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Strange Bedfellows: Political Alliances in the Making of Neo-liberal Governance

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2.1 Introduction

In the 1990s neo-liberal agendas for global economic change and development shifted from a simple plan to roll out markets through policy reform to a new concern for containing the risks that seem invariably to accompany their rise. Yet, the attempt to reconstitute the political and social frameworks of the new market societies within specifically neo-liberal forms of governance has encountered critical difficulties. These cannot be understood simply in terms of the politics of resistance versus transformation; they are integral the way market societies and states are formed. In critical instances, the advance of markets has generated new forms of political and social oligarchy whose ascendancy is consolidated in systems of authoritarian or discretionary governance. This chapter examines how these forms of power and governance are constructed and preserved, not least in the context of highly ambiguous relationships with forces within the neo-liberal camp itself.

Attempts to establish neo-liberal forms of market state through by means of transplanting or constructing institutions have encountered serious difficulties. Within the World Bank and other mainline development agencies these are explained primarily as problems of design or sequencing, requiring more precise recalibration of the way incentives are structured within the new institutional arrangements to produce specific behavioural changes (see Rosser, this volume; World Bank 2004: 16-60). At the same time, there has also been a greater emphasis on enforcing and implementing institutional reforms through ‘good governance’.

The idea of ‘governance’ performs an ideal function for market reformers. Broadly understood as a form of authority separate from traditional notions of politics and the state and defined increasingly in terms of legal or constitutional principles (Gill

1995), it enables a vast range of problems related to economic efficiency and political order and legitimacy to be approached without any reference to the contentious arenas of power and politics (Hewitt de Alcantra 1998: 107). More practically, the idea of governance can be used to bypass opponents (vested interests) through modes of technocratic and managerial rule. In the words of the World Bank, '… good governance requires the power to carry out policies and develop institutions that may be unpopular among some – or even a majority – of the population." (2002a: 99).

Governance is not only useful as a mechanism for insulating technocratic elites from the competitive nature of politics. Political and social problems can be translated into problems of capacity, especially where fragile or failed states are considered unable to provide the basic regulation and order necessary for market societies (World Bank 1997, 2002b). At the same time, 'good governance' programmes tackle the problems of an indifferent citizenry by addressing 'dysfunctional' norms and values and providing new forms of citizenship and participation where societies are seen as lacking the social capital including the values and networks) that may provide cohesion to organise collectively in favour of markets (see, World Bank 2002a: 21; Bebbington, Guggenheim, Olson and Woolcock 2004; Woolcock 2001).

Such a focus on institutional and governance solutions, as Ottoway has observed, represents an attempt to bypass the long and often brutal conflicts that historically underlie the formation of modern rational states (2002: 1004). However, this is not simply an attempt to bypass these conflicts in favour of the abstracted efficiency of techno-managerial authority. Four propositions are central to this chapter.

First, programmes of 'good governance' advocated by the current development orthodoxy cannot be disentangled from larger agendas intended to establish the normative forms of political and social order preferred by neo-liberals. Emerging in the context of neo-liberal reforms in the 1980s, these preclude many of the distributive and welfare aspects of social democratic states, for example, and seek a fundamental reordering of power through the spread of market principles and values across the institutions of political and social life and the adoption of market solutions for most economic and social problems, including the outsourcing of public functions in education, education, health, the provision of infrastructure and even security.

Secondly, the consolidation of various forms of arbitrary, authoritarian or predatory governance is not, in critical instances, external to the process of market consolidation but has been integral to the way economic and social oligarchies and state elites, the agents and beneficiaries of the new market societies, have established their ascendancy.

Thirdly, attempting to address such problems of corruption, disorder and inefficiency by modifying individual behaviour through institutional change attempts to bypass the conflicts over power and its distribution. These can leave intact the political relationships and the social order that underpin predatory or authoritarian systems of governance (Chaudhry 1997; Bardhan 1989; Rodan and Jayasuriya 2007; Sangmpam 2007).

Fourthly, a range of political regimes and forms of authority and governance are established and consolidated within the broad rules of the market by co-opting property rights, financial sector reform and techno-managerial prescriptions for political rule. In important instances, neo-liberalism has found critical affinities with new authoritarian and discretionary forms of market governance. These can be effective instruments in protecting markets from certain forms of politics and liberating the private interest from a range of collective social demands or where they are useful in securing particular national economic or political objectives at the global level.

2.2 Markets and the rise of illiberal regimes and oligarchies

Operating within key economic and financial ministries and agencies in developing economies, technocratic elites have played an important role in designing and implementing neo-liberal reform agendas. For example, Chile's famous 'Los Chicago Boys' in the 1970s had their equivalents in the so-called 'Berkeley Mafia' who, almost a decade earlier, had begun to play a central policy role in Soeharto's Indonesia. In Russia, technocrats like Anatoly Chubais initiated decisive privatisation programmes during the Yeltsin period of the early 1990s while in Zambia, the ubiquitous Harvard Institute for International Development gave rise to the so-called 'Harvard Boys' in the early 1990s.

In reality, the ability of these technocrats to influence reform beyond macro-economic monetary or fiscal policy has always been fragile. The World Bank and

Western governments have relied upon broader alliances with various governments and political elites, often military rulers, to clear the way for various structural adjustment agendas. It was assumed that 'getting the fundamentals right' would be enough in itself to generate wider institutional reform and 'bad times' would ultimately enforce 'good policies'.

Yet, in important instances, as we shall see, programmes for the privatisation of large state monopolies and companies offered opportunities to a range of privileged oligarchies to expropriate public resources and state corporate wealth. Property rights enabled new entrepreneurs to claim state assets or community land where title to these was not clear. Opening economies to global markets meant that new private interests could now access flows of finance from international lenders and investors who proved willing to accept the risks of highly politicised markets and arbitrary systems of regulation. Neo-liberal models of techno-managerial authority have also offered a new means of legitimising authoritarian rule in the name of economic efficiency and the protection of the market from the excesses of representative politics.

These processes have taken different forms. In sub-Saharan Africa, neo-liberal reformers confronted predatory forms of authority embedded in vast and pervasive state apparatus and where the political development of middle classes and business was weak. Extensive market deregulation and privatisation in the 1980s served to consolidate what Harrison (2006: 109) describes as, 'a new political class that reproduces itself through 'neo-liberal clientism'. The corrupt disposal of state enterprises, leakage of finance from large banks and corruption in procurement as well as plunder in the Congo and elsewhere have all been essential elements in the way the new 'champions' of neo-liberal reform have reinforced the politics of ethnic allegiances, patronage and corruption.[2] No sign of any 'relatively autonomous' state apparatus appeared on the horizon to put an end to this ongoing logic of disorganised capitalism nor any progressive middle class alliance able to get its hands on power. (Harrison 2005, 2006; Van de Walle 2001; Tangri and Mwenda 2001).

In Latin America and Philippines, neo-liberal reformers confronted landed or industrial oligarchies and systems of populist patronage politics where conflicts over the rules that govern markets also involved corporatist or nationalist dictators or forces of radical populism. However, in important cases, selective engagement with neo-liberalism has offered opportunities for new politicians break the cycle. Neo-populist politicians[3] saw fiscal austerity policies, privatisation programmes and trade and investment reforms as an opportunity to undermine entrenched elites and to construct new political bases in league with provincial and middle and lower ranking classes together with emerging corporate and financial interests. (see Weyland 2003). Such neo-populist democracies dispensed with earlier forms of corporatist alliances, including with labour unions, constructing plebiscitary relationships with the unorganised poor and formerly marginal elements of the lower middle classes. This anti-organisational bent, argues Weyland (2003: 1098), has important affinities with neo-liberalism. "As populism wants to protect the unity of the people against politicking factions and selfish elites, so neo-liberalism seeks to protect the equilibrium of the market against the machinations of mercantilist rent-seekers".

While the Latin American cases and that of the Philippines can be seen as typically characterised by powerful business or landed oligarchies determining the flow of rents from a largely incoherent bureaucracy (patrimonial oligarchy), in other systems, power resided, at least in the early stages, with a class of office-holders who were the main beneficiaries of rents extracted from a politically disorganised business class. From a Weberian perspective, the creation of a modern rational state is claimed more likely in the latter model where the state is assumed to posses the autonomy to impose reform and nurture a private sector more likely to tire of the uncertainties of rents and seek more formal modes of economic governance. In contrast, it is argued that in patrimonial oligarchies economic growth reinforces the power of social oligarchies resistant to reforms that would break up rent-seeking coalitions and impose general rules on business (see Hutchcroft 1998: 45-64). Yet, assumptions about the autonomy of the state and the potential for progressive action on behalf of state or business in administrative patrimonial states have proven to be illusory.

In North Africa and the Baathist states of the Middle East, neo-liberal reforms have enabled a reconstruction of former nationalist regimes through alliances with rent-seeking bourgeoisie and large landholders, now the beneficiaries of privatised state assets and the liberalisation of the land market. Without any interest in democracy or political participation these have supported repressive state apparatus in defence of their interests against dispossessed lower classes (King 2007). Such a pattern is also important in mainland Southeast Asia. In Thailand, the rise of private capital as a political power was enhanced by deregulated global and domestic financial and banking systems and the stock exchange in the 1980s and 1990s, enabling a new raft of business interests to consolidate themselves outside the sphere of the big Sino-Thai banks in finance, property and telecommunications (Lauridson 1998; Hewison 2006). Fitful episodes of democratic reform stretching back to the 1970s enabled these private interests to outflank the formerly dominant state bureaucracy and press their interests more directly through a pervasive system of money politics; to become the financiers of parties rather than the clients of bureaucrats (Anderson 1990; Hewison 1993).

In Indonesia, Soeharto's rise to power in 1965 and 1966, involving the destruction of the communist party and new agreements to open Indonesia to global markets, was widely seen by neo-liberal economists and Western observers as a triumph of rationality over politics. However, despite the prominence of Western trained technocrats in key economic ministries, construction of the new market state lay in the hands of a military embedded not only within a pervasive apparatus of security and repression but in a vast network of state-owned enterprises that stood astride the commanding heights of the economy. With monetary and fiscal stability under control, new inflows of aid, loans and investment as well as growing oil revenues were used initially to extend state capitalist investment into grand projects for downstream manufacturing (Robison 1988). At the same time, liberal middle classes were offered no entry into the political world except as functionaries of the regime. The ideology of technocratic development provided ongoing legitimacy for a centralised system of unaccountable authoritarian rule (Moertopo 1973).

A second phase of market deregulation that began in the early 1980s was widely attributed to the collapse of oil prices and the need to generate new sources of state revenues and foreign earnings. A more compelling factor, however, was the incubation, over the previous decade, of private business interests within various state-sponsored monopolies that linked large Indonesian Chinese business groups with the families of powerful politicians and officials, notably the Soeharto family itself. For these interests, the state that had nurtured their growth now became a constraint on their new commercial ambitions. State monopolies in media, banking and public utilities promised lucrative opportunities for the next stage of their development. In other words, the market reforms of the 1980s and 1990s signalled a takeover of state capitalism by this politico-business oligarchy. This was far different from the expected rise of a private sector increasingly tired of arbitrary authority and seeking orderly markets. It was a process of privatisation without liberalisation and was thus highly selective in its application. Domestic trading and manufacturing cartels were preserved while the newly opened finance sector was to be unconstrained by rules about intra-group lending and capital adequacy ratios and no distinction existed between lenders and borrowers. Public monopolies were transformed into private monopolies while key state enterprises became the conduits through which state funds haemorrhaged into private hands by subsidising the costs of their activities and providing discretionary credit. Market reforms had enabled the rise of a new oligarchy of military and business families who expropriated the old state capitalist system while retaining its repressive and patrimonial apparatus to guarantee their new ascendancy (Robison and Hadiz 2004).

The introduction of market reforms has also generated unexpected political outcomes in former communist countries. While the market experiment in China has been characterised by a state orchestrated metamorphosis of officials and public enterprises into an emerging private oligarchy, a quite different programme of 'shock therapy' was implemented in Russia to introduce radical market reforms that resulted in vast swathes of the state sector pass into private hands almost overnight. While the IMF and its allies within the Russian technocracy may have seen such reforms as a functionally rational response to ongoing economic decline, their evolution was shaped by the requirements of the new political alliances. Beleaguered Prime Minister Yeltsin needed not only quick money to fund his election in the face of a seemingly resurgent communist party but to make sure that the economic apparatus of the former regime could not be regained and used as a power base. Thus, the loans for assets deals of the early 1990s, made possible in the context of new, market-based financial sector reforms, created a system of private oligarchy that was to be governed, initially at least, by violence and murder presided over by gangsters and mediated within a highly corrupt state bureaucracy (Volkov 2002; Oversloot 2006).

However, by the late 1990s, many of these regimes and the alliances that underpinned them appeared to be experiencing difficulties. In Africa, predatory regimes presiding over deepening poverty and political dislocation were forced to accept new aid programmes based on guarantees of good governance as prerequisites for ongoing assistance (see Hout, this volume). In Asia, economic crisis was widely seen as signalling the ultimate triumph of markets and the end of those regimes that had refused to embrace its disciplines, victims of the leaderless herd of currency dealers and funds managers that panicked and fled when governments attempted to override the logic of the global market (Friedman 1977). The door was opened for the IMF to impose unprecedented programmes for reforms in governance in return for huge financial bailouts in Thailand, South Korea and Indonesia. By the late 1990s it seemed that many of the political and economic oligarchies that had flourished in the early years of markets had reached the limits of what might be seen as the robber baron era of capitalism.

2.3 Crisis and the Consolidation of Illiberal and Predatory Regimes

Entrenched regimes have displayed remarkable resilience in the face of crisis and intensive efforts to impose change through institutional reform. Corruption remains endemic despite intensive governance programmes, including special corruption watchdogs, arms-length procurement practices, capacity training for officials and remuneration strategies have met with limited success. [4] Many of the attempts to weaken centralised state authority in favour of markets and achieve greater economic and political competition through democratic reform and decentralised administration often provided new avenues for the consolidation of powerful oligarchies through money politics (see Hadiz 2004, 2007; Bardhan 2002). Even where progress has been made in the reform of economic institutions such as property rights and transparency, this is not always reflected in similar reforms in politics and governance (Rodan 2006a). How, then, have the various state and private oligarchies managed to preserve the political ascendancy constructed during the early phase of market transition?

The nature of business-state alliances

Neo-liberals had expected institutional reform and ´good governance´ to emerge spontaneously as rational individuals were forced collectively to address the problems of transaction costs and information deficits generated by the market. Anatoly Chubais, the architect of the 1990s shares for loans privatisation that opened the door for the emergence of Russia's oligarchy, claimed that despite the chaos, corruption and inequity that accompanied it, not only was 'shock therapy' the only possible way of creating private property but that the oligarchs that emerged would themselves increasingly tire of the arbitrary and discretionary authority that made their ascendancy possible and see that moving on to the next stage requires a system based on rules that ensure their general interests (cited in Ostrovsky 2003, 2004). Yet, while the penetration of global financial and capital markets has extended Western corporate cultures and practices among relatively small professional and managerial elites in Russia and elsewhere there has been no widespread rise of an increasingly progressive and confident bourgeoisie on behalf of neo-liberal forms of governance. Indeed, it is the accommodation of business elites within highly illiberal alliances and modes of governance that has been definitive.

In sub-Saharan Africa, political elites generally preferred to accumulate wealth through intensive pillaging of public resources rather than transforming themselves into substantive new business oligarchies. Enthusiasm among Western governments and donors for new champions of reform in countries like Kenya and Uganda evaporated as the vast networks of corrupt officials and politicians and old forms of ethnic politics and state patronage continued to tighten their grip on economic and political life. Desperate attempts to solve the problem by imposing performance pre-requisites on the allocation of aid or addressing issues of managerial efficiency and governance within the state apparatus have foundered on the fact that the state itself and its apparatchiks are the essence of the problem. (Harrison 2006). Elsewhere, though, the private sector has played a more important role, although not as drivers of neo-liberal reform but as allies of regimes and state elites within populist or authoritarian systems of rule.

In Latin America, there has been a surprising accommodation of private business within regimes that are politically based among the poorer and previously excluded elements of society and which have played leading roles in the opposition to neo-liberal pushes for reform of global markets. Such increasingly close relationships have been possible, according to Weyland (2003: 1113), because the mediocre performance of the new market model has lessened the resources available to sustain the populist strand of rule and because, in any case, widespread acceptance of the market model and diminishing political conflict has allowed leaders to focus on ‘pragmatic solutions to concrete problems’. In other words, there has been a seemingly strange accommodation of welfare agendas with technocratic intervention on behalf of the private interest.

In post-crisis Southeast Asia, notably Indonesia and Thailand, political and private oligarchies managed to survive economic and political collapse by reorganising their power in ways unexpected by the IMF and the World Bank. In the Thai case, business achieved its most complete ascendancy over the state following the electoral victory of the Thai Rak Thai party of new Prime Minister, Thaksin Shinawat. Reacting against the hard line neo-liberal reforms of immediate post crisis governments, beleaguered Thai business interests sought to consolidate its position *vis a vis* the advance of global markets. Policies were put in place to stem the flow of external corporate takeovers and to slow the pace of privatisations and corporate reform. At the same time, the political ascendancy of business was consolidated in an increasingly centralised system of money politics appealing to the poor where a new social contract to draft broad political support included highly populist measures for health insurance and village level grants. In an important sense, the Thai bourgeoisie adopted a Fujimori solution to their problems (Hewison 2005).

In Indonesia, old power relationships between business and the state remained relatively intact after the crisis. Although forced out of sectors like finance and banking, Indonesian conglomerates moved into booming resources and property sectors, retaining the essentially predatory relationships with politicians and state officials albeit within a more diffuse and disorganised state apparatus. Efforts by the IMF and World Bank to reform the judiciary and the state bureaucracy proved disappointing and the World Bank lamented the isolation of technocrat reformers and their powerlessness in the face of vested interests. Technically bankrupted business groups held onto their key assets by emptying their banks and sending the cash overseas, stalling foreign creditors or warehousing their debt with the government agencies responsible for the recapitalisation of banks, and fighting efforts to seize assets or prosecute them by using corrupt courts, effectively socialising the costs of their losses (Hamilton-Hart 2002; Robison and Hadiz 2004: 187-222). Despite the collapse of centralised authoritarian rule and new political and administrative reforms, democratic reform and decentralisation appear to have enabled the same systems of business-state relations to be reproduced, albeit across a wider range of alliances and within a disorganised system of money politics, extending down into the provinces and sub provinces (Hadiz 2004, 2007).

The fate of the oligarchs in Russia has been quite different. As we have seen, neo-liberals expect the future of Russia to be determined by an increasingly mature business community demanding 'good governance'. Analysts operating out of the Marxist tradition also saw in the arbitrary handover of state assets to well-placed individuals, a process nothing less than unconstrained 'primitive accumulation' essential to the early stages of capitalist development. This world of political deals, gangsters and violence would be cured only as the state secured the position of the oligarchs through property rights and via the increasing interest of business in an orderly system of regulated market capitalism (Holdstrom and Smith 2000). However, faced with the prospect that private wealth might spill over into a broader political challenge funded by some of the new oligarchs, notably the head of the Yukos oil giant, Mikhail Khodorkovsky, President Putin moved to recapture the agenda of change. This was a move designed not to roll back the market but to redefine the new market state in the terms of the state itself and to renationalise many of the commanding heights of capitalism.

How do we explain the apparent resilience of these various amalgams of state and business interest and how they accommodate their political ascendancy in the context of deepening market economies? Are these examples of transitional periods of immature or robber baron capitalism (Harris 1989)? Or do they represent different and historically entrenched institutional pathways within which market capitalism itself must be accommodated (Zysman 1994)? Or are these regimes sacrificing growth and prosperity rather than accept institutional reforms and 'good governance' where these may threaten the political ascendancy of ruling coalitions and interests? [5] Do these regimes survive by insulating themselves from global markets and neo-liberal efforts to construct global governance and from the demands of Western governments and donors or by engaging and harnessing them?

2.4 Explaining the Resilience of Illiberal Alliances

In much of sub-Saharan Africa and other poorer regions, the main concern of various regimes is to preserve their authority and the economic and political power of ruling coalitions by resisting or hijacking programmes of institutional reform and 'good governance' driven by international development and financial organisations and backed by Western governments. Such regimes can bolster their bargaining capacity with sources of income and wealth, from oil and mining in particular, providing them with a degree of autonomy from the demands of their own citizens as well as requirements of global governance (Moore 2000; Bates 2007). This leverage *vis a vis* demands from Western governments and donors over questions ranging from human rights to 'good governance' is often enhanced by accelerating Chinese investment where funds carry no demands for such reforms (Watts 2006). [6] However, as Mick Moore (2001: 385) has also argued, the , '…political underdevelopment of much of the South also results from the ways in which Southern states have been created and political authority shaped through economic and political interactions with the wealthier countries of the North'. Foreign involvement in the exploitation of resources and in the laundering and banking of illegal windfalls has benefited many local regimes. As Reno (1997) has shown, some rulers in weak African states have even used foreign firms not only for financial support but to enable them to conduct offensives against old patronage networks and insurgencies and deal with other states and multi-lateral agencies.

However, in other developing economies conflicts over governance can be more complex. Many of these are booming economies protected from the kind of assaults on currencies that precipitated the Asian financial crisis in the late 1990s where they possess large foreign reserves and, increasingly, substantial sovereign funds able to influence investment decisions even in the West itself. The World Bank and, increasingly, the IMF, have limited influence except in exceptional times of crisis where beleaguered governments may seek bailouts and rescues. Nevertheless it is through an engagement with global markets and orchestrated negotiation of reforms rather than through resistance to them, that regimes and coalitions in East and Southeast Asia seek to enhance their political and social power and the forms of governance that underpin them. This is not such a strange proposition. We have already seen how entry into deregulated global financial markets, the progressive adoption of property rights and privatisation of collective or public property has been critical in enabling new forms of power to establish itself within highly illiberal political regimes. At the same time, many aspects of political organisation and governance that define these regimes offer to neo-liberals a critical vision that embodies many of their own central principles, free of the constraints upon private interests that have evolved in social democracies.

a) At the political level, these regimes and models of governance offer a prescription for controlling distributional coalitions, including labour organisations and environmental and welfare lobbies within systems of techno-managerial authority. They can offer models for bypassing representative forms of collective decision-making and contestation through social contracts and participation and citizenship based on functional inclusion (see Rodan and Jayasuriya 2007).

Neo-liberal ideas of governance exhibit a profound ambivalence about democracy informed by the belief that liberal democracies are potential threats to markets and incubators for the tyranny of rent-seeking majorities. James Dorn (1993: 601)of the Cato Institute has argued that, ‘Democratic government is no substitute for the free market’. Hayek himself saw the ideal market state as one that essentially guaranteed individual property rights and contracts, and that might not be a democratic state (1967: 161). Indeed, Western governments and development agencies have been quick to withdraw from support of democratic governments and decentralisation experiments that prove chaotic or hostile to private investors (see Wagstaff 2000), and to support so-called ‘good coups’ against democracies that prove hostile. Neo-liberalism exhibits a preference for techno-managerial forms of governance that redefine the relationship between state and society within *de facto* social contracts intended to free technocratic elites from the debilitating effects of political bargaining with organised rent-seekers in representative organisations like political parties and trade unions. As Rodan (2006b) has pointed out, neo-liberal ideas about accountability and transparency in the market do not necessarily extend into the political arena. It is this emphasis upon controlling distributional coalitions and setting up powerful regulatory capacities that have been central to US efforts at democracy promotion programmes and embody a particular form of what critics have called ‘low intensity democracy’ or ‘liberal authoritarianism’ where the market is removed from the arena of representative politics and constituted within a technocratic and legal status (Smith 2000; Gills 2000). Such ideas as participation and citizenship are understood in terms of functional co-option into market society rather than in terms of collective rights to contest political agendas embodied in classical liberal or social democratic thinking (Jayasuriya 2005, 2006; see also Carroll, Hatcher, this volume).

The idea that some form of techno-managerial governance may substitute for liberal democracy in the modern market state is illustrated in the mixture of admiration and disapproval with which neo-liberals regard Singapore. At one level, Singapore is criticised by business lobbies in US and in 2006 by no less than former World Bank Head, Paul Wolfowitz, for its opaque systems of information and transparency and for the way the state continues to play a key role in investment and shaping national economic strategies. Nevertheless, as Rodan (2006b) points out, the fact that Singapore regularly appears at the top of tables of economic freedom produced by various market-oriented foundations and by the *Wall Street Journal* clearly illustrates the attractions of a form of government that can guarantee to private investors high levels of stability, quality infrastructure and also contain demands from distributional coalitions, including pressures for collective social goods.

We also see, in the case of Indonesia, nostalgia among neo-liberal scholars for the highly centralised form of techno-managerial rule of the former Soeharto regime which is seen to have provided certainty and enforcement of property rights, albeit for what was often a favoured few. By contrast, the current democratic regime, beset by the rise of public participation and parliamentary process, offers no such certainty for investors (Duncan and McLeod 2007). It is a sentiment echoed in the business community. Comparing China to Indonesia, for example, Vice President (and prominent businessman), Jusuf Kalla, recently observed, 'China's strength is that it can plan and implement. Our system, which is too democratic with too much individual freedom that often disregards the rights of others, has made it difficult for us to build infrastructure … As long as individual right is above public responsibility, we will not progress... That's the only problem we have now' (Suparno 2007).

b). At the level of economic regulation and governance, these regimes provide opportunities to step outside some of the regulatory constraints on financial markets, health and environmental standards, labour relations, ethical provisions exist in residual social democracies in the West.

Neo-liberalism is not only about markets, it also focuses on the primacy of the private interest. While these are assumed to go together there are often important divergences as private interests and market ideologues, partners in the neo-liberal revolution of the 1980s, disagreed over the limits of regulation (Robison 2006b). Within the US itself, critics within the neo-liberal camp, including in the fundamentalist Cato Institute began to talk of a conflict between the rich and the markets (Zingales and McCormack 2003). It was a rift fuelled by increasing scandals relating to corporate governance, accounting practices and the operation of capital markets within the US that came to the surface, including in the cases of Enron and World.Com. This conflict has extended into the developing world as investors and financiers who benefited from the deregulation of global markets now find selective benefits in forms of governance that enable looser regulation of private interests in the context of strong political guarantees against collective social demands.

Despite ongoing problems of 'bad governance' including rampant corruption, flows of investment and loans have continued to make their way into developing and post-crisis countries from the West. While the ideologues of the neo-liberal idea, saw governance in terms of the principles of markets and the regulatory state, for much of the business community in the West, their enthusiastic embrace of the neo-liberal regulatory state in the 1980s was based on the promise of open global markets while 'good governance' largely meant keeping distributional coalitions (or at least those which threatened private commercial interests) out of the equation and reducing the influence of welfare, labour and environmental lobbies over government policy. The conflict between the need for protection of their collective interests in property rights and regulation and the opportunistic promise of in private advantage in the market is illustrated in ongoing pressure from business lobbies, particularly in the US, to resist regulation of the financial sector and to water down attempts to impose various health and energy standards on investors (cf. Simpson 2008). Globalisation, ironically, has therefore meant an opportunity to seek competitive advantages within different systems of governance, looser regulation and where taxes and labour costs are kept low by political means.

In this situation the problems of dealing with corrupt officials and judges are set against the potential bonanza offered by the capture of rents. The willingness of investors from the West to take large risks was illustrated in the financial feeding frenzy that directed huge flows of funds into increasingly speculative Asian markets in the years preceding the Asian economic crisis (Wade 1998; Kristof and Sanger 1999). Lending to grossly over-extended corporations and dealing with new financial institutions where the distinction between borrowers and lenders was blurred at best and often defined by insider loans that contravened normal legal lending limits appeared to present no problems to investors. Opportunistic and speculative business empires arose within the region on the back of these massive and imprudent global financial inflows, not only in the new banking and financial sectors but also in areas like property, infrastructure and construction (Robison and Hadiz 2004).

So long as the rewards were high and governments presumed able to politically guarantee speculative ventures and property rights, pervasive corruption could be factored into the risk calculations and there were few qualms about the absence of level playing fields. These risks were lessened where they could be offset by hedging through complex derivative instruments and by the direct support of Western governments anxious to enhance national commercial activity and economic hegemony. Within the US, critics within the neo-liberal camp itself claimed that the IMF had descended into bailing out imprudent investors rather than allowing them to face the consequences of bad decisions. One editorial in the *Asian Wall Street Journal* characterised the IMF as nothing less than a form of socialist international (1997). US, Japanese and European import export banks also provided billions of dollars in loans to assist their corporate champions in the feeding frenzy in the booming infrastructure sector in the 1990s, even though it was well understood that the allocation of contracts invariably involved the corrupt allocation of tenders Western governments have assisted investors from attempts to cancel contracts by domestic reformist governments on the grounds of defending property rights (Robison and Hadiz 2004).

But would the disciplines of the market driven by the panic of Friedman's anonymous herds of currency dealers and funds managers inevitably foreclose on such activities? Did the Asian economic crisis, as a definitive example, not represent the day of reckoning for those who had flouted the rules of market responsibility? As the dust cleared in 1998 and 1999 the central problem became one of dealing with the numbers of insolvent banks, the array of companies paralysed by debt and those that had defaulted on loans. This was an ideal opportunity to establish the instruments of 'good governance' as banks were recapitalised, debts re-scheduled and effective court systems established to handle problems of bankruptcy. Against these pressures, domestic private businesses caught up in the volatile currency crisis saw their way out through defaulting on loans, liquidising their assets and fleeing from local currencies, and where possible forcing governments to bear the cost of their debts, buying back in at lower prices in the future. It was assumed by reformers, including the IMF, that abrogating the central principles of business, companies and governments involved would find difficulty attracting further loans or investment. Yet, for the most part, global private investors have returned to capital markets and to private borrowers even where the evidence of reforms in governance, including in the court systems, are missing.

In a sense, the problem of convergence can be restated. Rather than a convergence towards free markets and liberal forms of democracy and legal rational forms of authority, there is also a convergence where neo-liberal ideas about the market state are accommodated within highly illiberal forms of political authority and within forms of regulation that see the market in terms of the interests of its most powerful players.

Notes

[1] I would like to thank Kanishka Jayasuriya and Garry Rodan for insightful comments of earlier drafts.

[2] These include such figures as Museveni of Uganda, Rawlings of Ghana, Chiluba of Zambia and Muapa of Tanzania and Kibaki of Kenya.

[3] Among these are Alberto Fujimori in Peru, Carlos Menem in Argentina, Carlos Bolona in Peru, Miguel Rodriguez in Venezuala and Fernando Collor in Brazil

[4] It has often been the best remunerated and trained sections of the civil service, including in the financial ministries and central banks, that have been at the heart of many financial scandals (see, for example, Hamilton-Hart 2001). Applying salary increases for civil servants to reduce incentives for corruption and the costs of being honest is a popular strategy for changing behaviour by institutional means among neo-liberal political economists (see, McLeod, 2005). But this assumes a short term rational choice calculation that ignores the role of corruption as a cement for wider political and social relations. As Harrison (2005: 252) has observed, higher pay scales have simply fed into existing systems of clientalist and informal politics in many African countries.

[5] The preparedness to cling onto power through increasing repression as economies unravel has often been the pattern in sub-Saharan Africa, illustrated in its starkest form in the case of Zimbabwe (Kransdorf 2006).

[6] These became, for example, the basis of Chad's refusal of World Bank demands that it restrict the use of its loans for development programmes rather than for arms purchases (Massey and May 2006) and the continuing ability of Sudan to chart an independent course in economic and geo-political strategy. Former World Bank Head, Wolfowitz, has expressed concern that Chinese bank loans, particularly in Africa, could undo the objectives of debt forgiveness programmes introduced by the West by opening opportunities for further plunges into debt (Crouigneua, and Hiault 2006). In Southeast Asia, too, the surge of investments from China, Singapore, Malaysia and Taiwan (see, Watts 2006; UBS 2006) bring quite different implications for the broader politics of governance in that region.