

# CRONY CAPITALISM AND POST- CRISIS ECONOMY IN INDONESIA AND THE PHILIPPINES

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## **ABSTRAK**

*Kapitalisme kroni merupakan salah satu fitur utama sistem kapitalisme semu. Sebagai negara Asia Tenggara yang dikenal memiliki sistem ekonomi yang disebut kapitalisme semu oleh para ahli, Indonesia dan Filipina sama-sama pernah mengalami periode sejarah kepemimpinan rezim otoriter yang turut membentuk kultur kapitalisme kroni yang kuat di kedua negara tersebut. Artikel ini memaparkan kembali secara singkat pengalaman Indonesia dan Filipina dalam menghadapi krisis moneter Asia tahun 1997-98, berfokus terutama pada reformasi politik dalam negeri masing-masing negara serta pengaruhnya terhadap kapitalisme kroni dan kemampuan negara mengatasi krisis. Tidak dapat dipungkiri bahwa reformasi politik di Indonesia dan di Filipina hingga taraf tertentu merupakan faktor kunci bagi kedua negara dalam mengatasi keterpurukan ekonomi akibat krisis keuangan Asia 1997-98 lalu. Dengan kata lain, Indonesia dan Filipina mampu mengatasi krisis ekonomi berkat langkah-langkah yang membawa sistem kapitalisme semu menjadi kapitalisme yang lebih murni.*

**Kata kunci:** kapitalisme kroni, kapitalisme semu, krisis moneter Asia 1997/98, Indonesia, Filipina

## **ABSTRACT**

Crony capitalism is one main feature of the ersatz capitalism. Indonesian and Philippines, two East-Asian countries which are categorized by scholars in the same group practicing the form of ersatz capitalism system, respectively had undergone a historical period of robust authoritarian regime. This fact has indeed influenced the emergence of the strong cronyism in both countries. Through this article, we are briefly revisiting the experiences of Indonesia and Philippines during the Asian financial crisis 1997-98, focusing on their respective political reforms and the impact on the cronyism and eventually on the ability of both countries to survive the crisis. It is apparent that to a certain degree, the political reforms were indeed the key factor for both Indonesia and Philippines to outlast the hit of the Asian financial crisis in 1997-98. In other word, it was undeniably through a motion toward a more genuine capitalism system that these countries with that of ersatz capitalism could carry on against economic crises.

**Keywords:** crony capitalism, ersatz capitalism, Asian financial crisis 1997-98, Indonesia, Philippines

## **INTRODUCTION**

Kunio Yoshihara categorizes Indonesia and Philippines, along with Singapore, Thailand, and Malaysia as some Southeast Asian countries in which case belong to the Ersatz capitalism. He argues that these fast growing Southeast Asian countries did not practice the dynamic capitalism in the way the United States and Japan do. This so-called Ersatz capitalism is identified by the compromise and inferior role of the states, the

problems related to treatments towards the Chinese ethnics within each country, and the failure to develop better technological capabilities (1988).<sup>1</sup>

<sup>1</sup> Aside from its literal implication of being ersatz 'not-genuine', with such features it would be quite easy to understand commonsensically why the ersatz capitalism is regarded as an inferior model of capitalism compared to, say, the dynamic capitalism—which is supposedly practiced by the Anglo-Saxon capitalist countries (see also the contrast with the Western Continental Europe with their welfare state system). In broad brush strokes, the

Various discussions on the distinction between the Ersatz capitalism, or pseudo-capitalism, and the echt capitalism are mostly conducted in terms of the inefficiency of the former model compared to the latter due to some extant characteristics of the South East Asian countries. The main features are the excessive government economic intervention in which case being detrimental to the free market system, and the thriving practice of rent-seeking come out of some socio-political behavior in those countries. Indonesia and Philippines, based upon their several socio-political resemblances, are inevitably appealing in revealing the ersatz characteristic of capitalism especially the unbridled cronyism in both countries.

Prior to the currency and financial crises of 1997-98, Indonesia is praised by the World Bank as one of the newly industrializing countries (NICs) by which it has a new model for emulating other developing countries. As one of the Highly Performing Asian Economies, Indonesia also achieved the sustained and equitable exported high growth and rapid industrialization (Sundaram, 2001, 19). Classified as one of the HPAEs, Indonesia has indeed been showing structural changes toward industrialization. Indonesia has also underwent a long term shift from the agricultural and oil based economy to the manufactures. The economic orientation is more global oriented as well as outward looking with which it can be exemplified by the expansion of manufacturing exports, and the participation in various schemes of international economic cooperation.<sup>2</sup>

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dynamic capitalism is deemed more favourable to the advocates of a free market approach in managing the economy. This is supposed to be the idealized portrait of capitalism with its openness to innovations and pluralism of views.

- 2 Dr. Thomas Lindblad examines that Indonesian economic development involves internal restructuring and external relations, asserting that the admission of Indonesia to the HPAEs dictates an increasing economic orientation towards the East and South-East Asian region. The manifestation is that first, the Indonesian economic restructuring

In contrast, the economic performance of Philippines used to be regarded as a failure. In 1955, Philippines actually have had a GNP per capita twice as rich as Korea, and the country was more industrialized than Korea up to the late 1960s. However, throughout the post-independence era, Philippines did not implement the systematic policy reforms (Kang, 2002, 49). The post-war Philippines possessed tremendous developmental assets. Yet, the country failed to have a sustainable economic development (Hutchcroft, 1998). The ongoing dominance of old oligarchic groups was deemed to be the reason despite various efforts of political and institutional reforms. Though Philippines made great achievements on the commitments to liberalization, privatization, and the reduction of monopolies; the political sphere of the country is the real obstacle for a sustainable economic development.

Aside from the fact that Philippines is not part of the High Performance Asian Economies, there are still numerous parallels between the economies of these two archipelagic countries. Both Indonesia and the Philippines are among five countries in which case they suffered from the economic crisis in 1997-98—the other countries are Korea, Malaysia and Thailand. Meanwhile, corporate governance and politics are the traits be shared by both economies. However, the Asian economic crisis in 1997-98 has changed the practice of corporate governance, and the relation between business sectors and the government. The common shock of the crisis swept many

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is based on the East Asian model which involved agricultural revolution and technological upgrading for manufacturing; second, Indonesia has also integrated into the regional economic relations. The long term development of Indonesian economics toward such outward oriented alteration can be found in more detailed in the article by Dr. Thomas Lindblad, "Indonesian Economic Development in a Time of Globalization," *Bijdragen tot de Taal- en Volkenkunde*, Vol. 154, No. 2, GLOBALIZATION, LOCALIZATION AND INDONESIA (1998), pp. 193-217.

countries in East and Southeast Asia. But, the shifts in corporate governance and the business-government relationship quite varied, so did with the outputs (Gourevitch, 2008, 70).

My question for this paper is thus quite simple. How was the exercise of government power in Indonesia and Philippines prior to the crisis, and how was the general immediate post-crisis economic condition in these two Southeast Asian countries being notorious of the chronic cronyism?

### **CRONY CAPITALISM: SOEHARTO AND MARCOS REGIME**

Crony capitalism is a popular catchphrase dubbed to be one of the major cause of the economic crisis in Asia during 1997-98. Crony capitalism or alliance capitalism appears like an economic rationale in which the need for government support gives the government a powerful to influence the behavior of both firms and bank. This logic often derogates from politics as corruption and the survival strategies of ruling regime (Wade, 1998, 1540).

Southeast Asian states shaped differently their respective management and political stability. Moreover, each country has a different capacity for constructive intervention. In general, the capacity depends on the structure of political supports, and the available means of political control owned by the state's elites. In particular, the intervention of authoritarian regimes tends to be coercive, and controlled by powerful interests. In countries with more moderately broad-based regimes, the intervention of the state provides a greater degree of flexibility and political capacity with which state elites can manage economic and political challenges (Crone, 1988, 254). Indonesia and Philippines experienced the periods of authoritarian regimes of Soeharto (1967-98) and Marcos (1965-86) respectively. It would be interesting to see how the exercise of power of each regime affected the political stability of the respective country, and accordingly see the relation with the economic situation pre- and post-crisis 1997-98.

### **Indonesia**

Paul D. Hutchcroft in his book uses the term “rent capitalism” to describe systems in which money is invested in arrangements for appropriating wealth which has already been produced rather than in arrangement for actually producing it (Hutchcroft, 1998, 19). The Indonesian economy is thus a rent-seeking economy, and be distinguished from those countries with production-oriented capitalism. Capitalists in a country with rent capitalism are called the rent-seekers. They usually strive to make affiliation with the government or the bureaucrats in order to enjoy the rent—the economic process in which case the gains come from manipulating the social and political environment. Moreover, Hutchcroft distinguishes two kinds of patrimonial state viz., the “patrimonial administrative state” and the “patrimonial oligarchic state.” Here, Indonesia falls into the first category because the dominant social force is either the bureaucratic elite or the political aristocracy and the masses and industrialists merely play the role as clients of the patrimonial office while the most important competition mostly occurs among the elites. In Indonesian case the elites—the patrons—refer to the military during the Soeharto administration (Hutchcroft, 1998, 46-7).

In Indonesia, politics and business are always bound up as large scale of resources in which case such is controlled by the government. Nowadays, Soeharto regime is always perceived by public as corruption, collusion and nepotism, an outcry of public resentment towards the crony capitalism. The alleged practice of corruption, collusion and nepotism is basically due to the abusive use of public posts for private gains.

Throughout the thirty two years of his presidency, Soeharto has established a centralized authoritarian regime and a strong corporatism. Structurally speaking, Soeharto was not an absolute leader or dictator like Ferdinand Marcos in the Philippines. Even though he possessed the strongest position, Soeharto shared his political power with a number of military elites within

the country. In economic sector, his governance has created numerous rent-seekers due to the low quality of intervention done by the government (Kunio, 1990, 123).

The importance of posting military figures in bureaucracy has been conducted by Soeharto in order to secure his position. Letting them to gain political and economic benefits has indeed secured their loyalty to his administration by which it accordingly led to a grand scale corruption in Indonesia. Besides, Indonesian politics under Soeharto was also lacking of many factors such as accountability, transparency, democratic institutions and a free press—some of classic symptoms of an authoritarian regime (Robertson-Snape, 1999, 590-1).

Soeharto regime, however, experienced a period of a sustained economic growth which also stabilized his reign. He put economic achievement as a priority. In the early period of his presidency, inheriting the disastrous economic condition from the Soekarno era, Soeharto exercised a rather liberal economy by opening up Indonesia for foreign investments and financial aids. However, during the decades of 1970s and early 1980s, the trend shifted with the introduction of nationalist and interventionist ideas. As a result, more restrictive, inward oriented and primarily state-led economics began. The government also started to impose protectionism which eventually opened many opportunities for political patronage and corruption (Robertson-Snape, 1999, 593-4).

The socio-political environment of Indonesia under the Soeharto administration has created good opportunities for rent-seekers. Another feature of capitalism in Indonesia is that it has been dominated by the Indonesian Chinese descendant capitalists. This Chinese domination was never considered as a threat by the Soeharto and his military circle since the Chinese community in Indonesia never holds the political structure due to the Islamic stance has always been very strong (Kunio, 1990, 129). Since bureaucracy, state banks, and business sector were under Soeharto's control, a large sector of economy was practically very

dependent on his central figure. The ethnic Chinese minority who then possessed seventy percent of the modern private sector were also very reliant on his protection. This highly concentrated Chinese capitalism resulted in the high rent-seeking practice from the pribumi capitalist counterparts.

Many Chinese businessmen who had close connections with Soeharto and his agents of crony capitalism; were able to create their business empire. Major conglomerates in Indonesia were indeed of these Chinese who owned numerous companies and dominated Indonesian economy. Also some Soeharto's offspring are included as major conglomerates. Many leading business figures took benefits from Soeharto's patronage and protectionism such as Liem Sioe Liong of the Salim Group, Bob Hasan of the Hasan Group, and Goh Swie Kie of the Gunung Sewu Group. They were likely to enjoy privileges access to bank credits, forestry concessions, trade and manufacturing monopolies as well as state contracts for supply and construction. In the meanwhile, the Indonesian entrepreneurs were put-aside in the political process (Kang, 2002, 189-190). This condition then triggered social riots against the ethnic Chinese during the dethronement of Soeharto in 1998 (Robertson-Snape, 1999, 596).

The economic and financial crisis of 1997-98 later ignited transformations in Indonesia. The economic crisis has unleashed a major political change. It eventually led to the demise of an autocratic regime that have had a firm grip on the state and society for about three decades. Among the political turmoil, the weaknesses of Indonesian economic system exposed widely.

## **Philippines**

Post-independence Philippine history consists of three main periods. During the democratic era of 1946-72, the Nacionalista and Liberal parties appeared identical in both ideologies and policies. The period from 1972-86 was that of Marcos and the martial law. In the previous democratic era, the government was very weak and overrun by the interest group. The

elections are colored by violence and the vote buying, but in general were considered legitimate. The following period, however, was a worse phase of Ferdinand Marcos' administration especially when he arbitrarily imposed the so-called martial law. The third period lasts from the period after Marcos' regime were lost the U.S. support due to the "People Power" movement in 1986 up to the present. In this post-Marcos era, the Philippines started to practice a genuine democracy, and establishing a more stable legal and political institutions (Kang, 2002, 50). However, during these periods the basic pattern between the Philippine state and the dominant economic interest actually remained similar.

The practice of crony capitalism in Philippines was rooted in the fact that the Philippine politics subsumed under one basic unit. The lack of differentiation in interests among the existing political parties was also due to this factor, to wit, the basic unit existed in the extended family and its connection with other oligarchic families. Throughout the democratic era the Liberals and the Nacionalistas held power in the same number of times, and each party succeeded in posting three presidents. Indeed, Ferdinand Marcos was the only president to win re-election. It was very usual for a member of a political party to shift his affiliation. Typically, a Filipino politician has a personal system of alliances with other politicians. Marcos himself first ran for legislature as a member of Liberal party, but then he gained the presidential position through the Nacionalista Party (Kang, 2002, 123-4).

The rent capitalism is the main feature of Philippines as well. According to Paul D. Hutchcroft, the Philippine type of polity is the "patrimonial oligarchic state". In such state, a powerful oligarchic business class extracts privilege from a largely incoherent bureaucracy. In contrast to the other type of "patrimonial administrative state" where the economic force is entirely dependent on the state apparatus, the ones who benefit the most of the rent capitalism in Philippines are not the bureaucrats, but the

oligarchs (Hutchcroft, 1998, 52). The oligarchs have access to the state during the democratic era through electoral competition. Despite the political competition, the legislature also played important roles in the rent-seeking practices. Usually, aspiring opposing politicians who need supports would appeal the oligarchs, promising some spoils when they win the electoral competition.

The pattern of crony relations with its overwhelming rent-seeking demands in Philippines has contributed to a high transaction cost, and implying lower economic performance. Due to the competition among business groups over the spoils of state, the power shifted rapidly among groups and entailing the instability of property rights and elites (Kang, 2002, 145).

The bureaucracy within Marcos administration actually experienced significant autonomy and the small-scale reforms. However, such reforms did not enhance the development process since Marcos only wanted to gain the aid of international and U.S. agencies in providing financial supports, all of which are eventually enjoyed by his cronies and his individual interests (Kang, 2002, 74-5). This be in line with Hutchcroft's analysis that the patrimonial oligarchic state like Philippines tend to be more resistant to reform (Hutchcroft, 1998, 53). In the era of Marcos martial law (1972-86), the concentration of power is located within his presidential palace. Marcos was able to strengthen the state and centralized control under his own command. He also created a new oligarchs to take place the old elites, and this new oligarchs was very much dependent on Marcos' support. Marcos also sought to conquer and attack any potential competitors of his oligarch (Hutchcroft, 1998, 136-8). Thus, such oligarch changed into a more "patrimonial administrative state".

Ricardo Manapat in his book describes the magnitude of the accumulated wealth of Marcos and his cronies. During the period of Marcos regime every major economic activity in Philippines is controlled by his family, relatives, or cronies. These people owned most key corporations. They

acted either as Marcos nominees or on their own behalf and serving as his money-making network that have had access to the national coffer, the resources of private banks, international loans from multinational banks and aid money from the U.S. and Japan. These corporations also enjoyed many privileges, such as tax exemptions, monopolies, lucrative contracts, and sometimes military forces which would be made available for his contacts as a means in economic competition (Manapat, 1991).

The political sphere of Philippines was assessed to be the pivotal reason of the country's economic laggard. In many aspects, the Philippines possessed all necessary ingredients to successfully develop. The country had great entrepreneurial talents, well-educated workforce, rich natural resources as well as lively economist and development specialists. Yet, Philippines could not achieve the level of newly industrializing economies (Hutchcroft, 1998, 4). As Kang states these qualified technocrats are used for the benefit of the corrupt regime of Ferdinand Marcos.

Indeed, corruption is not the only variable for affecting growth. It is crucial nonetheless. In the cases of Indonesia and Philippines, the political sphere under the authoritarian governments have affected their economic performance. The authoritarian Soeharto administration in Indonesia also restricted the economic development. Moreover, the economic sectors during Soeharto regime has always been dominated by the state, mostly handled by his family members. However, although the condition was very much alike to Philippines under the Marcos regime, Indonesia still enjoyed a moderate growth due to the large oil reserves.

The cases of Indonesia and Philippines show that the excessive concentration of power in the hand of political elites and their cronies led to a state-dominated economy. This is run by patronage and corrupt people have implied a weak economic system. All weaknesses exposed during the financial crisis hit Asia in 1997. The following section will give an overview on the economic crisis of 1997-98 in both countries.

## **FINANCIAL CRISIS 1997-98: INDONESIA AND PHILIPPINES**

Sequentially, the Asian crisis started with the drastic depreciation Thai Baht on July 2, 1997. It occurred immediately after the currency floated as many investors hurriedly sold their holdings in local currency including Baht. The depreciation is followed by the far-reaching contagion to other currencies. In mid-August, Indonesia experienced the similar flotation and depreciation against the US currency as worried by investors and local companies in which case they started to sell local currencies as much as possible after the sudden capital flight out in Thailand. Next, Taiwan's devaluation came in mid-October. By November, the panic swept the whole region including South Korea (Wade, 1998, 1541-42). The Asian financial crisis reached its climax in the midst of 1998. Indonesia as one of the most impacted country reached a negative economic growth rate at 13 percent. The poverty rate also increased significantly. Philippines initially managed to response to the crisis quite positively during the last half of 1997 as it posted a growth rate of 5.2 percent (Hicken, 2008, 207).

More recently, analyses on the Asian crisis indeed show that each country has some specific characters either on the causes or on the effects. The general consensus is that the contagion swept over almost all economies in Asia. However, the depreciation of currency suffered by each country though it was varied in terms of its intensity. Thai obviously suffered the most, and followed by Malaysia, Indonesia and the Philippines. Singapore and Taiwan experienced the mild depreciations. While China and Hong Kong did not suffer any depreciation due to their capital controls (Djiwandono, 2009, 68). Ten years after the crisis, the appreciation of Asian currencies also varied greatly. Korean Won and Singaporean Dollar recovered 90 and 95 percent of their respective rates, the Thai Baht and Malaysian Ringgit 70 percent from the pre-crisis level, Philippine Peso 50 percent, and Indonesian Rupiah only 25 percent. As for the economic growth and

investment rates, though recovering, their GDP and investment rates are lower than the pre-crisis levels (Djiwandono, 2009, 69).

In Indonesia the contagion manifested a distinct domestic type. Crisis in Indonesia is marked by a foreign exchange market crisis, and was followed by a banking crisis. The latter accordingly caused a general economic crisis leading to a socio-political crisis that also putting an end to the Soeharto administration in May 1998. The crisis in Indonesia is indeed triggered by the combination of external causes—“the herd instinct mentality in the financial market” facing the contagion—and internal causes, institutional weaknesses, cronyism and faulty policies (Djiwandono, 2009, 69-70).

The socio-political development in Philippines was rather different from Indonesia. Philippines had started some reforms prior to the crisis, a development which turned out to be beneficial for the country during the economic malaise in 1997-98, even though the reforms did not bring any wonders for the Philippine economics as the economic performance of the country remained slow.

Philippine government undertook a number of significant reforms of the real sector of the economy in the 1980s until 1990s. There had been various attempts to change the financial system, but it was not until such decade that significant reform is achieved by Philippine. This is followed by a period of reform during 1993-1995 in which the central bank was rehabilitated; commercial banks were forced to increase their capitalization ratios; new foreign and domestic entrants were allowed to enter the market; and the quality of prudential regulation was strengthened. The result was an increase in competition. The finance was increasing not only in quantity but also in terms of its quality (Noland, 2000, 405). From many financial indicators, on the eve of financial crisis of 1997-98, Philippines indeed showed more solid conditions.

## **POST-CRISIS 1997-98: REFORMS AND RECOVERY**

Indonesia initially showed similar conditions and vulnerabilities as other countries in crisis. Generally Indonesia also exhibited a good response towards the crisis. However, the country was eventually the worst case, suffering from the crisis the most and taking the longest time to recover. In terms of the immediate impacts of crisis, Indonesia suffered from the negative GDP growth rate, the currency depreciation and the negative performance of capital market (Djiwandono, 2009, 71-2).

Prior to the crisis, the average growth of Indonesia reached 8 percent. After the negative point in 1998, the rate picked up but in much slower pace of 4.8 percent. The financial sector was the hardest hit, and followed by the manufacture sector. But the agriculture sector remained strong. The current investment percentage of GDP is also lower than the pre-crisis situation. The slower paced of Indonesian economic growth post-crisis, however, is also due to several external challenges like the global slowdown and the higher oil price (Indrawati, 2008).

Nevertheless, poverty rate in Indonesia started to decline gradually since 1999 up to 2005. In 2006, moreover, due to the high increase in world fuel price the poverty rate increase again as Indonesia has been more and more dependent on oil imports. The rate was 15.97% in 2005 and 17.75% in urban and rural areas prior to re-decreasing on the following years (16.58 in 2007 to 11.42 in 2011) (Tambunan, 2012, 45).

The crisis in 1997-98 has forced the government to undergo structural reforms. These post-crisis structural reforms encompassed some institutional, economic and social restructuring. At the end of Soeharto regime, within the institution level, changes began to take place. Indonesia started to practice the democratic direct election; TNI and Polri are separate bodies; an anti-corruption commission was founded; and the legal

reform was imposed. Reforms of the economic sectors contained measures like the debt and bank restructuring, regional autonomy and fiscal decentralization, tax and budget reform and the inauguration of an independent central bank viz., Bank Indonesia (BI). The government also gave the direct subsidy as well as compensation, and created the pro-poor budget for education, health and social expenditure (Indrawati, 2008).

In the meantime, the neighboring country Philippines has made a surprise when the Asian financial crisis hit. Right after the crisis, Philippines could manage to bounce back quickly because of the relatively well-manage response of the government. Compared to other crisis-hit countries, Philippine economy was in a better shape. It indeed regained strength quickly. The corporate sectors were better off compared to those of Thailand and Indonesia. The reform program of President Fidel Ramos prior to the crisis somehow has ignited public optimism. Unfortunately, due to the crisis did not really caused as much anxiety as what happened in Thailand, it did not encourage further political and economic reforms in the Philippines (Hicken, 2008, 208-9).

Prior to the crisis, Philippines had been poorer compared to other Asian economies. Thankfully, the country became not as vulnerable to capital flows like the richer economies that were heavily indebted. During Corazon Aquino administration, Philippines started its economic liberalization some of which is continued by Fidel Ramos. These post-Marcos governments started to take measures such as decentralization, privatization and long term reforms. The short-run result was, among others, the end of unjust powerful oligarchs. The exercise of democracy in the country positively affected the overall economic and political conditions (Kang, 2002, 171-5).

With its notorious reputation of being a laggard, the Philippines managed better compared to its counterparts due to three factors. Firstly, its financial system was in a better condition after a

series of reforms performed by the Fidel Ramos government. Other sectors such as banking and real estate used to improve prior to the crisis. Secondly, the legacy of Ferdinand Marcos era and the uncertainty during Aquino administration was the slow paced liberalization in the country. This turned out to be a good thing during the crisis since Philippines decided to be a participant in some speculative investments and private debt-booms belatedly. Thirdly, the country possessed a consistent crisis management and political system so it could tackle the crisis well (Hicken, 2008, 221).

Historically, Philippines used to have a repressed and inefficient financial system. In the 1970s, the country was a country with a repressed financial system consider its capital flows, privatization, bank autonomy, entry barriers, interest rates and credit controls. The Philippine banking sector is also characterized by “rampant favoritism” and the “inefficient state regulation (Noland, 2000, 404).”

Since 1999, Filipinos have high expectations in the fostering economic recovery during President Joseph Estrada administration. Nonetheless, his leadership faced resistances in which case many policies, programs, and political initiatives faltered, and reduced his political popularity. Amidst the political dispute between Estrada against his oppositions, Philippines crawled from the regional economic crisis. The expected economic performance, to wit growth rate of 3 to 3.4 percent, was relatively slower compared to other countries are hit harder by the crisis such as Thailand and Malaysia in which they expected 5.4 percent of growth rate (Bolongaita, 2000, 67).

Generally there were changes affecting the corporate governance right after the crisis. Rapid inflows of foreign money, major acquisitions by foreign firms, adoption of international code of transparency in governance, reforms of formal financial structure, more information came from both private and public sectors, all hinted at the ending of the crony capitalism (Gourevitch, 2008, 74). Specialists assessed there are three



possible channels of change in East and Southeast Asian corporate governance: (1) the rule of law, which provide common law and is stronger than civil law; (2) political institutions with better accountability and conforming the constitutions; and (3) social forms of power that involve civil society (Gourevitch, 2008, 138-9).

It is apparent that the crisis pushed countries like Indonesia and Philippines to inevitably take some necessary measures and indeed some total reforms. Having discussed Philippines has started ahead with reforms and restructuring of its bureaucracy, Indonesia has to struggle in putting an end to the old autocratic regime since the Asian financial crisis hit the country.

In a broader context, Indonesia and Philippines also experienced significance changes. The post-crisis economic performance has slowed in such a way. However, the national resilience against the external shocks has improved. There have been considerable improvements, yet both countries still have a lot of things to do (Bhaskaran, 2009, 113).

## CONCLUSION

Both Indonesia and Philippines show the strong patrimonial features. On the one hand, Philippines demonstrated a more patrimonial oligarchic state. On the other hand, Indonesia showed a patrimonial administrative state. However, the capitalist system of both countries are exercised by an abusive autocratic regime which seems to be similar with the crony capitalism. The incoherent bureaucracy of Philippines is exploited by the money-making network of Marcos' family. In contrast, the protection system of Soeharto bureaucracy created some ample opportunities for rent-seekers. Yet, under the fully centralized regime and Marcos' martial law, Philippines resembled like Indonesia where the bureaucracy consisting of a narrow elite base; was far stronger, and they could manipulate society as well as diminishing the public pressure. As a result, the powerful interests in both countries held extensive control constraining autonomy and capacity.

The corporate governance in Indonesia and Philippines have had to undergo some reforms following the financial crisis of 1997-98. Prior to the crisis, Philippines has already begun reforms, and restructuring its financial sectors. The used-to-be underperformed country took benefits from these advance and positive changes, and responding the crisis quite well compared to other Asian countries. In contrast, the Indonesian case was rather unique. The crisis started as a financial crisis as in other Asian countries but then it grew into a multidimensional crisis, including a socio-political crisis culminating with the dethronement of Soeharto, and putting his crony capitalism to an end. It is obviously clear that reforms and restructuring in political as well as socio-economic sectors have played some pivotal roles in making the economic recovery in Indonesia and Philippines possible.

Perhaps, the next question is located within the magnitude of reforms taking place in both countries. While the Asian financial crisis 1997-98 has created a great momentum for Indonesia to undergo some socio-political reforms, the Philippines were not able to fight in a similar way. The later development of Indonesia and Philippines have shown another thing. Recent studies show that the national toils to overcome the cronyism in Indonesia and Philippines implied different outcomes in their respective macroeconomics. Some scholars believe that, unlike Indonesia, Philippines did not succeed in improving their economy further albeit they have conducted earlier reforms.<sup>3</sup> Philippines

<sup>3</sup> For instance see the article by Ben Reid (2000), "Crisis in the Philippines Left: Implications for the Asia Pacific," in *Journal of Contemporary Asia*, 30:2, pp. 181-198. Reid points out that while the Asian economic crisis in 1997 has triggered progressive social changes in various countries such as Indonesia, Malaysia, and South Korea, the Philippines which actually had similar opportunities since a decade prior to the then crisis with the end of Marcos' regime failed to follow the positive trend. He recognizes that one principal reason is the failure of the anti-Marcos movement—most notably the Communist Party of the Philippines—in establishing political opportunities to obtain more

suffered from a downturn after their initial prompt recovery. The impacts of Asian financial crisis in 1997-98 in Philippines deemed mild and failed to create necessary conditions for a more powerful socio-political reform but eventually implying the post-crisis malaise in the country.

Examining the experiences of these two South-East Asian countries has allowed us to pinpoint how the particularity of Asian capitalism, as being contrasted to its Anglo-Saxon counterpart, functions during the economic crisis. Indeed, South-East Asian capitalism has been compared to the East Asian cases where cronyism is also ever present. But the South-East Asian cronyism lacks some beneficial aspects of cronyism which can be found in East Asia, leading to the economic inefficiency.<sup>4</sup> The South-East Asian ersatz capitalism is seemingly brittle in dealing with the economic crises. Reforms to combat cronyism are indispensable due to the latter has implied some economic vulnerability.

Albeit the differing outputs shown by the experiences of both countries, the credence that

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thorough political changes and social transformations after all this time. The democratization and administrative reforms by the elites of Arroyo, Ramos, and Estrada were said to have brought very little improvement to the population.

- 4 David Kang particularly discusses the East Asian cronyism and highlights how it is not as deleterious as the South-East Asian counterpart. He approaches the issue of Asian cronyism from the aspect of transaction costs and the effectiveness of actors involved in the the whole cronyism practices. Taking the exemplary case of South Korea where extensive cronyism turned out to be beneficial, Kang showcases that close personal and family connections in the political and economic life of Korea have created long term stability between government and business elites. This resulted in what he calls “mutual hostages” where neither the government nor the business elites gained the upper hand. Such mutual hostages reduce transaction costs and eventually lessen rent-seeking competition. And the exact opposite of such advantageous cronyism is that of the cases of Indonesia and the Philippines. See David C. Kang (2003), “Transaction Costs and Crony Capitalism in East Asia,” in *Comparative Politics*, Vol. 35, No. 4 (Jul., 2003), pp. 439-458.

political democratization and reforms are de rigueur for economic improvement to various degree still essentially stands. In a nutshell, the more democratic the countries’ politics is, the better the economy shall be.

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