Indonesia, the East Asian crisis and the commodification of the nation-state
By Mark Beeson

The abrupt end of the Suharto regime in Indonesia is but the most dramatic manifestation of a more generalised process of change that has recently swept through the countries of Southeast and Northeast Asia (hereafter East Asia). In a remarkably short period the former 'miracle' economies have become synonymous with economic mismanagement, corruption and cronyism. However this transformation is interpreted, the crisis stands as a watershed in East Asian regional development, transregional relations and the development of global capitalism more generally, especially the dialectical interplay of state and market power. Although it may be too soon to attempt definitive judgements about the long-term significance of the crisis for the region or for the global political economy more generally, it is possible to isolate some of its central dynamics and draw out some of its broader implications.

At one level, the resolution of the crisis will help to define the framework of rules and practices within which future international and national economic activity occurs. Transnational institutions like the International Monetary Fund (IMF) and powerful international actors like the USA will clearly continue to be significant influences in this regard. This will not only constrain the economic policy choices of the governments of smaller economies in particular, but will inevitably help to define domestic political alignments and practices as well. Simply put, the crisis represents what may be a unique historical opportunity to impose a particular sort of market-centred regulatory framework on the region. At another level, and reinforcing this more overt international political pressure, the crisis reveals a deep-seated transformation in the structure of the international economic order, one in which the power of financial markets and institutions has grown enormously. The scale, scope and complexity of financial flows and instruments, and their attenuation from 'real' economic activity within individual nations, has meant that nation-states—especially less economically powerful ones like Indonesia—are increasingly reduced to the status of commodities. In short, I shall argue that a key dynamic in the current crisis is internal to markets themselves and has little to do with political and economic realities within individual nations.

The intention of this article is to consider the implications of the crisis at both a general regional level, and in more detail in the case of Indonesia. The first part examines important changes in the structure of the increasingly integrated international economic system, especially the increasing mobility and power of financial capital. Subsequently, I examine the distinctive political and economic structures that have been associated with the East Asian region and consider the implications of the crisis upon them. One of the key issues here is the wider interregional context and the market-orientated reform agenda being promulgated by the IMF. Finally, I consider the impact of the crisis on Indonesia, the country that has been most profoundly affected by recent events. I suggest that, while there may be much that outsiders found unattractive about the authoritarian Suharto regime, Indonesia's internal political and economic structures were not the cause of its current economic problems. While the cronyism and corruption associated with Suharto's rule certainly became a focus of much market attention and retrospective analysis, an examination of the Indonesian case suggests that we must look beyond the nation-state to the wider political-economic system within which it is embedded, if we wish to understand the causes and dynamics of the contemporary crisis.
The changing international order

One of the more enduring images to emerge from the East Asian crisis was of IMF Managing Director, Michel Camdessus, standing, arms folded, as Indonesia's President Suharto signed an IMF-sponsored assistance package. Quite how remarkable a transformation this represented in Indonesia's fortunes in particular, and that of the region more generally, may be gauged by recalling Camdessus' own words of less than a year earlier, when he suggested the East Asian economies were 'the very essence of globalisation-open, dynamic economies that continue to amaze the world with their rapid growth and economic development'. How times change. To understand why the countries of East Asia have experienced such a rapid reversal in their collective fortunes, both as the embodiment of an alternative economic development paradigm, and as possible sites for international investment, it is necessary to examine the wider international system of which they are a part. In particular, it is important to recognise the hugely increased scale and power of financial capital in the contemporary global political economy.

To help explain the increased significance of financial capital, it is useful to make a distinction with industrial capital. This is admittedly something of an artificial distinction as the boundaries between these spheres are imprecise, particularly outside the Anglo-American economies, but it at least draws attention to potentially different organisational logics and political bases of support for these broadly conceived entities. Baldly put, industrial finance is associated with direct investment in the actual production of goods and services, while financial capital originates from credit-financing, is generally highly liquid and is only indirectly connected with productive economic activity. Even where financial capital is associated with production, it is generally mediated through other instrumentalities, like equities and loans, and retains great potential mobility. This long-term evolution and differentiation in the structural composition of broadly conceived 'capital' has been a central component of the East Asian crisis.

International finance

A number of political, technological and evolutionary developments within the financial sector have directly contributed to its enhanced international mobility, ubiquity and power. Over the course of the twentieth century, as the wealth generating capacity of the 'real' productive economy has expanded, there has been a simultaneous expansion in the scale and complexity of the financial sector. The most significant aspect of this process in the context of the East Asian crisis has been a trend towards increasing levels of abstraction and disconnection from the real economy by money that is not directly invested in productive activities. Peter Drucker describes this as 'virtual money'. Centred on international financial markets, virtual money has little connection with trade, investment or consumption, and serves no economic function. Virtual money does, however, have great leverage over national governments, especially those-like Indonesia-which are heavily reliant on short-term borrowings.

The contemporary period is characterised by flows of financial capital of unprecedented magnitude and rapidity. Not only does the scale of financial flows continue to increase, but the structure of broadly defined financial capital continues to evolve. To give some indication of the significance of the scale of capital movements, by some estimates the daily turnover on the world's foreign exchange markets amounts to some US$1.5 trillion, a figure that dwarfs the entire annual gross national product of Indonesia, which is a comparatively modest US$136 billion. Clearly, Indonesia is not unique in this regard, but where domestic actors have exacerbated their vulnerability to external economic forces by borrowing heavily in international markets, this economic disparity becomes even more influential.
The increasing size of financial movements is matched by the growing complexity of financial instruments and structures. Much of what is most distinctive about the contemporary era—especially the extreme mobility of capital and its increasingly extra-territorial characteristics—is permitted by, if not a function of, changes in the technological base of the global economy. In short, the development of powerful computers and reliable, instantaneous global communications systems have allowed capital to become increasingly fungible and abstracted from any direct connection with underlying ‘real’ economic activity. This tendency to increased disconnection from the actual production of goods and services has been reinforced by the development of new financial structures. Through the use of an array of novel financial instruments like currency swaps, hedging and futures mechanisms, marketable securities, and various forms of bonds, holders of financial assets are theoretically, at least—able to spread risk across a range of instruments and markets. The underlying international trend is for the replacement of traditional bank loans with equity and bond issues. This means that not only is the relationship between industry and domestic banking sectors becoming increasingly attenuated, but also that both firms and governments themselves are becoming more dependent upon potentially mobile international sources of capital.

A final systemic change which is another important source of the increased scale of financial movements, and which also indicates the fundamental interconnectedness of the global economy, is the exponential growth of institutional investors, particularly mutual funds. Mutual funds are emblematic of the new financial order that has emerged over the last couple of decades. Simply put, mutual funds are a way of pooling the savings of a large number of individual investors and then reinvesting them in an array of liquid assets like bonds and equities. In the space of 10 years mutual fund holdings have increased from US$0.7 trillion to more than US$4 trillion. It is not simply the size of these holdings that makes mutual funds such influential forces in global markets, but also the relentless competition between mutual fund managers to try and achieve market dominance, a factor which introduces an inherent short-termism and volatility to global equity, bond and currency markets. In sum, capital—other than that directly invested in productive activity—has become more abstracted and distanced from the underlying real economy, and increasingly mobile and able to seek out profitable opportunities anywhere in the global economy, no matter how remote, fleeting or marginal such opportunities may be. When markets of such size and liquidity move en masse, the impact on any economy, let alone comparatively small ones like Indonesia’s, is necessarily highly destabilising.

International politics

It is also important to emphasise that the increased mobility of financial capital has been facilitated by politically determined changes to the international economic system. Changes in the international regulatory framework have reflected the interests of powerful countries and influential domestic actors. For example, the continuing dominance of the USA in the global financial order has allowed it not only to pursue its own national interests, but also to impose a particular sort of economic order internationally. Promoting an open financial order has allowed the USA to maintain policy autonomy and shift the burden of adjustment onto other countries, an option unavailable to other countries confronting long-term decline. Faced with the liberalising initiatives of large economies like the USA, other economies, even comparatively powerful ones, have had little choice but to follow suit or risk losing business and placing themselves at a competitive disadvantage. In other words, the emergence and consolidation of a liberalised international financial system was not so much the product of technological determinism or the simultaneous recognition of
technically optimal solutions to the problem of resource allocation, but rather of the systematic application of political power.

As economic activity has become more internationalised, the influence of extra-territorial regulatory authorities has become greater and the agreements that govern international commerce have become more significant. There are two aspects to this process that need distinguishing. On the one hand, there has been a subtle 'ideational' shift, in which a number of key policy ideas broadly associated with the so-called 'Washington consensus'-fiscal discipline, financial and trade liberalisation, privatisation and 'deregulation'-have become the centrepiece of domestic policy agendas in many countries.\textsuperscript{14} This ideational convergence has been reinforced by powerful international institutions, which have used a number of strategies, from intellectual persuasion to the less subtle utilisation of direct economic leverage, to ensure the effective application of what has been described as disciplinary neoliberalism.\textsuperscript{15} In short, the activities of the original Bretton Woods creations, the World Bank and the International Monetary Fund, which have been so prominent in the current crisis, have been supplemented and reinforced by a number of other pro-market institutions, like the World Trade Organization (WTO) and the Asia Pacific Economic Cooperation (APEC) forum, to provide an influential agenda of reform that directly challenges the existing economic practices and political relations of East Asia.\textsuperscript{16}

The increasingly powerful institutions which govern the conduct of international economic activity are therefore not simply apolitical creations or functional, technically necessary responses to the complexities of a global economy. While such organisations clearly do have a management role, they are guided by specific assumptions, not just about the way the world works according to an influential strand of predominantly 'Western' neoclassical economics,\textsuperscript{17} but rather about the way the world should work from the perspective of a powerful constellation of political interests. Recognition of the essentially political nature of international economic relations allows us to see why the current crisis in East Asia is about much more than competing economic policy frameworks.

**Economic policy making in East Asia**

Although the countries of East Asia are a highly diverse group of nations characterised by differences in culture, tradition and history, they display some noteworthy similarities in political and economic practice. In the Anglo-American nations in general, and in the USA in particular, the economic and political spheres are, in theory at least, characterised by arms-length relationships and a normative preference for the maintenance of a clear demarcation between them. In East Asia, by contrast, the state has played a much more influential role in shaping the trajectory of national economic development.\textsuperscript{18}

There are by now a large number of studies that have illustrated the distinctive role played by national governments in the economic development of East Asia.\textsuperscript{19} For all of these states the regional exemplar, and the first nation to challenge North American and European economic hegemony in the industrial era, has been Japan. The most distinctive characteristics of the Japanese political economy, and the factors that distinguish it most from its Anglo-American rivals, are the close, cooperative relationship between the state and business on the one hand, and the planned nature of economic development on the other. Chalmers Johnson's celebrated depiction of the Japanese state as 'plan rational' nicely captures the important distinction between the Anglo-American economies which, theoretically at least, prefer to rely on market forces to determine economic outcomes, and the Japanese model which considers state involvement in directing and coordinating economic activity to be not simply legitimate, but an essential aspect of national economic development.\textsuperscript{20}
While debate about the ultimate efficacy of government intervention in economic activity has been given renewed life in the wake of the current crisis, what is significant here is that Japan has been an important influence on economic development, and not just at the level of developmental exemplar. In Taiwan and Korea, Japanese colonialism directly reconfigured domestic class forces and economic structures and the subsequent course and style of national development.\textsuperscript{21} In a number of other second- and third-generation East Asian economies, including Indonesia, Japanese companies in cooperation with the Japanese government have effectively integrated regional economic space into a complex network of production structures with their apex in Tokyo.\textsuperscript{22} Many of the countries of East Asia have found the Japanese state-directed model conducive to national projects of economic expansion and integral to national political consolidation. In short, the East Asian model of state-led neo-mercantilism, with little separation between political and economic interests, presents a direct challenge to Anglo-American, neoliberal orthodoxy at both the normative and the more narrowly pragmatic levels.

As far as the current crisis is concerned, therefore, there are a couple of points of particular significance. First, at the level of economic policy making, one of the cornerstones of East Asian development-state control of financial resources and access to investment capital-is directly threatened by the sorts of initiatives being proposed under IMF auspices. Although the high domestic savings rates that champions of economic orthodoxy like the World Bank emphasise have clearly been an important part of East Asia's rapid economic development,\textsuperscript{23} what is of equal, if not greater, significance is that such savings were channelled through state-controlled banking systems towards targeted industries or borrowers in order to encourage specific forms of industrial development.\textsuperscript{24} Indeed, it is important to emphasise that the countries of East Asia and the Anglo-American economies have had—until recently, at least—quite different financial systems, methods of raising capital and transmission mechanisms for utilising finance.

A critical difference between the financial systems of the Anglo-American and the East Asian economies has been that the latter are predominantly credit-based systems of finance, whereas the former are centred on capital markets, in which security issues—stocks and bonds—are a major method of raising capital.\textsuperscript{25} In other words, where the Anglo-Americans have tended to allow relatively unfettered market forces to determine the allocation of financial resources, governments in East Asia have attempted to maintain much closer controls over flows of capital and to use access to finance as a key source of leverage over domestic business interests in order to direct the process of economic development. The capacity of 'strong' East Asian states to develop structures of economic governance which have fostered rapid economic growth and allowed them to 'catch up' with the industrialised 'West' has become one of the most remarked features of contemporary political economy.\textsuperscript{26} It is important, however, to add a couple of caveats to the stylised depictions of these rival economic systems before considering the Indonesian experience.

First, while important differences remain in the way companies from different countries are organised, and despite the persistence of major differences in political structures and economic practices across nations and regions,\textsuperscript{27} there are some signs of economic convergence between Anglo-American and East Asian economic structures. In the USA, for example, stock issues have become a less significant part of capital raising. Loans have become the preferred vehicle for companies to raise funds, permitting the waves of takeovers, acquisitions and leveraged buy-outs that characterise contemporary North American capitalism.\textsuperscript{28} The significance of this in the context of this discussion is twofold. First, it has given even greater influence to the financial sector in US foreign and domestic policy, privileging the interests of a rentier class over industrial interests and thereby creating increased political pressure for international financial liberalisation.\textsuperscript{29} Second, new forms of capital raising have
increased the amount of financial capital in circulation, adding greater systemic volatility to the international system.

The other point to make about the stylised depictions of Anglo-American versus East Asian forms of capitalism is that the latter do have serious deficiencies about which critics within and outside Asia are right to draw attention. As Japan demonstrates, close relations between government and business may have facilitated the planned development of that economy, but they have also generated corruption, inefficiency and the wastage of public funds, from which the majority of Japanese excluded from political, bureaucratic or corporate networks derive little benefit. Some of the less attractive aspects of the Japanese model have also been replicated among its East Asian acolytes. Indeed, it is the supposed cronyism and lack of transparency associated with close government-business relations in Asia that has been at the centre of the predominantly Anglo-American reformist discourse. In this regard, Indonesia, or more specifically the political practices and economic structures found within its borders, has been subject to an especially close scrutiny from which it is unlikely to emerge intact.

**The Indonesian experience**

Of all the countries caught up in the current crisis in the region, none has been more profoundly affected than Indonesia. This is noteworthy in itself, as it is important to remember that, when East Asia's economic problems began, it was Thailand, not Indonesia, which was at the centre of what initially appeared to be a fairly localised currency crisis. If the crisis has one unequivocal lesson, therefore, it is that systemic shocks are now liable to be transmitted with dramatic rapidity throughout the international economic system. Indeed, so interconnected has the world economy become, it is not yet certain that the other North American and European legs of the 'triad' will not eventually feel the effects of accumulated financial pressures. The intention here, however, is to examine the Indonesian case, and try to unravel why it was so badly affected and how what was initially portrayed as an economic problem became a profound political crisis with domestic and international implications.

The comparatively small scale of the Indonesian economy and its relative lack of diversity has meant that Indonesian policy makers have been especially constrained by external political and economic factors. Although the past 20 or so years have witnessed a major restructuring of the Indonesian economy, with a secular decline in the importance of agriculture and a rapid rise in manufacturing, Indonesian policy makers have-with the noteworthy and revealing exception of the 'oil boom' period—nevertheless been at the mercy of external forces over which they had little control. Even those wider geopolitical forces of which Indonesian political elites in particular might have been expected to be the principal beneficiaries—the superpower rivalries of the Cold War being the most obvious example—have disappeared. The consolidation of capitalism as an unchallenged global system meant that the Suharto government was deprived of potential strategic leverage over critically important international actors like the USA. In an era in which governmental legitimacy is increasingly bound up with technocratic competence and—especially in 'developing' countries like Indonesia—the ability to deliver rising standards of living for the mass of the population, the contemporary crisis was, therefore, potentially even more destabilising.

While there is no space here to detail Indonesia's political or economic history, there is one enduring historical pattern that merits emphasis as it helps to explain the dynamics of the contemporary crisis. In short, policy autonomy in Indonesia has directly reflected the fluctuating value of international oil prices. The economic policies of the Suharto government were from its earliest days shaped by a tension between the need to accommodate the interests of potentially highly mobile...
investors—both internationally and to a lesser extent among powerful domestic Chinese capitalists—and by the desire to use policy as an extension of a patrimonial system that depended for its continuance on the distribution of economic assets to key supporters. Before and after the ‘oil boom’ years of 1974–82, the Suharto regime was constrained by the structural power of international investors. Indonesia’s dependence on external capital meant that the ruling elite had to consider how the holders of mobile financial assets would respond to domestic policy initiatives. When rising oil prices placed huge windfall revenues in the hands of the Indonesian state, the shackles on domestic policy were released as government became less dependent on external capital.36

This is not to suggest that there were no forces within Indonesia that were sympathetic to the emergent international orthodoxy of deregulation and liberalisation. On the contrary, there were. But the power and influence of the so-called ‘technocrats’ was itself a direct function of the strength or weakness of the Indonesian economy more generally.37 When oil revenues declined and the economy got into trouble, Suharto recognised that economic stability and sustained development depended on the continuing good opinion of international investors. In other words, rather than being won over by the intellectual arguments of the technocrats, Indonesian policy was a pragmatic response to the structural power and demands of mobile investment capital. As Hal Hill points out, a deep-seated mistrust of market forces, economic liberalism, and private (especially Chinese) ownership [remains] in many influential quarters in Indonesia.38 Whether reluctantly embraced or not, economic liberalisation has, however, had a profound impact on both the Indonesian economy and the government’s ability to manage it. For this reason it is important to look more closely at the reform process and its effects.

Economic reform and its impact in Indonesia

As with a number of other ‘developing’ countries,39 a key dynamic shaping Indonesian economic policy under Suharto’s New Order regime was the relationship with wider external economic forces in general and the availability and nature of capital inflows in particular. In Indonesia, where such flows were largely the result of increased oil revenues, policy makers enjoyed a degree of insulation from the demands of mobile financial asset holders and transnational regulatory agencies alike. Yet, when oil prices plummeted, government policy rapidly began to reflect the ideas of domestic technocrats and the influential international economic orthodoxy of liberalisation and deregulation. This dialectic has been central to Indonesia’s economic developmental trajectory and has underpinned Indonesia’s distinctive political order.40 However, it is important to recognise the long-term implications of this process: the concessions Indonesia’s policy makers made to external forces in times of economic downturn systematically eroded the government’s long-term capacity to manage the economy and threatened to unravel the very basis of the patrimonial system upon which the Suharto regime was predicated.

Patrimonial politics and ‘sheer bureaucratic incapacity’ have, MacIntyre argues,41 severely limited the Indonesian government’s ability to put into place the sorts of policy frameworks and technocratic strategies that have characterised the developmental experiences of a number of other East Asian countries like Japan and Taiwan.42 Not only has the Indonesian state had less ‘infrastructural power’ and ability to direct the course of development,43 but some observers have questioned whether the full ramifications of policy initiatives were clear to their sponsors. The opening of the capital account in 1971 has been cited as an example of a policy initiative that was put in place without a full understanding of its implications.44 The key point about this initiative as far as the current crisis is concerned is that removing controls on foreign exchange transactions and opening the capital account meant that the private sector was free to undertake international borrowings with little
government oversight. More importantly in the long term, not only was the government's ability to allocate capital reduced (and thus its capacity to direct economic development), but the power of mobile international capital was further enhanced as the possibility of capital flight increased in a more liberal financial environment.

The contradictions and tensions of the Suharto regime's approach to economic policy making have been encapsulated in the government's management of the critically important oil sector. The state-owned oil company, Pertamina, became a vehicle for economic nationalists to pursue a wider developmental agenda. In the early 1970s under Ibnu Sutowo's leadership and with Suharto's blessing, Pertamina became a conduit for large-scale foreign borrowings and, as the price of oil rose during that decade, it developed into a major centre of economic power. However, the inability of Pertamina to service its debts precipitated a crisis in 1975 which prefigures the contemporary situation in a number of ways: international confidence in Indonesia's economic management capacity was undermined; capital flight exacerbated the government's problems; and the USA supported IMF attempts to rectify the situation by suspending loan eligibility—a move which directly reinforced the position of Indonesia's pro-market technocrats.

Two comparative points are worth making about this earlier crisis and Indonesia's contemporary problems. First, the apparent lack of transparency which preceded the earlier episode was not an obstacle to Pertamina raising capital internationally or a bar to other capital inflows. Moreover, neither was it a barrier when the crisis was resolved and foreign investment gathered pace again during the 1980s and 1990s. Second, the dynamics of the contemporary crisis are of a different order to the earlier episode. Although the earlier crisis occurred in the context of a more generalised period of international economic turbulence and downturn, Indonesia's problems were essentially domestic, rather than being externally generated. The point to emphasise here is that the changing international economic environment, particularly the expanded scale and scope of highly mobile financial flows, has radically altered the environment within which nations must operate. Put simply, the enhanced power and mobility of finance means that the perceptions of international financial markets, institutional investors and ratings agencies may rapidly transform the position of a country that is relatively dependent on foreign lending.

Indonesia's problems have been exacerbated by the crucial intersection between international structural transformation and domestic policy initiative. No matter that deregulasi was undertaken unwillingly in the face of the reinvigorated structural power of internationally mobile investors; once in place, policies of greater economic openness and greater financial deregulation inevitably left countries like Indonesia more vulnerable to international capital movements. Despite becoming increasingly dependent on highly mobile flows of international capital, and despite having a significant debt servicing requirement, Indonesia's situation looked a good deal less vulnerable than did Thailand's—the original epicentre of the contemporary crisis. Thailand was much more dependent on short-term capital inflows than Indonesia and its overall position was consequently more fragile. Indeed, it is worth noting that, when judged in terms of its overall economic 'fundamentals'—foreign reserves, current account deficits, trade balance and GDP growth—Indonesia's economy actually looked healthier than that of its neighbour Australia, which has not (yet) experienced a similar mauling from international financial markets. Again, the point to re-emphasise here is that structural exposure to international markets leaves individual countries vulnerable to rapid changes in market sentiment and even more destabilising shifts of footloose capital. Quite how damaging changing market sentiment can be may be judged from the impact on investment flows to the region: whereas South Korea, Malaysia, Thailand, the Philippines and Indonesia received a
collective inflow of US$93 billion in 1996, in 1997 (in the comparatively early stages of the crisis) a net private capital outflow of US$12 billion occurred. For comparatively small economies like Indonesia’s, therefore, the global trend towards economic openness and liberalisation—especially of the international financial system—is a mixed blessing. True, it offers access to large pools of external investment capital, but at the same time it necessarily decreases national policy autonomy, leaves the country as a whole vulnerable to rapid, destabilising capital flight and raises the prospect of being afflicted by unexpected contagion effects that may have no immediate domestic cause. Certainly, the problems of Indonesian borrowers have been compounded by their own failure to recognise the dangers implicit in the new economic order and 'hedge' against possible fluctuations in currency values. Yet Indonesian borrowers were not alone in their miscalculations: the apparent stability of the currency 'peg' which aligned the currencies of Southeast Asia to the US dollar not only induced a lack of caution among Indonesian investors; it also caused many foreigners to lend recklessly on the assumption that the value of their investments would be underwritten by a stable currency and the often direct involvement of governments in national economies. In the contemporary global economy, neither of these assumptions has proved supportable. From reform to revolution

Remarkably enough, what began as a localised currency crisis in Thailand has ultimately caused the collapse of a neighbouring government. While there may be few tears shed for the demise of the Suharto regime, the manner of its passing raises questions which transcend the Indonesian case.

One of the most striking and revealing aspects of the management of the region’s current problems is not just that the crisis was completely unforeseen by the vast majority of observers, including the IMF, but that its management has been the subject of much contestation. It is important to remember that, before the crisis, influential international institutions like the World Bank explicitly endorsed the role played by East Asia’s interventionist states and the attention they have paid to the so-called ‘economic fundamentals’. The failure to foresee any problem with the international economic system in general, and the problems facing East Asia in particular, helps explain the IMF’s initial resort to the conventional orthodoxy of fiscal restraint, cost cutting and retrenchment. But even orthodox commentators have been quick to point out that, while these remedies may have been appropriate in the context of Mexico’s recent financial crisis—although this is debatable in itself—East Asia faces quite different problems that have more to do with a crisis of confidence and financial panic than they do with any inattention to economic fundamentals. Despite the possible inappropriateness of the IMF’s proposed solutions to the crisis, the organisation wields so much international influence that the governments of countries like Indonesia have little choice but to comply with its ‘recommendation’ or risk further destabilising attacks from ‘the markets’ and the withdrawal of direct financial assistance. The scale of Indonesia’s difficulties has made external pressure virtually irresistible: the rupiah fell by 80 per cent against the dollar in six months and it is estimated that Indonesian companies owe more than US$80 billion to external lenders, much of which is unhedged and short-term. There are two critically important clusters of consequences that flow from the IMF’s proposed reforms that merit particular emphasis.

First, at the domestic level, the IMF’s reform package is fundamentally incompatible with Indonesia’s existing political economy, even in the absence of Suharto. The insistence on an independent central bank, further trade liberalisation, the ending of marketing monopolies and a general increase in the ‘transparency’ of economic relationships is all designed to transform Indonesia’s opaque business practices and the patterns of patronage, cronyism and corruption that have recently become such a prominent part of reformist discourse. The IMF’s insistence that subsidies for fuel and electricity be eliminated not only has the potential to unravel
existing political and economic structures, but has contributed to the undermining of basic social order. The rioting that played such a crucial part in undermining Suharto's authority also had a profound impact on the potentially vulnerable Chinese business class. The Suharto government's position was further undermined by the ill-conceived suggestion that it might create a 'currency board', in which the value of the rupiah would be tied to the dollar. Its advocacy at such a moment displayed little appreciation of the power of financial markets and the inability of nation-states to maintain policy autonomy. The original trigger for the crisis was, after all, the unsuccessful attempt by the countries of Southeast Asia to peg their currencies to the dollar, a policy which ultimately eroded their competitiveness and left them vulnerable to speculative attacks from financial markets. Whatever the intrinsic merits of the currency board proposal, its lasting significance in an Indonesian context is likely to be as a symbol of the continuing decline of state sovereignty in the face of transnational institutional and market pressures.

The second important group of effects that flow from the IMF's reforms are international. Significantly, the IMF's reform package is, as far as many East Asian observers are concerned, directly associated with the USA and its foreign policy agenda. In other words, a major aspect of the contemporary crisis revolves around competing visions of the way capitalism might, indeed ought, to be organised. The crisis represents a major opportunity for external state actors to force the sorts of change that have been advocated by a range of transnational organisations like the WTO and APEC in an era in which the USA can privilege economic interests unconstrained by Cold-War strategic imperatives. The reaction of the financial markets to the initial ascension of 'interventionist' Minister for Research and Technology, B.J Habibie, to the position of vice-presidential candidate suggests that his presidency will be constrained and characterised by the need to placate powerful external forces. Put simply, not only are countries like Indonesia being forced to come to terms with the 'technical' requirements of policy formulation in an increasingly open internationalised economy, they may also no longer even enjoy the luxury of unilaterally deciding which personnel will attempt the task of national economic management.

It is at this point that an extremely powerful convergence occurs between the activities of private market players and the more overt political interventions of institutions like the IMF and countries like the USA. The dominant normative discourse which privileges market mechanisms and which calls for greater transparency in national political economies is not only actively championed by the IMF, but is directly reinforced by the actions of financial markets, especially at times of crisis and uncertainty. This is not to say that such prescriptions for economic reform and management are in some way 'correct', or that they are even a necessary precondition for market profitability. On the contrary, the situation before the crisis unambiguously demonstrates that East Asian political and economic practices were no barrier to profitability as far as outside investors were concerned. But at a time of panic in global financial markets, the discourse of neoliberal reformism provides a convenient retrospective rationale for the inherent irrationality of processes that were internal to markets themselves.

Concluding remarks

The contemporary crisis in Indonesia and the East Asian region more generally dramatically illustrates how the international political economy has changed and the way such changes have affected individual nation-states. The political elites of smaller economies like Indonesia's now find their policy autonomy increasingly constrained by transnational regulatory agencies which enjoy powerful political support and are in turn a major influence on international financial markets. While this is a ubiquitous economic management problem from which even the USA itself is not
immune, it is especially problematic for smaller countries like Indonesia, which are dependent on access to mobile international capital to underpin not just rapid and continuing economic development, but an entrenched system of domestic patronage that is a central component of the existing political order.

Indeed, given the inherently threatening nature of the reforms that were forced upon the Suharto government, several aspects of the crisis are worth re-emphasising. From an East Asian perspective the governments of the region in general and the Suharto government in particular have been engaged in a dialectical relationship with the external international economy that threatens to undo their management of, and control over, national economic resources. In short, liberalisation may have granted access to huge sources of international capital to countries like Indonesia, but it has been achieved at the cost of diminished economic autonomy. Where there has been little discrimination between the type of financial flows, or supervision of the purposes to which such inflows were put, then the problems of national economic management have been compounded.

Nevertheless, the most important and unambiguous lesson to emerge from the current crisis is about the structure of the global political economy of which Indonesia is a part. Simply put, the most significant change in the contemporary international economic order has been the increasing scale, scope and rapidity of movements of financial capital. Moreover, financial capital is not simply of greatly increased size and significance, but the controllers of such mobile financial assets exercise a good deal of power in the international system. Whether it is manifest directly by capital flight from the 'periphery' at times of crisis, or more subtly in the attempts of key investment houses to influence US foreign and economic policy, financial capital is becoming an increasingly important influence on the global political economy and the norms, rules and practices which govern it. Individual national governments, especially of smaller economies like Indonesia's, are therefore extremely vulnerable to rapid transformations in their economic position and increasingly subject to the disciplinary power of financial markets. Governments that fail to subscribe to the currently powerful and influential market-centred, neoliberal orthodoxy may find themselves subjected to market pressures they are unable to resist.

What we appear to be witnessing, in short, is the commodification of the nation-state itself. As financial capital becomes increasingly disconnected from economic activity and 'investment' occurs through a range of intermediaries and instrumentalities which exaggerate this attenuation, then financial flows are determined principally by fluctuating market sentiment and the 'image' of the nation in the eyes of potentially mobile investors. In such circumstances, 'investment' decisions may have a good deal more to do with what Charles Kindleberger called 'general irrationality or mob psychology' than with economic fundamentals, however defined. The somewhat ironic implication of this for 'Indonesia' is that the removal of Suharto could restore market confidence without changing the underlying structures of political power and economic patronage which have apparently become such a source of concern to outside investors and regulatory authorities. Given that authoritarianism, corruption and a state-business nexus were not a bar to investment until recently, it is quite conceivable that a repackaged Indonesian state could yet regain the favour of 'the markets'. The key to restoring the fortunes of 'Indonesia', in other words, is a shift in market sentiment. It is a development that is dependent upon the internal dynamics of international financial markets, a process which has only the most tenuous connection with economic or political realities within Indonesia itself. In such circumstances, democratic reform-if it occurs-will be a fortunate by-product of, rather than a functional necessity for, restored profitability. The point to emphasise is that even a democratic government would not be immune to precisely the sorts of external pressures that undid the Suharto regime.
Although attention has been predominantly focused on the immediate drama of Suharto's downfall and the associated social unrest, Indonesia's troubles raise important long-term questions about the management of what is an increasingly global economic order. Central in this regard are the appropriateness of the orthodox economic prescriptions handed down by the IMF, which have played a central role in exacerbating an already difficult situation. Simply enhancing the influence of market forces and further liberalising financial flows is likely to introduce further systemic volatility into both the regional and the wider global economy. It is not, therefore, simply because the current programme of IMF-sponsored crisis management is associated with the foreign policy interests of the USA and their desire to establish themselves on a more competitive footing in East Asia that the regional crisis has wider, more enduring implications. It is also because the very structure of the global economy, in particular its market-centred and increasingly privatised structures of governance, is contributing an inherent volatility and unpredictability to the whole interconnected, international economic and political order.

Notes

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2. In the German and Japanese economic systems, for example, there is a much closer relationship between firms and financial institutions, making any distinction between industrial and financial sectoral interests more problematic. Moreover, the strictures imposed in the interests of financial capital, particularly on labour, may actually enhance the profitability of industrial capital. See Guglielmo Cardechi, 'The EMU, Monetary Crises and the Single Currency', Capital & Class, Vol. 63 (1997), pp. 85-114. 3. Robert Guttmann, How Credit Money Shapes the Economy: The United States in a Global System (M.E. Sharpe, 1994), pp. 37-9.
33. The strategic background is analysed in Richard Tanter, 'Oil, IGGI and US hegemony: the global pre-conditions for Indonesian rentier-militarization', in: Arief Budiman (Ed.), State and Civil Society in Indonesia, Monash Papers on Southeast Asia No. 22, Monash University, 1990, pp. 51-93. 34. Significantly, at the height of the crisis in Indonesia, the IMF and the USA chose to postpone an instalment of the bail-out package, placing even greater pressure on the Suharto regime to implement further reforms which exacerbated social tension and ultimately led to Suharto's downfall. See Jeremy Pelofsky, 'IMF puts brake on extra aid', The Australian, 22 May 1998, p. 2.
35. The seminal exposition of Indonesia's political and economic transformation in the post-colonial era remains Richard Robison, Indonesia: The Rise of Capital (Allen & Unwin, 1986). For a good overview of Indonesia's historical development and the theoretical perspectives that have been brought to bear upon it, see Mark T. Berger, 'Old State and New Empire in Indonesia: Debating the Rise and Decline of Suharto's New Order', Third World Quarterly, Vol. 18, No. 2 (1997), pp. 321-61.
41. Andrew MacIntyre, 'The politics of finance in Indonesia: command, confusion, and competition', in: Haggard et al., The Politics of Finance in Developing Countries, p. 124. 42. Wade, Governing the Market.
43. 'Infrastructural power' refers to 'the institutional capacity of the central state, despotism or not, to penetrate its territories and logistically implement decisions. This is collective power, "power through" society, coordinating social life through state infrastructures.' Michael Mann, The Sources of Social Power: The Rise of Classes and Nation-States, 1760-1914 (Cambridge University Press, 1993), p. 59. 44. Macintyre, 'The politics of finance in Indonesia', pp.13940. 45. Robison, Indonesia,
50. This line of argument has been most fully developed in Paul Krugman, What Happened to Asia? at http://web.mit.edu./krugman/www/DISINTER.html.
52. It should be noted that the principal beneficiaries of the Mexican bail-out were large US-based investors and the holders of mobile financial assets, not the Mexican people, who had to contend with rising unemployment, inflation and a generalised decline in living standards. For a discussion of the Mexican crisis, see Martin & Schumann, The Global Trap.
53. See, for example, Jeffrey Sachs, ‘IMF orthodoxy isn't what Southeast Asia needs’, International Herald Tribune, 4 November 1997, p. 8. Interestingly, there has also been a significant difference of opinion between the IMF and the World Bank over the best method of managing the crisis. See ‘Of take-offs and tempests’, The Economist, 14 March 1988, p. 92.
54. It is important to recognise that the collapse in the rupiah's value has not been driven exclusively by external forces. Much of the collapse in the currency's value was the result of unhedged Indonesian 'investors' panicking and attempting to buy dollars to cover their highly leveraged and exposed debt burdens. See David Wessel, ‘Money trail: who ruptured the rupiah?’, Asian Wall Street Journal, 31 December 1997, pp. 22.
59. 'New illness, same old medicine', The Economist, 13 December 1997, p. 78. 60. It should be noted that there are a range of indigenous Indonesian perspectives that do not subscribe to the Anglo-American economic orthodoxy. For an overview, see Ian Chalmers & Vedi Hadiz (Eds), The Politics of Economic Development in Indonesia: Contending Perspectives (Routledge, 1997). 61. For a more detailed elaboration of this argument, see Mark Beeson, 'The political economy of East Asia at a time of crisis', in: Richard Stubbs & Geoffrey R.D. Underhill (Eds), Political Economy and the Changing Global Order (Oxford University Press, 2nd edn, forthcoming).
64. Significantly, the crisis appears to have strengthened the position of technocrats like Co-ordinating Minister for the Economy, Ginandjar Kartasasmita, who was