

Rapid Economic Growth and Sudden Crisis in Indonesia: Can We Learn from the Korean Experience?

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I . Introduction

Indonesia used to have a notoriously bad reputation among development economists. At the time of the Sukarno Government, it was labeled an 'underachiever' or 'the chronic dropout'. According to Benjamin Higgins, Indonesia 'must surely be accounted the number one economic failure among the major underdeveloped countries' (quoted in Booth 1998, 7). This verdict sounds very much like the prediction made by the American General Charles Helmick when serving as deputy military governor in Korea in

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1948. Helmick wrote: 'Korea can never attain a high standard of living' (quoted in Clifford 1998, 29). Today, several decades later, Indonesia and South Korea are again sharing a common fate. Political reforms in Indonesia and chaebol restructuring in Korea both serve to overcome the most severe economic crisis that has hit these countries in almost half a century. Between these two points in time, in the middle and towards the very end of the twentieth century, runs a trajectory of very dramatic development and change in both countries. This paper is essentially about the economic performance of Indonesia in the late twentieth century but it adopts a comparative perspective drawing on experiences in the Korean Republic wherever possible.

The paper consists of three sections. The first one reviews the main trends and characteristics of the rapid growth that took place in Indonesia under the Suharto Government. The second section shifts attention to the current economic crisis that has held Indonesia in its grip since the second half of 1997. The third and final part of the paper contains a brief digression on aspects of political economy with reference to both the experience of rapid growth and sudden crisis. The paper does not offer a full chronological account or an exhaustive presentation of the statistical evidence available. Surveys are readily available in the literature(Booth 1992; 1998; Hill 1996; see also Lindblad 1998b). Its main purpose is to explore the possibilities of furthering our understanding of economic development in today's Indonesia by confronting the evidence with the Korean material. Special attention is given to aspects of political economy since it is believed that the process of rapid modernization in contemporary East and Southeast Asia is only partially captured by macro-economic facts alone.

II. Rapid Growth

In 1950, when the Netherlands had at long last acknowledged Indonesian independence, national income per capita was considerably lower than \$ 100. The level was scarcely different from what it had been already in 1913. It was also almost identical to per capita GDP (Gross Domestic product) in Korea at the time. This put both countries in the lower half of the world's developing economies. Only in the 1960s did GDP per capita climb above \$ 100, in Korea in the first half of the decade and in Indonesia in the second half. A rapid growth ensued, in both countries conditioned by a new authoritarian Government with strong military backing. Annual income growth in Korea averaged 8.5% during the first ten years of Park Chung Hee's regime and rose to 7% or more in Indonesia shortly after the New Order Government under Suharto had been installed. By 1973 per capita GDP amounted to about \$ 400 in Korea and slightly more than \$ 200 in Indonesia (Maddison 1995, 23~24; Song 1997, 60~61). The difference is explained by the earlier start in Korea and faster population growth in Indonesia. The growth paths of the two countries started to diverge.

Rapid growth continued throughout the 1970s propelled by accelerated industrialization in Korea and the oil boom in Indonesia. The difference in pace of income growth increased with the annual average amounting to almost 9.5% in Korea against 7% in Indonesia that, again, was offset to a higher extent by the faster growth of population. Per capita incomes increased by at least 5% on average per year in this period, which implies a doubling of per capita incomes within 14 years. Indonesia was promoted to the category 'lower middle-income countries' in the terminology of the World Bank (Booth 1998, 18&77). Economic growth was impressive by any comparison but still less spectacular than in Korea at the time.

Economic growth slackened off in the early 1980s in both countries but

for very different reasons. Political uncertainties after the assassination of Park Chung Hee produced the first year since the Korean War, 1980, with negative economic growth and it took a few years for the Chun Doo Hwan Government to get the economy back on the path of extremely rapid growth. In Indonesia falling oil prices in the world market necessitated a reorientation in export direction in favor of manufacturing goods for which Indonesia obviously did not possess the same type of comparative advantage as in oil and liquid natural gas. The annual rate of income growth fell to about 6%. By the early 1990s, Indonesian GDP per capita has risen above \$ 2000 or about one-third of the level in Korea. At that time, real per capita GDP in Indonesia, i.e. corrected for inflation, was about the same as had been the case in Korea twenty years earlier(World Population 1993; see also Maddison 1995, 23~24; Korea Labor Institute 1996). Korea had been elevated to the rank of a NIC(newly Industrializing Country) whereas Indonesia now counted among the developing countries with the best prospects for sustained growth.

Economic growth gathered momentum in the early 1990s. In Indonesia the annual rate averaged 7.7% in 1991/95 and climbed above 8% in 1995 and 1996. In Korea growth was faster still at an average of 8.2% over the years 1994/96(Lindblad 1997, 14; Korean Economic and Financial Outlook 1998). In 1995 Korean per capita GDP climbed above the symbolic benchmark of \$ 10,000 and in 1996 Korea was invited to join the OECD. The convergence in terms of accelerated economic growth warranted both countries to be included among the World Bank's so-called HPAEs(Highly Performing Asian Economy), a new category created with undisguised praise of the macro-economic policies underlying the rapid growth. The forecast for 1997 was 7% in Indonesia and slightly above 6% in Korea. Things turned out differently(see further section 3 below).

Several key factors in the pattern of rapid growth between the 1960s and

1997 in Indonesia need to be stressed. They included structural transformation, an outward orientation, technological upgrading and economic planning. Each will be discussed briefly, again systematically comparing with developments in Korea.

At the end of the colonial period, the Indonesian economy was strongly geared towards agriculture, both food crops and export crops. This scarcely changed during the Sukarno period. In 1960 three out of four Indonesians were still employed in agriculture. Then the share of this sector in total employment started to decline reaching 55% in 1980 and 44% in 1995. This is one of the most dramatic changes in Indonesian society in the second half of the twentieth century, that is has simply ceased to be a primarily agrarian economy. Manufacturing has gained in the meantime doubling its share in total employment from 6% in 1971 to 13% in 1995. However, the largest beneficiary of the relative shift of labor away from agriculture has been the services sector, in particular trade alone accounting for as much as 17% in 1995. Significantly, structural change in Indonesia has not implied a public sector growing faster than private sectors. The share of the Government in total employment remained virtually constant at about 15% between the 1970s and the 1990s (World Bank 1997, 153). In terms of the composition of the labor force, Indonesia has grown closer to Korea which has been a predominantly non-agrarian economy for several decades already.

The convergence in economic structure is borne out by the contributions of the main sectors of the economy towards total GDP in Indonesia and Korea as of 1995. The share of manufacturing was higher in Korea, 30% against 22% in Indonesia, but the difference is much smaller than in the 1980s. The share of agriculture was higher in Indonesia, 15% against 7% in Korea, but again the difference is becoming smaller. The position of trade was virtually the same in both countries, about 15%. The sole conspicuous difference was in the financial sector accounting for a much larger

proportion of GDP in Korea, 17% against 4% in Indonesia(Indikator Ekonomi 1998, 162~164; Korea Statistical Yearbook 1996, 493). It should be mentioned that this comparison suffers from a lack of precision in so far that as much as 20% of Indonesian GDP is only vaguely ascribed to 'other' in the national accounts for 1995.

An outward orientation is perhaps the single most important common characteristic of recent economic development in Indonesia and Korea. Yet the historical heritage could scarcely have been more different in this regard for the two countries. As a Dutch colony Indonesia became fully integrated into the world economy and in the late 1920s exports corresponded to 30% of GDP. By contrast, Korean international isolation under Japanese colonialism, let alone at the time of the Chosun regime, precluded any role of importance to be played by foreign exports. Under the Sukarno Government, Indonesia failed to fully participate in the general growth of world exports and the proportion of exports to GDP fell. Korean exports at that time were still minimal. In 1970 saw exports rising fast in both countries and by 1980 exports in both Indonesia and Korea corresponded to about 30% of GDP(Booth 1998, 204~207; Song 1997, 60~61). For Indonesia, this was the restoration of a situation that had prevailed already half a century before whereas for Korea it was the advent of an entirely new phase of economic development.

The development of Indonesian exports since 1980, at any rate up to the current economic crisis, may be conveniently divided into four phases. The first phase runs from 1981 and 1986. Total exports fell by 40% in these years as the windfall profits from the oil boom came to a conclusion whereas non-oil exports still did not amount to much. This brought exports, expressed as a proportion of GDP, below 20%. The development in Korea was exactly the opposite. Extremely rapid export growth raised the share of exports to GDP to 36%. The difference was again large between the two

countries but now Korea was the one to be far more oriented towards the world economy.

The second phase covers the second half of the 1980s. Non-oil exports, particularly from manufacturing, increased significantly. Since 1987 such exports account for more than one-half of total Indonesian sales abroad. This testifies to a successful reorientation in Indonesian export production. It reflects the conscious effort of the Suharto Government to reduce dependency on oil revenues. It also means venturing on a more difficult path of export-led economic expansion since Indonesian manufacturing goods are sold in an increasingly competitive market in which Indonesia also, according to some observers, suffer from a 'Dutch disease'-effect. This concept, which has nothing at all to do with the legacy of Dutch colonial rule, suggests that a strong comparative advantage in one type of export product causes an overvaluation of the currency that in turn impairs competitiveness for other, less competitive export goods. By the end of the 1980s total Indonesian export had regained their one time level and amounted to about one-quarter of GDP. Meanwhile Korean exports had continued to grow fast, doubling more than three times in the course of the 1980s.

The third phase is a short one, from 1991 to 1994. It saw a continuation and acceleration of the new trends that had emerged in Indonesian export performance in the late 1980s. Non-oil exports increased to about three-quarters of the total and total exports rose faster than imports so that the surplus on the current account of the balance of payments was enlarged. Export growth in Korea slowed down somewhat. In fact the relative increase in Indonesian export revenue between 1990 and 1994, about 60%, was larger than the relative increase in Korean exports between 1988 and 1994, 52%. Developments in outward economic orientation again converged as the ratio of exports to GDP in both countries approached to 25%(Indikator

Ekonomi 1998, 115&12; Korean Labor Institute 1996).

The fourth and final phase in recent Indonesian export performance brings us to the verge of the current economic crisis. Non-oil exports continued to increase generating a total revenue of \$ 42 billion by 1997. This corresponds to 78% of total exports but it was almost the equivalent of total imports. The important point here is that Indonesia has grown entirely dependent on non-oil export revenue in order to finance its purchases from abroad. The systematic relationship between either total or non-oil exports on the one hand and total imports on the other can be verified by a statistically significant coefficient of correlation calculated over the years 1985~1997($R=0.98$). Such a situation bears much resemblance to the Korean dependency on rapid export growth to be able to sustain massive imports. Here the deficit on the commodity trade account even widened to 12% of total export revenue in 1996. In 1997, at any rate up to the crisis began, the gap shrank as exports grew slightly faster whereas imports remained at the same level(Korean Economic and Financial Outlook 1998). Export growth in Korea in the 1990s has been more sluggish with annual growth rates varying between 4% (in 1990 and 1996) and 30% (the semiconductor boom in 1995). The average, calculated over the years 1990~1996, however, has been virtually identical in Indonesia and Korea, about 11% per year.

There is a strong and fairly stable Asian orientation in foreign exports leaving Indonesia. The combined share of all Asian export destinations oscillated around two-thirds during the late 1980s and early 1990s. The single most important purchaser of Indonesian goods is Japan but its share in the total has been continuously declining, from 43% in 1987 to 27% in 1995. The share of other Asian export markets, including Korea, has increased and accounted for almost as much as Japan by the mid-1990s. Among individual export destinations, the United States then ranked second

with a share of 14% of total Indonesian sales abroad (World Bank 1997, 162; Indikator Ekonomi 1998, 117). The geographical pattern of exports is slightly different in Korea. Here the United States rank first, followed by Japan. ASEAN markets are more important to Korean exporters representing 18% of the total against 13% in the case of Indonesia in 1995. This testifies to a higher degree of complementarity in terms of types of products offered between Northeast Asia and Southeast Asia than among the ASEAN member states. Strikingly, the European Union is of almost identical relative importance to Indonesia and Korean exporters (Korea Statistical Yearbook 1996, 310).

Technological progress has been vital to Indonesia's growth performance in the Suharto era in more than one respect. In agriculture the so-called 'Green Revolution' in the 1970s and 1980s, often financed with oil revenues, raised productivity levels to such an extent that total output increased although people were actually moving out of agriculture. In 1985, for the first time in its history, Indonesia became self-sufficient in rice thereby overcoming a bottleneck to long-run economic development that had appeared equally insurmountable to Dutch colonial administrators and the technocrats under Sukarno. An even more critical part to be played by technology is found in the reorientation to non-oil manufacturing export production. Despite all attention given to research and development by the Suharto Government, it has proved far more difficult to raise the level of technology in manufacturing than to enlarge manufacturing production and exports as such.

Industrial production in Indonesia is still relatively strongly geared towards the application of relatively labor-intensive technologies. In the mid-1990s beverages and tobacco still accounted for as much as 45% of total manufacturing output, outside the oil sector, whereas textiles with leather and footwear were good for another 13%. In 1995, eighteen lines of

export production were identified as the most dynamic segments of the manufacturing sector. They had all expanded by at least 50% during the preceding two years and each of them earned more than \$ 100 million in foreign exchange. Eight were classified as intensive users of technology, including electrical and electronics products, whereas seven relied primarily on skilled labor such as in the production of rubber tires (Indikator Ekonomi 1996, 159; Manning and Jayasuriya 1996, 23). This is a far cry from achievements in technological upgrading in Korea or a neighboring 'near-NIC' such as Malaysia that both count among the world's leading producers of electronics.

Indonesian efforts at leap-frogging in the technological catch-up with industrialized countries have often been more spectacular or even controversial than successful. The 'big jump' in technology was personified in President Habibie when he served as the Minister for Research and Technology (Ristek). Habibie built up a complex of research facilities and advanced industrial production. In 1995, just before the fiftieth anniversary of the Declaration of Independence, the N-250 aircraft undertook its maiden flight. However, skepticism abounds whether a domestic aircraft industry in Indonesia will make a significant contribution to enhancing the competitiveness of Indonesian exports in world markets at large, let alone to be commercially feasible.

From the very beginning of Suharto Government, Indonesia has relied heavily on foreign direct investment to gain access to modern technology. This explains why the climate for foreign investment is continuously at the center of official concern and intervention although the share of foreign-controlled companies in gross domestic capital formation is actually very low, at most 4% (Hill 1996, 78). Foreign investment was the target of the first major piece of legislation introduced by the Suharto Government in 1967. Since then there have been several ups and downs in the foreign

investment climate. The initial incentives gave way to more restrictions in response to the riots on occasion of the Japanese Prime Minister's visit to Indonesia in 1974. Economic nationalism reappeared and became especially manifest in the Government's attempt to squeeze as much profit as possible out of the contracts with the oil companies as well as in more stringent requirements for eventual transfers of equity to Indonesian owners elsewhere in the economy. The 1980s saw a shift in the opposite direction. The urgent need to interest foreign companies in manufacturing production as well as an increased competition about foreign investment capital in Asia caused a deregulation and liberalization that has continued throughout the 1990s(Lindblad 1998a, 116).

The largest bulk of foreign investment in Indonesia is in the oil sector but this is not the part that attracts most attention from the point of view of technological upgrading. From 1967 until 1998, plans for foreign investment projects outside the oil sector reached an accumulated total of more than \$ 200 billion. Japan was the largest single source of foreign investment capital with a share of 20%, again as registered outside the oil sector(the United States is the largest investor if oil is included). In the 1990s Japan was superseded by the four NIC investors that together accounted for 30% of the total by 1998. Among these, Korea ranked after Singapore, Hong Kong, and Taiwan, in that order, The share claimed by NIC investors was about the same as the combined share of investors in the European Union with Britain and the Netherlands in leading positions. Among individual industries receiving foreign capital, chemicals, paper and metals all ranked ahead of electrical and electronics goods which again testifies to the limited extent of technological upgrading in Indonesian manufacturing(unpublished data obtained from the Capital Investment Coordinating Board BKPM, Badan Koordinasi Penanaman Modal, in Jakarta; see also Thee 1991; Booth 1998, 261~262; Lindblad 1998a, 194).

The situation in Korea was very different. The chaebol borrowed heavily from foreign sources and acquired foreign technology through purchase or technical agreements but foreign direct investment in equity was discouraged. From the second half of the 1980s onwards, incoming foreign investment was increasingly accompanied by overseas investment by Korean corporations. This was motivated by both won appreciation in the wake of the Plaza Agreement in 1985 and rising wages in Korean manufacturing after the shift towards a more democratic regime in 1987. In 1991, incoming and outgoing flows of investment were of approximately the same magnitude. In subsequent years they diverged and by 1995 Korean investment abroad was 50% higher than incoming foreign investment(Korea Statistical Yearbook 1996, 326)

Enlargement of capacity and technological upgrading in Korean industry were accomplished through an exceptionally high rate of investment compared to national income. The difference with Indonesia was visible already at an early stage. The Suharto Government pushed investment upwards from the exceptionally low levels that had prevailed in the Sukarno period. In 1975, total investment in Indonesia corresponded to 17% of GDP which was scarcely higher than what had been attained in Korea already in the early 1960s. Investment rose to a level of 25% of GDP in Indonesia during the 1980s but still remained lower than in Korea, especially during the extreme thrust for rapid expansion under Roh Tae Woo in the late 1980s(Booth 1998, 267). The more rapid growth of investment in Korea compared to Indonesia mirrors a considerably higher rate of private savings which in turn forms a logical corollary to the higher level of disposable incomes attained by Koreans in the 1970s and 1980s.

Economic planning was institutionalized by the Suharto Government in much the same fashion as in Korea after Park Chung Hee had seized power. The first Indonesian five-year plan, called Repelita I(Rencana Pembangunan

Lima Tahun, literally five-year development plan), ran from 1968/69 to 1973/74. It emphasized fiscal rehabilitation and monetary stabilization. Then, in 1973, the emphasis shifted to massive investment in agricultural productivity and the physical infrastructure. In the course of Repelita III(1978/79~1983/84) declining oil prices forced a reformulation of priorities. Industrialization under the protective umbrella of high import barriers now became the first aim. The fourth and fifth five-year plans, running from the early 1980s to the early 1990s, stressed deregulation and liberalization in order to accelerate the process of industrialization(Hill 1996, 14~17; Booth 1998, 183-200). By contrast, already Park Chung Hee's second five-year plan(1967~1971) placed top priority on industrialization(Song 1997, 130~131). This points at an important difference in the timing of the industrialization policy in Indonesia compared to Korea.

Another difference refers to the effectiveness of economic planning. Despite the name, Indonesian Repelita have often contained strikingly little real planning and not many concrete guidelines for an economic policy. The documents stated the economic objectives of the Suharto Government but in relatively general terms. In reality both targets and priorities often became obsolete before the plan had run its course. This contrasts with the often heavy-handed approach taken by the Park Chung Hee Government in particular in realizing its economic ambitions. Korean economic planning has been more efficient in achieving stated targets(Song 1997, 121~47).

These four key factors in economic development-structural transformation, an outward orientation, technological upgrading and economic planning-all figure prominently in the 'East Asian' model of development as described by the World Bank in 1993. Its origin has been traced to the so-called 'flying-geese model' first designed by the Japanese economist Akamatsu Kaname in the 1930s. Yet doubts have been expressed in the literature

whether the 'flying-geese model' or the 'East Asian model' can offer an adequate description of the export-led type of industrialization that has taken place in much of East and Southeast Asia in recent decades(World Bank 1993, 1~26; see also Hirakawa 1999). Without venturing into all details of this discussion, suffice it to say that the model, with the necessary variations, by and large applies to both Indonesia and Korea in their development experience between the 1960s and 1997. The model does, however, appear to fit the Korean case better than the Indonesian one.

A fifth important component of the 'East Asian model' concerns the social effects of economic growth, in particular an equitable distribution of gains from growth. Rapid economic growth in Indonesia up to 1997 has doubtlessly done much to reduce the incidence of poverty. The share of the rural population living below the poverty line in Indonesia declined from 40% in 1976 to 14% in 1990 and fell even further reaching 11% by 1996. Still the income distribution remains very unequal, both between various strata of society and between ethnic groups. The richest of 20% of the Indonesian population continued to spend at least 40% of all income available(Booth 1993; 1998, 128). Such an inequality in income distribution may form a deviation from the norm of the model as applied to northeast Asia but it is not very different from the situation prevailing in other Southeast Asian nations such as Malaysia and Thailand where this model was also successfully applied.

An Indonesian born today may expect to live until he or she becomes 64 years. This is appreciably longer than in 1970 when life expectancy at birth was only 48 years. On both occasions, however, Indonesia lagged behind Korea where life expectancy climbed above 60 years already in 1960 reaching 72 years by the mid-1990s. The difference in terms of social achievement is even more marked in education. The adult literacy rate in Indonesia rose from only 54% in 1970 to 84% in 1995 but this latter figure

was still lower than what Korea had achieved already in 1970(84%). This reflects a major difference with regard to investment in human capital. In 1992, public expenditure on education accounted for only 1.8% of GDP in Indonesia. This was one-half of the level realized in Korea already by 1980(World Bank and UNESCO data; Booth 1998, 278).

The three decades preceding the current economic crisis have witnessed a remarkably rapid growth in both Indonesia and Korea. There has been a certain convergence in economic achievement over the years but in terms of social achievement Indonesia continued to lag behind. This may have been of importance in shaping the response to the challenge that both countries came to face in 1997.

III. Sudden Crisis

In June 1997, just two weeks before the currency crisis in Asia began with the devaluation of the Thai Baht, the World Bank issued its customary annual report on the Indonesian economy. As usual, it preceded the annual meeting of the Consultative Group of Indonesia(CGI) when next year's aid package was to be determined. Macro-economic 'soundness' was praised and further deregulation was recommended, in particular in making the trade regime less restrictive. The report contained references to what was euphemistically called 'soft infrastructure' with respect to the way in which Government institutions function but words like 'collusion' or 'corruption' were not used(World Bank 1997, 111~139). A severe economic crisis was most certainly not anticipated.

When the crisis began in Thailand, it did at first not cause much alarm. The rupiah came under pressure in the wake of the fall of the Thai Baht in July 1997 but a more flexible exchange rate policy on the part of the Bank

of Indonesia appeared sufficient to prevent the currency crisis from spreading to Indonesia. The Bank of Indonesia simply widened its intervention band and the Indonesian Government even pledged to help Thailand get out of its financial predicaments. But in mid-August, the rupiah was floated and a very tight monetary policy was implemented in a vain effort to forestall speculators' attacks on the currency. The exchange rate of the rupiah, which had remained very stable since the early 1980s, started to fall. It went from 2,400 rupiah per dollar in August to 3,500 in October eventually finishing at 4,650 rupiah per dollar at the end of 1997(Lindblad 1997, 4; Soesastro and Basri 1998, 12~13; Bisnis Indonesia 1998, 9). Several Government policy packages to overcome the crisis were announced and quickly abandoned. On 8 October 1997 the Indonesian Government turned to the IMF for assistance in stabilizing the currency and restoring confidence in the Indonesian economy. The currency crisis had become a financial crisis.

The stabilization package offered by the IMF at the end of October 1997 amounted to \$ 43 billion, two and half times the size of the package requested by Thailand. This was a sign of the severity of the crisis. Within days the Indonesian Government liquidated 16 ailing banks and announced an ambitious program of reform. Measures included financial restructuring, tight fiscal and monetary policies and accelerated deregulation, for instance accelerated reduction of import tariffs and the removal of special privileges. New institutions were created for implementing the reforms, for instance the IBRA(Indonesian Bank Restructuring Agency) and the INDRA(Indonesian Debt Restructuring Agency). Economic growth in Indonesia was down to zero during the final quarter of 1997 and consumer prices rose by 6% during the last four months of the year alone(Soesastro and Basri 1998, 3-4 & 9-21). The financial crisis was deepening into an economic crisis.

Rapid inflation continued in early 1998. Monthly price increases now

exceeded 8% whereas this had been the annual average rate of inflation during the years 1990-1996(Buletin Ringkas July 1998, 1; Soesastro and Basri 1998, 31). Ever larger groups of the Indonesian population were directly hit by the crisis. The budget introduced in early January 1998 shattered all remaining confidence, abroad and at home, in the Suharto Government's capability of realistically assessing the situation and taking appropriate action. A second agreement was negotiated with the IMF in an effort to speed up reforms, both with respect to fiscal policy and the banking system. The rupiah virtually collapsed, even falling to 17,000 rupiah per dollar for a moment before settling at a level at around 10,000 rupiah per dollar, fur times as low as before the crisis. Rioting began, often accompanied by ugly expressions of anti-Chinese sentiments. The crisis had become a social crisis.

President Suharto was re-elected for a seventh term in office in March 1998 with B.J. Habibie as his Vice-President. Suharto's short-lived idea of a currency board to stabilize the exchange rate met with instant resistance abroad. A third agreement was negotiated with the IMF in April 1998, again to impress the necessity for substantive reform on the Indonesian Government. By that time only \$3 billion of the total rescue package had actually been disbursed. Again, several failing banks suspended operations or were taken over by the Government(Bullard 1998, 94~99; Bisnis Indonesia 1998, 25~27). Meanwhile protests were mounting, not only against the way in which the Suharto Government handled the crisis but more fundamentally against the regime itself. Student demonstrations became more frequent and widespread. The crisis developed into a political crisis.

The New Order Government of Suharto came to a cataclysmic end in late May 1998, after several days of rioting, looting and extreme anti-Chinese violence in the streets of Jakarta and other major cities in Indonesia. The

downfall of Suharto was seen as the result of mounting economic and social pressures during the crisis. Discontent became deeply rooted whereas the Suharto Government in its reactions to the economic crisis proved that it was increasingly losing touch with reality. In this view Suharto was forced to step down by his inability to handle the crisis(Cribb 1998). The negotiation of a fourth IMF agreement in June 1998, shortly after President Habibie had taken over, underscored the necessity of confidence in the Indonesian Government's capability of implementing reform before the IMF was prepared to disburse more of the rescue package. Different from the preceding IMF packages, the one with Habibie did allow for some fiscal expansion even generating a substantial deficit in the Government budget as well as allocation of funds for poor relief.

The chronology of the crisis in Indonesia differed markedly from what was happening in Korea. There the crisis began slightly later but was more quickly brought under control. It was from the beginning a financial crisis gathering momentum from October 1997 when it became known that Korean corporations had outstanding non-performing debts in excess of \$ 50 billion abroad. The call on the IMF to come to rescue, on 21 November, actually preceded the steep currency depreciation. The exchange rate fell from 1000 won per dollar in late November 1997 to 1700 won per dollar in late December but started recovering already in January 1998. The IMF package was the largest ever offered to an individual country in the history of the IMF totalling \$ 57 billion of which almost \$ 22 billion had been disbursed already in April 1998. The policy recommendations of the IMF bore much resemblance to the standard prescription given also to Thailand and Indonesia, i.e. a continued float of the exchange rate, a tight monetary policy, a restrictive fiscal policy and institutional reform in the financial sector. Operations of 14 commercial banks were suspended almost immediately(Bullard 1998 100-109; Korean Economic and Financial

Outlook 1998).

The crucial difference between the Indonesian and Korean experiences during the heated months of late 1997 and early 1998 is of course that the financial and economic crisis never developed into a full-scale social and political crisis in Korea. There had been increasing doubts about the Kim Yong-Sam Government's capability to manage the nearing crisis. The dissatisfaction culminated in the final months of 1997 when the Korean Government kept insisting that the Bank of Korea held \$ 30 billion in foreign reserves whereas the simplest calculation of the Bank's most recent interventions in foreign exchange markets proved that this could not be true. It was probably a fortunate coincidence that Presidential elections took place in Korea precisely at the time when the policy to counter the crisis had to be formulated. The new President of Korea, Kim Dae-Jung, did not only enjoy the confidence of a majority of the voters but he also possessed an exceptionally good international reputation. The difference with IMF's openly voiced distrust of Suharto's crisis management in February and March 1998 could scarcely have been greater. It is tempting to ascribe the far quicker disbursement of IMF rescue funds in Korea to the greater confidence in the country's political leaders.

The international 'Asian crisis literature' is growing fast, especially since much of it is disseminated through internet. There is an increasing consensus that the financial crisis, whatever the ramifications in the real economy may be, had a similar origin in all three countries that were worst hit, i.e. Thailand, Indonesia and Korea. A rapid liberalization took place in the financial sector but it was not accompanied by sufficient supervision or institutional safeguards against excessive risks. Borrowing in foreign capital markets was stimulated by high interest rates at home that in turn reflected the imperfections of domestic credit facilities. Short-run debts were incurred to finance investment with benefits materializing only in the long run. Debts

were denominated in dollars whereas revenues were to be forthcoming in local currencies. The latter therefore had to be pegged to the dollar in order to forestall foreign exchange losses among domestic borrowers. This also provided the immediate link between the currency and financial crises.

From the 1950s up to the mid-1980s banking in Indonesia was for all intents and purposes dominated by the Government. The liberalization of the financial sector started in 1983 with the so-called PAKJUN 1 package(issued on 1 June) abolishing credit ceilings. It culminated with the deregulation package of 1988(PAKTO 27, issued on 27 October) abolishing restrictions on the establishment of new banks while also dramatically reducing reserve requirement ratios in banking. Further liberalization included a new Banking Law in 1992. The immediate result was a mushrooming of private banks, an extraordinary credit expansion and a steep increase in unhedged foreign loans. The total number of banks climbed to 240 which made Indonesia possess more individual banks than Japan. There was an alarmingly rapid accumulation of non-performing loans, among both private and stat-owned banks. Warning signals such as the debacles of Bank Duta in 1990 or Bank Summa in 1993 were largely ignored as the Bank of Indonesia intervened and was expected to continue to do so. The important point here is that there was an urgent need for reform of the banking sector in Indonesia already before the current economic crisis began(Montes and Abdusalamov 1998, 165~171; Delhaise 1998; see also Goeltom 1995).

Banking in Korea resembled the situation in Indonesia under Sukarno and the first two decades of Suharto rule. Credit and finance remained tightly controlled by the Government even if some liberalization did occur in the 1980s. This was combined with a centralized public co-ordination of investment with its roots in the extreme interventionism practised by Park Chung-Hee and his Government. Liberalization only began under the

Government of Kim Yong-Sam and by 1996 Korea possessed 21 commercial banks, considerably more than in 1993, when there had only been six merchant banks in Korea, but still a far cry from the numbers emerging in Indonesia at the time. The Government's grip on allocation of investment funds loosened and the chaebol acquired a greater scope of independent action in financial transactions, especially in foreign markets. Just as in Indonesia, foreign borrowing occurred on a large scale under the tacit assumption that the Government would bail out if need be (Chang 1998).

Foreign debt increased rapidly in both Indonesia and Korea in 1996 and 1997. The increase was about 30% between December 1995 and July 1997 alone in both countries. At least 60% of the outstanding debts as of mid-1997 was short-term in either case. About two-thirds of the borrowing was done by private corporations in Indonesia and by banks in Korea (that in turn channelled the funds to the chaebol). Two other differences stand out. The first one refers to the build-up of foreign reserves to match outstanding liabilities abroad. This proceeded much faster in Indonesia than in Korea. The ratio of short-run debt to available foreign reserves therefore remained unchanged in Indonesia at about 1.7 but increased in Korea from 1.6 in 1994 to 2.1 in 1997. The second difference concerns non-performing loans. Here the Indonesian record was worse with almost 9% of outstanding debt classified as non-performing already in 1996. The corresponding figure for Korea was 4% in 1996 but it increased to 6% in the course of 1997, i.e. the debt situation in Korea at the climax of the crisis was still better than it had been in Indonesia before the crisis began (IMF and Bank for International Settlements data; Korean Economic and Financial Outlook 1998).

The economic crisis in the wake of the financial crisis has meant negative growth, massive unemployment and, at any rate in Indonesia, widespread poverty. Projections and estimates of the growth of GDP in Indonesia over

1998 were consistently revised downwards, from zero in January 1998 to -5% in April and -14% by the end of the year. Industrial production fell by 3% in real terms. Imports virtually collapsed which in combination with some export growth resulted in an improved balance of trade that, however, was offset by massive outflows of capital in response to the social and political uncertainties. Official unemployment rose from 8.5 million persons in 1996 to 11 million in 1998 but numbers of displaced in the informal sector of the economy amounted to many more. Meanwhile prices increased by 78%. It is estimated that as many as 80 million Indonesians, out of a total of 206 million, had ended up below the poverty line by the end of 1998(The Economist, 16 January 1999; International Labour Organization 1998, 144). The extreme increase since the beginning of the crisis tells us that many Indonesians, whose standards of living improved under the Suharto Government, were in fact living just above the poverty line. It was this dramatic retrogression in economic terms that catapulted Indonesia into a social and political crisis.

GDP, industrial production, private consumption and foreign imports fell also in Korea in 1998. In early 1999, GDP expressed in real terms and against an undepreciated won was still below the level just before the crisis began in late 1997. Unemployment increased from 3% in 1997 to almost 9% in mid-1998 which brought considerable and unexpected hardships to large groups of Koreans. Also in Korea the trade balance improved as imports fell sharply whereas exports continued to grow. The surplus on the balance of trade was not offset by significant outflows of capital(Korean Economic and Financial Outlook 1998). Early 1999 saw signs of an economic recovery in Korea which, regrettably, could yet not be said for Indonesia. GDP started to grow again, fuelled by domestic demand rather than foreign exports, and there was a drop in unemployment. Observers in the Korean press, however, cautioned against too much euphoria.

Voices have been heard claiming that the IMF recipe did more harm than good in combating the current economic crisis. It is probably too early still to assess the full impact of IMF action. The IMF emphasis on reform has, however, directed attention to structural weaknesses exposed by the crisis. More often than not these weaknesses concern the relationship between economics and politics.

IV. Political Economy

An era is often remembered for achievements strongly associated to one strong leading political figure. Even his most ardent critics acknowledged that Suharto had deserved the epithet 'father of development' (bapak pembangunan) by raising material standards for millions of Indonesians to a level that even the current economic crisis is unlikely to eradicate. Korean industrialization and spectacular growth are similarly bound up with the person of Park Chung-Hee, much more so than with his successors when actual growth rates were often higher still. The political economy of rapid growth is about the nexus between economic development and political power. The two reinforce one another. Political authority intervenes with the process of allocation of scarce resources in order to favour economic development. The latter in turn provides the legitimacy of the political regime. From this perspective, the Suharto Government would have had great difficulties in remaining in power as the economic crisis deepened even if it had managed the crisis better.

In the international discussion about the 'East Asian' model of economic development there is considerable confusion about the role of Government in the development process. The World Bank stresses 'getting the fundamentals right' which, by any interpretation, implies restraint with

respect to Government interference with the market mechanism. Evidence from Japan(MITI) and Korea(Economic Planning Board, EPB) points in the opposite direction. Close Government monitoring was crucial in speeding up catch-up growth and structural transformation(see further Johnson 1982; Kim 1997). Yet this does not, as in most Western economies, imply that the Government consumes a large proportion of GDP. Government expenditure as a percentage of national income has actually fallen in Korea, from 16% in 1960 to less than 9% around 1990. In Indonesia this percentage rose towards 15% in 1980 and has since then stayed at that level(Booth 1998, 200). Both Indonesia and Korea have comparatively small public sectors.

Government interference has assumed other forms than through the regular budget. The most obvious example is the liberal use of extra-budget funding allocated to special purposes such as research and technological development. Investment in the Indonesian aircraft industry was financed by extra-budget resources and Ristek Minister Habibie was only accountable directly to the President, not the Ministry of Finance, let alone the legislative body of representatives of the Indonesian population(Majelis Perwakilan Rakyat, MPR). It goes without saying that other criteria of assessment were applied than would have been the case if the project had been set up by a private enterprise or under auspices of a regular department of the Government bureaucracy(McKendrick 1992).

Other examples of Government interference in economic life outside parliamentary control includes the use of foundations, often established for charity purposes but in effect linked to economic operations in the grey zone between public and private enterprise. Donations to such foundations were ostensibly voluntary but were in effect extorted under moral pressure from leaders of the business community. The Suharto family was notorious for its string of foundations and meetings with Chinese businessmen at the President's Tacos ranch reportedly often ended with recommendations about

suitable donations. Corresponding examples in Korea include the Ilhae Foundation under Chun Doo Hwan that was estimated to pocket the equivalent of 0.5% of GDP each year(Clifford 1998, 208~209).

Interference by the Suharto Government in private business took the form of bureaucratic regulation and above all allocation of privileges or even monopolies. This differed from the situation in Korea under Park Chung-Hee and his two immediate successors where the emphasis lay on granting access to scarce credit and investment co-ordination by the Government. In both countries, however, a strong developmental state emerged in which the Government and private business groups acquired common vested interests.

The centralized allocation of resources favored big business above small and medium-size firms. The preference among Indonesian policy-makers for large size was publicly professed and put in practice in state-owned enterprises. Pertamina, that exploits Indonesia's oil and gas reserves in cooperation with largely American oil companies, was likened with a Japanese-style zaibatsu. IT developed into a 'state within the state'. Embarrassingly, Pertamina had to be bailed out by the Government in 1975 when mismanagement and corruption had left it without sufficient means to meet its foreign obligations. The corresponding huge state-owned industrial firm in Korea, Pohang Iron and Steel Company(posco), was better run and acclaimed as both a major technological achievement and a commercial success.

Diversified concerns emulating Japanese zaibatsu and Korean chaebol came to play a leading part in the Indonesian economy during the Suharto era. In 1989 the top ten private business conglomerates accounted for annual sales in excess of \$ 10 billion corresponding to almost 9% of total GDP. All of these top ten groups were owned by Indonesian families of Chinese descent, including famous tycoons such as Liem Sioe Liong, owner of the Bank of Central Asia and the largest producer of instant noodle in Asia, as

well as Bob Hassan, who benefited from privileged contracts in the early timber boom in Kalimantan. In total forty private corporations were responsible for 15% of GDP. Of these 28 were owned by Indonesian Chinese(Booth 1998, 320~321).

In Korea the chaebol were larger and the degree of concentration higher. Assets of the top ten chaebol increased from 23 trillion won in 1981(\$ 25 billion) to 73 trillion in 1988(\$ 106 billion) and further to 376 trillion won by 1998(\$313 billion). In the early 1980s total turnover at the top ten chaebol was estimated to correspond to more than 50% of GNP, which as a concept, it should be noted, is based on value-added contributions rather than total sales(Kim 1997; Amsden 1989, 116; Korea Herald, 6 April, 1999). There was no correspondence in the hierarchy led by Hyundai, Samsung, Daewoo, LG and SK, to the predominance by an ethnically distinct such as the families of Chinese descent in the Indonesian corporate world.

The strong economic position of the Chinese in Indonesia is possibly the single most controversial issue with regard to the path of development chosen during the Suharto era. An acute feeling of the indispensability of Chinese capital and know-how has mixed with resentment with on occasion racist undertones. Business leadership by Indonesians of Chinese descent dates back to the 1950s when the Sukarno Government expelled Dutch capital in an effort to foster indigenous entrepreneurship in newly independent Indonesia. The managerial vacuum left open by departing Western businessmen was filled by ethnic Chinese. So-called 'Ali Baba'-constructions came into vogue in which Chinese capital('Baba') hid behind the facade of an Indonesian strawman('Ali')(Suryadinata 1997, 32). Close links between Chinese-controlled corporations and the technocratic elite of the Suharto Government facilitated the rise of the conglomerates during the 1970s and 1980s. 'Ali Baba' ventures were now replaced by more

institutionalized forms of commercial co-operation between Chinese businessmen and Government bureaucrats such as the so-called 'cukong' system. Under this system, named after the Chinese(Hokkien) term for 'master', individual Indonesian businessmen of Chinese descent enjoyed privileged access to Government contracts, investment credits and public project funding(Suryadinata 1992, 141). This testifies to the fundamental continuity in relations between the Indonesian Government and Chinese-controlled business running from the 1950s until the 1980s(Kano 1989; see also Robison 1986).

Opinions vary about the effect of the deregulation that has taken place since the mid-1980s. The conglomerates have become stronger although one would, at least in theory, expect that deregulation would imply more competition in the allocation of resources. Islamic intellectuals have argued that the economic liberalization favored the Chinese at the expense of indigenous Indonesian businessmen(Ramage 1995, 101~102). A more plausible line of argument is that the process of deregulation did not go far enough to effectively reduce the extent of allocation based on privileged access to political power(Booth 1998, 322). The rapid liberalization in the financial sector in the 1990s clearly favored foreign investors, whether interested in equity or portfolio, as well as businessmen with intensive international connections such as indeed is the case with several Chinese-controlled conglomerates.

Over and again it is reiterated in the literature that ethnic Chinese community controls two-thirds or even three-quarters of the economy while constituting only 3% of the population(Asiaweek, 20 October 1993). But this figure does not have a solid statistical foundation. A confrontation with the composition of GDP reveals that the Indonesian economy contains large sectors where there is hardly any Chinese capital of importance, notably agriculture and mining. Only under the assumption of a perfect Chinese

monopoly in manufacturing, trade, transport, construction and finance, is it possible to defend a share of Indonesian Chinese in total GDP in excess of 60%(Indikator Ekonomi 1998, 162~164). Such an assumption is clearly unrealistic. There is also the additional point that, if Chinese control of the economy is so strongly associated with Government connections, then it could just as well be argued that the share of the Indonesian Government in total GDP is considerably larger than the official public sector alone. Even the cited share of ethnic Chinese in the total population does not stand up to critical scrutiny. It is based on an extrapolation of population trends since the census in 1960 when, for the last time, ethnic origin, was registered. The estimate of the Chinese Indonesian population at six million persons is an inexact one although a more careful calculation, if it were possible, would obviously not alter the order of magnitude of the size of this population group.

The close links with enterprising private businessmen offers unique opportunities for the Government to give guidance to the process of economic development. This may speed up structural change and allow an economy to move more swiftly through the successive stages of industrialization and modernization than would otherwise have been possible. Efficiency may be enhanced and substantial productivity gains may materialize but this will not happen automatically. In Korea the Park Chung-Hee Government in particular is credited with subjecting the chaebol to the tough environment of competition in international markets. A shrewd combination of performance incentives and sanctions, if not outright punishment, ensured that efficiency levels remained high even under the protective umbrella of massive Government support(Amsden 1989, 14). This has not always been the case in Indonesia(Hill 1996, 198; Booth 1998, 202).

The cosy relationship between the strong developmental state and big

business easily fosters favoritism, nepotism and corruption. Regions of the political leader are likely to be especially endowed with Government-sponsored projects. Examples include Kyongsang under Park Chung-Hee or Central Java under Suharto. Several of the leading Chinese businessmen, including Liem Sioe Liong and Bob Hassan, counted among Suharto's personal friends. Four of the forty largest conglomerates in Indonesia at the end of the 1980s were run by members of the Suharto family. The late President's six children all set up business empires in their own rights ranging from tollway construction, mining, petro-chemical industry, car manufacturing and a by now bankrupt airline. Scandals were frequent and popular resentment was increasing against these conglomerates that had an even more privileged access to the heart of the allocation process than the Chinese tycoons. The business dealings of Suharto's children did much to undermine the political legitimacy of his Government. In this regard an interesting parallel can be drawn with the loss of prestige suffered by Chun Doo-Hwan in 1982 when it surfaced that two members of his wife's family, 'Madame Chang' and 'General Lee', had gained control over much of the domestic credit market through bribery and use of their political connections.

The Indonesian national car programme, launched in 1996, represented a particularly clear-cut case of an interference with the market mechanism in the name of technological upgrading based on privileges derived from proximity to the center of political power. A joint venture was set up between the Korean car manufacturer Kia and an Indonesian company owned and managed by Suharto's youngest son, Hutomo Mandala Putra (Tommy). Kia was to supply technology in return for privileged access to the Indonesian car market. The latter was assured by classifying the car, called Timur, as a domestically made product carrying exemption from the very steep import tariffs on foreign-made cars. In addition Indonesian Government institutions would purchase some of the cars. The car itself was

assembled in Korea as long as the factory in Indonesia was not yet completed. The whole arrangement angered Japanese competitors in particular and the matter was brought before the World Trade Organization. The highly privileged position of this joint venture was illustrated in August 1997 when the Asian economic crisis had already begun and the Indonesian Government was tightening credits whereas Kia was actually declared bankrupt in Korea. Despite such unfavorable external circumstances, the car manufacturing company of Suharto's son secured additional loans of \$ 640 million from Indonesian banks, underwritten by the Bank of Indonesia, in order to finance the completion of the factory near Jakarta(Lindblad 1997). In early 1999, it transpired that Tommy Suharto, together with his older brother Bambang Trihatmodjo, had outstanding debts in excess of 28 trillion rupiah(\$ 3.5 billion), only in Bank Mandiri, the special institution established for restructuring Indonesian banks(Tempo, 30 March 1999). Since the downfall of Suharto the most fabulous estimates circulate in the popular press about capital assets that have already been transferred abroad by Suharto's children.

Political economy helps us understand why the current economic crisis could erupt. Collusion between Government and business conglomerates provided a climate conducive to reckless financial management and excessive investment whereas supervision was virtually non-existent. This applied in particular to the assumed preparedness of the Government to cover losses and the Government's reluctance to depreciate overvalued currencies as this would aggravate foreign indebtedness of private corporations. Yet the casual relationship between the political economic nexus on the one hand and the current economic crisis on the other need not imply that state-guided economic development more or less in accordance with the 'East Asian model' has run its course and become obsolete. It is widely believed that rapid growth can be resumed if only the financial

management capability is improved (Radelet and Sachs 1997, 45-46 & 56).

Political economy may also be used to interpret shortcomings and bottlenecks in the management of the economic crisis once it had broken out. Manipulations of foreign reserve statistics by the Kim Yong-Sam Government in Korea is a case in point. Another illustration is found in corporate restructuring in Korea as required by the IMF and to which the Kim Dae-Jung Government has committed itself. Much progress has been achieved in restructuring small- and medium-size firms whereas it has proved far more difficult to get around to big swaps among the large chaebol, for instance in car manufacturing between Daewoo and Samsung or in electronics between LG and Samsung.

In Indonesia the Suharto Government was discredited time after another by its inability to manage the crisis. International and domestic distrust peaked in March 1998 when Suharto appointed a new Cabinet including as its members not only his old friend, business tycoon Bob Hassan, incidentally the first Indonesian Chinese in decades to hold a Cabinet position, but also his eldest daughter, Sri Hardiyanti Rukmana ('Tutut'), well-known for business deals making maximum profit from her high political connections. Even the idea of a currency board was surrounded by suspicion since it could be construed as a clever device to stabilize assets of the Suharto family held in Indonesian rupiah into dollar equivalents at an attractive rate of exchange.

Foreign reactions were at first unfavorable to Habibie's elevation to the office of the Vice Presidency in February 1998 considering his credentials as a Ristek Minister with extreme ambitions in terms of technological achievement but little regard for the commercial viability of his projects. In the event he has distanced himself sufficiently both from the Suharto family and his own past at the Ristek Ministry to inspire considerable confidence among observers abroad.

The challenges facing the Habibie Government in staging an economic recovery in Indonesia are tremendous. Above all confidence has to be restored in the political system. This appears to be an absolute precondition for an economic recovery to get underway. Investors, both foreign and domestic, are likely to adopt an attitude of 'wait-and-see' until the political conditions have improved. The risk of capital and know-how flowing out of Indonesia was mentioned already before the crisis but has not become acute(Thee 1998). Economic recovery will have to draw on capital and know-how of Chinese Indonesians just as the rapid growth in preceding decades made use of the contributions from this segment of the country's population.

V. Conclusion

Can we learn from the Korean experience when reviewing the rapid economic growth since the 1960s and the current crisis in Indonesia? There are seven striking similarities and also seven important difference. The former may be summed up as follows:

- (1) Similar starting-points at low incomes levels in the middle of the twentieth century.
- (2) Rapid growth under an authoritarian Government during several decades.
- (3) Rapid structural transformation towards a modern industrial economy.
- (4) Strong outward orientation by relying on foreign exports
- (5) State-guided economic development through close links between the Government bureaucracy and private conglomerates.
- (6) Fast financial liberalization and weaknesses in financial management leading up to the current economic crisis.

- (7) Urgent need for corporate restructuring and institutional reform in order to facilitate a full recovery from the current economic crisis.

These similarities are on occasion accompanied by differences in degree rather than in principle. The Korean growth rate has on average been higher than in Indonesia resulting in a far steeper growth of income per capita. The modernization of the economic structure had advanced considerably further in Korea than in Indonesia. The economic orientation towards the wider region of East and Southeast Asia has been more pronounced in the Indonesian case. Also financial liberalization was more far-reaching in Indonesia than in Korea whereas the chronology of the unfolding of the crisis differed somewhat between the two countries.

The seven differences in principle rather than in degree between the development paths of Indonesia and Korea include:

- (1) Technological upgrading relied on investment in domestic human capital in Korea rather than on foreign direct investment as in Indonesia and was far more successful in the former country.
- (2) An effective economic planning for development took place in Korea but scarcely in Indonesia
- (3) The degree of corporate concentration was far more extreme in Korea and in conglomerates were not dominated by one specific ethnic group of the population as with the Indonesian Chinese.
- (4) Collusion between Government and private conglomerates was more effective in raising efficiency and competitiveness in Korea but probably resulted in more allocation on basis of privilege alone in Indonesia.
- (5) Gains from economic growth were far more equitable distributed in Korea whereas the income distribution remained very skewed in Indonesia.

- (6) The current economic crisis did not develop into a major social and political crisis in Korea as was the case in Indonesia
- (7) IMF confidence in structural reform is substantially greater with respect to Korea as opposed to Indonesia.

A final point refers to the recovery from the present predicaments. It has already started in Korea and it is likely to start in Indonesia as soon as political stability has been restored. In either case, recovery and resumed growth will hopefully occur under the umbrella of political democracy rather than a return to authoritarian rule.

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