Chapter Ten

Southeast Asia and the Political Economy of Development

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Introduction

This chapter assesses the contribution of contemporary qualitative research on Southeast Asia to the field of political economy. Specifically, we examine Southeast Asian research on the origins of economic institutions and their influence on economic performance. Institutions often account for persistent and puzzling divergence in economic performance over time and across countries, but their roles and origins defy easy explanation. Similar institutions vary in their impact and are influenced by local contexts. Institutional analysis must therefore consider sociopolitical variables in addition to the efficiency considerations that economists emphasize. Analytic methods should allow for systematic comparison. Southeast Asia's social, economic, and political variations are ripe for such analysis.

The rest of this section is a critical review of Southeast Asia-related research on the political economy of development. The next section focuses on the consequences of institutions in the region's market-based economies. We then explore the origins of several institutional arrangements and examine the origins and impact of institutions from the less-studied experience of the region's post-socialist economies, especially Vietnam.
Academic interest in the relationship between institutions and economic growth emerged from a puzzling divergence in economic performance, both within the developing world and between developed and developing countries. Although the sources of this divergence remain deeply contested (Temple 2003, 142–183), scholars appreciate that the less-developed world almost universally suffered from weak or ill-suited institutions, ranging from the "big states" of Africa to the bureaucratic behemoths of state socialism. In response, economic development was rapid, especially in New Institutional Economic accounts, as a matter of organizational change, lowered transaction costs, and capital accumulation— all with an emphasis on the role of the state (Meier and Stiglitz 2003; Rodrik 2003; Harris, Hunter, and Lewis 1995). However, politics, unlike economics, concern tough, inter-elite maneuvering rather than welfare-enhancing choices by private individuals (Bates 1993; Knight 1993).

The inherently comparative requirements of institutional analysis also emerge from the empirical growth record. Successful developers have combined "sound money/free market" policies with more heterodox measures, and implemented these measures through decisively homegrown institutional arrangements (Rodrik 2003). Further, the utility of various institutions appears to vary by stage of development, with countries often failing in the transition from one set of institutions to another (Temple 2003; Meier and Stiglitz 2003). Institutions that initiate growth may not sustain it. Institutions that aid economic diversification ("structural change") may promote movement from lower-value to higher-value activities within global commodity chains. Institutions that promote expanded economic activities may pose redistributive political challenges without improving people's welfare outcomes. In sum, knowing that certain institutions are strongly associated with economic growth compels students of development to look beyond their efficiency or lack thereof, and to consider their comparative origins, sustainability, and redistributive impact.

Southeast Asia and Institutionalist Analysis

Southeast Asia offers significant opportunities to investigate such matters. Variation in development outcomes and in potential causal factors, combined with commonalities in other causal factors, allows both "most similar" and "most different" research designs. For example, the region's impressive overall growth is reflected in the emergence of the "high-performing Asian economies" during the 1980s and 1990s and in the region's relatively healthy emergence from the 1997 Asian financial crisis (World Bank 1997, 2005). Vietnam and the Philippines illustrate the different challenges of initiating growth out of a poverty trap and sustaining growth (Pratchett 2003). Differences between successful structural change and upgrading can also be seen in the contrast of Singapore with Southeast Asia's industrializing "ASEAN-4" (Malaysia, Thailand, the Philippines, and Indonesia) and of Penang with the rest of Malaysia. Finally, there is cross-national and temporal variation in the challenges of combining economic expansion with improvements in health care, education, income equality, and environmental protection.

Independent variables such as marketization, bureaucratic strength, private-sector organization, ethnic heterogeneity, factor endowments, political coalitions, regime type, and electoral rules also vary across Southeast Asia. Religious beliefs, nationalist sentiment, and constructions of gender vary as well. Yet these countries also share important features, such as pervasive minority entrepreneurs, a history of U.S. security involvement, and participation in Northeast Asian-led trade and investment.

Clearly, this is a region where qualitative scholarship can make important contributions to core questions of political economy. Yet political-economic research on Southeast Asia has so far yielded fewer theoretical breakthroughs and less systematic analysis than scholarship on Latin America or Africa (Doner 1991b). The emphasis has been on "anomalies that compel theoretical examination" rather than on building or testing theory (Johnson 1975, cited in Doner 1991b: 819).

This is changing. Southeast Asianists have made progress in showing the theoretical significance of regional anomalies and in generating and evaluating new hypotheses. Indeed, the subfield's future impact on political science depends on the current generation's embrace of "big questions" and its openness to more systematic and explicit methods recently developed by qualitative scholars. Differences between probabilistic and deterministic explanations, and between variable-based and process-based accounts, illustrate how causal variables differ from the mechanisms linking explanatory factors with outcomes. For example, causal processes are often shown as unintended and thus unconnected to the goals of actors. Likewise, different factors may lead to similar outcomes, suggesting that theories may be valid for a limited set of cases.
The institutional diversity of Southeast Asia is a natural laboratory for testing theories of comparative economic development through these methods. In what follows, we discuss contributions already made and work that remains to be done.

Institutions and Economic Development

Here we examine research on institutional arrangements identified by scholars as potentially significant for economic performance. We begin with two explicitly political arrangements: regime types and veto players. We then address research on the impact of "governance" institutions—states, privatesector organizations, and public-private sector linkages—on Southeast Asian market economies.

Regime Type

The literature on the importance of regime type for economic performance is extensive but inconclusive. Some scholars assume that democracy encourages economic growth because it is better than authoritarian systems at guaranteeing property rights and avoiding the predation of authoritarian rulers. Others suggest that authoritarian regimes, more insulated from particular interests, exhibit longer time horizons, enabling dictators to better mobilize savings and generate growth. But several books in the 1990s suggested the indeterminacy of regime type for economic growth. They implicitly questioned the value of "state autonomy" by demonstrating the importance of elite motivations and coalitional bases in shaping economic outcomes (Bertrand 1998). A review of the statistical evidence also concluded that "there is no reason to think that the regime type affects the rate of growth of total income" (Przeworski, Alvarez, and Cheibub 2000: 156).

These studies have provided the empirical basis for going beyond regime type to a deeper analysis of institutional causes of divergent economic outcomes, anticipating the subsequently important arguments that (a) growth-promoting institutions are a result of political calculations and (b) "growth-producing policies are not necessarily incompatible with distributive imperatives" (Bertrand 1998: 363). Nonetheless, their theoretical impact outside Southeast Asian studies has been limited, perhaps because they were methodologically designed to explain single-country cases with existing theory and/or to highlight weaknesses in the prevailing literature, not to generate new hypotheses or to provide comparative assessments of existing arguments.

The above research also offered limited analysis of the impact of specific political institutions. But more recent theoretical scholarship suggests that although democracy might not lead to economic development, its competition-promoting rules aid in the provision of public goods useful for development, such as education, and also encourage political elites to function as more "regulated" monopolies, whereas authoritarian rulers are free to garner and distribute monopoly rents to themselves and their supporters (Lake and Baum 2004). Recent comparative work on Southeast and Northeast Asia also suggests that constraints on elite actions do not only co-vary with democracy (Doser, Ritchie, and Slater 2005). For example, elites in authoritarian Singapore have acted more as "regulated" monopolists, whereas those in the Philippines have developed such a grip on power that they win elections without delivering significant distributive benefits (or side payments) to constituents.

Veto Players

Recent scholarship has also explored political institutions as "mechanisms of preference aggregation," looking to the origins and impact of electoral rules, federal versus unitary systems, party structures, and coalition cabinets (Gourevitch 2003: 108). The importance of these institutions for economic performance lies in the degree to which they are hypothesized to generate "veto points." Functionally defined by a capacity to block policy, veto points affect the credibility and decisiveness of state actions. Numerous veto points are thought to increase both credibility and the probability that policies will last a long time. Fewer veto points, or higher centralization, in contrast, is said to promote decisiveness or the ability to change policies quickly in response to new demands (Tsvebels 1995).

Andrew MacIntyre (2003), applying the veto player approach, argued that countries at the institutional extremes—with either many (Thailand) or few (Indonesia) veto players—were the most vulnerable to exchange rate pressures. His conclusion, at least with regard to exchange rate pressures, is that institutional arrangements providing a median position are the most helpful in confronting exogenous shocks. Relying on cross-national comparison,
MacIntyre's work provides a test of the veto player arguments but uses regional expertise to amend the literature in an intriguing way. He has thus contributed to broader debates in both political science and economics on divergent regime responses to exogenous shocks.

Other Southeast Asians have questioned the assumptions of the veto player argument. Allen Hicken and Bryan Ritchie (2002) find that even where multiple veto players might undermine policy decisiveness, investors can count on some certainty through the creation of "pockets of efficiency" that delegate jurisdiction over a particular issue area to a set of actors operating along more bureaucratic lines. Conversely, even in cases with few veto players, governments may signal credible commitment to a particular policy agenda by tying their hands through measures such as opening their capital accounts. Hicken and Ritchie (2002: 5) therefore argue that the "dichotomy between decisiveness and credibility is drawn too starkly."

To make their case, they explore the institutional challenges of human resource development, which requires more actors and longer time-to-payoff than the macroeconomic policies addressed by MacIntyre. Taking Singapore as a crucial case and then extending their analysis to Thailand, they argue that success in tougher development tasks requires centralized veto authority and participation by a broad range of public and private parties throughout the entire policy process. Policy credibility is thus not reducible to the number of veto players.

NATIONAL SYSTEMS OF ECONOMIC GOVERNANCE

Scholars of "varieties of capitalism" have extended the veto player literature, arguing that degrees of credibility or decisiveness affect economic growth indirectly (Hall and Soskice 2001). Governments with more veto players exhibit greater policy stability and are more likely to establish coordinated governance institutions. Such "coordinated market economies" also display incremental forms of economic innovation. Conversely, governments with smaller numbers of veto players are prone to policy instability and thus more arm's length governance institutions. Such "liberal market economies" display more radical economic innovation.

Generally limited to the industrialized world, the "varieties of capitalism" approach can be compared to work on Southeast Asia. Largely by way of "most-similar" research design, Southeast Asians also examine how different countries address similar economic challenges. Some examine economic performance in multiple sectors or issue areas in one country. Like the "varieties of capitalism" scholarship, these studies presume that a country's institutions affect its growth by shaping the incentives and organizational tools available to firms and public officials (Fellner 1998: 12). But at present, most of this literature has focused on three specific sets of arrangements, the first of which is the state itself.

THE STATE

A key impetus for comparative research on the state came from evidence that the striking economic performance of the newly industrialized countries (NICs) was associated with sector-specific politics backed up by highly capable state institutions. Yet long prior to the idea of the "East Asian" model of development, Southeast Asia scholars were examining the relationship between the state and economic performance. But the region was initially portrayed as a failed case of development.

Ruth McVey forcefully argued that such skepticism was a function of Fred Riggs's emphasis on the bureaucratic polity to explain economic outcomes (McVey 1992a; Riggs 1966). Riggs had argued that Thailand's economic development was bogged down by military-bureaucratic elites pursuing inter-elite rivalries rather than economic transformation. As a result, the Thai state had few if any Weberian-type attributes of rational bureaucracy. Riggs's account had a broad impact on development studies in part because it confirmed existing assumptions about the developmental necessity of independent entrepreneurship, the rule of law, and property rights. Its prediction—that Thailand would stagnate and the Philippines would prosper under private-sector-led growth—failed, however, only stimulating further research on Southeast Asian states and institutions.

McVey argued that the bureaucratic polity was less "a developmental bog than a container for fundamental transformation" (1992a: 23). She usefully relaxed the assumption that bureaucratic patrons determine the nature of clientelism. Even if business (merchant) clients needed political protection, she argued, they also had leverage of their own. As a result, officials not only needed to acquire sufficient business knowledge to oversee the handling of
the economy; they also had to impose "effective legal guarantees for private property, so that political misfortune could not sweep it all away" (1992a: 23). McVey implicitly relied on comparative-historical analysis of the incentives and constraints facing political elites to explain the origins of a (relatively) secure property-rights regime in capitalist Southeast Asia.

The bureaucratic polity literature and responses to it also generated useful work on corruption and its impact on growth (Scott 1977a). McVey's attention to the vulnerability of military-bureaucratic elites can be linked to later research into variation in growth rates under conditions of rampant corruption. Recent work, more engaged with the broader theoretical literature on rents and rent seeking, has shown that some structures of elite politics raise bribery costs and market entry barriers, whereas others lower market entry costs, encouraging the development of competitive markets as well as secure property rights.11 Corruption research has also begun to inform more theoretically driven analyses of bureaucratic inefficiencies in Southeast Asia, including the politics of administrative reform in Thailand, "booty capitalism" in the Philippines, patronage in Malaysia, and "rent seizing" in resource-rich Southeast Asian countries.12 Collectively, this research suggests that although property rights and competitive markets are important for economic growth, they often emerge under conditions unanticipated by neoclassical economics.

Southeast Asianists have gone beyond neoclassical analyses in other ways. Earlier work on the Northeast Asian NICs showed that Southeast Asian countries assumed to conform to neoclassical prescriptions have in fact also pursued decidedly heterodox economic policies.13 While some interventionist policies have yielded positive economic outcomes, others have become mired in failure and corruption.14 Southeast Asia scholars have begun to specify the challenges inherent in policies such as financial intermediation, human resource development, revenue collection, and the management of foreign investment for upgrading (e.g., Hamilton-Hart 2002), confirming that many policies, especially those promoting catching up and upgrading, require significant formal institutional capacities.

To identify such institutions, scholars have drawn on the concept, first seen in the analysis of Northeast Asia, of developmental states distinguished by their capacity to promote information flows, provide credible commitments, and coordinate the interests and behavior of multiple actors for long-term development.15 There are few such cases in capitalist Southeast Asia other than Singapore. The developmental state concept nonetheless offers benchmarks with which to compare and contrast countries. For example, Thailand and Malaysia are closer to what Peter Evans labels "intermediate states," having bureaucracies with some organization—including significant "pockets of efficiency" resembling the developmental state model—yet without the overall organizational coherence of the developmental state (1995: 60).

The developmental state and its "intermediate" counterpart have given scholars a tool with which to disaggregate the bureaucratic polity and its successors. Scholars now look for government agencies with uncommon levels of coherence, expertise, and organized linkages with private business and civil interests—that is, with apparent autonomy from political interference. Much of this newer research has been on macroeconomic agencies, especially central banks, but some has explored agencies responsible for agriculture and industry, helping to account for inter-regional and intra-regional variation in economic performance. Again, the theoretical leverage of these studies depends in part on how systematically comparative their analysis is.16

BUSINESS AND ETHNIC ENTREPRENEURSHIP

Although the Southeast Asian literature on the state was heavily inspired by earlier work on Northeast Asia, its contributions to our knowledge of entrepreneurship in the developing world—particularly ethnic entrepreneur—were pathbreaking. These studies countered both dependency theory portrayals of local capitalists as subservient to foreign capital and bureaucratic polity assumptions of local firms as dependent "pariah entrepreneurs."17 Instead, they instead analysis of business development within national political contexts, stimulating important research on the culture and organization of Southeast Asian business.

Scholars of Southeast Asia have shown that institutions of ethnicity brought economic relief from the transaction costs and insecurity of doing business in an environment of weak formal property rights.18 Under conditions of "missing markets" for capital, labor, and information, ethnic-based institutions helped fill the institutional and informational voids that can make transactions costly. These institutions vary. Ethnic trading networks may provide market information, matchmaking and referral services, or "collectivist" contract enforcement that deters opportunistic behavior (Landa 1992). Business groups can benefit from being based on patriarchal family structures and/or relying on horizontal networks among families (e.g., Anman 2000). More recent
scholarship also views ethnic-based entrepreneurship as proof that norms of trust constitute a form of "social capital." This literature addresses a core puzzle in comparative development: Why, despite weak formal property rights, has the private sector thrived in Southeast Asia, sometimes even playing a key role in economic development and policy reform? By focusing on the "efficiencies of ethnicity," for lack of a better phrase, these studies showed that many ethnic Chinese entrepreneurs developed, within a generation, from low-status peddlers and shopkeepers to captains of multinational businesses by combining internal group solidarity with extra-group ties throughout the region.

Emphasis on the transactional benefits of ethnicity can hide important contributions. For example, an emphasis on the social capital of the Chinese in Thailand, although certainly correct, diverts our attention from one of the earliest Thai business groups explicitly focused on economic transformation, the Crown Property Bureau's Siam Cement Group (Brown 1988). Also, it has been assumed that ethnic Chinese business strengths were in commerce, not manufacturing or technology (Yoshihara 1988). But as William Skinner (1958) showed, Chinese engineers in early-20th-century Thailand not only pioneered novel rice-milling processes but also replaced Western milling equipment with their own designs.

Other questions concern the "fit" between ethnic-based business institutions and more "advanced" development tasks. To what degree are ethnic institutions second-best alternatives, destined to become obsolete or even counterproductive once the market imperfections they resolved are "modernized" away? Are family business groups less useful in promoting technological competence? Or are ethnic groups actually well suited for the future by virtue of their flexibility, transnational linkages, and ability to internalize research and development gains? Studies on the evolution of multinational electronics networks in Northeast and Southeast Asia find that Chinese firms become important players not simply because they enjoy close ties (gamnats) with other Chinese firms but also because they are part of "local" concentrations of technological and production capability. The growing recognition that ethnicity is not everything when it comes to explaining the role of nonstate actors in national economic performance has led to research on other forms of social capital and networking, such as business associations and clusters, or "industrial agglomerations."
business jointly designing, implementing, monitoring, and evaluating training programs (Richie 2001). Political mobilization was not part of the initiative, however. Instead, Singapore’s involvement in labor training recalls Japanese “corporatism without labor” as well as some of the institutional bases of incremental innovation identified in the “varieties of capitalism” literature.

Still, the Southeast Asia political science literature has been deficient in developing cross-national accounts of divergence in labor regimes. Instead, much of this work has been done outside the political science discipline.11 But globalization, China’s increasing competitiveness, and the need to improve productivity through new technologies, skills, and training will stimulate more research interest in labor as an institutional participant.

The Origins of Institutions

So far, we have identified a number of ways in which research on Southeast Asia has advanced theoretical knowledge on the relationship between institutions and economic performance. But understanding the political economy of growth also requires a better grasp of how these institutions emerge and evolve.

Institutions are typically homegrown. Our comparative understanding of how they grow has remained fairly rudimentary, hampered by the obvious complexity of their creation and evolution and by the economist’s assumption that they “represent agreements or conventions chosen by voluntarily transacting parties in efforts to secure mutually welfare-enhancing outcomes” in the face of changes in relative prices (Bates 1995: 46). This reflects “thick” rationality assumptions in which preferences are given (“exogenous”). It not only presumes that actors use the most efficient means to pursue their goals but also that “agents in a wide variety of situations value the same sorts of things; for example, wealth, income, power, and perquisites of office” (Ferejohn 1991: 283).

Scholars in several disciplines have challenged the rationality assumption by “endogenizing” preferences, identifying instead a range of constraints and processes influencing how and why people create institutions.12 According to the power-distributional account, institutions emerge and evolve not out of a search for joint gains but through strategic bargaining and political conflict (Knight 1994). Cultural-sociological perspectives argue that institutions are the creation of people driven by neither efficiency nor power but rather by socially enforced norms of legitimate behavior (Beckert 2001). Meanwhile, the cognitive science concept of “bounded rationality,” although typically interpreted as a matter of missing information or imperfect calculative ability, is partially consistent with a nonobjectivist perspective in that it accepts that individuals process information about their world into socially derived mental schemas or cognitive maps. Historical institutionalists, rather than viewing institutions as the result of one causal process, argue that persisting arrangements influence the options and preferences of those creating new institutions or modifying old ones.13 This approach assumes that change is path-dependent but allows that outcomes are the unintended consequences of competing preferences.

State Origins

We have seen that political conflict, power differentials, social norms, and identity can all be mechanisms of institutional development and change. We will now examine how these factors have contributed to our knowledge of the origins of developmental states and the organization of ethnic entrepreneurship in Southeast Asian market economies.

Perhaps nowhere has the disjuncture between our understanding of the economic impact of institutions and their political origins been greater than with regard to the origins of state strength. This has been exacerbated by a tendency to attribute state capacities to some core motivation, whether benign or predatory, or to some hard-to-operationalize term such as “state autonomy,” which always seems more readily known after the fact than beforehand. But what factors drive political leaders to develop effective state institutions in some cases, to cannibalize the state in others, or to promote a mixture of capacities and strengths in yet others? We now assess four possible single-variable explanations—colonial legacies, political coalitions, external security threats, and resource endowments—and the more combinatory condition of “systemic vulnerability.”

One strand of scholarship on both Northeast and Southeast Asia argues that colonial legacies offer the best explanation for divergent development. Anıl Kohli has argued that “Japanese colonialism [of South Korea], as brutal as it was,” created new “state structures” and “patterns of state-class relations” that helped post-colonial ruling elites (1999: 95, 133). Conversely, Paul Hutchcroft’s work demonstrated that Spanish and U.S. colonialism in the Philippines led to the growth of a socioeconomic elite whose economic
base lay largely outside the state. The result was a "national oligarchy" with
"powerful—but particularistic—control over elements of the state apparatus"

Similar colonial inheritances in Singapore and Malaysia nonetheless did
not result in similar post-colonial state capacities. Initial conditions also can-
not explain why postwar Philippine leaders squandered the colonial legacies
of a well-educated population and a bureaucracy with impressive pockets
of expertise. Clearly, we need tools for understanding what factors encourage
leaders to reproduce and reinforce or abandon such legacies.

Some scholars have turned to political coalitions in account for variation
in state strength. For example, Greg Felker attributes the different indus-
trial trajectories of Malaysia (high upgrading, weak indigenous presence) and
Thailand (weak upgrading, strong indigenous presence) to variation in elite
coalition structure, which gave rise to a fragmented state and a politically
influential business class in Thailand and a cohesive state elite able to impose
more economic coordination in Malaysia (Felker 1998). This line of research
is critical to shedding light on the institutional impact of varying distributional
interests, although it may be less useful in accounting for within-state varia-
tion across sectors and over time. Underlying this weakness is a lack of focus
on political leaders' willingness and ability to modify their relationships with
powerful private interests. Yet this factor may have some effect on whether or
not core institutions dating from the colonial era remain entrenched.

Other scholars have addressed this very issue by asking whether elites
choose to widen or narrow their coalitions in response to the challenges of
managing economic transition, redistribution, and extraction. David Wal-
dner, comparing Middle Eastern and Northeast Asian cases, found that the
redistributive policies underpinning the creation of broad coalitions led to
clientelistic relationships between business and government that thwarted in-
novation and export-led growth (Waldner 1999). In direct contrast, Campos
and Root argue that broad coalitions are the key to economic growth in both
Northeast and Southeast Asia, as these coalitions demanded that the state "learn"
to extract and redistribute resources efficiently (Campos and Root 2000).

All these findings beg the question of why some political leaders can
respond to increased popular demands—without state collapse, coups, or
revolution—whereas others cannot. One answer may involve the sources of
elite cohesion. Dan Slater (2005) argues that when urban class protest exac-
erbates communal tensions, elite coalitions can be strengthened in ways that
promote state fiscal capacity. Meredith Woo-Cumings (1998) has argued that
"economic growth" became "indispensable for military security" and regime
survival in Korea and Taiwan, and Campos and Root (1996) contend that
external threats compelled leaders to create strong institutions to promote
growth and implement wealth-sharing mechanisms for popular sectors. Yet
other research has shown that external threats are not always associated with
growing institutional capacity (Cento 1997).

There is now a substantial literature, ranging from "resource curse" to
"rentier states," suggesting that a state's ease of access to revenue deeply
influences patterns of institutional development. Michael Ross's (2001) compa-
rative study of resource-rich Southeast Asian countries finds that "resource
curses" do far more harm than simply "stalling institutional development.
They actually encourage politicians to dismantle state institutions as a way to
"seize" rents. Rajash Rishik (2003: 66) similarly argues that easy revenues from
natural resource exports left the ASEAN-4 under little fiscal pressure to en-
courage the kinds of "complementary institutional and linkages development"
that occurred in the East Asian NICs.

But how are we to explain the institutional differences between coun-
tries with relatively similar resource endowments—between resource-rich
Malaysia and Venezuela or between resource-rich Botswana, with its strong
institutions, and its resource-rich but predatory neighbors? Underlying these
limitations is, as Ross notes, an assumption that states are revenue "satisfiers,"
not revenue maximizers (1999: 313). Ross contends, however, that whether a
state seeks the maximum possible or least minimum revenue (i.e., "satisficing")
depends on its coalitional and geopolitical context. As such, an assumption of
"satisficing" alone is insufficient for understanding outcomes.

In sum, we have argued that each of the preceding variables is useful but
perhaps insufficient to explain institutional strength, especially the excep-
tional capacities of developmental states. An alternative approach argues that
the high levels of institutional strength embodied in developmental states
arise only when political elites are faced with three of these variables: popu-
lar pressures, external threats, and resource constraints (Doner, Ritchie, and
Slater 2005). Such a state of "systemic vulnerability" pushes leaders to develop
institutional capacities to extract and redistribute resources.

Yet even the vulnerability account requires further assessment. To what
degree does it apply outside Southeast Asia, in countries that were not
exposed to Southeast Asia's particular combination of U.S. security interests and a vigorous regional economic dynamic stimulated by Japan. Is it useful for explaining institutional changes in the one-party, socialist states of Vietnam and Laos or the region's other market economies? How useful is it for explaining institutional changes well after state institutions have been formed?

**The Organization of Ethnic Entrepreneurship**

Research on Southeast Asian ethnic entrepreneurship has shown that ethnic minorities, especially the Chinese, contributed to economic growth. But why did "ethnic" entrepreneurship arise in the first place? Why did it form very throughout Southeast Asia?

The pervasiveness of network-based Chinese businesses throughout the region encouraged cultural explanations of their success. The inner workings of family firms, networks, and business groups have been linked to Confucian values (Numazaki 2000; Landa 1991; Hamilton 1991), establishing that norms as a kind of informal institution can influence the structure and operation of formal private organizations. But taking Confucian values as primordial unchanging representations of "Chineseness" often results in a static account of how culture affects preference formation, economic organization, and economic development.

Other studies of Southeast Asian political economy have instead contributed to our understanding of ethnic entrepreneurs by focusing on the strategic interests of both state and nonstate actors. In turn, political marginality has been shown to provide surprising advantages to both private and public actors. For example, as Chinese entrepreneurs sought protection through patronage, sponsors in the state bureaucracy and military acquired allies for import substitution policies and capital accumulation (Lim 1990). In turn, the political economy literature refuted the long-standing idea of the Chinese as "pariahs," recasting their economic relationship with government from unequal clientelism to mutual gain.

Variation in government policies toward ethnic Chinese also sheds light on the legacy of colonialism. Arguably, the absence of colonialism and the existence of indigenous bureaucratic elites mean that Thailand could accommodate Chinese assimilation more easily. But the memory of Chinese "middlemen" pitched between colonial rulers and the indigenous population undermined peaceful ethnic relations in postwar Indonesia and Malaysia (Mackie 1992; McVey 1992a). To this day, the "ethnic card" can be invoked whenever inter-elite struggles threaten entrenched political bargains.

Clearly, then, private-sector institutions exist in sociopolitical contexts. Specification of state interests and how they influence the norms and organizations of private actors is an important and fruitful area for comparative research. Recent analysis of cross-national variation in Latin American business associations is a useful point of reference. Explaining variations in the development and impact of private-sector institutions is sure to grow in theoretical and topical importance as trade and investment liberalization and the pervasiveness of global value chains compel all of Southeast Asia to operate as more open economies.

**Post-Socialist Southeast Asia: Old Lessons, New Interpretations**

The economic liberalization of Vietnam, Laos, and Cambodia has offered a natural test of claims about the relationship between institutions and economic performance, along with the chance to compare a range of regime types within Southeast Asia. As a result, the field has moved a step closer to making significant contributions to leading political science debates about the legacies of state socialism and about the impact of global economic integration on institutional continuity and change.

These cases also address key debates within the regional literature: How well do explanations of the origins and nature of state-business relations in nonsocialist Southeast Asia apply to the emerging markets of Vietnam, Cambodia, and Laos? Are patron-client relations as mutually beneficial in the post-socialist cases as McVey claimed for the nonsocialist cases? How do socialist legacies affect institutional opportunities and constraints in post-socialist Southeast Asia? Are these legacies rooted in organizations, norms, expectations, or some combination thereof?

**Post-Socialist Responses to Economic Liberalization**

When these countries began to emerge from socialist planning systems, all economic actors were imagined as deeply embedded in, and largely dependent upon, networks of patron-client relations, unable to break free to design alternative paths to prosperity. Given this, even the smallest degree of economic
autonomy was predicted to bring an "economic revolution," "great transformation," or the like. This betrayed an implicit faith in a single-triger theory of change, the trigger being the end of dependency on state redistribution and its channels of social mobility.

The introduction of market-based economic exchange, growing international trade, and foreign investment was expected to stimulate wide-ranging and fundamental shifts; some economists advised full economic and political liberalization—"shock therapy." Gradual policy reform, having made people and prices only partially unfree, was not expected to generate economic prosperity (Kornai 1990). In light of the experiences of China, Vietnam, and Laos, however, it is now widely appreciated that the steps by which a state manages economic liberalization affect economic outcomes.

Gradualism remains the preferred government strategy in China, Vietnam, and Laos. But its composition has varied widely, especially in price liberalization, privatization, and global economic integration policies. Moreover, gradualism did not bring down the Communist Party, even in cases where economic performance did not support regime legitimacy. There has also been considerable variation in the degrees and forms of economic change in these cases. As elsewhere, however, students of Vietnamese political economy were quick to build on the idea that any form of economic freedom would lead to greater agency and power at the subnational level. Accounts of everyday resistance in Vietnam, for example, suggest that economic liberalization policies were driven from the bottom up. The Vietnamese people faced hardships under the economic planning system, and the regime had to respond.41

Research on relations between central and local levels of government in Vietnam also supports resource-based accounts of preference formation, and political economic change, more generally. For example, Edmund Malecky's work shows how access to foreign direct investment allowed Vietnamese provincial leaders to expand their power in terms of the center and to pursue policy experiments (Malecky 2005). Foreign investors are also important in pushing for deeper economic reforms, yet in Vietnam, it seems, only under the credible threat of resource exodus. In the mid-1990s, the loss of foreign investors in response to the Vietnamese government's intractability on key foreign investor issues seemed insignificant in light of foreign aid inflows. By the late 1990s, however, and partly in recognition of China's pending entry into the World Trade Organization, the Vietnamese government engaged more with the foreign investor community. Foreign firms increasingly engage provincial and national officials about the policies needed to create a viable investor environment (Malecky 2004, 2007).

Abstracting from this, at least one effect of economic liberalization is the introduction of new, often powerful players into the national political arena. Others have also looked at how economic liberalization more generally shifts coalitional politics, even within the Vietnamese Communist Party. Provincial leaders who supported economic reform in the 1980s opposed it once pressures increased for equitization of firms over which they had some control or interest (Riedel and Turley 1999). They were joined by state enterprise and ministerial leaders who also stood to gain from an economic system left only partially changed. In turn, the re-division of Vietnamese provinces, beginning in the late 1990s, has been interpreted as an effort by reform and anti-reform coalitions to expand their membership base and power (Thavesborn 1997; Riedel and Turley 1999; Malecky 2005). It seems that veto player dynamics come into play in nondemocratic systems as much as they do in the nonsocialist cases.

Resource-based claims of diminishing central state power have also focused on rising corruption. But Martin Gainsborough suggests that anti-corruption campaigns, rather than indicating state weakness, signal continued (and possibly growing) strength. Here, he moves away from resource-based accounts of power and agency to focus on the signaling effects of government campaigns for ongoing legitimacy (Gainsborough 2003a, 2003b).

In Vietnam, anti-corruption cases are given wide play in the media, and crowds are often tolerated outside courthouses. Moreover, given the speed with which the Vietnamese government moves against individuals fighting for more political and religious freedoms, it seems that spontaneous gatherings ought not be seen as a sign of state incapacity. They may simply be well-crafted opportunities for the Communist Party and the government to demonstrate support for "the people." In this regard, the appearance of new economic actors, especially private entrepreneurs, seems not so much to diminish state and Communist Party power as to ensure its durability through ideological shifts and the co-opting of new groups.

For example, research on Vietnamese business associations shows close public-private collaboration, particularly in drafting enterprise- and investment-related laws (Stromseth 2002). Other associations—such as those
for laborers, farmers, and small-scale industry and cooperatives—are also undergoing considerable revival. Nonetheless, it would be a mistake to cast these relations simply as old-style socialist-era corporatism. Jonathan Stromseth's detailed research on business associations shows that the state is often willing to act on outside recommendations that further economic development, create employment, or enhance Vietnam's international competitiveness. We have seen similar public-private partnerships elsewhere in the region. Just as McVey (1992a) warned against accepting the bureaucratic policy framework, Vietnam today warns us against static portrayals of patron-client relations in Leninist regimes.

If anything, the "strong versus weak state" dichotomy that once dominated the literature has been replaced with research on how economic liberalization creates power in new ways. Socialist-era managerial and administrative elites, once predicted to be weakened under market conditions, remain important in the more liberalized economic system, often by means of the very laws intended to rein them in and level the playing field for all economic actors. But as Fjorde's work on "real" property rights in reform-era Vietnam shows, state equitization can be accompanied by "rent-switching," allowing enterprise managers to maintain a good deal more economic power and autonomy than the government may have intended (Fjorde 2004).

This fits what we know from other post-socialist transitions from plan to market. A growing number of studies also reveal that state-led efforts to develop the private sector through business registration and the role of law are weakening the informal private economic networks that were critical to economic survival for many households during the socialist era (Abrami and Henaff 2004; DiGregorio 2003; Leshkowich 2006). Increasing social inequality partly reflects the interaction effects between social location in preexisting networks and new policies and laws of economic engagement. Related arguments have been made for the Chinese diaspora in Southeast Asia, whose opportunities were no less differentiated by local economic networks.

The need for foreign investment and international markets also means that the governments of Vietnam, Cambodia, and Laos are somewhat constrained in how they can manage growth with equity. The desire to secure membership in the World Trade Organization necessitates a more open and genuine embrace of foreign direct investment, private-sector development, and trade, thus narrowing the scope for national industrial policy.

**Socialism and Its Legacies:**

**The Southeast Asian Cases**

Although Cambodia, Laos, and Vietnam underwent dramatic transformation of property relations after the Communists came to power, few would depict these countries as successful cases of state socialism, particularly if we take redistributive capacity and economic control as measures. Not only did they remain largely unindustrialized, but they were also heavily dependent on foreign aid and increasingly dominated by informal economic exchange. How the political leadership of each state sought to mobilize resources also varied considerably, with Cambodia and Vietnam offering the sharpest contrast.

Such variation raises the question of the direction of causality between strategies of socialist state consolidation and control over resources. Much of the literature presumed that significant grassroots economic compliance could be traced to the redistributive economy. But its later absence has not done away with the economic and political power of existing elites, suggesting that high economic compliance (or lack thereof) owes its institutional origins to something other than state economic organizations (or formal institutions) alone.

Regina Abrami (2002) looks instead to state strategies of political mobilization, identifying their relationship to what the political leadership of a given socialist regime understood as the dangers facing regime consolidation. Political mobilization not only affected economic monitoring, but also expectations of credible state signaling that linger today. This explains why Vietnam and China became dynamic emerging markets while lacking many seemingly necessary institutions. The argument, initially made in relation to Vietnam and China, might still be made about the Southeast Asian cases of Vietnam and Cambodia alone.

More generally, the study of Asian post-socialist regimes suggests that institutions as strategic, normative, and socially constructed rules simultaneously create and constrain opportunity. Yet if we refrain from treating institutions as rules for sense making, we may miss a chance to explain divergent responses to similar structural pressures and policy incentives. For example, emphasis on institutions as rules for sense making could add a helpful layer to Doner, Ritchie, and Slater's (2003) account of the origins of developmental states; Vietnam, China, and Cambodia suggest that how external and internal threats are understood, rather than their objective existence, can determine whether developmental state institutions are put in place.
A "rules for sense making" framework might also be applied to explain wide variations in each country's emerging private sector, in policies toward ethnic Chinese, and in government responses to labor activism. The indigenous business class, including ethnic Chinese, had all but disappeared from the Asian socialist states during the planning era. Their reemergence and relative power in these countries nonetheless continue to vary considerably. In Cambodia, for example, the industrial business sector includes many overseas Chinese foreign investors, who frequently threaten to leave in order to insist on sound business practices. In contrast, the drive to keep state-owned enterprises alive in Vietnam led similar appeals to fall on deaf ears. But is this difference just a matter of pragmatism, or might it be traced instead to different accounts of the national interest and its sociopolitical and economic contours? For now, we recommend only an appreciation of how social rules for sense making shape the impact of seemingly objective phenomena.

The Interpretive Turn: A Bridging Levels Technique Linking Origins and Ends

Institutions necessarily embody far more than the "rules of the game" (Woodruff 2000). They stipulate who is a "player" and in what way, as we see clearly in constructions of the "Chinese" in Southeast Asia. By focusing attention on the social origins of rules for sense making, we also might shift away from the growing emphasis on "mental models" as the origins of preferences (Denzau and North 1994) and look instead to how rules for sense making construct the very categories by which people organize, classify, and weigh information (Herrera 2004; Woodruff and Abrami 2004; Woodruff 2000). The point is not to do away with individual agency or even strategic interests, but to locate them in socially situated forms of knowledge and learning and in the contentious politics around them. Only in this way, we suggest, can path dependence substantively coexist with unintended outcomes. Anything less leaves the micro-foundations of decision making disengaged from social life and based only on cognitive capacity, generic human nature, or an exogenous shock yielding a shift in preferences. Of course, general acknowledgment of "rules of the game" does not preclude battles over their interpretation and application.

Work on Southeast Asian political economy can thus include an interpretive perspective, yet the connection between distributive outcomes and institutions as rules for sense making remains mostly implicit in the literature.

For example, early battles shaping industrial relations and employment policy were precisely related to making decisions about the meaning of different types of citizens and their status. "Being Chinese" was not the same in Thailand, Singapore, and Indonesia. Now that Vietnam, Cambodia, and Laos are again welcoming overseas and domestic investment, a fruitful topic of inquiry is whether old social constructions of the Chinese as a "conquering class" are affecting investment and other economic-related patterns there.

An account of institutions as rules for sense making also allows us to escape static depictions of culture as "individualist," "collectivist," or "hierarchical" (Gereff 1994). Essentialist descriptions of Southeast Asian culture once dominated the field, making political economists hesitant to treat culture as an explanatory variable. So it was with work on the origins of developmental states. These states had similar achievements, yet public-private partnerships vary considerably within and across them; the variation cannot be explained by differences in objective conditions alone. Rather it seems that different social constructions of class, ethnicity, and gender—and perhaps national purpose—bring about different understandings of material interests, profoundly shaping patterns of cooperation and conflict.

Conclusions

Qualitative methods have taught us much about aspects of the political economy of development in Southeast Asia, including the origins and impact of ethnic entrepreneurs, the developmental consequences of regime type, the varying nature and impact of corruption, and the role of labor in rapid development. Increasingly, Southeast Asianists are moving beyond "merely" addressing anomalies that, in fact, demand theoretical examination (Johnson 1975). The challenge remains to continue broad comparative analyses without losing a deep familiarity with regional contexts. Overcoming this challenge involves (1) identifying key areas for future research, (2) striving for generalizability while recognizing the inherent complexity of social phenomena, and (3) being more rigorous and explicit about our methods and their costs and benefits.

The varying levels of economic development within the region, the movement toward political and economic liberalization, and increasing access to the region's post-socialist economies offer important opportunities to investigate
the political economy of growth. Political shifts, such as the emergence of party competition in post-Suharto Indonesia, allow a deeper understanding of the impact of specific political institutions, such as veto players and electoral rules, on policies and implementing institutions. Evolving relations between the central and provincial levels of government in Vietnam allow a deeper understanding of how norms of interest articulation shape economic outcomes. The broader significance of such center-periphery relations will grow as decentralization pressures increase throughout the developing world.

Southeast Asia also offers opportunities to assess the interactions between proximate political institutions and broader structural pressures on political elites. It is one thing to note the weight of hard or soft budget constraints, external security threats, pressures from restive popular sectors, and external actors such as Japan and China. It is quite another to understand how such pressures are mediated by shifting electoral rules, party structures, legislative arrangements, or central-provincial relations, not to mention competing interpretations of them. The region’s varying sociopolitical legacies challenge scholars to go beyond claims that culture matters and develop more systemic accounts of how and under what conditions it matters.

The real-world implications of these theoretical questions are expanding. Growth depends more than ever on national capacities to address external competitive pressures and domestic pressures to maintain political legitimacy through employment growth and economic dynamism. An understanding of the institutional and political bases of economic upgrading, especially the growing importance of labor and technical skills, will be critical. Thailand’s textile industry has become a major source of employment and foreign exchange due to sound macroeconomic policies and efficient networks of Sino-Thai firms, associations, and banks. But if Thai producers are to sustain growth in the face of stiffer competition, they must expand intra-industry linkages and improve the technical capacity of their personnel. Similarly, the success of Vietnam’s catfish export industry reflects astute policies and innovative institutions based on mutually empowering center-provincial and public-private linkages. But sustaining growth will require improving operational efficiency and managing protectionist resistance from U.S. catfish interests (Abrami 2005a, 2005b).

That is to say, we can strive for generalizability and parsimony without doing injustice to local complexity, in part by making explicit use of Southeast Asia’s variation and its usefulness in cross-regional analysis. Much recent work on successful institutions and growth has drawn on the Northeast Asian NICs, whereas more negative lessons have often been drawn from other regions, especially Latin America. The challenge is to find what Coller and Maloney call good “contrast spaces”—sufficiently similar to the NICs in terms of their (export-led) development strategies and geographical position but differing in institutional capacities and development outcomes. Southeast Asia, by and large, occupies just such a “contrast space” between Northeast Asia and most of Latin America.

The effort to reconcile generalizability and local complexity can apply the more sophisticated understanding of causal processes and related methodological issues proposed by scholars of qualitative methods. Causal relationships do not necessarily conform to a political world “governed by immutable causal regularities based on a few forceful causal variables” (P. A. Hall 2003: 387). Political outcomes are often a function of complex processes of strategic interaction and path dependence; this has encouraged scholars to study mechanisms linking causal factors to outcomes, to develop a better grasp of interaction effects, and to explore “multiple conjunctural causation,” meaning situations in which the same outcomes arise from different variables operating in different cases.

Such scholarship requires the kinds of knowledge—a deep understanding of history, of actors’ beliefs, and of the sequences and practices by which “context” unfolds—in which Southeast Asianists have made some of their most important contributions. It also requires engagement with comparative theory. Scholars must analyze individual “cases” through multiple “observations,” using alternative methodologies when appropriate. Scholars of the region are developing and gaining access to large-scale data sets required for statistical analyses, game-theoretical formulations for exploring strategic interactions and collective action problems, and mathematical tools for capturing complex causation. Such methods, combined with deep contextual knowledge, allow the development and testing of “typological” or “middle-range” theories that shed light on the region and broaden our understanding of political economy.
lending. However, Thaksin's government also used the power and resources of the state to further the interests of its members and supporters. The recent instability brought about by the excesses of the TRT government, subsequent military coup, and new constitution now threaten to undermine some of the gains that Thailand has made since the crisis while delaying the reforms and investments necessary for future growth.

CHAPTER 11

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

Thomas Pepinsky

In Indonesia and Malaysia, the Asian financial crisis was as much a political crisis as an economic one. Policies adopted by the two 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 the political economy of each country; in both, authoritarian governments used economic policy and political favoritism to reward their supporters with little regard for their potential costs. The Asian financial crisis led each country to take extraordinary adjustment measures and ignited distributonal 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.

In this chapter, I show how politics has defined the course of economic recovery in Indonesia and Malaysia. The Malaysian economic recovery began earlier and remained more robust than in other countries in Southeast Asia, in some accounts as a result of the Malaysian adoption of selective capital controls and an exchange rate peg, together with expansionary macroeconomic policy. But the successful Malaysian stabilization package meant that the government escaped the tougher economic reforms that could have promoted more healthy long-term growth. Just as the Malaysian model of growth with redistribution has survived the crisis, most of

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the same structural weaknesses that made Malaysia vulnerable to the Asian financial crisis persist today, even after the retirement of former Prime Minister Mahathir Mohamad. These include extensive political intervention in the economy for interethnic redistribution and inefficiency in government-owned and politically favored firms, which impose barriers to the upgrading, retooling, and human capital investment needed to propel Malaysia toward becoming a fully developed nation. By contrast, the fall of Soeharto and the subsequent democratization of Indonesia, along with International Monetary Fund (IMF) mandated stabilization measures and institutional reforms, have not had the much anticipated effect of promoting rapid economic recovery. In particular, the Indonesian decentralization program has not yet 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 begun to show fruit.

The experiences of Indonesia and Malaysia suggest several insights for the political economy of economic reform. Far-ranging political transitions, such as took place in Indonesia, can lead to delays in economic recovery due to the extensive transactions costs associated with institutional reequilibration, the process whereby economic and political actors adjust to new institutional rules. Democratic transitions, 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. Although normatively desirable, democratization and 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 reequilibration. The political trade-off is that economic recovery can mask 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. The crisis in Indonesia was far worse than in Malaysia, in part due to the almost total breakdown of Indonesian 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. Most important, any comparison between the post-crisis recovery of the two countries must take into account their vastly disparate levels of socioeconomic development and bureaucratic capacity. Yet there is still much to learn from a comparison of these two countries. Focusing on the (often informal) institutional bases of the economy of each country 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 the East Asian recovery.

Economic Crisis and Recovery

The Malaysian economic contraction was shallower, and its subsequent growth more robust, than the Indonesian contraction. A common view is that the Malaysian crisis was less severe than the Indonesian crisis because Malaysia was ex ante more vulnerable. The sources of financial vulnerability differed across countries—both faced property-sector overheating with heavy bank exposure, but Indonesia faced a more severe problem of imprudent bank lending than Malaysia, whereas Malaysia experienced a reckless stock market boom financed by foreign portfolio investment. Several indicators reflect these differences. Nonperforming loans (NPLs) in Indonesia, by some estimates, exceeded 40 percent of all loans by mid-1998 and were the result of a rapid buildup of short-term unhedged foreign debt (see, e.g., Hill 1999; Djuwanjono 2001). In Malaysia, which has always enjoyed better financial regulation, short-term unhedged debt was low, and NPLs only reached around 20 percent of all loans. But Malaysian development financing was concentrated in the stock market rather than in bank lending. Buoyed by rapid inflows of foreign portfolio capital (Jomo 2001), the Malaysian stock market capitalization exceeded 227 percent of GDP in 1995, compared to just 19 percent in Indonesia (Jomo and Hamilton-Hart 2001). Capital inflows preceding the crisis were a larger proportion of GDP in Malaysia (18 percent) than in Indonesia (4.8 percent) (Jomo and Hamilton-Hart 2001), and the ratio of reserves to mobile capital in 1997 was substantially worse in Malaysia (0.559) than in Indonesia (0.705) (Athukorala 2001).

So, although superior bank regulation in Malaysia allowed the country to avoid the Indonesian problem of imprudent lending, Malaysian reliance on its stock market for financing big-ticket development projects and distributing patronage brought its own set of vulnerabilities that rapid capital inflows exacerbated. Both countries sought desperately to find adjustment policy solutions to the crisis, and their final choices diverged substantially. Ultimately, the severity of the economic shock in each country depended on these adjustment policies to combat the crisis. Figure 11.1 compares the growth rates in the two countries, illustrating economic contraction and subsequent recovery.

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

1. J. P. Morgan estimated that between 20 and 35 percent of all loans in Indonesia were nonperforming at the height of the crisis. In Malaysia, the figure was 15–25 percent. Figures from Standard and Poor's are 40 percent for Indonesia and 20 percent for Malaysia (Berg 1999).
Minister Anwar Ibrahim contributed further to the Malaysian economic downturn. But in September 1998, Malaysia embarked on its controversial adjustment strategy of macroeconomic expansion, made feasible by capital controls with a fixed exchange rate—and Mahathir sacked Anwar. Despite this political shake-up, the Malaysian economy quickly stabilized and had turned around by mid-1999. In Indonesia, by contrast, although growth slowed abruptly in late 1997, it 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 14 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 2 percent in the fourth quarter of that year.

The comparatively swift Malaysian economic recovery, despite its radical departure from IMF orthodoxy of financial openness and macroeconomic discipline, sparked some debate about the causal role of Malaysian adjustment policies in spurring economic recovery. Paul Krugman (1999), who saw some virtues in the Malaysian policies of temporary capital controls and monetary expansion, nevertheless was circumspect in attributing economic recovery to them rather than to a secular improvement in the investment climate. After all, after three quarters of GDP contraction, 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) compare 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, whereas the Malaysian economy was still deteriorating at that time. They find strong support that capital controls in Malaysia were better associated with a smaller drop in GDP growth, industrial output, and real wages than the IMF programs in other crisis countries. The conclusion, then, is cautiously positive for the Malaysian heterodox adjustment strategy. Despite fears that exchange controls would suffer from abuse by low-level officials eager to exploit black-market exchange rate differentials or that they would inevitably frighten long-term investors, at the very least Mahathir’s policies do not seem to have done much harm. And by facilitating macroeconomic expansion and eliminating stock and currency speculation, capital controls appear to have given Malaysian policymakers the breathing room to engineer economic recovery (see Atukorala 2007).

After 1999, the year in which the crisis in the two countries had finally abated, economic growth in both countries resumed, although at lower rates than before the crisis (figure 11.2).

In Indonesia, real GDP grew by an average of 7.83 percent between 1991 and 1996, but this slowed to 4.18 percent between 1999 and 2005. In Malaysia, the corresponding figures are 9.36 and 5.36 percent. The Malaysian GDP did contract in 2001 due to a slump in global demand for Malaysian electronics 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.

Indonesia: Institutional Change and Macroeconomic Vulnerability

The Indonesian 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 the Indonesian reformation movement. In 1999, following the first democratic Indonesian parliamentary election since 1955, he was replaced as president by the liberal Muslim politician Abdurrahman Wahid (GusDur) of the National Awakening Party. GusDur, however, served erratically, alienating pro-democracy activists and allied political parties alike while mismanaging the Indonesian economic recovery and using his position to amass financial resources through the state logistical monopoly Bulog (Liddle 2001; Malley 2002). He himself succumbed to a corruption scandal in 2001 and was succeeded by his vice president, Megawati Sukarnoputri of the Indonesian Democratic Party of Struggle (PDI-P). In contesting the first Indonesian direct presidential election in 2004, Megawati lost to her former coordinating minister

![Graphical representation of GDP growth rates in Indonesia and Malaysia](image.png)
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 indicates the vast political changes ushered in by the Indonesian economic crisis. 

The biggest change is, of course, the return to democracy. Democratization has meant competitive elections, leading to much broader electoral coalitions supporting the government than had been the case during the New Order, in which informal channels of influence were the dominant method of political influence. Gus Dur's legislative coalition was initially broad, with support from Islamists and secular 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. Rather than eliminating informal pressure groups, electoral pressure now competes with interest-group pressure for political influence. At the informal level, the country has seen the continued prominence of wealthy prihumi (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. In addition to Jusuf Kalla, other members of SBY’s United Indonesia Cabinet have clear links with the Indonesian business community, including coordinating Minister for People’s Welfare and former coordinating Minister of the Economy Abadir Bakrie, whose family controls the influential Bakrie Group, and Minister for National Planning Paska Sussinta, 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 Abadir’s wealth has grown substantially since he joined SBY’s government (Kompas, May 24, 2006). Foreign economic observers agree that such business interests have hindered the course of Indonesian trade policy reform (interviews with officials at international development agencies in Jakarta, February to March 2006). Government trading monopolies and government-owned enterprises still exist in many sectors; these firms are reported to be rife with corruption, and privatization drives yield speculation of favoritism (Bisnis Indonesia, February 15, 2006; Bisnis Indonesia, March 31, 2006). More broadly, efforts to extricate the Indonesian military from the corporate world have been halting (Kompas, March 4, 2006).

In contrast to these influential business groups, many economic ministers in SBY’s cabinet, notably current coordinating Minister for the Economy Brodjonegoro, Minister of Finance Sri Mulyani Indrawati, and Minister of Trade Mari Elke Pangestu, have reputations as technocrats rather than business magnates. The technocrats have directed several contentious but much-needed policy reforms, including the fuel-subsidy cuts of October 2005 that were deeply unpopular with many Indonesians. Yet the bifurcation of SBY’s cabinet between technocrats and well-connected entrepreneurs recalls the policy divide under Soeharto between the technocrats and the so-called “financial generals” and nationalists (see Crouch 1978; Liddle 1991; Mackie and MacIntyre 1994). 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 power (see, e.g., Robison and Hadiz 2004).

This is probably an exaggeration. The particular business interests backing the regime have changed, with a shift from a coalition of military-linked firms and ethnic-Chinese cronies under Soeharto to a prihumi 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

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**Figure 11.2 Real GDP in Indonesia and Malaysia, 1990-2005 (millions of constant 2000 U.S. dollars at market rates).**

*Source: World Bank (n.d.).*
this move toward regional autonomy (dasar daerah). Not only are national elections democratic, so are provincial and local elections. With decentralization has come a new phenomenon of regional splitting (pencerahan daerah), referring to the further subdivision of existing subnational political units. Since 1998, seven new provinces have been created, raising (with the loss of East Timor) the number of Indonesian provinces from twenty-seven in 1998 to thirty-three today. At the sub-provincial level, over one 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, 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 for enhancing government responsiveness and spurring local economic development. Even if provincial administrations do not respond to the logic of interjurisdictional competition, and instead use 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 that finds a negative relationship between decentralization and corruption at the national level (Fisman and Gert 2002).

But many Indonesian political observers have found a perverse logic to decentralization and regional splitting. Instead of fostering interjurisdictional 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 (interview with an official at an international development agency in Jakarta, March 2006). Without the heavy hand of Soeharto in the background, these agencies are now even more willing to extract bribes and levies. Local elites interested in securing regular funding from the central government can create what amounts to personal fiefdoms in new subprovincial jurisdictions. The logic is similar to that of Shleifer and Vishny (1992), who suggest two different institutional equilibria that support corruption. In one, a strong central government has maximized its total take in bribes from an economy and punishes subordinates who extract excessive bribes that discourage growth and investment. New Order Indonesia matched this model well (see MacIntyre 2006). The alternative institutional structure has no central apparatus that can coordinate bribery and corruption among bureaucrats or government agencies. The implication for investment, growth, and development is that centralized corruption, although 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 whom 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 (see e.g. Jawa Pos, November 21, 2005; Kompas, March 3, 2006; Kompas, March 20, 2006).

This perspective suggests a tantalizing hypothesis about the overall effect of decentralization on long-term economic growth. Could Indonesian decentralization actually be harmful to long-term growth by decoupling the many opportunities for political interference in the Indonesian economy from a strong, centralized leader? For one, corruption does not appear to have decreased under democracy. Indonesia has always been one of the most corrupt countries in the world, consistently registering at the bottom of cross-national indices of corruption. On a scale of 1 to 10, with 1 the most corrupt and 10 the least, Indonesia averages around 2 according to Transparency International (table 11.1).

By way of a regional comparison, the Philippines averages just under 3, Thailand just over 3, Singapore over 9, and Malaysia around 5. The figures in table 11.1 show that despite democratization and decentralization, according to the Transparency International scores, Indonesia is about as corrupt in 2005 as it was in 1996. Indonesian investment receipts remain lower than prior to the crisis, although they have rebounded from their trough in 2002. Net foreign direct investment (FDI) flows were actually negative up until 2003 (figure 11.3).

In an open, export-oriented economy, such as in Indonesia, this fall in investment is probably the single greatest cause of slower economic growth in the wake of the crisis. What explains the slow rebound in FDI in Indonesia? The rise of China, India, and Vietnam as low-cost competitors for FDI has probably played some role (see also John Ravenhill, chap. 7 in this volume). Civil strife has also probably given domestic and foreign investors pause. Since democratization, moreover, labor laws have been less free to organize for better wages and working conditions, which may have driven away some investors who formerly enjoyed the Indonesian controlled labor force. But anecdotest of specific political barriers to attracting investment abound. For example, the government revealed in March 2006 that of sixty-nine crucial infrastructure projects for which the government has sought tenders, less than 20 percent had attracted any attention from investors—a fact largely blamed on weak institutional safeguards for foreign investors and an almost total lack to public infrastructural investment. Shortly thereafter, World Bank President and former U.S. Ambassador to Indonesia Paul Wolfowitz stated that corruption was the single

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J. Survey evidence, however, suggests that labor activism and labor regulations have not harmed investment; see Kompas, March 20, 2006.
continue to prevail on 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 (Bisnis Indonesia, February 17, 2006; interview with Abuzal Bakrie, coordinating minister for people’s welfare, March 14, 2006).

There are, then, two seemingly opposing claims. According to several studies cited previously, at the provincial and subprovincial level decentralization seems to be associated with lower corruption. Yet, at the regional level, regulations still hampering investment, and at the national level, corruption remains a serious issue. Perhaps the safest conclusion about the Indonesian 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 subprovincial administrations slow to adopt reforms that attract investment.

At the national level, several measures have addressed 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 clumsy and corrupt tax collection agencies remains a high government priority. SBY’s government has staked its reputation on eradicating corruption 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 anti-corruption agencies hindering successful prosecution of suspects (see Yanto B, Kompas, February 22, 2006; Kompas, March 17, 2006). There are also frequent criticisms that the more corrupt figures escape prosecution due to their political connections (Kompas, February 16, 2006). In the case of the Bank Indonesia Liquidity Support scandal—in which a massive amount of liquidity support was doled out to cronies-controlled banks at the height of the crisis—some of the biggest corruptors simply vanished overseas and others arranged to have their repatriated assets overvalued by government auditors (Mintora Hardjo 2001; Yanto B, Kompas, May 23, 2003; interview with Yanto B, reporter for Bisnis Indonesia, March 6, 2006). In other areas, despite several high-profile convictions of corrupt politicians and businessmen, the deterrent effect of national anticorruption efforts seems minimal. Credible reports appear periodically that members of the Corruption Eradication Commission have accepted bribes and intimidated witnesses (Kompas, May 31, 2006). These accused include Soeharto’s half-brother, Probosutroyo, who confessed to bribing Chief Justice Gigi Manan, and Achmad Djunaidi, formerly of the state workers’ insurance firm PT Jamsostek, who claimed to have bribed government lawyers to avoid jail time in his corruption trial (Asia Wall Street Journal, April 23, 2003; Kompas, February 10, 2006; Kompas, April 29, 2006).

A focus on policy failures and institutional shake-ups risks neglecting other changes and continuities in the Indonesian 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 policymaking has remained

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4. For more encouraging views, see Kompas, April 11, 2006.
consistent. The expansion of meaningful franchise with the return of Indonesian democracy amid economic upheaval might have engendered a populist backlash against liberal economic principles. Yet successive governments have not retreated from a broad commitment to economic openness (see also Natasha Hamilton-Hart, chap. 3 in this volume), despite occasional populists 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 policymaking in Indonesia can hardly be described as liberal or orthodox in any real sense, but this is different than Indonesia was 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. For instance, shortly after the DPR approved new investment regulations in March 2007, a presidential regulation expanded the so-called Negative Investment List of sectors wholly or partially closed to FDI (Tempo, July 6, 2007). The process by which regulators agreed on specific percentage limits on foreign ownership, or chose which sectors further to open (e.g., banking and insurance) and to restrict (e.g., telecommunications) remains unclear, but it does not appear to reflect distributional or populist concerns.

In sum, we can draw several conclusions about the post-Suharto Indonesian political economy. Despite continued close relationships between the government and business interests, Indonesian political economy has changed dramatically since the Asian financial crisis. Along with the rise of entrepreneur groups, 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 continues to plague the Indonesian economy. 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 attempts by the SBY administration 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 1997-98 in that foreign and domestic investors still appear more hesitant to invest in Indonesia than in the mid-1990s. Substantial foreign capital inflows, dominated by private borrowing inadequately hedged against foreign currency risk, do not appear to be a threat to the Indonesian economy. The vulnerability of Indonesia

Malaysia: Institutional Continuity and Macroeconomic Vulnerability

Economic recovery in concert with political repression allowed Mahathir’s regime to withstand a political challenge from his erstwhile Deputy Prime Minister and Finance Minister Anwar Ibrahim 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 ethnic-Chinese Democratic Action Party (DAP), and the pan-ethnic National Justice Party (Kanu) 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 the Malaysian lower house. Yet the ruling Barisan Nasional (National Front, BN) coalition, led by the United Malays National Organisation (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 victory, Mahathir moved against many of his political opponents, reinforcing his firm grip over Malaysian politics and society. Mahathir ruled until 2003, when he handed 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 main parliamentary opposition party, and UMNO and BN reaffirming their position at the apex of Malaysian politics.

This political continuity means two things. First, the coalition-based regime has a long term effect on its economic policies. Anwar’s term ended with a series of economic reforms that led to the creation of the more market-oriented Economic Transformation Programme (ETP). The economic success of the ETP was based on the belief that sustained economic growth would provide the necessary conditions for political stability. However, the political instability that followed Anwar’s ouster, as well as the global financial crisis of 2008, have put this belief into question.

5. Even in nominal terms, foreign bank loans to Indonesia in 2000-Q3 (US$31.799 million) remained well below the levels for 1999-Q2 (US$891.318 million) (Bank for International Settlements [BIS], International Monetary Fund [IMF], Organisation for Economic Co-operation and Development [OECD], and World Bank, online database, http://www.iadb.org/).

6. Transparency International, for example, Malaysia is almost precisely as corrupt in 2005 as it was in 1995.
The Malaysian recovery strategy led to widespread accusations that capital controls and expansionary macroeconomic policy 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 that were to acquire NPLs and inject 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 the operations of these bodies, including government buyouts of cosy-controlled firms such as Renong Bhd, one of the UMNO corporate arms (Asian Wall Street Journal, March 16, 2001; Asian Wall Street Journal, July 26, 2001). Simon Johnson and Todd Mitton (2003) find that the stock prices of 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 the Malaysian heterodox adjustment strategy, accompanied by triumphant rhetoric lambasting neoliberal 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 the Malaysian radical adjustment measures— bans on short-selling of stocks and the hard peg of the ringgit to the U.S. dollar—were lifted. Abdullah has a reputation of being personally incorruptible, and he immediately embarked on an ambitious program to streamline government-linked companies (GLC’s) 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 (New Straits Times, February 20, 2004; Berita Harian, March 24, 2006). It appears, then, at a rhetorical level that Abdullah’s regime is even more pro-market than Mahathir’s regime, whose big push toward heavy industrialization in the 1980s and extensive pro-Malay redistributive efforts produced a mix of economic policies that were decidedly interventionist.

Closer examination of Malaysian politics and economic management shows that although the regime is avowedly capitalist, a tight relationship between business and politics persists. Several important privatization reforms, such as the establishment of an open tender system for government procurement and a fair competition law, have yet to come to pass (Economist Intelligence Unit—Risk Briefing, May 23, 2006). Interview in Kuala Lumpur with Lim Kit Siang, DAP MP, July 12, 2006; interview in Kuala Lumpur with Tan Sri Ramon Navaratnam, president of Transparency International (Malaysia), July 17, 2006). Although the late 1980s saw the official privatization of many companies, the government retains a large stake in conglomerates in key sectors. Some government-controlled firms, such as Telekom Malaysia (telecommunications) and Petronas (petroleum exploration and refining), are notably professional and have expanded beyond the borders of Malaysia, 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 (Berita Harian, March 24, 2006; New Straits Times, March 25, 2006).

From the standpoint of the UMNO 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 Ministry 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 Mohd Nazri Mahathir (Asian Wall Street Journal, July 5, 2001). Since rising to the position of prime minister, Abdullah has continued Mahathir’s practice of holding the Finance Ministry portfolio. Also of note is the continued existence of the National Economic Action Council, a super-constitutional organ that Mahathir created in late 1997 to find a solution to the Malaysian economic crisis. At the head of its Executive Committee sits the
There are many ways in which the government intervenes in the economy to sponsor interethnic redistribution. For instance, in a 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. In addition to the PNB 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, 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 Ushshawan Nasional Berhad (PUNB), a wholly owned subsidiary of Yayasan Pelaburan Bumiputra (of which PNB is another subsidiary), has since 1991 complemented Perbadanan Nasional Berhad in nurturing bumiputra entrepreneurs, and its responsibility for creating bumiputra franchises and businesses owners expanded notably in the Ninth Malaysia Plan (Bertia Hasian, May 2, 2006). A wide array of government-linked coordinating bodies and policy development organizations support these efforts both at the federal level and among the Malaysian states (Bertia Hasian, May 24, 2006).

Through such institutions, economic policies—created with an eye toward improving the economic status of Malays—still reward political efficacy rather than economic efficiency. The NEP structures hamstring firms eager to retool, streamline, and upgrade to better compete with firms in more advanced economies. At the same time, the Malaysian 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. In addition, because the regime has such a direct stake in the performance of stocks owned by Malays, it has strong incentives 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, the Malaysian 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 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 (New Straits Times, March 21, 2006). The Malaysian judiciary, stripped of independent authority by Mahathir in the late 1980s but tentatively reassessing its independence since 2004, still faces accusations of bowing to political pressure and bribery (New Straits Times, May 31, 2006). 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 Muzy 1999). During the crisis, Mahathir used these and other investment arms to protect the interests of favored groups, using, for example, funds from Khazanah and the publicly owned provident fund, the Employees' Provident Fund, to shore up the sagging KLSE (Utusan Malaysia, September 4, 1997). Indeed, Mahathir clearly explained the radical adjustment measures as having been vital not only for economic recovery in general but also more narrowly for protecting Malay welfare (Pepinsky 2007). Today, without meaningful reform, the same danger exists.

Of course, while interethnic redistribution justifies broadly pro-Malay policies, factional conflicts within the Malay corporate community persist, revealing that political protection remains valuable for well-connected corporate figures. Daim's falling out with Mahathir appears to have left him particularly vulnerable, as evinced through a Court of Appeals ruling on an old corporate scandal from his days as finance minister in 1990 that implicated him as well as his protegés Halim Saad and Annuar Omran (New Straits Times, January 13, 2006; Star, January 27, 2006). 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, additional political scandals reveal that UMNO politicians still often use their offices for corporate gain, leading many 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 political continuity has produced a stable institutional platform for economic recovery, at the cost of continued macroeconomic vulnerabilities. Malaysia is still a fundamentally open economy, but one in which the old model of ethnic politics and political favoritism persists. Keenly aware that interethnic grievances can undermine social stability, the regime continues to strike an uneasy balance between redistributive intervention and economic openness. The link between the Malaysian political system and macroeconomic vulnerability is easy to miss in relatively fat times, but it is important to recall that the Malaysian economic crisis in 1997–98 began following a similar period of seemingly healthy expansion. Risk consultancies continue to warn that the dark areas of the Malaysian political economy persist, and although foreign investment has steadily recovered in the past several years, investors remain well aware of the recent Malaysian history of interventionist economic policies.

Conclusion

The experiences of Indonesia and Malaysia after the Asian financial crisis reveal the difficulty of establishing institutions that can foster healthy economic growth. Indonesia since 1998 has experienced rapid and far-ranging institutional change. Institutions that scholarly consensus holds should be both welfare- and growth-enhancing, but their experience suggests that the benefits of democratisation can be delayed by the difficult task of adjusting to new institutional arrangements. Malaysia reaffirms what many consider an uncomfortable common wisdom that, despite their high costs in terms of personal freedom, 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. 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 ouster of Anwar, the marginalization of Daim, and the rise of Abdullah and Khairy, but the system has proven remarkably resilient.

On the vulnerability of each country to another financial panic, records are mixed. Insofar as the currency of neither country appears overvalued, the risk of an externally generated financial crisis is lower a decade after the Asian financial crisis than it was in the mid-1990s. Furthermore, political developments in Indonesia have discouraged the inflow of volatile short-term capital through bank and corporate borrowing, which reduces the likelihood that another mass of NPLs will emerge in Indonesia the short to medium term. In Malaysia, a reasonably well-managed banking sector should forestall a similar buildup of imprudent foreign-denominated loans, as it did in the mid-1990s, but the regime continues to use the Malaysian stock markets as a tool for interethnic redistribution. The absence of fundamental reform, as evinced through corporate bailouts and political favoritism that persist in Malaysia even today, means that politicians can promote risky stock market expansion in the future. Even if such an expansion is at present unlikely, political-business linkages in Malaysia are not themselves the causes of financial vulnerability but they enable particular vulnerabilities to emerge. In sum, the experiences of the two countries suggest that neither institutional change nor institutional continuity will necessarily produce the policies required to eliminate macroeconomic vulnerability, which persists in both countries for different reasons.

Institutional change signifies for Indonesia 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. The current challenge for Indonesia 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 the Indonesian model becomes more striking when compared to the Malaysian development model, which has changed little since 1997. Ethnic politics and redistribution still underlie almost all policy choices in Malaysia. This is the main legacy of heterodox adjustment measures that shielded Malaysia from the upheaval that Indonesia experienced.

Despite this pessimistic outlook, one sign of change shared by both countries is the rise of an active civil society, eager to monitor government excesses and agitate for change.
for reform. In Indonesia, decentralization and democratization have contributed to
to policy uncertainty, but an alternative pathway from political liberalization to eco-
nomic growth may develop in which empowered citizens form new advocacy net-
works that demand good economic management from the democratically elected
government. Indeed, hundreds of nongovernmental organizations (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 (Kompas,
May 15, 2006). Meanwhile, in Malaysia, draconian legislation that restricts civil so-
ciety organizing remains in effect. Nonetheless, a lively opposition presses the gov-
ernment for further reform, and NGOs energized during the reformasi movement
still vocally criticize the BN regime. Even the government-controlled print media
have become bolder in covering political and economic scandals since Abdullah's
rise to power. Evidence of social pressures producing clean governance remains
scarce in both countries. Nonetheless, these pressures for responsible government
may be the key to fostering macroeconomic stability and healthy long-term eco-
nomic growth in the two countries.

CHAPTER 12

The Korean Economic System
Ten Years after the Crisis

Jongryn Mo

The 1997 Asian financial crisis was a turning point in Korean economic history.
Its economic impact was severe because it brought bankruptcy to many heavily
indebted Korean corporations and banks and unemployment to hundreds of thou-
sands of workers. The psychological impact of the crisis was equally important.
People had lost faith in their old economic system and looked for an alternative
model. The public pressure for reforming the old economic system continued even
after the Korean economy officially returned to solvency in 2001 (i.e., when the
IMF bailout loan was fully repaid).

But how much has the Korean economic system changed as a result of the crisis
and subsequent reforms? In particular, how differently are Korean banks and com-
panies behaving now compared with before? Answering this simple question goes a
long way toward understanding the transformation of the Korean economic system
since the economic crisis.

Opinions on this question vary. On the one hand, many analysts argue that Korea
has gone furthest in transforming its economic system into a market economy, not
only among the crisis-hit countries but also among East Asian countries in general.
They point, in particular, to the penetration of foreign capital into Korean financial
markets. On the other hand, there is still strong skepticism about the openness
and regulatory consistency of the Korean government. Critics cite the dampening
effects of government investigations of foreign investors on investor confidence, a
prominent example of which is the investigation into Lone Star for its purchase of
Korea Exchange Bank in 2003. On balance, however, Korea is generally recognized
as a successful case of postcrisis reform.
Iron Cage in an Iron Fist: Authoritarian Institutions and the Personalization of Power in Malaysia
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Iron Cage in an Iron Fist

Authoritarian Institutions and the Personalization of Power in Malaysia

Dan Slater

“The individual bureaucrat....is only a single cog in an ever-moving mechanism which prescribes to him an essentially fixed route of march. The official is entrusted with specialized tasks and normally the mechanism cannot be put in motion or arrested by him, but only from the very top.”

Max Weber

“Contrary to the usual belief that I am a dictator, I actually work as a team.”

Mahathir Mohamad

Democratic institutions have long enjoyed pride of place in comparative politics. By comparison, authoritarian institutions remain inadequately conceptualized, theorized, and investigated. To help narrow this gap, this article assesses the conceptual and theoretical implications of a puzzling phenomenon: Malaysian Prime Minister Mahathir Mohamad’s growing personalization of power since the mid 1980s.

This phenomenon is particularly puzzling because Malaysia has long represented one of the most institutionalized party-states in the developing world, and personalization is typically seen as antithetical to institutionalization. While this conventional wisdom makes a great deal of sense in democracies, it is misleading in polities that exhibit significant authoritarian characteristics such as Malaysia. This distinction has important implications in understanding how and why authoritarian regimes change, remain stable, or collapse.

Since democratic and authoritarian institutions serve very different purposes, institutionalization has very different implications in democratic and authoritarian contexts. Democratic institutions fundamentally serve to provide stable patterns of popular representation. One way they accomplish this purpose is by constraining the chief executive’s “despotic power,” which in the terminology of Michael Mann is “the range of actions” that an individual leader “is empowered to take without routine, institutionalized negotiations” with other regime members. In democracies, therefore, personalization is antithetical to institutionalization by definition.
Democracies can either be institutionalized, if rules constrain the ruler, or personalized, if rulers ignore the rules.

Highly institutionalized authoritarian regimes also typically exhibit regularized succession mechanisms and collective decision-making procedures that curtail a ruler’s personal power. But they are neither the sole nor the primary purposes of authoritarian institutions. Whereas democratic institutions serve to provide predictable patterns of representation, authoritarian institutions primarily serve to provide a stable basis for domination. The raison d’être of authoritarian institutions is not to constrain “despotic power,” but to supply a regime with the “infrastructural power” necessary to implement its command over potential opposition in civil society and within the multiple layers of the state apparatus itself. While democratic institutions serve to keep the executive in check, authoritarian institutions serve to keep political opposition under wraps.

Personalization and institutionalization are thus not as antithetical in authoritarian regimes as in democracies. Despotic power (the power to decide) can become highly personalized, even as infrastructural power (the power to implement) remains highly institutionalized. Institutions to curtail the chief executive may falter while institutions to curtail political opposition remain formidable.

This reconceptualization of authoritarian institutions helps address a central theoretical puzzle. How can an aspiring autocrat personalize power in the face of powerful preexisting institutions? In other words, why would a bureaucratic “iron cage” fail to keep an autocratic “iron fist” in check? If political institutions are conceived as procedural checks on the executive, personalization can occur only when a regime’s institutions are weak. But once authoritarian institutions are geared primarily toward extending a regime’s infrastructural power, personalization might take place when a regime’s key institutions are strong. Aspiring autocrats can not do their own dirty work; they need infrastructural power, embodied in regime organizations, to execute their commands. Therefore, in authoritarian regimes, high levels of infrastructural power facilitate the effective concentration of despotic power. Institutionalization along one dimension ironically abets deinstitutionalization along another.

Recent events in Malaysia provide strong evidence in support of this proposition. Because of its high antecedent level of institutionalization, Malaysia provides an ideal case to challenge the assumption that personalization signifies the underdevelopment of political institutions. Mahathir Mohamad has confounded this conventional wisdom by establishing highly personalized control over decision-making procedures in the Malaysian party-state. More specifically, Mahathir has used three mechanisms of personalization—packing, rigging, and circumventing—to transform what was long described as a semidemocratic single party regime into something more closely resembling personalized authoritarian rule.

Mahathir has personalized power as much by deploying Malaysia’s authoritarian
institutions as by destroying its democratic ones, however. To the extent that institutions such as parliament, the judiciary, the cabinet, the bureaucracy, the sultans, the media, the police, and the ruling party (the United Malays National Organization, or UMNO) have historically served as democratic institutions—as procedural checks on despotic executive power—they have clearly been weakened. But to the extent that these institutions historically served as authoritarian institutions—as the party-state’s organizational basis for political control over potential opposition, including dissent from within the party-state itself—they have served as much as Mahathir’s accomplices as his victims.

Moreover, Malaysia’s political institutions have long acted, at least in part, as vehicles for top-down control. Even before Mahathir transformed Malaysia into a system of “pseudo-democracy” or “competitive authoritarianism” in the late 1990s, Malaysia was never considered fully democratic. Rather, it was characterized by knowledgeable observers as a “quasi-democracy,” a “semidemocracy,” a “repressive-responsive regime,” or a system of “soft authoritarianism.” The Malaysian party-state’s key institutions have therefore played a complex and dynamic combination of democratic and authoritarian roles for nearly five decades.

Thus, when Mahathir faced rising opposition to his increasingly personalized and authoritarian rule in 1998–99, he did not face the challenge in an institutional vacuum. Rather, he confronted it with the full assistance of a well-developed apparatus of party-state organizations that has exhibited a long institutional history of nipping opposition in the bud. Most important, Mahathir inherited a British colonial legacy of expansive emergency-style powers (most notoriously, the draconian Internal Security Act), as well as highly developed coercive organizations under tight hierarchical control, especially the federal police. If Mahathir chooses to crush rather than accommodate his personal rivals, he can count on formidable authoritarian institutions to carry out his orders. Only a brave or self-destructive few are willing to risk a confrontation with Mahathir’s infrastructural power by challenging his despotic power.

The resilience of Mahathir’s regime during the crisis of 1998–99 represented not simply a triumph of individual will, but also an impressive display of well-developed authoritarian institutions in synchronous motion. When Mahathir says “I actually work as a team,” he may be semantically incoherent, but he is substantively correct. As opposition to his leadership increased, Mahathir deployed an armada of institutions—the police, media, judiciary, bureaucracy, and party—to destroy his chief rival and quell rising demands for political reformasi.

The loyalty and compliance of these institutions were not evidently based on widespread affection for the prime minister. Rather, they appeared to be based primarily on the logic of obedience in a tightly defined institutional hierarchy, in which top officials hold the effective capacity to recognize cooperation and defection and to reward and punish them accordingly. Although a majority of government officials
evinced dissatisfaction with Mahathir’s strong-fisted approach, they did not disobey his orders, as often happens when political institutions lack strongly established channels of hierarchical control.15 Faced with dire consequences for noncompliance, the cogs in the party-state continued obediently to work in their place.

In sum, Mahathir has used the mechanisms of packing, rigging, and circumventing to accumulate despotic power without significantly undermining his regime’s infrastructural power. Institutions no longer fetter the executive, but they continue to choke off political opposition. To say that Mahathir’s regime is either personalized or institutionalized but not both is to get only half the story right. In a regime with significant recourse to authoritarian controls, the relationship between despotic power and infrastructural power is positive-sum rather than zero-sum. Autocrats can monopolize despotic power without squandering infrastructural power, as in Malaysia from 1987 to 1997. Mahathir’s growing personalization of power during the recent political crisis was predicated on the strong backing he received from Malaysia’s highly institutionalized political organizations. This institutional framework is valuable for comparative research on authoritarian institutions and democratic transitions. High levels of infrastructural power not only foster a regime’s personalization, but also appear to increase its resilience in the face of pressures for democratization. When underlying political organizations remain capable and coherent, authoritarian regimes can become more personalized without becoming more brittle, contrary to theoretical expectations that personalization makes authoritarian regimes more vulnerable to collapse.16

Institutions in an Authoritarian Setting

Unlike democracies, authoritarian regimes can be highly personalized and highly institutionalized at the same time. A democracy that fails to curtail despotic decision-making power can not be called institutionalized in any meaningful way, but an authoritarian regime that lacks institutions for curtailing the executive might still exhibit powerful institutions for curtailing dissent. Before the positive-sum relationship between personalization and institutionalization in authoritarian settings can be recognized or the causal impact of authoritarian institutions on democratic transitions determined, the critical distinction between these two very different types of institutions must be appreciated.

Studies of political institutionalization typically encompass both despotic and infrastructural power, yet they fail to note that two distinct dimensions are being measured. For instance, Barbara Geddes defines an authoritarian regime as being institutionalized under a ruling party, rather than personalized, if “the party has some influence over policy, controls most access to political power and government jobs,
and has functioning local-level organizations.” Autocratic personal rule is replaced by oligarchic party rule when the ruling party manages to impose constraints on the leader’s despotic power and to extend its organizational tentacles to the grass-roots level.

Combining two distinct historical processes under a single concept, however, leaves little conceptual guidance in assessing regimes that have undergone one without the other. Even if it can be safely assumed that such political procedures and organizations have historically become institutionalized in tandem, it should not necessarily be assumed that they become deinstitutionalized in tandem as well. For example, in a regime such as the institutionalized single party regime Geddes describes, an aspiring autocrat might gradually usurp the ruling party’s influence in making authoritative policy and personnel decisions. Could it be safely assumed that the party’s “functioning local-level organizations” would cease to function effectively as a result? Evidence from Malaysia will show that Mahathir Mohamad has appropriated effective decision-making power from a ruling party that continues to bestride the Malaysian polity like an organizational colossus. Yet there is no adequate conceptual framework even to describe regimes that become highly personalized along one dimension while remaining highly institutionalized along another.

Selection bias appears to be the main culprit. Most studies of institutionalization focus on cases where either weak political organizations are correlated with personalized decision making, or strong political organizations coincide with routinized decision-making procedures. Studies of personal rule have derived mostly from sub-Saharan Africa, where states have indeed tended to lack infrastructural power.

The African Autocrat faces limitations on his rule, but they are the limitations of resources and organizational capability—not of discretionary power. His power is limited by the relative “under-development” of the ruling apparatus available to him, by limited finances, personnel, equipment, technology, and materiel, as well as by the limited skills and abilities of his officials. But his discretionary power to direct this apparatus is—in principle—unlimited.

Why must an autocrat with such unlimited despotic power be saddled with such limited infrastructural power? Why must states with highly developed political organizations not be governed autocratically? The failure to distinguish between despotic and infrastructural power obscures how personalization and institutionalization might go hand in hand in authoritarian regimes.

How should political scientists cope with this conceptual complexity? One solution is to drop capable political organizations from the definition of institutionalization altogether and limit attention to the regularization of decision-making procedures. Geddes ultimately chooses this parsimonious option, discarding her earlier approach and defining institutionalization strictly by how regimes make decisions, not by how they implement them.
The problem with this approach is that the organized execution of leadership decisions is simply too important to ignore, especially in an authoritarian setting. Among America's key political institutions, a litany of procedures is designed to curtail executive despotism: presidential term limits, advice and consent, judicial review, and federalism. But in authoritarian regimes (or unconsolidated democracies, for that matter), the most durable and consequential institutions are typically organizations. In Turkish, Indonesian, and Pakistani politics, for example, military forces, even when they are not playing a leading, day-to-day decision-making role, are more important than the regimes' official decision-making procedures.

It is therefore necessary to incorporate both despotic and infrastructural power into the institutional typology of authoritarian regimes. The most common institutional typology—military, single party, and personal—can capture how despotic power is organized, since militaries, ruling parties, and individual leaders can all ostensibly make authoritative decisions. But it can not capture how infrastructural power is organized, because personal rule says nothing about which organizations carry out the leadership's orders. To encapsulate the key institutions of any authoritarian regime, it is necessary not only to inquire about who decides, but also about who executes. This approach generates a new, four-part typology (see Table 1). This new typology most obviously differs from other frameworks in excluding personal rule as a distinct regime type, while including personalization as a procedural attribute of varying force in both party-backed and military-backed regimes. In a modern authoritarian regime, even a leader who enjoys significant charismatic or traditional legitimacy must ultimately depend on his regime's organizational apparatus to distribute selective rewards to loyalists and impose selective punishments on rivals.

To establish the analytic value of this new typology, however, it is critical to show that these two types of institutions diverge not only conceptually, but also empirically. If high levels of infrastructural power always coincide with strong constraints on

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<td><strong>Despotic Power</strong></td>
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**Machine:** Malaysia (1957-98), Singapore, Vietnam, China (1976-present)
**Bossism:** Malaysia (1998-present), China (Mao), Kenya (Moi), Zimbabwe (Mugabe)
**Junta:** Burma, Thailand (pre-1988), South Korea (pre-1987), Brazil (pre-1985)
**Strongman:** Indonesia (Suharto), Philippines (Marcos), Pakistan (Musharraf), Nigeria (Abacha)
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despotic power, there is no reason to replace the existing tripartite institutional typology with the four-part version in Table 1. It will only have sacrificed parsimony with no compensating increase in analytic power. In contemporary Malaysia powerful regime organizations have not prevented the prime minister from monopolizing the effective power to make authoritative decisions. To the contrary, the existence of such highly institutionalized organizations has given Mahathir Mohamad the institutional muscle he needs to keep political opposition in check.

Mechanisms of Personalization

How might an authoritarian ruler usurp effective decision-making power from an institutionalized collectivity that put him in power? Conventional theory holds that personalization tends to occur in the early stages of a regime, before solid institutions take root. It can grasp Lenin and Mao, who built loyal political organizations from scratch through personal charisma, but not Stalin and Ceaușescu (or in a less totalitarian vein Mahathir, Moi, and Mubarak), who turned inherited organizations to their own purposes.

Malaysia thus presents a serious theoretical puzzle, because it is a clear instance of postinstitutional personalization. Its party system and state apparatus had been highly institutionalized for decades—both in the sense of oligarchic decision-making procedures and coherent, capable organizations—before Mahathir became prime minister in 1981. Michael Leigh neatly sums up the antecedent potency of Malaysia’s ruling institutions and their subsequent domination by Mahathir.

Probably the most enduring consequence of the Mahathir era has been a deliberate and decisive weakening of Malaysia’s institutions, including the judiciary, the royalty, the independent civil service, the parliament, the electoral system and now UMNO, the core party of power.... The institutions of governance are much weaker, and rulership has been personalized in a way that is without precedence in Malaysia. Much of the past strength of Malaysia, by contrast with its neighbours, was in the endurance of institutions that comfortably accommodated changes of leaders over time.

Leigh is not the only Malaysia-based scholar to conclude that Mahathir’s iron fist has overpowered Malaysia’s preexisting iron cage of political institutions. Ho Khai Leong argues that “the present office of the Prime Minister is a matrix of autocracy. The constitutional processes and institutions that act as checks to prevent the Prime Minister from gaining dictatorial control over the nation are incapable of functioning effectively.” More specifically, “under the Mahathir administration, the Cabinet is no longer used as a forum, but rather as a rubber-stamp institution that gives legitimacy to government policies.” Khoo Boo Teik has similarly noted that there has been a centralization, “in some cases even a personalisation, of power...at the expense of
the independence of key institutions.” Chandra Muzaffar concurs that the “most dis-
astrous” aspect of Mahathir’s twenty years of rule has been “the emasculation of
independent institutions like the judiciary, the police, parliament, universities and the
media.” He adds: “That’s been the great tragedy of his rule—the overwhelming dom-
inance of one man.”

However, these scholars are simply arguing that despotic power has gone from
highly constrained to highly concentrated. Autocracy has displaced oligarchy. They
are not arguing that the leadership is losing institutional control over active and
potential opposition. It is therefore partially misleading to say, as these observers do,
that institutions such as UMNO, the judiciary, and the media have been weakened or
emasculated. As democratic constraints on executive power, these institutions are
indeed shadows of their former selves. But as authoritarian mechanisms for reward-
ing loyalty and punishing opposition to the regime, they remain robust.

Mahathir has indeed managed to debase Malaysia’s preexisting procedures for
executive constraint, but not, as theory would predict, because they were especially
weak to begin with. He has managed to personalize power because his institutional-
ized command over the party-state apparatus has permitted him to overpower or
intimidate any individuals and institutions that stood in his way. One can not fully
understand the newfound weakness of Malaysia’s institutions at fulfilling the core
democratic function of curtailing the executive without first comprehending their
long-standing and continuing potency at fulfilling their core authoritarian function
of curtailing political opposition. How can aspiring autocrats personalize decision-
making power in the face of preexisting procedural constraints? They have three
mechanisms at their disposal: packing, rigging, and circumventing.

Packing  Packing is the appointment of personal loyalists to top party and govern-
ment posts while purging rivals, thereby converting institutional constraints into insti-
tutional weapons. Authoritarian institutionalization implies not only high levels of
command and control within regime organizations, but also the extension and elabo-
ration of these organizations to impose political control over society. Where such
apparatuses of control predate a ruler’s rise to power, an aspiring autocrat’s prime
objective is to commandeer them for his own purposes. This goal is most effectively
accomplished through the packing of these organizations with the ruler’s loyalists.

With a wide array of procedural prerogatives to make personnel appointments,
Mahathir has gradually managed to gain personal domination over his regime’s most
potent organizations. He began to undertake this packing strategy most forcefully in
1987. As the result of a split within UMNO, Tengku Razaleigh nearly won control
over Mahathir’s positions as the party’s president and the nation’s prime minister. In
response, “Mahathir purged his cabinet of Razaleigh’s remaining supporters, who
included three senior ministers and four deputy ministers, even though all of them
had won party posts during the UMNO elections.”  

These purged leaders subse-
quently went to court to appeal Mahathir’s narrow victory in the leadership vote and their subsequent expulsion from UMNO. “The Supreme Court rejected the appeal in August 1988, but not before Mahathir had impaired the independence of the judiciary by securing the removal first of the Lord President, Salleh Abbas, on the grounds of judicial misconduct, and then of five Supreme Court judges who had risen to Salleh’s defense.”

In short, to help him pack the cabinet and UMNO’s supreme council, Mahathir needed to pack the judiciary. The effects have been significant. “Before 1987, we had a very good legal system,” notes one political analyst. “Now you see judges driving around in big Mercedes with tinted windows and ‘Hakim Negara’ (Federal Judge) in big letters. They all belong to Mahathir now.” Mahathir has thus used the packing strategy to transform the Malaysian judiciary from one of the more respected and independent legal bodies in Asia into a powerful fist at the end of his executive arm. Rather than curtail Mahathir’s despotic power, the judiciary now primarily serves to enhance his regime’s infrastructural power.

Mahathir also responded to the crisis by packing the most important post in the cabinet with his most trustworthy loyalist of all: himself. From the UMNO split in 1987 until after the sacking of Anwar Ibrahim in 1998, Mahathir retained the portfolio of home minister, thus granting himself effective control over the real muscle in Malaysia’s party-state, the police. Mahathir’s personal stranglehold over this highly effective and repressive police force was a major reason why social pressures for political reform were snuffed out after Anwar Ibrahim’s removal from office in September 1998. For now, the key point is that packing allows a leader to personalize decision-making authority without necessarily weakening the capacity of the organizations in question to execute his commands. Indeed, the more well-established the institution is, the greater are the chances its cogs will remain fixed regardless of who is guiding the mechanism.

Rigging Rigging is the strategic modification of institutional rules and procedures to forestall competition for leadership positions. Packing provides an ideal mechanism for denying challengers access to the organizational bases of regime strength, but it has no direct effect on the procedures through which the leadership might be challenged. In Malaysia, the only road to power leads directly through UMNO, the ruling party. Since the party and state apparatuses have become tightly intertwined over more than forty years of single party hegemony, whoever controls UMNO effectively controls the state. Historically, UMNO has been notable for its democratic intraparty competition, even as it acted in highly authoritarian ways in the wider polity. Having nearly been toppled by such democratic intraparty competition in 1987, Mahathir used his dominance of the packed UMNO supreme council to systematically rig UMNO’s internal election procedures. In short, “Mahathir remade UMNO itself. He changed the party’s constitution to make it difficult to challenge
incumbents. Mahathir, who stands for re-election every three years, has ever since run unopposed.\textsuperscript{31}

This rigging of UMNO procedures gathered pace in the mid 1990s, as Mahathir increasingly feared a possible leadership challenge from his popular deputy, Anwar Ibrahim. While Anwar enjoyed substantial grass-roots support within UMNO, he had difficulty gaining a foothold in UMNO's supreme council and the cabinet. Yet Mahathir's dominance of UMNO in the supreme council and cabinet could not protect him from a floor vote at an UMNO general assembly meeting like the one Razaleigh's supporters called and nearly won in 1987.

Hence Mahathir's need for procedural rigging. A detailed overview of the procedural changes has been provided elsewhere, but the basic rigging strategy is worth outlining briefly.\textsuperscript{32} Mahathir introduced an array of bonus votes, no contest resolutions, and bans on campaigning for top party posts to ensure both his and Anwar's continued incumbency as UMNO president and vice-president. Including Anwar in this protective net secured the support of his faction for many of these resolutions, without permitting Anwar to resolve his deeper political problem, his lack of representation on the supreme council. When Mahathir chose to sack Anwar on unsubstantiated charges of sexual misconduct in 1998, he only needed the approval of the supreme council, where his own loyalists had been effectively packed, and not the UMNO general assembly, where Anwar's support more closely rivaled Mahathir's.

UMNO procedures have clearly been rigged to facilitate Mahathir's personal domination of Malaysia's hegemonic political organization. But has UMNO lost organizational coherence or infrastructural power over society as a result? In the sense that UMNO lost substantial support in the 1999 general election, largely due to public outrage over Anwar's dismissal and vilification, it has indeed been weakened. Yet it still utterly dominates the ruling coalition and still enjoys the kind of mass membership, territorial comprehensiveness, and grass-roots intelligence network that it has developed over more than four decades in power. As unchallenged UMNO leader, Mahathir is the main beneficiary of "the party's formidable electoral machinery," which "reaches down to the smallest villages. UMNO stations one officer to monitor each 10 households in most rural areas."\textsuperscript{33} Mahathir's rigging of party procedures might have worn the machinery some, but it has certainly not eliminated UMNO's infrastructural power at the grass roots altogether.

Circumventing

Circumventing is the creation of alternative policy channels to divert influence and resources away from rivals in mainline government departments and toward loyalists in packed institutions. Any aspiring autocrat is likely to enjoy more success at packing some regime organizations than others. When confronted with organizations that are too politically risky or intractable to pack, he can use the mechanism of circumvention as a fallback option. This approach aims to ensure that authoritative channels for policy implementation and patronage distribution flow
through organizations controlled by the autocrat’s loyalists, rather than his rivals. In short, circumvention privileges packed organizations over unpacked ones.

Mahathir has deployed such a strategy by systematically diverting decision-making authority on nearly all major policy issues to the prime minister’s department, the most packed organization in the Malaysian government by definition and design. Under Mahathir’s watch, the prime minister’s department has evolved into the regime’s nerve center for distributing payments to loyalists and delivering punishments to rivals. Specifically, Mahathir has circumvented mainline economic departments like the finance ministry—controlled from 1993 to 1998 by Anwar Ibrahim— to manage Malaysia’s privatization agenda through the prime minister’s department. Since privatization has been “the major form of patronage during the 1990s” for the UMNO-led regime, Mahathir’s direct control over this process has been fundamental in his seizure of personalized decision-making authority.  

Might this type of deinstitutionalization of decision-making procedures translate into the deinstitutionalization of decision-executing organizations? While the packing and rigging of institutions has no clear negative effect on an authoritarian regime’s infrastructural power, it is trickier to assess the possible impact of circumvention. Packing implies commandeering the power of an existing institution for personal purposes; circumvention either requires the creation of entirely new organizations or requires existing organizations to take on entirely new tasks. Circumvention thus implies the squandering of at least a portion of a regime’s institutional inheritance. The big question is whether such institutional fraying can be expected to increase the chances of a regime’s collapse and subsequent political transition.

**Bossism in Bloom**

“Bureaucracy has been and is a power instrument of the first order—for the one who controls the bureaucratic apparatus.” Mahathir Mohamad exerted increasingly autocratic control over the Malaysian political system by the mid 1990s. Key events during Malaysia’s dual political and economic crises of 1997–99 provide even stronger evidence that Mahathir managed to personalize decision-making authority and to do so by turning the UMNO party-state’s powerful authoritarian institutions to his personal advantage. Mahathir’s regime proved easily capable of surviving the financial and political crisis, in spite of its growing personalization. The regime hung together rather than breaking apart. Specifically, it hung together behind Mahathir’s strategy of resolving the crisis primarily through repression rather than accommodation of dissent. The absolute loyalty of the police and other institutions of political control to Mahathir made the regime more effective rather than less in foreclosing opportunities for resistance. It not only made the regime more personalized, but also forestalled any prospect for a transition to a more democratic order.
By 1997 only Mahathir’s deputy, Anwar Ibrahim, still presented a check on his political preeminence. Mahathir’s position suddenly became more tenuous, however, when the Asian financial crisis spread from Thailand to its Southeast Asian neighbors. As the Malaysian ringgit and stock market plumbed new depths, Mahathir feared that he would be unable to rescue his political supporters in the corporate sector, who were suddenly buried under unserviceable mountains of private debt. This personal corporate clientele had been cultivated throughout the 1990s by an extensive privatization program, managed through the prime minister’s department by Mahathir and his long-time associate, Daim Zainuddin. Mahathir wanted to ensure that he and Daim, and not Anwar, would make the final decisions on which corporate figures received state assistance. But Anwar was still perched atop the finance ministry and seemed more concerned than Mahathir about the restoration of foreign investor confidence, even if it meant letting some well-connected businessmen fail.

To ensure uninterrupted personal control over the distribution of state resources, Mahathir deployed a circumvention maneuver, creating an ad hoc National Economic Action Council to counter Anwar’s finance ministry. As always, this circumvention entailed the privileging of an ally as well as the weakening of a rival, as Daim, Malaysia’s “virtual finance minister,” was appointed to lead the council.36 Mahathir also used his direct control over a variety of discretionary funds to prepare strategic bailouts for key allies in the corporate sector. These assets included the national pensions fund, a savings account for Muslim pilgrims to Mecca, and, most important, the national oil company, Petronas, which also falls directly under the Malaysian prime minister’s control. With an estimated $25 billion in cash as of November 1998, Petronas had more reserves on hand than the Malaysian central bank.37

By circumventing the finance ministry, Mahathir was sending Anwar a strong message not to intervene in his bailouts of leading corporate figures. But in March 1998 Anwar insisted on an independent audit of a Petronas-funded rescue of Konsortium Perkapalan Berhad (KPB), a heavily indebted shipping concern. Anwar’s intervention was particularly bold because the bailout aimed to use $420 million in Petronas funds to wipe out the private debts of KPB’s chief executive, Mirzan Mahathir, the prime minister’s oldest son. When the bailout went through, one UMNO official lamented: “I thought such things could only happen in Indonesia or some African country.”38

Once Anwar’s objection to the Petronas-Mirzan bailout made his loyalty to Mahathir suspect, the prime minister stepped up his strategy of circumventing Anwar’s finance ministry by diverting authority to ad hoc, packed executive agencies. In June 1998 Mahathir created a special cabinet post for Daim, minister of special functions under the aegis of the prime minister’s department. On economic policy Mahathir’s packing and circumventing tactics had redirected day-to-day decision-
making power from his chief rival to the hands of his chief loyalist. He thus main-
tained a tight grip on the institutional circuits through which patronage flowed.

Politically, Mahathir’s efforts to weaken Anwar gathered steam as well. In July
1998, just six weeks before Anwar’s eventual sacking, Mahathir engineered the
replacement of the editors-in-chief of two of Malaysia’s leading newspapers, as well
as the director of operations at one of Malaysia’s top television stations. All were
reportedly close to Anwar. This replacement of rivals with loyalists in the main-
stream media qualifies as an instance of packing a regime organization, because the
press in Malaysia is far from independent of the government. The Malaysian press
can best be thought of as the main propaganda apparatus for the UMNO party-state
or as a semiprivatized appendage of the information ministry. All the mainstream
papers are owned by corporate proxies for UMNO and its coalition partners, and the
home minister has carte blanche to ban or curtail independent media outlets under
the Printing and Publications Act. Said one of Anwar’s associates in response to the
dismissal of his top supporters in the press: “Their removal is the biggest setback
Anwar has had since he became deputy PM.”

With Anwar’s allies in the press removed, Mahathir had a free hand to destroy
Anwar through a Blitzkrieg-like campaign of character assassination. As home min-
ister and overseer of the police, Mahathir announced in September 1998 that Anwar
would be sacked due to homosexual conduct discovered by the police’s special
branch investigative unit. A special meeting of the UMNO supreme council prompt-
lly executed the prime minister’s command. As Anwar himself described the session:
“The president of the party opened the meeting by suggesting that I have to be
expelled from the party before giving me the floor. What do you expect the supreme
council members to do? If they disagree, they will be expelled too.”

Once Anwar was officially removed, Mahathir packed and rigged Malaysia’s eco-

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cnomic policymaking institutions to limit the financial fallout. Realizing that Anwar’s
dismissal would cause a collapse in investor confidence, Mahathir announced new
capital controls, thus preventing foreign investors from speculating against the
Malaysian ringgit or repatriating funds from the sale of their Malaysian stocks. With
this breathing space, Mahathir moved to force down interest rates to ease the debt
burden on well-connected companies. Since lending rates are officially determined
in Malaysia by an independent central bank, Mahathir replaced the market-friendly
bank governor with the director-general of the economic planning unit, the main
economic arm of the prime minister’s department.

Mahathir then not merely packed Anwar’s former posts with loyal deputies, but
took over some himself. For months after Anwar’s dismissal Mahathir added to his
posts as prime minister and home minister Anwar’s duties as finance minister.
Mahathir also effectively named himself deputy prime minister by refusing to name
a replacement for Anwar, thus putting Malaysia in danger of a succession crisis for
the first time in its history. “What happens if the PM dies or falls sick?” asked one senior UMNO official. “It’s irresponsible not to have a successor. It could result in political instability.”

In response to such criticism, Mahathir brazenly displayed his autocratic colors. After announcing to UMNO’s supreme council that he would not name a new deputy as promised, over one month after Anwar’s sacking, he declared: “It is not within the jurisdiction of the supreme council. It is my right to appoint a deputy prime minister, what are his qualifications and so on. I don’t have to refer to anybody on this matter. That is my prerogative.” Mahathir’s packed cabinet put up no resistance. One senior minister bluntly confirmed Mahathir’s absolute discretion to sack Anwar unilaterally and to prevent the party elite from collectively selecting a new vice-president: “As the chief executive, the Prime Minister has 100% authority to hire and fire and we are there at his pleasure.”

Having seized all the main institutional reins of the regime, Mahathir mobilized a phalanx of regime organizations—the media, the police, the judiciary, and the UMNO-dominated bureaucracy—to prevent Anwar and his supporters from challenging his leadership. Despite Anwar’s popularity, knowledgeable observers of Malaysian politics knew he had little chance against Malaysia’s formidable political institutions. “Anwar has no political space outside,” said Shamsul A. B. “That’s why he has not raised his voice against UMNO. He knows the only way he can come back to politics is through the party.” Jomo K. S. agreed: “Anwar is popular on the ground, but organizationally he is weak.” And Singapore’s senior minister Lee Kuan Yew—a man quite familiar with the paramount importance of powerful authoritarian institutions—expressed confidence that Mahathir would prevail. “I am prepared to wager five to one. I am not saying Anwar Ibrahim has not got a following. What I am saying is that there are institutional checks and balances and systems that will not allow civil order to be upset.”

These systems of control included the progovernment media, which began a one-sided campaign of character assassination against Anwar, presenting the accusations against the fallen heir apparent as fact. Given the ownership structure of the media and the home minister’s prerogative to rescind publication licenses at will, Mahathir could be confident that the press would not stray too far from the official line. Multiple independent publications have indeed been banned since 1998, and the main opposition party has seen its permission to print its own newspaper reduced from two issues per week to two issues per month.

The Anwar affair also made Mahathir’s personal domination of the nation’s police force perfectly plain. As home minister, Mahathir claimed that police investigators had been telling him about Anwar’s sexual misconduct for years, but since he had not initially believed the allegations, charges had never been pressed. In this clumsy attempt to appear magnanimous, Mahathir inadvertently admitted that his personal protection was sufficient to place any of his loyalists above the law. When the direc-
tor of the police’s special branch was called to testify at Anwar’s trial on corruption charges stemming from the sexual allegations, he admitted that the investigation into Anwar’s private life, Operation Solid Grip, had been terminated in August 1997. At that time, Mahathir had been quoted in the local press as saying that the rumors of Anwar’s sexual misconduct were “slanderous, politically motivated,” and “too absurd to believe.” The special branch officer made his rationale for initially ceasing the criminal investigation perfectly clear: “We have to respect the decision of the PM and that was the reason why I did not propose to scrutinise the case.”

Yet the Malaysian police also provide the clearest evidence that personal domination over the decision-making procedures in an authoritarian regime does not necessarily imply a lack of capacity in a regime’s organizations for political control. To the contrary, the Malaysian police’s institutionalized loyalty to the prime minister helped ensure its coherence and effectiveness in suppressing both the elite defection and popular dissent that inevitably arose when the most popular politician in the country was summarily dismissed and disgraced. Violent crackdowns on peaceful demonstrations quickly become the norm, and detention of Mahathir’s opponents (including Anwar sympathizers within UMNO) under the Internal Security Act became so routine that the Kamunting Prison for detainees became colloquially known as the “Mahathir Marriott.” The infamous image of Anwar’s black eye, courtesy of a severe police beating in solitary confinement while being held under the Internal Security Act, serves as ample testimony to the tactics Malaysian police use against perceived enemies of Mahathir’s regime. After a report by Malaysia’s state-appointed human rights commission criticized the police for their violent suppression of the reformasi movement, Mahathir appointed a new human rights commissioner, the former attorney-general who had helped him impeach six justices and pack the judiciary in 1988.

While the police followed Mahathir’s orders and maintained stability on the streets, Malaysia’s packed judiciary carried out Mahathir’s political death sentence against Anwar in the courts. Two trials on corruption and sexual misconduct charges duly delivered a combined sentence of fifteen years in prison for Anwar, in spite of disturbing irregularities in the trials’ proceedings. The only people to admit having illicit sexual relations with Anwar did so while being held in solitary confinement under the Internal Security Act, and each later retracted his confessions and detailed the police’s physical and psychological abuse. When Anwar’s lawyers noticed that the condominium where Anwar was alleged to have performed these trysts had not even been built when the trysts allegedly took place, the trial judge allowed the prosecution to alter the dates on the indictment. Mahathir has since rewarded the attorney-general who prosecuted the Anwar case with a seat on the supreme court.

Malaysia’s potent party-state organizations were then deployed to ensure that the opposition would have no chance of removing Mahathir from office through
Malaysia’s “competitive authoritarian” institutions. By holding elections before the end of 1999, the regime claimed the right to leave all 680,000 voters registered in that calendar year off the electoral rolls, recognizing that the lion’s share of new voters would side with the opposition if given the chance. UMNO wound up losing twenty seats in the election, in spite of a typically one-sided media campaign and unprecedented reports of electoral fraud, including the widespread use of “phantom voters.” When a judge ruled that such electoral abuses in one district were so severe as to demand a revote, UMNO officials prepared to make future court challenges to election results unconstitutional. The judgment of the electoral commission—packed, unsurprisingly, with prime ministerial appointees—is heretofore to be taken as the final word.

In sum, Mahathir has packed, rigged, and circumvented institutions to purge and incarcerate his personal rival, suppress popular demands for political reform, steer the national economic product toward his most loyal supporters, and secure the electoral survival of his authoritarian regime. Authoritarian rule in Malaysia is more personalized, but no less resilient. Nevertheless, the days of Mahathir’s regime, like all personalized regimes, are clearly numbered. Eventually, the septuagenarian will have to exit the stage, either voluntarily or otherwise. What arises in his place will depend to a great degree on how he leaves the scene. However, one theoretical point should be abundantly clear: authoritarian regimes with coherent and capable party-state organizations are structurally vulnerable to processes of personalization, contrary to the common assumption that personalization feeds off of institutional weakness. The structural opportunity for future UMNO leaders to manipulate institutional means for personal ends, as Mahathir has done, should not be underestimated. As long as control over UMNO continues to ensure control over Malaysia’s highly developed state apparatus, UMNO, in Weber’s terms, is a power instrument of the first order for the one who controls UMNO.

Summary and Implications

Malaysia demonstrates several theoretical arguments. First, in Malaysia after 1998 authoritative decisions derive from the will of an autocratic individual, not the deliberations of an oligarchic collective. Malaysia challenges the assumption that personalization signifies weak institutionalization. In authoritarian regimes, personalization can arise amid strong institutions as well as weak ones. Most important, Malaysia is noteworthy for having had one of the most institutionalized party-states in the developing world for decades before Mahathir began monopolizing decision-making authority in the mid 1980s.

Evidence from Malaysia also supports a second theoretical point: highly institutionalized authoritarian organizations facilitate the personalization of power. Leaders
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like Mahathir, who was fortunate enough to inherit highly effective and disciplined party-state organizations from his predecessors, enjoy personal power of an altogether different magnitude than leaders like Congo’s Laurent Kabila, who inherited only the institutional ruins bequeathed by Mobutu Sese Seko. In terms of decision-making procedures, both Mahathir and Kabila have presided over personalized regimes. But in terms of available, capable organizations to execute their commands, their regimes could hardly have been more different. When Mahathir needed the support of Malaysia’s authoritarian institutions in late 1998, they dutifully turned their considerable institutional firepower against Anwar Ibrahim and his supporters. By contrast, Kabila’s personal guard turned their firepower against Kabila himself.

Personalization amid strong organizations thus appears to have very different implications for authoritarian durability than personalization amid weak ones. Evidence from Malaysia strongly suggests that authoritarian regimes can become more personalized without becoming less resilient. To state this hypothesis even more boldly, variation in authoritarian regimes’ infrastructural power is the key to explaining variation in their durability. Party-backed authoritarian regimes appear to be exceptionally resilient because parties provide ideal organizational mechanisms for the coordinated execution of decisions, not necessarily their collective formulation. They also appear to be systematically more likely than military-backed regimes to curtail and control dissent through the development of national organizations of political control.

Thus, a different causal mechanism links authoritarian institutions to democratization than the one Geddes suggests. Her game-theoretic model imputes variations in regime durability from the bargaining incentives confronting different types of regimes in times of crisis. She ascribes the relative durability of party-backed regimes largely to the incentives party elites face under crisis conditions to unite, as tactical decision makers, behind a strategy of coopting potential opponents.

Because the dominant strategy of the ruling coalition in single-party regimes is to coopt potential opposition, single-party regimes tend to respond to crisis by granting modest increases in meaningful political participation, increasing opposition representation in the legislature, and granting some opposition demands for institutional changes....This strategy only works sometimes, but it works often enough to extend the average lifetime of single-party regimes.

This general explanation of single party durability is echoed by many Malaysians, who often explain the UMNO regime’s durability as a result of its commitment to regular, semidemocratic elections that serve as a pressure valve for political opposition. Ascribing the regime’s resilience to its relative responsiveness would have been a hard argument to dispute before 1998, but this explanation sits less well with recent evidence. Malaysia’s party-state did not respond to the political crisis of 1998 by softening its stance toward its opponents, as Geddes would predict, but rather by becoming increasingly authoritarian. Such state violence and repression might have
sounded the death knell for a less organizationally capable regime, but in Malaysia, where authoritarian organizations have a decades-long institutional memory, increased state repression served as a winning strategy.57

Nor does Malaysia appear to be an outlier in this regard. In the past several years alone, party-backed regimes that have loosened controls on the opposition while permitting freer and fairer elections have been removed from office in Mexico, Taiwan, and Senegal. Meanwhile, party-backed regimes that have combined semicompetitive elections with continuing illiberal repression of the opposition have persevered in such countries as Malaysia, Singapore, Cambodia, Zimbabwe, Kenya, Uzbekistan, Tunisia, and Egypt. Single party regimes might be particularly durable because of the way they organize repression, not representation. This hypothesis gains further prima facie plausibility from those single party regimes that have completely eschewed the facade of electoralism in the past decade. Cuba, China, Laos, Vietnam, and North Korea have proven surprisingly resilient. In short, the world’s remaining single party regimes seem to share a stronger common commitment to coercing their opponents than to coopting them.58 Authoritarian regimes seem most likely to persevere when their institutions exhibit sufficient infrastructural power to curtail opposition by punishing opponents and rewarding loyalists in pinpoint fashion. It seems less important whether authoritative decisions represent the product of collective deliberation or individual will.

NOTES

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4. I define authoritarian regimes broadly. They include any regime in which “incumbents routinely abuse state resources, deny the opposition adequate media coverage, harass opposition candidates and their supporters, and in some cases manipulate electoral results.” See Steven Levitsky and Lucan A. Way, “The Rise of Competitive Authoritarianism,” Journal of Democracy, 13 (April 2002), 52, and other articles in this issue on “elections without democracy.”
5. Mann defines despotic power in terms of the state’s autonomy from civil society. I extend Mann’s concept beyond power relationships between state and society to those within the state itself. See Michael Mann, States, War, and Capitalism: Studies in Political Sociology (Oxford: Basil Blackwell, 1988), p. 5.


7. This term is also Mann’s. It refers to “the capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm.” Mann, p. 5. Yet a regime can overcome societal resistance only if it has first generated compliance within the state apparatus. I therefore include the organizational coherence of state institutions in my definition of infrastructural power.

8. As Michael Coppedge has suggested, “this phenomenon is not unknown, but it is untheorized.” Discussant’s comment at the American Political Science Association annual conference, San Francisco, August 30, 2001.

9. A single case can strongly impugn a hypothesis by showing that it fails to hold where it should be most expected to hold. See Harry Eckstein, “Case Study and Theory in Political Science,” in Fred Greenstein and Nelson Polsby, eds., Handbook of Political Science, vol. 7 (Reading: Addison-Wesley, 1975).

10. While UMNO rules through a multiethnic coalition, the Barisan Nasional (BN) or National Front, its position within the coalition is so hegemonic that Malaysia is essentially a single party regime. To simplify matters somewhat for nonspecialists, I refer to UMNO rather than to the BN throughout.


13. Crouch, ch. 5.

14. Stubbs traces the Malaysian state’s impressive coercive capacity to the British-led emergency operation against leftists from 1948 to 1960. “By the end of the Emergency the Malay government had built up a substantial and relatively efficient security apparatus. The police had become a sizeable organisation and the Special Branch had gained a deserved reputation as an intelligence-gathering organisation.” See Stubbs, p. 67. This security apparatus continued to play an active role in curbing dissent during the interregnum between British rule and Mahathir’s ascendancy to the prime ministry. “Between 1960 and 1981, 3,102 people were detained at one time or another under the ISA.” See Crouch, p. 80.

15. Meredith Weiss, “What Will Become of Reformasi? Ethnicity and Changing Political Norms in Malaysia,” Contemporary Southeast Asia, 21 (December 1999), 432, suggests that perhaps 80 percent of ethnic Malays in the civil service did not support Mahathir’s handling of the political crisis.


18. The same can be said for non-African cases of sultanism and neopatrimonialism, such as the
Philippines under Marcos, which have attracted more theoretical attention than highly institutionalized authoritarian regimes such as Malaysia's. See H. E. Chehabi and Juan J. Linz, eds., Sultanistic Regimes (Baltimore: The Johns Hopkins University Press, 1998); Richard Snyder, “Explaining Transitions from Neopatrimonial Dictatorships,” Comparative Politics, 24 (July 1992), 379–99.


22. Geddes, “Authoritarian Breakdown,” operationalizes the party-personal, party-military, and military-personal divides, which correspond to my machine-bossism, party-military, and junta-strongman divides. My typology mainly differs in arranging her variables along two dimensions rather than one. My typology is more focused but less ambitious than Juan Linz and Alfred Stepan, Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe (Baltimore: The Johns Hopkins University Press, 1996), which encompasses issues of regime ideology and the extent of regime domination, not just that domination’s institutional form.

23. Geddes, “Authoritarian Breakdown,” pp. 34–37, recognize the tendency for authoritarian institutions to “decay” as long-serving leaders turn “sultanistic,” but they do not discuss how institutions might be actively destroyed rather than passively “decay,” as dictators manipulate certain institutions to destroy others.


29. Ibid., p. 63.


36. Erickson and Shameen.


43. Charles Chan, “A Case of Swollen Ego, Says Rafidah”, The Star, Sept. 16, 1998. This unconditional support came from a minister who has repeatedly lost grass-roots elections for the top women’s post in UMNO, only to be resurrected by Mahathir’s discretionary offers of seats in the cabinet and supreme council.
45. Ibid.
47. Eddie Toh, “Probe Stopped after PM’s Statement,” Business Times (Singapore), Nov. 10, 1998.
53. As one Malaysian columnist suggested to me: “The only way this man is leaving office is horizontally.” Confidential interview, Kuala Lumpur, July 2001.
54. It is too soon to tell whether Mahathir will make good on his recent promise (delivered in June 2002) to step down in October 2003. More certain is that the decision will be Mahathir’s to make.
55. Malaysia has not taken the totalitarian route of mobilizing functional groups into “administered mass organizations.” See Kasza, esp. ch. 1. But given the national power and presence of UMNO, the federal police, and state organizations in general, such extreme measures have hardly proven necessary to keep opposition in check.
57. As the inspector-general of police put it when the reformasi protests started to swell: “From our experience in the ’50s and ’60s, we know what we are dealing with…..” “Police Outlaw All ‘Reformation Meetings,’” The Star, Sept. 23, 1998.
58. Focusing on authoritarian institutions as instruments of cooptation is important, but incomplete. Gandhi and Przeworski, p. 3. Authoritarian regimes need strong institutions to serve as instruments of coercion as well.
Democratisation in Indonesia: From Transition to Consolidation

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Democratisation in Indonesia: From Transition to Consolidation

Louay Abdulbaki

Despite many pessimistic expectations, the democratisation process in Indonesia has been progressing steadily over the past decade. The Indonesian political elite has crafted and stabilised a political transition mainly characterised by frequent, free and fair elections, peaceful rotations of power, effective elected officials and separation of powers, inclusive suffrage, freedom of expression, independence of the media and associational autonomy. In other words, within one decade, Indonesia has developed the main attributes of a democratic country, according to most theories of procedural democracy. However, the extent to which Indonesian democracy has been consolidated and institutionalised is another issue, which requires close examination and assessment. Does the Indonesian democracy fulfil or approximate the criteria stipulated by theorists of democratic consolidation? This article investigates the extent to which Indonesia has managed to advance its democratic transition and evaluates the prospects and challenges of democratic consolidation. In general, the article asserts that despite the persistence of a number of shortcomings, the steady progress of the Indonesian democratisation process and the consistent commitment of the principal political actors to the democratic rules of the game will likely lead to more institutionalised, policy-driven party politics and a gradual democratic consolidation in the foreseeable future.

Keywords: Indonesia; Democratisation; Democratic Consolidation; Political Reform

Introduction

The resignation of President Suharto from office on 21 May 1998 marked the end of four decades of authoritarian rule and the instigation of a transition to a democratic, multi-party political system in Indonesia. This democratic transition involved a series of liberalising constitutional amendments and legislative reforms, which fundamentally altered the political process and structure of state institutions. In the process,
Indonesia has successfully conducted two peaceful, free and fair general legislative elections in 1999 and 2004 and three peaceful rotations of presidential power: from B. J. Habibie (1998–1999) to Abdurrahman Wahid (1999–2001), Megawati Sukarnoputri (2001–2004) and Susilo Bambang Yudhoyono (2004–present). The most recent president was directly elected by the people for the first time in Indonesia's history after constitutional amendments abolished the role of the People’s Consultative Assembly (Majelis Permusyawaratan Rakyat [MPR]) in choosing Indonesia’s president.

Although the Indonesian democratisation process has been progressing steadily, the quality of Indonesian democracy and the extent of its consolidation are still under serious consideration and heated discussion. While ‘only democracies can become consolidated democracies’ (Linz and Stepan, 1997: 15), has Indonesia completed its democratic transition, so that the analysis can be turned to focus on aspects of democratic consolidation? This article seeks to tackle this question and to provide an assessment of the consolidation of democracy in Indonesia. However, before proceeding with a discussion of Indonesia's democratic transition and consolidation, the article first discusses some important theoretical issues about the concept of democracy and sets out a theoretical framework for the rest of the investigation.

Democracy and Its Preconditions

The predominance of democracy, in its various guises, as the most acceptable form of government, particularly after the demise of the socialist alternative, has been perceived by some scholars as the end of the history of political ideas (Fukuyama, 1992). However, despite this somewhat uncontested acceptance, democracy remains one of the most contested or ‘appraisive’ concepts in modern social sciences (Esposito and Voll, 1996: 184). Dahl, for instance, contends that ‘polyarchy’1 hardly transcended to a ‘higher’ stage of democracy anywhere (1971: 8), insisting elsewhere that since democracy ‘has meant different things to different people at different times and places’, it is questionable that we can ‘possibly agree on what it means today’ (1998: 3–4).

The most crucial point in the debate about democracy revolves around the issue of whether democracy is primarily a substantive way of life or a set of procedural rules. Two broad variants of conceptualisation dominate most approaches to democracy in this regard: the ‘maximal’ conceptions that stipulate substantive or comprehensive views encompassing social and economic aspects as defining criteria, and the ‘minimal’ or procedural definitions that are mostly concerned with the process of institutional arrangements.

The maximalists reject the tendency, especially by some students of comparative politics, to associate democracy with elections, arguing that elections, though necessary, are inadequate criteria for democracy. They insist that, in addition to their vulnerability to manipulation, elections ‘occur intermittently and only allow citizens to choose between the highly aggregated alternatives offered by political
parties’ (Schmitter and Karl, 1991: 78; Schedler, 2002). Therefore, many of the scholars who take this line of argument prefer maximal or expansive definitions of democracy that emphasise broad substantive objectives and equate social and economic development with democratic institutions. Democracy, according to this conception, is ‘not simply about form or means; it is also about ends, which have to do with its inherent capacity to enhance development’ (Osaghae, 1995: 189). Whereas the maximalists reject procedural democracy on the ground that it fails to consider problems of social and economic inequalities, minimalists question the usefulness of the maximal definitions of democracy for empirical research. In fact, by combining substantive all-encompassing concepts, maximalists conceptualise a democratic ideal, the expectations of which transcend actual democratic experiences, depicting democracy as a panacea for all social ills. Huntington draws attention to the fact that ‘[s]erious problems of ambiguity and imprecision arise when democracy is defined in terms of either source of authority or purposes’ (1991: 6). He emphasises that democracies ‘have a common institutional core that establishes their identity’, concluding that ‘[f]uzzy norms do not yield useful analysis. Elections, open, free, and fair, are the essence of democracy’ (Huntington, 1991: 9).

Most scholars and analysts of democratic transitions find procedural definitions of democracy more useful for empirical research because they allow the application of the concept in various new settings on the one hand, and facilitate the establishment of an identifiable line which marks the end of the transition to democracy on the other. According to the proponents of procedural democracy, who mostly follow the tradition of Schumpeter (1947) and Dahl (1998), democracy is basically a means that enables all citizens to participate in politics and effectively influence the outcome of the decision-making process. Schumpeter defines democracy as a method or an ‘institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote’ (1947: 269). Dahl presents a concrete institutional structure, according to which the ‘minimal requirements’ for a large-scale democracy must include six political institutions:

1. Elected officials [who must enjoy constitutional control over the decision-making process];
2. free, fair and frequent elections;
3. freedom of expression . . . including criticism of officials, the government, the regime, the socioeconomic order, and the prevailing ideology;
4. access to alternative sources of information [e.g., independent media];
5. associational autonomy and
6. inclusive citizenship.

(1998: 85–86, italics original)

In addition to adopting the above procedural criteria in evaluating the democratisation process in Indonesia, this article emphasises that in order for democracy to be considered consolidated or stable in a newly democratised country, it must meet several requirements. Most importantly, authoritarian legacies and undemocratic alternatives must be totally eliminated and the principal political actors must demonstrate an unequivocal commitment to the democratic process or ‘the
uncertain interplay of the institutions’ (Przeworski, 1991: 26). In addition, the occurrence of more than one democratic rotation of power, the institutionalisation of democratic practices and the development of a majority of public support for upholding the democratic system are also necessary for democratic stability and for the prevention of democratic breakdown (Linz and Stepan, 1997; O’Donnell, 1992). These elements are further elaborated and discussed later in this article.

Indonesia’s Democratic Transition: The Absence of Preconditions

The sudden and unanticipated fall of Suharto in May 1998 was a decisive moment in Indonesia’s history. Multiple factors had contributed to this event. The devastating Asian Economic Crisis, which hit Indonesia hard, was considered by many observers as the primary factor behind the fall of Suharto’s regime (Schwarz, P., 1999). There is no doubt that the crisis, to say the least, was one of the important contributing factors that provided the impetus for many Indonesians to challenge the status quo and demand radical reforms. Failing to recover the falling rupiah and get the economy back on track, Suharto’s government submitted to the International Monetary Fund’s conditions, which included reductions in subsidies and curbs on favouritism, especially with regard to companies controlled by Suharto’s cronies. The failure of the New Order government to regain investors’ confidence in Indonesia’s economic reforms, especially after Suharto’s re-election by the MPR on 10 March 1998 triggered the reformasi (reform) movement, which started with a series of large, anti-government student-led, demonstrations that spread from Jogjakarta and Jakarta to many other cities, ultimately culminating in the fall of Suharto’s regime (Mietzner, 1999a, b). After the fall of Suharto, however, the role of the students was rendered marginal, and the reformasi movement became largely a top-down process of an elite-crafted political transition, as elaborated in the following section.

Indonesia’s unexpectedly successful democratisation has indeed dispelled many myths and flawed assumptions that have previously influenced the literature on democratisation in developing and Muslim-majority countries. For example, one of these assumptions is that development and modernisation, a justification used by most authoritarian regimes to prevent rather than promote democratisation, is a ‘precondition’ of or conducive to democracy (Diamond, 1992; Lipset, 1994). Other theories that also largely lost their explanatory power stipulate that public democratic culture is a precondition which must precede the democratisation process in order for the democratic transition to proceed steadily and for democracy to take hold (Almond and Verba, 1963; Almond 1980).

Modernisation and development theorists assert that increased degrees of economic prosperity, industrialisation, urbanisation and education promise enhanced levels of political participation and democratic development. They assert that economic development is a precondition for democratic transition and consolidation because it leads to social transformations, such as the growth of the middle class and literacy levels necessary for the promotion of political representation, participation
and government accountability (Lipset, 1994). In *Political Man*, Lipset argues that the level of modernisation or development in a certain country determines its potential to become a democracy, concluding that ‘the more well-to-do a nation, the greater the chances that it will sustain democracy’ (1960: 31) Other more recent studies that have tested Lipset’s hypothesis claim to have found substantial confirming results. Thus, ‘the more well-to-do the people of a country, on average’, Diamond affirms, ‘the more likely they will favour, achieve, and maintain a democratic system for their country’ (1992: 468). Yet empirical evidence, as many studies concluded, has proved that the process of modernisation and rapid economic and social change can also ‘breed socioeconomic conflict and political instability’ (Abootalebi, 2000: 4; Huntington and Nelson, 1976).

On the other hand, the extent to which cultural values and shared attitudes influence political change and behaviour has been the major concern of many political and social scientists. Many scholars emphasise that democratic political culture – for example, negotiating, bargaining, accommodating and willingness for compromise – is a precondition for successful democratic transition. Political orientations, they assert, are influenced by knowledge, feelings, judgements and opinions about political systems. Accordingly, the development of a new democratic system requires not only formal democratic institutions but also a coherent political culture of which ‘the norms and attitudes of ordinary citizens are subtler cultural components’ (Almond and Verba, 1963: 3; Almond 1980). Other studies also assert that without sound commitments to democracy amongst ordinary citizens, democratic transition and consolidation is highly unlikely (Chu et al., 2001). However, many other scholars insist that empirical investigation yields little support for the cultural hypothesis, rejecting cultural determinism or any hypothetical preconditions to democracy. Diamond argues: ‘There are no preconditions to democracy, other than willingness on the part of a nation’s elite to attempt to govern by democratic means’, insisting that ‘neither culture nor history nor poverty are insurmountable obstacles’ (2003: 2).

Moreover, some political analysts have questioned the role of Islam in influencing Muslims’ conceptions of political legitimacy and democracy. Islamic political culture, they argue, is unfavourable to democratic values and principles (Lewis, 1994; Eickelman, 1997). Huntington, for example, argues that ‘political participation was historically an alien concept’ to Muslim societies (Huntington, 1984: 208, 1991). Huntington makes this sweeping generalisation without even investigating whether the countries that experienced successful democratic transitions had had long histories of political participation before proceeding with their democratic processes. Many studies, on the other hand, have been more attentive to Islamic traditions that promote tolerance and openness. These studies emphasise the rich diversity of Islamic manifestations, applications and conceptions ‘of the nature of the state, Islamic law, the status of women and minorities’ (Esposito, 1995: 237; Mernissi, 1992). Consequently, any reductive generalisation of cultural or Islamic influence on political behaviour in Muslim-majority states will be too simplistic because it would
certainly fail to reflect the profound complexity and wide variation of the reality of political culture in Arab and Muslim countries. A closer look at actual political landscapes in Muslim countries reveals that the relationship between Islam and the state or the role of Islam in political life ranges ‘from subordination of the state to Islam . . . to political accommodation . . . to political inclusion of Islam . . . to toleration . . . to ignoring Islam . . . to direct confrontation’ (Abootalebi, 2000: 119).

Consequently, it is plausibly argued that democratisation processes and democratic culture can develop simultaneously, or that political democracy begets democratic culture (Rose, 1997). Thus, elite-crafted democratisation can be successful regardless of whether or not a democratic culture precedes the establishment of democratic institutions and procedures (Schmitter and Karl, 1991).

In fact, the case of Indonesia’s instant democratic transition prompted many observers to acknowledge the ‘missing’ prerequisites of democracy. Hence, the argument that Indonesia ‘displays very few of the traits that political scientists have identified as propitious for the development of democratic political systems’ has become widely acknowledged in the literature (Webber, 2005: 6; Uhlin, 2000; Tornquist, 2004). Many analysts agree that contrary to most modernisation theorists’ calculations, according to which ‘the steady economic growth under the Suharto regime should have’ led to democratic development, the Indonesian democratisation process was instigated by the economic crisis which ‘triggered the fall of the dictator’ (Uhlin, 2000: 2, 5; Tornquist, 2002, 2004).

Furthermore, the cultural hypothesis also finds little support in the Indonesian democratisation experiment. Webber draws attention to the fact that not only did the Muslim majority in Indonesia not prevent democracy but more importantly, the two main Muslim mass organisations, the Nahdatul Ulama (NU) and Muhammadiyah, played an important role in facilitating rather than obstructing the democratisation process (Webber, 2005). The importance of the role played by Muslim mass organisations since the early stages of the Indonesian democratic transition is widely acknowledged by political observers. As early as 1998, Budiman warned that if Amien Rais, the former leader of Muhammadiyah, did not ‘stick to his former position, namely to ask Suharto to step down and to create a coalition with the other two mass organizations [NU and Indonesian Democratic Party (PDI)] the unification of the three biggest mass organizations is in limbo, together with the prospect of democracy’. What is really remarkable about Indonesia’s democratisation is that it developed in tandem with the process of Islamisation, which began to take place during the last decade of Suharto’s rule (Webber, 2005). Consequently, Indonesia’s democratisation, Hefner argues, ‘should make us certain: that the desire for democracy and civil decency is not civilizationally circumscribed’, as ‘[d]emocratic ideals are broadly appealing because they respond to circumstances and needs common across modern cultures’ (2000: 220–221). In short, the Indonesian democratisation experiment has proven that the cultural hypothesis posited by some cultural relativists lacks explanatory power.
Indonesian Democratic Craftsmanship: The Transitional Phase

As mentioned earlier, after the fall of Suharto, the role of the student movement – lacking an ideological cohesiveness, organisational base and unifying political leadership and agenda – became increasingly marginal. Hence, although the students succeeded in attracting support and exerting pressure sufficient to force Suharto’s resignation, the leadership of the reformasi movement was transferred into the hands of a network of influential leaders, and the democratic transition henceforth mainly developed through political pacts amongst a group of Indonesian elite. Therefore, the Indonesian democratic transition took an ‘evolutionary’ path, which ‘was quite disappointing for the reformasi total agenda of the students’ (Budiman, 1999: 47).

Prominent leaders, such as Amien Rais, Abdurrahman Wahid and Megawati Sukarnoputri, who formed with the Sultan of Jogjakarta the Ciganjur Group, played an important role in facilitating political reform and stabilising the democratic transition (Budiman, 1999: 46–47; Falaakh, 2001).

The most remarkable achievements gained during the transitional phase of Indonesian democratisation were primarily realised through a series of constitutional amendments, a number of new statutes and legislative revisions which governed the new political processes and restructured the state institutions. Thirty-one of the 37 articles of the 1945 constitution were somehow affected by the new constitutional amendments (MPR, 2002). These amendments and revisions particularly modified the structure of Indonesia’s representative and legislative institutions at the national, regional and local levels. They also removed restrictions on political participation, permitted the formation of new political parties and enhanced the electoral rules and processes. Other important reforms also included the guarantee of the freedom of expression, associational autonomy and the independence of the media.

As such, after the fall of Suharto, the MPR emerged as a major player in the ensuing democratisation process. Most of all, it facilitated the peaceful rotation of presidential power three times before the introduction of direct presidential elections. It forced Suharto’s successor, President Habibie, to withdraw from the presidential race when it rejected his accountability speech on 19 October 1999 after the legislative elections. The MPR also managed to impeach President Wahid after he lost the support of most of his former allies, in favour of his vice-president, Megawati Sukarnoputri. Consequently, the elimination of the possible re-emergence of a new presidential dictatorship was one of the most important achievements that allowed the democratic transition to maintain consistent and steady, though somewhat slow, progress.

On the other hand, taking into account the pressures that brought Suharto down, President Habibie introduced new important measures that liberalised the political system and expressed his intention to call for premature free and fair elections in his attempt to present an image of a reformist leader. Remarkably, Habibie led a reform government which, by and large, managed to liberalise the
political process at a time when the status quo and Suharto loyalist forces were still very strong and determined to prevent any meaningful reforms. Habibie’s government freed many political detainees, lifted restrictions on the media and managed to pass new laws on elections and political parties, ending Suharto’s three-party system and opening up the field for free and fair electoral contests. Using his presidential power and utilising his political influence over the Golkar party, which then controlled both the People’s Representative Council or Indonesian Parliament (Dewan Perwakilan Rakyat [DPR]) and MPR, Habibie embarked on a cautious campaign against corruption, collusion and nepotism (korupsi, kolusi, nepotisme [KKN]). For example, within a few months, over 20% of the Suharto loyalist members of the MPR were replaced with pro-reformasi members, either by voluntary resignation or forced removal. About 229 both appointed and elected members of the Assembly, including seven of Suharto’s family members, were ousted from their seats in the MPR. Furthermore, as the number of MPR seats was reduced from 1,000 to 695, ‘the proportion of directly (66 per cent) or indirectly (29 per cent) elected representatives more than doubled, from 43 per cent to 95 per cent’ (King, 2003: 55–56). In addition to the fact that the number of appointed military representatives (who were later eliminated, as will be shown) in the DPR was reduced from 75 to 38, military personnel were prohibited from taking positions in the bureaucracy while serving in the armed forces (Jakarta Post, 1999b).

Reforms on election laws can be considered as the most important achievements of Habibie’s government, and certainly amongst the most important steps that facilitated Indonesia’s democratic transition. On 28 January 1999, the parliament passed three political laws that provided the legal basis for the 1999 elections. They included Law No. 2/1999 concerning political parties, Law No. 3/1999 concerning general elections and Law No. 4/1999 on the composition and membership of the MPR, DPR and Regional House of People’s Representatives (Dewan Perwakilan Rakyat Daerah [DPRDs]) (for the full texts see the MPR [1999]; for a detailed discussion, see Masters [1999]). The laws codified Habibie’s proposal to conduct the 1999 elections and decreed that political parties that meet the legal requirements should be able to contest elections freely. They also removed the provision for ideological uniformity (azas tunggal or sole basis) formerly imposed on political parties and social organisations. Accordingly, though still prohibited from adopting ideological platforms that contradict pancasila (five principles), political parties are no longer required to adopt pancasila as their sole basis. In addition, the 1999 election law provided for the establishment of an independent General Election Commission (Komisi Pemilihan Umum [KPU]), the membership of which would include representatives of political parties participating in the general elections and five government officials (Jakarta Post, 1999a). Despite some defects, the three political laws passed by the parliament provided a strong basis for a multi-party system and by and large, free and fair elections. Consequently, these political laws
were broadly accepted by the major political parties and leaders who agreed to participate in the elections.

**Democratic Consolidation in Indonesia**

Before proceeding with the assessment of the extent to which Indonesian democracy has been consolidated, the completion of Indonesia’s democratic transition has to be addressed and verified. Linz and Stepan emphasise that the transition to democracy in a given country:

- is complete when sufficient agreement has been reached about political procedures to produce an elected government, when a government comes to power that is the direct result of a free and popular vote, when this government de facto has the authority to generate new policies, and when the executive, legislative and judicial power generated by the new democracy does not have to share power with other bodies *de jure*. (Linz and Stepan, 2001: 19)

If we take these criteria as a benchmark, Indonesia today enjoys the main attributes of a democratic country. The political process in post-Suharto Indonesia, as the investigation above has demonstrated, has been predominantly characterised by the establishment of frequent, free and fair elections, effective elected officials, separation of powers, inclusive suffrage, freedom of expression, independence of the media and associational autonomy. Many observers, therefore, consider the 2004 parliamentary and direct presidential elections the start of the process of democratic consolidation where the democratic electoral process and peaceful alternation of power have become established practices. A few months before the 2004 elections, the Asia Foundation conducted an opinion poll in order to assess the political culture of the Indonesian electorate, concluding with the assertion ‘that democracy has begun to take root in Indonesia’ (*Asia Foundation*, 2003: 27–28). Electoral credibility, according to the Asia Foundation’s report, was no longer a real concern at that stage, and the priority had to be redirected toward the promotion of democratic consolidation. Other scholars, such as Azra (2006), also consider the 2004 elections as the end of the transitional phase of Indonesian democracy. Hence, Indonesia’s democratic transition has been completed, at least from a procedural perspective.

The extent to which Indonesian democracy has been consolidated and institutionalised, however, is another issue which requires some further elaboration and assessment. What are the main characteristics and ideal criteria of a consolidated democracy according to theorists of democratic consolidation? What do we find when we evaluate the degree to which Indonesian democracy fulfils or approximates the criteria stipulated by these theorists?

Generally speaking, scholars of democratic consolidation have sought to develop, not without some confusion, specific criteria that help evaluate the degree to which the democratic process and practices in a given country are consolidated and
institutionalised. According to Przeworski, democracy can be regarded as consolidated when it becomes the only game in town, [where] no one can imagine action outside the democratic institutions all the loser wants to do is to try again within the same institutions under which they have just lost ... all relevant political forces find it best to continue to submit their interests and values to the uncertain interplay of the institutions. (1991: 26)

Two primary elements can be identified in these criteria: the elimination of all other alternatives that may compete with the democratic system, and the consistent commitment and unreserved submission of all important political actors to the democratic rules of the game, even when the outcome is not favourable to them. Schneider and Schmitter basically adopt similar criteria, but they also add the likelihood of developing ‘mutual trust and reassurance among the relevant actors’, where the process of ‘contingent consent’ becomes institutionalised, that is, an established or accepted part of the political structure (2004: 61). They also include the condition that one or more rotations of power should occur before consolidation is considered.

Linz and Stepan, on the other hand, extend the notion of institutionalisation beyond the political and elite-behaviour domain, incorporating public attitude as an indicator of democratic consolidation. According to Linz and Stepan, democracy is consolidated:

[W]hen a strong majority of public opinion, even in the midst of major economic problems and deep dissatisfaction with incumbents, holds the belief that democratic procedures and institutions are the most appropriate way to govern collective life, and when support for antisystem alternatives is quite small or is more or less isolated from prodemocratic forces. (Linz and Stepan, 1997: 16)

However, despite its empirical usefulness, Linz and Stepan’s conception of a consolidated democracy includes several aspects that make the distinction between non-consolidated and consolidated democracies largely obscure. On the one hand, they disqualify regimes in which all violations of the rule of law or individual rights are not totally eliminated from the rank of democracies, even if they fulfil the ‘institutional requirements for [free and fair] elections in a polyarchy that Robert A. Dahl has set forth’ (Linz and Stepan, 1997: 14–15). On the other hand, when they clarify some of the qualifications of consolidated democracies, they emphasise the persistent possibility of democratic breakdown, the existence of different (unspecified) types of consolidated democracies and the improbability of the quality of democracy in consolidated democracies, stipulating ‘a continuum from low-quality to high-quality democracies’ (Linz and Stepan, 1997: 16). The problem is that one finds it difficult to differentiate between a democracy that meets Linz and Stepan’s criteria and a consolidated democracy, especially of a low-quality kind.
However, although 'democratic consolidation' remains a highly contested concept, it can still be utilised as a useful analytical tool for empirical research, especially with regard to the hypothetical projection of the likelihood or otherwise of the stability and continuity of newly established democracies. Therefore, regardless of the heavily disputed elements, several common constituents can be identified in the theories of democratic consolidation discussed above: most importantly, (1) the elimination of all authoritarian legacies and undemocratic alternatives, (2) the unequivocal and consistent commitment of all significant political actors to the democratic rules of the game, (3) the occurrence of at least one democratic rotation of power, (4) the routinisation and institutionalisation of democratic practices and procedures and (5) the development of a strong majority of public support for upholding the democratic system. In general, all these elements are basically concerned with democratic survival and the elimination or prevention of the possibility of democratic breakdown or 'rapid death' (O’Donnell, 1992: 17). Arguably, if these five elements persist in a newly established democracy, they will eventually lead to a deeper and higher-quality democracy.

As the investigation in this article has shown, and judged against the above criteria, Indonesia today possesses most of the characteristics of a consolidated democracy, though some very important challenges still lie ahead, especially with regard to the deepening and institutionalisation of democratic practice. During the transitional phase of Indonesia’s democratisation, the pro-reform political actors were heavily involved in the process of eliminating the Suharto-era authoritarian legacies. As the New Order restrictions on political participation and freedoms were removed and the field for free and fair electoral contestation was opened, the new pro-democracy members of the 1999 parliament embarked upon a democratisation campaign in the face of an ailing pro-status quo elite. In one battle after another, the reform-minded leaders who were determined to complete and stabilise the democratic transition defeated the anti-democracy actors and forces of the status quo. With the total elimination of non-elected parliamentary members, especially with regard to the military’s reserved seats, Indonesia’s representative and legislative institutions became fully democratised. The military accepted the new rules of the game without significant resistance, and its role in politics has been substantially minimised, though it has not yet dismantled its territorial structure and business activities that are largely beyond the control of the government, as will be discussed later. All relevant social and political forces, Islamic and secular or winners and losers, have always accepted the outcomes of democratic elections and legislative deliberations. Islamic parties and forces that lost their bid to re-introduce the Jakarta Charter into the constitution accepted the outcome without any mass rejection. Mainstream Islamic political parties have been pursuing their ends by peaceful and democratic means. In short, democracy has become ‘the only game in town’, and all undemocratic alternatives have been by and large eliminated.

With all significant political actors consistently showing unequivocal commitment to the democratic rules of the game, the threat of democratic breakdown or ‘rapid
death’ has become increasingly unlikely. In fact, post-Suharto Indonesia did not see the emergence of any significant deviant or anti-democratic actors with access to substantial resources and support that could be invested in advocating anti-democratic activities and objectives. Even military-backed officials no longer seek to achieve their ends by the use of non-democratic or unconstitutional means.

Furthermore, since the instigation of the democratic transition, Indonesia’s advancement toward the consolidation of its democracy has been buttressed by three peaceful rotations of power. The three presidential alternations occurred as the result of democratic votes in parliament for Abdurrahman Wahid (1999) and Megawati Sukarnoputri (2001) or of direct presidential elections for Susilo Bambang Yudhoyono (2004). The transition of presidential authority in each of these rotations was peaceful; even though the transition from Wahid to Sukarnoputri became tense when the former threatened to declare a state of emergency and dissolve the parliament, no significant political force rejected the outcomes. Consequently, with the constitutional balance of power between the legislative and executive branches of government and the highly successful implementation of democratic/constitutional government rotations, the possibility of the emergence of a presidential dictatorship has become highly unlikely, this being an essential element of democratic consolidation.

However, one of the challenges that Indonesia has yet to fully address in order to join the rank of consolidated democracies is the ability to apply full ‘civilian control’ or ‘supremacy’ over the military (Agüero, 1997: 177). In fact, the extent to which the Indonesian military (Tentara Nasional Indonesia [TNI]) has been able to maintain its influence, formally or informally, over government policies is highly disputable. Historically, the TNI (formally Angkatan Bersenjata Republik Indonesia [ABRI]) has occupied a central position in political and social life, where under both Sukarno’s and Suharto’s regimes, it maintained its traditional dual political and military role. The military doctrine of dwi fungsi (dual function), which was laid down by the Chief of Staff Nasution in 1957 when he formulated the theory of a ‘middle road’, was used to legitimise the dominant role of the military in society (Koekebakker, 1994).

Under Suharto’s New Order regime, military officers held key ministerial and bureaucratic positions, were allocated 20% of the seats in the legislature (this was later reduced) and were able to maintain control of local government through the use of its command structure, which is organised on a territorial basis throughout the entire country providing a parallel to governmental structures (Koekebakker, 1994). The military has maintained a web of commercial business ventures since 1957, when it took control of Dutch-owned enterprises. These commercial enterprises enable the TNI to sustain an independent financial system, which remains beyond government scrutiny or civil oversight (Rabasa and Haseman, 2002; Nurhasim, 2005). Whereas the official defence budget is traditionally estimated to cover less than 30% of the TNI’s operational expenses (more recent estimates place the figure at about 50%), in order to balance its budget, the TNI relies on ‘profits from its own businesses, payments from private-sector allies (often for security services), income from black
market activities, and money skimmed from corrupt dealings’ (Human Rights Watch, 2006: 3–5; Greenlees, 2005; Chipman, 2006). This has become one of the most formidable obstacles which makes the consolidation of democracy in post-Suharto Indonesia take a considerably slow pace. In fact, the military’s financial autonomy, which remains outside government control, makes it harder for the ‘civil authorities to engage in meaningful oversight of the military’ (Human Rights Watch, 2006: 1). As a result, the government ‘lacks the power to demand accountability from its armed forces and to implement needed reforms’ (Human Rights Watch, 2006: 1).

Under post-Suharto democratisation, many positive steps have been taken to promote the return of the military to the barracks and establish civilian supremacy and control over it, though serious challenges that somewhat hamper the progress of democratic consolidation still persist. After the fall of Suharto, the military quickly joined the reform efforts, re-considering its role in politics and revising its doctrine. Therefore, the TNI formally relinquished its dual function and withdrew from its political role. The new constitutional amendments have eliminated the military’s representation in the legislatures. Accordingly, since the 2004 elections, the military no longer holds appointed seats in parliament. The police force has also been separated from the military and removed from its control. Military officers are no longer allowed to occupy positions in the bureaucracy while still in service, and civilians have been appointed as ministers of defence. Most importantly, a new law mandating the end of the military’s economic activity and the transfer of its business holdings into the control of the Indonesian government within five years was introduced in 2004 (Paras Indonesia, 2007; Human Rights Watch, 2006).

Although the 2004 military reform law which requires the TNI to limit its financial sources to the state’s budget has been hailed as a major step towards the full assertion of civilian control over the military, political observers are increasingly becoming sceptical about the prospects of its full implementation. While the formal stances of government officials and the military leadership have been positive towards the military reform agenda, efforts to dismantle the military’s business and its territorial structure have, to date, largely failed and progress has been highly selective, ‘slow, half-hearted, and incomplete’ (Paras Indonesia, 2007; Human Rights Watch, 2006). According to Indonesia’s Defence Minister, Juwono Sudarsono, out of 1,500 military enterprises, only six ‘qualify as businesses to be turned over to the government’ (Paras Indonesia, 2007). Consequently, although its dual-function doctrine has been formally relinquished, the military has been able to maintain its territorially based structure as well as a ‘dense web of military/business ties’ and activities that are largely beyond the control of the government, which ‘creates a parallel administrative structure to the government, allowing the army to act as a type of localized paramilitary police’ (Freedman, 2007: 205–206).

However, despite its slow pace, military reform seems to be progressing steadily. Many observers believe that the steady progress of civil–military reforms will eventually lead to the consignment of ‘the military to the barracks for good – a critical Rubicon Indonesia needs to cross in its march to democratic consolidation’
In fact, taking into account the total elimination of the military’s reserved representation in parliament, the prohibition of military personnel from taking positions in the bureaucracy, as well as the removal of the military’s control over the police, the progress achieved so far seems to outweigh the remaining challenges. Some observers argue that with its consistent autonomous stance and support of the formal political process, ‘the military has contributed positively to the ongoing security reforms required to consolidate democracy in Indonesia’ (Barron et al., 2005: 34).

With regard to the criteria of the institutionalisation of democratic practices and procedures, Indonesia’s democracy demonstrates elements of both strengths and weaknesses, though many researchers have put more emphasis on shortcomings in relation to this. It should be noted here that the institutionalisation of democracy is meant to describe a political environment in which the rules of the democratic game become ‘routinised’ as a natural part of everyday life, rather than a careful or conscious process of cost–benefit political calculations on the part of the political actors. Political actors in this situation become habitually committed to the democratic process and customarily subjected to the rule of law (Linz and Stepan, 1996: 6). Several weaknesses were identified in this regard during the 2004 legislative elections, though the elections themselves were remarkably peaceful, well organised and, as mentioned above, are largely regarded as an important step towards the consolidation of democracy. Barron et al., for example, emphasise that the 2004 elections highlight serious ‘institutional weaknesses’ and demonstrate ‘a need for capacity-building, increased professionalism and broader social engagement on the part of state actors’, though they confirm that the elections were ‘generally positive’ and free and fair (2005: 23, 32–33).

The weakness of the institutionalisation of democratic practices can also be identified through the lack of party platforms in election campaigns, especially, but not exclusively, within the camp of Islamic parties. Almost all Indonesian political parties rely mainly on charismatic leadership rather than political programs and policies in order to attract the electoral vote. The Prosperous Justice Party (PKS) is the only notable exception.

The removal of the restriction on the formation of political parties inspired the emergence of many new Islamic-oriented parties. These parties explicitly adopt Islam as their ideological basis, use Islamic symbols to attract the Muslim vote and/or rely heavily on Islamic social organisations for electoral support. About 21 out of 42 newly formed Islamic parties were amongst the 48 parties that met the legal requirements for participating in the 1999 legislative elections. This, in fact, prompted many observers to raise concerns and scepticism about the future of the democratic process and consolidation in Indonesia (Azra, 2006). Some observers, for example, began to question the role that Islamic parties would play in a fully inclusive multi-party system. Some people suggested that the prospects for democratisation would be bleak and that the Indonesian society would be prone toward inter-communal violence, even ‘among the Muslims themselves’ (Jamhari, 1999: 183).
However, contrary to many pessimistic expectations, Muslim leaders and Islamic parties have played a constructive role in facilitating and stabilising Indonesia’s peaceful transition to democracy. Indonesian Islamic parties have participated in building political alliances, contested in elections in a peaceful democratic manner and always accepted the outcomes of parliamentary elections and legislative deliberations.

With the exception of the United Development Party (Partai Persatuan Pembangunan [PPP]), which was one of the three Suharto-era political parties alongside Golkar and PDI-P (formerly the PDI), the newly formed popular Islamic parties were founded by former leaders and activists of Islamic social organisations and movements, such as the NU, Muhammadiyah, the Indonesian Council for Islamic Propagation (Dewan Dakwah Islamiyah Indonesia [DDII]) and Islamic student groups. Islamic parties rely heavily on these and other less prominent Islamic movements and organisations for their membership base and electoral support. Four of the eight most popular Indonesian parties in the 2004 elections were in fact Islamic oriented. Three of them were established in the post-Suharto era. They include the National Mandate Party (Partai Amanat Nasional [PAN]), the National Awakening Party (Partai Kebangkitan Bangsa [PKB]) and the Prosperous Justice Party (Partai Keadilan Sejahtera [PKS]). The latter deserves particular attention as it is the only Indonesian party which managed to obtain significant growth in the 2004 elections. Considering its impressive performance in social and anti-corruption activities and programs, the PKS will most likely increase its share of the vote and may even emerge as one of the two largest Islamic parties in the coming elections of 2009.

PAN was established in 1998 by Amien Rais, with the assistance of a group of anti-Suharto reform activists, after his few unsuccessful attempts to form a broad alliance with Islamic modernist organisations. Rais was viewed by many Indonesian and foreign observers as a leader ‘who could unite some of the more disparate elements of modernist politics’ (Fealy and Platzdasch, 2005: 73–99). In his efforts to appeal to the broader national electorate and present an image of a liberal and pluralist leader, Rais included non-Muslims, especially Christian Chinese, in PAN’s leadership and promoted pluralism rather than adopting a formalist Islamic agenda (Budiman, 1999). PAN, as such, adopted Pancasila as its ideological basis. However, this does not represent an insensitivity to, or even subordination of, Islamic aspirations. Rather, as Rais himself asserted, it signifies the belief that the five principles do not contradict Islamic tenets (Schwarz, 1999). Islam remains the predominant characteristic of PAN, because it has been closely associated with, and dominated by, the modernist Muslim community, especially members of Muhammadiyah. This makes it more appropriately situated within the Islamic camp, and thus it should be included in the category of Islamic parties rather than the nationalist or secular camp (Schwarz, 1999; Diederich, 2002).

The PKB, on the other hand, was founded in July 1998 by Abdurrahman Wahid’s loyalist members of the NU. PKB’s adoption of Pancasila as its official ideological basis largely reflects Wahid’s pluralist political and religious views. Despite the fact
that the PKB aspires to be viewed as a non-sectarian party which welcomes non-Islamic elements within its leadership board and membership base, while predominantly dominated by NU members, it primarily represents the traditionalist Islamic community in Indonesia (Mietzner, 1999b; Jakarta Post, 2000). As such, like the modernist PAN, the PKB should also be included within the category of Islamic parties rather than in the secular nationalist camp. Both PAN and PKB rely on Muhammadiyah and NU, respectively, rather than on their political platforms, for their membership and electoral support and largely owe their popularity to the charismatic personalities of Rais and Wahid.

The PKS was founded in July 1998 and contested the 1999 elections under the name Justice Party (Partai Keadilan [PK]). The party was reconstituted as the Prosperous Justice Party in April 2003 because in the 1999 election it failed to meet the 2% electoral threshold required to qualify for participation in the 2004 election. Whereas the PKB and the PAN primarily rely on historical mass-based Islamic organisations, the PKS represents relatively new social forces that emerged during the 1980s and 1990s in response to Suharto’s repressive policies towards Islamic activism, especially on university campuses (Mietzner, 1999b). Most of the founders and leaders of the PKS are former campus tarbiyah (Islamic moral education) activists who took part in the establishment of the United Action of Indonesian Muslim Students (KAMMI), under which they participated in the 1998 protests that brought Suharto down (Bruinessen, 2003).

Contrary to other Indonesian parties that are plagued with patrimonialism and corruption, the PKS emphasises merit rather than personal loyalties and adopts a clear political program with a consistent anti-corruption approach. Although, like other parties, it seeks to increase its membership base, the PKS considers itself as a cadre party, strictly avoiding leaders and activists who may potentially stain or damage the party’s image (Nurwahid and Zulkieflimansyah, 2003). It is not surprising, therefore, to see that, from the eight major political parties that contested both the 1999 and 2004 elections, the PKS was the only party which managed to considerably increase its share of the vote. As such, by initiating a policy-oriented competition, which may lead other parties to follow suite, and providing a successful alternative to patrimonial politics, the PKS may lead to the institutionalisation of political parties and ‘contribute to a gradual democratization’ and consolidation (Bruinessen, 2003).

Surveys of public attitudes, on the other hand, demonstrate other important and positive points of democratic consolidation in Indonesia. According to two mass surveys conducted in 2001 and 2002 by the Centre for the Study of Islam and Society at the State Islamic University of Syarif Hidayatullah (PPIM-UIN), a strong majority of Indonesian Muslims support the idea of upholding the democratic system. Namely, about 70% of all respondents in ‘the two surveys support the idea that democracy, relative to other forms of government, is best for the country’ (Mujani, 2004: 241). Consequently, democracy in Indonesia is by and large consolidated according to the theories that consider a democracy to be consolidated when a
‘majority of public opinion holds the belief that democratic procedures and institutions are the most appropriate way to govern collective life’ (Linz and Stepan, 1996: 6). This is a strong indication that the Indonesian public is not likely to lend support to any potential undemocratic alternative, which minimises the threats of democratic breakdown and enhances the prospects of democratic consolidation.

Consequently, while democratic breakdown has become highly unlikely in Indonesia, at least in the foreseeable future, it can reasonably be asserted that Indonesia’s democracy will most likely survive and continue to progress into a deeper and higher quality.

**Conclusion**

This article has demonstrated that democracy in Indonesia has been progressing steadily since the fall of Suharto’s New Order in 1998. The 2004 legislative and direct presidential elections mark the end of the transition to democracy and the start of the phase of democratic consolidation. During the transitional phase, the Indonesian political elites introduced comprehensive constitutional and legislative reforms that democratised the structure of the representative and executive institutions as well as the political process. These reforms included an effective separation of powers, an enhancement of the electoral system and the facilitation of political participation. They also removed Suharto-era restrictions and authoritarian legacies. The emergence of the MPR as a major player helped minimise the possibility of the re-emergence of a new presidential dictatorship.

Furthermore, the main practical achievements of the democratisation process were realised through the 1999 and 2004 free and fair legislative elections and the peaceful rotations of presidential power, especially with the introduction of direct presidential elections and its successful implementation in 2004. In other words, the Indonesian political landscape today is mainly characterised by frequent, free and fair elections, effective elected officials, separation of powers, inclusive suffrage, freedom of expression, the independence of the media and associational autonomy. Consequently, according to most theories of procedural democracy, Indonesia today enjoys the main attributes of a democratic country and has entered the camp of consolidating democracies.

With regard to the extent to which democratic practices have become consolidated and institutionalised, the article has demonstrated that Indonesia has made significant progress, though there still remain some very important challenges and weaknesses to be addressed. Almost all authoritarian legacies and undemocratic alternatives have been eliminated, all significant political actors have demonstrated a consistent commitment to the democratic rules of the game, several democratic and peaceful rotations of power have occurred and a strong majority of public support for upholding the democratic system has developed. On the other hand, the most significant challenges to the deepening of democratic consolidation are mainly related to the role of the military and the process of the institutionalisation of democratic
practices, especially the development of less patrimonial-oriented and more policy-driven electoral competition.

Although many positive steps have been taken to promote the return of the military to the barracks and to establish civilian supremacy and control over it, many challenges that hamper the progress of democratic consolidation still persist. On the one hand, the TNI formally relinquished its dual function and withdrew from its political role. The military’s reserved representation in parliament has been totally eliminated, military officers are now prohibited from taking positions in the bureaucracy while in service, and the police force is no longer controlled by the military. On the other, efforts to dismantle the TNI’s territorial structure have not been successful and the military has been able to maintain its business activities that are largely beyond the control of the democratically elected government. The continuous, though slow, pace of civil–military reforms, however, will most likely lead to the consignment of the military to the barracks and eventually facilitate the deepening of democratic practices.

The development of political programs and less patrimonial or more policy-driven electoral competition is another important aspect hindering the full consolidation of democracy in Indonesia. In order to attract the electoral vote, all Indonesian political parties, especially Islamic parties with the notable exception of the PKS, rely mainly on charismatic leaders or social organisations rather than political programs and policies. Although the PAN and the PKB formally adopted the national ideology of Pancasila as their official ideological basis, instead of developing policies and programs, they have built upon the personal popularity of Rais and Wahid and have relied heavily on the mass-based Islamic organisations of Muhammadiyah and NU, respectively, for their membership and electoral support. The PKS, however, is the only party which primarily emphasises merit rather than personal loyalties. It has also managed to develop a clear political program with a consistent anti-corruption approach, excluding leaders and activists who may tarnish the party’s image from its ranks. Therefore, the PKS, especially considering its success in the 2004 elections, may lead to more policy-oriented electoral competition and contribute to the consolidation of democracy in Indonesia in the foreseeable future.

Notes

[1] In this context, Dahl uses the term ‘polyarchy’ as an alternative to democracy to protest that ‘no large system in the real world is fully democratized’ (1971: 8).

[2] The amendments include the First Amendment of 19 October 1999, the Second Amendment of 18 August 2000, the Third Amendment of 9 November 2001 and the Fourth Amendment of 11 August 2002 (for the full text see, MPR [2002]).

[3] Suharto’s family members who were ousted from their seats in the MPR included his eldest daughter, Siti Hardiyanti Rukmana; younger daughter, Titiek Prabowo; sons Hutomo Mandala Putra and Bambang Trihatmodjo; daughter-in-law Halimah Bambang Tri; half-brother Probosutedjo and cousin Sudwikatmono. According to the then Golkar’s Deputy Chairman, Irsyad Sudiro, the action represented a ‘political commitment to take steps in purging Golkar of corruption, collusion and nepotism’ (Asiaweek, 1998).
[4] Pancasila refers to the five principles that constitute the national ideology adopted in the constitution. They include: kebangsaan (nationalism), peri-kemanusian (humanism), mufakat (deliberative democracy), kesejahteraan sosial (social justice) and ketuhanan (belief in God).

References


