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MORALITY BEFORE KNOWLEDGE

De jure and de facto political power dynamics during the 1997-1998 asian financial crisis: A socio-economic perspective on sustainability in Indonesia and Malaysia

Widianingsih[1,*]
[1] *Master of Public Policy and Management, Faculty of Arts, The University of Melbourne, Parkville VIC 3052, Australia.*
*Correspondence: widianingsih@student.unimelb.edu.au

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ABSTRACT

Background: The 1997-1998 Asian Financial Crisis had a profound impact on the economies and governance of many Southeast Asian countries, including Indonesia and Malaysia. The researcher therefore sought to examine the interaction between de jure and de facto political forces that shaped Indonesia & Malaysia's crisis management strategies and institutional reforms. The study highlights the entrenched power of authoritarian leaders with the influence of business elites determining policy responses and the level of public trust. **Methods:** This research model uses a comparative qualitative study method, analyzing secondary sources such as literature, policies, and historical records. The researcher identifies patterns and differences in governance, economic policies, and institutional responses in both countries, providing an in-depth understanding of the political dynamics and power structures that influence crisis outcomes and impacts. **Findings:** The 1997-1998 Asian Financial Crisis was caused by liquidity issues, capital inflows, and institutional weaknesses. Indonesia and Malaysia's economic growth was based on fragile foundations, with crony capitalism and power imbalances contributing to the crisis. Addressing power structures, promoting openness, and adopting democratic values are crucial for long-term resilience and fairness. Malaysia implemented capital controls and maintained political stability under the leadership of Mahathir Mohamad, Indonesia's dependence on International Monetary Fund (IMF) assistance and widespread public discontent led to Soeharto's resignation and a shift towards democratization. In other words, the findings underscore the important role of political power dynamics in shaping economic and institutional resilience and provide valuable insights into the governance challenges of non-democratic regimes during crises. **Conclusion:** The study concludes that the contrasting crisis management strategies of Indonesia and Malaysia during the 1997-1998 Asian Financial Crisis were significantly influenced by the interplay of authoritarian political power and business elite interests. **Novelty/Originality of this article:** This research offers new insights by exploring how authoritarian power dynamics and the influence of business elites affect the policy strategies adopted, the level of political stability and public trust in both countries.

KEYWORDS: Asian financial crisis; Indonesia; Malaysia; political power dynamic.

1. Introduction

The 1997-1998 Asian Financial Crisis was a catastrophic occurrence that caused extensive currency depreciation, financial instability, and economic contraction. Consequently, the economic and political situations of many Asian countries, including Indonesia and Malaysia, were profoundly altered. In dealing with this situation, both Indonesia and Malaysia have crisis management strategies that are impacted both directly

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and indirectly by the relationship between de jure and de facto political power. According to Acemoglu & Robinson (2008), the de jure power that a government formally establishes and the real effect of de facto power that various groups have in practice, have an impact on each other. While official governments might establish regulations and strategies to organize society, influential entities, such as business elites, military groups, or grassroots movements, can leverage their assets, connections, or community backing to contest or uphold these legal structures. This interplay generates a feedback cycle in which entities with significant actual power can advocate for institutional reforms, while official laws can either bolster or diminish their authority.

In addition, despite hurdles and a transition in power, Mahathir (Malaysia's Prime Minister) managed to keep his post, whilst Suharto's power (Indonesia's President) finally fell. This occurs because the crisis has had a wide-ranging impact, including economic failure, increased poverty, and increased inequality, leading to public dissatisfaction with the crisis and the government, then resulting in social unrest and political upheavals. The poor or ordinary people are excluded from having major political power in non-democratic regimes, but when there is a crisis and unhappiness, they offer a revolutionary danger and social unrest, leading to democratization (Acemoglu & Robinson, 2001). This mirrored the events occurring in Indonesia and Malaysia during the 1997-1998 Asian Financial Crisis, where economic or political turmoil led to widespread public discontent that could escalate into mass protests, strikes, or even revolutions. Such collective movements present a considerable challenge to authoritarian leaders, compelling them to either quell dissent through harsh measures or make compromises that pave the way for democratization. The apprehension of social upheaval drives elites to pursue political reforms.

On the other hand, the crisis prompted international organizations, such as the International Monetary Fund (IMF), to step in and provide prescribed reforms in return for financial assistance to help nations recover. However, when foreign organizations recommend financial reforms to a country, implementation may be hampered, particularly when many people are dissatisfied with the administration (Henisz & Mansfield, 2019). Then, citizens might view these reforms as being imposed by outside influences rather than as initiatives aimed at promoting national interests, resulting in pushback and demonstrations. Furthermore, if the governing administration is already facing unpopularity, reform initiatives may be perceived as favoring elites or foreign investors to the detriment of the general populace, which further diminishes trust. Political leaders, concerned about potential backlash or the loss of their authority, might postpone, dilute, or even reject reforms to placate the public and preserve stability. Although financial reforms can be essential for sustainable economic health, their effectiveness relies not only on their technical validity but also on gaining domestic political legitimacy and the government's capacity to secure public backing.

Therefore, this paper will examine how the interaction of de jure and de facto political power shaped the crisis management strategies employed by Indonesia and Malaysia during the 1997-1998 Asian Financial Crisis. Both nations encountered significant economic distress; however, their reactions varied due to differences in their political frameworks and power dynamics. This paper will examine how these power relations impacted policy choices, the success of crisis management efforts, and the resulting institutional reforms in financial oversight and regulation. Besides that, it will evaluate how these reforms continue to influence governance, economic resilience, and financial supervision in both nations, underscoring the enduring effects of institutional changes driven by crises.

2. Methods

The approach in this study is comparative qualitative. It serves to explore the de jure and de facto political forces in influencing Indonesia and Malaysia's crisis management strategies during the 1997-1998 financial crisis. The research model was a critical review of secondary sources such as academic literature, policy analysis and historical records. The researcher also identified patterns and differences in governance, economic policies and institutional responses in the two countries. This method allows for an in-depth understanding of political dynamics. It also provides a comprehensive look at the power structures that shaped the crisis outcomes and long-term implications. The comparative analysis sheds light on the reasons behind Malaysia's choice of capital controls, contrasting it with Indonesia's adoption of IMF-driven structural reforms, emphasizing the significance of political stability, leadership, and public opinion. Moreover, this framework provides an in-depth exploration of how the power dynamics during the crisis period facilitated lasting institutional reforms, especially in the areas of financial regulation and oversight, and their enduring effects on governance and economic resilience.

3. Results and Discussion

3.1 Policy problem: The case of Indonesia

3.1.1 The case of Indonesia before the crisis

Indonesia had achieved favorable outcomes in its economic structural transformation prior to the crisis, as evidenced by a consistent average annual growth rate of 7.6 percent in 1967 to 1996, or since President Suharto took office. Then, this resulted in substantial structural transformations in several sector, including a reduction in the poverty rate from approximately 40 percent in 1976 to 17.5 percent in 1996 (Basri, 2013). In addition to the government’s involvement, significant socioeconomic developments transpired because of the president’s close relationships with a number of groups, particularly business tycoons and the military. In terms of the relationship with business tycoons, four individuals, two ethnic Chinese (Liem Sioe Liong and “Bob” Hasan) and two close Javanese relatives of Suharto, have held the majority of the commanding heights of the Indonesian economy until the 1980s; then, things grew more complex when the president’s own children joined the business sphere and wielded influence (Dick & Mulholland, 2018). This de facto political power of business tycoons may affect how resources are dispersed and even how rapidly the economy grows (Acemoglu et al., 2005). In addition, since Suharto had a military background, the military became the fundamental pillar of authority and stayed loyal to him throughout his reign. Military commanders were awarded 20 percent of parliamentary seats, had prominent positions in the cabinet and higher governmental level, and greater control over local governance through the territorial command structure (Rabasa & Haseman, 2002). Thus, the interplay between political institution – which define de jure political power – and the allocation of resources and organization among various groups – which determine de facto political power – is a key factor in the institutions’ influence on the outcome of the economy (Acemoglu & Robinson, 2008).

However, the close ties between de jure and de facto power generates not only favorable consequences in terms of socioeconomic development, but also unfavorable consequences including high levels of corruption, collusion, and nepotism as well as anti-criticism government. Many wealthy “Chinese” businessmen had strong ties to the Suharto family and other government officials; as a results, they gained recognition as agents and financier who offered political favors and protection in exchange for financial backing and supplies for military leadership (King, 2000). Then, the TIME Magazine investigation found that the six Suharto children’s own stakes in at least 564 Indonesian businesses and hundreds of more abroad, owns or controls 3.6 million hectares of Indonesian real estate, and has billions of dollars in cash and bank accounts overseas (Colmey & Liebhold, 1999). Moreover, the expansion of the ambitions and goals of politicians, bureaucrats, technocrats, and military leaders is an additional significant factor that contributes to systemic corruption in Indonesia (Brown, 2006). Not only that, under the Suharto era, even protesting voices were repressed. Additional measures to strengthen political control included enforcing stringent media censorship and outlawing political activities on the universities, and those who dared to question the government’s policies faced imprisonment or, failing that, economic, social, and political marginalization (Loh Kok Wah & Öjendal, 2005). Therefore, despite the effective implementation of economic development and poverty eradication, this factor contributed to the Suharto regimes overpower and lack of scrutiny.

3.1.2 The case of Indonesia during the crisis

The contagion effect from Thailand's crisis was a catalyst for the Indonesian turbulence, but unpreparedness and weakness of the financial system made Indonesia increasingly vulnerable to financial instability and currency depreciation (Enoch et al., 2003; Tambunan, 2010). Also, the reasons why the Rupiah (the Indonesia's currency) was weak are (a) because private companies carried around $74 billion in foreign debt with most of which was short-term and unsecure to exchange rate fluctuations, and (b) the banking system was fundamentally defective, allowing politicians to influence in it (Baker, 1998). In addition, the government made other policy mistakes, including tightening the budget and boosting interest rates, which caused the default rate to rise and, as a result, exacerbated the outflow of capital, causing the nation to face even more challenges (Basri, 2013). In terms of the financial system's fragility, this began with the 1988 banking deregulation package, which made it easier to form private domestic banks and joint venture banks and no limit on banks' lending (Sharma, 2002). Banking expanded rapidly, from 111 banks in 1988 to 240 banks in 1994-1996, with several business elites founding their own banks; then this causes issues since legislation and monitoring are created with limited enforcement, leaving failing banks with no viable exit strategy (Enoch et al., 2003). This circumstance worsened the effect of Indonesia's financial crisis, prompting the government to seek aid from international organizations.

After that, the government asked the IMF for assistance and negotiated preventative facilities in September 1997, and in October 1997, a $37 billion financial support program was provided with bank resolution as a reform that had to be carried out by the government (Montes, 2017). As a result, the Central Bank of Indonesia (BI) closed 16 banks in November 1997, including three with direct ties to President Suharto: Bank Andromeda that belong to one of President Suharto's sons; Bank Industri whose major holders of shares involved one of the president's daughters; and Bank Jakarta operated by the president's half-sibling (Enoch et al., 2003; Montes, 2017). However, in December 1997, the president's son was given permission to acquire over the Bank Alfa, and he moved much of his old business, customers, employees there, thus reviving his old bank under a different name, and this action destroyed the public trust of the overall bank resolution procedure (Enoch et al., 2003). In addition, this mistrust harmed Indonesia's image in the market and led in massive outflows of funds, further shaking economic circumstances (Sharma, 2002). And then, the risk of hyperinflation and complete collapse of the financial sector increased significantly from January to February 1998, due to the following: (a) inflation reached 80 percent; and (b) the Rupiah's value depreciated from IDR 5,005/$ at the end of December 1997 to IDR 10,000/$ by the end of January (Montes, 2017). Nevertheless, BI kept going to supply the banking system with huge emergency liquidity backing, with the overall outstanding amount hitting IDR 60 trillion, whereas social conditions were deteriorating rapidly at that time, approximately 20 percent of the population lived below the poverty line and the unemployment rate skyrocketed due to the bankruptcy of numerous businesses (Baker, 1998; Enoch et al., 2003). Moreover, it appears that continued banking sector reforms in Indonesia were also assisting allies and close relatives of Suharto in fulfilling their obligation to repay debt (Colmey & Liebhold, 1999).

Furthermore, the escalating costs of food and the difficulties encountered by the populace because of the crisis, coupled with policies that seem to favor only the political elite, have incited public indignation towards the administration and sparked protests calling for accountability. Subsequently, from January to mid-February, a surge in violent occurrences transpired predominantly on Java Island, with the majority of the victims being indigenous Chinese-Indonesian people (Baker, 1998). Also, student demonstrations at several universities were met with debate and violence, with some activists abducted, beaten and others apparently killed by military personnel (Liddle, 2002). The social turmoil and assaults against ethnic Chinese Indonesians arose because ethnic Chinese businesses were thought to have a lot of power over economic activity during the Suharto period and were damaging to people at large (Brown, 2006). In addition, military support for Suharto was dwindling, and there was a schism between those who supported and anticipated Suharto to resign. This occurred because, in the later stages of Suharto's administration, the military's autonomy as a political actor was steadily reduced as Suharto established new groups in his government, such as the palace group, the economic technocrat group, the environmental group, and the Islamic group (Rabasa & Haseman, 2002). On the other side, this has provided momentum for opposition parties, such as as PDI's Megawati Sukarnoputri and Muhammadiyah's Amien Rais, to mobilize the masses (Liddle, 2002). Thus, the social unrest that erupted was caused not only by public anger towards the government, but also by the opposition's part in removing Suharto from power.

However, the People's Consultative Assembly reelected President Suharto in March 1998; of which he chosen half of the members and became party head of the Golkar faction, which accounted for a further 32 percent of the assembly's members (Henisz & Mansfield, 2019). Then, President Suharto penned a fresh memorandum to address the worsening crisis, included (a) a breakdown of responsibilities, monetary policies, and interest rates; (b) funding assistance for marginalized groups; (c) privatization and reform of enterprises; (d) reforms to the structure of the economy; (e) restructuring of corporate debt; and (f) reforms pertaining to bankruptcy and the judiciary (Montes, 2017). Unfortunately, the public's dissatisfaction and destroyed trust will remain unaddressed by these new reform plans. Rejection and demonstrations continued to occur, asking that President Suharto retire from power; turmoil increased until, on May 21, 1998, he agreed to step down which eventually marked the beginning of the reformation era. As stated in the laws, the vice president, B.J. Habibie, served as president until October 20, 1999, during which he oversaw the remaining crisis period, despite a reputation as a money-grubber and a lack of political basis (Montes, 2017). Habibie proposed two unexpected moves almost immediately: he professed his complete acceptance of IMF rules and pledged democratic elections within a year (Liddle, 2002).

Therefore, the relationship between pre-crisis de jure and de facto political power impacts the way the government formulates and executes crisis management strategies. While the populace endures economic hardships and poor social conditions, a considerable number of the policies selected tend to favor specific interest groups. This is what encouraged and mobilized protest demonstrations over the people's disappointment and dissatisfaction, which ultimately led to the overthrow of the ruling government.

3.1.3 The case of Indonesia after crisis

Irrespective of who is in power in Indonesia, this crisis reveals the crucial need for broad economic and institutional changes in the nation (Baker, 1998). Due to political turmoil and transition, Indonesia was heavily dependent on reforms mandated by the IMF to recover from the crisis. In general, the economic stabilization reforms comprised the following: (a) shutting down sixteen banks that were insolvent; in (b) setting up the right policies and procedures for tackling with weak but feasible financial firms and get them back on track quickly; (c) fixing particular difficulties at state and regional development banks; (d) making the institutional, legal, and regulatory frameworks for banking activities stronger; and (e) the formation of Indonesia Bank Restructuring Agency (IBRA) following the issuance of the second letter of intent (Soedradjad, 2001). Nevertheless, Indonesia’s recovery was more challenging and took longer, called a U-shaped recovery; In 1999, the exchange rate started to rise, and the debt overhang fell sharply; by 2000, growth had returned to around five percent, giving the country two years to bounce back (Montes, 2017).

According to Basri (2018), economy reforms may be divided into four categories: banking reform, fiscal reform, monetary reform, and institutional reform. First, in terms of banking system, there were improvements to how financial institutions operate, such as (a) providing troubled banks with emergency funds and purchasing bonds to raise CARs; failing banks were then closed down; (b) establishing bank safety nets or blanket guarantees to deal with bank runs and prevent panic; and (c) granting BI (the Central Bank of Indonesia) full autonomy and power over the banking system, resulting in improved oversight and institutions. Second, in terms of fiscal reform, after the executive had previously had complete authority, the parliament finally played a key part in the budgeting process, allowing the government to preserve a small budget deficit and strengthen its fiscal situation. Third, in terms of monetary reform, prior to the crisis, the BI was guided by the central government through the monetary board; however, after the BI's independence, the monetary framework enhanced, and as a result, average inflation fell to approximately 8 percent between 2000 and 2004, while the exchange rate remained stable. Fourth, in terms of reforms to institutions, Indonesia established the Anti-Corruption Committee (KPK) in 2002 to combat corruption, even though the road to eradicating corruption remains lengthy. In addition to the power imbalance between the government and the legislature, which was controlled by the executive before to the crisis, the legislative now plays a crucial role in defining numerous policies. Furthermore, the presidential term is restricted to 5 years and the president may only serve a maximum of two terms. Hence, the crisis became a historic turning point in Indonesia's shift of governance and economic policies, as well as its transition to a more democratic state.

3.2 Policy problem: The case of Malaysia

3.2.1 The case of Malaysia before the crisis

Despite Malaysia being a federal nation, Mahathir's formidable leadership and control over key institutions have endowed him with substantial authority in his capacity as prime minister since 1981. This impact has boosted the industrial sector and altered trade practices, permitting the export of completed items such as electronics and automobile components as well as raw materials (Ibrahim, 2022). In addition, throughout the 1980s and 1990s, Malaysia generally recorded over 7 percent GDP growth and low inflation, lifting millions out of poverty while developing a vibrant middle class (MIDA, 2023). Similar to Indonesia, the association between de jure and de facto political power in Malaysia has an impact on the trajectory of policies aimed at attaining socioeconomic progress. Moreover, several de facto political parties, including United Malays National Organization (UMNO) and business elites, that existed and dominated during Mahathir's reign.

First, the powerful political party UMNO was founded in 1946 to defend Malay indigenous peoples against British efforts to limit Malay sovereignty and extend citizenship benefits to Chinese and Indian immigrants (Singh, 1998). When Malaysia got its freedom from Britain in 1957, the number of Malay and non-Malay people living there was almost equal; however, by 1990, the Malay population had grown to almost 60 percent, the Chinese population had dropped to about 30 percent, and the Indian population had dropped to roughly 10 percent (Beeson, 2000). This improvement happened because UMNO worked hard to give Malay people greater opportunities in the political, social, and economic sectors. Also, UMNO operates under the cover of coalition alliances and has ruled without interruption since the declaration of independence, with UMNO's political leadership maintaining parallel roles in the federal government (Singh, 1998). Nonetheless, UMNO, as the main tool of Malay political dominance, is heavily engaged in economic activity by seizing control of a massive conglomeration of firms and corporate assets, which rewards key individuals with significant economic wealth (Beeson, 2000).

Second, business elites or tycoons play a significant part in de facto political power. Since the early 1980s, when Malaysia saw rapidly industrialization and privatization, elite Malay entrepreneurs started to emerge; the process was highly targeted, with favors mostly granted to UMNO-connected elites (Ostwald, 2017). Additionally, many Malaysia's listed corporations are still tightly managed by a few prominent families in the patronage system that supplied the regime's political backbone base; many of these private companies are engaged in massive construction projects for infrastructure (Athukorala, 2010). In 1996, a year before the Asian financial crisis, Forbes Magazine published a list of Malaysian business elites, six of whom were Malaysian Chinese and four of whom were Malays (Ping & Yean, 2007). Moreover, Chinese businessmen used deceptive means to develop mutually beneficial relationships with the Malay political elite; some Chinese businessmen are known to finance high-profile politicians and appoint prominent UMNO politicians and former Malay civil servants as chief executives in the company to secure government patronage (Ping & Yean, 2007). On the other side, Mahathir's strong relationships with media owners meant that the media could be easily tightly managed by Mahathir's administration, restricting the opposition's capacity to connect with the public and enabling Mahathir to dictate the narrative and keep his hold on the public's perception (Hwang, 2002).

The relationship between de jure and de facto political power has been instrumental in shaping Malaysia's governance, economic policies, and institutional frameworks. UMNO, having been the leading political entity since Malaysia's independence in 1957, has adeptly leveraged its legal power (de jure power) to enact policies that benefit the Malay majority, thereby ensuring their political, social, and economic progress. At the same time, Malaysia's business elites, especially those associated with UMNO, have exercised considerable de facto power by swaying governmental decisions, obtaining lucrative state contracts, and fostering close connections with political figures. The patronage system, which enables select business elites to reap rewards from privatization and state-driven economic initiatives, has bolstered UMNO's supremacy while sidelining opposition entities. Additionally, Mahathir's capacity to manage media narratives ensured that dissenting voices were kept in check, further entrenching UMNO's hold on power. These dynamics highlight how both official political frameworks and informal networks of influence have shaped Malaysia's economic path and continue to affect its governance and institutional robustness.

3.2.2 The case of Malaysia during the crisis

Malaysia was implicated in the crisis from the moment it started, on 14 July 1997, when its currency plummeted from RM 2.48/$ to RM 2.57/$ in July, and subsequently to RM 3.77/$ by the end of 1997 (Pircher, 2017). Bank Negara Malaysia (BNM), Malaysia's central bank, boosted short-term interest rates as an intervention, but this failed to strengthen the currency (Pircher, 2017). Malaysia's significant challenges were caused mostly by capital flows from portfolio investments in domestic market and a weak financial system, such that soaring NPLs in the banking sector fueled fears of systemic bank collapse (Ariff et al., 2001; Pircher, 2017). From 1985–1989, the average level of outstanding credit as a percentage of GDP was 85 percent; by 1994, it had risen to 120 percent; and by mid–1997, when the financial crisis began, the ratio had pushed it to over 160 percent (Athukorala, 2010). In terms of foreign debt, although it had roughly doubled in less than four years, Malaysia's short-term debt in foreign currency reserves was 62 percent in mid-1997, far lower than Indonesia's 182 percent (Beeson, 2000). Still, market panic and foreign confidence in investment vanished, and currency devaluation, along with the combined effect of the economic collapse and property market meltdown, resulted in a large surge in NPLs in the banking sector (Ariff et al., 2001; Athukorala, 2010). However, debt in the banking sector impairs the BNM's (the central bank's) policy independence since it includes government-sponsored bank loans or private firms with a relationship to de jure political power (Athukorala, 2010). In September 1997, Mahathir announced that the Employees Provident Fund (EPF) would be utilized to acquire stocks from Malaysian shareholders to preserve high share prices, but many interpreted this as a bailout scheme to keep cronies out of bankruptcy (Pircher, 2017). Also, Mahathir's power is enormous, resulting in inadequate checks and balances in government, since Mahathir forced out all of his opponents inside the new political arrangements (Pircher, 2017). Then, this further complicates crisis management approaches.

However, it emphasizes the intricate relationship between economic weaknesses and political power dynamics. The economic instability faced by the nation, driven by excessive credit proliferation, lack of adequate financial supervision, and a strong dependence on portfolio investments, caused a sharp fall in the ringgit and a surge in non-performing loans (NPLs). In addition, Mahathir's firm hold on authority, marked by a lack of checks and balances, made crisis management even more challenging, as political strategies often overshadowed economic rationality. In the end, Malaysia's approach to the crisis highlights the vital importance of political leadership in shaping economic policy and underscores the dangers posed by governance frameworks that intertwine political power with financial regulation.

Furthermore, there was policy disagreements regarding the most effective course of action to handle the crisis between Anwar Ibrahim (Deputy Prime Minister) and Mahathir Mohamad (Prime Minister), resulting in a situation of policy gridlock (Pircher, 2017). Both Anwar and Mahathir are UMNO members, but since UMNO controls the political party authority that has not been eliminated, there was rivalry inside the UMNO structure. Also, since 1993, Anwar's allies have replaced numerous Mahathir supporters on the party's supreme council, allowing Anwar to become Deputy Prime Minister and thereby worsening ties between Anwar and Mahathir (Singh, 1998). From a policy standpoint, Anwar held the belief that Malaysia can emerge from the crisis with the assistance of an international organization (IMF); conversely, Mahathir contends that Malaysia must address the implications of the crisis independently (Pircher, 2017). Then, the emergence of a strong sense of nationalism and anti-Americanism in Malaysia following the crisis garnered some endorsement from the country's political elite, which facilitated autonomous recovery efforts (Beeson, 2000). In the end, capital controls paired with fixed currency rates provided policy autonomy to Malaysian government officials, resulting in macroeconomic acceleration and reorganization of the banking and business sectors (Pircher, 2017). On the other hand, Mahathir ultimately fired Anwar and banned him from the party, and then had him accused in court on charges of sexual misconduct, power abuse, and corruption (Hwang, 2002). Hence, policy responses to the crisis in Malaysia are dominated by contestability among political actors to keep in power, as well as several measures that suit the interests of de facto actors to survive the crisis. The ousting of Anwar and the quelling of opposition illustrate that crisis management in Malaysia was equally focused on preserving political supremacy as it was on restoring economic stability. Although Mahathir's policies eventually facilitated recovery, they also reinforced a framework where actual authority—wielded by political elites and their business partners—persisted in guiding economic governance.

3.2.3 The case of Malaysia after the crisis

Malaysia's constitutional framework has not changed, and the UMNO-led coalition that has run the nation since its independence in 1957 has remained in place even after the crisis (Ping & Yean, 2007). Despite the crisis and the dilemma of determining the appropriate policy, Mahathir was able to maintain his position as prime minister in Malaysia. However, pervasive anti-Mahathir sentiment existed among the Malay communities and UMNO, and it was not until his abrupt political exile that Anwar began to advocate for the reform movement (Hwang, 2002). This has resulted in a resurgence of intense political competition following the crisis. Nevertheless, this reform movement is still immature and is perceived as serving Anwar's personal interests , thereby ensuring Mahathir's continued rule (Hwang, 2002). While this movement represented growing popular anger and aspirations for democratic reform, it was still in its infancy and lacked the structural power to adequately challenge UMNO's dominant position. Moreover, several members of the public questioned Anwar's reformist goal, believing it was motivated by personal political ambitions rather than genuine structural transformation. As a result, Mahathir was able to keep his grip on power while opposition forces remained splintered and unable to launch a credible electoral challenge. This incident demonstrates how political crises in Malaysia have historically resulted in brief upheavals while not substantially altering the entrenched power structures that underpin UMNO's long-standing rule.

Simultaneously, the government's implementation of capital controls policy facilitated a comparatively expedited economic recovery in Malaysia, culminating in a V-shaped recovery (Pircher, 2017). According to the paper by Athukorala (2010), in 1998, the Malaysian economy encountered a GDP loss of 7.4 percent. However, by the second quarter of 1999, economic growth had rebounded to a positive level at 4.1 percent. In addition, employment conditions enhanced; by the end of 1999, the unemployment rate in the economy had decreased to 3.4 percent, an increase of merely 0.9 percentage points from the level observed prior to the crisis. Moreover, during the period from 1997 to 1998, the inflation rate peaked at approximately 10.7 percent, before declining to 3.2 percent in 1999. Furthermore, the crisis increased the urgency and tenacity with which reforms were made to reform Malaysian corporate governance. Beyond quick recovery, the crisis served as impetus for changes in corporate governance that resulted in legislative modifications strengthening financial control, improving market transparency, and safeguarding of minority investors. Several reforms were implemented between 1997 and 2000. Some examples of such amendments include the Securities Industry Act 1983, which was revised in April 1998 to give the Securities Commission more authority, the Companies Act 1965, which was revised to prevent "property shuffling," the Listing Requirements, which was revised multiple times, and, most importantly, the Malaysian Code on Takeovers and Mergers 1998, which was put into force on January 1, 1999, to safeguard minority interests and to guarantee greater transparency (Cheah, 2010). These policies underlined the part crisis-driven reforms play in determining Malaysia's long-term economic resilience and financial governance, even while they helped to bring about institutional strengthening and economic stabilization.

3.3 Comparative analysis

Prior to the crisis, both Indonesia and Malaysia had seen tremendous economic growth as a result of financial liberalization, which had resulted in greater economic activity, industrialization, and infrastructural development. Good economic fundamentals, however, were unable to prevent these two nations from crisis, not only because of the contagion effect but also to weak financial systems and poor governance. In addition, the two nations had non-democratic regimes at that time, with authoritarian leadership styles and extended periods of power, which concentrated the government on executive power. Suharto was Indonesia's president from 1967 to 1998, or for 31 years, while Mahathir was Malaysia's prime minister from 1981 to 2003, or for 22 years. Thus, the duration of the leadership term deepens the relation between de jure and de facto political power and impacts government policies in socioeconomic development both directly and indirectly.

Table 1 highlights both similarities and differences between Indonesia and Malaysia in terms of de jure and de facto power, crisis management strategies, corruption, and political transformations. De facto political power has significance for determining economic strategies and distributing resources, which groups distribute based on their wealth, weaponry, or capacity to solve a collective issue (Acemoglu & Robinson, 2008). This can be seen in the role of business tycoons as de facto power in both Indonesia and Malaysia, where they influence policies and benefit from financial liberalization implemented by the government prior to the crisis, and even during the crisis, several policies were implemented to help these cronies survive. In terms of political support, Malaysia has had UMNO as a single party that has been in power since independence and has never been replaced. UMNO is too powerful and stable in the political arena, making it impossible for alternative parties to exist. In Indonesia, the military has considerable power over the government because of its twin roles as a defense and security force as well as a social-political force, giving the military a strategic position in the government. Also, the Golkar party, which controlled the legislature and backed Suharto, was also made up of military personnel. Therefore, it is critical to evaluate both de jure and de facto power dynamics since extensive changes addressing both political and economic institutions may be needed to unravel the pattern of elite domination and produce beneficial economic outcomes (Acemoglu & Robinson, 2008).

Table 1. A Comparison of the strategies and conditions between Indonesia and Malaysia

Category	Indonesia	Malaysia
De Facto Political Power	Business tycoons and military leaders wielded tremendous power over economic policies.	Financial liberalization and government backing benefited business elites (cronies) who are close to UMNO (the governing political party).
De Jure Political Power	During Suharto's authoritarian dictatorship, the military and the Golkar party controlled the government.	Since independence, UMNO (the political party) has maintained its dominance, preventing viable opposition parties from emerging.
Crisis Management Approach	Requested IMF assistance, resulting in economic and political upheaval.	Handled the crisis autonomously, instituting capital controls and avoiding IMF assistance.
Economic Vulnerability	The high level of short-term foreign debt exacerbated the crisis' impact.	Lower foreign debt enabled a quicker recovery.
Political Stability During Crisis	Massive public unhappiness prompted Suharto's resignation.	Policy conflicts within UMNO, but the government remained stable amid protests.
Extent of Corruption	Corruption was rampant, with policies that favored cronies; scored 96/99 on the 1999 Corruption Perception Index.	Corruption existed, but to a lower extent; scored 32/99 on the 1999 Corruption Perception Index.
Public Response	Public dissatisfaction and protests culminated in a political shift.	Public unhappiness existed, but government changes helped to alleviate tensions.
Impact on Political System	Suharto's resignation resulted in democratization and considerable institutional reforms.	The political regime remained stable; structural changes were minimal.

On the other side, there are disparities between Indonesia and Malaysia in their attempts to execute crisis management, with Indonesia requesting IMF aid and Malaysia managing the crisis independently. This is due to the two nations' differing economic underpinnings, with Indonesia's short-term foreign debt being significantly more than Malaysia's, making the effect more severe. In addition, political instability affected and exacerbated the crisis in Indonesia compared to Malaysia. Even though there were still protests in Malaysia, the administration was able to decrease public resentment and execute reforms that allowed Malaysia to emerge from the crisis rapidly. However, policy disagreements between Mahathir and Anwar sparked confrontation amongst political players, leading to disintegration within UMNO and the government. Meanwhile, in Indonesia, the crisis has wreaked chaos as people's dissatisfaction with the government has reached its peak. Suharto's corrupt regime, the execution of policies that were not transparent and favored cronies, as well as worsening economic circumstances, fueled people's resentment and fanned calls for Suharto's resignation. Even while there is a strong tie between the government as de jure power and business tycoons as de facto power in both nations, which has led to corruption, collusion, and nepotism, the extent of these practices varies. According to the Corruption Perception Index (1999), Malaysia ranks 32 out of 99 nations, whereas Indonesia ranks 96 out of 99 countries, indicating that the degree of corruption in Indonesia is far greater and more severe. Then, the disparity in public reaction between Indonesia and Malaysia is understandable. Therefore, discontent may rise to a variety of obstacles, such as legislative or political opposition attempting immediate electoral gains by emphasizing the costs of reformation (Henisz & Mansfield, 2019).

In non-democratic countries, inequality fosters public dissatisfaction making it a crucial element in determining political instability; then, role of the revolution threat and societal turmoil will eventually lead to political transitions requiring democratization (Acemoglu & Robinson, 2001). This is similar to what occurred in Indonesia, where Suharto's resignation marked a turning point in the country's transition to democracy. Meanwhile, since the crisis did not disrupt the political regime in Malaysia, structural changes were not as extensive as those implemented in Indonesia. However, in terms of de facto political power, even if political transition will alter de jure political power and the government system, de facto political legacy might remain and follow who will be in power next (Acemoglu et al., 2005).

4. Conclusions

The 1997-1998 Asian Financial Crisis could not be attributed to a single factor; rather, it was a liquidity crisis that impacted the private sector's liquidity. However, it was also precipitated by a variety of other factors, such as capital inflows that heightened the vulnerability of corporations and banks to changes in expectations; institutional sector issues in various countries; currency and maturity imbalances; and the foreign exchange system (Pircher, 2017). The crisis highlighted Indonesia's and Malaysia's weaknesses, showing the limits of economic expansion based on fragile foundations. While strong de jure leadership and financial liberalization drove early success, de facto power dynamics, typically including crony capitalism and uneven resource allocation, played an important part in laying the groundwork for crisis. The absence of democratic procedures and openness worsened the problem, leaving both nations confronted with the harsh reality of financial crisis as well as widespread disturbances.

Moving ahead, both Indonesia and Malaysia must address the crisis's underlying concerns. Both Indonesia and Malaysia should continue to improve governance and openness in order to minimize corruption, cronyism, and elite supremacy. Regulatory frameworks must be implemented to promote equitable economic participation. De jure political changes are inadequate; addressing de facto power structures and promoting openness in resource distribution are essential for long-term prosperity. In addition, policy should encourage economic growth that is not dependent on patronage structures. Ensuring equal access to financial resources, technology, and markets for all enterprises, rather than favoring politically linked ones, will result in a more sustainable economy. Besides, adopting democratic values, strengthening institutions, and encouraging meaningful public involvement are critical steps toward a more resilient and fair future for both countries. Therefore, by strengthening their political and economic resilience, Indonesia and Malaysia may better manage future crises as well as promote long-term and inclusive development.

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Biographies of Author

Widianigsih, Master of Public Policy and Management Political Science and Government, The University of Melbourne, Parkville VIC 3052, Australia.

- Email: widianingsih@student.unimelb.edu.au
- ORCID: 0000-0002-6872-9135
- Web of Science ResearcherID: N/A
- Scopus Author ID: N/A
- Homepage: N/A