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The Asian Crisis Reconsidered

SHIRAISHI Takashi
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Takashi Shiraishi
Center for Southeast Asian Studies, Kyoto University

Abstract

The Asian economic crisis in 1997-1998 marked a major watershed in the history of East Asia regionally and nationally. The crisis marked the beginning of East Asian regionalism and Japan's new regional engagement. It also marked the end of the authoritarian developmental state in Indonesia and the near collapse of its Malaysian counterpart. The crisis was dealt with at two levels. It was dealt with regionally and globally by the IMF, the US and Japan, and it was dealt with nationally by national governments in consultation and negotiation with the IMF. On the regional and global level, Japan became increasingly frustrated with the way in which the crisis was dealt with by the IMF and the US, in part because of the different understanding of the nature of the crisis and in part because of the different interests Japan had in the region. Japan worked with the IMF when Thailand fell in crisis, acquiesced with the IMF policy when Indonesia went to the IMF for assistance, and chose to support Mahathir in disagreement with the US when Malaysia fell in crisis in 1998. This cooperation and rivalry between Japan and the US (with the IMF as its proxy) affected the way in which the crisis ran its course in Thailand, Indonesia and Malaysia, even though the political economic structure in each country was of prime importance. In Thailand, a coalition government willing to work with the IMF and Japan had to be in place to introduce reforms as required by the IMF conditionality and was supported by Japan with the new Miyazawa Initiative; Soeharto's New Order regime in Indonesia was too rotten for any rescue measures and had to go; while in Malaysia Japan's support with the new Miyazawa Initiative was decisive in the survival of Mahathir and the NF regime under his leadership.

In retrospect, it is clear that the crisis in 1997-1998 marked a major watershed in the history of East Asia regionally and nationally. The ASEAN plus 3 (China, Japan and Korea, that is) framework, inaugurated with the first summit meeting held in December 1997, has become institutionalized since, with the annual summit and ministerial meetings. The crisis marked the beginning of Japan's new regional engagement, as evidenced by its call in 1997 for the establishment of the Asian Monetary Fund (AMF), the new Miyazawa initiative in 1998 to stimulate economies hit by the crisis, the Chiengmai Initiative it promoted in 2000 as a mechanism to create a zone of currency stability, the conclusion of the Japan Singapore Economic Partnership Agreement in 2001 and the proposal Prime Minister Koizumi made in Singapore in 2001 for the Japan-ASEAN economic partnership as the first step to build an East Asian community. The crisis also marked the end of the era of authoritarian developmental states with the collapse of Soeharto's New Order regime in Indonesia and the near collapse of Mahathir's National Front regime in Malaysia.

In many studies published since the crisis, all these developments have been discussed separately, because they were understood to belong to different series – namely, the regional system, Japan's engagement with the region, and national political economic structures. But in fact, these developments intersected with each other to produce outcomes as we know now, because Japan and the US with the IMF as its proxy were two major players shaping the ways in which the crisis was dealt with regionally and nationally . This was most clearly demonstrated in 1998 when Malaysia went into crisis with the ouster of Anwar Ibrahim as deputy prime minister and the imposition of capital control and when the Japanese government announced the new Miyazawa initiative and came to the rescue of the Malaysian government under Mahathir, while making a deal with the US. Why did Japan do what it did in the crisis, then, and what were its regional and national consequences? This essays examines these questions, first looking at the cooperation and rivalry between Japan and the IMF/the US and then examining national developments in Thailand, Indonesia, and Malaysia.

Japan and the US in the crisis

When the crisis started in Thailand in July 1997, Japan reacted to it very quickly. The Japanese government had known it was coming – the Thai government had consulted with it in June - and had already decided to work with the IMF. When the Thai government decided to float Thai Baht and came to the IMF for assistance, Japan hosted the meeting in Tokyo to conclude a rescue package for Thailand in cooperation with the IMF in August, and in view of the fact that it would not be the last currency crisis in the region, called for the creation of Asian Monetary Fund. But the proposed AMF was shot down by the US and the IMF in October 1997. In the same month Japan also had to acquiesce with the conditionality the IMF negotiated with the Indonesian government and which it did not agree with and which it saw leading to the collase of the banking sector and the deepening crisis in Indonesia. With the regionalization of internationally competitive Japanese industries, Japan had (and still has) vital interests in the region and now found itself increasingly in disagreement with the IMF and the US about the way to deal with the deepening and expanding crisis. The Japanese government thus decided on emergency measures to stabilize Southeast Asian economies in February 1998. When it announced a comprehensive economic policy package in April 1998, it included measures in support of East Asian countries. And finally when Malaysia fell in crisis, Japan decided to support Mahathir's Malaysia in disagreement with the US with the new Miyazawa Initiative. In its handling of the crisis, therefore, two things stand out. First, the crisis years saw the increasing frustration and alienation of Japan from the US and its proxy, the IMF. Second, Japan approached the question regionally and strategically from the outset, while locating bilateral relations in this larger regional framework. This led to the creation of the ASEAN plus 3 and the introduction of the new Miyazawa Initiative, which in turn paved the way for the Chiengmai Initiative.

Why, then, did Japan do as it did?

Needless to say, Japan did not have complete freedom of action in the region, whether it was in trade and investment, in finance, or in security. Its action was constrained by the US and it consequently had to negotiate with America in engaging the region within the structure which was also essentially of the US making. This structure was created under American hegemony at the onset of the Cold War. It was informed by the US double containment strategy, that is the containment of China and the Soviet Union and the containment of Japan, with the revival of Japan as an economic powerhouse and a perennial junior partner which would never pose a threa to the US hegemonic position in the region. This structure was based on two architectures, the regional security structure built on bilateral security treaties and bases agreements (of which the US-Japan security treaty was the most strategic) and the regional economic structure built on the US-Japan-Southeast Asian triangular trade system. Japan as No. 2 occupied a crucial position in this regional structure, which in turn shaped the way in which Japan engaged the region for many years.[i]

We do not need to dwell for long on the regional security structure and Japan's position in it, for it is still dominated by the US. China can aspire to challenge the US hegemony in the region many years from now, but can not do much for now. Its defense forces being fully integrated into the US-led regional military structure, Japan remains a semi-soverign state, and despite the call for Japan to be a "normal" state, the US-Japanese alliance remains central to Japan's global and regional engagement as attested by the US-Japan guidelines concluded in the post-Cold War era and the measures it took in support of the US war on terror in Afganistan and Iraq more recently.

More important for the purpose of our discussion is the regional economic structure. The word "Southeast Asia" was crucial to its creation. "Southeast Asia" was a neologism which gained instant currency in 1945-1950. Before that, the region was called, together with China, "China and its vicinities." When China went communist in 1949, this phrase lost its geopolitical relevance. The word "Southeast Asia" was coined to inform the US Asia strategy to contain China, to revive Japan as "the workshop of Asia" (and the US logistical base in Asia), to develop Southeast Asia, and to create a triangular trade system between the US, Japan and Southeast Asia.

The postwar Japanese-Southeast Asian relationship evolved within this structure. Economic reconstruction was the prime objective of Japan's postwar conservative coalition. The politics of productivity informed its strategy. As Charles Maier put it, it was a politics to transform political issues into problems of output, to adjourn class conflict for a consensus on growth.[ii] It was predicated on the conservative, pro-business conception of the national interest. Central to this conception were the twin goals of economic growth and industrial transformation. Foreign economic policies were integral to this strategy. Southeast Asia offered an important arena for its "economic cooperation." Japan benefited enormously from the evolving and expanding trade relations among the US, Japan and Southeast Asia.

The regional structure and Japan's position in it powerfully influenced the manner in which Japan engaged the region. To understand this point, it is useful to compare East Asia with Europe and Japan with Germany. The European regional structure was built on two collective institutions of the NATO and the EU, which facilitated an institutionalized integration process and embedded Germany in Europe. The East Asian regional structure which was originally built on a collection of bilateral security relations and a triangular trade system worked against far-reaching institutionalization of East Asian regional integration and left Japan more isolated politically in the region.

Japan and Germany thus engaged Asia and Europe differently. Asia's network-style market integration made it possible for Japan to engage Asia through economic instrumentalities such as trade, investment, and aid to lead "from behind," which was in clear difference from Germany's deep entanglement in the European Union. This also shaped the economic and political interests Japan pursued in Asia. Japan's economic position was best served by "shallow" rules with the WTO as the anchor of the international trade system and marked by the absence of intrusive regional arrangements. The close connection between Japan's economic cooperation and corporate strategies was well suited to circumvent entry barriers to and operational obstacles in foreign markets through informal, bilateral channels. Japan did not need deeper trade integration as Germany did in order to establish market access for Japanese producers.

Regional economic development in the late 1980s and 1990s reinforced this mode of Japanese engagement with East Asia, while redefining its guiding concept, economic cooperation. This should be clear if we recall what happened in those years. The region-wide economic dynamism with its ever expanding frontiers stretching from the Asian NICs to Thailand, Malaysia, and Indonesia, to the coastal regions of China, the Philippines and Vietnam and beyond excited Japan. Seen from Tokyo, this "flying geese pattern" regional economic development meant ever expanding possibilities for Japanese business at a time when the Japanese economic "bubble" burst and Japan experienced the worst recession in the postwar era. This regional economic development was in part driven by Japanese FDIs which reached over $67 billion in 1990, over five times the level of 1985 and which led to the regionalization of Japan's internationally competitive industries in East Asia.

This gave rise to a new reality. Japanese manufacturing industries, the mainstay of Japan's economy and hence national welfare, became regionally embedded. This led to the redefinition of Japan's economic cooperation, in which Japan's economic cooperation no longer meant trade promotion and resource procurement as it did in the 1960s and 1970s, but the encouragement and promotion of regional economic development with Japanese FDIs, Japanese aid for industrial, infrastructural and human resources development, and Japanese imports from Asian NICs and ASEAN countries. It was in essense the extension of its politics of productivity beyond Japanese borders onto the region, though developmental states in East Asia remained authoritarian in those days. MITI's New Aid Plan, announced in 1987, was an early attempt to translate this new notion of economic cooperation into a policy package. It sought to combine the resources of the Japanese state -- aid, technical cooperation, and measures to open Japanese markets -- with private capital and technology. Its aim was to develop East Asian economies in such a way that, at the very least, they would enhance the ongoing restructuring of the Japanese economy by establishing lower-cost component-making and export bases for Japan's manufacturing industries throughout East Asia.

Japan thus staked its economy and welfare on Asian economic dynamism. As Prime Minister Hashimoto said in his speech in Singapore in January 1997, Asian economic dynamism ushered in a new era in which a new "broader and deeper" partnership between Japan and ASEAN was called for, because "stability and development in Asia are prerequisites for Japan's stability and development, and it is self-evident that the two are inseparable."[iii]

This statement was made half a year before the crisis hit the region, and though not very many people may remember it now, it remains a most succinct statement about Japan's interests in the region. What Japan did in dealing with the crisis needs to be understood in this context. It was clear from the outset that the region, now economically integrated, was vulnerable to the crisis and that the crisis would also be a big blow to Japanese firms and financial institutions which had regionalized their operations in the pre-crisis years. Being aware for quite some time that the crisis was in the making, the Japanese government reacted to it promptly when it hit Thailand and came to its rescue together with the IMF, hosting the meeting in

Tokyo in August 1997 and coming up with the rescue package in which Japan and the IMF provided $4 billion each in support of Thailand. The Thai government initially wanted to deal with the currency crisis through foreign reserve borrowing and joint interventions in the foreign exchange market, while the IMF insisted on budget tightening and the floating of Tahi Baht. Japan sided with the IMF because it had to rely on the IMF to find out about the state of Thai foreign reserves and market interventions and because it was too risky to provide support to Thailand without the IMF and the US.

Working with the IMF, however, meant that Japan was constrained in its action by the IMF. As long as the IMF and the Japanese government could agree on the course of action in dealing with the crisis, it did not cause any serious problem. But as the crisis spread from Thailand to Indonesia and South Korea to Malaysia, it found itself increasingly in disagreement with the IMF and the US. The first instance of disagreement took place in September and October 1997 with the creation of the AMF as the central issue.

The onset of the crisis also exposed the fact that the US had engaged regional economic development differently and thus had interests which were different from Japanese. While Japan drove regional economic development with its FDIs, government aid and market opening measures, the US rode on it with its short-term portfolio investment. While Japan's interests in the region were primarily industrial, US interests were financial. This was due to the changes in the nature of American economy and national welfare. With the great majority of Americans investing their savings in stock and bond markets in the US and abroad in the 1990s, US national interests had come to be defined primarily in financial terms and embedded in US-led and dominated financial globalization and liberalization.

Japan and the US were also in disagreement about the causes of the crisis. The US government and the IMF argued that the causes of the crisis lay in crony capitalism, that the crisis demonstrated the bankruptcy of the Japanese model and authoritarian developmentalism and that the crisis had better be addressed with structural reforms. But it is a folly to mix up industrial policies with cronyism and corruption and the short-term efficiency in resource allocation with long-term national welfare. Free market ideas of legal contracts, impartial regulations, and transparency are all fine, and perhaps they are all portfolio investors need. But they are not enough for long term investment for industrialization, technological development, and human resources development. At issue was not whether developmental states were to be replaced by market capitalism as the criticism of crony capitalism implied, but what mix of institutional mechanisms were needed to reduce market uncertainties for long-term economic development and national welfare. The Japanese government thus argued that it was caused by the massive outflow of short-term capital and that it had to be addressed with the creation of a coopration mechanism for currency and financial stability.

The US and Japan with their different interests in the region and their different understanding of the crisis dealt with the crisis differently. This became evident in October 1997. When the crisis started in Thailand in July 1997, the US did not even participate in the Japan- and IMF-led rescue plan for Thailand and did not provide any fund for Thailand.[iv] When the Japanese government called for the establishment of Asian Monetary Fund to create a mechanism of cooperation among Asian countries for the "orderly management" of short-term capital flows and the currency and financial stability, the US took it as a hegemonic challenge and opposed it strongly. (US Deputy Secretary of Treasury Lawrence Summers called Vice Minister for International Finance Eisuke Sakakibara and told him "I thought you were a friend.")[v] In a meeting held in Manila in October 1997, the Manila framework, a framework for Asian regional cooperation to achieve currency and financial stability was agreed on in place of the proposed AMF as a compromise measure: Japan thus gave up the AMF, while the US agreed on the creation of a cooperation mechanism built on bilateral cooperative arrangements for currency and financial stability.

The Japan-US disagreement also manifested itself in the process of making an IMF-led rescue plan for Indonesia in the same month. At issue was whether or not to demand structural reforms as part of the IMF conditionality. In support of its technocratic allies in the Indonesian government and in line with the mainstream understanding of the crisis in the US, the IMF argued for a rescue package which was larger than the one for Thailand and which was aimed at structural reforms including the suspension of the national car project (which one of Soeharto's children controlled), the curtailment of government subsidies, and the restructuring of the troubled banking sector.. The Japanese government did not agree with the IMF and argued for a less ambitious package aimed at the stabilization of Indonesian Rupiah in the foreign exchange market. But the IMF ignored Japanese opposition. And because the negotiation took place between the Indonesian government and the IMF, there was nothing the Japanese government could do but to go along with the IMF. Japan pledged $5 billion when the $40 billion rescue package was agreed on for Indonesia.

But this IMF rescue package did not work as it was hoped. Upon signing the agreement, the Indonesian government immediately closed sixteen troubled banks as the IMF conditionality required. This caused bank runs and led to a systemic crisis of the banking system in Indonesia. The Indonesian government also announced the suspension of government projects, but in a few days many of those projects, most of them controlled by Soeharto's children and cronies, were revived. The Rupiah plummeted. Money relocated from Indonesia to Singapore and converted to US dollar. Inflation soared. Anti-Chinese riots and disturbances took place in many places. Then in December 1997, Soeharto fell ill and it was announced that he would not attend the ASEAN summit meeting. This transformed the crisis fron an economic crisis into a political and social crisis. The collapse of the IMF rescue package agreed on in October was clear for everyone.

But the disagreement continued between Japan and the US. The US insisted on structural reforms, and by the time the second IMF package was agreed on in January 1998, it was clear that the US wanted Soeharto to go.[vi] Needless to say, Soehareto understood this very well and wanted to wage what he called "guerrilla warfare." He thus let the IMF spell out all the structural reform measures it wanted (which ammounted to over one hundred) without any intention to meet the conditionality. Instead, he entertained the the possibility of introducing a currency board system as a way out, while mentioning it as the IMF plus. Both Japan and the US were alarmed, for the ill-timed introduction of a currency board system would instantly deplete Indonesia's foreign reserves and devastate the Indonesian economy on behalf of Soeharto's children and cronies who would seize a small window of opportunity it would provided for their own bailout. President Clinton sent former Vice President Mondale in March 1998 to dissuade Soeharto from the introduction of a currency board system, but now very suspicious of US intentions, Soeharto was in no mood to listen to the US envoy. The meeting which lasted only for 30 minutes was cut short, after Soeharto angrily rejected the idea of political reform, his exit to put it more starkly, suggested by Mondale. Shortly thereafter, Prime Minister Hashimoto also visited Indonesia, met with Soeharto, persuaded him not to introduce the currency board system and opened the way for yet another IMF rescue package which was to be agreed on in April 1998, even though it was too late to bailout Soeharto.

The showdown then came in September and October of 1998, when the Malaysian government under Prime Minister Mahathir introduced capital control, instituted a fixed exchange rate system, lowered the interest rate, and turned to an expansionary Keynesian policy, when the crisis spread from East Asia to Russia, Brazil and the Wall Street and when the LTCM, hit by the crisis in Russia, had to be bailed out. The US was outraged at the introduction of capital control in Malaysia (and feared that it might spread to other countries and hurt the Wall Street) as well as the ouster of Duputy Prime Minister Anwar Ibrahim. But the Japanese government supported Mahathir and defended the Malaysian policy package, because it was in line with its position that the massive outflow of short-term capital was the major culprit of the crisis and that East Asia economies, devasted by the crisis, needed stimuli. Japan and the US made a deal in October 1998 and agreed that Japan would acquiesce with the US bailing out Brazil with the special IMF facility, while the US would not oppose Japan to introduce a new regional Keysian policy package, the new Miyazawa initiative, and support Mahathir's Malaysia.[vii]

The new Miyazawa Initiative, announced in October 1998, thus marked a clear departure in Japan's engagement of East Asia. It signified that Japan now had a regional policy for East Asia. It made available $15 billion short-term capital for the financial and currency stabilization and another $15 billion long-term capital for economic recovery. East Asian economies were devasted in the crisis – the Thai economy contracted by 10.2 percent in 1998, the Malaysia economy by 7.5 percent, and the Indonesian economy by 13.2 percent. The new Miyazawa initiative was meant to provide fund for stabilizing their currencies and finances and for Keysina policy measures to expand domestic demands, to create jobs and to provide social safety networks for maintaining social stability. An office was created at the ministry of finance for East Asian currency and financial affairs. Directors at its International Affairs bureau were assigned to oversee its implementation in Malaysia and the Philippines, Thailand, Indonesia, and South Korea.

By February 2000, $13.5 billion was provided to Thailand, Malaysia, the Philippines, South Korea and Indonesia within the framework of the new Miyazawa initiative and spent largely for for public works and job creation.[viii] The new Miyazawa initiative also made available up to $5 billion and $2.5 billion each to South Korea and Malaysia for short-term currency and financial stability. This paved the way for the future Chiengmai Initiative. Its framework agreed on in 1997 as the Manila framework, the Chiengmai Initiative was designed as multiplying bilateral bilateral currency swap agreements such as Japan-Korea and Japan-Malaysia currency swap agreements among ASEAN plus 3 countries and to create a mechanism for a zone of currency and financial stability and was formally agreed on at the ASEAN plus 3 summit meeting in May 2000 in Chiengmai. The US with the IMF as its proxy remained hegemonic in the region, but Japan expanded its freedom of action marginally with the new Miyazawa initiative which was now institutionalized as Chiengmai Initiative.

Thailand in crisis

National developments in Thailand, Indonesia and Malaysia during the crisis years can usefully be understood within the framework of US-Japan regional cooperation and rivalry as discussed above.

Thailand benefited enormously from a long period of economic development from the late 1950s to the late 1990s which culminated in the economic boom in 1987-1995 and led to the rise of middle classes and the transition and consolidation of Thai politics from authoritarinism to democracy. This history is well known. Open politics, which the student revolution ushered in in 1973 and in which small urban middle classes as well as peasants and workers for the first time in Thai history emerged as political forces, was truncated with the counter revolutionary coup in 1976 and was replaced by power sharing, often called half-democracy, because the military and bureaucratic elite could no longer ignore urban middle classes at a time when Indochina went communist and thousands of student activists joined the communist insurgency in the jungle to fight for the revolution. The military and bureaucratic elite were thus willing to share power with party politicians and business elite. Though neither Kriangsak nor Prem were elected members of the parliament, the governmental stability under their leadership depended on their success in forming and sustaining a governing coalition of political parties as much as obtaining and maintaining the support of the military. In this period of half-democracy, local bosses emerged as party politicians and came to dominate agrarian-based parties, capitalizing on income disparities between Bangkok and provinces, mobilizing agrarian support with public works and outright vote buying, and making politics a money-making business.

The half-democracy reached a major turning point in 1991 with Chatichai Choonhavan's ascendancy to power. While the military was the senior partner and political parties the junior under Prem, the rise of party politician Chatchai Choonhavan as prime minister threatened to relegate the military to the junior partner position. The military under Suchinda struck back, staging a successful coup for the first time in more than a decade and appointed Anan Panyarachun, a diplomat-turned-business leader, prime minister. Middle-class people in Bangkok neither supported nor opposed the coup, because they were dismayed by the corruption which was the hallmark of Chatchai Choonhavan and his lieutenants, local bosses turned party bosses, because Suchinda promised a return to civilian politics in the near future, and because Prime Minister Anan Panyarachun appointed professionals in important ministerial positions and initiated many deregulation measures. When Suchinda became prime minister in 1992 and threatened to prolong the military dominance in politics, however, they rose in opposition. In the February 1992 elections, parties in support of Suchinda obtained 195 parliamentary seats out of 350, but won only two out of 35 in Bangkok. There were huge demonstrations in Bangkok in May 1992, culminating in troops shooting and killing demonstrators and in Suchinda's resignation as prime minister. This development was hailed as a successful "middle class revolt," reminscent of the student revolution 19 years earlier, though studies show that middle classes did not provide major troops for demonstrations and that the myth of middle class revolt was created more in subsequent journalistic representation than on the streets.

The middle class hegemony, however, was far from complete, for middle-class Thailand as Sarit envisioned it with the great majority of Thais enjoying middle-class status, income and life had not come about. Those who benefited from economic development remained limited to urban middle classes in Bangkok, while those in the provinces, above all peasants and farmers which formed more than half of the population, remained outside the sphere of prosperity. This was due to the economic structure. Thai economy grew by 7 percent annually in 1960-1980 and after an interval of slower growth in the early 1980s, grew by 8 percent annually in 1987-1996. But this economic development mainly took place in Bangkok and its vicinities and disproportionately benefited the Bangkok middle classes in the making. Denied opportunities for high-school, let alone university, education, peasants and farmers in the provinces either remained in the agricultural sector of declining productivity or migrated to Bangkok as unskilled workers on the short-term contract basis. The Thai agricultural population constituted more than 50 percent of the working population even in the 1990s (while the GDP share of agricultural sector declined to 11 percent in 1995). Thus resulted a huge and expanding per capita income disparity between the provinces and the Bangkok Metropolitan Area. The per capita regional GDP in Bangkok was nine times larger than that in the Northeast, the poorest region with one third of the Thai population in the 1990s. And even in 1988, at the beginning of the boom, Bangkok middle-class people were already making four to six times more money than peasants and farmers in the provinces. The generals and bureaucrats could thus claim to be the "true" representatives and protectors of the silent majority of peasants and farmers. In the institutions of representative democracy, peasants and farmers dominated the franchise. At elections, their votes were influenced by the bureaucratic power of the army and the Ministry of Interior, and by the money and local influence of local bosses, jao phor. For the metropolitan business interests, the countryside remained a new and unexplored political frontier.[ix]

Equally important, no "catch-all" party that could have brokered among urban and rural constituencies came into being. Thai party politics was thus characterized by shifting coalitions, and coalition governments lacked stability because the departure of just one of the coalition partners could bring down the whole government. In this party politics, the urban-rural division divided parties. In the July 1995 elections, for instance, the Thai National Party, with politicians known for their corruption and vote buying, emerged as the majority party in the provinces and its party president, Barnharn, was elected as prime minister. But the party did not win even a single seat in Bangkok. This was repeated in the 1996 elections, in which the New Aspiration Party under Chaovalit emerged victorious, but won only one seat in Bangkok and even all the six parties in his governing coalition combined could win seven out of 37 seats. The major issue in these elections was corruption and vote buying. It was natural for agrarian voters to sell their votes for whatever money they could obtain when they knew they could not get any benefit from parliamentary politics in any other way. It was also natural that politicians, once elected, tried to get their investment return through corruption and money making. But Bangkok middle classes found it repugnant, and respectable Bangkok newspapers exposed corruption scandals to represent their views.

In the mid 1990s, this war was fought in the process of constitution-making. Middle-class cultural hegemony worked in their favor from the beginning. It was decided that the committee for constitutional amendment be composed of university graduates even though university graduates constituted only 2.5 percent of the Thai population aged 20 and above.[x] The parliament dominated by parties and party bosses representing agrarian interests opposed constitutional revisions drafted by the committee.

It was at this moment when the currency crisis hit Thailand. Thailand had liberalized its financial sector and deregulated foreign-exchange controls and capital transactions in the late 1980s and early 1990s. A major turning point came in 1993 when the Thai government established an offshore financial center. Financial inflow that started with the establishment of an off-shore banking facility turned into flood in 1993-1995 with the out-in transactions which was 27.6 billion baht in 1987 and reached 650.4 billion baht in 1995. Money went to the stock market and consumer loans. It also went to real estate development, hotels, and big industrial projects in steel, petrochemicals, and cement.[xi] In 1994 alone, 77 new major housing development projects started and 250,000 housing units, three times as many as in 1993, were newly supplied in the market. This real estate bubble popped in 1995-1996. A state bank estimated that there were 275,000 housing units left unsold at the end of 1996 and 338,000 at the end of 1997. Industrial estates and shopping centers also remained unsold and unrented. Out of 75,000 rai space of industrial estates available in 1997, 24 percent remained empty, while 12 percent of 3.16 million square meter space shopping centers remained without tenants.[xii] Financial institutions experienced sudden deterioration in their balance sheets and a number of them became insolvent.

With the Mexican currency crisis fresh in everyone's memory, Thai Baht came under attack from sporadic speculation starting in January 1995, and in June 1996 the IMF had advised the Thai monetary authority to take a more flexible approach toward pegging their currency to the dollar. But Bangkok delayed action for a year. Only in June 1997 that it decided to suspend the operation of 16 insolvent financial institutions; only on July 2 did it allow the Baht to float in the foreign exchange market; and only on July 19 did it decide to ask the IMF for assistance.

Why this delay? What went wrong with the Thai government who was known historically for its sound macro-economic management?

No doubt many factors were involved, but one factor stands out if seen from the Thai political economic structural perspective: the failure of Thai party politics. With the arrival of coalition governments in the 1990s, cabinet posts were distributed to coalition partners in proportion to the number of parliamentary seats each party controlled. The ascendancy of party politics also undermined Thai technocracy. The development planning agency at the prime minister's office, which had once served as the central staff of the Thai authoritarian developmental state, was transformed into a center for distributing pork barrels among coalition parties and party politicians, while the central bank had to be careful not to hurt powerful interests with its financial and currency policy measures. At the heart of this party power was the fact that parties in coaliton as well as party bosses who owned those coalition parties could veto any policy measure that might harm their own interests, threateing to bolt the governing coalition and cause it to collapse. It was this Thai political economic structure, infested by numerous veto groups, that prevented the government from dealing with the crisis in the making timely. Initially the Thai government did not want to come to the IMF for assistance, because it knew it would be required to take measures that might harm powerful interests. But Japan unwilling to come to their rescue alone and Thai foreign eserves almost totally depleted, it had no recourse but to come to the IMF for assistance and to float its currency.

Thailand thus came under the IMF management in August 1997. The showdown took place shortly thereafter. The Thai government under Prime Minister Chaovalit raised taxes on gasoline and diesel oil as required by the IMF in its conditionality in October 1997, but retracted the measure when it was opposed strongly by a coalition partner. The finance minister resigned in protest and the government collapsed. Chaovalit lost his national and international credibility and was replaced by Chuan Leekpai, who as Prime Minister assembed a Democratic Party-led new reformist coalition government with the strong representation of urban intersts, shut down 56 failed financial institutions as required by the IMF, and embarked on structural reforms. The government under the IMF conditionality, veto groups could no longer have their way in economic policy decisions by taking the governmental stability as hostage.

The coalition government under Chuan was also successful in passing the constitutional revision in its early months, because parties, whether in government or in opposition, could not afford to vote down constitutional amendment and deepen the economic crisis into a political crisis. The new constitution required parliamentary members and cabinet ministers to have university degrees, making it hard for local bosses who made money in illegal gambling, prostitution and hotel business and dominated agrarian-based parties to become parliamentary members and cabinet ministers. Furthermore it prohibited parliamentary members from serving as cabinet ministers, making it hard for politicians to make money with public works and corruption. And it made the senate elective, denying the military the parliamentary arena. The middle class cultural hegemony was thus successfully translated into political power.

But the crisis hit Bangkok's middle classes as well as other classes all the same. Many financial and banking institutions closed and MNCs shutting down their operations, more than 1 million workers lost their jobs. According to a labor survey in August 1998, 25,000 professionals and 25,000 office workers as well as 43,000 factory workers were without job out of 136,000 workers identified as unemployed in Bangkok, while 500,000 out of 700,000 university graduates entering the labor market were expected to find no jobs.[xiii] This was where the new Miyazawa Initiative mattered. The Thai government decided on March 30, 1999 on the economic policy package with the total funding of 131 billion Baht, of which 13 billion Baht was earmarked for job creation and 40 billion Baht for the purchase of goods and services. The next day the Japanese government disbursed the fund totalling 52.4 billion Baht to Thailand, half of which, 26 billion Baht that is, was spent on public owrks and job creation. The Miyazawa money as it was called in Thailand was instrumental not only in the Thai government turning to reflationary policy, but also and equally importantly in sustaining the Democratic Party-led coalition government under Chuan in power..

The Collapse of Indonesia's New Order

In Indonesia Soeharto fashioned his New Order regime with the state as his power base and the army as its backbone. It was centralized, militarized, authoritarian, and brutal. Army officers dominated the military and occupied stratgegic positions in the civilian arm of the state as district chiefs, mayors, provincial governors, secretaries general and ministers in the name of dual functions. But the state was only in part funded with the formal budget; its informal or "off-budget" funding, sourced from state corporations and agencies such as Pertamina and Bulog and more recently from joint venture businesses with Soeharto's lieutenants, crony business tycoons and family members, were of crucial importance and as such were tightly controlled by Soeharto and served as huge centrally controlled and directed patronage networks.

With the state as his power base, Soeharto imposed his "national consensus" of Panca Sila Democracy on the Indonesian populace and banned all public discourses on religion, ethnicity, and class and ideologies other than his Panca Sila democracy in the name of stability and development. "Islamic" parties and organizations were forced to accept Panca Sila as their sole organizational principle. Islamist activists were monitored, harassed, arrested, and forced to go underground. Ethnic differences were museumized and celebrated. Religious and ethnic divisions thus contained, the government addressed the question of class divisions with its politics of stability and economic development, which sought to transform political issues into problems of output, to neutralize class conflict in favor of a consensus on growth in an authoritarian manner, all of which were premised on the "virtue" of political stability which leads to economic development which leads to the rising living standard which in turn leads to further political stability.

This politics of stability and economic development, combined with the depoliticization and containment of religious and ethnic divisions, served Soeharto's New Order regime well. Yet it became clear in the 1990s that social divisions could no longer be contained as the regime itself underwent significant transformation in those years. This change can best be summed up as a shift from a military regime to a personalistic/autocratic regime, because having outlived all the rivals of his generation, Soeharto emerged as the unrivalled strongman in the final decade of his rule. Army officers who had served as his personal confidants dominated the military. His family members, each building his/her own business empire, openly plundered the state with impunity. And Soeharto's lieutenants -- his ministers, commanders, governors, district chiefs, and mayors -- followed their superior's example to "privatize" the state. The state thus became increasingly rotten, while retaining enormous power vis-à-vis society. In the meantime, secret wars were going on in Aceh and Irian Jaya (as well as in East Timor), killing Indonesians in the name of the Republic and destroying whatever popular trust the Republican state still enjoyed in those places. Jakartan control of powers and resources as well as Javanese domination of the state (the domination of mainly Javanese army officers over the military and civilian state agencies, that is) led to the rising demand for local autonomy and the appointment of putra daerah (literally, "local sons") in strategic positions of provincial governors, district chiefs and mayors. Transmigration, forest exploitation, and the consequent disappearance of living space for local Dayaks in Kalimantan led to widespread ethnic violence against Madurese in East Kalimantan in 1996. Furthermore, Islamic and Islamist forces found more space for political action with the establishment of ICMI in 1990, in part because, unsure about military support for his increasingly personalistic rule, Soeharto cultivated the support of pious Muslims and in part because Muslim middle classes, a product of economic development under the New Order, embraced the teachings and tenets of Islam, more seriously.

The economic crisis thus hit Indonesia in 1997 at a time when it became clear that the state was rotten and "privatized" and that social divisions could no longer be contained, threatening business empires, including those established and owned by Soeharto's family members, cronies, and lieutenants, with bankrupcy. It also threatened to destroy the informal funding mechanism of the state, a mainstay of Soeharto's long-staying patronage power.. This was due to the enormous transformation the Indonesian political economy had undergone in the boom years from the mid-1980s to the mid-1990s. Indonesian economy posted 6.7 percent annual growth in the post-Plaza Accord boom years of 1987-1997. While the economic development in the 1970s was state-led and state-funded, the boom in the late 1980s and 1990s was led by the private-sector dominated by Sino-Indonesian business tycoons and Soeharto's family members. Financial liberalization in the late 1980s made it possible for business groups to establish their own banks and brought in huge dollar-denominated loans to expand their business operations. This meant two things. First, while Indonesia's external debts in the 1980s were public debts with the government backing them, many of those in the 1990s were private-sector debts. The government's macro-economic management machanism in place which was geared to deal with public debts did not function well in overseeing private sector debts that had been built up in the 1990s. Second, the corporate governance structure in the banking sector was hopelessly comprovised by Soeharto's children and cronies. Management of the state banks was under the supervision of the finance ministry and was vulnerable to political pressure. When Soeharto's lieutenants, his children and/or finance ministry officials came calling, bankers felt compelled to extend loans even for projects they knew would not be feasible and when loans soured, they concealed the problems. The non-performing loans of state banks thus swelled in the 1990s. Private sector banks also accumulated bad loans. Established to serve business groups that had set them up, private sector banks brought in short-term dollar-denominated funds from foreign sources at hight interest rates and funded their group firms, even when some of those firms were in trouble.

When the crisis started in Bangkok in July 1997, the Indonesian economy was still doing very well. Its economy was growing by 7.5 percent annually; its export was increasing by 10.4 percent; its budget deficit was below 2 percent of the GDP; it had $21 billion foreign reserves; its inflation was under control; and its Rupiah looked stable. Confident of sound economic fundamentals, technocrats seized this opportunity of "mini-crisis" to persuade Soeharto to introduce structural reforms as they deemed fit with the help of the IMF and to address structural problems such as expanding bad loans in the banking sector, the dependence of business groups on short-term dollar-denominated funds from foreign sources, and the control of Soeharto's children, lieutenants, and crony business tycoons over commanding heights of the Indonesian economy.

When there were signs that the crisis was spreading to Indonesia, the government thus announced a comprehensive economic policy package in September 1997, which technocrats called their own IMF conditionality and called for the financial and fiscal tightening and structural reforms including the suspension of government development projects and the banking sector reform. Technocrats also persuaded Soeharto to ask for an IMF assistance to sustain the international confidence and in October 1997 concluded an agreement with the IMF, which required, among others, the closure of sixteen private banks (including the one owned by Soeharto's son) and other structural reform measures. In Thailand, coalition partners could no longer take governmental stability as a hostage to veto policy measures they did not like after the collapse of Caovalit government.

But structural reforms the IMF required not only threatened to hurt business interests of Soeharto's children, his crony business tycoons and his lieutenants, but also to undermine Soeharto's patronage networks, the informal funding mechanism of state agencies, including the military. When the government closed troubled banks and suspended government development projects right after it signed the agreement with the IMF, Soeharto learned he was duped. He allowed his son to take over another bank and revived government development projects which the government suspended and which were controlled by his family and crony businesses. The closure of banks also caused the bank run and led to the systemic crisis of the banking sector. The agreement technocrats engineered with the IMF thus backfired. Soeharto no longer trusted his technocrats, above all finance minister and the central banker. The lack of commitment on the part of Soeharto to structural reforms was exposed, and Rupiah slided down further.

Then, in December 1997, Soeharto fell seriously ill and did not attend the ASEAN summit meeting. This instantly transformed the crisis from an economic crisis to a political and social crisis. Rupiah plummeted by 70 percent, raaching 10,000 Rupiah a dollar in January 1998. Unable to repay their dollar-denominated loans, many business groups, including those established and owned by Soeharto's relatives and cronies, went bankrupt. The informal funding mechanism of the state, a mainstay of Soeharto's long-staying power., was also destroyed. Prices of goods, including rice, cooking oil and sugar, rose steeply. The social crisis manifested itself in increasing unemployment, widespread anti-Chinese riots, lootings, disturbances, and rising criminality. A new IMF program was worked out with Soeharto in January 1998 – technocrats were no longer consulted by Soeharto - which was replaced by yet another one in April 1998. But no IMF programs were doomed. The crisis destroyed Soeharto's politics of stability and economic development and led to the fall of his regime in the wake of massive riots in Jakarta and elsewhere in May 1998.

The Survival of Mahathir's Malaysia

A plural society par excellence where maintaining an ethnic peace is of paramount importance as a condition of national life, Malaysia has been under the National Front (NF) government since the early 1970s. It is a governing coalition of ethnic and regional parties led and dominated by the UMNO, United Malay National Organization. The NF has controlled more than two-thirds of the parliamentary seats, while the UMNO has controlled more than half of the parliamentary seats the NF holds. The UMNO dominance in the NF and the parliament thus beyond any doubt, it has run the NF government for the past thirty years and made it its stated objective to create Malay middle classes. Its New Economic Policy (NEP) as well as its successor National Development Policy (NDP) have been geared in part to achieving this objective, improving Malay social and economic positions and creating Malay middle classes with state-led economic and educational development, while lulling non-Malays with the FDI-led export-oriented economic growth. Quotas were introduced for Malay employment in business and Malay enrollment in universities. Malay replaced English as the language of medium at the high-school and university level. The Malay corporate share of 30 percent was targetted. Many public corporations were established by the central and state goverments to create Malay business elite. Malay middle classes were thus produced in the public sector in the 1970s.

But the Malaysian economy slowed down, shortly after Mahathir came to power in 1981. Oil revenues collapsed, public corporations performed badly, and government debts, both central and state, mounted. This forced Mahathir to modify the NEP developmental strategy. In alliance with Japanese corporations, he embarked on heavy industrialization with the establishment of the HICOM, the Heavy Industries of Malaysia, and started the Proton national car project to develop Malay human resources and technological capabilities and to promote Malay-led supporting industries.[xiv] He also shifted his developmental emphasis from the public sector to the private and started privatizing public corporations to create Malay business elite. Government officials as well as executives and managers of public corporations migrated from the public sector to the private and were transformed into Malay business elite. (There also developed Japanese and Taiwanese FDI-led export-oriented industrial sectors, above all electronic industries, in the same boom years, but this development benefited non-Malay middle classes more than Malay.)

The economic development and the rise of Malay and Chinese new urban middle classes drastically changed the Malaysian political economic structure in the pre-crisis Mahathir years (1981-1997). The ethnic divisions remained as the most important division in Malaysian politics. But the rise of Malay and non-Malay middle classes made its effect felt in Malaysian politics. In the first place, the UMNO became more business-oriented. Its traditional social bases were among peasants and farmers, civil servents (working for central and state governments and public corporations), and school teachers. In the 1981 party congress, for instance, 40 percent of delegates were school teachers. By the late 1980s, however, business executives and managers emerged as a major force in the party. In the 1987 party congress, 25 percent of delegates were business executives and managers, while 19 percent were school teachers and 23 percent civil servants, though only 1.4 percent of the Malay working population were classified as executives and managers even in 1990.[xv]

The UMNO became business-oriented in yet another sense in the 1980s and 1990s. With the establishment of Fleet Holdings as its business arm, the UMNO went into business in a major way, investing in food processing, hotels, and real estate development. Its branches followed suit. As a result, more than 160,000 firms were established by the UMNO central leadership, its branches, and its party leaders by the mid-1990s. Mahathir's privatization policy and the BOT scheme he introduced for large-scale infrastructural development projects (such as the North-South highway) also worked for the UMNO's business orientation. The logic that informed it was straight-forward. The UMNO leadership, which controlled the government, distributed business opportunities to its supporters. To obtain business in public works, government-funded development projects and BOT projects, business executives and managers joined the party to control important positions in the party organization at the state, branch, and district levels. To get elected to important party positions, they spent money for election campaign, and once elected, they naturally tried to recoup their investment, if necessary, establishing new UMNO firms, obtaining business opportunities in public works, government funded development projects, and BOT projects, and demanding that the government and the party central leadership distribute more business opportunities to UMNO members and business entities.

In the second place, Islamic revival among the rising Malay middle class people also deeply affected the UMNO. Not only Malay- and Arabic-educated, but also and more significantly the increasing number of English-educated Malays have come to follow the straitlaced, Arab-type Islam.[xvi] The UMNO leadership tried to coopt Islamic revivalist forces. Anwar Ibrahim, ABIM chairman, joined the UMNO, ran successfully for the parliamentary in the early 1980s, was awarded a cabinet post, and rose in the party hierarchy to become deputy prime minister in 1993.

The UMNO in the 1980s and 1990s thus presented itself to the Malay community as the guardian of Malay economic interests and Malay Islamic Identity. The UMNO leadership under Mahathir and Anwar Ibrahim in 1993-1998 embodied this double guardianship. But all was not well with the UMNO and its central leadership. For one thing, Malays remained dependent on the state and did not become as competitive as Chinese, as Mahathir hoped. For another, ethnic divisions remained. In 1991, Mahathir announced Vision 2020, setting the goal that Malaysia join the group of advanced industrial countries by 2020, with the 7 percent annual growth for the coming twenty years and the nation-building based on Malaysian national consciousness. The nexus between the high economic growth and nation building was easy to see: mobilizing non-Malay human resources and capital was imperative to achieve the 7 percent annual economic growth. In a symbolic move, the government deregulated and liberalized the university educational system and approved the establishment of private university educations for non-Malay students in the mid-1990s. The government also institutionalized policy consultation mechanisms with the private sector, in part represented by Chinese entrepreneurs.

Yet it was generational power struggle that almost wrecked the UMNO and the UMNO-dominated NF regime. It started with the rise of Anwar Ibrahim as deputy prime minister in 1993. Former ABIM activists and young business executives and entrepreneurs rose on his coat-tail, obtaining business opportunities in public works, government funded development projects and BOT projects. But it was Mahathir, not Anwar, who had the final say in the distribution of business opportunities. This set the stage for the power struggle between Prime Minister Mahathir and his deputy, Anwar Ibrahim, in the crisis years of 1997 and 1998. No doubt their positions were different as regards how to deal with the crisis. Anwar called for the budget tightening and criticized cronyism, while Mahathir opted for an economic stimulus package and wanted to bail out troubled Malay firms and banks. But it is too simplictic to see Anwar as pro-IMF, pro-US reformist and Mahathir as anti-IMF, anti-US, for the generational power struggle was at the heart of their rivalry. When the crisis spread to Malaysia, Anwar announced a strategic plan for the economic and fiscal stabilization in December 1997 to overcome the crisis with the high interest rate and tight fiscal policy package. This naturally put a brake on the economy and not a few firms and banks ran into trouble. The National Economic Action Council (NEAC) was established by Mahathir in January 1998 in the prime minister's office with Daim as secretary general, who looked for ways to stimulate growth with the promotion of foreign and Chinese capital investment. In the meantime the Renon group, a major UMNO-related business group, as well as banks close to the government fell in trouble, and the disagreement deepened between the Anwar-led financial authority and the Mahathir-led prime minister's office as regards the bail-out of those firms and banks.

It was in this context that Anwar initiated an all out attack on Mahathir at the UMNO party congress in June 1998. The UMNO Youth spearheaded as anti-Mahathir force in support of Anwar and attacked the Malay-first policy as represented by the NEP/NDP as "crony economy." But Anwar and his allies failed in ousting Mahathir as UMNO President at the congress. Anwar changed his policy position, announced an economic stimulus package and asked the Japanese government to resume yen loans to Malaysia, while the NEAC under Daim decided on the final report, a national economic reconstruction plan, at the end of July and lowered the interest rate in view of the contraction of Malaysian economy by 6.8 percent in the second quarter of 1998. Thispolicy change was accompanied by the resignation of Anwar's allies at the central bank, and the leadership in economic policy making fell in the hands of Mahathir and Daim.

What followed is well known. On September 1, 1998, the Malaysian government announced the introduction of capital control and the fixed foreign exchange rate system. On September 2, Anwar Ibrahim was ousted as deputy prime minister and finance minister. On September 4, Anwar and his allies were kicked out of the UMNO. Young middle-class Malays were outraged at the development and the way Anwar was treated (i.e., arrested, tried for sodomy, and sentenced to imprisonment). The US was also outraged because it feared that the capital control the Malaysian government might spread to other countries hit by the crisis. Malaysia fell in crisis. But the crisis was also spreading beyond East Asia in these months. Russia defaulted. Brazil went into crisis. US hedge fund, Long Term Capital Management, went almost bankrupt only to be bailed out at the last minute by a government-orchestrated consortium.

Up until then, the US position was that the crisis was a regional problem and insisted on structural reforms wherever it hit. In October 1998, however, the US was forced to admit that the crisis could be global and might hit the US itself, because the Wall Street was threatened with the crisis in Russia, Brazil and the LTCM. The US government wanted to establish a special account at IMF to bail out Brazil. But it was opposed by the EU, because the EU argued that Brazil should devalue its currency, as Thailand, Indonesia, and South Korea did, which would be a big blow to the Wall Street.

The Japanese government then came in. The US and Japan made a deal: the US could go ahead with establishing a special account at IMF to bail out Brazil and Japan would not make fuss about it; while Japan would start the new Miyazawa initiative in East Asia as an international Keynesian policy package to revive East Asian economies and provide financial support to Malaysia, the country which had become the target of criticism in Washington and New York, because of the imposition of capital control and the ousting of deputy prime minister Anwar Ibrahim.

Mahathir thus survived the crisis. In the 1999 elections, the generational division in the Malay community manifested itself. The NF obtained 148 seats, more than two thirds of the parliamentary seats, though it was down from 162 it won in the 1995 elections and the UMNO won only 72 seats, down from 89 it won in 1995 which was less than half of the NF seats. But the NF regime remained in place, and so did Mahathir in power.

In retrospect it is clear that the crisis was dealt with at two levels It was dealt with regionally and globally by the IMF, the US and Japan, and it was dealt with nationally by national governments in consultation and negotiation with the IMF. On the regional and global level, Japan became increasingly frustrated with the way in which the crisis was dealt with by the IMF and the US, in part because of the different understanding of the nature of the crisis and in part because of the different interests Japan had in the region. Japan worked with the IMF when Thailand fell in crisis, acquiesced with the IMF policy when Indonesia went to the IMF for assistance, and chose to support Mahathir in disagreement with the US when Malaysia fell in crisis in 1998.

This cooperation and rivalry between Japan and the US (with the IMF as its proxy) affected the way in which the crisis ran its course in Thailand, Indonesia and Malaysia, even though the political economic structure in each country was of prime importance. In Thailand, therefore, a coalition government willing to work with the IMF and Japan had to be in place to introduce reforms as required by the IMF conditionality and was supported by Japan with the new Miyazawa Initiative; Soeharto's New Order regime in Indonesia was too rotten for any rescue measures and had to go; while in Malaysia Japan's support with the new Miyazawa Initiative was decisive in the survival of Mahathir and the NF regime under his leadership.

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[i] For more on the regional structure, see Peter J. Katzenstein and Takashi Shiraishi, ed., Network Power: Japan and Asia (Ithaca: Cornell University Press, 1997), above all the concluding chapter.

[ii] Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States, ed. Peter J. Katzenstein, Madison: University of Wisconsin Press, 1978.

[iii] Policy Speech by Prime Minister Ryutaro Hashimoto [Provisional Translation], "Reforms for the New Era of Japan and ASEAN - For a Broader and Deeper Partnership -," January 14, 1997.)

[iv] US Deputy Secretary of Treasury Lawrence Summers said this in a speech he made about the WTO's financial services negotiations in which the US was pressing for opening of countries' financial sectors to outside competition: With hindsight, the lessor of Thailand is . . . that relatively open capital markets, independent monetary policy, a fixed exchange rate, and a current account deficit of eight per cent of GDP do not mix. The speculative activity we saw in the weeks leading to the crisis was the result – not the causes – of Thailand's problems. The unsustainable macro-economic policy mix, combined with highly inefficient domestic intermediation and a poorly equipped

regulatory regime, had given banks the freedom – and incentive – to becme heavily overextended. The lack of transparent and timely balance sheets and other information meant there was little early warning that this was taking place. The US government thus was of the opinion that Thailand's crisis was self-inflicted and therefore that the fault lay completely with Thailand. John Laird, Money Politics, Globalization, and Crisis (Singapore: Graham Brash, 2000), pp. 87-88.

[v] Eisuke Sakakibara,

[vi] An interagency meeting was held at the White House shortly before deputy treasury secretary Laurence Summers and deputy secretary of state for Asia Pacific Stanley Ross were sent to Indonesia in mid January 1998. It was reported that Laurence Summers was convinced that Soeharto had to go and that he made this point forcefully at the meeting.

[vii] (Sakakibara: 222-23).

[viii] It was not all the fund the Japanese government provided in the crisis years to East Asian governments. By May 1999 Japan had agreed to fund projects worth $64 billion, which was equivalent with 40 percent of Japan's export to East Asia ($152.3 billion) and 60 percent of Japan's loan assets ($74.6 billion) in the region.

[ix] See Pasuk Phongpaichit and Chris Baker, Thailand: Economy and Politics (Kuala Lumpur: Oxford University Press, 1995), p. 364; Tsuruyo Funatsu and Kazuhiro Kagotani, "Tai no Chukanso: Toshi Gakureki Erito no Seisei to Shakai Ishiki," in Hattori Tamio, Funatsu Tsuruyo and Torii Takashi, eds., Ajia Chukan-so no Seisei to Tokushitu (Tokyo: Ajia Keizai Kenkyusho, 2002), pp. 206.

[x] Yasuhito Asami, "Chukan-so no Zodai to Seiji-ishiki no Henka," in Tasaka, Toshio, ed., Ajia no Dai Toshi: Bangkok (Tokyo: Nihon Hyoron-sha, 1998), pp. 321-322.

[xi] Eiichi Shindo, Ajia Keizai Kiki wo Yomitoku (Tokyo: Nihon Keizai Hyoron-sha, 1999), pp. 118-121.

[xii] Toshio Tasaka, "Bangkok Sekai-toshi-ka Kasetsu," in Tasaka, Toshio, ed., Ajia no Dai Toshi: Bangkok (Tokyo: Nihon Hyoron-sha, 1998), p. 13.

[xiii] Tsuruyo Funatsu and Kazuhiro Kagotani, "Tai no Chukanso," in Hattori Tamio, Funatsu Tsuruyo and Torii Takashi, eds., Ajia Chukan-so no Seisei to Tokushitu, p.. 227.

[xiv] Takashi Torii, “Malaysia no Chukanso Soshutsu no Mekanizumu: Kokka Shudo ni yoru Ikusei,” in Hattori Tamio, Funatsu Tsuruyo and Torii Takashi, eds., Ajia Chukan-so no Seisei to Tokushitu, pp. 154-155.

[xv] Takashi Torii, “Malaysia no Kaihatsu Senryaku to Seiji Hendo,” in Suehiro, Akira, and Yamakage Susumu, eds., Ajia Seiji Keizai Ron: Ajia no naka no Nihon wo mezashite (Tokyo: NTT Shuppan, 2001), pp. 115-116.

[xvi] A.B. Shamsul, “From Orang Kaya Baru to Melayu Baru: cultural construction of the Malay ‘new rich’,” in Pinches, Michael, ed., Culture and Privilege in Capitalist Asia (London and New York: Routledge, 1999), p. 110.