
SOUTHEAST ASIA IN A NEW ERA

Domestic Coalitions from Crisis to Recovery

Etel Solingen

Abstract

The crisis of 1997–98 unleashed the most severe challenge to Southeast Asian ruling coalitions in decades. This article examines the domestic political consequences of the crisis, focusing on continuity and change in fundamental coalitional forms. Despite initial concerns with a potential backlash, internationalizing coalitions stayed the course while adapting to new political-institutional requirements imposed by the growing salience of social dimensions of internationalization. Yet, the longer-term distributional and political effects of the crisis may not be evident for some time.

I. Coalitional Responses to Internationalization: A Framework

Southeast Asia endured its most serious economic crisis in 1997–98, followed by contracting export markets, the rise of Islamist radicalism, and the threat of terrorism. The time is ripe for taking stock of the domestic political consequences of the Asian crisis, focusing on continuity and change in the fundamental coalitional forms steering Southeast Asian

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states, just when Malaysia, Indonesia, and the Philippines are facing elections in 2004. This article builds on an ideal-typical classification of ruling coalitions that form largely in response to internationalization. No simple formula is available for estimating the precise domestic political impact of global economic processes. Nonetheless, a good starting point is to group domestic political constituencies into three ideal-typical coalitions on the basis of their hypothesized preferences regarding internationalization: internationalizing, hybrid, and backlash.

Politicians organizing internationalizing coalitions, aided by particular bureaucratic allies (such as independent central banks, finance ministries, and managers of export-processing zones), seek to attract beneficiaries or potential beneficiaries of reform. These include export-intensive sectors and firms, highly skilled labor in competitive industries or firms, analysts oriented toward an open global economic and knowledge system, and consumers of imported products. These coalitions may retain state intervention and industrial policy while allowing expansion of private capital—local and international—to a far more significant extent than backlash coalitions. Attracting foreign investment is a critical component of that strategy. Politicians organizing backlash coalitions build on concerns that internationalization erodes economic, cultural, nationalist, or ethno-religious bases of political patronage or social organization. They thus attract state-owned enterprises and banks; state bureaucracies rendered obsolete by reform; import-competing producers and banks sheltered by the state; urban unskilled blue-collar and white-collar sectors; segments of the military and its industrial complex; and civic-nationalist, ethnic, and religious groups similarly endangered by internationalization. The composition of hybrid coalitions is more elastic, often joining otherwise unlikely partners. The more heterogeneous the coalition, the more it is likely to be affected by distributional conflicts within itself. So-called “crony capitalism” defies the internationalizing/backlash divide and can be compatible with both.

Most importantly, the above framework uses coalitions as ideal types, conceptual constructs, or limiting concepts with which real situations are compared, not a historical or “true” reality.¹ From this perspective, real-world

1. On Weberian ideal types as deliberately one-sided abstractions from social reality useful as “heuristic” devices in the “imputation” of causality, see John G. Ruggie, “What Makes the World Hang Together? Neo-Utilitarianism and the Social Constructivist Challenge,” in eds. Peter J. Katzenstein, Robert O. Keohane, and Stephen D. Krasner, *Exploration and Contestation in the Study of World Politics* (Cambridge, Mass.: MIT Press, 1998), pp. 31–32. For a fuller conceptual framework linking coalitional type to regional policies in various regions, see Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton, N.J.: Princeton University Press, 1998). On Southeast Asia's pre-1997 period, see Harold Crouch, *Domestic Political Structures and Regional Economic Co-Operation* (Singapore: Institute of Southeast Asian Studies, 1984) and Etel Solingen, “ASEAN, Quo Vadis? Domestic

coalitions may lie more toward one end of the spectrum than the other, but in any event, they may include both inward-looking and internationalizing partners, as is the case not merely in some Southeast Asian states but in the industrialized world as well. What sets most of these cases apart from others in the industrializing world is the progressive development of stronger state actors and private constituencies oriented to the global political economy, thus shifting the balance toward a different direction on the spectrum, even if compensating mechanisms for adversely affected constituencies or political allies remain in place. This strong orientation toward openness provides a good basis for labeling these internationalizing coalitions, embarked on a process—or empirically moving toward—approximations that never reach the ideal type.

Seen in this light, the ruling coalitions of leading Southeast Asian states faced much greater vulnerability after financial and capital account liberalization in the 1980s. The 1997 crisis and the exacerbating effects of both imposed International Monetary Fund (IMF)-style reforms and domestic cronyism increased concerns over a potential backlash onslaught throughout the region.² Assessing the recent evolution and transformation of these coalitional forms requires a brief overview of their pre-crisis histories.

II. Political Economy of Ruling Coalitions in Southeast Asia: Background

Reasons of space preclude more than a brief discussion of coalitional histories. The same reasons call for Thailand, Malaysia, and Indonesia to be given special attention, given the severity of the crisis there (with economic contractions ranging between 5% and 12% in 1997–98).³ Domestic ruling coalitions in ASEAN (Association of Southeast Asian Nations) states were lubricated by state-directed lending (less so in Thailand) based on personal and political connections. This was a far cry from a market-based model of political economy. At the same time, most ruling coalitions confined intervention to actively ensuring macroeconomic stability, creating markets where they did not exist, helping to direct investment to economic growth and stability, and creating an environment conducive to private investment and political stability. Above all, the ruling coalitions were relatively open to the

Coalitions and Regional Cooperation,” *Contemporary Southeast Asia* 21:1 (April 1999), pp. 30–53.

2. See, for instance, Scott Snyder and Richard H. Solomon, “Beyond the Asian Financial Crisis: Challenges and Opportunities for U.S. Leadership,” *Special Report* (April 1998), Washington, D.C.: United States Institute of Peace.

3. Donald K. Emmerson, “A Tale of Three Countries,” *Journal of Democracy* 10:4 (October 1999); and Samuel S. Kim, “East Asia and Globalization: Challenges and Responses,” *Asian Perspective* 23:4 (1999).

global economy and foreign investment, achieving some of the world's highest trade ratios (imports + exports/GDP [gross domestic product]). These are defining features of internationalizing coalitions. There were significant differences on all these policies across East Asia, as well as within Southeast Asia, as discussed below. Broadly speaking, export-led strategies in Malaysia, Indonesia, and Thailand succeeded with much less emphasis on industrial policy than in South Korea and Taiwan, let alone other newly industrialized countries (NICs).⁴ While acknowledging extensive consultation between businesses and government, Stiglitz notes that firms, not states, made most decisions about resource allocation.⁵ States were not heavy handed: they supported export-oriented industries without micromanaging, provided credit and promoted technical skills that diffuse across industries, selected initial industries and subsidized declining ones without thwarting private entrepreneurship, and closely monitored recipients of support. Price distortions were within bounds. States were active lenders and regulators—but less active entrepreneurs—than elsewhere in the developing world. On the whole, private entrepreneurship flourished in this region to an extent unmatched in other industrializing regions, and perhaps anywhere beyond the Organization for Economic Co-operation and Development (OECD) community. Furthermore, none of these other regions embraced the opportunities (and risks) of the international marketplace more fully than did the states under review.

Some of the weak economic fundamentals characteristic of many industrializing states—current account and budget deficits, inflation, foreign exchange reserves, sluggish exports—were far more sound in Southeast Asia.⁶ Public sector fiscal profligacy, for instance, was clearly not a cause of the 1997 crisis, as it has been in many other cases throughout the world. Mean government final consumption for the ASEAN as a group oscillated between 11% of GDP in the early 1970s and 12.5% in the early 1980s, declining to

4. Singapore pioneered export-oriented growth in 1965, followed by Malaysia and Thailand in the early 1970s, the Philippines, Indonesia in the 1980s, and Vietnam, incipiently, in the 1990s. See Andrew MacIntyre, "Power, Prosperity, and Patrimonialism: Business and Government in Indonesia," in *Business and Government in Industrialising Asia*, ed. Andrew MacIntyre (Ithaca, N.Y.: Cornell University Press, 1994), pp. 244–67; Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, N.J.: Princeton University Press, 1995); Ross Garnaut, "Introduction—APEC Ideas and Reality: History and Prospects" in *Asia Pacific Economic Cooperation*, ed. Ipeei Yamazawa (New York: Routledge, 2000); K. Jayasuriya, "Southeast Asia's Embedded Mercantilism in Crisis: International Strategies and Domestic Coalitions," in *Non-Traditional Security Issues in Southeast Asia*, eds. A. T. H. Tan and J. D. K. Boutin (Singapore, 2001), pp. 26–53.

5. Joseph E. Stiglitz, "Some Lessons from the East Asian Miracle," *World Bank Research Observer* 11:2 (August 1996), pp. 151–77.

6. Lowell Dittmer, "Globalization and the Asian Financial Crisis," in *East Asia and Globalization*, ed. Samuel S. Kim (Lanham, Md.: Rowman and Littlefield, 2000), pp. 31–54.

10% in the early 1990s. In contrast, mean government final consumption as a percentage of GDP for Middle East states was twice that of ASEAN in the early 1970s, three times larger throughout the late 1970s and late 1980s, returning to twice as large only after reform efforts in the early 1990s.⁷ Mean government deficits for ASEAN were around 3% of GDP during the 1970s and early 1980s (long before Maastricht became history), turning to surplus by the late 1980s. Finally, military expenditures relative to GDP declined sharply despite their absolute growth in the context of dramatic economic growth. All in all, one might characterize most of these coalitions as internationalizing, i.e., moving in the direction of internationalist grand strategies—most notably after the 1980s—although none ever fits the ideal type.

In sum, during the two decades preceding the crisis, ASEAN states came to be dominated by leaders and key bureaucratic allies interested in coalescing internationalizing constituencies (favoring foreign direct investment, natural resource and manufacturing exports) alongside more traditional import-substituting interests (particularly in Indonesia, and notably, automobiles in most ASEAN states). The political power of internationalizing constituencies grew significantly by the 1980s, in tandem with the growth of private entrepreneurship, progressive internationalization, and the ability to maintain economic growth.⁸ In time, and in most cases, a burgeoning middle class—with vested interests in political stability—came to support the internationalizing strategy, questioning—in some cases—the legitimacy of its political agents. Labor movements were never an integral part of these ruling coalitions, but an implicit social bargain provided high per capita growth, employment creation, high levels of investment in health and education, universal (including female) literacy, and increasing returns to small businesses and farmers. Radical nationalist and ethno-religious groups were, for the most part, marginalized by these coalitions, which prevented exclusivist political forms from undermining domestic, global, and regional goals. Economic growth was the foundation of these coalitions' grand strategy, embedded in the concept of "national resilience" (*ketahanan nasional*), which, writ large,

7. Alan Heston and Robert Summers, "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950–1988," *Quarterly Journal of Economics* 106:9 (May 1991), pp. 27–68, and update in National Bureau of Economic Research, Cambridge, Mass. (January 1995), <<http://www.nber.org/pwt56.html>>; *World Development Indicators* (Washington, D.C., World Bank, 1998), p. 310, and *World Development Reports* (Oxford: Oxford University Press, 1991–1997). On military expenditures, see Etel Solingen, "Mapping Internationalization: Domestic and Regional Impacts," *International Studies Quarterly* 45:4 (2001), pp. 517–56.

8. Stephan Haggard, "The Politics of the Asian Financial Crisis," *Journal of Democracy* 11:2 (April 2000), pp. 130–44; Alasdair Bowie and Danny Unger, *The Politics of Open Economies: Indonesia, Malaysia, the Philippines, and Thailand* (Cambridge: Cambridge University Press, 1997); Richard Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation," *Pacific Review* 13:2 (2000), pp. 297–318.

would endow ASEAN itself with resilience. Different institutional frameworks, democratic and otherwise, compelled different forms of coalitional aggregation in different states.

III. The Crisis

There is some consensus that the domestic origins of the crisis may be found in structural deficiencies in financial sectors, short-term debt, and failures in political and corporate governance.⁹ Not only were domestic financial sectors imprudent in overextending credit, but they were also unrestrained by weak governments unwilling to curtail asset bubbles. “Crony capitalism” became a frequently cited source for the malaise of East Asia’s developmental model, as was the herd behavior of foreign lenders, fund managers, and other international portfolio investors.

There are three basic schools of thought on the role of the International Monetary Fund in the Southeast Asian crisis. The first contends that the IMF imposed harsh, misguided, and counterproductive measures once the crisis erupted, worsening the economic and political turmoil, most notably in Indonesia. A second school condones IMF measures as the most appropriate given the circumstances—preventing a complete collapse of the economy and polity and excising “crony capitalism”—although some acknowledge the IMF’s miscalculation of the depth of the post-crisis recessions produced by extended tight monetary and fiscal policies. A third, eclectic school shares a common hostility to international institutional intervention, either from conservatives (in the U.S. Congress, for instance) or from critics of neo-colonial exploitation.¹⁰ The three schools vary in their assessment of the socioeconomic and political impact of the post-1997 crisis, but few refute the fact that the crisis returned widespread misery to the region, even though most also recognize that internationalizing models had brought improvements in health, education, and living standards. In shattering expectations that had risen throughout the 1980s and early 1990s, the crisis arguably made Southeast Asia riper for backlash politics, as the IMF bailout benefited foreign investors and punished many domestic firms, while socializing the debt.

9. Linda Y. C. Lim, “The Asian Economic Crisis: The Challenges for Government Policy and Business Practice” (New York: Asia Society, February 1999); K. S. Jomo, “Comment: Crisis and the Developmental State in East Asia,” in *Politics and Markets in the Wake of the Asian Crisis*, eds. Richard Robison, Mark Beeson, Kanishka Jayasuriya, and Hyuk-Rae Kim (Routledge: New York, 2000), pp. 25–33; Stephan Haggard, “The Politics of the Asian Financial Crisis.”

10. On the three views, see respectively, Joseph Stiglitz, “Some Lessons from the East Asian Miracle,” Stephan Haggard, “The Politics of the Asian Financial Crisis,” and Bruce Cumings, “The Asian Crisis, Democracy, and the End of ‘Late’ Development,” in *The Politics of the Asian Economic Crisis*, ed. T. J. Pempel (Ithaca, N.Y.: Cornell University Press, 1999), pp. 17–44.

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By mid-1997, currency devaluations, capital flight, high debt burdens, and regional contagion effects led to a deep socioeconomic crisis and rising unemployment. The poor and nearly poor, including unskilled workers in urban areas, were forced to absorb the burden of price increases on basic commodities such as food and fuel. Between 1975 and 1995, poverty in all of East Asia had dropped by two-thirds, making the rate of poverty reduction the fastest in the industrializing world. Notably, deepening liberalization since the mid-1980s had contributed to an even faster rate of poverty decline than in previous years.¹¹ It had also bolstered a significant middle class and a wealthy segment of beneficiaries of internationalization. As Stiglitz notes, since 1965, Indonesia, Malaysia, and Korea each have had a single year of negative growth, Thailand has had none, and East Asia has exhibited less volatility (vulnerability to outside shocks) than the economic regimes in any other region. The 1997–98 period was thus a shock of major proportions in every realm of life in Southeast Asia and dealt a significant blow to rising expectations. The potential for ominous consequences for the social fabric and the political stability of ruling coalitions was real. The relative domestic and regional political stability characteristic of preceding decades, and pivotal for attracting domestic and foreign investment, had been shattered.

IV. Responses: Continuity and Change in Ruling Coalitions

Malaysia

The 1997 crisis did not instantly transform the long-standing coalitional base of Malaysia's Prime Minister Mahathir Mohamad, a hybrid coalition known as Barisan Nasional (BN, National Front) of import-substituting, heavy-industry, public enterprise, and export-oriented manufacturers representing primarily *bumiputra* (Malays-first) constituencies and aggregated in UMNO (the United Malays National Organization).¹² A new Malay middle class

11. "Between 1975 and 1995 poverty in East Asia, as measured by the region's head-count index with respect to the constant US\$1-a-day poverty line (in 1985 purchasing power parity terms), dropped by two-thirds. . . . In 1975, six out of ten East Asians lived in absolute poverty according to this standard; by 1995, the ratio had dropped to two out of ten." See World Bank, *Social Policy and Governance in the East Asia and Pacific Region*, "Poverty in East Asia," November 8, 1999, <<http://www.worldbank.org/eapsocial/sector/poverty/povcwp2.htm>>; World Bank, *Social Policy and Governance in the East Asia and Pacific*, "What is the Social Crisis in East Asia?" November 9, 1999, <<http://www.worldbank.org/eapsocial/whatis.htm>>.

12. This section is a revised and updated version of my "Crisis and Transformation: ASEAN in the New Era," Working Paper (Singapore: Nanyang Technological University, Institute of Defence and Strategic Studies, 2001). On rent-seeking activities by politically connected *bumiputra* firms, see Terence E. Gomez and K. S. Jomo, *Malaysia's Political Economy: Politics, Patronage, and Profits* (Cambridge: Cambridge University Press, 1999).

(*Melayu baru*), the beneficiary of preferential treatment, was by now an active factor in coalitional politics, as were small- and medium-sized Chinese firms advantaged since 1990 by a new National Development Policy (in this period, Malays grew from about 51% to 60% of the population, ethnic Chinese declined from about 30% to 25%, and ethnic Indian and other minorities made up the rest). Mahathir had steered this hybrid coalition through highly contradictory rhetoric and policies, endorsing and disparaging integration into the global economy according to the circumstances. In his Vision 2020 program in 1990, he had encouraged an economy “subjected to the full discipline and rigour of market forces” and warned that “when the going gets tougher, we must not turn inward.”¹³ A Ratings Agency, Securities Commission, Options and Financial Futures Exchange, Monetary Exchange, and a Multimedia Super Corridor were introduced in the early 1990s to encourage foreign investment. A dramatic increase in foreign direct investment (FDI), an 8% annual growth rate, and low inflation helped Mahathir keep the coalition together and counter demands for democratization.

Once the crisis hit, neither UMNO’s partners in the coalition—the Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC)—nor the opposition challenged Mahathir initially, but within UMNO, a power struggle began brewing. In addition to having other policy and personal differences with Mahathir, Deputy Prime Minister and Finance Minister Anwar Ibrahim had advanced a more internationalizing response to the crisis and was reluctant to rescue heavily indebted Malaysian corporations such as Konsortium Perkapalan (associated with Mahathir’s son Mirzan), and Renong, the country’s largest conglomerate (headed by Mahathir supporter Halim Saad).¹⁴ Domestically oriented firms, including construction and service companies and many state-supported *bumiputra* businesses, were markedly affected by the crisis. In April 1998, the World Bank/IMF Development Committee picked Anwar as its new chairman. Anwar met in Washington, D.C., with World Bank President James Wolfensohn and International Monetary Fund Deputy Managing Director Stanley Fisher, reaching an agreement with the World Bank for a \$700 million loan to finance social programs, and undertaking a country survey. In his opening address at a discussion with

13. Bridget Welsh, “Malaysia and Globalization: Contradictory Trends,” *Asian Perspective* 23:4 (1999), p. 266.

14. Stephan Haggard, “The Politics of the Asian Financial Crisis,” and Prema-Chandra Athukorala, “Swimming Against the Tide: Crisis Management in Malaysia,” in *Southeast Asia’s Economic Crisis: Origins, Lessons and the Way Forward*, eds. H. W. Arndt and Hal Hill (Singapore, Institute of Southeast Asian Studies, 1999), pp. 28–40. On Anwar and the Central Bank as “liberal-reformists,” see Richard Stubbs, “La Malaisie et la Mondialisation: Crise et Politique de l’Ambivalence” (Malaysia and globalization: The crisis and the politics of ambivalence), *Revue Internationale de Politique Comparée* (International Review of Comparative Politics) 8:3 (2001), pp. 461–72.

U.S. Treasury Secretary Robert E. Rubin, Anwar described Malaysia's commitment to economic reform and to facing the challenges of globalization as an irreversible process, arguing that inherently destabilizing and volatile capital flows should be managed and minimized. Anwar encouraged cooperation between national regulators and international institutions to ensure stability, and added that private creditors should share the risks and responsibilities in resolving the crisis. Both Anwar and the central bank supported higher interest rates to contain inflation and shore up the ringgit, as recommended by the IMF.

Countering this position, Mahathir appointed Daim Zainuddin, his confidant and finance minister between 1984 and 1991, who favored lowering interest rates to ease the burden of troubled Malaysian firms, as director of the National Economic Action Council and later minister with special functions. While bailing out his political allies in the private sector, Mahathir blamed foreign currency speculators, open capital, and international economic institutions for the crisis, and wielded nationalism to shun IMF intervention. He imposed capital controls, fixed the ringgit exchange rate, and dismissed and imprisoned Anwar on charges of sexual offenses and serving foreign powers, while opining that Anwar "does not understand finance or economic management."¹⁵ The prime minister thus rid himself of a competitor/successor with grassroots appeal and with a more clearcut internationalizing agenda. Determined to avoid Suharto's fate, Mahathir also purged Anwar allies such as Ahmad Don, governor of the Central Bank, and his former deputy's associates at important Malay newspapers and the largest private television network, TV3. Mahathir also bailed out state banks (Bumiputra and Sime) that had financed largely unproductive ethnic Malay businesses, and allowed selected ethnic Chinese businesses to bail out some Malay firms.

Anwar's demise attracted a demonstration of more than 50,000 supporters disillusioned with Mahathir. Protesters attacked the Malaysian "dictatorship" and condemned the Asia-Pacific Economic Cooperation (APEC) meetings as serving global and regional elites. Hundreds of lawyers marched in support of Anwar's lawyer, sentenced to jail for contempt of court. The Islamic opposition party, Parti Islam Se-Malaysia (Malaysian Islamic Party, PAS), joined in protests with a coalition of opposition groups, including the mainly Chinese Democratic Action Party (DAP). The response was swift. Many protesters were detained, including the chair of UMNO's Youth Movement, who had raised corruption charges against Mahathir; opposition People's

15. Kuala Lumpur, Voice of Malaysia, July 21, 1998 in Foreign Broadcast Information Service (hereafter, FBIS) (FBIS-LAT-98-202) and June 29, 1998 (FBIS-EAS-98-180); Kuala Lumpur, RTM Television Network, September 1, 23, 1998 (FBIS-EAS-98-266).

Party leader Syed Husin Ali and associates; human rights activist leader Tien Chua; and others, all suspected of supporting Anwar's reform movement. Anti-riot police suppressed 5,000 Moslem demonstrators at a national mosque. All in all, an incipient Reformasi (reform) movement had been de-capitalated, repressed, and undermined. In the course of the popular outrage after Anwar's beating by police while in custody, Mahathir reshuffled his cabinet with loyalists and postponed elections. His reactions deepened the crisis somewhat initially, but also helped save his coalition in the short term. The hybrid nature of Mahathir's coalition was also reflected in Malaysia's regional and international responses to the crisis, which lambasted the West and called for regional alternatives to Western-dominated institutions. "Be careful of the plot to use calls for patriotism and nationalism as the wool to cover up corrupt acts and internal oppression," Anwar warned, in a letter from jail.¹⁶

After contracting by 7% in 1998 and 1% in 1999, the economy began recovering by the November 1999 elections. The collapse of imports helped create a current account surplus of 10% of GDP in 1998 and maintain foreign exchange reserves at \$20 billion.¹⁷ Restrictions on capital controls were relaxed by 1999 and investor confidence was partially restored. Barisan retained a parliamentary majority—its lowest ever—but Malay support for UMNO decreased significantly. The Islamist PAS led an opposition front, Barisan Alternatif (Alternative Front), including DAP, Parti Keadilan Nasional (National Justice Party), and the Peoples' Party. PAS won in Terengganu state, increased its strength in other areas, and retained control of Kelantan state. Keadilan, the Reformasi party led by Anwar's wife, won five seats, but since then has been precluded from organizing public gatherings. Even as 40% of the voters rejected the current leadership (about double the opposition's strength in the 1995 elections), these results obscured wider discontent among the new generation, which has been excluded by a rule excluding people under age 25 from voting.

The future shape of Malaysia's ruling coalition will be affected by these generational and social changes, as well as by the fate of economic reforms, political liberalization, and *bumiputra* big-business preferential policies. Mahathir succeeded in restructuring bad debt, including Renong's. Malaysia's central bank consolidated the banking sector into 10 anchor banks, with plans to decrease the number to five. Privatization continued, unemployment was low, growth resumed, and restrictions on foreign investment were removed (although the ban on offshore ringgit trade remained in place). De-

16. "Anwar Warns against Oppression, Corruption in Malaysia," Hong Kong, Agence France-Presse (AFP), January 17, 1999 (FBIS-EAS-99-017) and November 15, 1998 (FBIS-EAS-98-319).

17. Linda Lim, "The Asian Economic Crisis."

clining foreign investment in 2001 and 2002 has been partially blamed on lingering mistrust of capital controls imposed in 1997 and on deficient implementation of corporate governance rules approved after the crisis. There are efforts to revitalize domestic sectors such as tourism, biotechnology, health care, and education, including making English the language of instruction for mathematics and science in all schools.

Meanwhile, the events of 9/11 and al-Qaeda activities in Malaysia enabled Mahathir to counter Islamist efforts to introduce Sharia (Islamic law) more deeply into Malaysia's Constitution. He closed down PAS-run *madrasahs* (schools) in Selangor, allowing the state to set the religious agenda, and detained PAS leaders and Islamist militias charged with association in the radical group Jemaah Islamiyah (JI). Introducing a more extreme version of Islam would have changed the composition and orientation of Malaysia's ruling coalition. For now, this prospect seems dim, owing to three main factors: (a) a broad popular rejection of PAS and radical Islam after 9/11; (b) a deep gulf in the Barisan Alternatif between PAS and its main allies in DAP, who favor a secular democratic state; and (c) disagreements within PAS between ultraconservatives and moderate Islamists.¹⁸ Mahathir's handpicked successor, Datuk Seri Abdullah Ahmad Badawi, has strong Islamist credentials, but opposes Shariah as national law and has suppressed Islamist radicals. He became prime minister in 2003. The BN coalition looks poised to preserve openness to the global economy, key to its ability to generate enough resources to retain its patronage over different Malaysian—particularly Malay—constituencies.

Indonesia

Since the onset of the crisis, Indonesia has undergone dramatic transitions: democratization, economic upheaval, ethnic and religious strife, and separatist secessions. Crony capitalism under Suharto was in a category of its own, with his own family capturing widespread state-protected business emporia. Pivotal partners in Suharto's New Order (Order Baru) coalition were his party (Golkar), the armed forces (then called ABRI, Angkatan Bersenjata Republik Indonesia, Armed Forces of the Republic of Indonesia), a small group of industrial entrepreneurs and bankers (mostly ethnic-Chinese), *pribumi* (native Indonesian) economic groups with ties to the Indonesian Muslim Intellectual Association (ICMI), and key state bureaucracies coordinating integration with the global economy. Suharto's coalition, particularly since the 1980s, presided over a relatively open, deregulated economy that

18. K. S. Nathan, "Malaysia: 11 September and the Politics of Incumbency," *Southeast Asian Affairs* (2002), pp. 159–76; and N. Ganesan, "Malaysia in 2002: Political Consolidation amid Change?" *Asian Survey* 43:1, pp. 147–55.

coexisted with a more closed crony system. This coalition had come a long way in erasing Sukarno's backlash strategy, launching export-led integration into the global economy, seeking U.S., Japanese, and other Western trade and investment partners, applying IMF stabilization plans, reducing the number of state enterprises, lowering import tariffs, and deepening regional cooperation.¹⁹ The liberalization of banking allowed industrial barons to further their economic reach.

The 1997 crisis caught Suharto personally and politically weakened, unwilling to take on his family and cronies as part of building confidence in the rupiah and creating a more transparent economy. Instead, he stalled on reforms and toyed with a currency board opposed by the IMF but favored by his allies, while reducing fuel and electricity subsidies and unleashing widespread violence (including anti-Chinese riots). B. J. Habibie, vice president and first ICMI chair and a long-standing economic nationalist-populist, replaced Suharto in 1998 for a transitional period. Indonesia's economy shrank by 14% in 1998 and inflation rose above 60%. Fiscal austerity removed financing for state-subsidized sectors such as the controversial aircraft and car industries. The financial sector, construction, transport, and non-oil manufacturing contracted by over 5%, but employment in agriculture grew in 1998.²⁰ Subsequent inflation had dramatic effects on the poor and on urban wage and salary workers.

Elections for a People's Consultative Assembly in June 1999, Indonesia's first free and fair elections since 1955, gave Megawati Sukarnoputri's (Sukarno's daughter) Democratic Party-Struggle the largest majority (34%), but less than the total won by Muslim parties. Golkar got 20% of the votes, Abdurrahman Wahid's National Awakening Party (PKB, Partai Kebangkitan Bangsa) 16%, the Islamic party PPP (Partai Persatuan Pembangunan, United Development Party) 11%, and Amien Rais's PAN (Partai Amanat Nasional, National Mandate Party) 7%. The 500-member Assembly also included 200 representatives from "functional groups" (religious, ethnic) and, notably the military (38 members). A presidential election compromise in October 1999 brought Wahid, leader of the largest Muslim organization, Nahdlatul Ulama (Revival of Ulama) with 35 million members, to power, presiding over an eclectic cabinet. This grand coalition, backed by key political actors, business, and a presumably reforming military, reflected Wahid's objective of

19. Andrew MacIntyre, "Power, Prosperity, and Patrimonialism," and Samuel S. Kim, "East Asia and Globalization."

20. Anne Booth, "The Impact of the Indonesian Crisis on Welfare: What Do We Know Two Years On?" in *Indonesia in Transition: Social Aspects of Reformasi and Crisis*, eds., Chris Manning and Peter Van Diermen (Singapore: Institute of Southeast Asian Studies, 2000), pp. 145–62.

achieving national reconciliation.²¹ The coalition's heterogeneity and weakness overwhelmed Wahid's efforts to restore political and economic stability, human rights, and democratization, and his attempts to prevent further centrifugal forces in Aceh and Irian Jaya from threatening Indonesia's geographical disintegration. Wahid overrode economic-nationalist and populist ministers and sought to meet IMF commitments. He also pressed the Financial Audit Board to announce the results of an audit of the Indonesian Bank Restructuring Agency (IBRA), to appoint an Oversight Board, and to expedite the privatization of \$50 billion in assets.²² Despite nationalist opposition, foreign investors, led by a Singaporean firm, purchased car-maker Astra in early 2000. However, IBRA's slowness and a corrupt court system unwilling to track old Suharto allies helped stall reforms and IMF commitments, leading to further decline of the rupiah. Attacks on Chinese communities resumed in mid-2000.

An odd array of interlocked oppositional forces exacerbated economic, political, and ethnic tensions in Indonesia without leading to the emergence of a viable alternative coalition. Suharto's allies, industrialists hurt by restructuring, Islamists favoring IBRA's creation of state enterprises to foster *pribumi* business à la Malaysia, radical Islamist groups (such as the Laskar Jihad, which opposed the IMF and communism while supporting Maluku's Muslims), and segments of the military resentful of its institutional decline, all challenged Wahid's heroic efforts to stabilize the economy, develop democratic institutions, reconstitute civil-military relations, and relieve ethno-religious tensions. In a veiled criticism, Wahid's own Coordinating Minister for Finance and Economy Kwik Kian Gie, a nationalist and earlier advocate of fixed exchange rates and capital controls, commented that he had to play a lone hand against big business.²³ Both Kwik and State-Enterprises Minister Laksamana Sukardi were leaders of Megawati's party advancing populist policies and credits to small business and agriculture, which the IMF had accommodated. Assembly President Amien Rais represented Islamist opponents of Wahid's efforts to maintain separation of state and Islam to prevent

21. On the unwieldy nature of this coalition, see Takashi Shiraishi, "Indonesia: Recent Events and Future Challenges," *Asia-Pacific Review* 7:2 (November 2000), pp. 136–48; Hadi Soesastro, "ASEAN during the Crisis," in Arndt and Hill, *Southeast Asia's Economic Crisis*; Bambang Harymurti, "Challenges of Change in Indonesia," *Journal of Democracy* 10:4 (October 1999), pp. 69–83.

22. "Wahid Prods Ministers to Fulfil IMF Obligations," *Jakarta Kompas*, June 28, 2000 (FBIS-EAS-2000-0628); *Far Eastern Economic Review* (FEER), April 6, 2000, p. 64 and April 13, 2000, p. 5; *Asiaweek*, April 21, 2000, p. 19.

23. "Indonesia's Wahid 'Too Close To Big Business'," *Jakarta Kompas*, June 22, 2000 (FBIS-EAS-2000-0622). See also Seth Mydans, "Indonesia Recoils at Uncurbed Island Killings," *New York Times*, June 28, 2000, pp. A1, A8; *Jakarta Kompas* December 15, 1999 (FBIS-EAS-1999-1214).

the Algerian dilemma: a choice between military or theocratic rule. Rais also challenged Wahid's economic reform along "Western" criteria to restore international investors' confidence. For the first time in decades, a People's Representative Council was consulted on an IMF Letter of Intent, and it criticized IMF policies and proposals to reduce subsidies and increase electricity prices. Meanwhile, ethnic and religious clashes in West Kalimantan, Batam, and Maluku flared up and Chinese-Muslim and Christian-Muslim relations remained tense. As for the military, former armed forces chief General Wiranto attempted to destabilize Wahid after the latter suspended him from his cabinet position pending the completion of a probe on military-induced violence in East Timor. Armed forces commander Widodo Adisucipto noted that all military branches backed Wiranto's suspension.²⁴ Following a reshuffle among the top brass, Defense Minister Yuwono Sudarsono instructed Wiranto to resign. Meanwhile, Wahid became the target of an impeachment process related to corruption scandals and was succeeded by Vice President Megawati.

Faced with continued separatist threats in Aceh and Irian Jaya, Megawati mandated the Indonesian Armed Forces (now called TNI, *Tentera Nasional Indonesia*) to prosecute the war against the Free Aceh Movement (GAM, *Gerakan Aceh Merdeka*) more vigorously, a policy the military clearly favored that allowed it to maintain its constitutional status as the protector of national security assets (and of its own economic interests in Aceh). In an effort to gain a freer hand, the military also emphasized GAM's alleged links to al-Qaeda Islamist parties and, most vocally, Vice President Hamzah Haz (PPP) opposed Megawati's alignment with the U.S. after 9/11 and denied any connections between *Jemaah Islamiyah*, headed by cleric Abu Bakar Bashir, and al-Qaeda. Support for militant Islam has deep roots in both the late Suharto period that also attracted Saudi financing for educational, political, and reportedly, terrorist purposes, and in the interlude under B. J. Habibie. Megawati's government refused to dissolve paramilitary groups associated with Islamist parties, to acknowledge *Ji*—let alone its alleged connections with al-Qaeda—and to establish an anti-terrorist law prior to the 2002 massacre in Bali. By late 2002, Indonesian intelligence and police began pursuing *Ji*, although Bashir himself received a four-year sentence that was reduced to three years on appeal by the state prosecutor.

On the economic front, Megawati developed a stronger relationship with the IMF, forcing fiscal austerity, price increases in fuel, electricity, and other services, and allowing foreign investors into areas previously dominated by

24. "'All' Indonesian Armed Forces Back President Wahid," AFP, Hong Kong, February 14, 2000 (FBIS-EAS-2000-0214); "General Criticises Military Leadership," *Jakarta Kompas*, December 15, 1999 (FBIS-EAS-1999-1215) and "Defense Minister Says He Has Asked Wiranto to Resign," AFP, Hong Kong, February 4, 2000 (FBIS-EAS-2000-0204).

state enterprises. The World Bank's lead economist praised Indonesia's fiscal consolidation and budget deficit reduction. But despite signs of economic recovery, high tech exports fell, unemployment rose, privatization stalled for political reasons, and economic and political instability kept foreign investors away, particularly as China provided the economic conditions and political stability that Indonesia lacked.²⁵ No significant structural economic reforms can be expected from Megawati's coalition, given a larger concern with Indonesia's stability. Yet, the rupiah has recovered and Indonesia has accumulated enough foreign reserves to repay IMF loans. The government replaced IMF programs with a new macroeconomic policy package in late 2003, just as all were preparing for general parliamentary and presidential elections in April and July 2004, respectively.

The post-crisis pattern of weak and incoherent ruling coalitions in Jakarta continued, leaving Megawati vulnerable to attacks. But it also appeared to be in the short-term interest of most major parties not to topple her (despite allegations of corruption in connection with the purchase of Russian Sukhoi fighter aircraft and allegations concerning her husband's undue influence). The configuration of political parties likely to contest the 2004 elections is fluid. Many consider moderate Islamism too weak to stem a more radical version, but others regard the now proven connections between JI and terrorism as weakening militant Islam.²⁶ The president's delicate domestic balance suggests that neither the nature nor the stability of Indonesia's ruling coalition after 2004 can be taken for granted.

Thailand

Thailand's succession of weak, unstable ruling coalitions have represented an array of political parties and private interests. A coalition of export-intensive entrepreneurs and new business groups in electronics, telecommunications, manufacturing, finance, merchant banking, tourism, and retailing, as well as some older Bangkok family oligopolies and technocrats in the Bank of Thailand, Ministry of Finance, and National Economic and Social Development Board, had gained the upper hand by the late 1980s to early 1990s.²⁷ Prime

25. Foreign investment declined from \$34 billion in 1997 to \$9 billion in 2001. See *FEER*, December 12, 2002, p. 19; Hadi Soesastro, "Introduction: Indonesia under Megawati," in *Governance in Indonesia*, eds., Hadi Soesastro, Anthony L. Smith, and Han Mui Ling (Singapore: Institute of Southeast Asian Studies, 2003).

26. Leo Suryadinata, "Moderate Islam Stronger but by How Much?" *Straits Times*, Singapore, November 16, 2002. On Megawati's government as a "nationalist-Islamist coalition," see Leo Suryadinata, *Elections and Politics in Indonesia* (Singapore: Institute of Southeast Asian Studies, 2002).

27. Richard Stubbs, "Signing on to Liberalization"; Kevin Hewison, "Thailand's Capitalism before and after the Economic Crisis," in Robison et al., eds., *Politics and Markets*, pp. 192–211;

Minister General Prem Tinsulanond deepened internationalization through FDI, export promotion and diversification, and tight budget, monetary, and fiscal discipline. By the early 1990s, controls on interest rates and capital accounts were removed, leading to increased competition, internationalization, and heavy dependence on foreign capital inflows. The military had played a key role in ruling coalitions, but the re-establishment of democracy in 1992, plus a concern with political stability, appeal to foreign investors, and continued economic growth helped tame the military's political role even as it retained its business interests in electronic media, among others.

When hit by the crisis—with foreign reserves plummeting from \$38 billion in May 1997 to \$3 billion in July—Thailand agreed to IMF conditions for a rescue loan of \$17 billion, including increased access for foreign investors, privatization, legal reforms on bankruptcy and foreclosure, and enhanced transparency. Yet, the New Aspiration Party government of Prime Minister Chaovalit Yongchaiyudh maintained support for financial firms rather than confronting their practices. Chaovalit was highly constrained by an unwieldy institutional context, where a multi-member electoral system, a proliferation of parties, and a fractured cabinet coalition provided far too many veto points to allow swift responses.²⁸ Efforts by the finance minister and central bank governor faced resistance from the coalition's second largest party (Chart Pattana) and other politicians responsive to affected finance companies. By December 1997, after pressure from business leaders and demonstrations by the middle class, opposition leader and former Prime Minister Chuan Leekpai (of the Democratic Party) took over in an orderly transition. The Chuan government addressed IMF commitments, advancing banking and financial institutional reform, corporate and debt restructuring, promotion of FDI and of exports, agricultural reform, sharply reduced defense budgets, and institutional contraction of the military. Chuan's grand strategy—domestic, regional, global—was in step with the one described above for internationalizing coalitions, emphasizing a commitment to the rewards and penalties of free markets:

Economically, we have no choice but to be more responsive to market conditions and trends, especially given today's world of rapid globalisation. We have to ensure that our economies are competitive, with sound macro-economic policies, with professional and accountable public and private sectors, and with internationally accepted regulatory and supervisory frameworks. . . . There is thus a need to extend structural change to the regional and global levels as well. . . . The onus is

and Natasha Hamilton-Hart, "Thailand and Globalization," *Asian Perspective* 23:4 (1999), pp. 293–94.

28. Andrew MacIntyre, "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia," *International Organization* 55:1 (Winter 2001), pp. 81–122.

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on ASEAN to achieve a truly stable, prosperous and highly competitive ASEAN Economic Region.²⁹

In 1998, Thailand's GDP contracted 10%, but exports rose 7% from 1998 to 1999, improving further by 2000, when ASEAN neighbors were absorbing 40% more of Thailand's exports than in 1999. Thai exports reached \$52.87 billion in the first 11 months of 1999, enabling the country to record a trade surplus for 27 consecutive months. Economic growth resumed in 1999–2000, but stalled by 2001. The Cabinet reaffirmed its earlier decision to cut import taxes on thousands of goods to meet its obligations to the World Trade Organization (WTO) and its ASEAN partners, steps that the Federation of Thai Industries did not object to. Advocates of “self-reliance,” much less sympathetic to international financial institutions, included big and heavily indebted industrial firms and banks, blue-collar workers in state enterprises threatened by privatization, state bureaucracies weary of budget reforms and new accounting procedures, rural villagers, and opponents of globalization wielding equity issues and Buddhist ethics.³⁰ At the end of 1998, the government attempted to reduce the bonuses of state enterprise employees by 30% in 1999, but strong resistance from their union limited the cuts to senior executives. Absolute poverty had declined from 35% in 1988 to 11.4% in 1996, but rose after the crisis to 16% in 2000. Women represented 90% of the work force in textiles and electronics, industries severely affected by the crisis.

Opposition parties representing nationalist groups in the House of Representatives and Senate attacked Chuan's reforms as selling off the economy to foreign interests. The new Thai Rak Thai (Thai Patriot) Party, headed by a telecommunications magnate under investigation for corruption, wielded denationalization of Thai assets as its core line of attack against Chuan. Thaksin Shinawatra organized a coalition of forces advocating alternatives to internationalization and “inward-looking” models, particularly when these favored Thaksin's own business interests.³¹ Rural power brokers, agro-industry, media and entertainment producers, automobile parts producers, some

29. “Edited Text” of Speech by Prime Minister Chuan Likphai at the World Economic Forum in Singapore on October 18, 1999, *Bangkok Post*, October 19, 1999 (FBIS-EAS-1999-1019).

30. “Thailand to Cut Import Tariffs to Meet WTO Obligations,” *The Nation*, Bangkok, December 29, 1999 (FBIS-EAS-1999-1229); and Peter Warr, “Thailand's Non-Recovery,” in *Southeast Asian Affairs 2002* (Singapore: Institute of Southeast Asian Studies, 2002), pp. 326–44; Hamilton-Hart, “Thailand and Globalization”; and Hewison, “Thailand's Capitalism.”

31. On “Thaksinomics,” see John Funston, “Thailand: Thaksin Forever,” *Southeast Asian Affairs 2002* (Singapore: Institute of Southeast Asian Studies, 2002), pp. 305–25; Michael J. Montesano, “Thailand in 2001: Learning to Live with Thaksin,” *Asian Survey* 42:1 (January/February 2002), pp. 90–99; and Shawn W. Crispin, “Cat and Mouse,” *FEER*, May 8, 2003, p. 47.

local banks (including the Military Bank), the urban poor, and big (particularly protectionist) business became core constituencies in his coalition. Thaksin favored exports selectively (particularly to China and India), from his own business interests and those of political supporters, and has also extended them protection (limiting foreign telecommunications, for instance). However, Thailand's engagement with the global economy retained support from other export-oriented sectors and their political allies, particularly among the now-weakened Democrats. Thaksin used anti-globalization rhetoric, but retained openness when suitable. Mahathir's notorious duality vis-à-vis the global economy provided Thaksin with a favorite hybrid model he labels "dual track."

Meanwhile, populist policies bore little fruit for those most impoverished by the economic crisis. By late 2001, following economic deterioration, Thaksin began courting some internationalizing constituencies favoring exports, foreign investment, and privatization but only intermittently, as he later ruled against multinational retailers, influenced an important court decision on the bankrupt conglomerate Thai Petrochemical Industry PLC, thus raising questions about his commitment to reform, and otherwise continued wooing protectionist sectors that upped the rent-seeking ante. Court decisions are one manifestation of Thaksin's progressive centralization of power, which has raised the opposition's concern that a single-party government may emerge from the next elections, scheduled for March 2004. Thaksin's party controls the lower house, more than half of the Senate members, the Constitution Court, and leaders of the armed forces and police, whom he personally promoted. Thaksin remains highly popular in the wake of the farm debt moratorium, universal health care, the one-village one-product program, the "One Million Baht-Per-Village Fund," and the People's Bank. These policies have raised concerns by critics that the government's mismanagement is likely to lead to a serious fiscal burden. As of 2003 and early 2004, however, the economy seemed strong, with low unemployment, rising exports, strong demand, and current account surpluses, despite declining tourism and fears of SARS (Sudden Acute Respiratory Syndrome) in 2003 and the bird flu in early 2004. In early 2003, Thaksin announced early repayment of Thailand's balance of the 1997-98 IMF loan.

On the issue of terrorism, Thaksin's government vehemently denied the presence of such activities on Thai soil, thus allaying pressures from Thailand's Muslim minority in the south. However, by mid-2003, Thai security services, keeping secret their extensive collaboration with the U.S., began apprehending suspected members of JI, including prominent leader Riduan Isamuddin (Hambali), as well as terrorist suspects thought to be dealing in

radioactive materials.³² The military, a key Thaksin ally, drafted a new counterterrorism law that made terrorism punishable by death and triggered protests from human rights groups.

Other Southeast Asian States

Space constraints preclude more than a cursory overview of other ASEAN states. The Philippines and Singapore were initially relatively less affected by the crisis than Thailand, Indonesia, and Malaysia. Singapore—ASEAN's most open economy, with high dependence on international capital flows—was able to avoid a severe recession immediately, despite large declines in the neighboring economies of Malaysia and Indonesia with which it trades. Singapore's ruling coalition—in command of important sectors of the domestic political economy—deepened its internationalizing drive in response to the crisis by developing financial services, information technology, and electronic commerce capabilities through liberalization and new investments. The rulers maintained floating exchange rates, large current account surpluses and foreign exchange reserves, little external debt, negative inflation, and export-oriented high-tech manufacturing. Senior Minister Lee Kwan Yew outlined Singapore's direction by encouraging U.S.-style “new economy” principles:

Sustained success of private-sector-led productivity growth will depend on creating conditions where innovation can thrive, capital markets are liquid and flexible, and governments are willing to deregulate. . . . That which did us good in the phase that was, will not do us good in the next 20, 30 years.³³

Nonetheless, the crisis widened income inequality between the more internationalizing segments and those affected by economic restructuring, including unskilled labor. The collapse of the information technology sector in 2001, in tandem with global trends, propelled unemployment to record levels of 4.8% by 2002, unleashing a recession—the worst in Singapore history—that worsened in 2003 with the onset of SARS. In the process of defining a new stage in its internationalizing strategy, Singapore signed free trade area agreements with the U.S. and Japan as important, if somewhat symbolic, pillars of that strategy.

Since 1992, then-Philippines President Fidel Ramos had presided over extensive financial and trade liberalization and privatization, representing a coa-

32. Kavi Chongkittavorn, “Avalanche of Terrorist Threats Has Thailand on Defensive,” *Daily Yomiuri*, Tokyo, July 1, 2003, p. 8; Philip Shenon, “Russia Is Suspected as Source of Thai’s ‘Dirty Bomb’ Material,” *International Herald Tribune*, June 16, 2003, p. 4. On the declining rule of law, see Pasuk Phongpaichit and Chris Baker, “Slaughter in the Name of a Drug War,” *New York Times*, May 24, 2003, p. A29.

33. *Straits Times*, March 11, 2000, p. 2. See also Linda Lim, “The Asian Economic Crisis.”

lition of business, technocrats, and academics that captured the state bureaucracy and representative institutions with middle class support.³⁴ Ramos also enjoyed support from reformist elements in the military. His successor, Joseph Estrada, assumed office in June 1998 in the midst of the crisis. Estrada mobilized sectors seeking economic protection and state subsidies, declared the country bankrupt, and reinstated business segments associated with former President Ferdinand Marcos into important positions. After pressure from the business community, Estrada adopted new measures to attract FDI, deepen financial liberalization and structural reforms, and promote regional and international initiatives to revise and strengthen global financial preventive mechanisms. Estrada's team was highly critical of Malaysia's response to the crisis. Faced with growing unemployment, the Federation of Philippine Industries protested high interest rates and tight budgets. In time, Estrada's governing style came under scrutiny as the legislature, with widespread support from most sections of society, impeached him on corruption charges. Estrada's resistance to efforts to dislodge him from power brought an already troubled economic situation into an even more precarious one by the end of 2000. Following Estrada's ouster, a broad coalition of business and labor leaders threw its support behind Vice President Gloria Macapagal Arroyo, who went on to make an internationalizing agenda the centerpiece of her administration. Exports grew and inflation remained under control, as did the peso. However, Arroyo's economic policies in the banking, fiscal, and privatization areas were stalled in Congress and raised public opposition, particularly from labor, or remained unimplemented, yielding a high government deficit and low foreign investment levels. Low economic growth (2.8% a year between 1998 and 2001) persisted, leaving the Philippines behind in the quest to eradicate poverty and build up a middle class.³⁵ The activities of Abu Sayyaf and related insurgencies posed continuous challenges, particularly in the aftermath of 9/11. Arroyo, who had cast her lot with the U.S. anti-terrorist campaign more clearly than most of her neighbors, declared she would not be a candidate for the 2004 elections.

The former centralized economies in continental Southeast Asia inched backward to a backlash mode and forward toward incipient internationalization, with different degrees of success and internal opposition. In Vietnam, the crisis exacerbated domestic political struggles and policy dilemmas, as the old guard in the Communist Party, for instance, pointed to the crisis as ammunition for opposing Doi Moi (renovation policy) II, a second phase in economic reforms. The July 2000 agreement normalizing trade relations be-

34. Walden Bello, "The Philippines: The Making of a Neo-Classical Tragedy," in Robison et al., eds., *Politics and Markets*, pp. 238–58.

35. *Asian Wall Street Journal*, December 16, 2002, p. A6.

tween the U.S. and Vietnam and a subsequent visit by President Clinton helped strengthen economic reform efforts. Having avoided the contractions suffered by some of its neighbors in 1998, by 2002, Vietnam had become the fastest growing economy in Southeast Asia.

Cambodia's Hun Sen coalition implemented some macroeconomic stabilization, but warned that his government is "determined to safeguard investments and the system of protecting state-owned capital and assets."³⁶ An armed attempt to unseat Hun Sen was foiled in November 2000, but the effort suggests more widespread discontent. Laos faced a rebel insurgency, and Myanmar's generals continued to defy extensive domestic and international opposition to their rule. Demands for transparency in politics and economics have not spared even the most repressive Southeast Asian regimes. On the whole, however, the wider ASEAN crisis had some negative effects on economic openness in these countries, decreasing their attractiveness to foreign investment just as China's has risen.

V. Conclusions

Despite a dramatic shock, Southeast Asia appeared to turn around by 1999–2000, with fresh capital inflows, positive current accounts, stronger currencies, and improved foreign reserves (except in Indonesia). No backlash turn characterized the immediate post-crisis era in the leading ASEAN states, despite the aggravating effects of both IMF-style reforms and lingering cronyism. Yet, Malaysian banks and privatized conglomerates, Thai financial institutions, and Indonesian state-owned enterprises all resisted policies threatening their ownership and control. Nationalist reactions to unprecedented market access for U.S. and European firms were widespread among business and beyond. Military institutions and military-industrial complexes suffered from both budgetary declines and efforts to restrain them politically. The Thai economy grew at an average 0.8% between 1998 and 2001, and Indonesia's declined by 0.1% a year. Malaysia, Indonesia, Thailand, and Singapore were expected to grow between 3.5% and 4.3% in 2003.³⁷ Thailand surpassed expectations with its 6% growth in 2003. While policy responses in Thailand, Malaysia, and Indonesia expanded the state's regulatory power and reach in the short term, with virtual nationalization of bank assets in Thailand and Indonesia, they also created conditions for deepening reforms and internationalization. As argued, certain state agencies (particularly finance ministries and central banks) can play and have played important roles

36. Phnom Penh, *Reaksmei Kampuchea*, May 14, 2000, p. 2a (FBIS-EAS-2000-0518); Dinh Quan Xuan, "The Political Economy of Vietnam's Transformation Process," *Contemporary Southeast Asia* 22:3 (August 2000).

37. *Asian Wall Street Journal*, December 16, 2002, p. A6.

in defining external openness and providing coalitions with key bureaucratic allies.

The differences among institutions (unwieldy coalitions against a contrasting institutional framework in Thailand and Indonesia, a residually dominant party-coalition in Malaysia) help explain the nature, sequence, and modalities of crisis response in each case.³⁸ Democracies such as Thailand (and the Philippines in 1998, but not in 2000) were able to replace failing leaders with much less turmoil than Indonesia did, but democracy was not strengthened by the crisis everywhere (certainly not in Malaysia). Ruling coalitions in centralized states like Singapore and Malaysia, initially less affected by the crisis than Indonesia, were able to retain control. The replacement of individual leaders did not always alter the basic coalitional structure, and even where oppositions grew stronger, they did not always uniquely reflect backlash constituencies but, in many cases, democratizing ones. As private sector debt was socialized, even where internationalizing coalitions remained in control, the crisis forced greater transparency in state-business relations and created pressures for new social pacts to safeguard against future crises. On the whole, old and new variants of internationalizing coalitions stayed the course along both the domestic and international pillars of their grand strategies, while adapting their policies to the increased salience of the social dimensions of internationalization and, in some cases, to the requirements of democratic competition.³⁹

By early 2001, the U.S. economic slowdown had affected Southeast Asia's recovery. Another major trading partner—Japan—remained mired in recession. The aftermath of 9/11 provided a new shock and triggered new political challenges for ruling coalitions. Terrorism and extremist Islamist activities afflicted not only Muslim states like Indonesia and Malaysia, but also those with substantial Muslim minorities (the Philippines, Singapore, Thailand). Indonesia's economic decline was exploited by extremist Islamist groups promoting religious warfare (in Maluku and Sulawesi) and by Islamist parties backed by Vice President Haz that promoted Sharia in the legislative assembly. Malaysia's ruling coalition succeeded in containing radical Islam more effectively than did Indonesia's. Terrorist activities in the southern Philippines were met with heightened resistance by the armed forces, backed by a small U.S. military contingent.

38. Andrew MacIntyre, "Institutions and Investors."

39. For analogous conclusions, see, inter alia, Lowell Dittmer, "Globalization and the Asian Financial Crisis," in Samuel S. Kim, ed., *East Asia and Globalization* (New York: Rowman and Littlefield, 2000), pp. 31–54. See also Donald Emmerson, "A Tale of Three Countries"; Andrew MacIntyre, "Institutions and Investors"; and Stephan Haggard, "The Politics of the Asian Financial Crisis."

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The record of the first three years following the 1997 crisis suggests that despite the mobilization of nationalist and backlash political forces, ruling coalitions remained, on the whole, more wedded to internationalizing groups and constituencies. However, there are significant differences across countries and some coalitions retained more hybrid characteristics (Malaysia, Thailand, and Indonesia, in different degrees). Regional effects—what others in the neighborhood are doing—are far from inconsequential. In other ASEAN countries, both coalitional composition and their policy responses place constraints on which coalition emerges in any given country and what policies it is likely to pursue. Institutional differences also matter significantly because institutions can strengthen one coalition at the expense of another, under different circumstances. As argued, democracies were able to replace failing leaders with much less turmoil than autocracies, but the crisis did not strengthen democracy everywhere. Where this did happen (Indonesia), democratization allowed further inclusion of previously excluded social forces. In any case, the replacement of individual leaders did not alter the basic preexisting coalitional forms—internationalizing, hybrid, or backlash—in most cases. At the same time, there are longer-term distributional effects of the crisis that may not be evident today. The aftermath of 9/11, recessionary trends in major markets, and the SARS epidemic were all superimposed on, and may have masked lingering effects of the crisis. Notwithstanding a remarkable initial economic recovery, financial and capital account liberalization has induced greater vulnerability.

For reasons elaborated earlier regarding the dynamic nature of coalitions and the growing role of global forces in catalyzing their relative strength, this preliminary assessment should not lead to complacency. Myopic policies of internationalizing coalitions inattentive to distributional effects of the costs and benefits of internationalization could well lead to the demise of these coalitions. In some cases (Thailand), the crisis has led to a search for mechanisms to develop a more politically and socially viable framework to engage the global economy. In most cases, however, formal safety-net mechanisms are sorely lacking. Distributional issues along rural-urban, class, sectoral, regional, and ethnic-religious lines continue to alter coalitional forms throughout Southeast Asia. Most importantly, no linear progression or irrevocable process toward internationalization should be expected; backlash politics may be reinvigorated by continued economic malaise in major markets and resurgent religious radicalism and economic nationalism at home. The crisis does reinforce the need to understand more fully how the global economy and international institutions affect domestic coalitional balances, and how different coalitions approach the opportunities and constraints offered and imposed by international structures and processes. International institutions may be central to domestic coalitional interplays, but they do not uniquely determine

the fate of economic reform or domestic political change. Domestic coalitional balances are not merely derivative of global forces.

Finally, not only can myopic internationalizing coalitions plant the seeds of their own destruction, but they also risk making regional cooperation a collateral casualty, when leaders move toward more symbolic, nationalist, or ethno-religious instruments to build political support at home. Domestic coalitional forms have regional effects. The ASEAN project has been, to a considerable extent, a regional expression of the nature of domestic ruling coalitions. Continuity and change in the latter have affected the texture and substance of ASEAN cooperation in the post-crisis period, and are likely to continue to shape them in the future.