Crises, Coalitions, and Change in Indonesia and Malaysia

Thomas Pepinsky
Department of Government
Cornell University
pepinsky@cornell.edu

FIRST DRAFT: November 29, 2015
Comments welcome.

Crises, Coalitions, and Change in Indonesia and Malaysia

This chapter examines how authoritarian Indonesia and Malaysia confronted two external economic shocks: global downturn of the mid-1980s, and the Asian Financial Crisis of the 1990s. Both crises tested both countries, but only the Asian Financial Crisis proved capable of unseating an entrenched authoritarian regime. My central argument is that political coalitions interact with constraints imposed by crisis management to determine whether crises unseat incumbent authoritarian regimes, an argument that I first proposed in Pepinsky (2009). Crises unseat regimes when a coalition member "blocks" successful adjustment on distributional grounds. During the comparatively mild 1980s crises, both Indonesia's New Order regime and Malaysia's Barisan Nasional regime were able to reward key elites in the political and corporate sectors with privatization and liberalization, which jumpstarted growth and posed no immediate distributional costs. The far more serious Asian Financial Crisis forced each country to choose between macroeconomic stimulus and financial openness. With Malaysia's coalition united behind stimulus, the regime was able to redouble public expenditures while bailing out key allies in the corporate sector. This kept the regime from succumbing to mass protest. Divisions within the New Order's elite resulted in incoherent adjustment policy, one result of which was massive cuts in public subsidies and expenditures. Ultimately, however, I locate the origins of the collapse of the New Order in intra-regime conflict rather than extra-regime pressure.

Introduction

In this chapter I examine the politics of economic adjustment under authoritarian regimes, focusing on two countries and two economic shocks: the 1980s crises and the Asian Financial Crises in Indonesia and Malaysia. Pairing these two countries and these two crises provides some useful analytical leverage over important factors that explain how authoritarian regimes in emerging market economies manage economic crises. These include the institutional structure of the authoritarian regime, the depth of the economic crisis, the specific nature of the crisis, the role of the opposition, and most importantly for my account, coalitional politics within authoritarian regimes. I will argue, drawing on previous research (Pepinsky 2008, 2009), that these cases illustrate importance of the specific distributional consequences of economic crises and how their burdens fall across regime supporters for explaining when and how economic shocks unseat authoritarian regimes.

I will also highlight the scope conditions of my account, and about the comparisons that can be drawn across different types of crises at different points in time. Perhaps the most theoretically important claim that I aim to make is that strategies of economic adjustment affect coalitional politics over the medium term. The effects of crises on coalitions in the context of one shock can set the stage for which coalitions are in place during a subsequent shock. This longer perspective on how coalitions—or alternatively, factions or cleavages or interest groups—evolve over the medium to long term reminds us that authoritarian regimes are not fixed or static entities, but rather evolving orders.

A summary of the material to be covered appears in Table 1. The mid-1980s crisis in Indonesia and Malaysia led to further liberalization and privatization in each economy, which had implications for the coalitional foundations of each country's authoritarian regime without upsetting the regime itself.

Table 1: The Comparisons in Brief

	Mid-1980s Crisis	*Asian Financial Crisis*
Indonesia	Policy Consequence: Liberalization and Privatization Coalition Effects: New Capitalists, Military Balanced Regime Outcome: Survival	Policy Consequence: Structural Adjustment Coalition Effects: Conflict between Fixed and Mobile Capital Regime Outcome: Breakdown
Malaysia	Policy Consequence: Liberalization and Privatization Coalition Effects: New Capitalists, Masses Balanced Regime Outcome: Survival	Policy Consequence: Heterodox adjustment Coalition Effects: None Regime Outcome: Survival

A second, much more acute, and much more politically divisive economic crisis in the late 1990s had much starker policy consequences. Whereas in the 1980s both Indonesia and Malaysia found relatively straightforward policy solutions, the same was not true in 1998, and the two diverged dramatically in terms of both crisis response and political consequences.

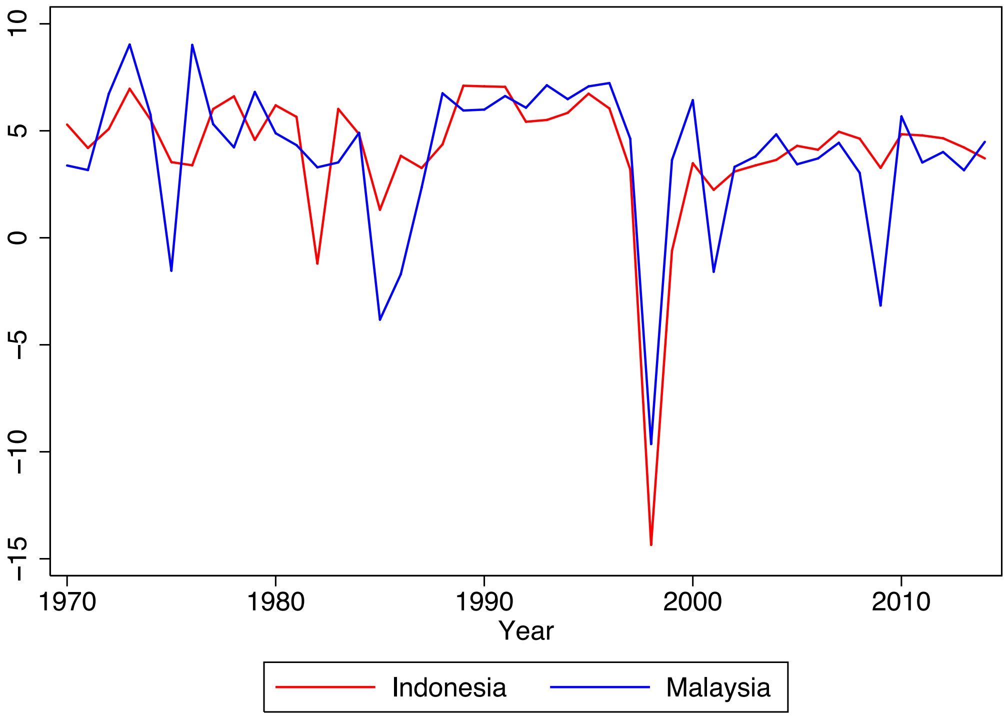
Why did two different crises yield two different outcomes? In what follows I will argue that 1980s crises in Indonesia and Malaysia were "easy" crises. In neither case was the crisis particularly severe, and moreover, in neither case did adjustment measures place any fundamental stress on the coalitional alignments that undergirded either regime. The Asian Financial Crisis of 1997-98, by contrast, created "hard" crises in Indonesia and Malaysia. What made them difficult was not just the magnitude of the shock—which itself is endogenous to each country's response to it (see also MacIntyre 2001)—but rather the political conflict that the crisis unleashed. That conflict tore apart the New Order regime in Indonesia, and tested Malaysia's Barisan Nasional regime by galvanizing a broad opposition coalition. Importantly, key coalition partners in both Indonesia and Malaysia had seen their fortunes rise in the 1990s as a result of the liberalization and privatization policies that had followed the 1980s crises. In this way, it is possible to link crisis responses to subsequent political conflict.

In the next section I review the basic macroeconomic facts from the two sets of crises, to illustrate just how the two countries differed during the two periods. I then give a broad overview of authoritarian rule in the two countries, focusing on their basic institutional architectures and the groups that supported the regime going into the 1980s. I then outline the policy choices that were adopted as a result of the 1980s crisis, the political consequences of each, and then describe how the late 1990s crises revealed fundamental tensions within Indonesia's authoritarian regime that ultimately drove Soeharto from power. The final section concludes with some reflections on the broader theoretical lessons that can be drawn from this comparative exercise, and offers some speculative hints about how Malaysia's current exposure to global markets might affect the durability of its current regime.

Two Sets of Crises

The crises of the 1980s in Indonesia and Malaysia were external crises that resulted both from the global economic slowdown that followed the oil shocks of the early 1980s. In Indonesia, net oil exports fell from a peak of US$ 9.3 billion in 1981-82 to US$1.4 billion in 1986-87 (World Bank 1994: Table 3.1). In the Malaysian case, falling petroleum prices combined with falling prices for other key commodity exports such as palm oil, rubber, and tin to produce a substantial fall in commodity export revenues (World Bank 1989: 15-6). Although these are sharp export contractions, when viewed in the contexts of the 1990s crises (described below), the economic setbacks of the 1980s were relatively mild. They did, however, persist for several years, resulting in anemic macroeconomic performance over half a decade rather than an abrupt reversal. Figure 1 charts the evolution of economic growth in the two countries from 1970 until 2014.

Figure 1: Per Capita GDP Growth Rates, 1970-2014



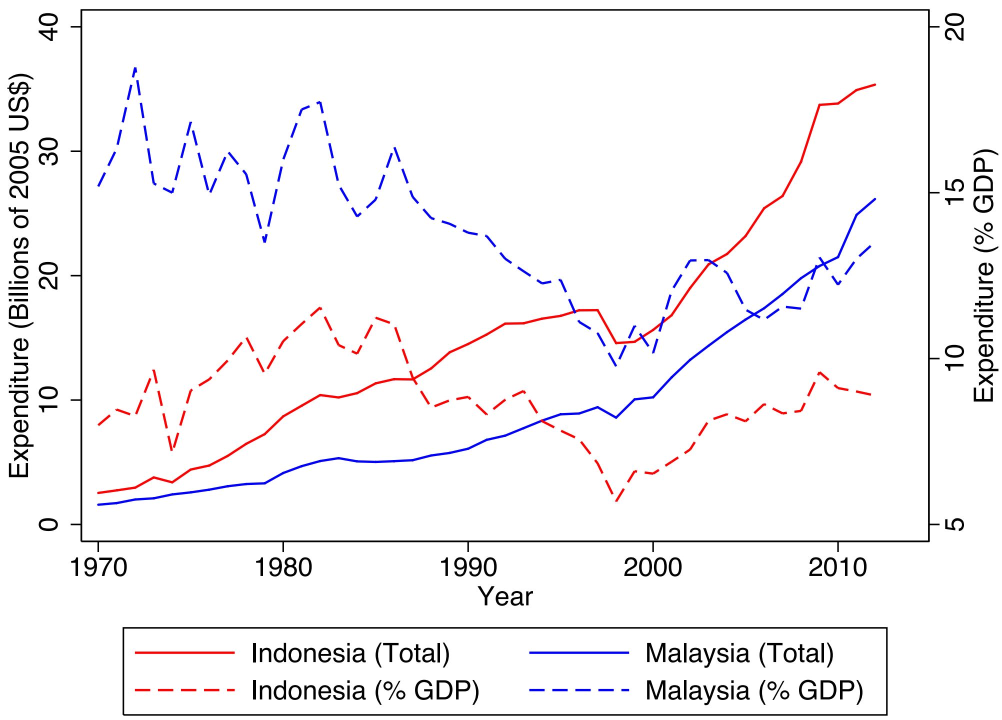
Source: World Bank (2015b)

As the figure makes clear, Indonesia suffered one year of negative economic growth in 1982, but growth remained anemic for the next several years. Malaysia's registered negative growth only in 1985, but it remained negative for two years. At its worst, Indonesia's economy contracted by -1.2%, registered in 1982; in the case of Malaysia, the worst year of the 1980s saw its economy contract by -3.8%, registered in 1985. On the whole, though, the entire decade of the 1980s saw only modest economic growth: an average of 3% per year in Malaysia and 4.1% in Indonesia.

When considering the potential political effects of these two crises, it is useful to examine effects on employment, government revenues, and government expenditures. Unfortunately, comparable time series data on employment and revenues are not available for either country in the 1980s. However, two OECD-sponsored analyses are useful sources of information. Demetry and Demetry (1992: 55-64) show that after years of strong employment in Malaysia, responding to strong growth in the construction sectors as well as active public investment in the 1980s, the mid-1980s witnessed a sharp rise in unemployment. At the same time, however, Malaysia saw rises in real wages, and pre-crisis levels of social development expenditures were maintained during the adjustment period. This suggests that the Malaysian government's adjustment measures mitigated the effects of the retrenchment on popular welfare. In the case of Indonesia, data on employment are scarce, but effects on wage rates are useful for capturing how the crisis was felt. Thorbecke (1992: 50-5) finds that only public sector employees experienced declining real wages; by contrast, manufacturing sector real wages continued to increase during the crisis, while other sectors saw wage rages stagnate. Poverty indicators, on the whole, continued to improve throughout this period. As in Malaysia, the conclusion is Indonesia's adjustment during the mid-1980s crisis shielded most of its citizens from bearing the brunt of the crisis.

Finally, we can examine the effects of the crisis on government expenditure. Figure 2 plots Government Final Consumption Expenditure, both in constant dollar terms as a percentage of GDP, from 1970. The figures reveal that there was a slight dip in total government expenditures in both countries in the early 1980s. The dip also appears in expenditure to GDP ratios, but is hard to distinguish from the volatility characteristic of the preceding decade.

Figure 2: Government Expenditure, 1970-2014



Source: World Bank (2015d)

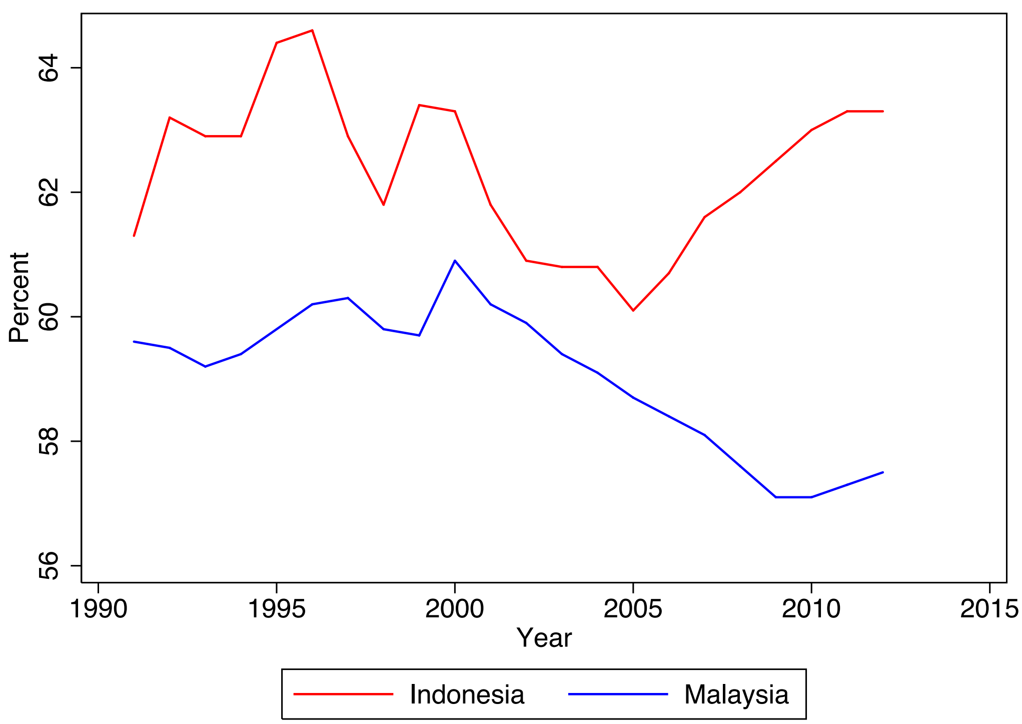
The more important finding from Figure 2, though, is that *following* the crises of the 1980s, government expenditure as a percentage of GDP fell steadily, reflecting the privatization and liberalization policies that followed those crises.

The crises of the late 1990s differed starkly from the crises of the 1980s. Most immediately, the most striking difference was the severity of the contraction, with Malaysia registering a growth rate of -9.6% for 1998, and Indonesia a staggering contraction of -14.4% the same year. The second notable difference was in the abruptness of the shock. Relative to modest growth averages in the 1980s, between 1990 and 1996 Indonesia had grown on average by 6.2% and Malaysia by 6.7%. This represented a truly massive reversal in economic fortune for two countries that had enjoyed widespread acclaim as success stories among Asia's emerging markets.

What was the Asian Financial Crisis about? The literature on the causes of the crisis is enormous (for a diverse but incomplete set of views, see e.g. Corsetti, Pesenti, and Roubini 1999; Montes 1998; Pempel 1999; Radelet and Sachs 1998; Woo, Sachs, and Schwab 2000). Rather than review it here, I wish to highlight several important features of the two countries' economies The first is *managed yet overvalued exchange rates*: both Indonesia and Malaysia had operated with quasi-pegged exchange rates that were significantly overvalued, which left them vulnerable to speculative attacks. The second is *imprudent financial management* of *financially open economies*, in which a lax regulatory environment allowed both banks and firms to borrow imprudently, and often without hedging against exchange rate risk. The third is *widespread directed credit*, often tied to individual cronies and corporate allies of ruling elites in both countries. This became particularly important during the freewheeling 1990s, during which market participants came to believe that the longstanding political regimes in these two high performing economies would be able to protect the interests in the event of a negative downturn. The interaction of these three factors produced an accumulation of bad loans fed by buoyant expectations about future economic performance, but in a context of significant exposure to cross-border financial contagion. After the bursting of the Thai property bubble and the floating of the baht in summer 1997, speculators saw in Indonesia and Malaysia two countries with unsustainable currency pegs. The subsequent attacks against the ringgit and rupiah ultimately led to devaluations, after which the true depth of domestic financial mismanagement became even more apparent, thus beginning a vicious cycle leading to truly massive capital outflows, crises in the banking sector, wild swings in exchange markets, and fierce resistance by elites in both regimes to much-needed reforms.

I will outline the political battles unleashed by the Asian Financial Crisis in Indonesia and Malaysia below. For now, I turn to government revenues, expenditures, and unemployment. Unlike the 1980s, there are comparable data from the 1990s to gauge the consequences of the crisis for aggregate employment.

Figure 3: Employment Rates, 1991-2014



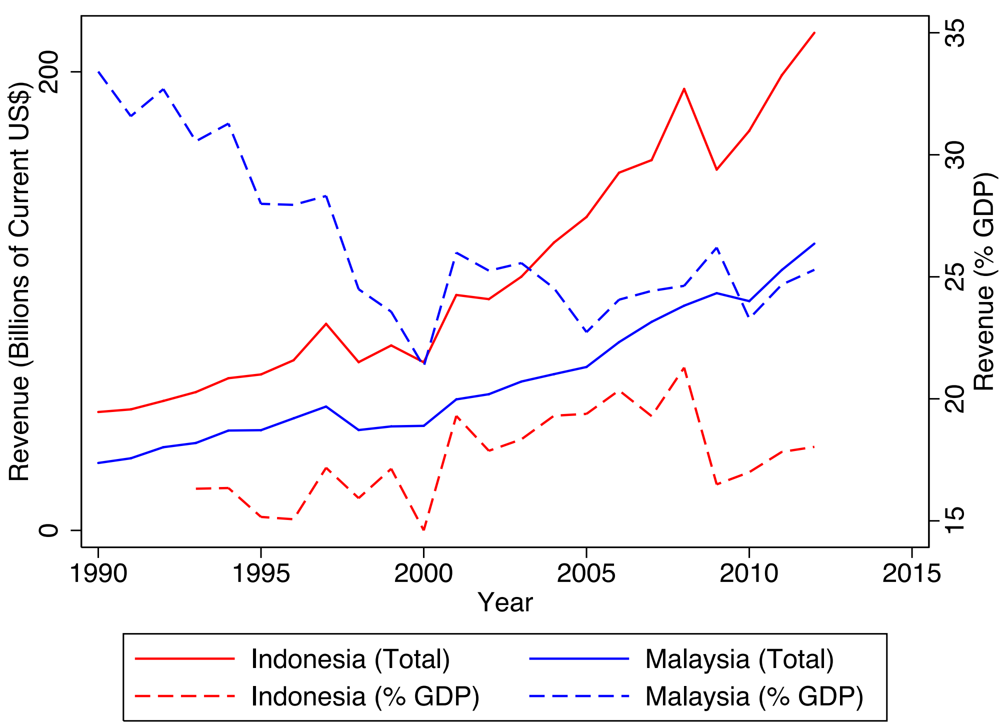
Source: World Bank (2015c)

The dip in employment rates is clear in both countries, but the magnitudes are small relative to prior trends, with unemployment rates actually higher in the early nineties in Malaysia than at the depth of its crisis. I will argue below that this reflects a deliberate strategy on the part of Malaysia's regime to adjust to the crisis in ways that would protect employment. In the case of

Indonesia, the unemployment shock was larger. It is important to note, however, that these figures do not take into account the capacity of the rural sector to absorb those urban unemployed. It is likely, in other words, that Indonesia experienced much greater labor market churning during the crisis than those figures reflect. Figure 3 also illustrates that employment rates began to decline in the 2000s in both countries, well after the conclusion of the crisis itself, and in turn began to diverge in the late 2000s. I do not address the source of this post-crisis employment decline in this chapter, but my analysis would suggest that this is especially threatening for Malaysia's regime.

Comparable data also exist for revenue for the 1990s. In Figure 4, I show trends in total central government revenue (solid lines) and revenue as a share of GDP.

Figure 4: Central Government Revenue, 1990-2012



Source: Author's calculations from International Monetary Fund (2013)

The revenue trends show clear dips below trends in both countries between 1998 and 2000. Because economic output shrunk at the same time, though, we do not observe a similar dip in revenue as a share of GDP until 2000, when both economies had begun to grow once again.

Finally, in terms of government expenditures, we can return to Figure 2. After a decade of steady declines in government expenditures as a fraction of GDP, the Asian Financial Crisis saw government expenditures reach their lowest points in each country's history. The total expenditure figures reveal as well that in 1998, total expenditures contracted in both countries. Malaysia, however, returned to trend in 1999, whereas Indonesia's expenditure figures remained lower than the pre-crisis peak for several more years.

Regime Structures and Support Coalitions

Having described the two sets of crises in the two countries, their origins, and their macroeconomic implications, I now step back to consider the political structures and support coalitions that undergirded each regime. First I consider each country's formal institutions and social structures, and then address what I consider to be the deeper politics of regime maintenance in both countries by describing the key coalitional alliances in each. My focus in this section is on describing institutions and social structures by the beginning of the 1980s, because my analysis below will turn to the ways in which these structures and coalitions evolved in the wake of the 1980s crisis.

Indonesia by 1980 was firmly under the control of the New Order regime. The name "New Order" (*Orde Baru*) reflected a decisive break from the government of Sukarno, which had struggled to balance competing nationalist, communist, and religious elements in the newly independent state. President Soeharto, by this time unchallenged as the peak figure in Indonesian politics, was a former general who had seized power from Sukarno following the abortive coup of September 30, 1965 and the subsequent extermination of the Indonesian left. This meant that the Indonesian military played a central role in politics, with Soeharto's subordinates in the military occupying key positions in bureaucracy and administration, the fusion of military and police, the maintenance of the military's territorial command structure that placed military units throughout the country, and the promulgation of a military doctrine of dual function (*dwifungsi*) that considered the armed forces to have both a security and a "socio-political" function.

However, the New Order rested on far more than military control. It also adapted mass political institutions—themselves held over from Indonesia's brief period of liberal democracy in the early 1950s—for the purposes of mobilization, organization, and indoctrination. The key institution here was corporatist body Golkar (*golongan karya*, or functional groups), which had emerged under Sukarno as an initial attempt to create an alternative to the fractious competition among different partisan groups (see Reeve 1985). Golkar was officially a "mass organization," not a political party, but it competed in controlled elections with two other political parties, the Indonesian Democratic Party and the United Development Party. Both were created in 1971, on Soeharto's directive, as controlled successors to various nationalist, liberal, socialist, Islamist, and other political parties that had previously competed in Indonesian elections. Representatives from each sat in the House of Representatives, and together with representatives from the armed forces, comprise the People's Consultative Assembly (MPR). While elections were never free or fair under the Soeharto regime, these legislative bodies did persist throughout the New Order, and did claim to provide a forum for interest representation. A final notable feature of the New Order was the central role of a core ideology, Pancasila, a set of five multi-religious, developmentalist, and integrative principles held to represent the core values of the Indonesian nation. Pancasila too had its origins long before the New Order, but under the New Order became central to regime maintenance. By 1983, in fact, every organization in Indonesia was obliged to pledge that its sole foundation was Pancasila.

Malaysia, in 1980, had seen the consolidation of the Barisan Nasional regime. The Barison Nasional—or "National Front"—is a coalition comprised of the United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA), and the Malayan Indian Congress (MIC), alongside several smaller parties on the peninsula and an ever-changing roster of parties drawn from Sabah and Sarawak in East Malaysia. UMNO has always been the largest party in the coalition. In 1980, it held 69 out of the 154 seats in the Dewan Rakyat, Malaysia's lower house of parliament. By contrast, the MCA held 17 and the MIC only 3. In the 1982 elections UMNO would increase its seats to 70, with MCA increasing to 24 and MIC increasing to 4. The BN was formed in the wake of the suspension of parliamentary democracy from 1969-71, which came on the heels of an unexpectedly poor electoral showing by the three main BN parties in 1969.[1] The suspension of parliamentary democracy from 1969-71 was a critical juncture in Malaysian history, for was the period that solidified UMNO control over Malaysian politics, and inaugurated critical policy and institutional changes in a decidedly more pro-Malay direction (Crouch 1996: 96-7; Goh 1971; Gomez and Jomo 1999: 21-3).

Unlike Indonesia, the Malaysian military has never played an active role in Malaysian politics. No Prime Minister of Malaysia has ever been drawn from the armed forces, for example. There has never been a coup, nor a serious threat of one. However, the non-presence of the Malaysian armed as an active force in national politics should not be confused with the military's irrelevance for Malaysian politics. As Enloe (1978) observed nearly four decades ago, Malaysia's military and police forces match patterns found in other countries where ethnicity and the military have been much more salient and contentious issues: the colonial government

[1] Prior to 1969, the three main BN parties competed under the name the Alliance.

created the armed forces out of indigenous Malay majority, that pattern has persisted since independence, the independence period saw an armed conflict between the largely Malay security forces and a largely non-Malay communist resistance, there are few non-Malay military elites today, and non-Malays who are in the armed forces tend to occupy non-combat positions. Another revealing issue is that ministries such as Home Affairs, Defense, and Internal Security—the names and portfolios change periodically—have nearly always been held be either Prime Minister or Deputy Prime Minister. The Malaysian security forces are "apolitical," then, precisely because they are so tightly fused to the country's civilian institutions.[2]

Institutionally, then, the key difference between Indonesia and Malaysia in 1980 was that Indonesia's New Order regime joined together both Golkar and the armed forces with explicit and formal roles in Indonesian politics, whereas Malaysia's BN regime was, institutionally, a civilian regime in which a dominant party stood at the apex of political power and ruled through a legislature. These institutional structures would remain in place throughout the 1980s and into the 1990s for Indonesia, and remain the case until today for Malaysia. The differences are readily apparent in three prominent authoritarian regime codings, as summarized in Table 2.

Table 2: Classifying Political Regimes

	Indonesia	**Malaysia**
Cheibub, Gandhi, and Vreeland (2010)	Civilian Dictatorship (1949-1965) Military Dictatorship (1966-1998) Presidential Democracy (1999-)	Civilian Dictatorship (1958-)

[2] This point implies that if, counterfactually, events were to threaten seriously the BN regime, the military or police would intervene to stabilize the BN. I have heard suggestions from various Malaysians that this might be true; or more precisely, that it might have been true in the 1980s and 1990s.

Geddes, Wright, and Frantz (2014)	Personalist (1950-1966) Triple Threat (1967-1999)	Party Based (1958-)
Wahman, Teorell, and Hadenius (2007; 2013)	Military Multiparty (1972-1996) Limited Multiparty (1997-2003) Democracy (2004-)	Democracy (1972-1973) Limited Multiparty (1974-)

The key difference between the countries is the presence of the military as integral to the New Order regime under Soeharto. Geddes, Wright, and Frantz (2014), importantly, code Indonesia as a "triple threat" in which elements of civilian, military, and personalist regimes are all present. Soeharto is that personalist figure in Indonesia. In Malaysia, Mahathir Mohamad came to play a similar dominant role in the country's politics during the 1980s and 1990s, so much so that observers in the early 2000s began to describe Malaysian politics as having become "personalized" (Hwang 2003; Slater 2003).

Turning away from the formal structure of government to the *informal* bases of authoritarian politics as rooted in each country's support base, another contrast between the two countries is apparent. That is between the ethnic *redistributivist* and fundamentally *mobilizational* BN regime in Malaysia, and the developmentalist yet ultimately elite-focused New Order regime. I describe this contrast and its historical origins at length in Pepinsky (2009: 40-81), but the main contours are straightforward to describe. Indonesia's New Order did not depend on the support of the Indonesian masses, nor did it consistently appeal to them through programmatic policies. Instead, the New Order regime relied directly on the support of two fractions of capitalist interests, a set of indigenous (*pribumi*) entrepreneurs whose fortunes were nurtured by their access to state institutions such as the military and the bureaucracy, and a set of ethnic Chinese business cronies with substantial financial assets who profited from close access to Soeharto and other *pribumi* elites. In Malaysia, by contrast, the BN regime relied directly on the support of the country's Malay masses—UMNO is a party exclusively for *bumiputeras*, campaigns openly and regularly on protecting the "special rights" reserved for Malays in the country's constitution. It rules because it wins elections. It pairs that with direct support from a growing class of *bumiputera* capitalists who provide funding and political support in exchange for the continuation of redistributive policies.

It is important not to confuse coalitional support for policy attention. Both New Order Indonesia and Malaysia under the BN were effective developmentalist regimes for the last third of the twentieth century. Under both, absolute poverty rates fell, human development indicators rose, and millions upon millions of Indonesians and Malaysians gained reliable access to basic human services. The difference between policy attention and coalitional support is that the latter implies an exchange of policy for quiescence while the former does not, meaning that from the perspective of a regime, it must provide its supporters with policy or risk being overthrown. In the case of the New Order regime, the regime's indifference to representing mass interests meant that developmentalist policymaking was possible—and indeed, stabilizing—but not required for regime survival. In the case of the BN, regime survival without attention to Malay interests, both capital and the masses, is impossible.

As a consequence, the "veto players" under authoritarian rule in Indonesia and Malaysia differ in important ways, both in their number and their interest profiles. Indonesia's veto players lay in the military and the burgeoning business sector; they were relatively few in number, had interests in political stability and economic order to facilitate capital accumulation, and were relatively indifferent to mass interests (but in no way opposed to widely shared growth and development). Malaysia's veto players lay both in the ruling party of UMNO, and indirectly, in its mass constituency of Malay voters. This means the veto players are more dispersed in number, and united in their preference for pro-*bumiputera* policies (but, too, in no way opposed to widely shared growth and development).

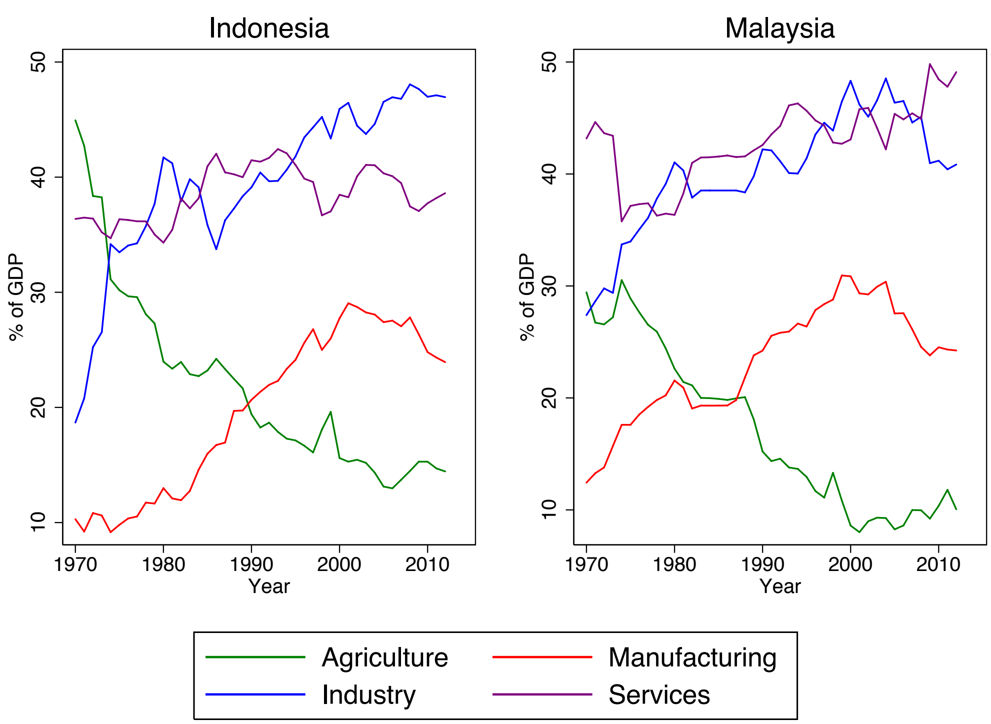
Crisis, Adjustment, Evolution, Crisis, (Sometimes) Change

In my previous work I have described just how the shock of unanticipated currency depreciation affected political conflict in Indonesia and Malaysia in 1997, arguing that it was battles over adjustment measures that lay at the center of Indonesia's authoritarian breakdown and that severely tested Malaysia's BN. In this section, I detail how responses to the crisis of the 1980s had set the stage for this conflict.

The crises of the mid-1980s were ultimately mild in nature. As outlined above, each country's economy shrank, but in neither country did economic contraction translate into mass economic dislocation or widespread business failures—although there were several important corporate scandals during this period in each country, and widespread acknowledgement that in each country, regime insiders were profiting from government protection amidst the crisis (see, generally, Liddle 1988; Mauzy 1987). Governments tightened their belts modestly. But politically, the most important implication of the crisis in both countries was its effect on policy reform. Confronted with declining oil revenues, and saddled with inefficient state sectors, each country embarked on a series of adjustment reforms directed towards deregulation and privatization, on the basis of a common belief that inefficient public enterprises would be replaced with more efficient ones once in private sector, and that the private sector would be better at allocated credit to worthwhile investments in sectors such as manufacturing, finance, and real estate. The implications for government expenditures of those deregulation and privatization measures can be observed in Figure 2 above. Observers of Southeast Asian political economy frequently classify these policies as reflecting "Sadli's Law," that *bad times create good policies*.[3]

In fact, whether or not deregulation and privatization was on the whole "good" depends on how one evaluates the consequences, both immediate and long-term. There is little doubt that privatization and deregulation invigorated domestic economies by allowing market mechanisms to operate more freely. On the terms of deregulation as spurring market activity, adjustment measures were a success. The decade from 1986 until 1996 saw both countries' economies grow rapidly, with especially large gains in manufacturing and industry (see Figure 5).

Figure 5: Sectoral Value Added, Percent of GDP



Source: World Bank (2015a)

[3] The phrase is attributed to Mohamad Sadli, an Indonesian economist and New Order-era technocrat who is believed to have coined it, or at least popularized it, in the Indonesian context. See Hill and Wie (2008).

At the same time, however, deregulatory policies created few real losers. As detailed in various ways in multiple venues (Gomez and Jomo 1999: 75-116; Jomo 1995; MacIntyre 1994; Rasiah 1997; Robison 1997; Soesastro 1989), deregulation and privatization provided new opportunities for connected politicians, firms, businesses, and cronies to gain access lucrative state assets at bargain prices. Deregulation and privatization worked because they were broadly consistent with the political coalitions that supported each regime. Thus, the mid-1980s crisis in no way forced either regime to reduce the size of its coalition or to restrict the perquisites flowing to those within it. Absent any fundamental conflict about adjustment, neither the crisis nor the adjustment measures adopted in its wake were politically destabilizing.

However, privatization and deregulation did change substantially the terms upon which coalitions were maintained, by empowering new capitalists and connected firms within the private sector who owed their newfound wealth to their connections with the regime (for a discussion of the Malaysian case, see Rasiah 1997; for a discussion of the Indonesian case, see Robison 1997). This shifted the relative balance of power within support coalitions in new directions. In Indonesia, newly ascendant cronies and members of Soeharto's own corrupt family rose to match the influence of older factions of fixed capital and the military. In Malaysia, the new Malay rich grew to increasing prominence in the country's political economy, enough that UMNO now was both a party of entrepreneurs and big business *and* of nurturing the still relatively poor Malay masses. It is not surprising that these changes—which had only accelerated developments in each country's political economy whose origins predated the crises of the 1980s—had political consequences. In Malaysia, UMNO experienced a fierce battle between a more traditionalist, establishment wing and newly ascendant Mahathirist faction; this ultimately led to an elite split and a near collapse of the party, only to see Mahathir's faction emerge victorious (Case 1993; Shamsul 1988; Singh 1991). In Indonesia, the rise of the cronies was accompanied by new factionalism within the military and conflict with the elites (Kammen and Chandra 1999), a new prominence among the country's long-repressed Islamic voices (Liddle 1996) which tended to align with the interests of *pribumi* capitalists, and other similar developments.

These political changes were not immediate consequences of the 1980s crisis itself. Rather, they were the indirect consequences of the crisis, which emerged endogenously from the adjustment measures that followed the crisis. It is of course true that these changes in each country's political coalition might have emerged without the 1980s crisis: Mahathir's aspirations would probably have conflicted with those of more traditional UMNO leaders even had Malaysia has a comfortable decade, and Soeharto had shown a particular blindness to his family's excesses for years. Counterfactually, we cannot know what would have happened had the mid-1980s not been lean times in Southeast Asia. But deregulation and privatization following the crisis, and the expansion of the relative political importance of the very same actors who benefited from those more market-oriented policies, does suggest an evolution of each country's political order as an indirect consequence of that crisis.

Fast forward to mid-1997. The regimes in Indonesia and Malaysia now feature high-flying corporate sectors, buoyed by nearly a decade of strong economic growth and inflows of foreign capital under managed exchange rate regimes. When exchange markets turned against the rupiah and the ringgit, they exposed fragility within each country's financial sector, which led investors to update their beliefs about the sustainability of each country's economic model, further eroding exchange rates. Each country suddenly found itself suddenly experiencing a "twin crisis"—a simultaneous and causally-interrelated banking and currency crisis (Kaminsky and Reinhart 1999; McKinnon and Pill 1998; Miller 1998). For the next two years, both countries struggled to find a way to restore confidence, expand the macroeconomy, protect domestic corporate allies, stabilize the exchange rate, and welcome back cross-border investment. The key to understanding why this mattered for authoritarian politics is to focus on how adjustment policies have differential impacts on different constituencies. Malaysia's BN found itself in the fortuitous situation that neither its corporate allies nor its mass base would oppose a heterodox adjustment strategy of re-pegging the ringgit, banning capital outflows, and implementing an aggressive macro stimulus. So after some delay, that is exactly what the regime implemented, with immediate salutary effects on economic recovery. Indonesia's New Order had no such luck: the bargain that united most of Soeharto's ethnic Chinese business allies with the newly ascendant *pribumi* entrepreneurs and the military was capital openness, which made a Malaysia-style heterodox adjustment plan politically impossible. The result was an incoherent, volatile reform strategy with reform pledges repeatedly broken and adjustment measures immediately undermined, with clear understanding that Soeharto himself understood that implementing serious reform would see him thrown out of office (see also Smith 2003).

That delay in Indonesia can be understood using a standard "delayed stabilization" framework, where the distributional costs of reform produce "blocking" (Alesina and Drazen 1991). But my larger argument is that it is this distributional conflict that produced authoritarian collapse in Indonesia (Pepinsky 2009: chapters 6 and 7). How exactly did this occur? It is helpful to begin with a review of some of the key developments of early 1998. The first was a prominent effort, spearheaded by one of Soeharto's daughters, to bolster the Indonesian exchange rate through a "Love the Rupiah movement" that encouraged Indonesians to donate gold and foreign exchange to the government, and to convert dollar holdings back into rupiah. This followed a meeting between several military figures and business elites (both ethnic Chinese and *pribumi*) to discuss how groups could work together to stabilize the economy. Also in January of 1998, Golkar chairman Harmoko and retired general Syarwan Hamid spoke openly of "rats" who were betraying the nation by taking profits when others were showing loyalty by tightening their belts. At the same time, the Soeharto regime actually loosened what few restrictions existed on moving capital overseas, and stood by as bailout funds provided by Indonesian Bank Restructuring Agency to failed banks were converted into dollars and parked overseas instead of being used to stabilize balance sheets. After the March 1998 meeting of the MPR, which named Soeharto to his seventh five-year term as president and allowed him to install a number of close personal associates to important cabinet positions,[4] popular pressure began to mount for wholesale political change. University students played an important role, but so too did a broader range of civil society actors (see Aspinall 2005: chapter 8; Hefner 2000: chapter 6 and 7; Weiss 2005: chapter 7) who recognized that the erratic policymaking of the first half of 1998 reflected a regime fundamentally uninterested in protecting the interests of Indonesia's masses.

The micro-details about the actual fall of Soeharto in May 1998 are consistent with, if not themselves demonstrative of, a fracturing of the coalition between fixed capital (military, *pribumi* entrepreneurs) and mobile capital (ethnic Chinese cronies) that had undergirded the regime (in addition to the above sources, see Emmerson 1999; Forrester and May 1998; O'Rourke 2002). The key event preceding Soeharto's resignation on May 21 was mass riots in Jakarta that targeted in particular ethnic Chinese citizens. There is no consensus about the origins or ultimate responsibility for the riots; various interpretations hold that particular military

[4] These include plywood tycoon Bob Hasan as Minister of Industry and Trade, former tax authority director Fuad Bawazier as Minister of Finance, and Soeharto's daughter Tutut as Minister of Social Affairs.

officials, each with links to Soeharto but almost certainly not acting *on behalf of* or *on the orders of* Soeharto, fomented the disorder in order to force Soeharto's hand. One piece of evidence that the riots were somehow planned or encouraged is the ease with which they were stopped once the security forces chose to do so. In any case, these riots demonstrated to Soeharto's ethnic Chinese associates that the regime no longer had exclusive control over the security situation, and led to unprecedented—even for the time—capital flight.

It is unclear if the fracture of the coalition supporting Soeharto caused the riots, or if the riots brought that fracture to completion. We do know that over the next week, key figures—including Syarwan Hamid and Harmoko—met privately with Soeharto and asked him to resign. Harmoko would later, in fact, become the first "inner circle" elite to announce publicly his demand for Soeharto's resignation. After a final two days spent in fruitless attempts to cobble together a new, Muslim-oriented coalition, Soeharto consulted with Wiranto, commander of the armed forces, to see order could be restored under martial law. Assured that it could be, but that there would be costs, Soeharto chose instead to resign. His successor, Vice President B.J. Habibie, would prove instrumental in overseeing Indonesia's transition to democracy in 1999 (for an account that emphasizes Habibie's importance, see Horowitz 2012).

Much of the intra-elite politics of May 1998 remains unknown to us today, and may never be known. For example, we do not know if *pribumi* entrepreneurs were aware of impending moves within the military—I am aware of no evidence that they were. We also do not know the extent to which ethnic Chinese cronies spoke as a single voice—we know that a group was called together by Soeharto in January 1998 and asked to contribute to economic recovery, but there is no evidence of deliberately coordinated behavior on the cronies' part.[5] However, one

[5] As I discuss in Pepinsky (2013: 93), distributional conflict does not require interest groups as conventionally understood.

feature of this account which I did not emphasize in my previous work is that much rides on Soeharto's own personal decision to resign rather than to pursue those options that appear to have been available to him, cracking down decisively on protestors and employing the military's formidable special reserve forces to restore order. Whereas Liddle (1999) considers the last six months of Soeharto's rule to be an example of "failure of leadership," Soeharto's final act of resigning in favor of Habibie may be considered his last important accomplishment. Another aspect of the final days of Soeharto's rule that is worthy of note is the key role played by protestors themselves. Their presence in the streets, and especially in front of the parliament building, is what led Wiranto to declare that restoring order would be costly. Had the costs of restoring order been lower, perhaps Soeharto would have been tempted to choose another, more militaristic course of action. That said, in my interpretation, protestors contributed to the fall of Soeharto by raising the costs of repression, not by directly forcing Soeharto from office. The key to the collapse of the regime in Indonesia was the fracture of the coalition of supporters within the regime, not pressure from without.

But why could elements of fixed and mobile capital not cooperate to bring the crisis to a close? After all, they had successfully coexisted—indeed, thrived—for three decades under Soeharto. The answer is because for the first time, the policies that would help fixed capital ran *directly contrary* to the interests of mobile capital. Even though these were only short-term distributional costs, and long-term cooperation plausibly would have left both factions better off, the severity of the adjustment costs would have almost certainly have pushed key firms out of business altogether. Theoretically, the problem is a standard intertemporal bargaining problem in which parties cannot credibly commit to respect their counterparts' interests in the future in exchange for sacrifice in the present (for formal treatments, see Acemoglu 2003; Acemoglu and

Robinson 2006). The above discussions are evidence that key actors were aware of this problem, but under Soeharto's rule, no political institutions existed that would allow an intertemporal log roll in which one faction supporting Soeharto would bear the costs of crisis adjustment in exchange for disproportionate favoritism at some point in the future.

Concluding Thoughts and Speculations

I conclude this chapter by entertaining some theoretical considerations that emerge from related literatures on the politics of authoritarian rule, and that have particular implications for crisis politics. One particularly important question is whether "institutions mattered" in Indonesia and Malaysia. In my evaluation, it is hard to make a strong case that they did, at least based on a comparison of these four crises in these two countries. The best case for the success of authoritarian institutions would be Malaysia's UMNO, and the 1990 elections. As noted above, these saw Mahathir reelected, and thus the defeat of the insurgent UMNO faction competing in alliances with each of the country's opposition parties. But I have argued elsewhere that the creation of "New UMNO" to sideline Mahathir's challengers is evidence not of the constraining or ordering effects of party institutions, but rather of the fundamental vulnerability of these institutions during periods of regime pressure (see Pepinsky 2014). That said, I do wish to emphasize that Mahathir's strategy worked because he and other members of his "Team A" could rely on state institutions that lay outside of the party itself: a Registrar of Societies who would transfer party assets to Mahathir's party, a judiciary that would rule in its favor, and so forth. This helps in illustrating just how states—not just parties—matters in shaping regimes' ability to endure over the long run (see Slater 2010: chapter 7).

Bringing in the Indonesian case for comparative reference, we also see that during the 1997-98 crisis, political institutions *did* do the work expected of them. The MPR session of 1998 returned Soeharto to office with strong support, for example. Golkar and the legislature remained united behind Soeharto until the last week of his rule; indeed, Harmoko's turning against Soeharto was so powerful precisely because it was so unthinkable. These observations suggest to me that we must look elsewhere to understand regime collapse in Indonesia. The dangerous inference, one that we should avoid, is that we can conclude from the fact that Soeharto fell that Golkar and the legislature were somehow corroded or diminished as authoritarian political institutions.

Although the four crises provide ample evidence that the effects of institutions on regime survival are not as straightforward as they might appear to institutionalists, I do not think it is proper to pitch the argument I have made here, about how distributional conflict produces regime collapse, as an argument "against institutions." Complex outcomes such as regime survival and authoritarian breakdown have multiple antecedents, and we should understand any causal explanation as probabilistic. Had UMNO under Mahathir ruled Indonesia rather than Soeharto's New Order, perhaps a more orderly resolution of the Asian Financial Crisis would have been possible. Still, attention to the social bases of authoritarian rule, and the ways in which different groups of regime supporters produce different kinds of coalitions supporting authoritarian rule, helps us to make sense of exactly when and why crises become threatening to incumbent regimes in the first place.

This point has implications looking forward, at the durability of Malaysia's BN. There are many reasons why the incumbent regime could fall, and it has been tested in unprecedented ways by the success of the country's multiethnic opposition since 2008. One path lies in the poor performance of an embattled executive like current Prime Minister Najib Razak, which could either energize the opposition or lead to a split within UMNO. Another path would involve the growth of alternative bases of political action and social organization in Malaysia, one in which the link between ethnicity and party identification would no longer allow party politics to follow current scripts. Still another path, though, would run through an external economic shock. Under the framework that I have followed in this essay, what kind of economic shock might bring down the regime?

My presumption in answering this question is that the core logic of Malaysian politics has not changed between the 1980s and today, and that the coalition that confronted the Asian Financial Crisis is—personnel changes aside—essentially the same today.[6] This means that the regime continues to make policies that protect the economic position of the country's Malay masses and the regime's corporate allies, who are largely (if not exclusively) drawn from the *bumiputera* entrepreneurial elite. An economic shock that would bring down such a coalition would be one that could not be managed by redoubling redistributive policies towards the masses, or by paying off or bailing out corporate cronies—or even worse, set the two policies in opposition to one another, so that the regime cannot do both at the same time. In light of these considerations, the factional policies behind the current "1Malaysia Development Berhad" scandal are particularly important (Kassim 2015), as are recent trends of increased household indebtedness and growing federal budget deficits (Hazis 2015: 197-9). The former could endanger the regime by highlighting the social costs of crony capitalism in a middle income country. The latter trends could endanger the regime by making the fiscal costs of mass redistribution unsustainable. In the context of declining global oil prices and a slowdown in China, each of which will have effects on Malaysia's economy in the near term, there are good reasons to suspect that UMNO and the BN regime are set for serious challenges in the coming months.

[6] For different articulations of continuity in Malaysian politics, see Case (2014) and Pepinsky (2015).

References

Acemoglu, Daron. 2003. "Why not a political Coase theorem? Social conflict, commitment, and politics." *Journal of Comparative Economics* 31(4): 620–52.

Acemoglu, Daron, and James A. Robinson. 2006. "Economic Backwardness in Political Perspective." *American Political Science Review* 100(1): 115-31.

Alesina, Alberto, and Allan Drazen. 1991. "Why Are Stabilizations Delayed?" *American Economic Review* 81(5): 1170-88.

Aspinall, Edward. 2005. *Opposing Suharto: Compromise, Resistance, and Regime Change in Indonesia*. Stanford: Stanford University Press.

Case, William. 1993. "Semi-Democracy in Malaysia: Withstanding the Pressures for Regime Change." *Pacific Affairs* 66(2): 183-205.

———. 2014. "Malaysia in 2013 A Benighted Election Day (and Other Events)." *Asian Survey* 54(1): 56-63.

Cheibub, José Antonio, Jennifer Gandhi, and James Raymond Vreeland. 2010. "Democracy and Dictatorship Revisited." *Public Choice* 143(2-1): 67-101.

Corsetti, Giancarlo, Paolo Pesenti, and Nouriel Roubini. 1999. "Paper Tigers? A Model of the Asian Crisis." *European Economic Review* 43: 1211-36.

Crouch, Harold. 1996. *Government and Society in Malaysia*. Ithaca: Cornell University Press.

Demetry, David, and Lionel Demetry. 1992. *Adjustment and Equity in Malaysia*. Paris: Development Centre of the Organisation for Economic Co-operation and Development.

Emmerson, Donald K. 1999. "Exit and Aftermath: The Crisis of 1997-98." In *Indonesia beyond Suharto: Polity, Economy, Society, Transition*, ed. D. K. Emmerson. Armonk: M.E. Sharpe, Inc.

Enloe, Cynthia H. 1978. "The Issue-Saliency of the Military-Ethnic Connection: Some Thoughts on Malaysia." *Comparative Politics* 10(2): 267-85.

Forrester, Geoff, and R.J. May, eds. 1998. *The Fall of Soeharto*. Bathurst, NSW: Crawford House Publishing Pte Ltd.

Geddes, Barbara, Joseph Wright, and Erica Frantz. 2014. "Autocratic Breakdown and Regime Transitions: A New Data Set." *Perspectives on Politics* 12(2): 313-31.

Goh, Cheng Teik. 1971. *The May Thirteenth Incident and Democracy in Malaysia*. Kuala Lumpur: Oxford University Press.

Gomez, Edmund Terence, and K.S. Jomo. 1999. *Malaysia's Political Economy: Politics, Patronage, and Profits*. New York: Cambridge University Press.

Hadenius, Axel, and Jan Teorell. 2007. "Pathways from Authoritarianism." *Journal of Democracy* 18(1): 143-56.

Hazis, Faisal S. 2015. "Malaysia in 2014: A Year of Political and Social Ferment." *Southeast Asian Affairs* 2015: 189-204.

Hefner, Robert W. 2000. *Civil Islam: Muslims and Democratization in Indonesia*. Princeton: Princeton University Press.

Hill, Hal, and Thee Kian Wie. 2008. "Moh. Sadli (1922–2008): Economist, Minister, and Public Intellectual." *Bulletin of Indonesian Economic Studies* 44(1): 151-6.

Horowitz, Donald L. 2012. *Constitutional Change and Democracy in Indonesia*. New York: Cambridge University Press.

Hwang, In-Won. 2003. *Personalized Politics: The Malaysian State under Mahathir*. Singapore: Institute of Southeast Asian Studies.

International Monetary Fund. 2013. "World Economic Outlook Database, October 2013." Retrieved from http://opendataforafrica.org/IMFWEO2013Oct/imf-world-economic-outlook-october-2013, November 16, 2015.
Jomo, K.S., ed. 1995. *Privatizing Malaysia: Rents, Rhetoric, and Reality*. Boulder: Westview Press, Inc.
Kaminsky, Graciela L., and Carmen M. Reinhart. 1999. "The Twin Crises: The Causes of Banking and Balance-of-Payments Problems." *American Economic Review* 89(3): 473-500.
Kammen, Douglas, and Siddharth Chandra. 1999. *A Tour of Duty: Changing Patters of Military Politics in Indonesia in the 1990s*. Ithaca: Southeast Asia Program, Cornell University.
Kassim, Yang Razali. 2015. "C015168 | 1MDB Crisis and Political Funding: Whither Malaysian Politics?". RSIS Commentary C015168 (August 12), available online at https://www.rsis.edu.sg/wp-content/uploads/2015/08/CO15168.pdf.
Liddle, R. William. 1988. "Indonesia in 1987: The New Order at the Height of Its Power." *Asian Survey* 28(2): 180-91.
———. 1996. "The Islamic Turn in Indonesia: A Political Explanation." *The Journal of Asian Studies* 55(3): 613-34.
———. 1999. "Indonesia's Unexpected Failure of Leadership." In *Politics of Post-Suharto Indonesia*, ed. A. Schwarz and J. Paris. New York: Council on Foreign Relations.
MacIntyre, Andrew. 1994. "Power, Prosperity and Patrimonialism: Business and Government in Indonesia." In *Business and Government in Industrializing Asia*, ed. A. MacIntyre. Ithaca: Cornell University Press.
———. 2001. "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia." *International Organization* 55(1): 81-122.
Mauzy, Diane K. 1987. "Malaysia in 1986: The Ups and Downs of Stock Market Politics." *Asian Survey* 27(2): 231-41.
McKinnon, Ronald I., and Huw Pill. 1998. "International Overborrowing: A Decomposition of Credit and Currency Risks." *World Development* 26(7): 1267-82.
Miller, Victoria. 1998. "The Double Drain with a Cross-border Twist: More on the Relationship between Banking and Currency Crises." *American Economic Review* 88(2): 439-43.
Montes, Manuel F. 1998. *The Currency Crisis in Southeast Asia*. Updated ed. Singapore: Institute for Southeast Asian Studies.
O'Rourke, Kevin. 2002. *Reformasi: The Struggle for Power in Post-Soeharto Indonesia*. Sydney: Allen & Unwin.
Pempel, T.J., ed. 1999. *Politics of the Asian Economic Crisis*. Ithaca: Cornell University Press.
Pepinsky, Thomas B. 2008. "Capital Mobility and Coalitional Politics: Authoritarian Regimes and Economic Adjustment in Southeast Asia." *World Politics* 60(3): 438-74.
———. 2009. *Economic Crises and the Breakdown of Authoritarian Regimes: Indonesia and Malaysia in Comparative Perspective*. New York: Cambridge University Press.
———. 2013. "Pluralism and Political Conflict in Indonesia." *Indonesia* 96: 81-100.
———. 2014. "The Institutional Turn in Comparative Authoritarianism." *British Journal of Political Science* 44(3): 631-53.
———. 2015. "Interpreting Ethnicity and Urbanization in Malaysia's 2013 General Election." *Journal of East Asian Studies* 15(2): 199-226.
Radelet, Steven, and Jeffrey D. Sachs. 1998. "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects." *Brookings Papers on Economic Activity* 1998(1): 1-74.

Rasiah, Rajah. 1997. "Class, Ethnicity, and Econmic Development in Malaysia." In *The Political Economy of South-East Asia: An Introduction*, ed. G. Rodan, K. Hewison and R. Robison. Melbourne: Oxford University Press.
Reeve, David. 1985. *Golkar of Indonesia: An Alternative to the Party System*. Singapore: Oxford University Press.
Robison, Richard. 1997. "Politics and Markets in Indonesia's Post-oil Era." In *The Political Ecnomy of South-East Asia: An Introduction*, ed. G. Rodan, K. Hewison and R. Robison. Melbourne: Oxford University Press.
Shamsul, A.B. 1988. "The 'Battle Royal': The UMNO Elections of 1987." *Southeast Asian Affairs* 1988: 170-88.
Singh, Hari. 1991. "Political Change in Malaysia: The Role of Semangat 46." *Asian Survey* 38(1): 712-28.
Slater, Dan. 2003. "Iron Cage in an Iron Fist: Authoritarian Institutions and the Personalization of Power in Malaysia." *Comparative Politics* 36(1): 81-101.
———. 2010. *Ordering Power: Contentious Politics and Authoritarian Leviathans in Southeast Asia*. New York: Cambridge University Press.
Smith, Benjamin B. 2003. "'If I Do These Things, They Will Throw Me Out': Economic Reform and the Collapse of Indonesia's New Order." *Journal of International Affairs* 57(1): 113-28.
Soesastro, M. Hadi. 1989. "The Political Economy of Deregulation in Indonesia." *Asian Survey* 29(9): 853-69.
Thorbecke, Erik. 1992. *Adjustment and Equity in Indonesia*. Paris: Development Centre of the Organisation for Economic Co-operation and Development.
Wahman, Michael, Jan Teorell, and Axel Hadenius. 2013. "Authoritarian regime types revisited: updated data in comparative perspective." *Contemporary Politics* 19(1): 19-34.
Weiss, Meredith L. 2005. *Protest and Possibilities: Civil Society and Coalitions for Political Change in Malaysia*. Stanford: Stanford University Press.
Woo, Wing Thye, Jeffrey D. Sachs, and Claus Schwab, eds. 2000. *The Asian Financial Crisis: Lessons for a Resilient Asia*. Cambridge: MIT Press.
World Bank. 1989. *Malaysia: Matching Risks and Rewards in a Mixed Economy*. Washington, DC: The World Bank.
———. 1994. *Indonesia: Stability, Growth and Equity in Repelita VI*. Washington, DC: The World Bank.
———. 2015a. "Agriculture, value added (% of GDP)(NV.AGR.TOTL.ZS), Industry, value added (% of GDP)(NV.IND.TOTL.ZS), Manufacturing, value added (% of GDP)(NV.IND.MANF.ZS), Services, etc., value added (% of GDP)(NV.SRV.TETC.ZS)." Available at http://data.worldbank.org/data-catalog/world-development-indicators, November 24.
———. 2015b. "Constant GDP per capita for Malaysia [NYGDPPCAPKDMYS] and Constant GDP per capita for Indonesia [NYGDPPCAPKDIDN]." Retrieved from FRED, Federal Reserve Bank of St. Louis https://research.stlouisfed.org/fred2/series/NYGDPPCAPKDMYS/ and https://research.stlouisfed.org/fred2/series/NYGDPPCAPKDIDN/, November 16, 2015.
———. 2015c. "Employment to population ratio, 15+, total (%) (modeled ILO estimate)(SL.EMP.TOTL.SP.ZS)." Available at http://data.worldbank.org/data-catalog/world-development-indicators, November 16.

———. 2015d. "General government final consumption expenditure (constant 2005 US$)(NE.CON.GOVT.KD) and General government final consumption expenditure (% of GDP)(NE.CON.GOVT.ZS)." Available at http://data.worldbank.org/data-catalog/world-development-indicators, November 16.