

**Institutions, Economic Recovery, and Macroeconomic
Vulnerability in Indonesia and Malaysia**

Thomas Pepinsky

Department of Political Science
Yale University
P.O. Box 208301
New Haven, CT 06511
thomas.pepinsky@yale.edu

This version: October 24, 2006
8500 words (including notes)

Prepared for the workshop *East Asia Ten Years After the Crisis*
The University of California-Berkeley
November 3-4, 2006

DRAFT: Comments welcome!
Please do not cite without permission

Institutions, Economic Recovery, and Macroeconomic Vulnerability in Indonesia and Malaysia*

1. Introduction

In Indonesia and Malaysia, the Asian Financial Crisis was as much a political crisis as an economic one. Policies adopted by the respective governments had fostered over a decade of strong economic growth, but this growth came with structural weaknesses that left each country vulnerable to the vagaries of investor confidence and cross-border capital movements. These weaknesses arose from each country's political economy: in each country an autocratic government used economic policy and political favoritism to reward its supporters with little regard for their potential downstream costs. The Asian Financial Crisis led each country to take extraordinary adjustment measures, and ignited distributional conflicts that ultimately drove Soeharto from power and severely tested the ruling coalition in Malaysia. Subsequently, the years since the crisis have seen political contests in each country over the implementation of reforms designed to foster economic recovery.

This chapter shows how politics has defined the course of economic recovery in Indonesia and Malaysia. Malaysia's economic recovery began earlier and remained more robust than other countries in the region as a result of the country's adoption of selective capital controls and an exchange rate peg together with expansionary macroeconomic policy. But Malaysia's successful stabilization package meant that the government escaped the tough economic reforms that could promote more healthy long-term growth. Even as the Malaysian model of growth with redistribution has survived the crisis, most of the same structural weaknesses that made Malaysia vulnerable to the Asian Financial Crisis persist today, even after

* Special thanks to Jennifer Amyx, Chandra Athukorala, Harold Crouch, Natasha Hamilton-Hart, Yan Islam, Bill Liddle, Chris Manning, Garry Rodan, and especially Hal Hill for insightful comments on an earlier draft.

the retirement of former Prime Minister Mahathir Mohamad. These include extensive political intervention in the economy, and inefficiency in government owned and politically favored firms, which impose barriers to the upgrading, retooling, and human capital investment needed to propel Malaysia towards becoming a fully developed nation. By contrast, the fall of Soeharto and Indonesia's subsequent democratization, along with IMF mandated stabilization measures and institutional reforms, have not had the much anticipated effect of promoting rapid economic recovery. In particular, Indonesia's decentralization program has not led regions to create investment-promoting legal and institutional facilities, and the implementation of economic reforms has been hamstrung by political instability at the national level. Only under President Susilo Bambang Yudhoyono, elected in September 2004, have reform measures began to show fruit.

The experiences of Indonesia and Malaysia suggest several insights for the political economy of economic reform. Far-ranging political transitions, as took place in Indonesia, can lead to delays in economic recovery due to the extensive transactions costs associated with institutional re-equilibration—the process whereby economic and political actors adjust to new institutional rules. Democratic transitions and fiscal decentralization, and competition over the ability to define new institutional rules, can yield new opportunities for rent-seeking. The product of these reforms in Indonesia has been a complex regulatory regime coupled with weak legal enforcement. While normatively desirable, democratization and fiscal decentralization have not overcome the fundamental problem of weak institutions that hinder economic growth. Political continuity, as in Malaysia, minimizes the transactions costs associated with institutional re-equilibration. The political tradeoff is that economic recovery masks the need for economic

reform, and obscures the same macroeconomic vulnerabilities that earlier led to a severe economic crisis.

The focus on institutions here does not deny the importance of other influences on the course of economic recovery in the two countries. Indonesia's crisis was far worse than Malaysia's crisis, in part due to the almost total breakdown of Indonesia's economic and political institutions in 1998. Political changes in Indonesia also extended far beyond legal and institutional reform: in the provinces of East Timor, Aceh, and West Papua, secessionist movements have threatened the very integrity of the Indonesian state. Sectarian violence in Maluku and Kalimantan brought simmering social conflicts to light, and the Indonesian military has had to reevaluate its role in Indonesian politics. Malaysia has had none of these problems. Corruption, too, has always been more extensive in Indonesia than in Malaysia. Yet there is still much to learn from these two countries. Focusing on the (often informal) institutional bases of each country's economy helps us to understand the mechanisms through which growth occurs and macroeconomic vulnerabilities develop. On this count, the comparison between institutional change and continuity in Indonesia and Malaysia reveals important themes in East Asia's recovery.

2. Economic Crisis and Recovery

Malaysia's economic contraction was shallower, and its subsequent growth more robust, than Indonesia's. A common misperception is that Malaysia's crisis was less severe than Indonesia's because Indonesia was *ex ante* more vulnerable. Indonesia did face a more severe problem of imprudent lending than Malaysia, manifest in a burden of non-performing loans exceeding by some estimates 40% of all loans in Indonesia compared to around 20% in

Malaysia.¹ But Malaysian development financing was concentrated in the stock market rather than in bank lending: Malaysia's stock market capitalization exceeded 227% of GDP in 1995, compared to just 19% in Indonesia (cited in Jomo and Hamilton-Hart 2001: 81). Between its peak on June 8, 1997 and its trough on September 21, 1998, the Jakarta Stock Exchange Composite Index shrank by 65.3%, from 741.8 to 256.8—a severe turnaround by any reckoning. But the Kuala Lumpur Stock Exchange (KLSE) Composite Index, between February 21, 1997 and September 1, 1998, shrank by 79.3% from 1271.6 to just 262.7. For Malaysia's political economy, dominated by the stock market for financing big-ticket development projects and distributing patronage, this was a disastrous turnaround.

In fact, the ultimate severity of the economic shock in each country depended on the policies that their regimes adopted in combating the crisis. Figure 1 compares growth rates across the two countries, illustrating economic contraction and subsequent recovery.

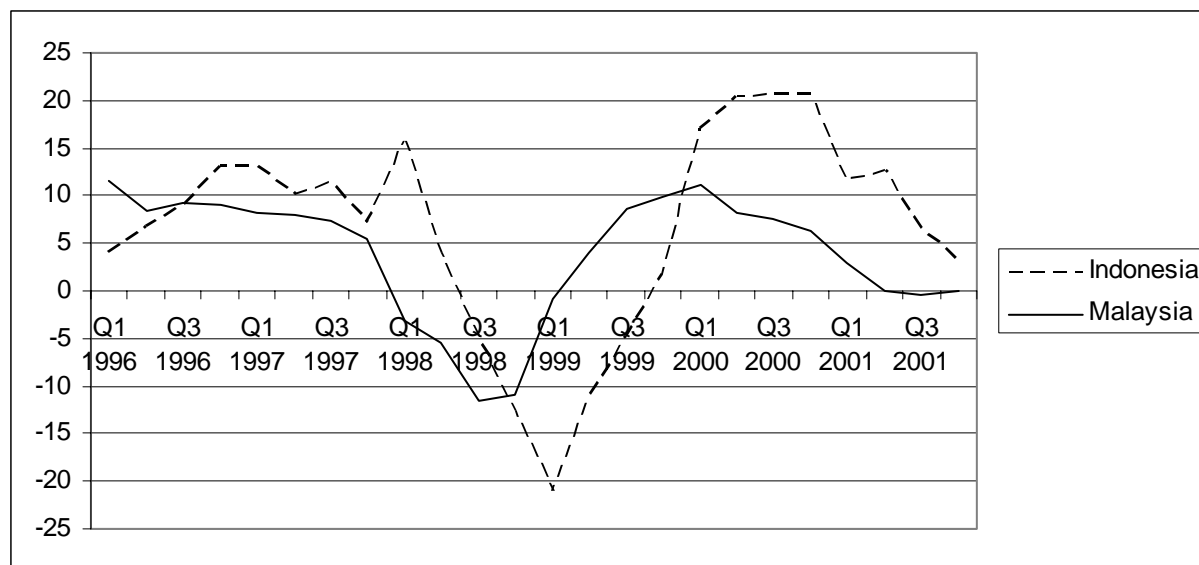


Figure 1: Quarterly Real Growth Rates, 1996-2001 (Annualized, Seasonally Adjusted)

Source: IMF, *International Financial Statistics*

¹ J.P. Morgan estimated that between 30 and 35 percent of all loans in Indonesia were non-performing at the height of the crisis. In Malaysia, the figure was 15 to 25 percent. Figures from Standard and Poor's are 40 percent for Indonesia and 20 percent for Malaysia (cited in Berg 1999: 8).

The data show that economic contraction actually began earlier in Malaysia than in Indonesia, with negative growth rates first recorded in the first quarter of 1998. Political feuding between Mahathir and Deputy Prime Minister and Finance Minister Anwar Ibrahim contributed further to the country's economic downturn. But in September 1998, Malaysia embarked on its controversial adjustment strategy of macroeconomic expansion made feasible by capital controls with a fixed ringgit exchange rate—and Mahathir sacked Anwar. Despite this political shake-up, Malaysia's economy quickly stabilized, and had turned around by mid-1999. In Indonesia, by contrast, while growth slowed abruptly in late 1997, growth did not trend negative until the third quarter of 1998, following Soeharto's resignation on May 21, 1998. But in the wake of Soeharto's resignation, the Indonesia economy contracted severely, enough that Indonesia registered a stunning fourteen percent economic contraction in 1998. After bottoming out in the first quarter of 1999, the Indonesian economy rebounded to register positive seasonal growth of just under two percent in the fourth quarter of that year.

Malaysia's comparatively rapid economic recovery despite its radical departure from IMF orthodoxy of financial openness and macroeconomic discipline sparked some debate about the causal role of Malaysia's adjustment policies in spurring economic recovery. At the very least, Malaysia's policies do not seem to have done much harm. Even Paul Krugman, a noted proponent of temporary capital controls and monetary expansion in Malaysia, has been circumspect in attributing economic recovery to Malaysia's policies rather than a secular improvement in investment climate (Krugman 1999). After all, economic crises never last forever, and after three quarters of negative GDP growth, Malaysia may have simply bottomed out. Moreover, South Korea and Thailand began to recover about the time that Malaysia began to recover, and Malaysia might have recovered still faster had it not imposed capital controls. To

assess the counterfactual that Malaysia would have recovered even without capital controls and a ringgit peg, Kaplan and Rodrik (2001) compared a number of economic indicators in Malaysia with other indicators in South Korea, Indonesia, and Thailand, taking into account that the other countries adopted IMF policies long before September 1998, while Malaysia's economy was still deteriorating at that time. They find strong support that capital controls in Malaysia were associated with a smaller drop in GDP growth, industrial output, and real wages than the IMF programs in other crisis countries.

Since 1999, the year by which the crisis in each country had finally abated, both countries' economies have grown steadily, although at lower rates than they enjoyed before the crisis (Figure 2).

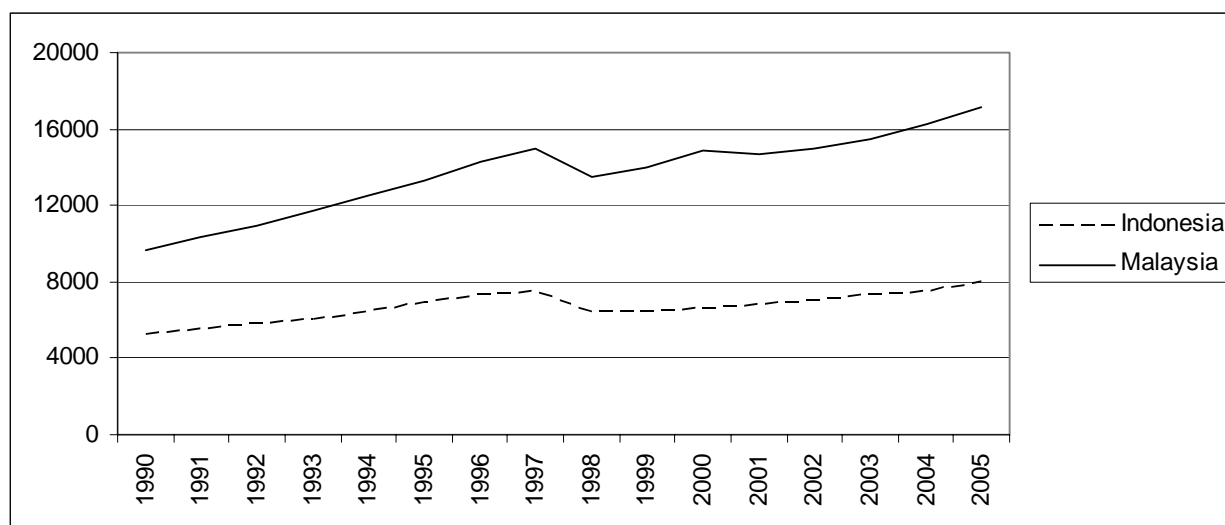


Figure 2: Real Per Capita GDP, 1990-2005
 Source: IMF, *International Financial Statistics*

In Indonesia, per capita real GDP grew by an average of 5.66% between 1991 and 1996, but this has slowed to 3.05% between 1999 and 2005. In Malaysia, the same figures are 6.72% between 1991 and 1996 and 3.49% between 1999 and 2005. Malaysian GDP did contract in 2001 due to a slump in global demand for Malaysian electronic exports (see Martinez 2002). But the trends

over time are clear: the economic crisis represents a break in each country between a period of rapid economic growth amidst relatively stable politics and a period of more modest economic growth.

3. Indonesia: Institutional Change and Macroeconomic Vulnerability

Indonesia's economic crisis drove Soeharto from power, spelling the end of the New Order regime over which he had ruled for thirty-two years. Soeharto's hand-picked successor, B.J. Habibie, was singularly unable to contain Indonesia's *reformasi* movement. In 1999, following Indonesia's first democratic parliamentary election since 1955, he was replaced as president by the liberal Muslim politician Abdurrahman Wahid (Gus Dur) of the National Awakening Party. Gus Dur, though, served erratically, alienating pro-democracy activists and allied political parties alike while mismanaging Indonesia's economic recovery and using his position to amass financial resources through the state's logistical monopoly Bulog (Liddle 2001; Malley 2002). He himself succumbed to a corruption scandal in 2001, succeeded by his Vice President, Megawati Sukarnoputri of the Indonesian Democratic Party of Struggle (PDI-P). In contesting Indonesia's first direct presidential election in 2004, Megawati lost to her former Coordinating Minister for Politics and Security, General Susilo Bambang Yudhoyono, usually known by his initials SBY. This total of five Presidents within the space of just eight years is an important indicator of the political changes ushered in by Indonesia's economic crisis.

The biggest change is, of course, the return to democracy. Democratization has led to competitive elections, leading to much broader electoral coalitions supporting the government than had been the case during the New Order, where informal channels of influence were dominant. Gus Dur's legislative coalition was initially broad, with support from Islamists and reformists alike, but it fractured as the economy stagnated. SBY, unlike his predecessors, was

elected directly, and built an electoral coalition based on popular dissatisfaction with Megawati's own economic management after she replaced Gus Dur.

Elections notwithstanding, informal bases of support remain vital for the leaders of democratic Indonesia. At this informal level, the country has seen the rise of wealthy *pribumi* ("indigenous," i.e. non-Chinese Indonesian) business figures with ties to the government. SBY's Vice President is Jusuf Kalla, formerly the head of the influential conglomerate NV Hadji Kalla who rose in the ranks of the dominant party Golkar during the New Order. His brother, Achmad Kalla, currently heads PT Bukaka Teknik Utama, a multinational firm with diversified construction investments of which Jusuf was a commissioner until 2001. Under SBY, Bukaka and Hadji Kalla have won a number of important concessions from federal and regional governments. Besides Jusuf Kalla, other members of SBY's United Indonesia Cabinet have clear links with the Indonesian business community, including the Coordinating Minister for People's Welfare and former Coordinating Minister of the Economy Aburizal Bakrie, whose family controls the influential Bakrie Group, and Minister for National Planning Paskah Suzetta, whose business interests have included property and investment. The Bakrie Group openly collaborates with the National Planning Board (Bappenas) to develop its land holdings, and Aburizal's wealth has grown substantially since he joined SBY's government.² Foreign economic observers agree that business interests such as these have hindered the course of Indonesian trade policy reform.³ Government trading monopolies and government-owned enterprises still exist in many sectors; these firms are reported to be rife with corruption, and

² "Kekayaan Aburizal meningkat," *Kompas*, May 24, 2006.

³ Several interviews with officials at international development agencies in Jakarta, February-March 2006.

privatization drives yield speculation of favoritism.⁴ More broadly, efforts to extricate the Indonesian military from the corporate world have been halting.⁵

In contrast to these newly influential business groups, many economic ministers in SBY's Cabinet, notably the current Coordinating Minister for the Economy Boediono, Minister of Finance Sri Mulyani Indrawati, and Minister of Trade Mari Elke Pangestu, have reputations as technocrats rather than business figures. The technocrats have directed several contentious but much-needed policy reforms, including fuel subsidy cuts of October 2005 that were deeply unpopular among many Indonesians. Yet the bifurcation of SBY's Cabinet between technocrats and well-connected entrepreneurs recalls the policy divide under Soeharto between technocrats, and so-called "financial generals" and nationalists (see Crouch 1978; Liddle 1991: 29-32; Mackie and MacIntyre 1994: 35-37). Based on the presence of so many members of the New Order establishment in post-New Order governments, some have suggested that Indonesia has developed a ruling oligarchy that has weathered a difficult institutional transition without actually losing its power (see e.g. Robison and Hadiz 2004).

This is probably an exaggeration. The particular business interests backing the regime have changed, with a dramatic shift from a coalition of military linked firms and ethnic Chinese cronies under Soeharto to a *pribumi* business class. Moreover, even though many members of the New Order elite have survived the transition to democracy, the rules of the game have changed in important ways. Democratization on a national scale is only the beginning. In 2001, Indonesia embarked on a decentralization experiment that dismantled many of the institutions of centralized political rule under the New Order. Constitutional amendments in 2004 reinforced this move towards regional autonomy (*otonomi daerah*). Not only are national elections

⁴ "Black hole-nya di situ [perdagangan]...", *Bisnis Indonesia*, February 15, 2006; "Privatisasi diminta dihentikan sementara," *Bisnis Indonesia*, March 31, 2006.

⁵ "Definisi bisnis militer belum jelas," *Kompas*, March 4, 2006.

democratic, so are provincial and local elections. With decentralization has come a new phenomenon of regional splitting (*pemekaran daerah*), referring to the subdivision of existing subnational political units into new ones. Since 1998, seven new provinces have been created, raising (with the loss of East Timor) the number of Indonesian provinces from 27 in 1998 to 33 today. At the sub-provincial level, over a hundred new regencies (*kabupaten*) and cities (*kota*) have been created.

The logic of political decentralization—in particular, fiscal decentralization—is to induce subnational political units to compete with one another in adopting good policies to attract investment (see e.g. Tiebout 1956; Weingast 1995). For example, provinces that eliminate inefficient labor regulations will attract more investment, encouraging other provinces to emulate them. Combined with local level democracy, this gives citizens a powerful tool to enhance government responsiveness and spur local economic development. Even if provincial administrations do not respond to the logic of inter-jurisdictional competition, instead using their newly autonomous positions to generate personal profit or to protect vested interests, with democratic elections their constituents will punish them by voting them out of office. In Indonesia, several studies have found that local level corruption has decreased since decentralization in 2001 (Henderson and Kuncoro 2004, 2006). This is consistent with cross-national evidence, which finds a negative relationship between decentralization and corruption at the national level (see e.g. Fisman and Gatti 2002).

But many Indonesian political observers have found a perverse logic to decentralization and regional splitting. Instead of fostering inter-jurisdictional competition, decentralization and regional splitting have increased the opportunities for local corruption by expanding the number

of independent veto points and government agencies across the country.⁶ Without the heavy hand of Soeharto in the background, these agencies are now even more willing to extort bribes and levies. Local elites interested in securing regular funding from the central government can create what amount to personal fiefdoms in new sub-provincial jurisdictions. The logic is similar to that of Shleifer and Vishny (1993), who suggest two different institutional equilibria that support corruption. In one, a strong central government has an incentive to maximize its total take in bribes from an economy, and hence punishes subordinates who extract excessive bribes that discourage growth and investment. New Order Indonesia matched this model well (see MacIntyre 2000). An alternative institutional structure has no central apparatus that can coordinate bribery and corruption among bureaucrats or government agencies throughout a country. The implication for investment, growth, and development is that centralized corruption, while inefficient, is *more* efficient than decentralized corruption. There are now higher transactions costs to negotiating contracts and getting investment approval—without central coordination, it is less clear who to bribe, how much to bribe, or whether each bribe paid will be the last. For this and related reasons, many observers consider the welfare-enhancing effects of regional splitting and decentralization to be ambiguous, if not negative.⁷

This perspective suggests a tantalizing hypothesis about the overall effect of decentralization on long-run economic growth. Could Indonesia's decentralization actually be harmful to long-run growth by decoupling the many opportunities for political interference in the Indonesian economy from a strong, centralized leader? Consider first the trends in perceived corruption over time. Indonesia has always been one of the world's most corrupt countries,

⁶ Interview with an official at an international development agency in Jakarta, March 2006.

⁷ See e.g. "Potret lima tahun pemekaran daerah," *Jawa Pos*, November 21, 2005; "Semakin menjauh dari kesejahteraan rakyat," *Kompas*, March 3, 2006; Toto Suryaningtyas, "Laju otonomi dalam kekangan peraturan," *Kompas*, March 20, 2006.

consistently registering at the bottom of cross-national indices of corruption. Transparency International always places Indonesia in the bottom quartile of all countries, similar to many countries in Central Asia and many emerging markets in sub-Saharan Africa. On a scale of 1-10, with one the most corrupt and 10 the least, Indonesia averages around 2 (Table 1).

Table 1: *Indonesia, Corruption Scores, 1995-2005*
Source: Transparency International

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1.9	2.7	2.7	2.0	1.7	1.7	1.9	1.9	1.9	2.0	2.2

Despite democratization and decentralization, while Indonesia is slowly improving from the valley of 1.7 in 1999 and 2000, Transparency International rates it as more corrupt in 2005 than in 1996; that is, Indonesia has yet to recover to even its pre-crisis level of corruption. We can compare the time trend in corruption to investment approvals per year (Figure 3).

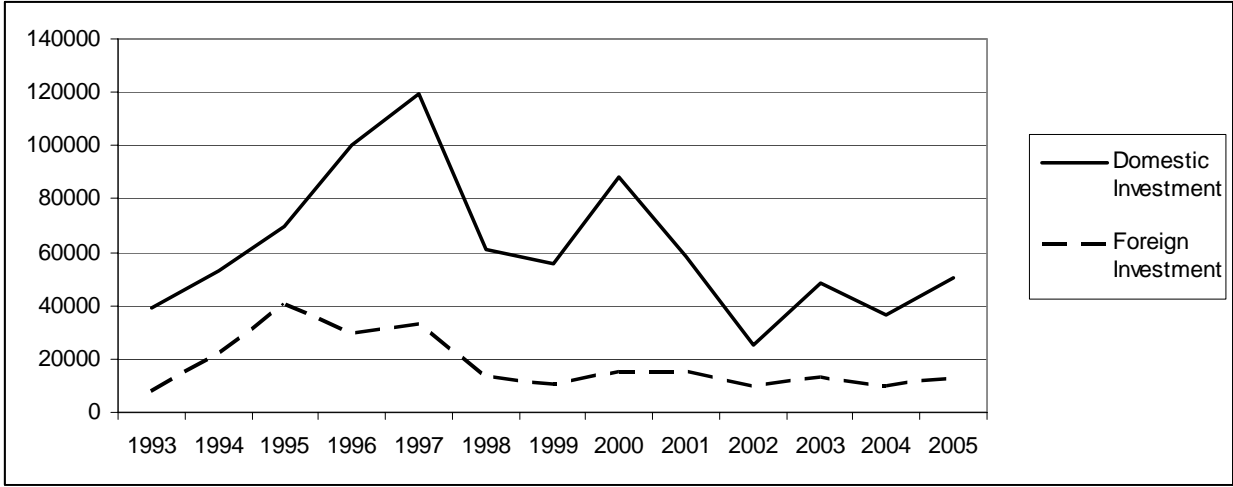


Figure 3: *Indonesia, Domestic and Foreign Direct Investment Approvals, in Billions of Rupiah, 1993-2005*
Source: Bank Indonesia

Both foreign direct investment and domestic investment in Indonesia remain much lower in the wake of the crisis they were before the crisis. In a highly open, export-oriented economy such as Indonesia, this fall in investment is likely the single greatest cause of the country’s slower economic growth in the wake of the crisis. Anecdotes of political barriers to attracting

investment abound. For example, the government revealed in March 2006 that of ninety crucial infrastructure projects for which the government has sought tenders, less than twenty percent had attracted any attention from investors. Shortly thereafter, World Bank President and former US Ambassador to Indonesia Paul Wolfowitz stated that corruption was the single greatest hindrance to investment in Indonesia.⁸

Of course, this correlation is only suggestive. Cross-national data on corruption is notoriously unreliable, and the movements in the Transparency International series are quite small when compared to the overall range of possible scores. Moreover, other factors have certainly influenced investment flows to Indonesia, in particular the rise of China, India, and Vietnam as low-cost competitors for foreign direct investment. Civil strife has also probably given domestic and foreign investors pause. Since democratization, moreover, labor has been free to organize for better wages and working conditions, which may have driven away some investors who formerly enjoyed Indonesia's controlled labor force.⁹

But other characteristics of post-Soeharto Indonesian politics reinforce how decentralization has not been as successful as many hoped in attracting investment. Since his election, SBY's administration and Indonesian business groups have repeatedly exhorted provincial and sub-provincial governments to adopt streamlined investment regulations.¹⁰ In April 2006, the central government announced two new regulations to facilitate regional growth, permitting regions to designate special economic zones without central government approval and forbidding regions from imposing any new taxes, and yet while regions can now issue permits to

⁸ "Proyek didanai utang bakal terganggu," *Bisnis Indonesia*, March 8, 2006; "Korupsi hambatan terbesar investasi," *Bisnis Indonesia*, April 11, 2006.

⁹ Survey evidence, though, suggests that labor activism and labor regulations have not harmed investment; see "Regulasi tenaga kerja bukan faktor dominan," *Kompas*, March 20, 2006.

¹⁰ "393 Perda bermasalah akan dibatalkan," *Kompas*, April 6, 2006; "Paradigma pemda soal investor harus diubah," *Bisnis Indonesia*, May 9, 2006. For more encouraging views, see "Pemda mulai membenahi birokrasinya," *Kompas*, April 11, 2006.

foreign direct investors, they must still seek approval from the central government.¹¹ The fact that SBY and his Cabinet members continue to prevail upon regional administrations to embark on such reforms, and that the central government continues to shoulder the responsibility for creating a good investment climate, indicates that decentralization itself is not yet having its desired impact.¹²

There are, then, two seemingly opposing claims. At the provincial and sub-provincial level, decentralization seems to be associated with lower corruption, but regulations still hamstring investment. Perhaps the safest conclusion about Indonesia's transition to democracy and the move to decentralization and regional autonomy is that their beneficial effects, at least until now, have been small and delayed, with provinces and sub-provincial administrations slow to adopt reforms that attract investment and combat Indonesia's (relatively) high cost economy.

At the national level, there have been encouraging steps from the central government to address political barriers to investment and growth. Successive governments have empowered supervisory agencies such as the Capital Market Supervisory Agency, the Finance and Development Supervisory Agency, and the Office of Public Accounts to combat financial improprieties, and reform of the country's clumsy and corrupt tax collection agencies remains a high government priority. SBY's government has staked its reputation on eradicating corruption in particular, and has created two new investigatory bodies that build on the influential Corruption Eradication Commission, formed in 2002. But results have been slow, with overlapping responsibilities, limited protection for witnesses, and a lack of coordination among the several extant anti-corruption agencies hindering successful prosecution of suspects (see

¹¹ "Standar izin investasi berlaku nasional," *Bisnis Indonesia*, April 18, 2006.

¹² "Paket insentif segera keluar," *Bisnis Indonesia*, February 17, 2006; interview with Aburizal Bakrie, Coordinating Minister for People's Welfare, March 14, 2006.

Yuntho 2005b).¹³ There are also frequent criticisms that the most corrupt figures escape prosecution due to political connections.¹⁴ In the case of the Bank Indonesia Liquidity Support scandal—referring to the massive amount of liquidity support doled out to crony-controlled banks at the height of the crisis—some of the biggest corruptors simply vanished overseas, and others arranged to have their repossessed assets overvalued by government auditors (Mintorahardjo 2001: 25-53; Yuntho 2005a).¹⁵ In other areas, despite several high profile convictions of corrupt politicians and businessmen, the deterrent effect of national anti-corruption efforts seems minimal. In a worrying trend, credible reports appear periodically that members of the Corruption Eradication Commission have accepted bribes and intimidated witnesses.¹⁶ Those accused include Soeharto’s half-brother, Probosutedjo, who confessed to bribing Chief Justice Bagir Manan, and Achmad Djunaidi, formerly of the state workers’ insurance firm PT Jamsostek, who revealed that he had bribed government lawyers to avoid jail time in his corruption trial.¹⁷

A focus on policy failures and institutional shake-ups risks neglecting other changes and continuities in Indonesia’s political economy since 1998. This would be a mistake. Interestingly, even as the business coalition backing the regime has changed, the ideological basis of economic policy making remains consistent. The expansion of meaningful franchise with the return of Indonesian democracy amidst economic upheaval might have engendered a populist backlash against liberal economics. Yet successive governments have not retreated

¹³ “KPK usul satukan pengadilan yang dua jalur,” *Kompas*, February 22, 2006; “Saksi pelapor bisa bebas,” *Kompas*, March 17, 2006.

¹⁴ “Tebang pilih karena kepentingan politik,” *Kompas*, February 16, 2006.

¹⁵ “Korupsi BLBI gotong royong,” *Kompas*, May 23, 2003; interview with Yosef Ardi, Reporter for *Bisnis Indonesia*, March 6, 2006.

¹⁶ “AKP Suparman mulai diadili,” *Kompas*, May 31, 2006.

¹⁷ “Suharto’s half-brother faces 4-year jail term in fraud case,” *Asian Wall Street Journal*, April 23, 2003; “Kasus suap di MA diajukan ke pengadilan,” *Kompas*, February 10, 2006; “Mafia hancurkan peradilan,” *Kompas*, April 29, 2006.

from a broad commitment to economic openness (see also Hamilton-Hart in this volume), despite occasions of populist rhetoric, extensive popular frustration with the IMF in the wake of painful structural adjustment process, and the rise of independent labor activism. Of course, economic policy making in Indonesia can hardly be described as “liberal” or “orthodox” in any real sense, but this is no different than Indonesia under the New Order, which combined capitalism with a heavy dose of statism. And the barriers to policy reform come from entrenched business interests close to the state rather than from a broad populist coalition demanding trade protection or industrial sector employment.

In sum, we can draw several conclusions about the post-Soeharto Indonesian political economy. Despite continued close relationships between the government and business interests, Indonesia’s political economy has changed dramatically since the Asian Financial Crisis. Most obvious is the rise of *pribumi* business groups that have displaced ethnic Chinese cronies, but more importantly, the institutional context of government-business relations has changed dramatically with decentralization and democratization. The national government must now negotiate with provincial governments, few of which have made great strides in improving the local investment climate. Corruption is now decentralized, and perhaps more growth retarding than corruption under the New Order. There is tentative evidence that local corruption has decreased with decentralization and local political competition, but this has not been accompanied by a rise in competitiveness or a race to adopt attractive investment policies. At the national level, even with the SBY administration’s attempts to adopt market-enhancing reforms and to foster political accountability, progress has been slow. Perhaps ironically, these vulnerabilities are what will probably shield Indonesia from the same sort of meltdown that it experienced in 1997-1998, as foreign and domestic investors are far more hesitant to invest in

Indonesia than in the mid-1990s. Indonesia's vulnerability is now of a different sort: that of a low-investment, low-growth equilibrium that undoes public support for democracy and regional autonomy (see Mujani 2006).

4. Malaysia: Institutional Continuity and Macroeconomic Vulnerability

Economic recovery in concert with political repression allowed Mahathir's regime to withstand a political challenge from Anwar and a newly galvanized political opposition. The engine of this political opposition was Malaysia's *reformasi* movement, which championed the causes of reform and social justice and catalyzed the formation of the Barisan Alternatif (Alternative Front, BA), an electoral coalition among the Pan-Malaysian Islamic Party (PAS), the largely Chinese Democratic Action Party (DAP), and the pan-ethnic National Justice Party (Keadilan) founded by Anwar's wife Wan Azizah Wan Ismail. In the 1999 general elections, PAS captured an additional state legislature for a total of two out of thirteen, and expanded its small share of seats in Malaysia's lower house. Yet the ruling Barisan Nasional (National Front, BN) coalition, led by UMNO and Mahathir, easily retained the two-thirds majority in the lower house that it had enjoyed since the restoration of parliament in 1971. In the wake of the BN's victory, Mahathir moved against many of his political opponents (Abbott 2004: 80-81; Committee to Protect Journalists 2000; Netto 1999), reinforcing his firm grip over Malaysian politics and society. Mahathir ruled until 2003, when he handed the reins of power to Deputy Prime Minister Abdullah Ahmad Badawi. Abdullah led the BN to an overwhelming victory in the 2004 general elections, with PAS losing two-thirds of its seats, the DAP regaining its position as the prime parliamentary opposition party, and UMNO and the BN reaffirming their position at the apex of Malaysian politics.

This political continuity means two things. First, the coalitional basis of Malaysia's regime remains largely intact: UMNO (and hence the BN) relies on the same cross-class Malay coalition that it always has, although some of the big players have changed (see below). Second, at the institutional level, Malaysia's political economy has changed little. On one hand, this has provided a boon to investment (Figure 4), as foreign and domestic companies continue to be attracted to the country's relative political stability and quiescent labor force.

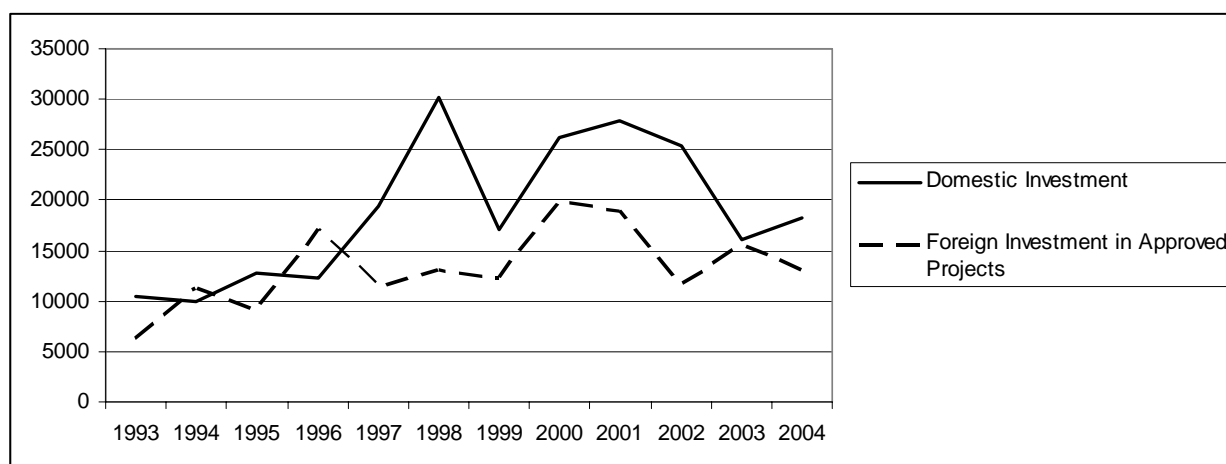


Figure 4: Malaysia, Domestic and Foreign Direct Investment (in Millions of Ringgit), 1993-2004
Source: Ministry of Finance

The data show that like in Indonesia, foreign investment declined in 1997, but unlike Indonesia, has since recovered to beyond pre-crisis levels. The spikes in domestic investment reflect expansionary fiscal policies launched by the government in 1998 and again in 2001. But in contrast to this picture of investment recovery which has driven Malaysia's post-crisis economy, political continuity in Malaysia means that there has been little meaningful reform in the policy areas that contributed to the country's macroeconomic vulnerability in the late 1990s.

Table 2: Malaysia, Corruption Scores, 1995-2005
Source: Transparency International

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
5.3	5.3	5.0	5.3	5.1	4.8	5.0	4.9	5.2	5.0	5.1

As measured by Transparency International, for example, Malaysia is almost precisely as corrupt in 2005 as it was in 1995—although, like Indonesia, corruption worsened in the wake of the country’s economic crisis before making a modest recovery.

The increase in perceived corruption from 1999 through 2002 stems largely from measures that the regime took to foster economic recovery. While capital controls and expansionary macroeconomic policy allowed the regime to jumpstart economic growth, they also allowed the regime to rescue politically connected firms without the fear of punishment from foreign traders. To resolve outstanding issues of corporate debt and weak financial institutions, the government created two quasi-governmental bodies tasked with acquiring non-performing loans and injecting capital into weak banks (Danaharta and Danamodal). A Corporate Debt Restructuring Committee facilitated these tasks (see Mahani 2002). But there was clear evidence of favoritism in these bodies’ operations. The government bought out shares in the deeply indebted Malaysian Airlines Systems from Tajudin Ramli, a corporate ally of former Finance Minister Daim Zainuddin, at an inflated price that allowed Tajudin to pay off his own extensive debts.¹⁸ The government also bought a controlling stake in Time dotCom Bhd, using public funds to complement private investment after a failed initial public offering.¹⁹ Time dotCom is a subsidiary of Time Engineering Bhd, in turn controlled by the government-linked conglomerate Renong Bhd, long one of UMNO’s corporate arms. Just six months later, after a falling out between Mahathir and Daim, the government bought a controlling stake in Renong, which itself remained mired deeply in debt.²⁰ Such examples abound of public funds protecting political interests during this period of recovery. Johnson and Mitton (2003) find that the stock prices of

¹⁸ “MAS rescue faces a difficult course,” *Asian Wall Street Journal*, January 17, 2001.

¹⁹ “Malaysian funds buy costly stake in Time dotCom,” *Asian Wall Street Journal*, March 16, 2001.

²⁰ Terence Gomez, “Malaysia Inc.: Bailout or accountability?,” *Asian Wall Street Journal*, July 26, 2001.

publicly listed companies with links to Mahathir recovered faster than stock prices of unaffiliated firms, and that both recovered faster than stock prices of firms associated with Anwar.

Yet despite Malaysia's heterodox adjustment strategy, accompanied by triumphal rhetoric lambasting neo-liberal economic policies and threats to force a consolidation of the domestic banking sector, Malaysia remains today a fundamentally open economy. This has continued to be the case under Abdullah's tenure in office. Abdullah's inauguration was indeed a moment of optimism for many observers of Malaysian politics and economics (Welsh 2005). Under his leadership, the final remnants of Malaysia's radical adjustment measures—bans on short-selling of stocks and the ringgit's hard peg to the US dollar—have been lifted. Abdullah has a reputation of being personally incorruptible, and he immediately embarked on an ambitious program to streamline government-linked companies (GLCs) and root out public sector inefficiency. On these counts, he can claim some modest success, having introduced procurement standards and efficiency guidelines and replaced ineffective executives in some GLCs.²¹ It would appear at a rhetorical level, then, that Abdullah's regime is even more pro-market than Mahathir's regime, which periodically violated market principles during times of political upheaval.

Closer examination of Malaysian politics and economic management shows that the tight relationship between business and politics persists. Several promised reforms have yet to come to pass, such as the establishment of an open tender system for government procurement and a fair competition law.²² While the late 1980s saw official privatization of many companies, the government retains a large stake in conglomerates in key sectors. Some government-controlled

²¹ "Professional managers," *New Straits Times*, February 20, 2004; "Khazanah kaji kemungkinan GLC jadi firma persendirian," *Berita Harian*, March 24, 2006.

²² "Malaysia risk: legal & regulatory risk," *Economist Intelligence Unit – Risk Briefing*, May 23, 2006. Interview with Lim Kit Siang, DAP MP, July 12, 2006; interview with Tan Sri Ramon Navaratnam, President of Transparency International (Malaysia), July 17, 2006.

firms such as Telekom Malaysia (telecommunications) and Petronas (petroleum exploration and refining) are notably professional and have expanded beyond Malaysia's borders, but others such as Tenaga Nasional Berhad (power generation) have retained their influence through size rather than efficiency. Furthermore, the regime still protects clearly inefficient companies such as the national automobile company Proton, reflecting both the continued influence of Mahathir on daily politics (he is now Proton's "special advisor") and Abdullah's inability to combat entrenched interests.²³

From the standpoint of UMNO's leadership, control over budgetary purse strings has reached paramount importance. As part of his strategy to sideline Anwar, Mahathir took temporary control of the Ministry of Finance, and later gave the Finance portfolio to Daim Zainuddin. Daim served until 2001, when Mahathir assumed the position himself. Daim ostensibly resigned on his own accord, but political observers have noted that Daim's business interests had come into conflict with the business interests of Mahathir's son Mokhzani Mahathir.²⁴ Since rising to the position of Prime Minister, Abdullah has continued Mahathir's practice of holding the Finance portfolio. Also of note is the continued existence of the National Economic Action Council (NEAC), a super-constitutional organ that Mahathir created in late 1997 to find a solution to the country's economic crisis. Although the crisis has long since abated, the NEAC continues to exist as a body with wide discretionary authority over economic management, superseding that of economic ministries such as Trade and Industry, Public Works, Finance, and others. At the head of its Executive Committee sits the Prime Minister, the Deputy Prime Minister, and an executive chair who also serves as Minister in the Prime Minister's

²³ "Proton terus dibantu," *Berita Harian*, March 24, 2006; "Cheaper Protons," *New Straits Times*, March 25, 2006.

²⁴ See Terence Gomez, "Why Mahathir axed Daim," *Asian Wall Street Journal*, July 5, 2001.

Department. If anything, this is evidence of more political centralization of economic policy formation than before the crisis.

Besides maintaining Mahathir's centralized economic policy apparatus, Abdullah has retained a number of Mahathir's cronies who had under Mahathir served as members of his economic team, including Minister of International Trade and Industry Rafidah Aziz and Minister of Works S. Samy Vellu. Such continuity of Malaysian politics reveals that despite Abdullah's reputation as a clean politician, entrenched interests in UMNO and the BN remain influential. Moreover, Abdullah's son-in-law Khairy Jamaluddin, viewed as having extraordinary personal influence over Abdullah, has seen his personal wealth grow extensively since 2004 at what many believe to be shady investment deals dependent on political favoritism.²⁵ Additionally, Abdullah's deputy Najib Abdul Razak has none of Abdullah's reputation for moderation and clean government. Instead, he is known as a staunch defender of Malay special rights and of UMNO, and is often identified with the politics of his father, Abdul Razak Hussein, who engineered the move toward overt UMNO dominance of Malaysian politics during the period of suspended democracy from 1969-1971, and later ushered in the New Economic Policy (NEP) that has defined Malaysian economic policy making since the early 1970s.

In fact, the regime's continued emphasis on the NEP—despite the fact that it officially expired in 1990—provides ideological cover for much of the regime's continuing involvement in the economy. Existing in an uneasy relationship with relatively free markets is the regime's consistent advocacy of Malay dominance and favoritism in business and society. (In Malaysia, “positive discrimination” officially benefits all *bumiputras*, or non-Chinese and non-Indians, but Malays are the main beneficiaries of this favoritism.) A revealing document is the Ninth

²⁵ Anonymous interview with a Malaysian economist, July 2006.

Malaysia Plan (Government of Malaysia 2006), Malaysia's first five-year development plan issued under Abdullah, which the government released to great domestic fanfare in February 2006. The Plan, like its predecessors, places heavy emphasis on the government's role in coordinating the redistribution of wealth and equity in favor of *bumiputras*, largely at the expense of the country's large ethnic Chinese minority.²⁶

There are many ways in which the government intervenes in the economy to sponsor interethnic redistribution. For instance, in a worrying continuation of policies long implemented under Mahathir and his predecessors, the government continues through its investment arm Permodalan Nasional Berhad (PNB) to manage a number of *bumiputra*-only unit trusts with heavy involvement in the KLSE. These unit trusts increase the wealth flowing to Malays, and the government has launched new trusts in the wake of the crisis. Besides PNB's capital market investments, the government maintains an active interest in areas such as power generation, shipping, and transportation through its "strategic investment" arm Khazanah Nasional Berhad. Perbadanan Nasional Berhad (PNS), formerly under the Ministry of Finance before privatization in 1996, facilitates the growth of a "*bumiputra* commercial and industrial community" by investing in *bumiputra*-controlled start-ups and distributing franchises to *bumiputras*. Perbadanan Usahawan Nasional Berhad (PUNB), a wholly owned subsidiary of Yayasan Pelaburan Bumiputra (of which PNB is another subsidiary), has since 1991 complemented PNS in nurturing *bumiputra* entrepreneurs, and its responsibility for creating *bumiputra* franchisees and businesses owners expanded notably in the Ninth Malaysia Plan.²⁷ A wide array of

²⁶ "Priority on acquiring a first-class mentality," *The Star*, April 1, 2006. One interesting development is that for the first time Indian Malaysians have been identified as requiring government assistance; "Business training for Bumiputeras and Indians," *New Straits Times*, May 23, 2006.

²⁷ "2,420 perniagaan diwujudkan," *Berita Harian*, May 2, 2006.

government linked coordinating bodies and policy development organizations support these efforts both at the Federal level and among the Malaysian states.²⁸

The most obvious weakness from this intervention is that the NEP still rewards political efficacy rather than efficiency. The NEP's strictures hamstring firms eager to retool, streamline, and upgrade in order to better compete with firms in more advanced economies. At the same time, Malaysia's educational system—the key driver of human capital investment—languishes under political restrictions and ethnic quotas. Furthermore, as in the past, politicians may influence national investment companies to invest in uneconomical ventures connected to political allies. Additionally, because the regime has such a direct stake in the performance of Malaysian stocks, it has a strong incentive to protect dividends at all costs. And while many governments across the world have quasi-corporate subsidiaries that facilitate strategic national investments, the danger in Malaysia comes from the vulnerability of supervisory agencies to political interference. Bank Negara Malaysia, Malaysia's Central Bank, is by no means independent from political influence (during the 1998 crisis political pressure led its Governor and Deputy Governor to resign). The Anti-Corruption Agency ACA has the statutory authority to investigate and prosecute a wide number of offenses among public servants, but in practice, it is successful against only low-level functionaries.²⁹ The Malaysian judiciary, stripped of independent authority by Mahathir in the late 1980s but tentatively reasserting its independence since 2004, still faces accusations of bowing to political pressure and bribery.³⁰ In the 1980s and 1990s, as the economy boomed, weak regulation fostered the growth of money politics and corporate scandals tied directly to UMNO and other BN component parties (see Gomez 1994; Gomez and Jomo 1999; Milne and Mauzy 1999). During the crisis, Mahathir used these and

²⁸ "Inskan, MPUD mampu mempercepat kuasai ekonomi," *Berita Harian*, May 24, 2006.

²⁹ "At the Dewan Rakyat yesterday: arrests for graft increasing," *New Straits Times*, March 21, 2006.

³⁰ "Justice for sale: Are some judges corrupt?," *New Straits Times*, May 31, 2006.

other investment arms to protect the interests of favored groups, using for example funds from Khazanah and the publicly owned pension fund the Employees' Provident Fund to shore up the sagging KLSE.³¹ Today, without meaningful reform, the same danger exists.

Several recent corporate scandals reveal that political protection remains valuable for well-connected corporate figures. Daim's falling-out with Mahathir appears to have left him particularly vulnerable. An old corporate scandal from his days as Finance Minister in 1990, involving a scrapped highway project, has reemerged. In January 2006, the Court of Appeals ruled that he and his protégés Halim Saad and Annuar Othman owed RM65 million to the damaged party.³² Halim, Annuar, and Daim immediately appealed court's recent ruling, and Daim firmly denied that Halim or Annuar had ever benefited from connections with him while he was Minister of Finance.³³ This statement certainly conflicts with the many questionable contracts awarded to Halim's United Engineers (Malaysia) Berhad, a subsidiary of Renong (see above), throughout the 1980s and 1990s (Gomez 2002: 91-95; Jomo 1998: 187). The case has yet to reach a conclusion, but it is revealing that the case against Daim moved forward only after he fell from political favor.

Under Abdullah, moreover, political scandals reveal that UMNO politicians still often use their office for corporate gain. In 2005, Mahathir revealed the extensive use of approved permits (APs) for importing foreign-made automobiles into the country as important new tool of political patronage. The distribution of APs falls under the authority of Rafidah Aziz. Mahathir, as Proton's advisor, condemned the practice for introducing competition to Malaysia's heavily protected domestic automobile industry, and released the names of the beneficiaries of over

³¹ "RM60b sokong BSKL," *Utusan Malaysia*, September 4, 1997.

³² "Metramac to pay RM65m," *New Straits Times*, January 13, 2006; "KL politics-business link exposed in court," *Straits Times*, January 16, 2006.

³³ "Daim: it was Cabinet's decision," *The Star*, January 27, 2006.

67,000 APs issued in 2004 alone. Despite extensive media coverage, no charges of wrongdoing have been filed, and Rafidah has retained her position.³⁴ These and other scandals lead most observers to question the true extent to which Abdullah is able to combat entrenched party interests.

So in contrast to the case of Indonesia, in Malaysia we find that institutional continuity has contributed to a more rapid recovery from the crisis, at the cost of continued if not additional macroeconomic vulnerabilities. Malaysia is still a fundamentally open economy, but one where the old model of ethnic favoritism and political favoritism persists. The link between Malaysia's political system and macroeconomic vulnerability is easy to miss in relatively fat times, but it is important to recall that Malaysia's economic crisis from 1997-1999 began following a similar period of seemingly healthy expansion. Like Indonesia, though, the memory of Malaysia's crisis still gives foreign investors pause, and risk consultancies continue to warn that the dark areas of Malaysia's political economy persist. If anything shields Malaysia from financial and real sector crises today, it is investor wariness, not political and economic reform.

5. Conclusions

The experiences of Indonesia and Malaysia after the Asian Financial Crisis reveal the difficulty of establishing institutions that can sponsor healthy economic growth. Indonesia since 1998 has experienced rapid and far-ranging institutional change towards institutions that scholarly consensus holds should be both welfare and efficiency enhancing. But its experience suggests that the benefits of democratization and decentralization can be delayed, both by extensive corruption and the difficult task of adjusting to these new institutional arrangements. Malaysia reaffirms what many consider an uncomfortable common wisdom that despite their

³⁴ "Committee fully responsible for APs, says Pak Lah," *The Star*, February 18, 2006.

high costs in terms of personal freedoms, repression and autocratic political stability can be a platform for economic recovery. In both countries, policy weaknesses stemming from government-business linkages remain the greatest source of macroeconomic vulnerability, and the level of corruption in 2005 in each is the same as it was before the Asian Financial Crisis. But the institutional context of government-business linkages has changed in Indonesia from a highly centralized system of hierarchical exchange to a decentralized system of bribery and influence peddling. In Malaysia, the main players have changed with the resignation of Mahathir, the marginalization of Anwar and Daim, and the rise of Abdullah and Khairy, but the system has proven remarkably resilient.

What this signifies for Indonesia is a break from the model of economic development that had proven so successful under the New Order. No longer does a relatively insulated decision maker sit atop a steep political hierarchy, capitalizing on eager international investors, abundant labor and natural resources, and a political apparatus that instantly transforms executive preferences into policy. Indonesia's current challenge is to create good policies that attract investment and sponsor growth rather than relying on informal guarantees from the executive branch to reassure investors. The breakdown of Indonesia's model becomes more striking when compared to Malaysia's development model, which has changed little since 1997. Ethnic politics and redistribution still underlie almost all economic policy choices in Malaysia. This is the main legacy of heterodox adjustment measures which shielded Malaysia from the upheaval that Indonesia experienced.

Despite this pessimistic outlook, one welcome sign of change—shared by both countries—is the rise of an active civil society, eager to monitor government excesses and agitate for reform. Hundreds of NGOs have sprung up in Indonesia, such as the influential Indonesian

Corruption Watch which has taken the lead in tracking and publicizing cases of corruption.³⁵ In Malaysia, draconian legislation that restricts civil society organizing remains in effect, but opposition presses and NGOs energized during the *reformasi* movement still vocally criticize the BN regime, and even the government-controlled print media have become bolder in covering political and economic scandals since Abdullah rose to power. While evidence of its impact on policies that minimize macroeconomic vulnerability remains scarce, the ability of nascent civil society groups to improve government accountability to popular demands for clean and responsible government may be the key to fostering macroeconomic stability and healthy long-run economic growth in the two countries.

6. References

- Abbott, Jason P. 2004. The Internet, Reformasi and Democratisation in Malaysia. In *The State of Malaysia: Ethnicity, Equity and Reform*, edited by Edmund Terence Gomez. London: RoutledgeCurzon.
- Berg, Andrew. 1999. The Asian Crisis: Causes, Policy Responses, and Outcomes. IMF Working Paper WP/99/138.
- Committee to Protect Journalists. 2000. Malaysia. Available online at <http://www.cpj.org/attacks00/asia00/Malaysia.html> [Accessed May 1, 2006].
- Crouch, Harold. 1978. *The Army and Politics in Indonesia*. Ithaca: Cornell University Press.
- Fisman, Raymond, and Roberta Gatti. 2002. Decentralization and Corruption: Evidence Across Countries. *Journal of Public Economics* 83:325-345.
- Gomez, Edmund Terence. 1994. *Political Business: Corporate Involvement Of Malaysian Political Parties*. Townsville, Queensland, Australia: Centre for South-East Asian Studies, James Cook University of North Queensland.
- . 2002. Political Business in Malaysia: Party Factionalism, Corporate Development, and Economic Crisis. In *Political Business in East Asia*, edited by Edmund Terence Gomez. London: Routledge.
- Gomez, Edmund Terence, and K. S. Jomo. 1999. *Malaysia's Political Economy: Politics, Patronage and Profits*. Second ed. Cambridge: Cambridge University Press.
- Government of Malaysia. 2006. *Ninth Malaysia Plan 2006-2010*. Putrajaya: The Economic Planning Unit, Prime Minister's Department.
- Henderson, J. Vernon, and Ari Kuncoro. 2004. Corruption in Indonesia. NBER Working Paper Number 10674.
- . 2006. Sick of Local Government Corruption? Vote Islamic. NBER Working Paper Number 12110.

³⁵ "ICW laporkan 133 hakim ke Komisi Yudisial," *Kompas*, May 15, 2006.

- Johnson, Simon, and Todd Mitton. 2003. Cronyism and Capital Controls: Evidence from Malaysia. *Journal of Financial Economics* 67 (??):351-382.
- Jomo, K.S. 1998. Malaysia: From Miracle to Debacle. In *Tigers in Trouble: Financial Governance and the Crises in East Asia*, edited by Jomo K. S. London: Zed Books Ltd.
- Jomo, K.S., and Natasha Hamilton-Hart. 2001. Financial Regulation, Crisis and Policy Response. In *Malaysian Eclipse: Economic Crisis and Recovery*, edited by Jomo K.S. London: Zed Books Ltd.
- Kaplan, Ethan, and Dani Rodrik. 2001. Did the Malaysian Capital Controls Work? NBER Working Paper No. 8142.
- Krugman, Paul. 1999. Capital Control Freaks: How Malaysia Got Away With Economic Heresy. Available online at <http://slate.msn.com/id/35534/> [Accessed October 24, 2004].
- Liddle, R. William. 1991. The Relative Autonomy of the Third World Politician: Soeharto and Indonesian Economic Development in Comparative Perspective. *International Studies Quarterly* 35 (4):403-427.
- . 2001. Indonesia in 2000: A Shaky Start for Democracy. *Asian Survey* 41 (1):208-220.
- MacIntyre, Andrew. 2000. Funny Money: Fiscal Policy, Rent-seeking and Economic Performance in Indonesia. In *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*, edited by Mushtaq H. Khan and Jomo K. S. Cambridge: Cambridge University Press.
- Mackie, Jamie, and Andrew MacIntyre. 1994. Politics. In *Indonesia's New Order: The Dynamics of Socio-economic Transformation*, edited by Hal Hill. Honolulu: University of Hawaii Press.
- Mahani, Zainal Abidin. 2002. *Rewriting the Rules: The Malaysian Crisis Management Model*. Petaling Jaya, Selangor, Malaysia: Pearson Malaysia Sdn. Bhd.
- Malley, Michael. 2002. Indonesia in 2001: Restoring Stability in Jakarta. *Asian Survey* 42 (1):124-132.
- Martinez, Patricia. 2002. Malaysia in 2001: An Interlude of Consolidation. *Asian Survey* 42 (1):133-140.
- Milne, R.S., and Diane K. Mauzy. 1999. *Malaysian Politics under Mahathir*. London: Routledge.
- Mintorahardjo, Sukowaluyo. 2001. *BLBI Simalakama: Pertaruhan Kekuasaan Presiden Soeharto*. Jakarta: Penerbit RESI.
- Mujani, Saiful. 2006. Mengkonsolidasikan Demokrasi Indonesia: Refleksi Satu Windu Reformasi. Working Paper, Lembaga Survei Indonesia. Available online at http://www.lsi.or.id/file_download/19 [Accessed May 26, 2006].
- Netto, Anil. 1999. A Y2K Crackdown: Arrests of Critics A Sign of Nervousness Ahead of UMNO Polls. *Aliran Monthly* 19 (11/12):2-6.
- Robison, Richard, and Vedi R. Hadiz. 2004. *Reorganizing Power in Indonesia: The Politics of Oligarchy in an Age of Markets*. London: RoutledgeCurzon.
- Shleifer, Andrei, and Robert Vishny. 1993. Corruption. *Quarterly Journal of Economics* 108 (3):599-617.
- Tiebout, Charles. 1956. A pure theory of local expenditures. *Journal of Political Economy* 64:416-424.
- Weingast, Barry R. 1995. The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development. *Journal of Law, Economics, and Organization* 11:1-31.

- Welsh, Bridget. 2005. Malaysia in 2004: Out of Mahathir's Shadow? *Asian Survey* 45 (1):153-160.
- Yuntho, Emerson. 2005a. Korupsi BLBI dan Persidangan In Absentia. Available online at <http://www.antikorupsi.org/mod.php?mod=publisher&op=viewarticle&artid=6351> [Accessed June 1, 2006].
- . 2005b. Tim Koordinasi Pemberantasan Korupsi: Antara Harapan dan Kekhawatiran. Available online at <http://www.antikorupsi.org/docs/timtastipikoreson.pdf> [Accessed May 24, 2006].