

**Crises and Autocratic Breakdowns in Island Southeast Asia\***

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## **Crises and Autocratic Breakdowns in Island Southeast Asia**

### **1. Introduction**

When autocratic regimes face severe economic crises, many experience democratic transitions. Some autocratic regimes, however, are able to withstand pressures for regime change. In mid-1997, the Asian Financial Crisis struck two highly open autocratic regimes in Southeast Asia: Indonesia and Malaysia. On May 21, 1998, President Soeharto stepped down from office in favor of his Vice President, B.J. Habibie. Just over three months later, on September 2 of that year Mahathir Mohamad dismissed his popular Deputy Prime Minister Anwar Ibrahim, and later oversaw his trial and conviction on charges of corruption and sodomy. Mahathir Mohamad continued to rule Malaysia until late 2003, when he retired voluntarily in favor of his chosen successor, Abdullah Ahmad Badawi. In both countries, mass anti-regime protest occurred at unprecedented levels amidst dramatic economic collapse. Yet despite a severe economic crisis and accompanying political turmoil, Indonesia's New Order regime broke down, while Mahathir Mohamad's regime survived.

No compelling, systematic account of this variation in regime survival in the face of economic crises exists. I argue in this paper that variation in the informal support coalitions that formed the basis of each autocratic regime is the key to explaining variation in regime survival. Regime breakdowns occur when supporters cannot agree on adjustment measures. Indonesia's New Order regime relied on the Indonesian military in concert with a class of politically connected wealthy ethnic Chinese entrepreneurs, cemented by a dense web of business ties involving Soeharto's immediate family. Malaysia's regime rested on a cross-class coalition of the Malay masses and a group of newly rich Malay entrepreneurs. Indonesia's coalition included

both fixed and mobile capital, which could not agree on a coherent adjustment policy to manage the effects of the economic crisis enveloping the country. By contrast, Malaysia's coalition comprised fixed capital and labor, which was able to agree on a coherent policy of capital account closure, a currency peg, and expansionary macroeconomic policy to combat economic decline. Indonesia's coalition fractured across mobile and fixed capital, leading to Soeharto's downfall, while Malaysia's coalition remained unified, ensuring Mahathir's political survival.

My account suggests a simple strategy for understanding the relationship between economic crises, mass opposition movements, and autocratic breakdown. To study transitions during economic crises, analysts must know two facts: (1) the nature of a regime's support coalition and (2) the distributional implications of the economic crisis. This perspective differs from existing work, suggesting a strategy for illuminating important unexplained variation in regime survival during economic crises. Several studies have shown, using economic contraction per year as a measure of economic crisis, that economic crises increase the conditional probability of political transitions (Gasiorowski 1995; Geddes 1999; Przeworski et al. 2000). But different economic crises—balance-of-payments crises, fiscal crises, commodity crises, petroleum crises—have different distributional implications, and different autocratic support coalitions will vary in their responses to the same type of economic crisis. My work probes deeper into the relationship between crisis and transition by asking *under what conditions* economic crises cause autocratic breakdowns.

My account also brings analytical rigor to what area specialists have described in vague and unfocused terms. It is currently seen as self-evident that Indonesia's massive economic contraction in 1998 forced Soeharto from office, but there is little agreement among specialists about the mechanisms that led from crisis to transition. Some argue that Soeharto was too old to

manage an economic crisis; while others suggest that mass mobilization of students, housewives, and Islamists forced Soeharto from office; while still others view the crisis as little more than the final push in a political transition long in the making. I show in this paper that none of these accounts is satisfactory. By focusing on distributional struggles over adjustment policy, my account yields insights into the specific timing and nature of the transition that other accounts miss. The experiences of Malaysia, where we observe similar distributional conflicts over adjustment policy, suggest a critical view towards the independent influence of mass political protest against a ruling autocratic regime. To stipulate that mass protest causes regime failure is to ignore the question of why some regimes can avoid the outbreak of mass protests. Malaysia's experience also brings into question the independent role of political institutions in managing political conflict during economic crises. As I argue here, the focus on autocratic institutions in Malaysia (and elsewhere) has obscured the true cause of regime durability: the adoption of adjustment policies by the incumbent regime that minimized the costs borne by the regime's supporters. My approach explains why Malaysia could offer such policies, minimizing the threat of mass protest, while Indonesia could not offer such policies, opening the door to protests that led to the breakdown of its regime.

## **2. Twin Crises**

The crises that enveloped Indonesia and Malaysia, along with South Korea, Thailand, the Philippines, and other countries across the world in the following years, are examples of a specific type of crisis known to economists as a "twin crisis." The term refers to simultaneous and causally interrelated currency and banking crises. Especially in the wake of the Asian Financial Crisis (AFC) and subsequent crises in Russia and Latin America, economists have

focused on the causes and consequences of twin crises. Political scientists have yet to devote systematic attention to them.

Table 1 shows all countries that experienced twin crises during the period from 1975 to 1997, using data compiled from Glick and Hutchinson (1999). The following tabulations include all country-years where there is a currency (financial) crisis preceded by a financial (currency) crisis in the previous two years. The sample includes all industrialized economies, emerging markets, and a number of other developing economies.

**Table 1: *Twin Crises, 1975-1997***

<b>Country</b>	<b>Year</b>	<b>Country</b>	<b>Year</b>
Botswana	1996	Peru	1983-1990
Burundi	1997	Uruguay	1982-1984
Cameroon	1994-1996	Venezuela	1984-1986, 1994-1997
Egypt	1980-1981, 1991-1993	India	1993-1997
Ghana	1983-1989	Indonesia	1997
Kenya	1985-1987, 1993-1997	Japan	1992
Madagascar	1988	Jordan	1989-1990, 1992
Nigeria	1993-1994	Korea	1997
Tunisia	1993-1995	Lao PDR	1995, 1997
Zambia	1995	Malaysia	1986-1988, 1997
Zimbabwe	1995-1997	Nepal	1988, 1991-1995
El Salvador	1990	Philippines	1983-1987, 1997
Guatemala	1991-1992	Thailand	1983-1986, 1997
Jamaica	1994	Finland	1991-1994
Mexico	1982-1987, 1995-1997	Hungary	1991, 1994-1995
Nicaragua	1993-1997	Iceland	1985-1986, 1993
Trinidad and Tobago	1985-1990, 1993	Italy	1992-1994, 1995
Argentina	1982-1983, 1989-1990	Norway	1987-1988, 1992-1993
Bolivia	1986-1988	Romania	1990-1993
Brazil	1990-1991, 1995-1997	Spain	1977-1979, 1982-1984
Chile	1985	Sweden	1992-1993
Colombia	1985-1987	Turkey	1982, 1994-1995
Ecuador	1982-1983	United Kingdom	1976, 1984, 1986
Guyana	1993	New Zealand	1987-1991

These simple tabulations reveal that twin crises have been a recurring feature of the global economy in the past four decades. Twin crises are responsible for some of the most spectacular

examples of economic collapse in the developing world, encompassing the tequila crises of the early 1980s in Latin America as well as a series of devastating financial sector crises in sub-Saharan Africa in the 1990s.

Despite the disastrous effects that twin crises have on national economies, autocratic breakdowns during or in the wake of twin crises are actually quite rare, as shown in Table 2.

**Table 2: Twin Crises and Autocratic Breakdowns**

Country	Year	Regime Type	Transition (Type/Year)
Botswana	1996	Non-Democratic	No
Burundi	1997	Non-Democratic	Yes (Dem Breakdown/1996)
Cameroon	1994-1996	Non-Democratic	No
Egypt	1980-1981, 1991-1993	Non-Democratic	No, No
Ghana	1983-1989	Non-Democratic	Yes (Dem Breakdown/1981)
Guinea-Bissau	1996-1997	Non-Democratic	No
Kenya	1985-1987, 1993-1997	Non-Democratic	No, Yes (Aut Breakdown/1998)
Madagascar	1988	Non-Democratic	No
Mozambique	1993-1997	Non-Democratic	No
Nigeria	1993-1994	Non-Democratic	No
Tunisia	1993-1995	Non-Democratic	No
Zambia	1995	Democratic	No
Zimbabwe	1995-1997	Non-Democratic	No
El Salvador	1990	Democratic	No
Guatemala	1991-1992	Democratic	No
Jamaica	1994	Democratic	No
Mexico	1982-1987, 1995-1997	Non-Democratic	No, No
Nicaragua	1993-1995	Democratic	No
Trinidad and Tobago	1985-1990, 1993	Democratic	No
Argentina	1982-1983, 1989-1990	Non-Democratic, Democratic	Yes (Aut Breakdown/1983), No
Bolivia	1986-1988	Democratic	No
Brazil	1990-1991, 1995-1997	Democratic	No, No
Chile	1985	Non-Democratic	No
Colombia	1985-1987	Democratic	No
Ecuador	1982-1983	Democratic	No
Guyana	1993	Democratic	Yes (Aut Breakdown/1992)
Peru	1983-1990	Democratic	Yes (Dem Breakdown/1990)
Uruguay	1982-1984	Non-Democratic	Yes (Aut Breakdown/1985)
Venezuela	1984-1986, 1994-1997	Democratic	No, No
India	1993-1997	Democratic	No
Indonesia	1997	Non-Democratic	Yes (Aut Breakdown/1998)
Japan	1992	Democratic	No
Jordan	1989-1990, 1992	Non-Democratic	No, No
Korea, South	1997	Democratic	No
Lao PDR	1995, 1997	Non-Democratic	No, No

Malaysia	1986-1988, 1997	Non-Democratic	No, No
Nepal	1988, 1991-1995	Non-Democratic	No, Yes (Aut Breakdown/1991)
Philippines	1983-1987, 1997	Non-Democratic, Democratic	Yes (Aut Breakdown/1986), No
Thailand	1983-1986, 1997	Non-Democratic, Democratic	Yes (Aut Breakdown/1983), No
Finland	1991-1994	Democratic	No
Hungary	1991, 1994-1995	Democratic	Yes (Aut Breakdown/1990), No
Iceland	1985-1986, 1993	Democratic	No, No
Italy	1992-1994, 1995	Democratic	No, No
Norway	1987-1988, 1992-1993	Democratic	No, No
Romania	1990-1993	Democratic	Yes (Aut Breakdown/1990)
Spain	1977-1979, 1982-1984	Democratic	Yes (Aut Breakdown/1977), No
Sweden	1992-1993	Democratic	No
Turkey	1982, 1994-1995	Non-Democratic, Democratic	Yes (Aut Breakdown/1983), No
United Kingdom	1976, 1984, 1986	Democratic	No, No, No
New Zealand	1987-1991	Democratic	No

Based on the coding of regime types and transitions in Cheibub and Gandhi (2004), Table 2 contains thirty-one twin crises in autocratic regimes, with seven of them followed within two years by democratic transitions (Argentina 1982, Turkey 1983, Uruguay 1985, Philippines 1986, Nepal 1991, Kenya 1998, Indonesia 1998). The sample contains forty twin crises under democratic regimes, one of which was followed by a transition to autocracy (Peru 1990). These data suggest that transitions following twin crises are more likely in autocracies than in democracies, but that the crises themselves still only rarely lead to transition—in just over twenty percent of the cases. By contrast, in four cases, a twin crisis began under a regime that had experienced a democratic transition in the *previous* two years (Guyana 1992, Spain 1977, Romania 1990; Hungary 1990). In one case, a twin crisis began under a government that had previously experienced a transition to autocracy (Ghana 1996).

A simple non-parametric analysis supports this conclusion. Table 3 reports figures derived from all 1,881 country-years for which Glick and Hutchinson have data (90 countries, most from 1975-1997). The rows and columns divide the sample into country-years with or without crisis and under autocracy and democracy. The cells contain a count of the country-

years in each category as well as the percentage of those country-years containing regime transitions within two years.

**Table 3: Twin Crises and Transition Probabilities**

		Political Regime	
		Non-Democratic	Democratic
Twin Crisis?	No	947 5.7%	861 9.64%
	Yes	49 10.2%	24 20.8%

In both democratic and non-democratic regimes, transitions are more likely during twin crises. This is consistent with both our intuitions about the political consequences of economic crises and existing work on the relationship between economic crises and political transitions. But perhaps surprisingly, the unconditional probability of experiencing a democratic transition given a twin crisis remains quite low, only about one in ten. There is a strong consensus that the twin crisis caused the breakdown of Indonesia’s New Order regime, but the data show this case to be rather exceptional among the population of autocratic regimes experiencing twin crises. Most countries are in fact like Malaysia, where an autocratic regime survived a twin crisis.

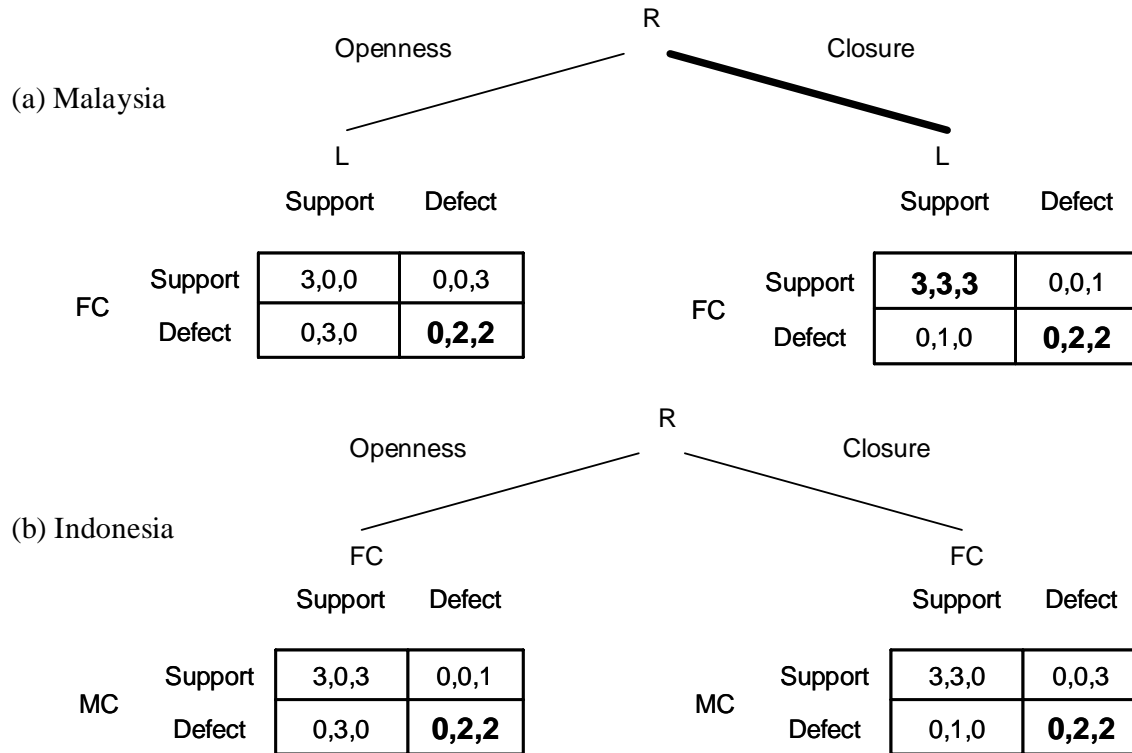
### 3. Coalitions, Adjustment, and Breakdown

My approach is to endogenize autocratic breakdown to the adjustment policies that governments take in response to economic crises. Crises unseat autocratic regimes when adjustment policies are not politically feasible. During twin crises, indebted local banks and domestic firms prefer to minimize currency depreciation to minimize debt exposure, and also to loosen macroeconomic policy to jumpstart business and protect revenue streams. This is only feasible with restrictions on capital outflows. But mobile capital will demand that the

government ensure capital mobility during the course of the crisis, as capital holders will only invest in the economy if they believe that they retain their exit option. This represents an irreconcilable contradiction, one that will prevent the regime from adopting a coherent basket of adjustment policies. The regime may attempt to re-peg the exchange rate without closing the capital account—this has obvious benefits for mobile capital, but it leads to rapid inflation. If a regime depends on a coalition of mobile capital and fixed capital, the inability of the regime to implement coherent adjustment policy will prolong and deepen the twin crises to the point where the coalition is unsustainable. At that point, the autocratic regime will break down.

A coalition between fixed capital and labor faces no such irreconcilable policy demands. Indebted banks and domestic firms will have a natural ally in labor, for works will prefer subsidies and expansionary policies that encourage moderate inflation while protecting employment. Fixed capital will also prefer expansionary macroeconomic policies. Because neither of them requires capital mobility, both will favor sacrificing capital account openness in order to boost the economy. So a regime heading a fixed capital-labor coalition during a twin crisis will retreat from financial openness in order to protect the interests of its supporters. Because its supporters obtain the best possible policy from the regime, they will continue to support it. This makes autocratic breakdown during twin crises unlikely.

Figure 1 illustrates this argument with a simple economic reform game. There is a regime with two supporters. One regime depends on the support of labor (L) and fixed capital (FC), while the other depends on a coalition of fixed capital with mobile capital (MC).



**Figure 1:** *Twin Crises and Adjustment*

In (a), L and FC prefer capital closure enough to defect from the regime if it refuses to adopt this policy. So R chooses capital closure, and both continue to support the regime. Stepping back from this example, even if one is indifferent between capital account closure and capital account openness, or even prefers capital account openness, so long as the value of defecting under capital account closure does not exceed that of supporting R, then R can choose capital account closure and avoid autocratic breakdown. In (b), MC prefers to support R given capital openness so long as FC also supports R. But FC prefers to defect, meaning that both defect and R breaks down. The payoffs for capital closure are symmetrical. FC prefers to support R so long as MC will support R, but C prefers to defect, meaning that both FC and MC will defect under capital account closure and R breaks down. Here, neither option gives R any payoff but zero, and both choices end with an autocratic breakdown.

There are several assumptions that underlie this model. I have assumed that (1) autocrats are office seekers; (2) that autocrats approximate Olson's (1993) "stationary bandits" who are unwilling to simply plunder the economy for immediate profits;<sup>1</sup> (3) that autocratic governments are not autonomous from the populations over which they rule, but instead enact policies that fulfill the interests of some group; (4) that during crises regimes will be unlikely to change their support coalitions, primarily because such a strategy is not credible; (5) that ideational factors do not constrain adjustment policies; and (6) that in Figure 1(a), Labor and Fixed Capital can coordinate on Support-Support, the Pareto-superior equilibrium. How accurate are my assumptions about the coalitions of regime supporters in the two countries?

When General Soeharto seized power in 1965, his basis of support was the Indonesian military (ABRI). He nurtured his relationship with ABRI throughout his rule, expanding the military's involvement in politics and business through the doctrine of *dwifungsi* (dual function) that painted the Indonesian military as having a role as both a security force and a socio-political organization (Honna 1999; Soebijono et al. 1997). Business activities were a primary source of military funding, comprising around half of its budget in many years, becoming an area deeply vulnerable to corruption and cronyism (Samego et al. 1998). ABRI personnel headed such giant parastatals as Bulog, the national rice board, and Pertamina, the government-owned petroleum company. Large national companies were only the most visible instances of Indonesia's military-business nexus. Equally important were the small-scale, local affiliations between military representatives posted throughout the archipelago. ABRI officers from regional commanders down to local garrison chiefs took part in a decentralized, informal, and hierarchical system that channeled funds up to the highest levels of political authority in exchange for political favoritism. It is helpful to follow McLeod's (2000) description of the New Order as a

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<sup>1</sup> See also the discussion of autocracy in McGuire and Olson (1996), and compare to Tornell and Lane (1999).

franchise system that linked local military figures and their business associates (the franchisees) to Soeharto and other top elites (the franchisers). Because the relationship satisfied the interests of both parties to the transaction—top leaders obtained funds and loyal subordinates, local leaders obtained state patronage and protection—both groups had an incentive to perpetuate it (Crouch 1979). Businessmen contributed further to Soeharto’s ability to marshal funds by contributing to *yayasan*, foundations with the ostensible purpose of investing in public works but usually controlled by Soeharto cronies for the distribution of patronage.

Wealthy Chinese Indonesians formed a second pillar of support for the New Order, based perhaps ironically on the political vulnerability of ethnic Chinese Indonesians. As a “pariah” minority, the Chinese in Indonesia have long suffered from charges that they refuse to assimilate to Indonesian national culture, that their business activities are exploitative, and that they have divided loyalties (Coppel 1983). While the majority of Chinese Indonesians are not wealthy, under the New Order some well-placed individuals became fantastically rich. Individuals such as Liem Sioe Liong, Bob Hasan (The Kian Seng), William Soeryadjaya (Tjia Kian Liong), and others founded vast business empires under the protection of Soeharto and ABRI. In exchange for protection provided by Indonesian security forces, ethnic Chinese businessmen used personal contacts to develop vast corporate holdings that enriched both themselves and their military patrons. As a check on the potentially rapacious desires of the military, ethnic Chinese businesses relied on the threat of exit made possible by Indonesia’s openness to international capital movements (Winters 1996). By the late 1980s, Chinese Indonesians led almost all of the top fifty or so *konglomerat* (see Shin 1989: 213-216).

Personal relationships were the sources of many of these business relationships—Liem Sioe Liong, for example, had been an associate of Soeharto during Soeharto’s tenure as a

divisional commander in Central Java as far back as the 1950s, and Bob Hasan was Soeharto's regular golfing partner. The final beneficiaries of Soeharto's personal favoritism were his own relatives. His wife Tien had such an appetite for kickbacks that she earned the moniker "Madame Tien Percent". Almost all of Soeharto's six children became leading business figures, as did his half-brother Probosutedjo and his cousin Sudwikatmono. Corporate alliances among the military, Chinese Indonesians, and Soeharto family members existed throughout most sectors of the economy (Kwik 1999). Examples of all three working together include PT Bogasari, a flour milling giant owned by Liem Sioe Liong and Sudwikatmono, which contributed funds to a *yayasan* run by the Army's Strategic Reserve Command; PT International Timber Corporation, jointly owned by Bob Hasan, ABRI, and Soeharto's son Bambang Trihatmodjo; and PT Sempati, an airline owned by Bob Hasan, ABRI, and Soeharto's son Hutomo Mandala Putra.

Malaysia's political system, by contrast, continues to rest on a cross-class coalition defined through Malay ethnicity. The British left Malaysia in 1957 with a multi-party parliamentary democracy led by the Alliance, a coalition among three ethnic parties—the United Malays National Organisation (UMNO), the Malayan Chinese Association, and the Malayan Indian Congress. Ethnicity has since then been the dominant political cleavage, even through the addition of Malaysian Borneo, the secession of Singapore, and the formation of the Barisan Nasional (BN) ruling coalition in the wake of riots in 1969. These riots pitted Malays against Chinese, a pariah minority in Malaysia also because of their higher economic status. The government suspended Parliament, reconstituting it in 1971 after passing laws enhancing the power of UMNO. These and subsequent laws proscribe criticism of pro-Malay policies, restrict press freedoms and public disclosure of government decisions, discourage civil society organizing, criminalize student activism, and permit detention without trial. UMNO continues to

dominate the ostensibly multi-ethnic BN, its President and Deputy President serving as Prime Minister and Deputy Prime Minister of Malaysia. The party's original constituency was rural Malays, particularly teachers and public servants. But in particular since the early 1970s, UMNO's supporters have come to include the Malay business class created under the regime's extensive redistributive program known as the New Economic Policy (NEP).

The NEP was created in response to the perceived failure of liberal economic policies to promote Malay welfare and reduce inter-ethnic inequality, despite extensive pro-Malay social and development policies during the 1960s (Bowie 1991: 69-75; Gomez and Jomo 1999: 14-15; Means 1972). The NEP codified the regime's commitment to pro-Malay policies, in contrast to what its architects considered the failures of *laissez-faire* economics (Bowie and Unger 1997: 81-85; Faaland, Parkinson, and Saniman 2003; Shamsul 1997). To increase Malay equity in the economy, the government created during the 1970s several massive investment corporations such as Perbadanan Nasional Bhd under the Ministry of Finance, and Permodalan Nasional Bhd (PNB) under a quasi-government corporation headed by the Prime Minister. PNB offers Malays and other *bumiputras* (a term signifying all Malaysians not of Chinese or Indian ancestry) a wide range of investment options open only to them, including the *bumiputra*-only unit trusts Amanah Saham Nasional and Amanah Saham Bumiputra that consistently offer high returns.

The redistributive policies of the NEP helped to ameliorate inter-ethnic inequality, but simultaneously fostered a class of Malay entrepreneurs closely tied to government patronage (Abdul Rahman 2002; Kahn 1996). Created through the NEP's aggressive redistributive policies, the new Malay rich threatened Chinese Malaysians, who before had dominated the Malaysian economy. The growth of Malay-run firms throughout the 1980s and 1990s proceeded not through increased production or efficiency, but rather through mergers and takeovers

(Gomez 1994; Lim and Stern 2002: 34). Government tenders and privatization drives went almost exclusively to firms run by Malays, in particular those close to UMNO, often without public bids. Regulations mandating discounted share offers for *bumiputras*, taken either by connected firms or through PNB, give UMNO a direct interest in the performance of the stock market. Business relationships between Malay elites in the military grew to include appointing retired officers as directors for Malay companies. The Armed Forces Provident Fund provides additional pensions for the military, the vast majority of whom are *bumiputras*. In the 1990s, amidst rapid economic growth, relations between Malay entrepreneurs and UMNO began to challenge the party's traditional base with the Malay masses, in particular rural Malay farmers. The Malay billionaire Tun Daim Zainuddin served as Minister of Finance from 1984-1991, while many Malay politicians entered the corporate world. Despite Mahathir's occasional condemnation of Malays' "subsidy mentality" and the rise of the Malay entrepreneurs, UMNO—and hence the BN and the government—continued to favor the Malay masses through subsidies and preferential regulations.

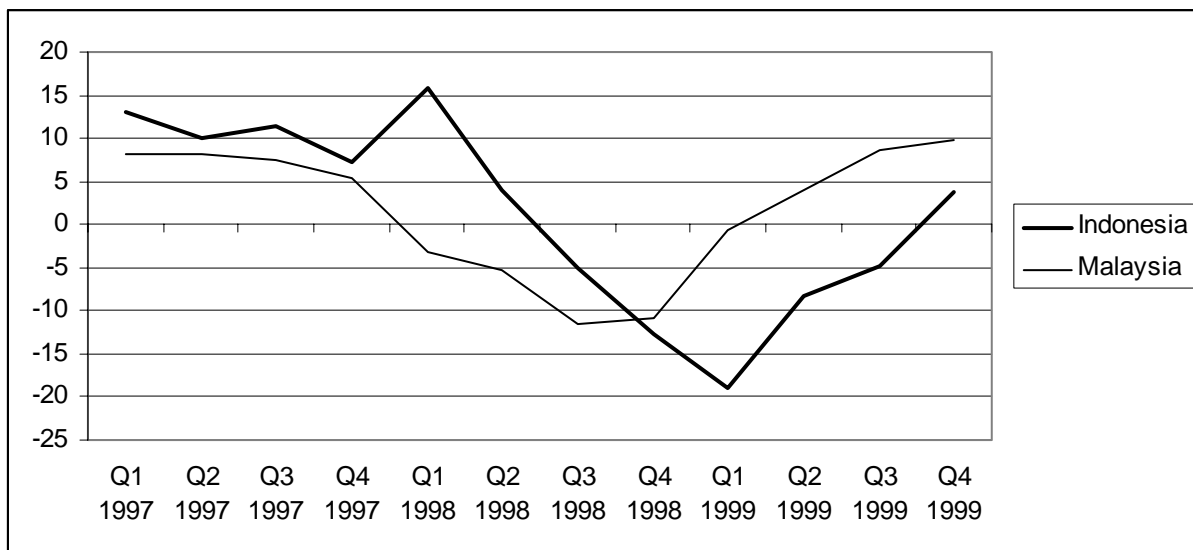
The autocratic regimes in Indonesia and Malaysia thus varied in their sources of regime support. Indonesia's small coterie of well-placed ethnic Chinese made their support for the Soeharto regime contingent on their physical protection and the maintenance of an open capital account. The military used ethnic Chinese expertise and Soeharto's family connections to penetrate Indonesia's economy in search of both military funding and personal profit. The New Order hence relied on a coalition between fixed capital and mobile capital. In Malaysia, the regime favored its Malay supporters through targeted redistributive subsidies and open ethnic discrimination. Its creation of new Malay entrepreneurs created a new constituency of crony

entrepreneurs with tight links to UMNO and the government at large. Mahathir's regime relied on a coalition of labor and fixed capital.

#### 4. Demands for Adjustment and Opposition Mobilization in Indonesia and Malaysia

Two existing theories purport to explain the variation in regime survival in between Indonesia and Malaysia. The first argues that Indonesia's economic contraction was more severe than Malaysia's. But measured purely in terms of economic contraction, Malaysia's economic crisis was in fact worse than Indonesia's economic crisis until *after* Soeharto's resignation.

**Error! Reference source not found.** plots quarterly GDP growth rates for Indonesia and Malaysia throughout 1997 and 1998.



**Figure 2:** *Quarterly Real GDP Growth (Annualized and Seasonally Adjusted), 1997-1999*  
*Source: IMF, International Financial Statistics*

The data show that Malaysia experienced a worse downturn than Indonesia did until after the breakdown of the New Order. When comparing the economic effects of the crises in Indonesia and Malaysia, most researchers cite the year-on-year real GDP contraction of 13% in Indonesia as evidence of more severe contraction in Indonesia than in Malaysia, which experienced a 7%

contraction. These figures obscure the fact that Indonesia's economic contraction took place after the breakdown of the New Order.

The second hypothesis focuses on political institutions (both formal and informal) and social change in linking economic crisis to autocratic breakdown in Indonesia. Focusing on the political institutions of the New Order, for instance, Haggard writes that the Indonesian political system had “no mechanisms to generate mass support and manage opposition” (2000: 51, 116, 125). This argument suggests that when facing mounting political opposition, autocratic regimes without a grassroots, party-based institutional structure are less able to contain opposition discontent than those which do possess such structures (see also Slater 2005). The institutions held to be so important in Malaysia, and so lacking in Indonesia, are political parties operating within a quasi-democratic legislature. But the meaningful difference between UMNO and Golkar is unclear on this count. Both organizations promoted an organicist ideology colored with appeals to Asian values or Asian-style democracy.<sup>2</sup> Both had extensive grassroots political machines. Both parties dispensed patronage to shore up political support and regularly contested in elections that they appear to have been unable to simply throw or suspend. There is no doubt that these two parties differed in a number of critical dimensions, mostly dealing with their relationship to the larger party system (severely restricted in Indonesia but tolerated in Malaysia). These differences notwithstanding, the logic of why certain characteristics of the Malaysian dominant party regime better enabled them to contain popular protest is unclear. And the extensive domination of Indonesian politics by Golkar party machinery in concert with the

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<sup>2</sup> Mahathir Mohamed joined Lee Kuan Yew in publicly promoting these concepts to explain why Western-style democratic competition was unsuitable for Malaysia, Singapore, and other Asian societies. New Order officials were far less prominent in championing the normative value of Asian style democracy on the international stage, but concentrated their rhetoric on reinforcing these ideals for Indonesians in concepts such as Pancasila Democracy (*Demokrasi Pancasila*), consultation (*musyawarat*), consensus (*mufakat*), mutual assistance (*gotong-royong*), and a set of ideologies designed to legitimate the developmental role of the military in the political sphere.

Indonesian military should have made the New Order more likely to crush opposition and steer through the crisis, not more vulnerable to mass protest.

Evidence from Indonesia and Malaysia instead supports the theory that adjustment measures are instrumental in explaining regime survival. The following sections outline distributional conflict around adjustment policy during the Asian Financial Crisis, and political contestation that led to the resignation of Soeharto in May 1998 and a severe test of the regime in Malaysia.

#### *4.1. Indonesia*

The Soeharto regime entered Asian Financial Crisis from a position of political strength. While there was speculation about factional alignment inside the regime, threats from outside the regime were minimal. In the run-up to the 1997 general elections, the regime had emasculated any potential threats from opposition political parties. Soeharto loyalists engineered the ouster of the head of the Indonesian Democratic Party (PDI), Megawati Sukarnoputri, in 1996 (see Aspinall 2005: 175-201). Incidents of civil violence had taken place on several occasions, including anti-Chinese and anti-Christian violence in Tasikmalaya (*Asiaweek*, January 24, 1997) and continued Madurese-Dayak violence in the province of West Kalimantan (*Asiaweek*, March 3, 1997). Such violence held little threat for the New Order's survival. The economic problems that would engulf Indonesia during the second half of the year had yet to appear, but the Busang mining scandal demonstrated continued problems of financial and corporate governance (*Asiaweek*, May 16, 1997). Golkar won a stunning victory in the 1997 elections, even accounting for the usual campaign manipulation, PDI restrictions, and the lack of true multi-party electoral competition. Golkar candidates took 74.2% of the vote, exceeding by a significant margin what many considered their goal of 70%. This political strength continued as

the regime confronted Indonesia's economic crisis. Business leaders with private access to the regime complained about tight monetary conditions to protect the rupiah's value, and blasted Bank Indonesia for floating the exchange rate without consideration for the increased burden of their foreign debt. Yet their complaints did not translate into demands for Soeharto's resignation, or even demands for political reform, but rather into requests that the regime rethink adjustment policy measures—ostensibly to help protect the national economy from further damage, but in reality to protect the interests of Soeharto's cronies. In the wake of the closure of sixteen banks, opposition party factions within the House of Representatives (DPR) called for transparency in the determination of bank closures, mirroring general concerns among businesspeople and economists that a lack of transparency had led to bank runs in other, better managed banks (*Bisnis Indonesia*, November 4, 1997; *Suara Pembaruan*, November 4, 1997). These opposition leaders did not call for political transparency in economic management, but rather technical transparency involving the criteria the Ministry of Finance had used to determine which banks to close.

On the whole, though, the regime closed ranks in the wake of the bank closures. The head of the ABRI fraction in the DPR Syarwan Hamid reaffirmed that body's support for the bank closures as reflecting the national interest (*Kompas*, November 6, 1997). The government also dispatched police and army troops to ensure order at banks facing deposit runs, and reassured the public that the government had decided to close the banks only to protect the common good (*Media Indonesia*, November 7, 1997; *Kompas*, November 8, 1997). By December, some opposition figures, seizing on the economic turmoil affecting the country, began to call upon Soeharto to resign. Foreshadowing the possibility that dissatisfied elements might seize the chance to disrupt Soeharto's planned re-election as President during the March MPR session,

ABRI commander Feisal Tanjung announced further measures to ensure political stability. As was customary during the New Order, he blamed the current political unease in Indonesia on unspecified communist elements (*Straits Times*, December 10, 1997).

The New Order stepped up its defense of economic management in the beginning of 1998. Tutut led the charge with her public support of the Love the Rupiah campaign. Tutut's exhortations involved not only asking Chinese *konglomerat* to show patriotism by holding rupiah assets, but also pledging that the Soeharto family itself would exchange its foreign currency holdings for rupiahs (*Bisnis Indonesia*, January 9, 1998; *Media Indonesia*, January 9, 1998; *Kompas*, January 10, 1998). Amidst some popular speculation that *konglomerats'* business practices and involvement in currency deals showed their lack of Indonesian national spirit, the regime began to target the *konglomerat* directly for participation in the Love the Rupiah campaign. These sentiments were particularly acute in the wake of the poor international reaction to the 1998 budget announced on January 5, which observers considered far too optimistic. Bad international press led to further rupiah depreciation, with urban Indonesians beginning to hoard food and other necessary goods. With hoarding came accusations of price gouging from goods traders, and wealthy Indonesians—increasingly viewed by the public as Chinese Indonesians—bore the brunt of popular dissatisfaction in urban areas (*Bisnis Indonesia*, January 10, 1998; *Jakarta Post*, January 10, 1998). The regime designed the Love the Rupiah campaign, in addition to the obvious component of moral suasion, to present a united front of *pribumi* businessmen, *konglomerat*, and government figures with a firm plan to end economic troubles (*Jakarta Post*, January 12, 1998).

Protests by ordinary Indonesians in response to the crisis began around this time. On January 12, residents protested against the rise in commodity prices in the East Javanese town of

Banyuwangi (*Kompas*, January 13, 1998). East Java's provincial government immediately requested that the central government intervene to arrest citizens accused of speculating and price gouging (*Suara Karya*, January 13, 1998). At the same time, the government announced that not only was currency speculation not patriotic, it was subversive—and that the government would prosecute speculators (*Republika*, January 13, 1998). It became clear during these weeks that protestors were not just targeting wealthy Indonesians or even local traders, but specifically Chinese Indonesians.

The perception of a united front of the Love the Rupiah campaign weakened in the following days as a result of complaints about *konglomerat*. Specifically, newspapers carried complaints that non-*pribumi* Indonesians had not fully cooperated with the campaign (*BusinessNews*, January 14, 1998; *Media Indonesia*, January 14, 1998). In an effort to persuade *konglomerat* to participate more extensively, Soedradjad held a closed meeting with attendees from the Indonesian Chamber of Commerce (Kadin) as well as some of the wealthiest and influential *konglomerat*. Also in attendance were notable *pribumi* business figures (*Media Indonesia*, January 14, 1998; *Republika*, January 14, 1998). While the proceedings of the meeting remain a secret, Soeharto's close friend and business partner Liem Sioe Liong did vow to bring his foreign currency holdings back into Indonesia as rupiah. The next day, the media reported that ABRI leaders had phoned several *konglomerat* to encourage them to donate funds to the Love the Rupiah campaign. For the first time, the potential for a split between Soeharto's Chinese and ABRI supporters became visible, as ABRI spokesman Gen. Wahab Mokodongan expressed some frustration with the *konglomerat*'s alleged refusal to show patriotism (*Jakarta Post*, January 15, 1998; *Merdeka*, January 15, 1998).

Despite the public contributions of gold and valuables from many wealthy Chinese Indonesians, Chinese-*pribumi* tensions continued to escalate. From the latter part of January until mid-February, sporadic riots took place across Java and on several of the outer islands (Johnson 1998: 6, 8; Soesastro and Basri 1998: 36). While deteriorating economic conditions were the proximate cause of the riots, the victims were largely ethnic Chinese shopkeepers, and the justifications given by most rioters were grievances against ethnic Chinese economic exploitation.<sup>3</sup> Such sentiments also appeared among members of the New Order establishment. Tutut attempted to shame *konglomerat* into making even more contributions of gold (*Bisnis Indonesia*, January 20, 1998). On January 19, Harmoko made a speech in which he alleged that the economy was plagued with “rats” (*tikus*) that had to be brought to justice (*Suara Karya*, January 20, 1998). Syarwan Hamid reiterated this theme a week later at a pro-government rally at the Sunda Kelapa mosque in Central Jakarta. Again without specifically naming Chinese, he warned that “each rat has the potential to become a traitor” (*Merdeka*, January 28, 1998).<sup>4</sup> In these two statements, the meaning of “rat” is clearly Chinese. Others linked Chinese Indonesians to a world Jewish conspiracy (*Suara Karya*, January 26, 1998). The deterioration of ethnic relations led many Chinese Indonesians with sufficient means to consider seeking refuge overseas in the event of an outbreak of violence (Eklöf 2002: 230-231).

The regime’s attempts to find a policy solution to the twin crises took up much of the month of February and early March. In a move to prevent hoarding and assuage poor Indonesians upset with price rises from local traders, the regime announced stiff fines—

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<sup>3</sup> These anti-Chinese riots occurred throughout the archipelago, not only on Java. Ocorandi (1998) lists the cities and towns experiencing anti-Chinese violence as Bagorejo, Balung, Brebes, Bulakamba, Cirebon, Jaiwangi, Jatirogo, Jember, Kalibaru, Kasiyan, Kragan, Kuningan, Losari, Margasari, Padangan, Pakisaji, Palang, Pamanukan, Rembang, Sarang, Tamanan, Tambakboyo, Tanjung, and Tuba on Java; Ende on Flores; Praya on Lombok; Bima on Sumbawa; Padangsidempuan on Sumatra; and Donggala, Kendari, and Ujungpandang (Makassar) in South Sulawesi.

<sup>4</sup> *Setiap tikus punya potensi untuk jadi pengkhianat.*

including the death penalty—for individuals convicted of hoarding or price gouging (*Jakarta Post*, February 28, 1998). But central to the regime’s plan to escape the crisis was Soeharto’s attempt to implement a currency board (CBS) in order to stop rupiah depreciation. Popular dissatisfaction with the regime grew during this period, but as Indonesian sociologist Arief Budiman noted at the time, the middle classes still were unlikely to embrace the uncertainties of political reform (*Kontan*, February 9, 1998). Non-student political activism spread during this period as well. By now, Amien Rais led the charge by calling for “total reform,” even with the high probability that *reformasi* would involve bloodshed (*Jakarta Post*, February 11, 1998). In response, ABRI leaders reiterated their charge that the regime’s political opponents were using the economic crisis as an excuse to advance their own political agendas. On February 11, Feisal Tanjung and the Minister of Home Affairs Yogi S. Memet discussed the spread of opposition activity, warning that ABRI would not tolerate political dissent that would threaten the smooth functioning of the upcoming MPR session (*Jakarta Post*, February 12, 1998).

In mid-February, just as observers began to take seriously rumors about the imposition of a CBS, thinly veiled complaints about the *konglomerat* and other Chinese Indonesians arose once again. The CBS proposal itself fed into the nature of these complaints. Syarifuddin Harahap, a DPR member from PPP who had publicly endorsed capital controls, wrote of a conspiracy led by Western capitalists to overthrow the Soeharto regime. He linked the efforts of Westerners, though, to the *konglomerat* who had taken the wealth of the nation for themselves through exploitation of the *pribumi* (*Republika*, February 16, 1998). The head of the PPP’s Central Leadership Committee, Ismail Hasan Matareum, suggested cryptically that *pribumi* Indonesians might “get negative impressions” (*berprasangka negatif*) from the actions of the *konglomerat*. In effect, he argued, the economic crisis that had befallen Indonesia would be an opportunity for

the people to see for themselves who the real, loyal Indonesians were (*Republika*, February 16, 1998).

Despite some predictions to the contrary, military factionalism had little significance on the MPR session in March or politics in the following two months. ABRI's head representative in the MPR Gen. Susilo Bambang Yudhoyono, as well as other figures such as Indonesian Police Commander Gen. Diby Widodo, had expressed strong support for a Soeharto-Habibie ticket during the session (*Suara Pembaruan*, March 10, 1998). SBY's political links within ABRI put him close to Wiranto and the soft-liners. Yet Habibie's Islamist credentials linked him to members of the hard-line "green" faction. Feisal's post as Coordinating Minister for Politics and Security placed him highly in the Seventh Development Cabinet, and Prabowo's appointment as Panglima Kostrad gave him his own contingent of troops centered in Jakarta. Habibie hence emerged as a consensus candidate acceptable to both camps within ABRI, also enjoying support from Golkar in addition to Soeharto's personal confidence.

The events that unfolded in the final three weeks of Soeharto's rule once again important distributional consequences of policy reform at the behest of the IMF. The decision which set in motion these events was the government's announcement on May 4, that it would sharply decrease fuel and electricity subsidies. Price rises for these critical goods hit poor Indonesians the hardest, and their announcement caused sharp public outcry (*Jakarta Post*, May 5, 1998). In the days following the subsidy cuts, protest against the government spread quickly from students and pro-democracy activists to regular Indonesians, most notably the urban poor who until then had little in common with frustrated middle class students. Riots occurred in Medan, Surabaya, and elsewhere across the archipelago as students and the urban poor voiced their opposition to the reform measures (O'Rourke 2002: 78-89; Pour 1998: 4). By now, to many Indonesians the

term *reformasi* came to signify not just reform of the New Order political and economic system, but Soeharto's actual resignation, an unthinkable demand only months beforehand.

Nevertheless, Soeharto appeared unconcerned with the outbreak of mass protests against price raises, so much so that he left for a trip to Cairo on May 9, to attend a meeting of G-15 leaders. Before departing, Soeharto urged Indonesians to remain calm in the face of challenging economic conditions, reminding protestors that he, too, experienced hardship while growing up poor (*Jakarta Post*, May 10, 1998). Defending the regime's decision to cut subsidies, he argued that subsidy cuts were inevitable, and that taking this difficult step now was preferable to deferring it to the future, when it would be yet more costly (Luhulima 2001: 109).

While Soeharto was abroad in Cairo, the tense political situation turned dramatically worse. During a peaceful protest march originating at Trisakti University, a private university catering largely to the children of Indonesia's wealthier citizens, violence broke out between security officials and students. While the police only wielded non-lethal weaponry—rubber bullets, tear gas, batons—during the melee four students were shot dead by unknown forces using live rounds.<sup>5</sup> What happened next set in motion the rapid series of events that led to Soeharto's resignation. As students mourned their murdered comrades, Jakarta and several other cities succumbed to an orgy of violence. The events in Jakarta are best known. On May 13-14, rioters attacked citizens and business establishments in Jakarta's primarily ethnic Chinese neighborhoods. In addition to seemingly indiscriminate anti-Chinese violence, rioters targeted representatives of the New Order regime. Rioters torched Liem Sioe Liong's house and Tutut's office at the Ministry of Social Services, destroyed showrooms of Tommy Soeharto's Timor car, and vandalized 122 branches of Bank BCA (owned by the families of Liem Sioe Liong and Soeharto) (*Asiaweek*, May 29, 1998) (O'Rourke 2002: 97-102). The Indonesian Human Rights

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<sup>5</sup> See O'Rourke (2002: 89-94) for a detailed chronology of actors and events.

Commission (Komnas HAM) reported that the violence claimed 1,188 lives, many of them ethnic Chinese Indonesians but also a significant number of rioters caught in burning buildings or killed by security forces restoring order (*Kompas*, June 3, 1998).<sup>6</sup> This figure does not include deaths in Solo and Surabaya, also scenes of anti-Chinese violence, nor does it include totals from other urban areas that witnessed violent riots during this period. Beyond looting and killing, rioters engaged in systematic rapes of ethnic Chinese women in several areas of Jakarta. The total number of rapes, many of them gang rapes committed in public, certainly reached into the hundreds. Precise figures are however unavailable, and later attempts to collect systematic data met with fierce political opposition (*Tempo*, October 12, 1998).<sup>7</sup>

The horrific scenes of violence in Jakarta and elsewhere led many Chinese Indonesians with sufficient means to flee the country. For some months already, Chinese-*pribumi* tensions had raised the specter of mass violence, and many Chinese had planned an escape route in case ethnic relations took a turn for the worse. The riots were a sign of how bad Chinese-*pribumi*

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<sup>6</sup> This number is highly contested. Wibowo, for example, places the figure at 2,244 (2001: 130).

<sup>7</sup> Observers have reached no consensus about what specifically caused the May 13-14 riots. The general conditions for riots of this type—ranked ethnic groups, declining economic conditions—certainly set the stage for communal conflict, yet such events rarely occur without some sort of trigger. Furthermore, ethnic violence in Indonesia had been common throughout the New Order, and especially in the months preceding May 1998. Yet never had rioting occurred on such a mass level, with such ferocity, or throughout so many parts of the country at once. These observations have led many researchers, as well as most Indonesians, to claim that some elite actor(s) had instigated the riots. Reports of *agents provocateurs* and military organizational support for riots filtered through the media in the weeks following the crisis. It is instructive that while several businesses connected to Soeharto's close ethnic Chinese cronies and his family burned, businesses connected to ABRI escaped harm. Shiraishi alleges that the riots were "no doubt centrally planned and provoked," perhaps by Prabowo loyalists, to give Soeharto an excuse to impose marshal law and hence restore calm (1999: 183-184). As evidence, he notes that security forces were slow to stop the rioting. Loveard agrees, citing Prabowo's hard-line stance and a possible attempt to discredit Wiranto (1999: 345). Emmerson, though, disagrees with this assessment, arguing instead that the slow response of the security forces may have been a result of the explosive spread of the riots. As Emmerson notes, Wiranto quickly restored order to Jakarta after calling in reserve units stationed in Semarang (1999: 309-310). O'Rourke, by contrast, suggests that Wiranto, not Prabowo, had masterminded the violence, with Prabowo playing at best an auxiliary role. He argues that the military had already begun to abandon Soeharto, and that Wiranto and his allies were focusing on their role in a post-Soeharto political system. An investigation from an *ad hoc* committee from National Human Rights Committee (Komnas HAM) suggested that Panglima Kodam Jaya Gen. Sjafrie Sjamsuddin was responsible along with Wiranto; author interview with a figure in the Chinese Indonesian community, March 2006; author interview with Wahyu Effendi, co-founder of Gerakan Anti-Diskriminasi Indonesia, February 28, 2006.

tensions had become, and a sign of how vulnerable Chinese Indonesians were even with the support of the military. By May 14, fleeing Chinese Indonesians packed flights to Singapore, Hong Kong, Australia, and elsewhere (*Jakarta Post*, May 14, 1998; *Straits Times*, May 15, 1998; *Weekend Australian*, May 16, 1998). A common figure cited for the total number of Chinese Indonesians who fled the country was 100,000, but this is probably high—a more credible estimate is slightly less than half that number (Wibowo 2001: 136). Using a conservative estimate of six million Indonesians with some Chinese ancestry, this indicates that under one percent of all Chinese Indonesians left the country in the wake of the riots. The small percentage of total ethnic Chinese leaving reveals that most Chinese Indonesians simply had simply no place to go, or no means to exit. Still, this figure included the wealthiest Chinese supporters of the regime, and does not include the more widespread practice of internal migration of vulnerable ethnic Chinese to safer cities such as Pontianak in West Kalimantan (Wibowo 2001: 136).<sup>8</sup>

The political consequences of the riots were decisive in bringing down the New Order regime. For the regime's Chinese Indonesian supporters, heretofore willing to trade economic benefits for physical security, the regime's loss of control indicated a new set of choices. Before, the Soeharto regime had protected its ethnic Chinese supporters from anti-Chinese prejudice, entrusting them to help direct economic growth and simultaneously enrich other members of the regime. The regime's repressive machinery did not hinder ethnic Chinese economic activities, but rather suppressed any potential opposition to investment and growth targets. Foreign investors had not considered the regime's repression of popular dissent a problem, because the regime provided stability. To protect Chinese Indonesians in the wake of the riots the military had to employ repression, but now that repression itself discouraged rather than encouraged

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<sup>8</sup> Author interview with a Chinese Indonesian political observer, February 2006.

economic recovery. To Chinese Indonesians who had supported the New Order, the prospects of economic recovery under Soeharto were no longer feasible.<sup>9</sup>

Under these circumstances, Soeharto and the regime's adjustment dilemma again became critical. To restore economic growth, New Order policy makers had to undertake widespread economic reforms that would have hurt the regime's supporters. The continued capital outflow and currency depreciation made reforms necessary. Closing the capital account and fixing the exchange rate was unacceptable to wealthy ethnic Chinese supporters of the regime, who supported the regime so long as it protected the possibility of exit. This dilemma had defined the regime's management of the crisis since July 1997. But now, wealthy Chinese supporters saw that the provision of physical protection to ethnic Chinese was not feasible alongside economic recovery without sacrificing capital account openness. Seeing this, and witnessing the consequences of the breakdown of social relations in Jakarta, the wealthy ethnic Chinese Indonesians who had supported the regime voted with their feet and fled the country. Those who did physically flee began to agitate for Soeharto's resignation. For them, a political transition was now the best of many poor options.

With the support of Chinese cronies gone, the fracture of the elites was complete. Most other elites began to abandon Soeharto, and those that remained gave him a sobering picture of what he needed to accomplish to retain power. From this point, the true collapse of Soeharto's support, to his resignation was a rapid series of events.<sup>10</sup> By May 21, only a week after the riots, Soeharto had tried and failed to cobble together a new, heavily Islamist coalition. No longer able to maintain control, he then resigned.

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<sup>9</sup> Author interview with Benny Gatot Setiono, Head of Perhimpunan Indonesia Tionghoa, March 16, 2006; author interview with Emil Salim, economist and former State Minister for Population and Environment, March 6, 2006.

<sup>10</sup> The best accounts of his final days in office are Forrester (1998), Luhulima (2001), O'Rourke (2002: 118-135), and Sulastomo (2001).

#### 4.2. *Malaysia*

Like Soeharto, Mahathir Mohamad entered the Asian Financial Crisis from a position of strength, even though, as in the case of Soeharto, speculation about Mahathir's successor as Prime Minister had long been popular in Malaysia. In the late 1980s Mahathir survived a significant political challenge from a faction of unsatisfied UMNO members (Case 2002: 116-117; Crouch 1996: 106-127; Nathan 1989; Singh 1991), but since the early 1990s Malaysia's strong economic growth had shielded Mahathir himself from direct criticism and direct challenges to his rule. Internal political jockeying had allowed the young and popular Anwar Ibrahim to quickly climb the ranks of UMNO, so that by 1997 he occupied the positions of Deputy Prime Minister and Finance Minister, as well as Deputy President of UMNO with his own crony base within the country's corporate world (Camroux 1996: 862; Crouch 1996: 116; Singh 2000: 538). Unlike Soeharto, whose New Order policy establishment was initially praised by international observers for its sensible crisis management, Mahathir's repeated outbursts during the course of the crisis led to sharp international condemnation. Especially throughout the first months of the crisis, Mahathir very publicly railed against currency and stock market speculators for damaging the Malaysian economy and attacking developing nations (see i.e. *Utusan Malaysia*, June 21, 1997 for the first example). Within a week Mahathir began to name George Soros as personally responsible for attacking Malaysia's currency (*Mingguan Malaysia*, June 26, 1997), and the two carried out a testy public dialogue throughout the fall of 1997 about the propriety of financial speculation in developing countries. By October, Mahathir had spoken of an international Jewish conspiracy to destabilize developing Muslim countries (*Utusan Malaysia*, October 11, 1997). Throughout this period, Anwar acted as a foil for Mahathir's outbursts, appearing a cooler head for the international press who on several occasions explained

what Mahathir was attempting to communicate in his public announcements (Athukorala 2001: 65; Jomo 1998: 186).

Thus, despite a rapidly deteriorating economy, the BN government attempted to close ranks. In late November the Malaysian lower house (*Dewan Rakyat*) held a vote of confidence in the regime's ability to manage the economy, and Anwar slammed opposition parties for complaining about economic management (*Utusan Malaysia*, November 20, 1997). The government also created in late November the National Economic Action Council, an *ad hoc* committee tasked with finding a policy solution to the crisis (see Mahani 2002: 25-26). Throughout this period as well, the regime concentrated on reassuring its Malay constituency that it would cap inflation, protect *bumiputra* investments in ASN and ASB, ultimately announcing that despite a massive sell-off in the KLSE, ASN would pay an astonishing 10.5% dividend while ASB would pay an 11.5% dividend and bonus for 1997. These payouts dropped from over 13% each in 1996, but still represented remarkable profitability amidst financial turmoil (*Utusan Malaysia*, December 13, 1997; *Utusan Malaysia*, December 20, 1997). But long-rumored cracks in the relationship between Anwar and Mahathir came to light as well. While both figures advocated pro-*bumiputra*, Anwar's plans focused on IMF-style adjustment policies, most notably in his contractionary budget proposal announced in late 1997 (Athukorala 2001: 65-66; Case 2002: 131-133; Gomez and Jomo 1999: 200). Mahathir, by contrast, railed against IMF-style plans as harmful for *bumiputra* interests and the nation's poor. Many observers saw Mahathir's installation of Malay billionaire Daim Zainuddin as Executive Director of the NEAC to be evidence of Mahathir's attempts to marginalize Anwar.

In early 1998, Malaysia launched a "Love Malaysia" campaign that mirrored Indonesia's "Love Indonesia" campaign: Mahathir and other regime leaders in Malaysia publicly exhorted

citizens to buy Malaysian products and to donate money to the government through a *Tabung Rakyat* (“People’s Fund”), later called *Dana Khas Negara* (“Special State Funds”) (*Utusan Malaysia*, January 9, 1998; *Utusan Malaysia*, March 7, 1998). As in Indonesia, January and February saw the beginnings of public complaints at increases in basic goods’ prices, with regime leaders beginning to target Malaysian citizens for moving their money abroad and lacking patriotism (*Utusan Malaysia*, January 29, 1998). In particular, UMNO Youth leaders asked the government to release the identities of local companies investing their funds in Singapore, and later complained about firms refusing to repatriate their ringgit assets (*Utusan Malaysia*, March 13, 1998; *Utusan Malaysia*, May 11, 1998). Observers widely viewed these actions as a veiled threat against Chinese Malaysian firms. As these complaints of price rises and price gouging began to grow, the regime progressively stepped up its rhetoric, repeatedly condemning traders for harming the interests of the poor and thereby disrupting the economy. On March 24, Anwar announced an additional adjustment package with RM 1 billion (approximately US\$250 million) in additional funds for housing development and extended price controls for basic goods (*Utusan Malaysia*, March 25, 1998).

Within the regime’s highest echelons, the split between Mahathir and Anwar over adjustment policy measures became still greater (Case 2002: 132-133; Khoo 1998: 6; Liow 1999: 46). At the same time, Mahathir began a campaign to reform the UMNO constitution in order to shield himself from any potential challengers. He first announced that no UMNO members charged with any criminal offense could run in any party elections (*Utusan Malaysia*, December 22, 1997), meaning with his own tight control over the courts that he could prevent any political challenge to his supporters within UMNO by accusing any challenger of a crime. In February, he publicly discouraged any challenges to the UMNO status quo in the upcoming

party conference (*Utusan Malaysia*, February 14, 1998), and in March he directed party members not to challenge any members of the UMNO Executive Council in sectional elections (*Utusan Malaysia*, March 13, 1998; *Utusan Malaysia*, March 15, 1998). UMNO Youth banned contestation for its top two positions (*Utusan Malaysia*, May 1, 1998), although it later reversed this ban.

Factional conflicts between Mahathir and Anwar came to a head in the UMNO General Assembly in late June (Case 2003: 120; Felker 2000: 52; Hilley 2001: 106; Hwang 2003: 290). UMNO Youth leader Ahmad Zahid Hamidi, an Anwar ally, had in the previous weeks made public accusations of corruption and money politics at the highest levels of Malaysian politics, without specifically giving examples. He also promised to “name names” at the party congress (*Utusan Malaysia*, June 10, 1998). Mahathir, anticipating a public move by Anwar’s allies to allege corruption against Mahathir and Daim, released a list of government projects from which Anwar and his close relatives had benefited. The party congress also witnessed the mysterious distribution of a pamphlet, *50 Reasons Why Anwar Cannot Become Prime Minister*, to many representatives in attendance (Hilley 2001: 106; Hwang 2003: 290). While the party conference ended with Anwar obsequiously supporting Mahathir, in retrospect this was the first in a series of moves against Anwar by Mahathir. On June 23, three days after the UMNO congress ended, Mahathir named Daim Minister with Special Functions in the Prime Minister’s Department, a move that more directly challenged Anwar’s authority over economic policy as Finance Minister. Several weeks later, editors of the Malay dailies *Berita Harian* and *Utusan Malaysia*, both considered close to Anwar, resigned (Gomez and Jomo 1999: 200; Hilley 2001: 106; Mustafa 2002: 162; Zaharom 1998). Anwar recalls that throughout the month of August, he

repeatedly confronted Mahathir regarding rumors that Anwar would be charged with sexual impropriety (Anwar 1998).

September 1, 1998 saw the Malaysian regime embark on its controversial strategy of financial adjustment by pegging the currency, de-internationalizing the ringgit, and imposing selective controls on short-term capital outflows (for discussions, see Athukorala 2001; Mahani 2002; Tourres 2003). Capital controls allowed the regime lower interest rates without the fear of further capital flight, and the fixed exchange rate regime gave the tradeable sector an anchor to figure short- and medium-term export and import costs. De-internationalizing the ringgit forced currency holders to repatriate their funds, while the concomitant move to disallow stock trading on the Central Limit Order Book, an under-regulated Singaporean bourse trading in Malaysian securities, prevented further stock speculation. These actions set the stage for economic recovery, and also shielded the economy for the upcoming political battle. On September 2, Mahathir dismissed Anwar from his posts as Deputy Prime Minister and Finance Minister, and on September 3, Anwar was expelled from UMNO for sexual misconduct. Anwar almost immediately embarked on a “*reformasi* roadshow,” traveling throughout Peninsular Malaysia and publicly lambasting Mahathir and other members of the administration for their corrupt practices and authoritarian style of ruling.

Anwar’s public criticism of the regime did not last long. He was arrested under Malaysia’s Internal Security Act on September 20, and severely beaten by Inspector General of the Police Rahim Noor. But Anwar’s dismissal had ignited long-simmering tensions among middle class Malaysians regarding the increasingly draconian nature of Mahathir’s rule, and students increasingly took to the streets in Malaysia’s own *reformasi* movement. Anwar’s arrest only fanned the flames. While Anwar was eventually released from ISA detention, he still faced

trial for corruption and sodomy, and both trials occasioned massive *reformasi* protests (Case 2002: 134; Felker 2000; Hilley 2001: 228; Uhlin 2002: 154). The regime swiftly clamped down on protests using the Federal Reserve Unit, on several occasions resorting to physical violence and arresting hundreds of protestors (Aliran Executive Committee 1998). Besides Anwar, over a dozen of Anwar's allies were detained under the ISA during this period, although most were freed after only a week or so of detention (Aliran Executive Committee 1998). Mahathir and his allies dismissed a number of Anwar's close associates in UMNO and sidelined Anwar's allies in the Malaysian corporate world, and in the wake of the capital controls firms closely connected with Anwar suffered disproportionately compared to other Malaysian firms (Johnson and Mitton 2003).

Most striking given the extensive protests from Malaysia's pro-democracy civil society organizations is the continued unity of UMNO and the BN. With only a few exceptions, UMNO politicians did not defect to support the new opposition movement. Conglomerates closely connected to Mahathir, in sharp contrast to firms linked with Anwar, performed significantly better after the imposition of capital controls than unconnected firms (Johnson and Mitton 2003). With the easing of liquidity conditions and the government's renewed focus on development spending, rural Malays and poorer Malaysians saw almost improvements in their general welfare within several months. Moreover, some Chinese Malaysian entrepreneurs with close business links to UMNO and extensive fixed capital investments, such as Vincent Tan of the property and gambling conglomerate Berjaya Group, stood firmly by Mahathir, and profited handsomely (*Asian Wall Street Journal*, December 21, 1998). And, crucially for this argument, even opposition groups supported Mahathir's adjustment measures.<sup>11</sup> Meanwhile, in January 1999

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<sup>11</sup> Author interview with an opposition party leader, July 4, 2006; author interview with Chandra Muzaffar, former Deputy President of Parti KeADILan Rakyat, July 5, 2006; author interview with Anwar Ibrahim, former Deputy

Mahathir appointed Foreign Minister Abdullah Ahmad Badawi as Deputy Prime Minister and Daim as Finance Minister. Abdullah's reputation as a clean politician, and a patient political survivor, made him an attractive choice.

Opposition activity nevertheless did not stop with Anwar's conviction of corruption in February 1999. Buoyed by the public's negative reactions to Anwar's treatment, NGOs and opposition parties came together as never before in an attempt to provide a united front against the BN. By April of 1999, under the direction of Anwar's wife Wan Azizah Wan Ismail, opposition leaders formed Parti Keadilan Nasional (National Justice Party), known to Malaysians simply as KeADILan (JUSTice). By the summer, KeADILan had united with the Malaysian Islamic Party (PAS) and the Democratic Action Party (DAP), along with several smaller parties, to form the Barisan Alternatif (BA, Alternative Front). The BA tried to present a united message of justice and political reform to attract as many voters as possible, but the incompatibility of the parties' basic platforms made such an effort almost impossible to achieve (Biro Analisis Politik 2000; Gomez 2004; Liow 1999). Furthermore, Anwar himself was not the most uniting of figures for an opposition politician; he had long been a political insider, no "bystander caught in the middle" (*pelembuk yang mati di tengah-tengah*) (Khoo 1998: 6), and many Malaysians viewed him as simply power hungry like Mahathir.

The feasibility of the BA came to its only real test in the run-up to the Malaysian general elections of late November 1999. Mahathir called a snap election with a campaign period of only eight days, despite UMNO's near constant campaigning during the preceding months. The timing of the elections—falling shortly before Ramadhan, when urban Malays customarily return to their villages—prevented PAS from using its network of sympathetic mosques for campaign

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Prime Minister and Finance Minister of Malaysia, July 7, 2006. Only the DAP opposed these measures; author interview with Lim Kit Siang, head of the DAP, July 12, 2006.

purposes (Case 2001: 42). The election timing also prevented 680,000 newly registered voters, the majority of whom expected to support opposition candidates, from voting (Biro Analisis Politik 2000: 4; Weiss 1999: 421). With the media firmly under the thumb of the BN, the ruling coalition consistently played up the inconsistency of the BA's united platform (Biro Analisis Politik 2000: 4-7; Mustafa 2002; 2003: 55), and repeatedly attempted to frighten non-Malays by suggesting that a victory for the BA would lead to racial violence as had happened in Indonesia (Derichs 2004: 110; Felker 2000: 53; Gomez 2002: 107; Hefner 2001: 33; Liow 1999: 57; Mustafa 2003: 58; Welsh 2004: 134). Money politics remained rampant, in particular in East Malaysia where candidates deployed on-the-spot development grants and simple vote-buying (Loh 1999a, b). The mass media was blatantly supportive of Mahathir, and rumors circulated throughout Malaysia that Anwar had "caused riots in Kedah, taken land from peasants in Penang, and approved slot machines for Sabah" (Case 2002: 140).

The results indicated a secure victory for the BN, which easily retained a two-thirds majority in the Dewan Rakyat. But the BN's support among Malays dropped significantly, such that for the first time UMNO retained less than half of the BN's seats. Some analysts accordingly attributed the BN's victory to a swing in Chinese support away from the DAP, which along with KeADILan did not fare as well as they had previously.<sup>12</sup> This simple conclusion is misleading—the BN fared best in suburban electorates with small Malay majorities and large non-Malay minorities (see especially Maznah 2003). Only 51% of Chinese Malaysians voted for the BN, and UMNO won 58% of seats with at least a two-thirds majority of Malay voters. The only opposition party to really succeed was PAS, which retained the state government in Kelantan and added Terengganu. The loss in Malay support in the Malay

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<sup>12</sup> In fact, the DAP's party leaders, Kim Kit Siang and Karpal Singh, both lost their races. These races were likely thrown. In each, the number of spoiled votes far exceeded the final vote differential. But this is not unusual in Malaysian politics; author interview with Lim Kit Siang, head of the DAP, July 12, 2006.

heartland notwithstanding, Mahathir declared the election to represent strong support for the BN. Shortly thereafter, the government began a crackdown against opposition members, jailing for instance the editor and publisher of PAS' party newsletter for sedition (Abbott 2004: 80-81; Funston 2004: 172; Netto 1999). By now, it was clear that Mahathir had survived the political challenges accompanying the Malaysian economic crisis, even though it was also clear that Mahathir was an unreformed autocrat.

## **5. Conclusion**

Evidence from Southeast Asia supports the hypothesis on informal support coalitions and demands for adjustment policy explain variation in autocratic breakdown in Indonesia and Malaysia. In Indonesia, ethnic Chinese business and ABRI leaders came into direct conflict over adjustment policies, prolonging and deepening the crisis until the regime fractured amidst popular dissatisfaction. In Malaysia, new Malay entrepreneurs with heavy fixed capital investments and ordinary Malays could agree on a radical adjustment measure that protected both of their interests. With this theory, we can see that in Indonesia, the conflict between the regime's two supporting groups centered on preferences for economic adjustment (mobile versus fixed capital). We can also see why Malaysia was able to adopt radical adjustment measures that Indonesia could not adopt, enabling the Malaysian regime to survive what proved to be its most serious political challenge since 1969. This explanation is superior to the dominant alternative accounts for this variation in regime survival: that Indonesia's crisis was inherently worse than Malaysia's crisis, and Malaysia's institutions were somehow more able to contain domestic opposition than Indonesia's. I have shown that the severity of the crisis is endogenous to adjustment policies, and that Malaysia's crisis was in fact worse than Indonesia's until after Soeharto's resignation. I have also argued that the hypothesis that authoritarian institutions were

somehow more able to mobilize public support for the regime in Malaysia than in Indonesia is peculiar given the importance of Golkar in Indonesia and the dominance of the New Order state over society. But interested readers may still not be convinced. Elsewhere (Pepinsky 2006), I use the cases in Table 2 to show that controlling for authoritarian institutions, crisis severity, and other covariates, authoritarian regimes that enact capital controls are less likely to break down during financial sector crises than regimes that maintain capital openness. Institutions and crisis severity have no independent effect on the probability of authoritarian breakdowns. This is consistent with the story that I outline here.

My theory of adjustment policy and autocratic breakdown during twin crises is an application of a more general theory of the relationship between economic crises, adjustment policy, and regime transitions. Table 4 captures my predictions about the likelihood of autocratic breakdowns given different kinds of economic crises.

**Table 4:** *Likelihood of Autocratic Breakdown, by Crisis and Coalition Type*

		Support Coalition	
		Country A: Labor- Fixed Capital	Country B: Mobile Capital- Fixed Capital
Economic Crisis	Twin Crisis	Low	High
	Commodity Shock	High	Low

In a simple example of labor as rural rubber tappers producing for the export market, this commodity shock would be a sharp decline in world demand for rubber products.

The first row captures the hypothesized relationship between economic crises and autocratic breakdown with different coalitions. I have shown that during twin crises, the labor-

fixed capital coalition in Country A will agree on financial de-internationalization and exchange rate restrictions to enable expansionary macroeconomic policies. Mobile and fixed capital will be unable to agree to any such adjustment policy, and my theory predicts that this inability to adopt a coherent response to the crisis will ultimately lead to autocratic breakdown in Country B. Given a commodity crisis (the second row), the theory suggests different outcomes for regime stability. Unless the alliance between domestic capitalists and rubber tappers can coordinate on a policy for economic adjustment, the commodity shock should lead to an autocratic breakdown in Country A. Country B, whose support coalition suffers only indirectly from the commodity price shock, will be unlikely to experience an autocratic breakdown. As I suggested in the introduction to this paper, this approach allows researchers to ask more penetrating questions about the relationship between crises and political transitions. Facing economic crises, autocratic governments enact adjustment policies to lessen their impacts, but not all autocratic governments can successfully do so. Relying on an understanding of supporters' demands for adjustment policy, the simple framework I introduce allows political scientists to understand why.

Beyond new linkages between economic crises and transitions, this account suggests a return to somewhat older themes for the growing literature on the political economy of autocracy. Economists have focused on issues of appropriation and distribution in the absence of property rights, with autocracy viewed as a coalition of the rich (Acemoglu and Robinson 2001, forthcoming). My approach focuses instead on the preferences of a regime's supporters as the causal variable explaining adjustment policy and regime transitions, *without* narrow assumptions about the groups that support autocrats. In another vein of scholarship, political scientists studying the persistence of authoritarian regimes have focused largely on political institutions such as political parties (Brownlee 2004; Gandhi and Przeworski 2001, 2006; Smith 2005,

forthcoming). In this analysis, institutions are largely epiphenomenal on the interests of a regime and its supporters. UMNO and the BN in Malaysia facilitated communication and coordination between labor and fixed capital on adjustment measures, but its causal role is secondary to the preferences of regime supporters. In Indonesia, Golkar facilitated communication as well, but it could not facilitate coordination among supporters with irreconcilable policy demands. My theory suggests that for researchers interested in the wide variation in policies enacted by autocrats, a return to sectors, factors, ethnic cleavages, and coalitions as a first cut can yield powerful insights.

## 6. Conclusion

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