policies like promoting 'rural growth centres, resource based manufacturing and craft industries and providing more infrastructure and social amenities. In addition, bumiputera policies which began in the 1970s have never stopped (see also

<sup>8</sup> The states of Kelantan, Terangganu, Pahang and Southeast Johor.

<sup>9</sup> In 1991 Prime Minister Mahathir announced Vision 2020: a growth oriented vision to become a fully developed country by 2020.

<sup>10</sup> The other growth areas are the Brunei-Indonesia-Malaysia-Philippines EAST-ESEAN Growth Area and the Indonesia-Malaysia-Singapore Growth Triangle.

paragraph 3.2) and have been beneficial for rural areas where the majority of the population is Malay.

### The research areas: Satun and Perlis

As mentioned in the introduction the two research regions are the province of Satun in Southern Thailand and the state of Perlis in Northern peninsular Malaysia. Map 1 provides an overview of the two regions. The two regions are both situated in one of the extreme peripheries of their countries and they are a part of the Thai-Malaysian border. The capitals of the two regions, Satun City and Kangar, are rather small cities. Hat Yai and Alor Setar are important centres for Satun and Perlis respectively. As the two research regions have much in common, they are assumed to be suitable research areas. Firstly, Satun and Perlis share

similar physical geographical features: the coastal zone and a mix of paddy fields, forests and limestone hills. Secondly, 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>11</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>12</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>13</sup> Satun became a real Thai province in 1933 and Perlis a Malaysian state in 1957, the year of independence for Malaysia from Britain. Thirdly, Satun and Perlis have similar population characteristics. In both regions the majority of the inhabitants are Malay with the Islamic religion. Like in many parts of Southeast Asia an ethnic Chinese minority is very active in the private economic sector. The only difference is that a growing public sector has led to an increase of Thai civil servants in Satun. Both in terms of the economic structure and the level of prosperity, as measured by the per capita gross domestic product, Satun and Perlis differ considerably. Perlis clearly is a more 'advanced' region than Satun. By far the two most important industries in Satun are the rubber and fisheries industry.

**Table 1 Basic indicators of Satun and Perlis, 2003.**

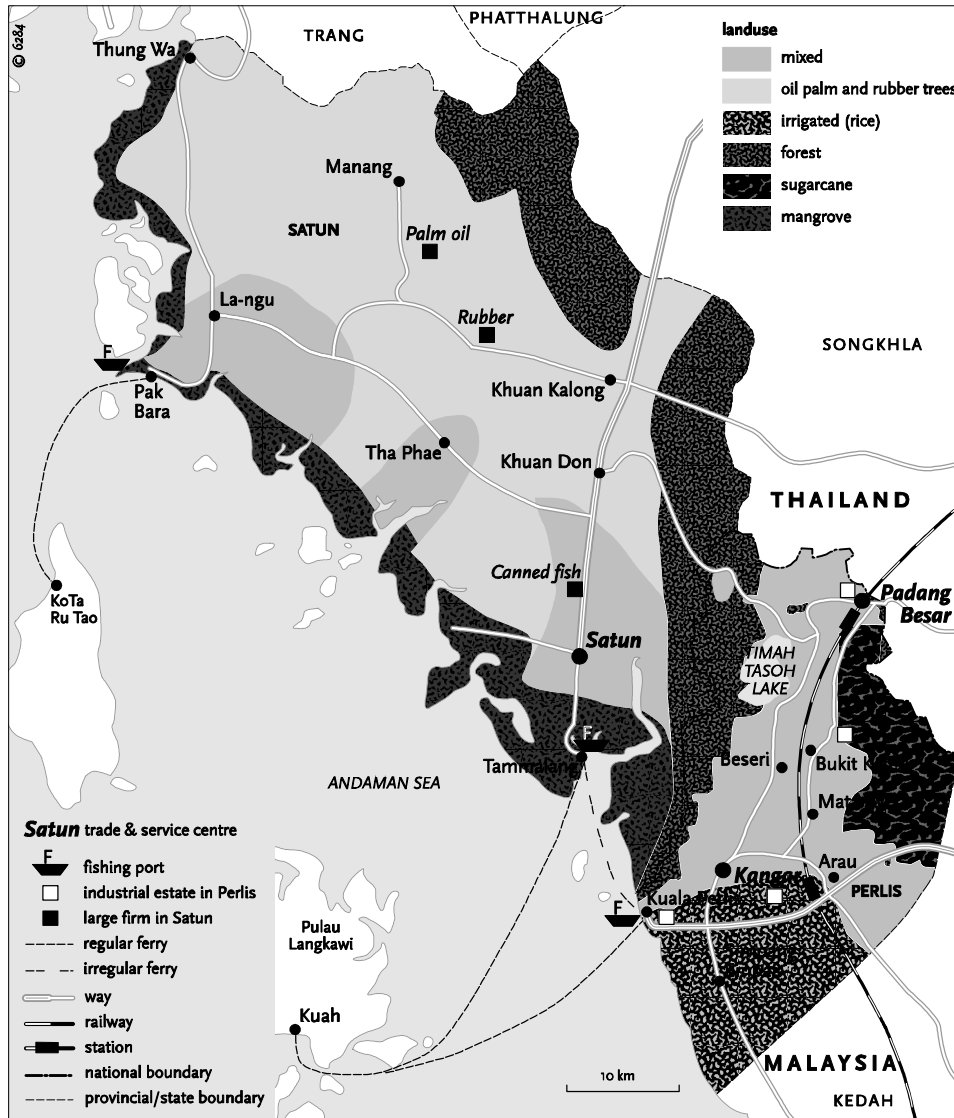
	Satun	Perlis
total population	270000	218000
Islam %	68	85
structure of gross regional product (GRP) %		
agriculture	60	16
manufacturing	8	17
services	32	67
employment in		
agriculture %	58	17
per capita GRP in US\$	1630	2589
GRP in US\$ (millions)	439.8	564.4
<i>Sources: various.</i>		

<sup>11</sup> Saiburi is the Thai word for Kedah.

<sup>12</sup> Which has thus been under suzerainty of the Siamese.

<sup>13</sup> Except during the Second World War when the Japanese briefly gave the Siamese control of Perlis.

Map 1: Satun and Perlis



This map is produced by GeoMedia UU, based on various sources.

The rubber industry mainly remains limited to the growing latex, but the fisheries industry is relatively developed with fishermen, boat owners, cold storage firms, ice factories and one large fish canning factory all operating in the region. The economy of Perlis is more diversified compared to Satun. Perlis hosts a large sugarcane plantation and refinery. In terms of gross regional product private, but especially public services are important. In addition, there are some foreign manufacturing firms and a large cement factory. Moreover, the construction industry has developed quite fast the last decade.

#### **Regional development policies and outcomes for Satun and Perlis**

The previous section has made it clear that the common initial conditions have not led to a common economic development trajectory. In this section it is investigated to what extent the two national governments have influenced the economic development of Satun and Perlis. In particular, the focus will be on the effects of formal regional development plans and informal ways of development assistance from the national government to the two research regions.

#### *Policies affecting Satun and Perlis*

As a province without a medium or large sized city Satun has not benefited from the growth pole strategy, as designed in the fourth and fifth NESDP. During the Seventh NESDP the Board of Investments designated Satun as an investment promotion zone

three.<sup>14</sup> That means that firms were several incentives. Moreover, Satun was included in a group of 22 provinces with extra privileges among the 56 zone three provinces (BOI, 2005a). It is clear that Satun was considered to be a real peripheral and lagging region, but so far the designation as zone three has not resulted in a substantial increase of firms. An example of the tendency to decentralise was a publication in 2002 by the NESDB office for Southern Thailand titled 'A strategy for the economic development in Southern Thailand,' partly based on the IMT-GT framework: promoting economic development by integrating Northern Sumatra, Northern Malaysia and Southern Thailand (Thant & Tang 1996). However, the most important IMT-GT plan is the stimulation of the urban corridor Songkhla-HatYai-Penang-Medan, paying less attention to the rural regions. The only major role for Satun in the NESDB plan is the inclusion in the marine eco-tourism zone of Southern Thailand. Overall, it can be observed that the province has been marginally affected by the regional economic plans. However, this is not to say that the NESDP's have been unimportant for Satun. In fact, three national parks are currently situated in the province, a result of the environmental chapters in the NESDP's. The largest park is Tarutao national park, consisting of Tarutao Island and 50 other small islands. As the effectiveness of the IMT-GT has considerably declined after the Asian financial crisis<sup>15</sup>, promoting economic development at the Thai-Malaysian border has been reactivated with the establishment of Thai-Malaysian Committee on

<sup>14</sup> Zone one comprises the Bangkok Metropolitan Region, zone three comprise the poorest and most peripheral provinces.

<sup>15</sup> Due to various problems such as the economic and political crisis in Indonesia and the unrest in Southern Thailand (see the next section as well).

Joint Development Strategy (JDS) for border areas in April 2004. For Satun in particular the following projects have been studied: a regular ferry between Tammalang and Kuala Perlis and upgrading of the road linking Khuon Don and Beseri in Perlis coupled with a border Sunday market (already operating). The cluster policy seems to be the most important strategy at the moment. Satun province and Songkhla province form one cluster.<sup>16</sup> The overall developmental vision for the cluster is: 'World's rubber hub, two-sea ports, southern provinces of commerce, tourism, and education' (Songkhla province, 2005). Based on this vision the province of Satun is currently trying to stimulate rubber production, getting approved the Pak Bara deep-sea port project near La-ngu by the national parliament and promoting eco-tourism.

Perlis is far more influenced by regional development policies. Regional policies during the period of the first OPP have resulted in three features.

1. Development of new agricultural land. In 1971 FELDA started a joint sugarcane plantation and refinery project with Perlis Plantations Bhd. Nowadays around 400 settler families stay at the FELDA area. The total sugarcane area comprises about one-ninth of the total land area of Perlis (see map 2).

2. The arrival of manufacturing firms. Since 1975 Perlis is home to a large partly state owned cement factory. Moreover, in the 1980s foreign firms have come to Perlis, because of investment incentives (until 1986), proximity to natural

resources (latex from the rubber trees) and low wages.

3. The establishment of IADP's. By far the largest in Perlis is the MADA irrigation scheme in the southern part of the state. This scheme comprises of 80000 hectares in Kedah, 16000 hectares in Perlis and involves hundreds of rice farmers.

In the 1990's the benefits for Perlis from regional development policies gradually declined, but at the start of the third OPP the federal government agreed to financially support a new four-pillar development strategy of Perlis. The four pillars comprise of agriculture, manufacturing, education and tourism. The most striking pillar is the objective to become a *negeri ilmu*, a knowledge state, as was mentioned earlier. In 2004 Perlis was home to 11 specialized colleges, a large amount for such a small state located in the periphery. Similar to Satun, Perlis is part of the IMT-GT and JDS area. Projects with an impact for Perlis are the same as the already mentioned projects for Satun, complemented with the expansion of traffic facilities and establishment of a border Sunday market at the Padang Besar border crossing (see map 2). A new strategy formulated in the Ninth Malaysian Plan is to make Perlis a hub for Halal products, a project of 10 million Ringgit. Construction of the hub has just begun.

#### *Informal access to development assistance*

Besides regional development policies and other formal plans, informal access to development

<sup>16</sup> Other clusters in Southern Thailand are Yala-Pattani-Narathiwat and Trang-Pattalung-Nakon si Thammarat.

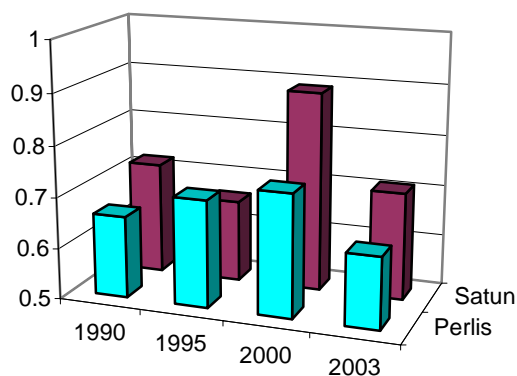
assistance is likely to play a role as well. Moreover, informal access could have a political dimension. As mentioned earlier, Pempel (1998) has shown that politicians in Japan have used side payments to favour their home districts. For Southeast Asia the literature suggest that informal ways to attract funds from the national governments are important as well, especially in Thailand and the Philippines (see for example McVey (ed.), 2000; Sidel, 1995). The evidence for Malaysia is less clear. In this subsection it is investigated to what extent Satun and Perlis benefit from informal access to development assistance.

In Thailand regional development funds are generally transferred from the relevant ministries in Bangkok to the ministerial offices at the provincial level. But large regional projects, above 50 million Baht, are directly supervised by the civil servants in Bangkok, (personal communication, 2004<sup>17</sup>). Interviews with the directors of the provincial ministerial offices in Satun revealed that close

personal relationships with civil servants in Bangkok ease and speed up the transfer of funds. However, as Prime Minister Thaksin has implemented the CEO Governor policy, the personal network of the governor has become quite important as well. Currently funds flow easier to provinces with a governor belonging to the ruling Thai Rak Thai party. In November 2004 the Ministry of Interior appointed a Thai Rak Thai governor for Satun, but in the national elections of February 2005 the Democrats, the most important opposition party, won again in Satun worsening the chances for an increase of development funds. Several interviewees stated that Southern Thailand as a traditional stronghold for the Democrats has been suffering from limited national funds since the first victory of the Thai Rak Thai party in 2001. An example is the plan for the Pak Bara deep-sea port. The full development of the port is dependent on party politics.

As Malaysia is a federation the organisation flows of side payments to the regions is quite complex. On the one hand development funds are transferred to federal offices in each state; on the other hand funds are transferred to the state governments. In general 'the smaller states of Melaka, Pulau Pinang and Perlis have been allocated the most development funds in relation to area' (Jomo & Wee, 2003). During the preparation phase of each Malaysian Plan the state governments and the federal offices in the states have to send a financial proposal for developmental projects to the federal Economic Planning Unit in Putra Jaya, who ultimately approves or disapproves

**Figure 1 ratio of gross regional product per capita to national average**



Sources:  
various.

<sup>17</sup> Interview with the chief of the Governor's office of Satun.

the proposals. The civil servants in Perlis regarded personal relationships with civil servants in Kuala Lumpur as a chance enhancing feature, but they further stated that the structured allocation process via the Malaysian Plans limit the room for informal manoeuvre (personal communication<sup>18</sup>, 2004). This result indicates a clear difference with Satun where development funds are subject to the personal relationships of civil servants and personal and political relationships of the governor. Furthermore, this and the previous subsection on the formal regional development policies clearly confirm that side payments in Thailand are less structured and focused on the short term compared with Malaysia.

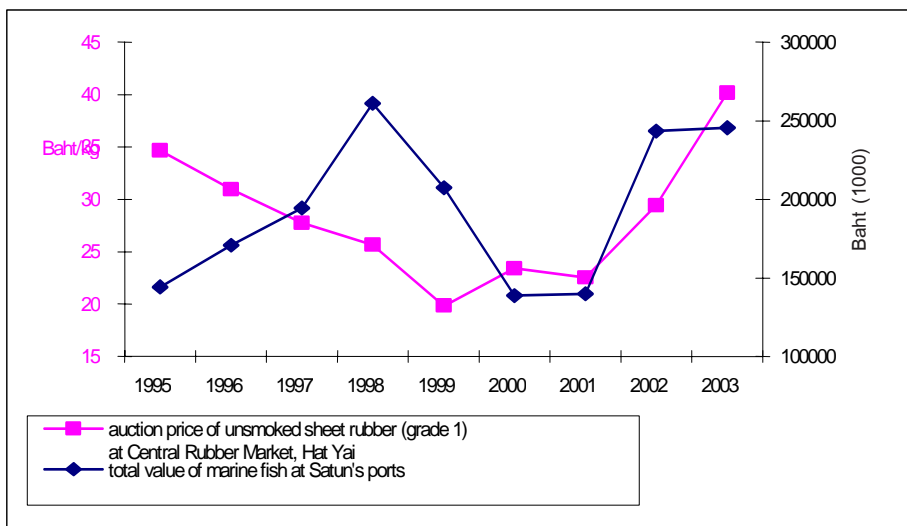
*Outcomes for regional development*

What have been the results of the regional development plans, other plans affecting regional development and the informal access to development assistance for the regional economies

of Satun and Perlis? That is the main question in this subsection. Figure 1 shows that both research regions have continuously performed below the national average in terms of Gross Regional Product (GRP) per capita. It is striking that the ratios in 1990 and 2003 are identical.<sup>19</sup> Thus both research regions seem not to have reached a level significantly closer to the national average. Furthermore, the ratios are higher in Satun than in Perlis except for the year 1995. How can these observations be explained?

It has become clear that regional development policies in Thailand have not affected the economy of Satun to a great extent. But despite the lack of a strong government pouring development funds into the province, Satun has experienced steady economic growth, especially between 1990 and 2000. Moreover, Satun's population has grown as well, making the observations from Figure 1 even more striking. The available statistics reveal that

**Figure 2 Trends in agricultural markets**



<sup>18</sup> Civil servants working at federal offices and working at the Perlis state government gave similar answers.

<sup>19</sup> Unfortunately there are no data available for the year 2004.

economic growth can be attributed to the two most important industries, namely the rubber and fisheries industries. Figure 2 shows trends in the important rubber and fisheries industries. 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. In 2001, when both rubber prices and value of caught fish declined, GRP per capita declined. In 2002 and 2003 the rubber and fisheries industry performed well again, but a stronger increase of the total population led to a decline of the GRP per capita in 2003. The high demand for fish mainly originate nationally, whereas international demand for rubber products, especially fuelled by the spectacular economic growth in China, has caused high rubber prices (FAO, 2004).

It can be concluded that national and international agricultural markets have been more important than the state for the economic

**Table 2 Federal development funds for Perlis (RM million)**

Plan	Period	Allocation
Third	1976-80	156
Fourth	1981-85	304
Fifth	1986-90	560
Sixth	1991-95	505
Seventh	1996-00	953
Eighth	2001-05	1581
Ninth	2006-10	2201

Sources: Jomo & Wee, 2003 & EPU, various years

development of Satun. Therefore, future economic development will depend on these markets to a great extent. This dependence poses a threat, as agricultural prices are generally instable. But other issues play a role as well. The Songkhla-Satun cluster strategy aims to further expand Satun's role as a supplier of rubber, but it is striking that the strategy does not pay attention to the fisheries industry which is at least equally important for the economic development of Satun. Instead the cluster seeks to enhance transportation facilities with the envisaged Pak Bara deep-sea port and to promote eco-tourism. However, it remains to be seen whether both plans will succeed. At the time of writing the national government is likely to fund the deep-sea port, but it is doubtful whether there will be enough demand from Satun and other parts of Southern Thailand to use the port (BOI, 2005b). Moreover, additional expensive investments are required to make the port sufficiently accessible by road. Regarding eco-tourism persistent unrest in the southern provinces of Pattani, Yala and Narathiwat has led to declining number of tourists travelling to Satun (personal communication<sup>20</sup>, 2004). And in the short term an end of these conflicts is not foreseeable (BBC 2005 and Croissant 2005). Finally, the business community in Satun argues that the Ministry of Natural Resources and Environment controlling the national parks is too powerful, limiting expansion of private economic activity for example the building of hotels at Tarutao Island

The Perlis' case sharply contrasts with the developments in Satun. Unfortunately, there are

<sup>20</sup> Several interviewees elaborated on the negative impacts of the conflicts in these three provinces.



no statistical data available about the precise contribution of the agricultural manufacturing and services sectors between 1990 and 2003. But interviews with governmental authorities indicate that the manufacturing sector has had its peak in the beginning of the 1990s. Since 1995 no foreign firm has invested in Perlis. Current foreign direct investment in Malaysia is mainly related to the advanced electronics industry and services. Therefore, the traditional comparative advantages of Perlis, proximity to natural resources and low wages, have become quite irrelevant (personal communication,<sup>21</sup> 2004). Moreover, even Malaysian firms now invest in Thailand because of these advantages.<sup>22</sup> As can be seen in Table 1 services are important as well. It can be assumed that the national government and state government are responsible for the large share of services. As mentioned earlier, Perlis is currently trying to become an education state and the opening of several educational institutes obviously increase the share of public services. Table 2 shows that the federal government has transferred massive amounts of money to Perlis. In addition the Perlis state government often borrows money from (partly) state-owned financial agencies (personal communication<sup>23</sup>, 2004). To put things in perspective: the total costs of the new Northern Malaysia University College of Engineering are around 800 million Ringgit, whereas the total annual revenues of the Perlis state government are less

than 100 million Ringgit (personal communication<sup>24</sup>, 2004). However, the fact that the ratio of GRP per capita to national average in 2003 was considerably lower than in 2000 raises the question whether the education strategy has been effective so far. It is likely that the building of colleges and related activities have generated income for the construction industry in Perlis until the opening of these colleges. Furthermore, the positive trend of the ratio between 1995 and 2000 can be partly explained by a decrease of the total population in Perlis between 1998 and 2000 (Department of Statistics, 2004). This explanation reinforces the doubts concerning the effectiveness of the regional development policies.

It can be argued that Perlis has arrived in a *modernisation trap*. Until the beginning of the 1990s Perlis has been able to catch up with other more prosperous states in Malaysia as a result of active regional policy-making and the establishment of private and state-owned manufacturing activities. But as high-end manufacturing and advanced services are currently becoming important sectors for the Malaysian economy, Perlis is experiencing great difficulties to align with the average national development trajectory. It would not be a surprise if the foreign firms will leave Perlis in the coming years. For high-end manufacturing other locations are more suitable, notably Penang, whereas low wages and proximity to natural resources are easily found in nearby Thailand. The education strategy

<sup>21</sup> Interview with assistant director of the Malaysian Industrial Development Authority office for Kedah and Perlis in Alor Setar.

<sup>22</sup> An example is the take-over of the only rubber-processing factory in Satun by a Malaysian group of companies, as mentioned earlier.

<sup>23</sup> Interview with a manager of the Perlis SEDC.

<sup>24</sup> Interview with the speaker of the Perlis legislative assembly.

has led to a temporary boom of the construction industry, but it is highly questionable whether more educational institutes will ultimately result in a structural increase of the total population and more jobs. As there are few employment opportunities in Perlis students are expected to seek jobs in other Malaysian states once they are graduated. Moreover, it has become more difficult for public educational institutes to attract students as reforms in the higher education system have opened up many opportunities for private and even foreign universities and colleges. (Lee, 2004)

### Concluding remarks

Even within groups of countries with a similar political economy trajectory, considerable differences exist regarding regional economic policies. Although both Thailand and Malaysia have experienced a trajectory of embedded mercantilism, the cases of Satun and Perlis show that the role of duality within the economy, overlapping and side payments have not been similar. Perlis is a considerably more advanced region than Satun, but as a result of favourable international agricultural prices, Satun's level of development hovers relatively close to the Thai average, whereas Perlis seems to have arrived in a *modernisation trap*. It is not able anymore to catch up with more prosperous regions. Both regions belong to the IMT-Growth Triangle. In the beginning of 2007 the ADB released a report to revive growth strategies, but it remains to be seen to what extent *rural* regions can really benefit from these strategies. It is likely that the ADB and policymakers should pay more attention to economic problems in rural regions, including the troubled provinces of

Southern Thailand, rather than focusing too much on the dynamic Songkhla-Hat Yai-Penang-Medan corridor. For instance, how to deal with flows of out-migration, depletion of marine resources and limited opportunities to generate sustainable off-farm employment?

A crucial threat for reducing regional inequalities in Thailand is the unstructured and instable role of side payments. Side payments including regional development policies are relatively dependent on informal characteristics, in particular party politics and personal networks. This seem to delay development in peripheral and rural regions, especially if these regions are strongholds of opposition parties and if, simultaneously, international agricultural prices fall. Hence, the new constitution should provide the fundamentals for equitable and effective side payments. Problematic for reducing regional inequalities in Malaysia is the extreme duality within the economy. The export-oriented economy operates relatively well, but the domestic-oriented economy is sometimes supported by ineffective and expensive investments initiated by the public sector. It would be better to align public investments more with the competitive advantages of Malaysians peripheral regions. Nevertheless, ineffective investments are likely to persist in the medium term because the federal government continues to regard regional development policies as one of the policies to achieve inter-racial economic equality.

This article has demonstrated that regional development efforts could be carried out in a variety of ways. Each Country has its own attitude to wards the role of markets, the state and the interplay between the two. Therefore, each country should find its own, but effective balance.

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