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Transplanting The Regulatory State In Southeast Asia:
A Pathology Of Rejection

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When the 1997 Asian financial crisis brought down many of the so-called miracle economies it dealt a seemingly fatal blow to those claims about the functional superiority of ‘Asian capitalism’ and expectations of an immanent Asian Century that had been so central to the rhetoric of many Asian political leaders in the previous decade.¹ For neo-liberal reformers within the World Bank and the IMF, and in the Treasuries and Finance Ministries of Western governments, the crisis confirmed that the various models of ‘Asian capitalism’ were in fact outmoded and dysfunctional in an age of global markets. Convergence, once again, became part of the vocabulary of policy-makers in the West as Asian governments were urged to eliminate cronyism and embrace the natural efficiency of the market (e.g. Camdessus, 1997 and Friedman, 1997).²

¹ In the Asian Values debate it had been proposed that managed markets, social discipline and political order serving the communal interest was proving functionally superior to the divisive and individualistic institutions of Western liberal capitalism. See, for example, Mahathir Mohammed (1995), Zakaria (1994). For a broader critical analysis, see Robison (1996) and Rodan (1996).

² For an analysis of neo-liberal realism see Jayasuriya and Rosser (1999).
The crisis also greatly strengthened the political leverage available to neo-liberal reformers, particularly in such countries as Indonesia, Thailand and South Korea, where beleaguered governments now struggled to contain fiscal crisis, economic contraction and widespread corporate bankruptcy. The IMF now provided huge rescue packages released in tranches conditional on the implementation of various reform measures aimed at deregulating markets, privatising state sectors and imposing fiscal austerity; the key policy ingredients of the Washington Consensus. Even in those economies that did not fall into the hands of the IMF in this way, there were necessary reassessments of whether some type of market reform might be a necessary consequence of the dramatic changes taking place in the global economy. This was the case in Singapore.

Neo-liberal reform agendas were not just about markets. They necessarily sought fundamental transformations in systems of state power and governance, spelling the end of the strategic interventions of the developmental state through industry and trade policy and the discretionary interventions of predatory state power through various clientalist mechanisms (cronyism). For neo-liberals, market capitalism required that the function of the state must change from controlling the gateways of the economy and allocating rents to that of regulating and facilitating an abstracted market driven by its own laws. The regulatory state was envisaged as a state where ‘technopols’ would be able to get on with the job of creating rationally efficient policies and institutions insulated from the raids of predatory alliances and the demands of vested interest.

At one level, neo-liberal reforms included privatisation and deregulation measures aimed at dismantling the power of the state to intervene in the economy, thus supposedly removing the very basis of rents. At the same time, reforms to constitutions and institutions of state power were aimed at insulating the administration from outside influences that might impede ‘rational’ policy making. Reform packages included programs for ‘good governance’ that included market-based schemes to limit the discretion of state officials, increasing the independence of central banks and the judiciary from the political apparatus, contracting out state functions, introducing regulation that separates officials from bidders in procurement and contracting and making rules more transparent (World Bank 1991 and 1997). Even if the process of getting there might be political, and it was recognised that there would be winners and losers, the ultimate aim was to empty the state of politics and to replace it with a notion of ‘governance’ conceived as a technically rational and abstracted process.

There is no doubt that entrenched political and business interests have found it increasingly difficult to operate in the old way and to maintain intact existing

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3 The term ‘Washington Consensus’ was coined by Williamson (1990) in the view of the IMF, state intervention in financial and trade regimes, budget deficits and large state sectors had created the conditions for ‘Crony Capitalism.’

forms of state power, especially in Thailand, Indonesia and South Korea, where the political frameworks and global financial markets that had glued together and papered over fragile economic regimes began to come apart (see Cummings 1999 and Robison and Rosser 2000). Yet, the triumph of the neo-liberal regulatory state has been ambiguous and inconclusive. Even where the path of the crisis was most destructive, attempts to reorganise banks and financial regimes, to transform systems of corporate governance and to replace systems of money politics with representative forms of political democracy has been bitterly contested. In Singapore, attempts to introduce new strategies of accommodation to the dramatic transformation of global markets were carried out within the existing structures of the developmental state.

These apparent paradoxes raise important questions about the underlying relationship between markets and states; between the evolution and globalisation of capitalism and the processes of institutional and regime change. Is it simply that convergence is a long and drawn out process or can market capitalism survive and even flourish in a range of different institutional frameworks? The principal research question in this paper, then, asks how state power has been reconstituted in Thailand, Singapore and Indonesia and why the neo-liberal regulatory state has not triumphed.

CONCEPTUALISING THE PROBLEM: THREE PARADIGMS

In the choice-theoretic approaches of neo-classical economics, it is assumed, at its simplest level, that utility-maximising individuals emerge spontaneously to address their collective action dilemmas, creating institutions that deal with transaction costs and imperfect information that arise as markets change and prices alter (North 1994). In this abstracted telos of efficiency, questions of power and conflict are absent and even the notion of the state is nowhere to be seen. Continuing resistance to market capitalism and to the regulatory state after the crisis was puzzling where it had been assumed that economic shocks resulting from crisis would force a process of leaning that would result in policies that addressed issues of efficiency. Yet, bad times brought neither 'good' policies nor a regulatory state.

As expectations of a frictionless transformation were disappointed, rational choice political economists introduced politics into the neo-liberal equation. Realising that markets were far from self-regulating, they proposed that deregulation in itself was not enough and might play into the hands of predators and rent-seeking coalitions where the institutional framework was weak (Stiglitz 1998a). Hence, the failure of the neo-liberal agenda was explained in terms of a failure of institutions and of the capacity of the state to insulate its ‘technopols’ from rent-seeking coalitions. This translated into a political agenda designed, ironically, to free the state of ‘politics’ and subordinate the rationality of politics to the rationality of economics; to create a form of technocratic and even anti-democratic rule.
Where did social power and interest enter the equation? Neo-liberals became increasingly aware of the substantial lack of enthusiasm and even opposition to their agendas coming from within the broader society. This was understood, not as the product of opposition to the social implications of neo-liberalism but as a fundamental weakness of ‘social capital’; that set of values, norms and networks in society that would support markets (Stiglitz 1998b). Hence, building social capacity and incorporating NGO’s and other groups within the neo-liberal umbrella was added to the building of the institutional capacity of the regulatory state as a second central pillar in the neo-liberal agenda.

The struggle to transform institutions was understood differently within the broad camp of historical institutional theory and by many statist political economists. In a world where markets are not abstract mechanisms driven by their own internal laws but the constructions of politics and governments, liberal market capitalism and the regulatory state are conceived as the evolving products of a specific Anglo Saxon historical trajectory and embody the immediate national interests of American capitalism (see Wade and Veneroso 1998 and Weiss and Hobson 2000). In a global clash of different capitalisms, the failure of the regulatory state becomes the pathology of a rejected transplant unable to survive in the alien environment of a different historical institutional pathway. Indeed, Wade and Veneroso argued that hasty and imprudent attempts to impose liberal financial and political regimes only led to disaster as they ruptured established and working high-debt models that underpinned the economies of Northeast Asia (Wade and Veneroso 1998).

This is a seductive view and one that neatly captures the way institutions resist over time and through traumatic changes. But its benign view of institutions as the product of incremental change within cohesive social amalgams gives a false sense of immutability. Such a view does not account for the bitter conflicts and violent shifts that have propelled and defined change in Indonesia and Thailand, for example, in the past decades. Similarly, liberal markets and the regulatory state are hardly the ‘natural’ historical expression of Anglo Saxon capitalism but have emerged in prolonged struggles between those alliances supporting the social democratic agenda and those powerful interests in America and Britain seeking to dismantle and to escape those representative systems, environmental and welfare lobbies, tax regimes and organised labour that have been part of social democratic tradition.

The point is that the institutions that shape economic and social life are forged in conflicts between shifting and fluid coalitions of state power and social interest. Institutions are more than mechanisms for resolving the collective efficiency dilemmas of individual actors, they are about the concentration of power and its allocation (Chaudhry 1994 and 1997). At stake is nothing less than a social order. This is why the beneficiaries of the old order will resist institutional reform even where the economic costs are high if it threatens their social interest and political authority (Bardham 1989). In this view, the crisis is

5 For a critical look at the influence of social capital see Fine (2001).
6 A clear statement of the historical institutional position is Zijdeman (1994).
significant, not because it demonstrates the inherent inefficiency of entrenched economic regimes and states but to the extent it has fractured and weakened those coalitions underpinning developmental and predatory systems and created opportunities for the building of neo-liberal coalitions.

The formation of these coalitions is not an abstracted or timeless process. They are decided in the specific context of an evolving global capitalism which not only shifts the configuration of power itself as new classes emerge and others decline but changes the very issues and questions around which conflict is focused; questions about the legal framework of property rights, about regulation and public administration, the opening of financial and capital markets and trade regimes, rationalisation of production through outsourcing and sub-contracting, and the introduction of new technologies. Our primary questions are two. Why has neo-liberalism failed politically to mobilise and organise coherent and effective coalitions around its agenda? Second, how have those state and social interests, the beneficiaries of existing or previous regimes, managed to preserve or reorganise their ascendancy and to accommodate the political and economic challenges of the post-crisis era?

It has been argued that the crisis (and previous crises) have liberated naturally progressive and ‘overdeveloped’ middle classes and capitalist interests nurtured within various systems of nationalist, predatory or state capitalism but for whom these have now become a constraint. Now theoretically requiring free access to global markets, rule of law and an end to arbitrary authority, they become the potential beneficiaries of neo-liberal reform and the regulatory state (Harris 1988). Do the difficulties of the neo-liberal project now mean that these interests have not evolved as expected: a continuing weakness of a ‘progressive’ middle class and bourgeoisie or the underdevelopment of a civil society?

The answer lies, not in their absence or weakness of these interests, but in the disjuncture between neo-liberal agendas and the usual suspects of ‘progressive’ politics. If we un-package the neo-liberal juggernaut, we find support in Indonesia and Thailand from those apparatchiks and managers in the state sector, marginalised from the sources of predatory power and for whom authority comes from the promise of insulation that is part of the managerial revolution and the regulatory state. While various middle class forces in Indonesia and Thailand saw the IMF as a means of pursuing their assault on arbitrary state power and the ascendancy of predatory leagues of oligarchs, their commitment to markets has been less certain and their support for nationalist and populist appeals strong. Basically, while the crisis may have precipitated the fall of a government in Thailand and of an entire regime in Indonesia, the apparatus of the state and that ensemble of power relations embedded within it has remained intact even where new political institutions have emerged and where old elites must now reorganise themselves within expanded social alliances.

For the most part, domestic capitalists have had little choice but to fit in with the new framework. Just as it was in Thailand over a decade ago, this has been
smoothly achieved in Indonesia. Most important, within the core of international business there is an ambiguous support for the ideology of the IMF. In a more pragmatic assessment, political order assumes a priority over systems of governance that are accountable and transparent and over democratic transition in the immediate tasks of enforcing property rights, removing obstacles to investment and sweeping away distributional coalitions. After all, big global corporate players flourished under authoritarian rule in pre-crisis Asia and within highly protective and predatory economic regimes. It is the uncertainty and disorder of economic life in post-crisis Asia that is disturbing, not the absence of liberal institutions.

Rather than institutional reform driving a reorganisation of power and interest, entrenched interests have reorganised themselves to give life to the new market economies and political democracies that have emerged in the wake of the crisis. The question is, how have they done this and what sort of markets and what sort of states will follow?

THE CASE STUDIES

Singapore, Thailand and Indonesia represent widely different responses to the crisis. In the latter two countries, financial crisis had extended into a destructive cycle of corporate and political collapse and direct intervention by the IMF. In Singapore, the state remained intact, responding to structural pressures for change rather than any instrumental imposition of policy and institutional reform. But these were not the only differences. In Indonesia and Thailand, the main concern of the IMF was not only deregulation and fiscal constraint but the reform of a system of state-business relations based on the discretionary allocation of state monopolies, resources and guarantees. In the case of Singapore governance and regulation was not the central issue. If ever there was a model of the regulatory state and rule by technopols, it was Singapore. But it was not a neo-liberal regulatory state. Here, the pressures were not for ‘good governance’ but for market deregulation and the shedding of state ownership.

Singapore

The impact of the 1997-98 Asian crisis on Singapore was severe. Economic growth plummeted from an impressive 8.4 per cent in 1997 to just 0.4 per cent in the subsequent year. The immediate policy response was swift and included a fuller embrace of economic deregulation and liberalisation. Initial economic recovery was dramatic, with Singapore enjoying 10.3 per cent growth in 2000. In the following year, though, the economy shrank by 2.0 per cent in the worst recession since Independence in 1965. The same acute export dependence on the US economy by the electronics sector that had underwritten the sharp recovery had just as rapidly set the economy back.

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7 For one account of the way some business was reorganized in Thailand in the 1980s, after the fall of authoritarian rule, see Anderson (1990). Another perspective is seen in Pasuk and Baker (1997).
Before these crises, two recurring themes across the theoretical spectrum of literature on Singapore were discernible. The first acknowledged the state’s pervasive economic influence. Although there were serious differences over whether this was exercised to facilitate or shape market outcomes, the fact of a pervasive state was not in question. The second was the idea that policymakers in Singapore enjoyed an exceptional degree of insulation from effective political pressures by capital or labour and that this was positive for development. However, in the face of economic crisis, the developmental state model has been the subject of unprecedented critical scrutiny in Singapore and attention has focused on just how Singapore’s technopols will respond over the medium term.

In initial observations on the 1997-98 Asian crisis, Linda Lim (1999: 13) argued that ‘unlike Hong Kong, Singapore’s political leaders have decisively reaffirmed their commitment to open markets, free capital flows, and integration into the global economy’. She emphasised the importance of the relative autonomy in government economic decision making to this direction, adding that ‘policy remains guided primarily by considerations of economic efficiency and, ultimately, electoral accountability’.

However, social conflict theory underlines that the political autonomy of policy elites by no means amounts to the removal of interest or politics from the policy process. To understand the policy choices of technopols, it is thus necessary to analyse the political, material and ideological interests affecting their decisions. In the case of Singapore, economic crisis has combined with structural changes in the global economy to foster a major reassessment of how best to protect and advance those interests. A partial embrace of neo-liberal economic reforms may not only be compatible with that objective, but functional for it.

The seriousness of economic crisis led to the establishment in late 2001 of the Economic Review Committee to finds ways to ‘upgrade, transform and revitalize the economy’ (Restall 2001: 11). Headed by Deputy Prime Minister Lee Hsien Loong it is due to make final recommendations in September 2002 and the government has raised expectations that it will significantly extend the liberal economic reform agenda. However, this is not the first official promise of a major overhaul of the developmental state in response to external economic shocks. Similar noises were made in the mid-1980s that thereafter only saw a consolidation of the state’s economic control (Asher 1994 and Low 1998).

Directly or indirectly, the state accounts for around a quarter of Singapore’s domestic economy (US Embassy 2001), with government-linked companies (GLCs) and statutory bodies dominating its commanding heights.8 Much of this investment is conducted through the government’s holding company, Temasek Holdings, which handles in excess of S$60 billion – a sizeable portion of which

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8 GLCs account for nearly half of the 20 largest listed companies and 41 per cent of those on the local Straits Times Index (see Burton 2002). They are spread across nearly all sectors, including banking, telecommunications, transport and electronics.
is exempt from meaningful public reporting. GLCs also accounted for as much as 60 per cent of Singapore’s foreign investment in 1998 (Lian and Chung 2001). Here the activities of the secretive Government Investment Corporation of Singapore (GIC), which controls more than S$100 billion of Singapore’s reserves, are especially important (Rodan 2000: 223-4).

Yet Singapore Inc. and the wider economic role of the state embody not just economic might but also power relations critical to the PAP. State control of capital and resources underscores political paternalism central to the authoritarian regime. Moreover, state capital has created something approaching a new establishment of political and economic elites (Worthington 2002). Past and present government leaders and their relatives, as well as former senior military commanders have joined a select group of politically trusted senior civil servants as either directors or executives of GLCs (Tan 2002).

Prior to the Asian crisis, the PAP had been promoting offshore investment by Singapore-based companies in what it depicted as the development of an ‘external economy’. This was led by cash-rich GLCs, for whom new capital accumulation opportunities outside the limits of a city-state economy had become necessary (Yeung 2000). But by the time the Asian crisis hit, government leaders had drawn a number of conclusions about the implications of the changing global economy for the ambitions they harboured for the further internationalisation of the GLCs and the upgrading of the Singapore economy. Linda Low has described the resulting policy direction as a new phase in the ‘retooling of the developmental state’ (Low 2001).

The government’s thinking was spelt out in Prime Minister Goh’s 1999 National Day Speech. After emphasising that globalisation was an irresistible force, Goh emphasised the need to build ‘world-class Singapore companies’ (Goh 1999). He added that: ‘We should now go global by forming strategic alliances or mergers with other major players. Indeed, we have no choice – where the industries are consolidating worldwide, we either become major players, or we are nothing’. These strategic alliances were essential, according to Goh, for ‘organisational strength, technology, access to global markets, and a worldwide network’. The internationalisation of Singapore-based companies was presented as a crucial element in the transition to a knowledge-based economy.

The speech was followed by a spate of major offshore initiatives from leading GLCs. This included setbacks in Hong Kong, New Zealand and Malaysia due to concerns about the political character of Singapore Inc. companies (Rodan 2001: 158). The successful Singapore Telecommunications (SingTel) A$17.2

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9 Temasek has about 80 key companies under its direct control, but interests in more than a thousand overall.
10 The dispensing of rewards is the most obvious dimension of this. But the potential for political discrimination in the administering of access to those resources – whether it involves commercial contracts, employment opportunities or public housing upgrades – is also involved.
billion takeover of Cable & Wireless Optus Limited in Australia was a protracted
counterpartial affair for the same reason. Deputy Prime Minister Lee
acknowledged that perceptions of Singapore Inc. ‘can unnecessarily politicise
and complicate mutually-beneficial commercial deals, strategic alliances or
mergers and acquisitions’ (cited in Lee and Koh 2001). Little wonder the
government tried to encourage the idea that major changes were in the pipeline.

Meanwhile, policies to increasingly liberalise and deregulate banking, services,
telecommunications and power unfolded. Admittedly, the Singapore
government was coming under pressure from the WTO to open up access to
domestic markets. It also faced challenges to domestic market protection in
negotiating bilateral Free Trade Agreements with various countries, especial the
United States. But in voluntarily bringing forward by two years changes
scheduled for the telecommunications sector it also appeared to have made a
realisation: that forging strategic alliances could not be achieved if key global
players were blocked from entry to domestic markets. Improvements to
corporate governance regimes also transpired, although these do not
fundamentally encroach on the operations of the GIC or large parts of
Temasek’s operations (Rodan 2001: 158).

However, reforms thus far seem only to have whetted the appetite of
international capital – especially international finance capital – for more
substantive changes. Exploiting the severity of the economic recession and
official rhetoric about the knowledge-based economy, the case for privatisation
and or a more level playing field in the domestic economy has, by the city-
state’s standards, been advanced with unparalleled vigour. The developmental
state has been explicitly attacked as antiquated and counter productive. Private
sector economists within brokerage firms and other investment houses have
been at the fore of this campaign.

Reports by Daniel Lian of securities firm Morgan Stanley Dean Witter have
been particularly influential, striking a chord with various interests aligned to a
retreat of the state from the economy (Lian 2000). Among his policy
recommendations are increasing private consumption and lowering national
savings, and ‘de-linking GLCs from the government’ (Lian 2001). Lian
contended that returns by GLCs had ‘been poor in the past decade despite
impressive economic growth and a substantial improvement in corporate
governance’ (cited in Webb 2001: 10). GLCs, he asserted, should only expand
assets if that boosts value and returns to shareholders, and not simply to fulfil
‘any government-mandated mission to expand the external economy’. Other
reform prescriptions include handing over of around S$62 billion of the
compulsory national superannuation scheme money to private fund managers
and private superannuation companies.

In one way or another, the push is for greater private sector access to markets.
But such changes also have the potential to diminish the PAP’s capacity for
social, political and economic control. What then can we expect from the
Economic Review Committee? Certainly the signs are clear that the
government is intent on refocusing and fine-tuning the developmental state, not dismantling it. While Deputy Prime Minister Lee projects a rationalisation of the government’s business activities, he is also firm that the government will not relinquish its strategic role in the economy (Burton 2002).

This is precisely the line in an interim report by the Economic Review sub-committee on Entrepreneurship and Internationalisation in May 2002. It states, for example, that ‘Temasek’s key mission should be to grow GLCs into globally competitive enterprises that are anchored in Singapore. Temasek should compel GLCs to scale up their core competencies to build global businesses, as opposed to concentrating on the local market to build a diverse range of unrelated businesses’ (Business Times Online, 31 May 2002). It also contains a pragmatic stance on the question of controlling interests in GLCs, but one that is meant to be functional for GLCs: ‘In cases where a dilution of its stake in GLCs is necessary for the GLCs to grow their businesses out of Singapore, Temasek should be prepared to do so’ (Business Times Online, 31 May 2002).

Whether the final report more seriously challenges the status quo than the mid-1980s review remains to be seen, but expectations from the business community are not high. In response to the Entrepreneurship and Internationalisation sub-committee’s May report, one sceptic quoted in the local business daily exclaimed that: ‘They have taken 17 years to essentially come up with the same recommendations’, adding that ‘It’s the usual rah-rah that sounds very good on paper’ (Editorial, Business Times Online, 31 May 2002). The appointment in May of Deputy Prime Minister Lee’s wife, Ho Ching, to the newly created position of executive director of Temasek, to oversee the ‘rationalisation and consolidation of its holdings’, also does little to foster hopes of a serious depoliticisation of the GLCs.

However, if the government is able to effect a rationalisation of its role in the economy that both consolidates its strategic influence and also opens up increased access to domestic markets for international capital this would not be insignificant. It would be another demonstration of the durability of the developmental state in defiance of predictions about its imminent demise.

Thailand

Before the crisis, Thailand was one of the world’s most successful economies. It was lauded as a model for other developing countries by a number of international agencies. Oddly, though, Thailand was neither a model of a liberal, market-driven economy nor of the developmentalism associated with the Asian ‘model’. Neo-liberal analysts captured this in their descriptions of patronage and rent-seeking that meant that state intervention prevented effective policymaking and resulted in slower growth if policy had been more market-driven (Christensen et al. 1993: 1-8). Historical institutionalists explained that Thailand’s economic success was not driven by a powerful state, but by an

11 Quoted in Reuters, ‘Singapore’s Temasek makes top-level changes’, 20 May, 2002 <sg.news.yahoo.com/reuters/asia-106008.html>
ensemble of non-state institutions such as banks, commercial networks and business associations (Doner and Ramsey 1997). In other words, dynamic private sectors drove growth (Doner and Hawes 1995: 168-9), while states were relatively weak. Both groups of theorists noted that Thailand’s success owed something to those elements of the state, especially in fiscal and economic offices, that were seen ‘insulated’ from patronage.

As indicated, when the downturn hit, there was a neo-liberal resurgence as they identified ‘market distortions’ as contributing to the crisis. They asserted that such distortions resulted from state intervention. Asian capitalism – now identified as ‘crony capitalism’ – had failed. These analysts identified weak state and corporate governance, inadequate institutions, cronyism (resulting in moral hazard), corruption/rent-seeking/patronage and the resource misallocation as factors in the crisis. Importantly, these analysts gave more attention to institutions, and recommended a rules-based market system, with further liberalisation and market enhancing reform. ‘Good’ public policy was that developed by technocrats and institutions relatively insulated from political influences. That is, crisis-damaged economies like Thailand had to be made more like Western, especially American, capitalism.

The post-crisis diagnosis of the crisis by historical institutionalists was not all that different.\textsuperscript{12} State-centred historical institutionalists argued that the downturn demonstrated the state was not insulated from ‘particularistic interest politics’. The state’s incapacity to drive the changes required it to improve the ‘production regime’ and develop the resources required for this (Weiss 1999: 319-22, 329). Society-focussed institutionalists argued that Thailand had undergone a fundamental change. From a situation where the state was relatively stronger than business, and where the state was ‘relatively more patrimonial’, the boom had seen business establish its collective interest over the state. Liberalisation, with little attention to building appropriate institutions, and increasing patronage fuelled by politicians accessing state coffers set the scene for the crisis (Hutchcroft 1999: 474, 495-7).

The baht devaluation on 2 July 1997 came after concerted attacks on the currency saw the Bank of Thailand defending the peg to the US dollar and, in the process, depleting official reserves from about $38 billion to just $2.8 billion (Chalongphob 1997: 3-4, 8). Through devaluation, most of Thailand’s medium and large-scale companies were effectively insolvent. Those that weren’t, and small businesses, suddenly found that they were unable to get any funds at all from a banking system that had all but collapsed (see Hewison 2000a). Thailand was in serious trouble, and turned to the IMF for a $17 billion stand-by facility, funded by the IMF, Japan, Australia and a group of Asian countries. But, of course, the IMF demanded substantial reform and restructuring from its former star pupil, supported by the World Bank, the Asian Development Bank (ADB), and a range of bilateral programmes (Government of Thailand, Letter of Intent [LoI], 14 August 1997).

\textsuperscript{12} Of course, the remedies suggested were different, but this paper is not the place to discuss these.
At the time, for those familiar with the work of the IMF in Eastern Europe, Africa and Latin America, the demands were unremarkable. The IMF and its supporters, in concert with a range of neo-liberal academics and commentators in the press, as noted above, had diagnosed the Thailand problem as being too much government and corruption. As reflected in the first three Letters of Intent (Government of Thailand, LoI, 14 August 1997, 25 November 1997, 24 February 1998), the initial interest was in financial restructuring and ‘stabilisation’. This involved a severe tightening of monetary and fiscal policy.

However, the real ‘remedy’ was seen to involve a transformation of the ways of doing business and politics (Pasuk and Baker 2000: 35-7). In essence, this transformation involved: keeping wages low; privatisation of state enterprises (especially targeting communications, transport and energy); civil service reform; reform of the regulatory environment; an easing of restrictions on, and an increase in, foreign investment; improvements to corporate governance; and increased private sector participation in infrastructure projects. All of this was to be supervised by the IMF (Government of Thailand, 1st LoI, 14 August 1997). When the new Chuan Leekpai-led coalition government came to power, the second LoI was issued and reaffirmed the thrust of the IMF’s strategy. In addition, a number of concrete measures were announced to further this reform strategy. These included the privatisation of prominent state enterprises. Significantly, the LoI noted that the government had ‘made considerable in bringing the legal and regulatory framework in line with international standards…’. Further efforts were promised in this area, including a raft of new and revised laws and regulations to facilitate enhanced financial restructuring (Government of Thailand, 2nd LoI, 25 November 1997). In summary, the basic aim was to make the Thai regulatory environment more like those of the West.

As then US Treasury Secretary Robert Rubin (1998) explained, Thailand shared with other Asian countries,

weak financial sectors, noncommercial relationships amongst banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few – and all of this eventually led to severe financial instability. These problems are not ... self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation.

Thus the Chuan Government implemented its ‘bold’ programme, being careful to keep the IMF and its Western supporters on side and making international business ‘comfortable’. For a time this was a successful political strategy. It soon failed as an economic strategy.

While it had opposed to the Chavalit government's inept response to the crisis, domestic business was also initially supportive of the Chuan government. Bankers and big business were positive (Nation 22 July 1998). For example,
telecommunications tycoon and budding politician Thaksin Shinawatra and former prime minister and business leader Anand Punyarachun both gave their support to the government and the IMF medicine (*Bangkok Post*, 26 and 27 July 1998). Indeed, the government made a point of seeking advice from the largest businesses. The government gave most of its attention to bailing out state and private banks, guaranteeing depositors and creditors, taking over failing banks and closing a swathe of failed finance companies (Endo et al. 2000). This relationship was not without its troubles. However, the state of shock suffered by business and the public was so deep that the government had a honeymoon period.

As Pasuk and Baker show, this honeymoon was relatively short (Pasuk and Baker 2000: 45-7). As the crisis deepened, so a reaction set it. This involved a reasonably widespread and popular opposition to the strictures of the IMF (see Hewison 2000b). More significant for this paper, however, was the way that powerful interests were able to overcome historical animosities, business competition and political rivalries to organise a political revival that was meant to save domestic capital. The US Embassy reported that it believed ‘resistance from indigenous business and political interests’, would be overcome (US Embassy 1998). In hindsight this was well wide of the mark.

As noted above, local business was in deep trouble. As it struggled to survive, business complained about high interest rates, a lack of liquidity and about the ‘fire sale’ of assets to foreigners. More broadly, business and academic economists argued for more attention to an economy that was spiralling further into negative territory. The government began to take notice, and the third LoI set out a strategy for further bailing out the banks, an expansion of government spending, more attention to the social impacts of the crisis, and increased liquidity (Government of Thailand, 3rd LoI, 24 February 1998). Significantly, the next LoI indicated that the real economy remained in serious and deepening trouble. Amid growing political opposition, the government made many of the points of the 3rd LoI again, but added provisions to further reduce interest rates and continue to expand the public sector deficit (Government of Thailand, 4th LoI, 26 May 1998). Significantly, however, the government maintained its plans for privatisation, regulatory reform; liberalisation; improved corporate governance; and further foreign investment.

While domestic business might have been pleased that government was responding to aspects of the broader economic concerns, it became clear that Chuan’s Democrats were committed to the restructuring programme that was at the heart of the concerns expressed, especially by big domestic business. Restructuring of the kind outlined in the LoIs was weakening the control of domestic capitalists, and was seen to be threatening the demise of this class. The crisis had already decimated it.

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For example, the powerful Sino-Thai banking capitalists were in serious trouble. Their largely family-controlled financial and industrial conglomerates had become particularly powerful in the protected environment of the 1960s and 1970s. When export-oriented strategies were fully adopted, and the 1987-96 boom began, the capitalist class became larger and more diverse, but the banking families remained significant. However, the crisis saw the collapse of the wealth and power of important banking capitalists. Before the crisis, these banking families still controlled the only partially liberalised finance sector, including 13 of the 16 commercial banks, and ranked amongst the wealthiest groups in the country. By 1998, only five commercial banks remained in majority Thai ownership, with just three of these controlled by the Sino-Thai families. Each of these had foreign shareholdings of 40-49 percent (Hewison 2001). This pattern of foreign penetration was being seen in other sectors, from manufacturing to retailing.

What was it about the Chuan Government’s reform agenda that motivated them? Various elements of the package were, of course, attractive to some businesses and sectors. For example, the new bankruptcy provisions assisted some. But there were problems with the thrust of the total package. Privatisation is a useful guide on this. Selling state enterprises had not been a threat to the domestic private sector. Indeed, some local business people had long argued that the state should divest itself of some enterprises. However, doing this in the midst of a crisis was an issue. With the further opening of the economy to foreign investment, at the same time that domestic business was strapped for cash, and when the banks were not lending, domestic capital was at a severe disadvantage. This was especially the case in the banking sector where the remaining Thai banks were already facing strong competition. Selling state banks was an additional threat, as these could not be bought by cash-strapped local business. Other state enterprises that might have been attractive to domestic investors were also slated for sale – Bangchak Refinery, the Ratchaburi power plant, Thai Airways, and a range of utilities – when only foreign investors could benefit (Government of Thailand, 7th LoI, 23 March 1999).

Chuan’s Government (and the IMF) sought to support capitalism (as a generalised capital), rather than domestic capital. In previous economic crises, foreign capital had retreated and domestic business expanded. This time the reverse was true, and liberalisation was making matters worse. Capitalist crises rearrange the architecture of capital, but domestic capital was being out-competed by cashed-up foreign businesses. Time and again the reforms proposed by the Democrat-led coalition appeared to threaten domestic business.

Compounding this, it appeared that, while the Democrats had forgotten domestic business and, seeming to accept notions of ‘crony capitalism’, were determined to create a restructured capitalism with foreign investors having a

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14 Foreign shareholdings were limited to 25 percent.
much increased role. In Lols, the government expressed its full commitment to ‘further market opening’, and especially in those sectors ‘… sheltered from foreign investment’ (Government of Thailand, 5th LoI, 25 August 1998). It argued that further liberalisation was essential for recovery, and moved to enhance foreign investment in real estate, a sector protected for decades (Government of Thailand, 7th LoI, 23 March 1999). The laws required to further such liberalisation were often opposed, amended and held up in parliament, but most were passed. Further, when the crisis struck, some tariffs had been raised. At the first sign of mild recovery, the government cut a range of tariffs and erased the earlier increases (Government of Thailand, 8th LoI, 21 September 1999).

Domestic capital saw that the Chuan Government was, essentially, implementing a neo-liberal agenda that was, by late 1999, of little benefit to them in the short-term, and which promised long-term negative impacts, while foreign capital benefitted. Thaksin and TRT thus became the vehicle to slow liberalisation in some areas and to give an ‘edge’ back to domestic business. It became apparent to the remaining tycoons that big domestic capital needed to get control of policy. This was eventually symbolised in Thaksin Shinawatra’s Thai Rak Thai Party (TRT) and its election victory in January 2001. As Pasuk and Baker (2002) point out, in the past, the biggest business families had remained aloof from formal electoral politics; they had not needed to be involved, for government had always supported domestic business. The threat of extinction meant they had to get control of the state.\footnote{The provisions of the 1997 Constitution, including the system of party lists (where campaigning was somewhat more genteel) made it more palatable for this elite to get involved.}

Thaksin was one of the most successful new magnates created by the economic boom. From small computer business interests in the early 1980s, Thaksin was, in 1996, listed by Forbes magazine as Thailand’s fifth wealthiest person, with $2.1 million (reported in \textit{Bangkok Post} 22 June 1998). In terms of holding listed on the local stock market, Thaksin and his family had shares worth almost 37 billion baht, mostly in the broad communications sector.\footnote{Reported in \textit{Kan ngeon thanakhan} [Money & Banking], December 2000, p. 148.} He had unsuccessfully dabbled in national politics from 1994 to 1997. More significantly, however, his business success had been based on state concessions in telecommunications and related areas. He had excellent links to the military and government (Pasuk and Baker 2002). While his businesses were damaged by the crisis, he was one of the first local capitalists to expand after 1997. He seemed to have cash. As Pasuk and Baker (2002: 5) show, Thaksin quickly came to arrangements with former business rivals and built business and political alliances.
Having cash and powerful alliances, the invention and construction of TRT and its election victory was a distinct advantage. The story of the election success has been reported elsewhere (see Pasuk and Baker 2002), so there is no need for details here. However, it should be noted that TRT promised electors a new way in politics. Indeed, using techniques drawn from US campaign experience and marketing, TRT built an electoral platform that addressed the aspirations of many voters. Its slogan emphasised the theme that something new was required in politics: ‘New thinking, new ways, for all Thais’. This slogan and the party’s platform of nationalism and help for the poor suffering from the economic downturn, was especially appealing to poor, rural, voters. TRT also targeted small business, promising to make credit available for them. These promises and policies marked Thaksin and TRT as different from the neo-liberalism of Chuan and the IMF. At this time, domestic rhetoric seemed unable to distinguish between the suffering of the poor and that of domestic business.

Thaksin’s big election win delivered a government that moved to implement its key measures for the poor. However, this was a government by and for the rich. His cabinet included a range of big business leaders who were forces in the post-crisis era, from groups including Thaksin’s own Shin Corporation, as well as Jasmine, Charoen Phokphand, Bangkok Entertainment, the Thai Military Bank, Thai Summit, and a range of others (Pasuk and Baker 2002: 5). The government immediately set about helping domestic business, including those of its leaders. It did this in two ways. First, by introducing measures to protect domestic business. Second, by strengthening the government itself.

To protect and support domestic business the government and Thaksin spent time assuring the public that this was a government that cared about Thais, as the TRT name implied. The government moved slowly on privatisation. This allowed time for domestic investors to ready themselves. In addition, in the telecoms sector, the government moved to slow liberalisation and to maintain domestic control. One way was to place limits on foreign ownership. This move greatly benefitted the Prime Minister’s own companies. In the media and telecoms sectors, the government moved slowly on the establishment of independent agencies. In other ways, the government slowed the pace of reform or did little. The timetables set in the LoIs seem to have been forgotten. At the same time, investigations into the financial shenanigans prior to 1997 were dropped (Pasuk and Baker 2002). State banks also managed to come to quick deals with Thaksin supporters and advisers who were bankrupted by the crisis, and the Thai Asset Management Corporation began to handle some of the bad loans of nationalised and state banks.

17 It is worth noting that the former business people who dominated parliamentary elections were provincial godfather-like figures. However, many of these were badly affected by the crisis, and were unable to provide the kinds of funding to local candidates in 2000-1. This is not to say that ‘money politics’ was dead. As the election showed, there remained pockets where local godfathers were influential. At the same time, TRT’s platform promised a flow of funds to rural areas, amounting to money politics of the pork barrel variety.

18 After some controversy, it was agreed that the measure was to be revised. Even so, the message was clear.
Even before the election, the National Counter Corruption Commission threatened Thaksin. He had concealed assets by transferring these to maids, gardeners and other staff. Thaksin won his case, but in questionable circumstances. At the same time, he threatened the independent agencies that had been created under the 1997 Constitution. The party also moved to control the media, both domestic and international, effectively limiting criticism of the government, Thaksin and the TRT. At the same time, Thaksin made TRT a larger party by managing mergers with a number of smaller parties, so that TRT controlled almost two-thirds of the seats in the Lower House. This also limited scrutiny and meant that there was little to worry about in managing parliament. By minimising and managing opposition, TRT was making the government of business ‘safe’.

One year into the Thaksin-TRT government, it is certain that this is Thailand’s first government of tycoons. In the past big business had remained aloof from the cut and thrust of parliamentary politics. In any case, their primary interest was in controlling business, making money and economic competition. When the crisis hit, however, competing capitalists were brought together to manage their collective interest. This said, it might be reasonably assumed that economic competition between domestic capitalists would re-emerge as the norm. They will also compete with foreigners. But, first, they need the breathing space provided by this government, to recover their competitive potential and to adapt to an economy that will slowly liberalise.

Indonesia

Outside the communist bloc, the Soeharto regime in Indonesia was probably the most efficient and centralised apparatus of repressive power and corporatist control of society in the developing world. Constructed around a pervasive military-based security apparatus, a state political party and an array of state sponsored and controlled organizations the state constituted the only arena for political organization and expression considered legitimate within the organic ideology that defined political life. Power in the New Order was concentrated in the hands of politico-bureaucrats who presided over the state apparatus and whose interest lay in the perpetuation of state authority and its insulation from popular accountability. It could be characterised, at this stage, in Anderson’s terms, as a ‘state qua state’ (Anderson 1983). A growing middle class gained entry only at the political margins of this juggernaut or within the state bureaucracy. Business hovered around the powerful officials, receiving discretionary allocation of monopolies, contracts and concessions. The peasantry and working classes remained under the watchful eye of the military.

This form of state power underwent a metamorphosis in the 1980s. As selective programs of market deregulation took hold after the collapse of oil prices, an oligarchy of politico-business families, of which the Soeharto family was the most powerful, emerged from within the state itself to expropriate public

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19 The problem group was a small core of elected Senators who continue to scrutinise the government’s policies and implementation.
authority, harnessing it to the development of their private interest and that of those large corporate conglomerates with whom they became allied. Reform, for the most part, simply meant that public monopoly became private monopoly while the authoritarian structure of the state remained intact. Indonesia, then, was a curious amalgam of an almost Leninist centralised state capitalism and a system of predatory relationships that provided the cement of a new ruling alliance (Robison 2001). While the ‘technopols’ may have achieved some autonomy in setting macro-economic policies, the state could by no means be seen as insulated. Indeed, it was crudely instrumental. Its President, Soeharto, stood at the apex of Indonesia’s most pervasive politico-business family and was the very pivot around which rents were allocated.

Nevertheless, until the very moment of crisis in 1997, the management of the Indonesian economy had been regarded within the neo-liberal policy communities in Western governments and in the World Bank as a model of macro-economic responsibility. A consortium of Western creditors maintained a flow of loans and aid that sustained a balanced budget. International banks jostled to lend to huge infrastructure projects they knew to be viable only because of state guarantees and political favour. Even as the crisis loomed, Western securities and business analysts expressed confidence that Indonesia possessed the fundamentals to weather the storm. After all, inflation was low, the current account was not critical, debt appeared under control and Indonesia was not burdened with huge budget deficits. All the indicators important within the Washington consensus were in place. In the political sphere, too, Soeharto had clearly demonstrated an almost invulnerable grip on power after emerging triumphant from a series of struggles with the military and civilian critics in the early 1990s.

Yet, nowhere was the crisis to be more traumatic. By January 1998, the rupiah had fallen over 80 percent in value and in the ensuing year economic growth went into reverse. Fiscal crisis loomed and Indonesia was rescued only by huge loans from the IMF and from creditor nations under the auspices of the CGI (Consultative Group on Indonesia). Indonesia’s giant corporate groups, so recently presiding over rapidly expanding commercial empires, faced a nightmare as they contemplated repayment of large amounts of short-term, unhedged debt. By 1998, most had ceased even trying to repay and were technically insolvent. Mounting non-performing loans paralysed Indonesia’s public and private banks, drawing the state into a rescue operation of massive proportions that was to consume a huge proportion of the state budget. What distinguished the Indonesian case was that financial and economic crisis progressed quickly to political crisis, bringing down not only a government but also a regime. Unable to control the panic and the currency collapse, the regime began to disintegrate from within. The man who had been its architect now became the greatest obstacle to the survival of those interests embedded within

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20 See the comments from Lehman Bros. and Stanley Morgan Asia reported in Jakarta Post, 2 August 1997, 1 & 5 November 1997.
21 For details on the economic collapse see Robison and Rosser (1998), Rosser (2002: Ch.8), and World Bank (1998).
its structures. Soeharto’s fall from power appeared to open the floodgates to fundamental reform.

When the IMF entered the scene in 1997 it immediately initiated a series of reform packages as conditions of its US$43 billion bail out. Defined in successive Letters of Intent signed between the IMF and the Indonesian government, they stipulated new programs of privatisation of the extensive state owned enterprises, regular audits of state enterprises and agencies, administrative reform aimed at ending the authority of powerful gate keeping institutions like the state oil company, Pertamina, to allocate licenses and monopolies, and the independence of Bank Indonesia. Anxious to clean up the paralysed banking system and to resolve the huge debts that hung over Indonesia’s corporate world, it initiated programs for debt restructuring and the introduction of new bankruptcy laws and a commercial court to enforce and enable this restructuring.22

These were not simple technical reforms. They threatened the very heart of political and business power in Indonesia. Recapitalisation and debt restructuring potentially spelt the end for many formerly dominant corporate groups while new investment laws theoretically signalled the introduction of international capital as a major player in sectors of former domestic monopoly. At the same time, the reforms directly challenged the expropriation of the state by its officials and by powerful politico-business oligarchies, terminating their control of extra-budgetary funding and the sources of patronage and clientelism that had been the cement of the political system in Indonesia.

Once Soeharto fell, the reform agenda gathered steam. Recapitalisation involved the closure of the banks of some of Indonesia’s leading corporate moguls and by 2001, the number of banks had fallen from 238 to 149. Previously untouchable conglomerate owners, including Liem Sioe Liong and the Soeharto family itself were forced to hand over billions of dollars in assets and cash to repay recapitalisation costs assumed by the government. At the same time, the government cut a swathe through those strategic state gate-keeping institutions like Pertamina and Bulog, stripping hundreds of lucrative contracts and monopolies from well-connected business groups, particularly the Soeharto family (Robison 2001: 120-9 and Rosser 2002: Ch. 8).

The IMF reform agenda initially attracted wider political support from various liberal and populist reformers within Indonesia despite embedded anti-liberal and anti-IMF sentiment. For these groups, marginalised under the Soeharto regime, the sorts of liberal reforms advocated by the IMF were the most apparent instruments for bringing down the old oligarchy and the system of arbitrary and authoritarian state power. In particular there was widespread support for prosecution of corrupt businessmen and officials amongst students and others in the reformasi movement that swept the streets of Jakarta in 1997 and 1998. It was this pressure that saw the remarkable spectacle of formerly

untouchable figures dragged before the Indonesian courts. These included Soeharto’s business partner and forestry tycoon, Bob Hasan, Bank Indonesia Governor, Sabirin Sjahril, Speaker of the parliament, Akbar Tanjung, as well as Soeharto himself, his son, Tommy, and son-in law, Hashim Djojohadikusumo.23

It soon became clear, however, that the reform agenda was quickly stalling. Neither banking recapitalisation nor debt restructuring programs produced a major shift in corporate ownership or allowed a substantial flow of new entrants into the arena. Attempts to reform the state apparatus foundered as the courts and judiciary as well as the police and military defied reformers within the government. Despite the symbolic importance of arrests and prosecutions of powerful political and business figures for corruption, in the end few were ever convicted and jailed and some of the most important business tycoons remained apparently immune from prosecution despite clear records of breaches of banking regulations.

Why has the reform agenda stalled? Uncertain progress under President Habibie’s brief rule could be attributed to his deep links with the old regime, as a close confidant of Soeharto, architect of Indonesia’s nationalist industrial and high tech investment program and as head of a major, second tier politico-business family with corporate partnerships with many of the biggest Chinese conglomerates and with the Soeharto family. But President Wahid appeared to bring none of this baggage. A long-time critic of the Soeharto regime, he ushered in a government that was free of most of the old cronies and contained prominent reformers, among them, Economics Minister, Kwik Kian Gie and State Enterprises Minister Laksmama Sukardi. As his government proved increasingly unable to drive the reform agenda, critics emerged and began to lay the blame on Wahid.

It is true that Wahid proved unpredictable and idiosyncratic in his behaviour and that this democrat proved apparently unable to act politically in forging alliances and making deals, preferring an autocratic stance that made enemies. But these factors of behaviour and leadership, those rational choice principles that lay at the heart of transitions theory models, were only part of the story. Essentially, Wahid came to a presidency with little power to recast the state apparatus itself or to change the configuration of social power. He inherited a powerful and resentful state apparatus that proved uncooperative and resistant to reform. He commanded no powerful and cohesive party of reform. Above all, the new democracy that emerged in Indonesia did not open the door to reformist political coalitions but slid into money politics, providing the ideal conditions for the entrenched oligarchy to reorganise their power and for new political fixers and entrepreneurs to establish themselves in league with the old forces and within the old predatory power relations (Hadiz 1999).

23 Indonesia’s corruption trials have been staple diet in the Jakarta press for several years. See Jakarta Post, 13 March 1999: 1; 27 March 1999: 1; 22 September, 2000: 1. Tempo, 26 February, 2001: 14, 15. For overviews, see Dick (2001).
It is true that the big conglomerates and politico-business families lost huge parts of their corporate empires, including some of Indonesia’s largest banks, as well as lucrative construction contracts and trade monopolies. Forced to default on their foreign huge debts, they were also liable to repay the government the costs of debt buyout and recapitalisation in the banking sector amounting to Rp.660 trillion – around US$85 billion Asian Wall Street Journal, 11-12 June 1993: 3). Yet, while recapitalisation resulted in the closure of banks it did not address the essential structural problems of a system where there was no division between borrowers and lenders. Nor did it open the door to new entrants. The old structure remained, potentially for the old players to re-emerge.

At the same time, the big corporate debtors managed to hang onto their main assets, effectively getting the government to warehouse their debt and carry the bulk of the cost. Through a web of opaque business statements and accounting practices, they transferred assets in settlement of debts subsequently revealed to be only a fraction of their original estimates. Besieged conglomerates were also able to rely on a notoriously corrupt court system where the government proved unable to pursue bankruptcy effectively (Lindsey 2000: 278-92). As fiscal pressures increased, the government was forced to speed up the process, forced to negotiate generous debt settlements.24

Nevertheless, the government now found itself with billions of dollars in assets and commanding over 70 percent of the banking system. While the sale of these assets was expected in some quarters to allow foreign interests to enter the market at a premium, for international corporate capital to replace the old Chinese conglomerates and politico-business families, asset dispersal rates were disappointing. Recent sales of the large private Bank Central Asia and the giant Indomobil group have buoyed hopes but there are few similar attractive assets left in the pipeline (World Bank 2000: 13 and Pangelin 2001). Why, then has restructuring proven to be so difficult?

In part the answer lies in the ability of old and new business interests to forge alliances and reorganise their activities within the new political environment. This has been made easier by the difficulties post-Soeharto reformers have confronted in their efforts to reform those strategic gate keeping state institutions such as Bulog and Pertamina, as well as the state banks, Bank Indonesia and the Ministry of Finance, that have long been sources of extra-budgetary funds for political parties and factions of political and bureaucrat power. As the new system of politics began to unfold after Soeharto, it has become evident to the new political players that such sources of funds and patronage remained critical in the new world of democracy and parliament where the politics of patronage prevailed over the politics of ideological or social conflict. Already, such figures as Habibie, Wahid and Akbar Tanjung have been implicated in scandals involving the diversion of funds from Bulog and Bank

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24 For reports, see World Bank (2000: 14) and Tempo, 22 May 2000: 102, 103; 16 July 2000: 104.
Indonesia into political party war chests. The basis of old relationships between business and the state remain open.

Nor have post-Soeharto reformers proven able to control those regulatory arms of the state apparatus. Rather than being executors of rule of law, Indonesia’s courts and its judiciary had evolved under Soeharto as instruments of political rule. As an editorial in the Jakarta Post (22 November 1999) observed, ‘…subordination of the judiciary [under Soeharto] paved the way for total control by the state over every aspect of public life in Indonesia.’ Elsewhere, the judiciary was characterised as operating within a ‘black state’ outside the rule of law where the real business of power and politics took place (Lindsey 2000: 288). Powerful business and political interests have quickly found a path to the door of the judiciary and it is no surprise that attempts to enforce bankruptcy and to prosecute corruptors in Jakarta’s courts and judges have been consistently unsuccessful (Jakarta Post 11 March 2000: 1 and 13 March 2000: 4). This is a matter that goes beyond the courts. Indonesia’s notoriously corrupt police force remains a virtual law unto itself and a highly ineffective instrument for hunting down and prosecuting corruptors. When Police Chief, Bimantoro refused to accept his dismissal by Wahid in May 2001, it definitively signalled that it lay beyond the authority of the government. While President Megawati Soekarnoputri has subsequently recognised that accommodation with these powerful forces is essential for political survival it is not yet clear what cost has been negotiated.

The continuing intractability of forces entrenched in the state apparatus can be seen in terms of failure to create a powerful and politically cohesive reformist coalition. This was surprising to those who saw the end of Soeharto and the fall of the old order opening the door for a new democratic era driven by a vital and progressive civil society. Political reforms in 1999 had removed those constraints on the formation of political parties and elections that had defined the authoritarian corporatism of the Soeharto regime. A vigorous and critical new press emerged. The 1999 elections were contested by 38 parties and resulted in a dramatic fall in support for the former state political party, Golkar, from over 70 percent to just 22 percent. Those parties that emerged as major players in the new parliament were precisely those that had been the main parties for over forty years in Indonesia. While they were organised symbolically on the basis of various attachments to religious or secular values, to the state or to progressive social agendas, they became the vehicles within which political entrepreneurs and fixers, jostled to capture power and influence. No clear policy programs distinguished them (Tempo 17 September 2002: 16-21).

This seething new mass of predatory interests, nationalism and populist agendas created the opportunities for old interests to reorganise their power within the context of a system of parliamentarism. New operators moved into the political arena; former officials and local notables, gangsters and thugs.

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25 Organizations such as the Supreme Audit Agency and Indonesia Corruption Watch reported continuing levels of corruption and non-budgetary funds flowing from Bulog, Bank Indonesia and other key state organizations (see Tempo, 12-18 February, 2002 and Siregar 2001).
Powerful conglomerates soon gravitated to the new centres of power in the parties and new figures have emerged within the parties to take control of the allocation of power and influence in the world of business (Panji Masjanakat 30 August 2000: 24-31 and Robison 2002: 102-5). As decentralisation of power and revenues spread to the regions we have seen new struggles and bribery scandals surrounding the election of mayors and regional governors (Kompas 22 March 2000, 17 April 2000 and Detikcom 17 July 2000). Reformers became lost in this sea of fractured and dispersed power. Control over the forestry industry, for example, has become virtually impossible now that over 50 percent of logging is illegal, in the hands increasingly of local officials, military, businessmen and parliamentarians (World Bank 2000: 10). As the World Bank itself has also admitted, reform lies increasingly in the hands of isolated and lonely officials and politicians, dependent upon the favour of powerful interests (World Bank 2000: 43).

The reorganisation of old interests and entrenched power relations has been facilitated by other developments. Foreign investors have failed to flood into Indonesia to buy out the assets of the old conglomerates. It soon became apparent to the government that getting investment started again and recovering their huge outlays on bank recapitalisation required the re-entry of Chinese Indonesia business money. This structural indispensability has given them greater leverage in negotiating debt restructuring and in avoiding prosecution. Most important, though, Indonesia appears to be surviving without the sort of reforms demanded by the IMF and regarded as functionally necessary by the IMF. With growing foreign reserves and export success, Indonesia is no longer reliant on IMF funds and can treat its demands with some casualness. Even though its banking system remains largely paralysed, there appears to be no shortage of domestic investment, much of it flowing into the country outside the domestic banking system. Exporters are effectively using Singapore banks to channel their financing. Those absolute functional links between liberal markets, the regulatory state and modern rational capitalism appear less certain than supposed.

CONCLUSIONS: IMPLICATIONS FOR POLICY

Our conclusions are brief. Much of the neo-liberal, rational choice thesis is based on the premise that institutions may be supplied and that once in place they will shape future developments. Referring to the process of democratic transition, for example, Juan Linz proposed, ' ... even bad democracies are better than authoritarian rule or chaos since we may assume that they may undergo processes of re-equilibration, and with improved conditions and leadership may become fully consolidated' (Linz 1997: 408). The same logic is applied to the transplantation of market institutions. Yet, formal democracies and market economies harbouring corrupt, rapacious and repressive systems of social power have existed for decades. In many cases they have provided no room for a ‘re-equilibration’ or the emergence of appropriate leadership. Exactly how long do we have to wait? It matters what sort of social order these institutions are grafted onto. Building democratic institutions in a situation where
a liberal social and political revolution is already underway, as in Britain in the
eighteenth century is different to constructing them in Indonesia. Attempting to
construct markets where an authoritarian or predatory state has already
provided the framework for capitalism and where business and the middle
classes are already integrated into this system is more difficult than where these
forces see their future only in the destruction of existing state power.

While the crisis may have made it impossible for ruling alliances to rule in the
old way and through the same institutions, it did not dismantle those power
relations that defined the apparatus of the state. The old state has survived the
fall of governments and regimes and its had reformulated itself in the context of
rapidly changing global markets.
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