

Overview of the seven years' experiment -- What changed and what matters?

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OVERVIEW OF THE SEVEN YEARS' EXPERIMENT: WHAT CHANGED AND WHAT MATTERS?

YURI SATO

I. PURPOSE OF THE SPECIAL ISSUE

AFTER the Asian currency crisis in 1997, Indonesia struggled to reconstruct its hard-hit economy and to implement a wide range of institutional reforms under the IMF loan program. At the end of December 2003, Indonesia finally graduated from IMF supervision, which had lasted for a period of over six years. The graduation signaled to the international markets that Indonesia's crisis and the IMF-led reforms had at last been settled, and the markets reacted favorably.

In October 2004, a new government was inaugurated in Indonesia following the first direct presidential election in the country's history. For the first time after the fall of Soeharto, a government is expected to serve out its full term of five years. The resignation of President Soeharto in May 1998 triggered off democratization reforms, leading to a dramatic regime change from authoritarianism to democracy. The central government relaxed its unified grip not only in the political sphere but also as regards socioeconomic matters, a process that often had messy consequences. The initiation of the new government is expected to mark an end to this confused period of regime change.

During the seven years in which Indonesia was busily occupied with internal affairs, drastic changes occurred in the East Asian economy. The Chinese economy came to the fore, AFTA began to work, and bilateral as well as multilateral FTA negotiations accelerated. In the increasingly competitive regional economy, Indonesia's relative position seems to have suffered a setback. The new government has the responsibility of drawing up and executing appropriate development strategies without delay, taking full cognizance of these rapid changes in the surrounding world.

This special issue aims firstly to analyze the changes in the Indonesian economy that have occurred since the economic crisis and the fall of Soeharto regime by looking at structure, institutions, and actors, and secondly to identify the key challenges that face the new government. Our analysis will demonstrate that even though Indonesia has emerged from the period of disorder, having successfully graduated from the IMF program and having inaugurated a new government, the Indonesian economy still faces some serious problems that need to be addressed.

II. OVERVIEW ON THE POST-CRISIS INDONESIAN ECONOMY

Indonesia successfully became one of the high-performing economies that made up the “East Asian miracle.”¹ In fact, for almost three decades before the crisis, Indonesia had kept running on a fast track of 7 percent annual average growth. Since the crisis, however, Indonesia’s economic performance has shown a clear contrast with its neighbors including the two other crisis-hit countries of East Asia. While the Republic of Korea and Thailand succeeded in their V-shaped recovery in 1999, Indonesia suffered almost zero growth in that year (Table I).

Macroeconomic balance was restored relatively quickly, as was shown in the stabilization of the Rupiah and inflation rates in 1999. Driven by steady expansion of consumption, GDP growth rates turned positive after 2000. Problems associated with debts and the fiscal deficit seem to have improved somewhat by 2001. Nevertheless, Indonesia obviously changed its growth from a fast track to a slow one of around 4 percent annually, and growth has remained slow up to the present (2004) even under conditions of macroeconomic stability. The most serious problem is lack of investment, as is evident in low growth rates of fixed capital formation and a drop of FDI approval, both of which deteriorated after 2000. Low investment indirectly causes inactivity in exports and deteriorating unemployment. This provides a sharp contrast with investment-driven high growth in the Soeharto era as well as with that of the Thai economy as of 2003.

Low investment can be regarded as a symptom of weakness in the Indonesian micro economy. This “good macro, weak micro” paradigm indicates the need for a microscopic analysis that can investigate at greater depth the problems that lie behind the macroeconomic figures. Moreover, the collapse of investment-driven growth is closely related to Indonesia’s regime change. In this regard, it would be reasonable for us to focus on institutional changes from a microscopic perspective rather than on macroeconomic development issues.

III. SIA APPROACH AND OUR RESEARCH TASKS

In this special issue, we employ what we call the SIA approach in analyzing economic change. Figure 1 shows the relationship between structure (*S*), institutions (*I*), and actors (*A*). If we use a metaphor derived from *sumo* wrestling, the two *sumo* players and the referee are *A*, the *sumo* ring is *S*, and the rules of the *sumo* game are *I*. *A* is defined as an entity of action, *S* as a field in which actors play, and *I* as formal

¹ High-performing Asian economies (HPAEs) as defined by the World Bank (1993) comprised eight countries/regions, that is, Japan, four NIEs (Korea, Taiwan, Hong Kong, and Singapore) and three ASEAN member states (Malaysia, Thailand, and Indonesia). “East Asia” in this overview and in Kimura’s paper has a wider geographical coverage: in addition to the above HPAEs, it includes China and the Philippines, and in some cases Vietnam.

TABLE I
KEY INDICATORS FOR THE INDONESIAN ECONOMY, 1995–2003

	1995	1998	1999	2000	2001	2002	2003
GDP (growth rate, %)	8.2	-13.1	0.8	4.9	3.4	3.7	4.1
Private consumption (%)	12.6	-6.2	4.6	3.1	3.4	3.8	4.0
Gross fixed capital formation (%)	14.0	-32.5	-18.7	14.2	6.5	0.2	1.4
Exports (%)	7.7	11.2	-31.8	26.5	2.9	-0.6	4.0
Non-oil exports (US\$ bil)	36.2	41.9	39.5	48.4	43.2	44.9	47.5
FDI (approval, US\$ bil)	40.6	13.6	10.9	15.3	15.0	9.7	13.2
External debts (% of GDP)	55.7	158.1	105.8	95.4	94.8	76.0	63.5
Fiscal surplus/deficit (% of GDP)	0.6	-2.0	-2.3	-1.3	-2.9	-1.7	-1.9
CPI growth (%)	8.6	77.5	2.0	9.4	12.6	10.0	5.1
Exchange rate (Rp/US\$)	2,249	10,014	7,855	8,422	10,261	9,311	8,577
Unemployment (%)	7.2 ^b	5.5	6.4	6.1	8.1	9.1	9.5
Head count ratio (%) ^a	11.3	24.2	23.5	19.0	18.4	18.2	16.6
Korea:							
GDP (growth rate, %)	8.9	-6.7	10.9	9.3	3.8	7.0	3.1
Gross fixed capital formation (%)	11.9	-21.2	3.7	11.4	-0.2	6.6	3.6
CPI growth (%)	4.5	7.5	0.8	2.3			3.6
Thailand:							
GDP (growth rate, %)	8.9	-10.5	4.4	4.8	2.1	5.4	6.7
Gross fixed capital formation (%)	11.2	-44.3	-3.2	5.3	0.9		11.7
CPI growth (%)	5.8	8.1	0.3	1.6			1.8

Sources: BPS (Badan Pusat Statistik) statistics, World Bank (2003), Institute of Developing Economies, *Ajia dōkō nenpō* [Yearbook of Asian affairs], Chiba: Institute of Developing Economies, JETRO, various years.

^a Percentage of population below the poverty line (national and overall poverty line). The figure of 1995 is as of 1996. The new BPS definition has been used for 1998–2003.

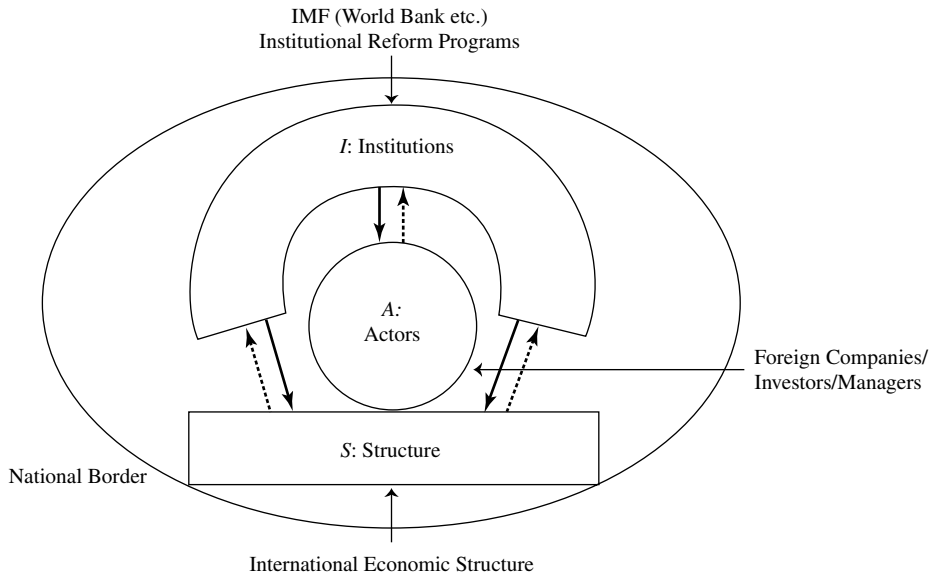
^b The figure of 1995 is prominently high in the precrisis period; 2.7% in 1994 and 4.9% in 1996.

and informal rules and their enforcement.² We assume that I is controllable, A reacts autonomously to controlled changes of I (i.e., I reform), and S is affected by the I reform; and that we can evaluate whether the I reform has achieved its intended purpose by observing A 's reactions and S 's changes.

Domestic S , I , and A can be affected by those outside the country. I can be directly brought in from abroad, a good example being the IMF-led institutional reform, which consisted mostly of module programs conforming to global standards. Domestic A can be affected by foreign A coming into the country, and S can be influenced by interrelationship with international S through trade and investment.

² For the definition of institutions, we refer to North (1990, pp. 4–6), Yeager (1999, pp. 11–13), Aoki (2001, p. 4), and World Bank (2002, p. 6). For an analogy of institutions with rules of sports/games, and a clear distinction between institutions and organizations, we refer to North and Yeager. "Actors" here correspond to the "organizations" they refer to. However, the framework here in which institutions and actors are analyzed in relation to a field of the game (i.e., structure) was developed from discussion among authors of this special issue.

Fig. 1. SIA Approach



Applying the SIA approach, our first task is to evaluate the effects of institutional reforms in the post-crisis and post-Soeharto period by looking at their influence on structure ($I \rightarrow S$) and on actors ($I \rightarrow A$). Actors here include, for example, governmental organizations, firms, banks, industrial associations, local governments, labor unions, farmers' organizations, NGOs, and so forth. Institutional reforms may have changed the lineup of actors; some new actors emerged, while some old actors retired into the background. Reforms may have transformed the nature of existing actors.³ These existing and emerging actors may react in accordance with the purpose of I reform, but may show unexpected deviation, react against the reform's purpose, and consequently require another set of I reform ($A \rightarrow I$). Imported I reform can be unworkable if A (the actors) show no reaction.

Our second task is to analyze major structural changes in the economic areas that have lain beyond the scope of the IMF-led reforms and the democratization reforms, and to consider the desirable institutions that the structural changes might require ($S \rightarrow I$). This task is necessary in particular because both types of reform have lacked the perspective of economic structure upgrading, and also because re-

³ Examples of receding economic actors are the large business groups called conglomerates, and a group of economic technocrats once called the "Berkeley Mafia"; examples of emerging actors are labor organizations and local governments; those of actors whose nature was transformed are BULOG, Pertamina (state oil company) and other ex-monopolistic state enterprises, and ex-government-made associations such as entrepreneurs' and farmers' associations.

markable structural upgrading has occurred in the East Asian economy in recent years. To merely evaluate ongoing reforms would not be sufficient to identify the key agendas that the new government should address.

Following this overview, in order eventually to deal with our second task we begin with a macroscopic analysis of the structure of trade, investment, and industry from international and nationwide perspectives respectively. We then proceed to the first task, namely evaluation of institutional reforms through analyses of structure and actors. We take up six topics: economic law reform and banking reform as examples of IMF-led reform, BULOG (National Food Logistics Agency) reform and forestry sector reform both of which were driven by the IMF and by democratization reforms, and decentralization and labor movement liberalization as typical examples of democratization reform.

IV. MAJOR FINDINGS OF THE SPECIAL ISSUE

A. *Purposes of Institutional Reforms*

What has occurred in Indonesia over the last seven years has been experimentation with various institutional reforms. During this period, “reform from outside” triggered by the Asian currency crisis and “reform from inside” triggered by the political regime change have proceeded simultaneously.

The major aim of the “reforms from outside” driven forward after the crisis by the IMF, the World Bank, and the ADB was to build institutions for markets⁴ by removing state control over the economy. To put it in an Indonesian context, the purpose was to externalize functions that had existed in the black box of Soeharto’s authoritarian regime, and to remake them as transparent, formal institutions. In this process, the outside planners intended to replace the ultimate coordinator Soeharto by the operation of market mechanisms, implanting standardized institutions for markets so as to make this possible.

On the other hand, “reforms from inside” driven by the *reformasi* (reform) movement after the fall of the Soeharto government aimed at a shift from the centralization of power to decentralization. The purpose of this democratization reform was to decentralize the power that had been seized by the central government and state institutions which had acted as instruments of the ultimate power Soeharto, and to allocate power to those who had been oppressed for not serving developmentalism (*pembangunan*-ism). Since this reform aimed at power decentralization per se, it had no concrete proposals for new institutions to be built after the decentralization was achieved.⁵ That is why disorder followed the reform in most cases, illustrating

⁴ The World Bank in its *World Development Report 2002*, entitled “Building Institutions for Markets,” discusses institutional reform in firms, government, and society (World Bank 2002).

⁵ A shift from state control (state planning) to market mechanism in the “reform from outside” could

that new institutions can be formed only gradually through trial and error amongst related actors.

These two waves of institutional reforms seemed to start suddenly after the crisis. But this perception cannot explain why such huge energy surged forth to dismantle the old institutions. In the 1990s, the Soeharto government, influenced by international trends, embarked on top-down democratization and superficial economic liberalization (Sato 2002, pp. 72–74). This led the people to vividly perceive the persistently authoritarian and inward-looking nature of the Soeharto regime. The stubborn nature of the regime's institutions was such that they gradually produced frictions with actors and structure which were more open to the external world. Also, the IMF and the World Bank had been asserting market-oriented institutional building ever since the mid-1980s, a policy that the Soeharto regime accepted only partially. That is why the fall of President Soeharto became a signal for the reform of long-standing institutions, a reform that was propelled by energy that had been accumulated during the preceding decade.

Although the two streams of reforms together succeeded in dismantling the old institutions, uncertainty surrounded the applicability of institutions for markets implanted from outside as well as the shape of post-authoritarian institutions to be built by reforms from inside. In this sense, the institutional reforms were experimental in nature.

B. *Effectiveness of "Reforms from Outside"*

"Reforms from outside" in post-crisis Indonesia covered wide areas ranging from economic law reform, banking and corporate restructuring, and industrial sector reform, to administrative and judicial reform. This special issue considers only a part of these reforms, but taken as a whole, their effectiveness varied widely.

Of the wide variety of IMF-led reforms, one of the most drastic was banking reform (Sato's paper). The reform is here judged to be effective in the sense that it led to a change in structure as well as in the lineup of actors, and a new set of financial institutions began to operate.⁶ Most banks affiliated to business groups were made to retire, and foreign-owned banks emerged instead. Exit rules were created in this process. The central bank, which had been given only half authority

also be regarded as a form of power decentralization. However, power decentralization in "reform from inside" differs from the former in that the latter has no clear direction to be aimed at beyond decentralization, while the former has market orientation.

⁶ This positive evaluation holds true only if we focus on the function of post-reform financial institutions. If we take the whole process of banking reform into account, it could be evaluated as being far from effective. It left various problems behind: for instance, it incurred unexpectedly huge costs; the costs were entirely transferred to the government budget; massive nonperforming loans were transferred to IBRA, a governmental agency, which faced difficulties in recovering corporate debts; and a major part of the central bank liquidity support loans for bank run were found to be diverted to other purposes.

under the jurisdiction of the Minister of Finance, now gained a full range of authority related to banks. As a consequence, the central bank's supervisory system over banks and risk management systems at individual banks began to work, and their efforts to build in-house risk-management capabilities got under way. The appearance on the scene of foreign actors is promoting the banks' management reform. This is entirely different from the old set of financial institutions under the Soeharto regime, when banks had no incentive to control risks because the regime tacitly guaranteed their continuation.

Examples of post-reform institutions working well were rather exceptional. Most reforms were more or less problematic. Typical of the poorly functioning reforms was economic law reform, and in particular bankruptcy law (Juwana's paper).⁷ The introduction of this law was pushed by the IMF for the purpose of liquidating insolvent local companies and relieving foreign creditors. In practice, however, commercial courts often judged against creditors. Even solvent foreign companies were judged as bankrupt. This phenomenon occurred partly due to judges' defensive reaction to possible hostile takeovers by foreign creditors. While a legal framework for rehabilitating local debtors was badly needed, this law failed to save creditors as well as debtors and invited deviant behavior amongst actors. That is why an appropriate legal framework for corporate rehabilitation is now required.

C. *Effectiveness of "Reforms from Inside"*

An example of reform that was driven from both outside and inside was the reform of BULOG that had controlled domestic supply and import of staple foods throughout the Soeharto era. This agency was reorganized into the state-owned enterprise Perum BULOG (Yonekura's paper). The IMF's intention lay in import liberalization and financial transparency, while the *reformasi* movement aimed at removal of state control. Consequently, the public function of BULOG was greatly restricted so that it dealt with only subsidized rice supply for the poor. This reform, though considered to be a step in the right direction, invited confusion amongst actors. Party politicians moved to harvest rents that had been accumulated in BULOG, while BULOG itself resisted decentralization of its local offices. BULOG's

⁷ Another example of poorly functioning economic law reform was an antimonopoly law (Act No. 5/1999). It was introduced and welcomed by society as a legal tool for controlling monopolistic practices rampant under the Soeharto regime. However, the law does not answer the social demand, since the world-standardized law does not stipulate government-sanctioned monopolies as illegal (Juwana 2002, 2003). In corporate governance reform, institutional reform seems to be accepted smoothly by actors, but its effectiveness is judged to be limited. Given that business groups are still a main actor in the corporate sector (unlike the banking sector), newly introduced internal governance mechanisms—independent commissioners etc.—would be difficult to operate insofar as owner-managers of business groups hold on to substantial authority. Rather, external governance mechanisms—disclosure systems, governance by market institutions, banks and government regulators—should be prioritized for governing business groups' behavior (Sato 2003, 2004).

targeted rice distribution program does not work purposively due to the spread of egalitarianism in rural society. There is also coordination failure among food security institutions, particularly between the Ministry of Agriculture and the new BULOG.

Reform of the forestry sector, similarly pushed both from outside and inside, may be the most tragic case of institutional failure (Kato's paper). The IMF and the World Bank introduced forest management utilizing market mechanisms, by resuming log exports and by raising the resource rent fee to reduce the gap between domestic and international log prices. The idea was that the new system could shift the rent that had been accumulated by plywood manufacturers with low-priced logs to the government as an incentive for resource management. However, a plywood business association strongly resisted log exports, and the government was no longer powerful enough to collect the desirable level of fee. On the other hand, the central government planned to leave the forest management to local governments and communities by decentralizing its authority over concessions. In practice, however, local governments issued too many concessions, a trend that caused acceleration in deforestation. In consequence, resource rents, which should be properly collected by the government for sustainable forest management, were not accumulated either by the government or by the industry, but were transferred to players in the illegal log market. Hence illegal logging has been accelerated.

Decentralization, or local autonomy, is a typical institutional reform from inside in the post-authoritarian era (Matsui's paper). Decentralization brought about structural changes. The share of Java in production and in public finance expanded in comparison to other territories, though investment and bank borrowing extended from Java to areas outside Java. In qualitative aspects, decentralization transferred not only administrative authorities but also various vested interests from the center to the regions. Local economic actors are busy competing to get hold of such vested interests, losing the chance to create market-oriented active local economies. Among them, local governments have become major economic actors, as they are recipients of transfers of national finance. Nevertheless, their nature remains almost unchanged from the era of centralization, so that rent-seeking behavior and socialistic ideas concerning control over the private sector continue as before. In this sense, decentralization reform remains ineffective as an instrument for revitalizing local economies.

Indonesia's labor movement entered a new era with the recognition given by the Habibie government of labor's right to organize (Mizuno's paper). A number of labor unions were formed, new labor laws were enacted, and industrial relations between labor and management grew out of "exclusive corporatism" under the Soeharto regime. Industrial relations, after becoming hostile, gradually began to create formal and informal rules. While a dispute settlement system through the law courts was established as a new formal rule, an effective *musyawarah* (consultation)-based relation is being created informally in some leading companies. Its

major characteristics are an attitude of attaching importance to solidarity on the labor side and to dialogue on the management side, as well as independence from the government, observance of dismissal rules on both sides, and creation of a regular meeting system. Given that enforcement of legal rules is quite weak in Indonesia, strategic bilateral negotiations between labor and management could be an effective means of creating stabilized industrial relations.

D. *Structural Changes and Their Implications*

Let us now turn our attention to international economic structure. In the last decade, East Asian economies have created international production and distribution networks, which were promoted by their development strategies to fully take advantage of network-forming foreign companies (Kimura's paper). Indonesia, it has been found, fell behind in participating in international networks. Indonesia's given conditions, such as its location, the large size of its domestic market, and the abundance of its natural resources, are not decisive reasons for this tardiness. Rather, the relatively slow pace is a result of Indonesia's development strategies, or institutions, which have not been designed to conform to the networking regional economies. If Indonesia intends to pursue growth high enough to reduce unemployment and poverty, it will be necessary to prepare institutions conducive to agglomeration with lower service link costs⁸ in order to attract foreign actors and to break the old structure.

From the analysis of Indonesia's overall trade and industrial structure, it was found that the manufacturing sector showed better performance than other sectors during the 1995–2000 period (Hayashi's paper). Although this sector was severely hit by the crisis, the machinery industry and resource-based industries raised their production in real terms according to input-output analysis for 1995 and 2000. Manufacturing growth was partly export-driven owing to a drop of currency value, but was also partly supported by deepening backward interindustry linkages that might have occurred in the pre-crisis period. Nevertheless, growth rates of investment demand as one of the factors of growth in the manufacturing sector declined over time and finally became negative in recent years. This result indicates that improvement of institutions to support investment activities⁹ is a matter of importance, in order to maintain Indonesia's momentum of sustainable industrialization.

⁸ Service link costs consist of transportation costs, telecommunication costs, various types of coordination costs, and others, including the running cost as well as the sunk cost or fixed cost in investment decisions.

⁹ Institutions to support investment activities may cover such areas as a revision of investment-related legal frameworks and efficient procedures; uncorrupt, less arbitrary and efficient custom clearance, duties and taxation systems; appropriate labor-related regulations and practices; legal certainty; foreseeable stable supply of electricity, water and other utilities; and preparation of industrial infrastructure.

E. *Challenges for the Government*

As we have seen, the results of Indonesia's seven years of experimentation with institutional reform reveal a patchy picture. It is still hard to say that the experiments are converging toward creation of a set of stable institutions that reflect the intended purposes of the reforms, that is, marketization and democratization. Nevertheless, significant progress has been made in some areas of reform. Contrary to the general perception, banking and labor management shows signs of institutional stabilization accompanied by changes in actors' behavior that conform with the new institutions.

While Indonesia's reforms have been oriented toward state decontrol, it has on the other hand become obvious that there are some areas that require a certain level of state control. Such areas, as our study has found, at least include natural resource management, food security, elimination of post-decentralization interlocal disparities, and the creation of institutions conducive to investment. The central government needs to reconsider what indispensable roles it might best play in the post-authoritarian era, based on lessons drawn from the seven years of experimentation in which the pendulum swung to the extreme limit of state decontrol. As a medium-term agenda, the government should rebuild institutions in strategic areas that require state leadership with a long-term and nationwide perspective.

The rectification of ineffective institutional reforms will be a short- and medium-term agenda for the government. As regards ineffective reforms, there are at least two possibilities: one is that the new institution itself has problems, and the other is that more time is needed before the new institution can function effectively. In the former case, it is necessary to rebuild institutions that can serve the needs of the economy. Some economic laws fall within this category. The latter case may need careful attention and follow-up commitments; this may be true of the newly introduced surveillance system of illegal logging, the food security system after the the BULOG reform, decentralization that should be more balanced and effective, and corporate governance reform.

One of the priority agenda items for the new government in the shorter term may be the construction of institutions necessary for formulating appropriate development strategy and the decisive implementation of such strategy. This is an area to which the IMF-led and democratizing reforms attached least importance. Our study demonstrates that Indonesia's industrialization has made steady progress over time, but it also shows that Indonesia's relative position in East Asian production and distribution networks is quite small. To promote participation in international networks as a key development strategy could be an appropriate means not only of making use of industrial capacities that have been accumulated so far, but also of overcoming unemployment and poverty. Based on a precise understanding of the present state of the Indonesian economy compared to neighboring economies, the

new government should urgently exhibit decisive leadership in designing a grand strategy for catching up and for maintaining sustainable growth, and also for building effective institutions to underpin execution of the strategy.

V. THE SIGNIFICANCE OF THIS SPECIAL ISSUE AND REMAINING TASKS

Indonesia's experience of economic crisis and regime change has attracted research interest from all quarters. In the emerging literature, one can detect a mainstream comprising "transition studies," contributions to which have reviewed dramatic sociopolitical regime change and its impact on the economy, and "crisis studies" that have looked into the nature of the economic crisis and the road to recovery in terms of macroscopic and policy aspects. The latter group of studies has been led by foreign and Indonesian researchers involved mainly in the research projects of the international aid agencies (IMF, World Bank, ADB, etc.). They have engaged in a wide-ranging discussion of key policy issues, such as macroeconomic balance, debt problems, fiscal and financial policies, trade and investment trends, unemployment, social safety net, and poverty.

By contrast with the mainstream of research, "institutional studies" have been accorded relatively minor importance. Although substantial attention has been given to reforms in some specific areas (decentralization, forestry management, agrarian reform, and legal and judiciary reform),¹⁰ these studies have not necessarily focused on the institutional dimension.

The first feature of this special issue is that we have attempted to grapple squarely with the institutional dimension in order to make good this shortcoming. Our basic perception is that for the Indonesian economy, the past seven years after the crisis was a period of "experimentation with institutional reforms." Basing our approach on this perception, we have discussed key issues with explicit reference to institutions and the changes that they have undergone.

We have then attempted to evaluate institutional reforms. We have examined the reforms from the viewpoint of their impact on actual economic activities, and with reference to the appropriateness of the new institutions for actual economic problems. Our basic stance in evaluating institutions has been one of emphasizing facts and the actual state of the economy. This stance clearly differs from the pro-contra arguments of the IMF, a field of discussion which is rather popular in Indonesia; in other words whether IMF-led reform is a necessary discipline for Indonesia or a high-pressure application of ready-made prescriptions that should be rejected. Dis-

¹⁰ For decentralization, Matsui (2003) Chapter 1 provides a useful review of related literature. Ross (2001) and Colfer and Resosudarmo (2002) address the problem of forest resource management including the institutional aspect. For agrarian reform, see Lucas and Warren (2002), Sumodiningrat (2000), and Yonekura (2001), and for law reform, see Limsey (2000), and Limsey and Dick (2000).

tancing ourselves from this dualism, we have started from fact-finding and from judging the effectiveness of the reforms. Furthermore, rather than taking the IMF reform as a base point, we have attempted to cover areas that escaped notice of the reforms enacted during this period. This stance based on the “fact-first principle” of evaluation is the second most important distinguishing feature of our study.

In analyzing facts, we have focused on the reactions of actors and on changes in structure. The third distinctive feature lies in our SIA approach toward examination of the interrelationships between institutions on the one hand and actors and structure on the other. By analyzing actors and structure, we have been able to probe into the causes of the effectiveness or ineffectiveness of institutional reform. In the analysis of actors’ behavior and structural changes, it has often been necessary to comprehend the sociocultural characteristics and historical background of Indonesia as well as the political inheritance from the authoritarian regime. In this sense, our SIA approach may be regarded as institutional analysis based on area study.

Even though, as stated above, our study has some value added, it is of course far from exhaustive. In addition to the fact that the SIA approach is still at the trial stage, the articles in this issue offer only a partial view of how this method of analysis can be applied to the Indonesian economy. There are several topics that we cannot take up here but that deserve detailed attention as regards the reaction of post-reform actors. These include post-crisis corporate restructuring, some sector-wise reforms such as those applying to Pertamina (oil and gas industry) and PLN (electric power industry), cooperatives after the BULOG reform, and farmers’ organizations and the rural community in the decentralization era. Moreover, the SIA approach could well be applied to analysis of Indonesia’s regime change, extending the scope of our investigations to sociopolitical institutions and actors such as the bureaucracy, the Army, the legislature, political parties, central and local politicians, the judiciary, and NGOs.

One of the most significant remaining tasks so far as the economy is concerned is analysis of changes in the institutional framework for working out economic development strategy. This topic is closely related to the issue of leadership that must be dealt with by the new government. The Soeharto regime established a robust institution for managing development plans, in which a group of economic technocrats initially called the “Berkeley Mafia” centering around Bappenas (the National Development Planning Agency) was a major player. After the collapse of this institution during the last stage of the Soeharto era, little effort was made during the period of IMF supervision to rebuild a new set of institutions. However, since mid-2003 when graduation from the IMF program became certain, various institutional changes surfaced. These included, for instance, an announcement of a “white paper” (a self-imposed policy commitment that should replace the letter of intent with the IMF), the creation of an interdepartmental system for monitoring and periodically reporting its progress, the preparation of medium- and long-term develop-

ment plans in Bappenas, organizational reform in the Ministry of Finance, the enactment of laws redefining functions of the Ministry of Finance and Bappenas, and so on. Whether the new government can combine these institutional changes into the establishment of a well-defined system for managing development strategy is a matter that could become a crucial factor affecting the performance of the Indonesian economy.

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