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a Tiger Economy**

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INDONESIA: THE STRANGE AND SUDDEN DEATH OF A TIGER ECONOMY*

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ABSTRACT: Among the East Asian crisis economies, Indonesia has been by far the worst affected. Its economic contraction has been about twice as large as the next most affected economy, Thailand. It is the only crisis economy to experience serious inflation. Its political turmoil and social tension have also obviously been much deeper than elsewhere. Finally, unlike Thailand, the 'early warning' indicators of a looming crisis were much less obvious. This paper seeks to explain why Indonesia's crisis has been so much worse than its neighbours.

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1. INTRODUCTION

Until recently a major preoccupation of economists and political scientists was explaining why and how the East Asian economies were growing so fast. Now, suddenly, the big question of our time is to understand how and why several of these economies fell dramatically off their high-growth trajectories. Why didn't economists, international development agencies, and financial analysts foresee the events of 1997-98? How can seemingly robust and vigorous economies fall so far, so swiftly? Is there anything to salvage of the so-called 'East Asian miracle'?¹

These questions are particularly pertinent to Indonesia. As the 1998 annual World Bank (1998a) assessment of the country observed:

Indonesia is in deep crisis. A country that achieved decades of rapid growth, stability, and poverty reduction, is now near economic collapse. ... No country in recent history, let alone one the size of Indonesia, has ever suffered such a dramatic reversal of fortune.

It is by far the worst affected economy in East Asia - its economic contraction has been about twice as large as the next most affected economy, Thailand. It is the only crisis economy to experience serious inflation (Table 1). Its political turmoil and social tension have also obviously been much deeper than elsewhere. Finally, quite unlike Thailand (and to a lesser extent Korea), there was an almost complete absence of 'early warning' indicators. And, even as the crisis began to break, there was a general expectation that it would not be as adversely affected as Thailand: 'Why Indonesia is not Thailand' was a widely held sentiment over the period June-August 1997.

(Table 1 about here)

The purpose of this paper is to offer an explanation of what went wrong, in three parts. The first includes some preliminary empirical and theoretical observations (section 3); the second (section 4) assesses a range of pre-crisis vulnerability indicators; and the third (section 5) examines the management of the crisis from mid 1997 onwards. By way of backdrop, section 2 briefly charts the broad economic and political context leading up to the crisis. Indonesia's current crisis raises many other complex issues, including the socio-economic impacts, the country's immediate prospects for recovery, and a range of broader policy and analytical questions. Owing to space limitations it is not possible to dwell on these. The interested reader is referred to the references listed in footnote 1 and to the longer study from which this paper draws.

¹ The literature on these questions is expanding rapidly, and it is not possible to cite it comprehensively. Studies already published by early 1999, and featuring a special focus on Southeast Asia, include Jomo (ed, 1998), Lane et al (1999), McLeod and Garnaut (eds, 1998), Montes (1998), Radelet and Sachs (1998), World Bank (1998b), and Arndt and Hill (eds, 1999). For Indonesia, McLeod (1998), Manning (1999), World Bank (1998a) and the 'Survey of Recent Developments' in *BIES* cover developments in more detail. Assessments by prominent Indonesian economists include Sadli (1999), Simandjuntak (1999) and Tubagus (1998). For the onset and early stages of the crisis, see in particular Soesastro and Basri (1998) and Johnson (1998).

2. PRELUDE TO THE CRISIS

Four features of pre-crisis Indonesia stand out. These centre around the absence of any 'early warning' indicators of impending collapse, and they set the stage for our subsequent analysis.

First, economic growth was strong, and all available evidence suggested that the benefits continued to be broad-based. The country's statistical agency, BPS, estimated that the percentage of the population in poverty continued to decline in the 1990s, from 15.1% in 1990 to 13.7% in 1993 and 11.3% in 1996. A declining incidence of poverty was found over this period in all 27 provinces, for both rural and urban areas. Inter-personal inequality remained low, and the gini ratios showed no upward trend. Real wages were growing in every sector for which good quality data were available (Manning, 1998). Other social indicators, such as educational enrolments, nutritional intake and various indicators of health status, also continued to improve over the decade prior to the crisis. International comparisons (eg, World Bank, 1998b, p. 75) confirmed these good results, while also underlining the conclusion that, by East Asian standards, some of Indonesia's social indicators continued to lag somewhat.

It is easy to quibble with these social indicators. Indonesia's national poverty line is extremely conservative, and the poverty estimates are very sensitive to where the line is drawn. The inequality indices are considered less reliable than the poverty figures. The sample sizes in the smaller provinces are such that the regional poverty figures are at best approximate. Other social indicators, especially quality-based statistics (eg, educational standards), need to be interpreted with caution. It is of course true that some of the wealthy and well-connected grew very rich (obscenely so in the case of the Soeharto family) over this period. But it is important not to lose sight of the big picture. There is certainly no evidence of growing and widespread inequality or immiserization in the period leading up to the crisis. Life was almost certainly improving for the vast majority of Indonesian citizens.

Secondly, economic growth appeared to be robust. Indonesian economic development was no 'myth' in the Krugman (1994) sense of growth being driven almost entirely by factor augmentation rather than total factor productivity (TFP).² Among the various TFP estimates, Singapore, not Indonesia, was most commonly singled out as the prime example of 'perspiration-led' growth in East Asia. Various estimates placed Indonesia in the mid-range of TFP growth since the 1960s (Chen, 1997). Detailed research focused on the country's industrial sector confirmed these results. Moreover, in examining the trends over time, TFP growth appeared to be rising over time, with slower growth during the oil-financed import substitution era of the 1970s giving way to higher increases in the period of deregulation in the 1980s. Aswicahyono (1998), for example, concluded that non-oil manufacturing TFP grew by 1.1% per annum 1976-80,

² In fairness to Krugman, it should be pointed out that the conclusions from his myth paper, if correct, pointed to a gradual slowing down of growth rates, not the catastrophic collapse in economic activity which has occurred since mid-1997, a point Krugman himself has made in commenting on the East Asian crisis.

but 5.5% and 6.0% during 1984-88 and 1989-93 respectively. Timmer (1999) also concluded that TFP grew strongly post-1985, throughout the latter period at more than double that of 1975-85, with especially high growth in the early deregulation years 1986-90.

Thirdly, there was growing political turbulence and uncertainty over this period, but until the middle of 1997 there was no discernible impact on the economy or on any major financial indicators. The years 1996-97 were arguably the most unstable politically since 1967 (Forrester and May (eds, 1998)). In 1996, the mildly oppositionist Indonesian Democratic Party (PDI) was the subject of ruthless and violent manipulation to ensure that its leader was to the liking of the Soeharto. Younger and more radical opponents of the regime were given long gaol sentences. In late 1996 and early 1997 a series of nasty incidents with unpleasant ethnic overtones occurred in several mid-sized Javanese cities. The unrest escalated in the first half of 1997 in West Kalimantan, with extremely violent ethnic conflicts between the indigenous Dayak people and immigrant Madurese (and which occurred again on an even more gruesome scale in March 1999). In May 1997 the election campaign and voting for the Parliament took place, also against a backdrop of unprecedented violence. Then, by the middle of the year, the region's worst ever forest fires occurred, owing to a combination of indiscriminate forest clearing, an unusually long dry season, and lax regulatory supervision. The haze engulfed much of Sumatra and Kalimantan, and also seriously disrupted parts of Malaysia and Singapore.

Nevertheless, these political events had no discernible impact on the economy through to mid-1997. Capital inflows remained buoyant. The stock market was rising. The rupiah continued to bump against the lower limit of the intervention band, and on each occasion the latter was widened the currency quickly appreciated to the new, lower limit. Despite the simmering discontent, the widespread disgust at the business antics of the Soeharto children, and frustration that the much vaunted keterbukaan (political openness) of the early 1990s had not materialized, the political protests seemed to abate following the general elections. By July, Soeharto again appeared to be in supreme control.

Finally, most conventional economic and financial indicators looked either buoyant or reasonably comfortable pre-crisis. These indicators highlight the challenge of looking at the right indicators, of collecting better data, and of attempting to understand the complex economic-political interactions once a crisis sets in. This is the subject of more detailed analysis in the next three sections.

3. CAUSES: (A) SOME PRELIMINARIES

With the benefit of hindsight, it is ironical to reflect back on the conventional wisdom in mid 1997, and particularly the widespread notion that Indonesia looked better equipped to deal with the crisis than Thailand. Among the factors advanced in support of this thesis were the following:

- its authoritarian political system looked better able than Thailand's shaky coalition politics to deliver a clear response to the crisis;
- Bank Indonesia had not squandered its international reserves trying to fight the foreign exchange market, unlike its Thai counterpart;
- Indonesia's exchange rate regime had not been so rigid;
- Indonesia had invited the IMF in advance for 'consultation';

- Indonesia's geo-strategic significance is such that no major country could afford not to participate in a rescue package (in the way that the US had not signed up to the first Thai package).

Many - indeed most - of Indonesia's economic and financial indicators looked quite comfortable immediately pre-crisis. Table 2 provides a comparative assessment of Indonesia and its major neighbours, to which we shall return in the following discussion.³ Among the major conclusions from this and other studies are the following:

(a) Macroeconomic policy:

- Fiscal policy, conventionally defined, was conservative; the budget was broadly in balance, as it had been for some 30 years.
- Inflation was (just) single-digit.

(b) Current account and debt:

- The current account deficit appeared manageable, and as a percentage of GDP was less than half that of Thailand in the immediate pre-crisis period
- The external debt to GDP ratio, while quite high, was gradually declining and was appreciably lower than during the difficult adjustment period of the mid 1980s.

(c) Business/efficiency indicators:

- Investment and savings were buoyant.
- Indonesia's ICOR was broadly stable in the 1990s and did not register the sharp increase in some of the other crisis economies. (For example, it almost doubled in Thailand and Korea in the course of the decade - see World Bank, 1998b.)
- Unlike Thailand, in late 1996 and the first half of 1997 there was no evident loss of investor enthusiasm for the rupiah or the stock market.
- Indicators of corporate health appeared broadly satisfactory.
- The construction industry and the urban real estate markets were growing vigorously, but there was no evidence of a major asset price 'bubble'.
- All major financial ratings exercises for Indonesia continued to be positive, and generally improving. International comparisons (such as the World Competitiveness Report) ranked Indonesia rather low compared to the OECD economies, but among emerging markets it assumed an intermediate position, and one which was improving substantially over time. International development agencies as always emphasized the need for further reforms, but their public and semi-official statements gave little hint of an impending crisis.
- There was no generalized wage explosion; real wages in most sectors were rising gradually. Although sharper increases were evident in some high-level international-quality services, the numbers employed were small in aggregate.

(d) Microeconomic/financial reform:

- International trade and investment barriers were steadily declining, although the forward momentum had declined since the late 1980s, and several egregious exceptions were much commented upon.
- The process of financial deepening appeared to be progressing steadily, as new financial instruments were introduced; similarly Bank Indonesia's capacity for prudential regulation seemed to be improving.

(e) Balance of payments:

³ See also Jotzo (1998) for a very detailed compilation and analysis of early warning and vulnerability indicators.

- Also unlike Thailand, exchange rate policy was gradually being relaxed, as Bank Indonesia widened its intervention band; there did not appear to be any serious exchange rate misalignment.
- International reserves, both in absolute terms and in months of merchandise imports, were comfortable and rising.
- Export growth showed considerable year-to-year fluctuation in the 1990s, but there was no sudden drop in 1995 and 1996 (World Bank, 1998b, p. 20ff).
- Among major East Asian economies, Indonesia was the least exposed to the electronics sector, which appeared to be a significant factor in much of this regional export slowdown. (In its merchandise trade Indonesia was, however, the most exposed to Japan.)

(Table 2 about here)

This is not the place to survey the vast literature which attempts to explain economic/financial crashes and crises, but it will be useful to draw attention briefly to some of the key theories and arguments.

First is the argument that international financial markets are inherently unstable, that they are prone to wild swings of sentiment, of boom ('bubbles') and bust, of euphoria and panic (Kindleberger (1989), Radelet and Sachs (1998)). One characterization of the East Asian crisis economies along these lines is that 'irrational exuberance' suddenly became 'irrational pessimism'.

A second, related school of thought links these explanations more explicitly to developments in international capital markets in the 1990s, which rendered these markets still more unstable. These developments include particularly aggressive 'push' factors from OECD economies: low interest rates and rising savings in some of them induced funds to enter global markets. Capital flows to emerging markets rose dramatically during the 1990s, from about \$9 billion annually in much of the 1980s, to over \$240 billion immediately before the crisis (see the IMF's World Economic Outlook, various issues). An increasing proportion of these funds were of short maturity. As the two major economies of the world, US and Japanese monetary policy are seen as most pertinent to these arguments. Low US rates accelerated the outflows, while monetary tightening induced inward flows. The gap in the 1990s between Japan's interest rates and Southeast Asian deposit rates was such that it outweighed exchange rate risks as Japanese financial firms borrowed domestically in yen and onlent to these markets.

According to both these arguments, poor quality information flows and analytical capacity contribute significantly to market instability, as manifested in 'over-shooting' and 'herd' behaviour.

The third and fourth hypotheses switch the focus primarily to domestic factors.

The third, drawing primarily on the experience of chronic Latin American crises of the 1970-1980s, attributes responsibility to macroeconomic policy weaknesses (Krugman, 1979). In particular, there is a rigid nominal exchange rate combined with loose fiscal policy, the resultant inflation from which results in an appreciating real effective exchange rate, a widening current account deficit, and capital flight in anticipation of - and eventually triggering - a balance

of payments crisis. Modern variants of this thesis include the argument that, while fiscal policy may superficially appear to be satisfactory, a conservative consolidated public sector account may conceal problems.⁴ Another variant is that it is possible to violate Mundell-Fleming if, as in Indonesia in the 1980s, domestic markets are only weakly integrated into the international market, capital flows take the form mainly of government borrowings and long-term FDI, and such private capital movements as there are are small in magnitude. However, such a monetary stance is no longer possible with the highly mobile, interest-rate sensitive private capital flows of the 1990s.

The fourth hypothesis concerns the state of the domestic financial sector, and Krugman's memorable characterization of it being 'over-guaranteed but under-regulated'. Problems of moral hazard, occasioned by explicit or implicit government guarantees, induce reckless lending behaviour, especially to and by the politically well-connected. Prudential regulation and the legal infrastructure underpinning banks' operations are weak. Financial sector reports are not highly credible. The financial sector thrives in an environment of high growth, but serious shocks to the system may quickly erode confidence, and the herd behaviour discussed above could swiftly lead to a withdrawal of liquidity, bank runs and financial collapse. High and rapidly rising credit exposures by a shaky financial sector further complicate the problems of crisis management, since monetary policy tightening (for example in defence of a currency) imperil financial institutions.

The fifth hypothesis (articulated for example by Hughes, 1999) generalizes this argument to a critique of Asian-style 'crony capitalism', corruption and poor governance - KKN (korupsi, kolusi, nepotism) in Indonesian (and increasingly Southeast Asian) parlance. A variant of this so-called 'Washington consensus' would add the absence of democracy to these fatal flaws. Apparently cautious macroeconomic management and a partially liberalized economy can achieve impressive growth rates for a period. These in turn are further bolstered by international development agencies, hopeful of continuing reforms and keen to develop their lending portfolios, and private capital inflows. However, it is argued, such a strategy conceals deeper problems. It does not deliver sustained growth, and it may well end up in crisis: the export sector begins to falter owing to the inefficiencies it has to carry; large uneconomic projects (selected on the basis of cronyism, or misguided hopes of picking winners, or both) do not provide a revenue flow sufficient to service debts; and an intricate web of vested interests prevents or frustrates the capacity of governments to act decisively in a crisis.

Finally there is the argument that international development agencies, in particular the IMF (and to a lesser extent that World Bank and the Asian Development Bank), mishandled the early stages of the East Asian crisis and deepened it. These agencies, it is alleged, demanded tighter fiscal and monetary policy when budgets were broadly in balance, and when the economy

⁴ For example: even with a balanced budget, governments can waste resources; 'headline' fiscal surpluses are easier to achieve during periods of sustained high economic growth; uneconomic/'crony' projects may simply be transferred off-budget to the banking sector through central bank credits or 'command lending' to commercial banks; or there may exist implicit government guarantees which, if called in, could jeopardize fiscal balances.

was already beginning to contract. They attempted to resolve banking sector distress too quickly, thus aggravating the general loss of confidence. And they overloaded the reform agenda, forcing bureaucratically stretched and politically shaky governments to quickly tackle a vast array of highly complex and sensitive policy issues. These criticisms, it should obviously be noted, are not directed at explaining the onset of the crisis, but rather its prolonged severity.

One additional observation concerns the importance of distinguishing between, and charting the interaction among, precipitating 'triggers' and core 'vulnerability' factors. The trigger for East Asia's crisis was obviously Thailand. The Thai case is distinguished by the fact that there were clearly some early warning indicators - by early 1997, short term capital was flowing out and the stock market was declining.⁵ Indonesia by comparison arguably had a foot in both camps: like Thailand it was vulnerable in some key areas, but it did not display the early signs of crisis in the first half of 1997.⁶ Indonesia-Thai merchandise trade connections are quite weak, and thus it is clear that the transmission mechanism for this contagion was the capital account. That is, events in Thailand triggered rising region-wide risk perceptions, and an ensuing flight of capital out of neighbours' currencies and countries, the more so in countries such as Indonesia with broadly similar economic structures and commercial climates.

4. CAUSES: (B) PRE-CRISIS VULNERABILITY FACTORS

Let us now consider these various hypotheses as they relate to Indonesia's circumstances in the lead up to the crisis.

(i) External debt and capital mobility?: The first and second hypotheses may be considered together owing to substantial overlap. There can be no doubting the rapid build-up, and volatility, of private capital flows immediately prior to, and during the onset of, Indonesia's crisis: net private capital inflows in FY 1996/97 (that is, in the year through to March 31 1997) of \$13.5 billion, followed by net outflows of \$11.8 billion a year later, and an estimated additional outflow of \$10.8 billion in 1998/99. To make the case that international capital markets were a problem, however, one has to focus on both the aggregates, and the components of capital flows, particularly that element which is 'mobile'. We consider each in turn

First, Indonesia's external debt as a percentage of GDP was broadly stable pre-crisis, at approximately 54%. By the end of 1998, it totalled \$142 billion, with the private sector owing slightly more than the public (Table 3). Pre-crisis the public debt to GDP ratio was declining, as indeed was the absolute total in some years, as a result of cautious fiscal policy and some pre-payments of existing debts. Thus, for example, the share of public debt in total debt declined from 75% in 1991 to 60% in 1995 and 42% in 1997. Much more problematic are the various estimates of short-term debt, and on this crucial variable we lack

⁵ See Ammar (1997), Bhanupong (1999) and Warr (1998) for careful analyses.

⁶ As the World Bank (1998b, pp. 54-5) argued: 'It is clear that while a crisis was building quickly in Thailand, and to some extent in Korea, other countries - Malaysia, Indonesia and the Philippines - seem to have been affected by the crisis through contagion.'

reliable time series data. The Bank Indonesia data on short-term debt (defined as one-year maturity or less) suggest, implausibly, that there was little increase over the period 1991-95. Alternative estimates of short-term debt suggest a much faster build-up. For example, according to the World Bank, World Development Indicators, it almost trebled 1990-96, from \$11.1 billion (16% of the total) to \$32.2 billion (25%).⁷

(Table 3 about here)

Although hardly at stratospheric levels, here was one significant early warning indicator. Indonesia's external debt was sizeable well before the crisis, much of it accumulated during the 1980s when it had successfully negotiated the collapse in oil prices. The rapid increase in private debt - particularly that (unknown) portion which could quickly leave the country - was a new phenomenon for Indonesia, and one which the government was not well-equipped to handle. One obvious implication of this rising short-term debt is that the conventional way of viewing international reserves was flawed. Instead of viewing the reserves in a current account context, in terms of months of imports, a capital account yardstick has become more relevant. As Table 2 demonstrates, estimates of the ratio of short-term debt to international reserves indicate that Indonesia was the most vulnerable in Southeast Asia, with a short-term debt almost double the level of reserves.

Of course, what constitutes 'mobile capital' is a matter of debate. External debt is only part of the story. Portfolio investment can also leave the country at short notice, and Indonesia received large quantities of this capital when the stock market was deregulated in late 1988. Adding the stock of portfolio investment to the short-term debt produces a still higher figure. Ultimately, almost all financial assets - foreign and domestic - might be regarded as internationally mobile if, as in Indonesia, there is an open capital account and there is a total loss of confidence in a regime. Indeed, crises invariably commence with domestic capital flight, since this group of investors generally has a superior understanding of domestic economics and politics. On this basis, the most appropriate ratio might be broad money (M2) to reserves. Alternative estimates (see for example Athukorala and Warr (1999) and World Bank (1998b) report broadly similar rankings, with Indonesia consistently among the more vulnerable economies both in terms of levels and rates of increase.

Thus, in sum, there was a build-up in the stock of 'mobile capital', including short-term external debt and portfolio investment. But most of these indicators were not approaching crisis levels, and it would be a mistake to focus just on the foreign dimensions. More important, when a really deep crisis developed, was the stock of 'liquid capital', as foreigners and residents alike took refuge from the rupiah.

⁷ This is not the place for an in-depth analysis of Indonesia's external debt statistics, other than to stress their obvious weaknesses, and the clear signal that Bank Indonesia's (BI) inadequacy sends to markets. Admittedly, an open capital account renders more difficult the task of collecting reliable time series data. But BI's inability pre-crisis to estimate accurately total debt and its major components points to significant institutional failure.

(ii) Poor macroeconomic management?: As was emphasized above, this was definitely not an old-style macroeconomic crisis. Indonesia had experienced nearly three decades of conventionally sound macroeconomic management. First, budget deficits were broadly in balance, had rarely exceeded 2% of GDP in any year, and were tending recently towards a modest surplus. Secondly, inflation had been under control since the late 1960s. Since the mid 1980s inflation had always been at single-digit levels. Thirdly, there did not appear to be any serious exchange rate misalignment. The government had been basically targeting a constant Rupiah-\$ rate in real terms (that is, with nominal depreciations of a magnitude similar to the two countries' inflation differential). Moreover, a policy of more flexible exchange rate management was being pursued, through a widening of the intervention band. And on each occasion the band was widened - five times 1994-97 - the market pushed the rate to the bottom limit (ie, the maximum possible appreciation).

However, while on the surface there appeared to be no looming crisis, here too problems were emerging. The principal one, a la Mundell-Fleming, was the attempt to set monetary policy targets and to run a quasi-fixed exchange rate with an open capital account, which facilitated rapidly rising capital inflows. Through the 1990s the government resorted to tighter monetary policy to counteract perceptions of an over-heated economy. But the resultant higher interest rates actually attracted more capital inflows, which in turned fuelled a further monetary expansion (McLeod, 1997). As long as capital inflows were modest, and took the form primarily of public sector borrowings and foreign direct investment, the fundamental flaw in this strategy was contained. But rising private flows of the 1990s, which were not amenable to any of the government's policy levers then in use, progressively undermined exchange rate and monetary policy settings.

Moreover, the government had maintained its real exchange rate target since the last major nominal depreciation of September 1986, and its evident commitment to this strategy - as in Thailand - convinced borrowers and creditors alike that there would be no deviation. As a result, only a small proportion (estimated to be less than 30%) of the country's private external debt was hedged. For most of the 1990s, the differential between rupiah and foreign currency lending rates was in the range 10-15 percentage points. Thus the attraction of foreign borrowings, supplied by international financial institutions only too keen to participate in Indonesia's booming economy, was irresistible. The gap in lending rates far outweighed the likely modest depreciation of the rupiah. The government's quite explicit exchange rate commitments and, especially for the well-connected, bail-outs for troubled debtors underpinned the massive unhedged borrowings. The magnitude of the problem became quickly evident only when, in the face of large-scale capital flight from August 1997, the government's commitment to a targeted normal exchange rate collapsed.

It should be noted that there continues to be some conjecture over pre-crisis trends in the real effective exchange rate (REER). The data in Table 2 convey the impression that there was no serious exchange rate misalignment in Indonesia, and that its appreciation was less than its neighbours. However, it is no simple matter to measure the REER accurately. Alternative series produce

different numbers, both in magnitude and even trends.⁸ Nevertheless, no series of which I am aware points to Indonesia's misalignment being the most serious, in the sense of its real appreciation being the sharpest, among the crisis economies.

Thus, in sum, Indonesia's macroeconomic policy settings pre-crisis were basically sound. The one major deficiency concerned the exchange rate. The problem was not so much whether or not there was serious exchange rate misalignment, but rather the attempt to run a fixed rate against a backdrop of large inflows of mobile capital.

(iii) Poor financial regulation?: Some early warning financial indicators were present, but a full assessment pre-crisis was hampered by data deficiencies - some intentional, others reflecting bureaucratic weaknesses. Comparative estimates of the incidence of non-performing loans placed Indonesia somewhat higher than most of its neighbours (Table 2). However, they were below Thailand, and hardly in the precarious range. Moreover, Bank Indonesia data on non-performing (NPLs) and bad loans showed no obvious build-up of a problem. In fact, these ratios were actually reported to be trending downwards slightly.⁹ The problems appeared to be more serious among the state banks, and not their dynamic new private sector competitors. Finally, although there were frequent reports that the levels of technical expertise in many of the new post-1988 private sector entrants were rudimentary, most knowledgeable academic observers with first-hand experience argued that standards of prudential regulation and financial skills were gradually improving.¹⁰

There were at least three additional reasons for believing, pre-crisis, that immense financial problems were not around the corner. First, the external debt of Indonesia's commercial banks never reached the levels of most of its neighbours, partly owing to the restrictions placed on the activities of the still-large SOEs. Banks accounted for just 8% of the country's total external debt when the crisis broke. Most government and corporate borrowing abroad did not go through the country's banks. Secondly, the country did not appear to have experienced such a 'bubble' in asset prices as Thailand in the mid 1990s, and Japan earlier in the decade. After Indonesia's major liberalization of 1988, stock market capitalization rose dramatically (Table 4), but this reflected primarily the proliferation of new listings. The market index fluctuated considerably, but by 1996 it was only 50% higher than that of 1990, a smaller increase than had occurred in Malaysia, the Philippines, or Thailand pre-crisis (or at least until late 1996 in the case of the latter). Other indicators of financial

⁸ See for example Radelet and Sachs (1998) and Athukorala and Warr (1999), who compute a range of estimates, including nominal exchange rates adjusted for differences in each country's consumer or wholesale price index, and a 'true' measure, calculated as the ratio of the price of a basket of tradable goods compared to that of non-tradables.

⁹ As a percentage of commercial banks loans, Bank Indonesia reported these ratios as follows:

	1993	1994	1995	1996
NPLs	14.2	12.1	10.4	8.8
bad loans	3.3	4.0	3.3	2.9

¹⁰ See for example Cole and Slade (1996) and the contributors to McLeod (ed, 1994).

asset prices report a broadly similar story.¹¹ Finally, corporate commercial performance indicators generally appeared quite satisfactory. Among publicly listed corporations for which internationally comparable data were available over the period 1994-96, the return on assets was strong, difficulties in servicing interest payments were quite rare, and debt-equity ratios were moderately cautious (see Claessens et al. (1998)).

(Table 4 about here)

Seriously inadequate financial data, a weak regulatory and legal framework, implicit government guarantees for the well-connected, and the unwillingness (or inability) to implement these regulations were of course present, and they did contribute to familiar moral hazard problems and the escalating crisis (Cole and Slade, 1998). An open capital account exacerbated the problem, in the general manner described by McKinnon and Pill (1998), although it needs to be remembered again that the banks were not the major borrowers, and that a floating exchange rate might have overcome the particular problems associated with the open capital account. The financial market lacked depth and diversity (ironically in part owing to the government's fiscal caution, and the consequent absence of government bonds), and widespread insider trading continued to deter investors from the stock market, thus pushing investors into a narrow range of financial instruments.

In addition, domestic credit was expanding. Over the years 1991-96, the credit/GDP ratio grew at about 5% per annum in Indonesia and by 1996 it was about 0.5. This variable is frequently regarded in financial markets as an indicator of financial vulnerability, since high credit/GDP ratios weaken the capacity of central banks to push up interest rates in defence of the currency during a crisis. However, here too it was not obvious that there was a serious problem building up. Indonesia's ratio was growing more slowly than its neighbours, and just prior to the crisis it was less than half that of Thailand.¹²

Thus, in sum, Indonesia's financial sector was indeed 'under-regulated and over-guaranteed' and these problems did contribute to the unfolding crisis. The 'over-guaranteed' part of the equation was arguably more important, especially through its connection to the next causal factor to be examined, that of the Soeharto family businesses. Nevertheless, the evidence points to this factor as a contributing variable, rather than the key explanator. The pre-crisis data were admittedly quite inadequate, but Indonesia's financial vulnerability indicators were only moderately high, and the financial sector was a relative small direct player in the country's external debt.

(iv) Corruption and governance?: Finally, we consider the argument that widespread corruption and poor quality governance (the so-called 'KKN' factor) precipitated the crisis. This is a vast topic, and one which in most versions lacks an analytical framework.

¹¹ See Kenward (1999) for comparative CBD office rentals data in several major Asian capitals during the 1990s, which show that the increase in Jakarta rentals was below the regional average.

¹² See Jotzo (1998), Lane et al. (1999), and World Bank (1998b).

Corruption was extremely widespread in Soeharto's Indonesia. Various estimates place Indonesia very high in comparative assessments. One widely quoted estimate, prepared annually by Transparency International, ranked Indonesia at 80 out of 85 countries in 1998. Most other surveys (see, for example, Bardhan, 1997) also clearly placed it towards the top. These exercises lack scientific rigour and are obviously highly subjective, but the story they tell is reasonably robust and probably quite accurate. Moreover, there can be no doubting the extraordinary concentration of power and privilege around Soeharto, and the dramatic expansion in his family's business empire. The expansion of his children's business interests after the mid 1980s was particularly remarkable.¹³

While the centralization of privilege and resources around Soeharto was undeniable, it is virtually impossible to reach any conclusion about aggregate trends in corruption, relative to the size of the economy, over the past couple of decades. One might even make a case - though it could never be proven - that the country was no more 'corrupt' in 1997 than around 1980. In 1980, for example, the petroleum sector, state enterprises, and command lending at highly subsidized interest rates through the state banks were all far more sizeable, and these were massive sources of corruption.¹⁴ In addition, Indonesia's trade regime had become far more open and less distorted by the mid 1990s following the major reforms which were initiated in the mid 1980s. There were fewer NTBs and the dispersion of tariff rates was lower (Fane and Condon, 1996).

Whatever the case, these arguments do not demonstrate conclusively that corruption was a major causal variable. Other countries - China, India, Vietnam - also rank highly in these corruption comparisons but have not (yet) succumbed to the crisis. Moreover, one also has to explain how corrupt countries like Indonesia, and many others, could have grown so fast for so long with corruption an ever-present variable. Thus corruption was a serious problem, but it is difficult to advance the argument that it was a key precipitating variable. More plausible is the thesis that the particular forms corruption, and the political system in general, had assumed by the 1990s rendered the Soeharto government unwilling - indeed unable - to move decisively and swiftly once the crisis had hit. We return to this issue shortly.

5. CAUSES: (C) MANAGEMENT OF THE CRISIS

Thus far our examination of Indonesia pre-crisis suggests an economy moderately vulnerable to a crisis, but no more so than several of its neighbours.

¹³ Nobody outside the family - or perhaps even in it! - has a clear picture of the family fortune. According to one highly publicized estimate (*Time*, May 24, 1999), the figure may amount to about \$15 billion. Backman (1999) estimated that, at the time of resignation, Soeharto's family had significant shares in at least 1,251 companies. Adam Schwarz's (1994, p. 136) assertion that '... hardly a single major infrastructure project has been awarded without one Soeharto relative or other having a piece of it', may have been overstated, but not greatly.

¹⁴ For the record, it is worth remembering that when the state oil company, Pertamina, crashed in 1975 owing to blatant mismanagement, its debts were approximately equivalent to 30% of GDP (McCawley, 1978).

How, therefore, is one to explain the catastrophic events of 1997-98, which saw Indonesia plunge far more deeply? The explanation has to lie in the management of the crisis, which in turn was embedded in the fragile political system and escalating social and ethnic tensions. It is this to which we now turn. The major element of the story is domestic policy mismanagement which culminated in a total loss of confidence in the regime. This was compounded by an initially unhelpful international community, and coincidentally a range of additional adverse factors.

(i) A chronicle of policy errors: As noted, initially Indonesia appeared to be handling the crisis effectively. Serious problems began to emerge by late October, however, and the real damage was done over the next seven months, to May 1998. No economy could have been expected to have withstood the relentless battering which Indonesia experienced over this period. In retrospect these few months are the key to understanding how and why things went so bad so quickly.

The first major policy mistake was the sudden closure of 16 banks on November 1, 1997. This event was mishandled (by both the IMF and the Indonesian government) since it immediately undermined confidence in the entire financial system. The criteria for the closure of the banks were not well articulated, safeguards for depositors were not clear and were difficult to access, and there was no indication of whether other banks might also be closed without warning.¹⁵ This event marked the beginning of a series of bank runs, and also the loss of monetary policy control as ever increasing amounts of liquidity were injected into the system to cover these runs.

The second set of problems related to the growing perception that President Soeharto was intent on protecting his family's commercial interests at all costs, a sentiment that quickly snowballed into a general loss of confidence in the regime's economic management credentials. The government began to backtrack almost immediately on the first IMF agreement (of October 31), particularly in protecting family business interests. In early December Soeharto had serious health problems, and for a period was effectively incapacitated. In early January the annual budget was delivered, with key macroeconomic assumptions which were hardly credible. Shortly afterwards, the rift with IMF became very public. With the presidential election just two months away, speculation intensified that the then Minister of State for Research and Technology, Dr B.J. Habibie, would become vice president. When the rumours were effectively confirmed by Soeharto in the middle of the month, there was a further sharp loss of confidence, and the rupiah reached a new low. By then it was trading at just one-seventh of its pre-crisis dollar exchange rate.

The problems continued unabated. The government had just signed an impossibly ambitious agreement with the IMF. Indeed, shortly after the Soeharto-Camdessus signing ceremony, Soeharto dismissed several of the conditions attached to it. In the following month, Soeharto toyed with the establishment of a currency board system, in the process dismissing his highly

¹⁵ As Lane et al. (1999, p. 108) observe: 'In addition to the limited coverage for deposits in private banks, the guarantee was not widely publicized, and no announcement was made regarding the treatment of depositors in other institutions that had not yet been intervened.'

regarded central bank governor, and deepening the dispute with the IMF and bilateral donors. For a period, IMF support was suspended. The presidential and vice presidential elections proceeded according to script in March 1998, followed by the appointment of a contentious new cabinet, which included Soeharto's eldest daughter, Tutut, and one of his closest business cronies, the notorious Bob Hasan. For a brief period, the cabinet appeared as though it might be able to stop the rot, thanks mainly to the actions of a newly vigorous coordinating economics minister, Ginanjar Kartasasmita. But mounting political protests in May stymied these efforts, eventually tipping out Soeharto following persistent street protests and the loss of over 1,000 lives.

A third adverse factor over this period was that the international community was initially rather unhelpful. This comment relates principally to the role of the IMF, an issue we address shortly.

The fourth point to observe over this critical period was that the crisis began to feed on itself. In addition to the mounting political uncertainty, the loss of monetary control contributed to rapidly increasing inflation and capital flight, and in consequence to the collapse of the rupiah. The expansion of base money (by 90% from October 1997 to January 1998) can be linked both directly to bank bail-outs (among which the well-connected were well-treated) and more generally to a sense of panic on the part of the monetary authorities. Monetary policy management was complicated not only by the financial and political crisis but also by the exchange rate crisis. Indonesian residents switched increasingly to foreign currency deposits (which are legal), thus complicating the task of money supply targeting.

Finally, fiscal policy, as a counter-cyclical tool to help stimulate the economy, was slow to respond, for several reasons. Indonesia had a record of fiscal caution, and in the bureaucracy old habits die hard. The first IMF agreement compounded the problems, by stipulating a small fiscal surplus. There were also practical problems of how to finance the deficit. Perhaps the biggest obstacle of all was how, and on what, to spend any deliberately stimulatory fiscal measures. The crisis occurred against an increasingly volatile political backdrop. As the end of the Soeharto regime became imminent, allegations of 'KKN' and attempts to settle old scores proliferated. In consequence, parts of the bureaucracy were effectively immobilized by the threat of public protests and accusation. Thus, just at the very time that conventional Keynesian-style fiscal remedies were required in Indonesia (see Corden, 1998), domestic and international factors conspired to remove this option for about nine crucial months.

Having chronicled the major policy mistakes and lost opportunities in the first nine months of the crisis, let us look again more closely at the two major actors, the Soeharto regime and the IMF.

(ii) KKN again: If it is difficult to mount a case for corruption precipitating the crisis, the argument that it incapacitated the Soeharto regime once the crisis had hit is much more compelling. The distinguishing feature of the regime had been the immense and increasing power centred around Soeharto (MacIntyre, 1999). In consequence, as noted above, corruption too became ever more centralized around the palace. In this respect, Indonesia's corruption differed critically from its neighbours, where spoils of office were shared around more

widely, through changes of government (eg, India, Korea, Thailand), a federal political structure (eg, India, Malaysia), or within a ruling political party (eg, China, Vietnam).

While corruption became more centralized, the influence of the technocrats was diminishing. Indonesia's 1993 cabinet marked a watershed in this respect, for it ended the era of the so-called 'Berkeley Mafia', the gifted economists who had guided economic policy since 1967. For the first time under Soeharto, the Bappenas (planning) portfolio did not go to an economist. At the same time, a number of key Habibie allies (the so-called 'technologs'), with views opposed to the technocrats' economic orthodoxy, were included in the cabinet.

In addition, at the onset of the crisis, the three key economists in the cabinet, while technically able and widely admired for their professionalism, were in various ways incapacitated. For example, the Finance Minister continued to run tight fiscal policy. But he reportedly rarely conferred directly with Soeharto, nor did he communicate with the foreign financial press. Lines of communication between Soeharto and the central bank governor broke down over the issue of a currency board, and the governor was dismissed. Over this period, also, the Coordinating Economics Minister, Saleh Afiff, was occasionally quite ill and required hospitalization.

Thus, in part by historical accident and in part by design (that is, Soeharto appointing key senior officials who were known to be 'cooperative'), the key economics portfolios were weakened just when they were most needed. The late 1980s financial liberalization urgently required comprehensive follow-up regulation and supervision, yet they were sidelined. Rapidly increasing and highly mobile capital flows meant that the old macroeconomic policy framework needed to be modified. And, most of all, the late 1990s crisis demanded a strong team listened to by their leader. On all counts, the system failed to deliver. Thus, Indonesia's political system rested so absolutely on this one supremely powerful individual that it quickly began to crumble when Soeharto himself faltered from late 1997 (MacIntyre, 1999). There were no institutional checks on his authority, and conversely no safeguards in the event of his failure in a crisis. The political crisis which developed so suddenly over this period had its roots in the early stages of the foreign exchange and financial crisis, but its origins were much deeper, in the political and social problems.

That Indonesia's crisis was not inevitable can be inferred in part from a comparison of several major economic, political and institutional parameters during 1997-98 with those prevailing during the country's last major crisis, in 1985-86. Recall then that Indonesia's terms of trade fell precipitously, following the halving of international oil prices at that time. The country was, in one sense, still a 'petroleum economy', with oil and gas contributing almost three-quarters of merchandise exports and two-thirds of government revenue (Hill, 1996). But, unlike the late 1990s, Indonesia did not then follow Mexico into crisis in the first half of the 1980s.

The two periods are not directly comparable - the international environment was very different, while one crisis was a problem in the current account and the other in the capital account. But if one reflects on several of the key parameters it becomes much easier to understand why a crisis occurred on one occasion but not the other. Table 5 summarizes some of these domestic and international

parameters. In 1985-86, Soeharto was in complete control, while the key technocrats were unified and had his ear. The state was powerful, and the range of powerful actors opposed to quick and decisive reform was very limited. The rural economy was buoyant, and constituted a larger share of the economy and workforce. It was thus able to act more effectively as a sort of 'shock-absorber' which ameliorated the painful effects of structural adjustment. The international parameters were also most favourable in the 1980s. Foreign debt was long-term, concessional, and in the main owed to a small number of creditors; the country's relations with international agencies (especially the World Bank) were very close, and East Asia was about to enter a decade of unparalleled growth and restructuring. On every one of these key parameters, the situation in 1997-98 was quite the reverse. It is an unanswerable counterfactual question, but it could well have been the case that if even two or three of these variables had been more favourable in 1997-98, then Indonesia would not have experienced such a deep crisis.

(Table 5 about here)

It is in this sense that 'corruption' contributed decisively to Indonesia's crisis. It was not simply a matter of an insatiably greedy first family, but also a political system which had lost its capacity to act decisively in a crisis, and thereby lacked credibility in the eyes of both domestic and foreign investors. When Soeharto lost his legitimacy by late 1997, the whole system ground to a halt.

(iii) The role of the IMF: Should the IMF also be cast in the role of a villain? This is a large and complex issue, on which professional opinion divides sharply, and one on which inevitably outsiders cannot be fully informed. It would be a mistake to attribute primary responsibility to this institution, but equally one cannot escape the conclusion that it mishandled the situation. There is no evidence that it was any better (or worse) than anyone else in foreseeing the crisis. There may have been private warnings, but this cannot be verified. There is certainly not a hint of deep concern in the Fund's public statements.

The Fund's early approach to the problem also appeared to constitute misdiagnosis. A one-size-fits-all prescription of a fiscal surplus was seemingly based on the premise of profligate public sectors and high inflation, neither of which was accurate. Nor was tight fiscal policy required, as arguably one might have advanced the case in Thailand, to compensate for an exceptionally large current account deficit. The sudden bank closures of November 1, which precipitated the general loss of confidence in the banking system, were certainly conducted under Fund tutelage, if not direction.

The Fund's reform programs have been excessively ambitious and comprehensive. Rather than focusing on the key variables required for the restoration of market confidence, a 'scatter-gun' approach seems to have been adopted. The Fund seems to have taken the decision early on that this was the opportunity it had long been waiting for, to push through practically every conceivable item on its Indonesian reform agenda. Most of these - but not all - were highly desirable, it should be added, if implemented at the right time, and by a government able to deliver. But in the circumstances of late 1997 and early 1998, failure was inevitable: an over-loaded, weak and demoralized bureaucracy was not even remotely capable of implementing such an ambitious

agenda; those reforms requiring fundamental legal and institutional change will take years to effectively implement.

Most of these criticisms apply to the IMF's approach during the first six months of the crisis, and as Corden (1998) puts it, the Fund is a 'fast learner'. It changed direction quickly on fiscal policy. It relaxed its monetary policy stance, and Indonesia's negative real interest rates since early 1998 suggest that this policy, too, has not been overly restrictive.¹⁶ Moreover, the fund could not be accused of foisting premature financial liberalization or an open capital account on Indonesia since these were already long in place pre-crisis (since 1988 and 1971 respectively).

One lesson from the crisis is that the IMF should have focused its attention much more on the core problems associated with the financial and foreign exchange collapse. This does not preclude wider forays into the realm of microeconomic reform. But priorities do matter, given the Fund has limited technical resources, and also a limited capacity to influence government policy. Ensuring a well functioning and regulated financial sector is overwhelmingly more important than efforts to dismantle a national clove monopoly or a national car program, outrageous though the latter two interventions (both in support of Tommy Soeharto's business empire) were. In the Fund's major evaluation of its activities in Indonesia, Korea, and Thailand (Lane et al, 1999), 'Governance and Competition Policy' gets two pages and the 'overload' thesis just one paragraph, in a 147-page report. Yet these programs feature centrally, explicitly or implicitly, in the Indonesian program. Until the signing of IMF III (April 10, 1998) there was a cumulative total of 117 policy commitments, across the following areas: fiscal policy (17); monetary and banking policy (17); bank restructuring (24); foreign trade (16); investment and deregulation (15); privatization (13); social safety net (2); environment (6); other (7).

Thus in sum various criticisms can reasonably be levelled at the IMF. The worst of these is that it aggravated problems early in the crisis, and that it has bequeathed an enduring legacy of excessively complex microeconomic and institutional reform. Throughout much of 1998 its pronouncements had much reduced credibility, as indicated by the fact that the signing of agreements II-IV had almost no reaction in financial and foreign exchange markets. Nevertheless, for reasons indicated above, it would be a mistake to cast the IMF as the major villain of the piece.

(iv) Additional adverse factors: To complete this story of 'everything going wrong at once', four additional factors should be mentioned.

First, and most important, the regional economic environment was subdued. This is a major difference in the comparison between East Asia 1997-98 and Mexico 1994-95. The dominant economy in East Asia, Japan, was and still is in big trouble. Although a very generous aid donor, it has been in recession for more than half a decade, and several of its banks are teetering on the brink of insolvency.¹⁷

¹⁶ Recent IMF technical research plausibly - but perhaps not surprisingly - has reached such a conclusion. See Lane et al. (1999).

¹⁷ Japan is Indonesia's largest commercial creditor by a significant margin. According to Bank for International Settlements data, as at June 30, 1998,

A second problem was that, immediately prior to the crisis, the El Nino phenomenon had caused a very serious drought in Indonesia, resulting in declining food crop production of as much as 8% per capita in 1997-98, and necessitating the first large-scale rice imports in over a decade. Bulog's (the food logistics agency) rice stocks more than halved in the second half of 1997, and by January 1998 were at historically low levels (of around 1 million metric tons). Rice prices and supplies have always been sensitive political barometers in Indonesia, especially during election periods, and fears of large-scale food shortages aggravated already inflamed social and political tensions. Rice traders, especially Sino Indonesians, were also said to be reluctant to hold normal stock levels, owing to fears that they would be accused of hoarding and their premises ransacked.

Thirdly, international oil prices were at an historic low throughout the period, and so in consequence were Indonesia's terms of trade.

Finally, related partly to the political turbulence, and uniquely in East Asia, Indonesia's social fabric came under severe stress. The role of the small Chinese community, numbering about 3% of the population and controlling perhaps up to 40% of the economy, has always been a sensitive issue. The breakdown in civil order in May 1998, and the systematic attacks on this community, deeply traumatized many ethnic Chinese (Wanandi, 1999). Some left the country temporarily or permanently. Many took their money out. It is an open question whether Indonesia may not have suffered a sizeable permanent loss of capital and entrepreneurial skills, which this community has historically supplied. Moreover, this community has provided such a crucial conduit to the international business community, and particularly investors from Singapore, Hong Kong and Taiwan, that these ethnic tensions contributed directly to Indonesia's tarnished international business reputation. Subsequent localized violence, with nasty religious or ethnic overtones, in Ambon, West Kalimantan, Aceh, and East Timor, further contributed to the perception that the central government could not guarantee stability and security, and that Indonesia may even be in danger of disintegrating.

6. CONCLUSION

Thus there was a truly complex set of events - political, social and economic, domestic and international - of varying intensity present in Indonesia during 1997-98. It is no exaggeration to state that practically everything went wrong at once. A trigger set these events moving, while the contagion was surprisingly swift and fierce. It exposed Indonesia's core vulnerabilities, particularly its unsustainable exchange rate regime, its large stock of external debt and mobile capital in the context of an open capital account, and its shaky financial system.

Japanese creditors accounted for 38% of this debt; the next largest creditor is Germany, with 12%. There seems little doubt that the reluctance of Japanese financial institutions to accept write-downs, owing to their own parlous circumstances, has complicated and delayed Indonesia's debt resolution process.

Also, Japan is, relatively, more important in Indonesian exports than in any other East Asian crisis economy.

International factors contributed to all these problems, but this was first and foremost a domestic crisis in its origins and development. Once these problems set up a crisis, the political system and social texture proved quite unable to respond effectively. In its last six months Soeharto presided over a catastrophic decline. Indeed, it is hard to think of a regime which, having achieved so much over a quarter of a century, ended so abruptly and ignominiously.

To conclude on a methodological note, these are not events which are amenable to simple theories or uni-dimensional explanations. There is no one single answer to the question 'what went wrong?' To construct a convincing story, one has to cast the net widely, drawing on theory, empirics, country detail, and institutions, and recent history, economics and politics. Analyses which focus just on the economics or the politics inevitably miss much of the account. For, at the peak of the crisis in mid-1998, Indonesia experienced a comprehensive collapse in confidence in its currency, its economy, its institutions, its social fabric, and its political leadership.¹⁸ Setting the parameters wide runs the risk of being methodologically untidy, but a narrow approach perforce introduces even higher risks of omission. Some may find such a broad and eclectic approach rather frustrating - nothing satisfies more than a single grand theory! However, the pieces to the jig-saw puzzle comprise such disparate parts that I doubt whether the latter approach will ever really work.

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¹⁸ In this respect there are parallels with the 1994-95 Mexican crisis, where a combination of euphoria, domestic policy mistakes, political turbulence and social disaffection contributed quite suddenly to '... the almost complete loss in confidence in Mexico, its institutions and its leaders ...' (Edwards, 1998, p. 25)

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Table 1: Southeast Asian Economic Indicators, 1991-98 (%)

	Ind	Mal	Phil	Sing	Thai	VN
GDP growth:						
1991-5	7.8	8.7	2.2	8.5	8.6	8.2
1996	8.0	8.6	5.5	6.9	5.5	9.4
1997	4.7	8.0	5.1	7.8	-0.4	9.0
1998	-13.6	-6.7	0	1.3	-6.5	5.0
Inflation:						
1991-5	8.9	3.6	10.5	2.6	4.8	23.4
1996	6.5	3.5	8.4	1.4	5.8	4.5
1997	11.6	2.6	5.1	2.0	5.6	4.0
1998	65.0	5.4	9.0	-0.2	8.1	5.0
Current Account/GDP:						
1991-5	-2.4	-7.0	-3.6	12.9	-6.2	-5.5
1996	-3.3	-4.9	-4.5	15.0	-7.9	-16.2
1997	-2.9	-5.2	-5.2	15.4	-2.0	-8.6
1998	5.4	7.5	1.2	17.8	8.1	
Govt Balance/GDP:						
1991-5	-0.2	0.3	-1.6	12.4	2.8	-3.5
1996	1.2	1.1	-0.4	13.9	2.4	-0.4
1997	1.2	5.5	-1.8	6.0	-0.9	
1998	-5.5	-1.0	-3.6	-1.0	-4.5	

Sources: Asia Pacific Economics Group, Asia Pacific Profiles 1998, Canberra, 1998; IMF World Economic Outlook; JP Morgan, World Financial Markets, First Quarter 1999; press reports.

Table 2: Southeast Asia: Pre-Crisis Indicators
(all %, and for the years 1994-96, unless otherwise indicated)

INDICATOR	Ind	Mal	Phils	Sing	Thai	VN
GDS/GDP	25.0	40.2	17.3	50.6	35.4	17.2
Fiscal/GDP	0.2	1.3	0.7	13.1	1.9	-2.8
Inflation	8.1	3.5	8.6	2.1	5.4	10.5
CAD/GDP	2.8	6.9	4.0	+13.5	7.2	11.0
Debt/GDP	54	na	51	na	48	35
ST/Total debt	26	na	17	na	48	na
REER, 1996 (1990=100)	104	111	115	115	106	115
Internat reserves (months of imports)	6.0	4.7	4.0	7.1	5.7	2.1
ST debt/internat reserves, 1997	1.9	0.8	0.9	na	1.7	na
Euromoney rating (Sept 1996; 0-100)	71	80	62	96	77	52
Non-performing loans as % of total assets, 1997	12	8	6	2	15	na

Sources: Asia Pacific Economics Group, Asia Pacific Profiles 1998, Canberra, 1998; Asian Development Bank, Asian Development Outlook 1998, Manila, 1998; World Bank, World Development Indicators 1997, Washington DC, 1997; JP Morgan for REERs (increase indicates appreciation).

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Table 3: Indonesia's External Debt, 1998
(\$ billion, September 30)

PUBLIC		68.6
Government	58.8	
SOEs	9.8	
banks	4.5	
corporations	5.3	
PRIVATE		73.3
Banks	6.5	
Corporations	66.8	
TOTAL		141.9
<u>Memo items</u>		
(a) Corporate debt composition:		72.1
SOEs	5.3	
Foreign-owned	31.9	
Domestic private firms	31.1	
Domestic securities	3.8	
(b) Banking sector composition:		11.0
State banks	4.4	
Private (foreign & domestic)	6.5	
Domestic securities	0.2	

Notes: Domestic securities are those owned by non-residents.

Source: Bank Indonesia.

Table 4: Southeast Asian Stock Market Performance pre-Crisis

	Indonesia	Malaysia	Philippines	Thailand
(a) Market Capitalization (\$ million, year-end)				
1988	253	23,318	4,280	8,811
1989	2,254	39,842	11,965	25,648
1990	8,081	48,611	5,927	23,896
1991	6,823	58,627	10,197	35,815
1992	12,038	94,004	13,794	58,259
1993	32,953	220,328	40,327	130,510
1994	47,241	199,276	55,519	131,479
1995	66,585	222,729	58,859	141,507
1996	91,016	307,179	80,649	99,828
1997	29,105	93,608	31,361	23,538
(b) Market Index				
	1982=100	1977=100	1985=100	1984=100
1988	305	357	842	387
1989	400	565	1,105	879
1990	418	506	652	613
1991	247	556	1,152	711
1992	274	644	1,256	893
1993	589	1,275	3,196	1,683
1994	470	971	2,786	1,360
1995	514	995	2,594	1,281
1996	637	1,238	3,171	832
1997	402	594	1,891	373

Source: IFC, 1998 Factbook, Emerging Markets Data Base, Washington, 1998.

Table 5: Indonesia 1985-6 and 1997 Compared

<u>VARIABLE</u>	<u>1985-6</u>	<u>1997</u>
Soeharto	in complete control	end in sight, health worries
technocrats	powerful, unified	much weaker, less united; Habibie factor
external debt	mainly state, LT, few creditors	large pte, ST, many creditors, unhedged
international donors	strongly supportive	deep & public divisions
international economy	Plaza Accord (9/85) massive E. Asia restructuring	subdued E Asian growth; Japan in crisis
vested interests opposed to clean reform	some (eg SOEs, emerging family), but limited	powerful, some Palace based
rural economy	buoyant, rice self-sufficiency achieved	declining rice output, serious fires & drought