



Traditional “Elite” Theory and the 1997 Asian Financial Crisis

Politics Dissertation | May 2019



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Acknowledgements

I would like to thank my supervisor Professor Duncan Kelly for his guidance, and Evangelos Georgas for the conversations that sparked off this dissertation.



Introduction: An Unlikely Marriage

“An author whose depth and originality have not been so far sufficiently recognised or appreciated”

Mosca (1939: 329)

Gaetano Mosca’s praise of Saint-Simon is ironically applicable to the fate of his own intellectual legacy. Having been lumped together as the founding fathers of “elite” theory, Mosca has been obscured behind the shadow of Vilfredo Pareto, with the latter praised for his more rigorous and scientific approach (Bellamy 1987: 34). To a lesser extent, the same fate has befallen his erstwhile rival. Lauded for his work in economics, sociologists and political theorists have tended to dismiss Pareto’s ideas as crude and illiberal (ibid). Completing the trinity of traditional “elite” theorists is Robert Michels, whose transition from Marxist radical to “Fascist ideologue” is well known (Beetham 1977). Literature on these three theorists has tended to approach them from a historical perspective (Tuck 1993) or concentrate on the concept of elite (Kolegar 1967; Zannoni 1978). Hence, a hitherto undeveloped area of research has been the systematic application of their theories, especially their arguments concerning crisis, to a case study.

In this dissertation, I seek to answer the research question: “how can traditional “elite” theory enrich political analysis of the Asian Financial Crisis (AFC)?” While the economic dimensions of the AFC have been widely discussed and often fiercely debated, literature on its political dimensions is more limited, with a heavy emphasis on democratisation (Haggard 2000; Freedman 2004; Sharma 2003b). This neglects a distinctive feature of post-colonial politics in many parts of Asia – the pre-eminence of elites, whether on a personal level, such as Suharto’s notorious network of friends and family, or institutions such as Malaysia’s *Bumiputera*¹ Commercial and Industrial Community. This is a distinct approach from research on iconic leaders such as Mahathir Mohamad (Jones 2000) or even B.J. Habibie (Anwar 2010). Drawing on Mosca’s concept of the “ruling class”, I focus on elite actors, highlighting partnerships and tensions between them. In this way, the unconventional partnership of traditional “elite” theory and the AFC is a synergistic one, with the aim of filling research gaps in both fields.

¹ Roughly translated, *Bumiputera* means “sons of the soil”, referring to Malays and other indigenous people.



There are three elements to this partnership. *Before the crisis*, drawing on Mosca, I analyse elite political and economic organisation in Indonesia, Malaysia and South Korea, emphasising efforts to develop a “hereditary caste.” *During the crisis*, the arguments of Mosca and Michels are employed in tandem to assess how the lack of elite unity provided the opportunity for the “democratic tendency” to assert itself, with varying outcomes. The third section focuses on *constructing the crisis*, where I explore how Pareto’s concept of “derivations” offers a way into considering the socio-linguistic discursive context of crises.

This dissertation is not intended as an unstinting defence of traditional “elite” theory. Critics have rightly identified the lack of clarity of Mosca’s ruling class (Gramsci 1964) and Pareto’s overly simplistic identification of rentiers and speculators in his account of social change (Kolegar 1967), among others. In some cases, I have modified their theories, notably Mosca’s “ruling class.” I also explore how their arguments can be adapted, primarily through the section on the International Monetary Fund’s (IMF) involvement in the AFC.

Given the complexity of the AFC, single-cause explanations and the rote application of traditional “elite” theory are inadequate. However, with adjustments and adaptation, I posit that the arguments of Pareto, Mosca and Michels can strengthen our political understanding of the crisis.



Traditional “Elite” Theory

Despite being regularly grouped together as traditional “elite” theorists² (e.g. Nye 1977), I contend that it is both possible and necessary to differentiate between them. Michels studied the domain of complex organisations, specifically political parties. Conversely, Mosca and Pareto’s theories were broader, encompassing the entirety of society (Zannoni 1978: 19). Long-time rivals, there was considerable tension between Mosca and Pareto. In his sarcastic rejoinder to Mosca in *Manual of Political Economy*, Pareto (2014: 213) implied that Mosca’s views were either self-evident or accounted for in earlier literature.

I identify two principal differences between Mosca and Pareto’s conceptions of elite, before demonstrating parallels between the former and Michels’s arguments. Unlike Pareto, Mosca did not attach fundamental importance to psychological characteristics. Instead, individual attributes are frequently produced by what Livingstone (1939: xix) termed “social forces.” While acknowledging that there may be “vast natural and... innate differences” between individuals, “traditions and environmental influences are the things that keep them high, low or just average” (Mosca 1939: 64).

Another difference between Pareto’s “elite” vis-à-vis Mosca’s “ruling class” is the group’s degree of consciousness and cohesiveness. Class consciousness involves, at a fundamental level, recognition of other classes. There are various “levels” of class consciousness, where the most undeveloped involves a conception of class identity and thus of class differentiation (Giddens 1986: 112). This can be distinguished from a level which involves the conception of class conflict, where perception of class unity is linked with a recognition of opposing interests with other classes. For Zannoni (1978: 8), the result of this identification is varying degrees of cohesiveness among members. According to this criteria, Mosca’s “ruling class” displays a higher level of consciousness and cohesiveness vis-à-vis Pareto’s “elite.” The latter is an essentially statistical and classificatory concept comprising individuals with specified characteristics (Kolegar 1967: 357). Entry into elite ranks is an automatic phenomenon, where possession of a quantity of particular talents greater than the average person is sufficient for them to be a member, such that no conscious understanding

² Some literature includes Schumpeter (Christensen 2013); others such as Pakulski (2012) relate Mosca, Michels and Pareto to Weber.



of their own position is required (Zannoni 1978: 8). Rather than cooperate, ruling and non-ruling elites compete. By contrast, consciousness serves as a necessary condition for Mosca's "ruling class", which is characterised by a high degree of cohesion and organisation (ibid). The term "ruling class" itself indicates a specific criterion according to which the minority is separated from the majority – the exercise of political power.

I agree with Mosca's understanding of entry into the elite, particularly his recognition of "social forces." Rather than an automatic phenomenon, the economic, ideological and social circumstances at a time influence who the "ruling class" is comprised of. However, I dispute Zannoni's coupling of consciousness with cohesiveness, which assumes a unitary view of the elite as a collective actor. With Mosca, I posit that elites are *conscious* of their position, but disagree that that necessarily leads to a high degree of cohesiveness. Neither does that mean that the ruling and non-ruling elites always compete, as dictated by Pareto. There is often no clear cut distinction between just two distinct groups of elites. Influenced by "social forces", there are *relative* positions within the elite, signifying the potential for conflict and cooperation among different groups. This dissertation thus largely follows Mosca's conception of elites³, with a qualification in terms of highlighting the capacity for competition as well as collaboration.

	<u>Entry into elite</u>	<u>Ruling/ Non-ruling elite distinction</u>	<u>Degree of consciousness</u>	<u>Degree of cohesiveness</u>
Pareto	Individual differences	Yes	Low	Low
Mosca	Social circumstances + individual differences	No	High	High
Dissertation	Social circumstances + individual differences	No	High	Conditional

³ I use both "elite" and "ruling class" interchangeably in the subsequent sections.



Moreover, Mosca and Michels have a shared emphasis on elite unity. Given the “mechanical and technical impossibility of direct government by the masses”, the dominion of an organised minority “obeying a single impulse, over the unorganised majority is inevitable” (Michels 1962: 64; Mosca 1939: 53). Mosca’s arguments on elite organisation grounds much of my analysis *before the crisis*, while Michels’s assessment of party unity is especially pertinent *during the crisis*.



The 1997 Asian Financial Crisis

There have generally been three strands of analysis on the AFC. The first focuses on macro-economic structural weaknesses and imbalances. Prior to the crisis, many Asian governments had intervened extensively to shape industrial policies and manage financial systems. Faced with heightened foreign competition and the over-maturing of protected industries, this approach proved inflexible (Bridges 2001: 3). Current account deficits grew, with the Japanese economic recession from 1991 and devaluation of the Chinese yuan by 35% in 1994 weakening the competitiveness of exports from regional economies. Moral hazard has regularly been highlighted as an important cause of macroeconomic weakness (e.g. Sarno and Taylor 1999). In neo-classical economics, moral hazard refers to a problem of economic incentive in situations in which there is incomplete or asymmetrical information among parties (Vickrey 1994). In Indonesia, Malaysia and South Korea, the pervasive involvement of government in the financial and corporate sectors created expectations that banks and firms would be protected against failure. This was further compounded by inappropriate investment strategies on risky and low profit projects (Sharma 2003b: 40). In this way, moral hazard is argued to have magnified the financial vulnerability of the region during the process of financial market liberalisation in the 1990s, before ultimately exposing its fragility during the macroeconomic and financial shocks that occurred between 1995 to 1997 (Corsetti et.al 1999: 128).

The second strand has been the psychological perspective, which emphasises the role of international investors and speculators. Kindelberger et.al (2005: 157) discuss how the depreciation of the baht in 1997 triggered the “contagion effect.” Within six months, the foreign exchange values of Asian currencies, except the Chinese yuan and the Hong Kong dollar, lost 30% or more of their value in foreign exchange markets. Malaysian Prime Minister Mahathir has been a prominent supporter of this view, lambasting global hedge-fund traders, especially George Soros (New York Times 1997).

The third strand prioritises the role of policy-making and socio-political institutions. Prior to the AFC, there was significant optimism over the “Asian developmental model” (Sharma 2003b: 39). Johnson’s (1982) analysis of Japan outlined a theme central to all subsequent analysis of the Asian political economy: a developmental state ensured a commitment to overall economic growth, while developing a partnership with the private



sector. However, with the onset of the crisis, discussion of the East Asian “miracle” disappeared and new buzzwords arose, prominent among them “crony capitalism” (Kindelberger et.al 2005: 158).

Overall, there remains a lack of attention to the third strand of analysis compared to the AFC’s macroeconomic and psychological dimensions. Beyond scattered references to moral hazard and cronyism, the political dimensions of the crisis have been largely ignored (Haggard 2000: 130). This neglect of the AFC’s politics inevitably spills over to the other two strands. Take the example of moral hazard, which has been categorised as a macroeconomic weakness. Political questions neglected by this straightforward categorisation are 1) why were businesses and banks protected against risk and 2) why were governments willing to bear the costs? Hence, my analysis is aimed at bridging the gap between these different perspectives through a focus on elite actors.

Leaving such questions unanswered opens the door to one-sided accounts of the relationship between economic and political elites. A necessary threshold for explanations of the AFC is that they have to be consistent with both Asia’s economic successes and failures (Stiglitz 2001: 172). Instead, there has been an abrupt turn from fawning praise of developmentalism to critique over the close relationship between state and business. Wade (2001: 72) describes the sudden shift in confidence from “miracle Asia” to “crony Asia” as akin to a “gestalt switch.” This is also true for country specific research, where a weakness of pre-crisis South Korean literature is that they tend to concentrate on successful companies in major industries and neglect failures (Jeong 2004: 4). After the crisis, literature has had the reverse tendency to exaggerate the structural weakness of the *chaebol* system and neglect its successful aspects. While an uncritical adherence to the “miracle Asia” is problematic, tarring Asian states with the homogenising brush of corruption has a troubled history encapsulated by the notion of “oriental despotism”⁴ (e.g. Wittfogel 1957). Consequently, it is imperative to utilise an analysis of elites that does not preclude both Asia’s successes and weaknesses.

I consider the case studies of Indonesia, Malaysia and South Korea to demonstrate how arguments by traditional “elite” theorists can strengthen political analysis of the crisis.

⁴ Dating back to Aristotelian political philosophy and prominent among many Enlightenment writers, oriental despotism has shaped Western representations of Asiatic governments for many centuries.



The selection of a democracy, albeit a relatively new one in South Korea, and two authoritarian or semi-authoritarian states in Malaysia and Indonesia, provide a mix that aligns with traditional “elite” theorists’ insistence that their arguments are relevant regardless of the political system. While each country will be individually looked at, my analysis draws out parallels between how the AFC unfolded in all three cases. *Before the crisis* traces the historical development of regimes prior to the crisis, highlighting the dynamics of intra-elite relations. *During the crisis* assesses how the AFC fragmented elite unity and the response of different elites, while *constructing the crisis* studies the construction “derivations”, primarily by political leaders, to explain and respond to the “crisis.”



Before the Crisis: Elite Organisation (Mosca)

Who, then, were the elites in Indonesia, Malaysia and South Korea? As pointed out by Mosca, we need to consider “social forces”, which refer to any human activity or prerequisite that has a social significance, such as money, land and military prowess (Livingston 1939: xix). An individual or group rules when they or the group are able to control the “social forces” that, at any given moment in any society, are critical to the possession and retention of power. In medieval society, Mosca concurs with Saint Simon’s assessment that military and theological elements prevailed. Within the context of modern capitalism, and with the push for economic development in post-war Asia, one of the dominant “social forces” has been the economy. I propose the following categorisation of elite actors prior to the crisis:

<u>Country</u>	<u>Elites</u>
Indonesia	⇒ Suharto, his family and associates ⇒ Technocrats (economists, engineers) ⇒ Military
Malaysia	⇒ Mahathir, Anwar, Daim and their inner circle ⇒ UMNO ⇒ <i>Bumiputera</i> business leaders
South Korea	⇒ Kim Young Sam and his inner circle ⇒ Ruling party ⇒ <i>Chaebols</i>

Beyond classification, Mosca’s “social forces” provides a socio-political context for dynamic intra-elite relations. Rather than “elite coalitions” (Freedman 2004) or Fukuoka’s (2015) “winners and losers” of institutional arrangements, my approach highlights how the concerns of elites are complex and contingent. As the importance of economic progress grew in Asia, Suharto shifted his focus from traditional allies such as the military, crucial in the struggle for independence, to business owners and economic technocrats, paving the way for intra-elite competition. Contrastingly, Malaysia’s bumiputera policy eventually resulted in the creation of a Malay elite economic class to be co-opted with political elites. South Korea provides a mixed case study, where the government’s relationship with *chaebol* economic elites was marked by periods of tension and collaboration.



A manifestation of the elite cohesiveness is their attempt to develop “hereditary castes”, an “aristocracy” that stays in power for a protracted period (Mosca 1939: 61). Examples of this development are common; there is “practically no country of long-standing civilisation that has not had a hereditary aristocracy” in its history (ibid). “Ruling classes” possess a fundamental tendency to become hereditary, which Mosca compares to the force of inertia. For example, wealth is maintained in families by inheritance, while qualification for office is easier when one is familiar with them from young. However, attempts to build a “hereditary caste” extend beyond family links to include friends and associates of key political leaders, who are included in my analysis.

I posit that the actions of elites in Indonesia, Malaysia and South Korea preceding the AFC demonstrate clear attempts to build patronage networks, which they would go on to defend *during the crisis*. Specific to Indonesia and Malaysia, these attempts were institutionalised in organisations such as the Association of Muslim Intellectuals (ICMI) and *Bumiputera Commercial and Industrial Community (BCIC)* respectively.

Indonesia

Suharto governed as the quintessential patriarchal ruler, granting patronage and protection to loyalists, while harshly punishing dissenters (Sharma 2003: 223). According to *Forbes* magazine, the Suharto family was worth an estimated \$16 billion in 1997, with his children owning numerous car and clove companies. A prominent business operator was Suharto’s old friend from Central Java, Liem Sioe Tong. A billionaire, Liem ran the original Suharto-linked financial empire, the Salim Group. With civil servants and the armed forces poorly paid, monopolies and franchises were sources of revenue for the elite to retain power by distributing favour and rewarding loyalty (Sheng 2009: 225). With friends and family politically connected and well remunerated, a “hereditary caste” was fast developing.

Responsibility for driving economic progress was delegated to technocrats in the state planning industry *Bappenas* and Bank Indonesia. A notable group of Indonesian economists given positions under Suharto’s New Order⁵ were the “Berkeley Mafia”, including Widjojo

⁵ *Orde Baru* (New Order) was coined by Suharto to contrast his regime with that of his predecessor Sukarno’s.



Nitisastro, Ali Wardhana and J.B. Sumarlin. Disconnected from the nexus of power in Indonesia, their position especially depended on socio-economic circumstances, or “social forces.” From 1965 to 1980, Suharto’s close ties with military leaders such as General Moertopo aided his economic nationalist contest with the more orthodox economic technocrats. By the 1990s, the growing prominence of economic interests was alienating a faction of the military clustered around Moerdani, who feared that military interests were being marginalised (ibid: 134). The drop in oil prices in that period re-asserted the importance of macroeconomic prudence, returning power to the technocrats, just as a move towards free market policies was taking place internationally (Thirkell-White 2005: 130). The most apparent manifestation of this was Minister Habibie’s purchase of 39 ex-East German warships in 1994, usurping military authority to secure contracts for well-connected conglomerates. Habibie, a highly skilled engineer, was himself a beneficiary of an Indonesian market that increasingly valued educational and scientific credentials at that point in the New Order’s development. As Suharto began to seek other allies apart from the military, such as the ICMI (Association of Muslim Intellectuals), factions within the army responded with pressure for greater political liberalisation to challenge the tight nexus of Indonesian elites. Liddle (1996: 615) views the ICMI as a key element in Suharto’s drive to reassert control over the armed forces. As “social forces” evolved, the influence of the army, a traditional power player in post-colonial Indonesia, waned while those of the technocrats and ICMI rose.

Despite this, the position of the technocrats in the New Order remained precarious. With Suharto’s “privileged protégé” Habibie’s appointment as State Minister for Research and Technology, the economists strongly opposed his ambitious aims of developing advanced technology (Amir 2007: 88). Led by Habibie, what united an often fractious ICMI was their shared hostility to the professional economists (Liddle 1996: 619). The victory of Habibie’s group over Nitisastro’s technocrats reached its apex when Suharto announced the composition of the sixth development cabinet in March 1993, where a number of ministerial positions held for years by Widjojo’s proteges were replaced by engineers installed by Habibie.

Malaysia

The United Malays National Organisation (UMNO) was an elite-based party, formed in 1949 in reaction to British proposals for a Malay union. It was an umbrella organisation



led by Western-educated members of the traditional Malay elite which enjoyed royal patronage (Stockwell 1977: 494). It was joined in “The Alliance” by a similarly elite oriented Chinese party, the Malaysian Chinese Association (MCA). The MCA had been set up with British support to counter the influence of the Malaysian Communist Party. Completing the group was the Malaysian Indian Congress (MIC), which saw the Alliance as its best chance of pursuing its multi-ethnic ambitions.

Mahathir and the Malay political elite built up an increasingly centralised system based on patronage. Under the BCIC, the government underlined their desire to restructure the economic balance among the different ethnic groups reflected in the ownership of wealth and in occupations (Economic Planning Unit 1971: 36-48). During the 1980s and 1990s, a shift took place away from the general *bumiputera* preference towards the creation of a narrower class of independent entrepreneurs through liberalisation and privatisation (Thirkell-White 2005: 173). This marked a growing emphasis on co-opting and integrating leading businessmen with the Malay political elite. Beneficiaries of state rents, they were supposed to eventually develop independently of government support and ultimately be able to compete internationally. The growth of these conglomerates was largely achieved through corporate manoeuvres, as opposed to evolutionary vertical or horizontal enterprise growth. In this way, the success of Malay tycoons was almost entirely due to strong state patronage (Chin and Teh 2017: 337). For example, Yahya Ahmad controlled HICOM Holdings Bhd and benefitted from the government’s divestment of a 32 per cent stake in HICOM in 1995. Until the onset of the crisis, their rapid development seemed to justify the government’s claim that such rents had been well deployed and utilised (Gomez and Jomo 1997: 191).

South Korea

Sheng (2009: 163) charts the establishment of “Korea Inc.” Following the Japanese model, the Korean economy operated like a single company, where government and large business groups were connected, with banks playing the role of the middlemen. Through the Economic Planning Board, the Korean government targeted specific industries for development, such as textiles, toys and apparels. Leading firms were selected for spearheading these industries, for which they received preferential treatment, including business licenses, protection from foreign investors and imports, as well as access to cheap financing channelled through mostly government-controlled banks. This resulted in the



growth of massive *chaebols*, or large family owned business conglomerates, such as Samsung, Hyundai and LG. By 1996, the top 30 *chaebols* were reputed to control as much as 85% of industrial output and 50% of Korean assets (Delhaise 1998: 102). In this way, a relationship of structural dependence can be observed between Korean politicians and *chaebol*, the Korean economic elite.

Yet, the relationship between politicians and *chaebols* was not a straightforward one. Since Park's decline, all Korean presidents have felt it politically essential to reform the *chaebols* (Thirkell-White 2005: 102). Chun Doo Hwan and Roh Tae Woo had introduced legislation designed to curb *chaebol* product diversification and dilute ownership. They were caught in a dilemma, since liberalisation usually resulted in further economic concentration, and legislation was difficult to enforce due to the political influence of *chaebol*. While *chaebols* were critical to Korean politicians insofar as they drove economic development, there was mounting concern that they were growing too powerful and needed to be more strictly regulated.

Kim Young Sam was inaugurated in 1993 as arguably the first real civilian president in South Korea's history. Bridges (2001: 10) notes that Kim started well, with a well-publicised campaign to tackle corruption, but ultimately found it difficult to escape from traditional patterns of patronage and political parochialism. This coheres with Mosca's argument about the strength of organised minorities in defending their interests, resulting in a "force of inertia." He initially pursued further attempts at regulating *chaebol* abuses. However, the fear of unemployment and developing conservative middle class backlash against reforms caused political concerns for Kim, which the *chaebol* exploited to press for further foreign liberalisation. Despite the rhetoric of the transition to democracy, the authority systems also remained rooted in traditional structures. Even cabinet ministers continued to have secondary importance to the president and his immediate circle of advisors and bureaucrats, who wielded considerable patriarchal power and political influence (ibid:11).

Fundamentally, it was the demise of industrial policy, rather than its perpetuation, which led to the crisis (Chang et.al 2001: 145). The Kim Young Sam government abolished five-year planning, which had provided an overarching policy coordination framework, in favour of the poorly developed *100-day Plan for the New Economy*. It supported an ambitious steel venture by Hanbo, a medium-sized *chaebol* with a dubious track-record in



manufacturing. The decision was not taken as a part of any coherent industrial policy and jarring when the government had just refused to endorse the largest conglomerate Hyundai's entry into the steel industry (ibid). Hanbo collapsed in early 1997, and it was revealed that behind state support lay corruption implicating the President's closest aides and his son. Thus, a movement in Kim's administration can be discerned away from coherent industrial policy to one that favoured a "hereditary caste."



During the Crisis: Elite Unity and Social Change (Mosca & Michels)

In terms of social change, Pareto in particular is well known for his theory of the “circulation of elites.” In *The Mind and Society*, he explained the process:

- ⇒ A: elite in power, B: non-ruling elite, C: rest of the population
- ⇒ A and B regard C as their tools in their struggle
- ⇒ B often place themselves at the head of C, who they tempt with vague promises
- ⇒ B slowly replaces A
- ⇒ Once B seizes power, a new non-ruling elite D will form and the process repeats

Pareto identified two types of elites who correspond to different “residues”, which can be thought of as regular and observable patterns of social behaviour (Christensen 2013: 461). Speculators tend toward daring innovation in economic matters, while rentiers represent the conservative type with a strong sense of duty, and a narrow but determined will. Social development is nothing but oscillation between these two elites and the corresponding forms of government (Kolegar 1967: 361). While enunciated as a general rule valid in all societies, this is actually based on observation of a rather limited segment of empirical reality – Italian society in the latter half of the 19th century, where the regime of speculators such as the Depretis was undermined by their inability to cope with economic problems (ibid). It is thus doubtful that Pareto’s scheme could be applied to other eras and cultural contexts. Additionally, there is little or no attempt by Pareto to show that other varieties of political personality do not exist (Bottomore 1993: 38).

Instead, I draw on Mosca and Michels’s arguments concerning social change to analyse the AFC. Mosca understands revolutions as periods where currents of ideas, sentiments and passions gain the upper hand by force, replacing those in power with individuals who represent new principles. Cases where violent crises radically alter the criteria of selection for ruling classes, and change or modify their composition profoundly, may be regarded as “exceptional” (Mosca 1939: 414). Although there are many ways for minority groups to garner influence, the crux for Mosca is that this relationship defines societies (Christensen 2013: 465). If social change occurs, it is the product of a change in how a group becomes influential and constitutes itself as a ruling minority. During unsettled times, what Mosca calls the “democratic tendency” is likely to prevail, since new manners of thinking and



feeling are undermining the old concepts on which the structure of social rankings have been based. However, “every time the democratic movement has triumphed... we have invariably seen the aristocratic tendency come to life again through efforts of the very men who had fought it and sometimes had proclaimed its suppression” (Mosca 1939: 417). This conflict between the “democratic tendency” and “aristocratic tendency” occurred in Indonesia, Malaysia and South Korea, where protesters, Anwar and Kim Dae Jung came to represent a challenge to the entrenched political arrangements. While Mahathir successfully fended off Anwar through repressive means, Kim Dae Jung, viewed as a perennial political outsider, was elected as President and feted for his *chaebol* reform. Suharto’s handing of power to his deputy Habibie is a more complex case, which I frame as a compromise between the two tendencies.

Michels emphasises the importance of party unity during times of crises. When there is a struggle between the leaders and masses, “the former are always victorious only if they remain united” (Michels 1962: 157). The unled masses, less organised than their leaders and weakened by the weight of organisational pressures, cannot hope to win against a united group. Existing leadership may be overthrown under two circumstances. One, if a division occurs among the leaders, one section or both is forced to seek support from the membership. Second, new leaders may arise spontaneously out of the masses. The first instance occurred in the three countries, where intra-elite struggles over who was to succeed Suharto, Mahathir and Kim Young Sam erupted during the AFC. The comparison between Mahathir and Suharto is especially instructive. Mahathir’s swift and decisive action to rid dissidents and regain control of UMNO guaranteed his controversial political survival, while Suharto’s hesitancy culminated in disgrace and defeat.

Indonesia

With the concentration of power around Suharto, managing relations with other Indonesian elites was critical to stave off leadership challenges. Cracks in the tight circle of power in Indonesia began to show with the passing of Suharto’s wife Ibu Tien in 1996. With Ibu Tien in the fold, the Suharto family knew how to exercise such power by delicately balancing different factions and regional interests, using the largesse skilfully (Sheng 2009: 226). After her passing, Suharto’s children and relatives were less restrained in their demands for business privileges (Abdulgani-Knapp 2007: 193). This entrenched patronage was



challenged by the IMF during negotiations, including reforms in banking, as well as the cloves and plywood industry. Yet, Suharto was aware that the IMF had the backing of the US, which he considered a key ally. Critically, the tension between the enmeshed structures of patronage and the challenge of the IMF left Suharto unable to decisively deal with the crisis, opening him up to immense criticism and eventually leadership challenges from erstwhile allies – the phenomena that Michels argued precipitated leadership change.

The first Letter Of Intent (LOI) signed in November 1997 led to the closure of 16 private banks, including three connected with the President's family. In defiance, one of Suharto's sons, Bambang Trihatmodjo, bought a small bank and started a business on the former premises of one of the closed banks, Bank Andromeda (Sheng 2009: 227). This was a clear sign of how nepotism had crippled the unity of the regime's response to the crisis. The situation worsened in 1998, as Suharto's authority began to weaken. On 6 January 1998, he announced an expansionary budget that was contrary to IMF demands for a budget surplus, further emphasising the regime's lack of coherence. As a result, the Indonesian currency plunged from Rp7,500 to the US dollar to Rp10,000 to the dollar. On 15 January, there was public dismay at the release of a picture showing Michel Camdessus, Managing Director of the IMF, standing like a school master over President Suharto while Suharto obediently signed the second IMF LOI, tarnishing the latter's image as an invincible warrior-leader. On the same day, according to Abdulgani-Knapp, the author of Suharto's authorised biography, a group of retired military officers and national figures called for Vice-President Try Sutrisno to take over from President Suharto at the end of his term in March. At this point, it was clear that elite unity in Indonesia was fatally weakened.

Tasked with choosing between the advice of his immediate circle vis-à-vis local economic technocrats and the IMF, Suharto ultimately opted for the former. From the perspective of traditional "elite" theory, he defended his "hereditary caste." By contrast, respected economists like the "Berkeley Mafia" were politically isolated and weak, their influence eclipsed by Suharto's children and his business friends (Sharma 2003a: 224). At the height of the crisis, Suharto reneged on implementing the economic and legal reforms recommended by the technocrats in order to protect the vast economic interests held by his offspring and allies. In February, unhappy with the severe cuts in their pet projects and the slow results of the IMF programme, some of Suharto's children and associates brought in Dr Steven Hanke of John Hopkins University, to advise the President on the use of a currency



board system as an alternative to the IMF programme (Nasution 2000: 38). Considering the currency board system, as well as other mechanisms like the Chilean Tobin tax and foreign exchange controls meant that the regime wasted six months pondering various alternative solutions. Indecision and see-sawing between different options reflected a weakened elite floundering for its political survival.

As inflation hit a record of 12.8% in February 1998, riots erupted because of rising prices, and students from the University of Indonesia carried out their first demonstration. Protests escalated with Suharto's appointment of his daughter and close friends, such as Bob Hassan, to the new cabinet in March. In May, riots reached a peak following the shooting of students by security forces outside Trisakti University. Although Suharto flew in from Cairo, where he was at a conference, to calm the situation, it was already too late (Sheng 2009: 230). He was faced with calls to resign from former loyalists and the army. Suharto threw in the towel and handed power to his vice president, Habibie.

Habibie's subsequent term as President struck a compromise between the "aristocratic tendency" and "democratic tendency." On one hand, he was Suharto's protégé, their relationship dating back to when Habibie was a teenager (Amir 2017: 88). During the chaos of 1965, Habibie was advised by Suharto, through his brother-in-law, who was formerly Suharto's subordinate in the military, to stay in Germany until the conditions were more favourable. Furthermore, Habibie was very much an elite – his father was a well-paid agricultural expert educated at the school of agriculture in Bogor, while his mother was a Javanese aristocrat. Habibie would make use of this cultural capital to attain scientific and professional credentials (ibid). He was also a strict constitutionalist who rejected the arguments of those who wanted to dismantle the Consultative Assembly and the House of Representatives. Habibie tended to characterise the rapid changes that he was overseeing as "accelerated evolution" rather than revolution (Anwar 2010: 100). Yet, he expressed rapport with protesters, calling the four murdered Trisakti University students "heroes of reform" (Siegel 2001: 92). Further, Habibie passed a number of decrees that displayed a certain level of responsiveness to calls for change, such as No.13, which limited the president and vice-president to a maximum of two terms in office.

Malaysia



Malaysia's response to the AFC was marked by growing tension between Mahathir and Anwar Ibrahim. The contest between the Prime Minister and deputy fragmented the highest echelons of UMNO leadership. From the start of the crisis, Mahathir's implicit threats to impose capital controls led to growing uncertainty and contributed to the rapid decline of the ringgit. In September 1997, the Malaysian cabinet announced the creation of a RM60 billion fund for selected Malaysians, which was perceived as a bailout facility designed to save cronies that added to growing uncertainty (Gomez and Jomo 1997: 189; Haggard 2000: 134). In December, Mahathir appeared to change his mind, delegating authority to Anwar, who introduced an "IMF programme without the IMF." Despite this shift, there was a growing perception that Mahathir and his close ally, former Finance Minister Daim Zainuddin, were colluding to take over economic policy-making from Anwar, who had endeared himself to the international financial community. Mahathir's appointment of Daim as Executive Director of the newly established National Economic Asian Council (NEAC), and then as Minister with Special Functions in June 1998, exacerbated ambiguity about who was in charge of economic policy. For the next six months, policy see-sawed between Anwar's more orthodox views and those of his reflationist opponents (Haggard 2000: 134).

The question of succession loomed large throughout, where Anwar's position suggested that he would eventually take over leadership of UMNO. However, the festering conflict between Anwar supporters and Mahathir's camp resulted in a deeply factionalised party (Gomez and Jomo 1997: 201). Wary of Anwar's popularity at the grassroots, Mahathir weakened his deputy's strength at both federal and state government levels through the leadership selection process of the 1995 general election. He ensured that loyalists were appointed as chief ministers of all Barisan Nasional-controlled state governments and hence dominated the cabinet.

Following the fall of Suharto, Anwar appeared to issue a more direct challenge to Mahathir. At the UMNO General Assembly in 1998, the party's Youth leader called for efforts to end corruption, cronyism and nepotism in Malaysia, apparently with Anwar's backing (ibid). This was a risky gambit, as Anwar and his ally were demonstrating support for new ideas and principles, or the "democratic tendency." Speculation was rife that Anwar had been planning a coup at the Assembly rather than wait for Mahathir to follow through on his promise to hand power over soon (Weiss 1999: 427). A sign of things to come for Anwar was the mysterious inclusion of the muckraking book *50 Reasons Why Anwar Cannot Be*



Prime Minister in the delegate bags of attendees. Though Anwar denounced the book as defamatory, some of them resurfaced among the legal charges later to be levelled against him. Mahathir retaliated by releasing partial lists of recipients of various contracts, privatisation opportunities and special *bumiputera* allocation of publicly listed equity. Apart from Mahathir's sons, the recipients included Anwar's relatives and the UMNO Youth leader himself. This astounding move, which implicated Mahathir and his family, demonstrated the extent to which relations between Mahathir and Anwar had deteriorated, and marked the emphatic restatement of the "aristocratic tendency." Mahathir even managed to turn cronyism into a positive by linking it to the constitutionally defined *bumiputera* special position – all Malays were cronies because they had benefitted from this (Funston 1999: 170).

On 2 September 1998, Mahathir dismissed Anwar from the cabinet. Two days later, he was forced out of UMNO. In late September, Anwar and more than a dozen of his closest associates were detained under the Internal Security Act, before being charged in court on five counts each of corruption and sodomy. Before charges were even laid, Mahathir graphically described that Anwar was guilty of adultery and sodomy, and then with trying to conceal evidence of his many alleged trysts.

I contend that Anwar's economic views, political challenge to Mahathir and public challenge to entrenched patronage meant that the threat of political change was a distinct possibility. By taking drastic repressive action, Mahathir maintained his grip on political power. Mahathir's ouster of Anwar showed his skill in dealing with both real and imagined threat and capacity for "ruthless political surgery"⁶ (Jones 2000: 111). Mahathir subsequently moved to publicly reconcile himself with the leaders of "Team B"⁷ and appointed one of its members, Abdullah Badawi, as his new deputy. Rather than reform economic policy, Mahathir reinforced the corporatist link between state and business. Following economic recovery in 1999, the Malaysian Central Bank announced plans to combine 58 banks and finance companies into 10 financial groups. Since terms for their amalgamation depended not on their profitability but on their ties to politically favoured UMNO supporters, this capped off Mahathir's defeat of the "democratic tendency" represented by Anwar.

⁶ A trained medical doctor, Mahathir's autobiography is titled "A Doctor in the House."

⁷ Led by Tengku Razaleigh Hamzah, "Team B" was a faction of UMNO that challenged Mahathir's leadership. It had the support of two former Prime Ministers, Abdul Rahman and Hussein Onn, both of whom had fallen out with Mahathir.



South Korea

Enjoying a legislative majority when the crisis hit, South Korea appeared to be well positioned to respond to the crisis. On the edge of the world's top ten trading nations, its per capita GDP had recently passed US\$10,000. However, the ruling New Korea Party (NKP) was beset by internal divisions. Facing mounting leadership challenges, the incumbent Kim Young Sam was running on borrowed time. Korea's pending OECD membership meant reform had to be undertaken for its industrial relations system. The Korean Confederation of Trade Unions and Federation of Korean Trade Unions argued for the right to have more than one trade union in a company and a third-party intervention in labour disputes. The employers, led by the Federation of Korean Industries (FKI), demanded instead for the ability to lay off workers. Under strong pressure from the *chaebols* and FKI, the Kim administration railroaded a bill through the National Assembly on 26 December 1996 in a secret pre-dawn session to which opposition parties were deliberately not invited (Bridges 2001: 23). The final version of the law favoured the management, with lay-offs allowed and the introduction of multiple trade unions delayed until 2000. Against the backdrop of ensuing strikes and intense protests from workers and the opposition, a number of politicians within the NKP, including the aspirant for the presidency Lee Hoi-Chang, began distancing themselves from Kim's hard-line approach (CNN 1996).

Furthermore, a no re-election rule and mounting concern over deteriorating economic performance fragmented the ruling party (Haggard 2000: 132). In the ensuing succession struggle, a faction of the NKP splintered off and selected its own candidate to contest the presidential election. Although legislative elections were not concurrent with the presidential contest, neither the ruling party's presidential candidate nor its legislators had strong incentives to cooperate with the lame-duck president Kim Young Sam. Consequently, the passage of a package of financial reform bills was stalled by disagreements within the ruling party. When the crisis broke, their passage became an important signal of government commitment, and it was explicitly included as one of the conditions of the first IMF programme. Despite this, both the ruling party's presidential candidate and the opposition refused to cooperate with the government in getting the controversial legislation passed.



During the 1997 presidential election, Kim Dae Jung of the National Congress Party triumphed in the first peaceful transition of power in South Korean history. He possessed a strong anti-*chaebol* worldview, attributing the blame of the economic crisis to the collusive relationship between government and business (Sharma 2003: 229). With his reputation as a political outsider, Kim Dae Jung portrayed himself as a man of the people above the fray of partisan politics. He exploited the crucial legislative window between his election and inauguration to enact *chaebol* reform, including passing the package of bills that had languished prior to the election.

Unlike Anwar, Kim Dae Jung introduced the “new principle” of controlling *chaebol* dominance, signifying the success of the “democratic tendency.” Even still, Kim Dae Jung’s term was tarnished by the “furgate” scandal, where the Special Prosecutor’s investigation unveiled that the wives of the Attorney General and Legal Assistant to the President received expensive furs and other bribes from a businessman. This was the “critical juncture” from which Kim’s popularity began to fall, demonstrating the hostility the public felt for the “aristocratic tendency” that his leadership had promised a movement away from (Hoon Jaung 2002: 253).



Constructing the Crisis: “Derivations” (Pareto)

A virtual consensus in literature on the AFC is the description of the turmoil of 1997 and beyond as a “crisis”, to the extent that Corsetti et.al (1999: 131) develop a “crisis index.” There is a lacuna of research on the socio-linguistic discursive context of the AFC, which can be filled by Pareto’s “derivations.” In any given society, groups of people may try to make sense of “residues” by constructing theories and traditions that explain their meaning, or “derivations” (Christensen 2013: 461). “Derivations” serve as a logical varnish; an attempt to provide a rational justification for “residues” (Macpherson 1937: 462). When employed to study crisis, this strikes a balance between material and ideational approaches. This is similar to the approach of Hay (2001), where he argues that it is important to maintain a clear distinction between failure and crisis, where it is only the *narratives* of crisis that are responded to. “Crisis narratives” do not compete in terms of the sophistication or accuracy of their understanding of the situation, but need to make sense to individuals of their experience of crisis, and be sufficiently general to identify clear paths of responsibility (ibid: 204). While rooted in socio-economic circumstances, there is an important mediation between such realities and everyday experiences.

In this gap, political leaders used “derivations” in multiple ways during the AFC. Other actors, prominent among them protesters, employed their own “derivations”, but I emphasise the centrality of elite actors, such that protesters were regularly responding to the elite. Moreover, there were multiple and often competing elite “derivations” at play. While Mahathir attempted to attribute blame to international speculators, Kim Dae Jung developed a narrative that mobilised Koreans in a joint economic effort to overcome the crisis. Kim’s actions demonstrated a dimension not captured by Hay’s “crisis narratives.” Beyond attributing blame, “derivations” can accept and even embrace crises for political purposes. Torn by indecision, Suharto was unable to decisively construct a coherent argument to either explain or combat the crisis.

Indonesia

Suharto’s initial reforms, especially the freeing of the rupiah, appeared to cut against the interest of his inner circle. This implied that blame, or at least part of it, for the economic crisis could be attributed to domestic financial weakness and even cronyism. However, these



moves were undermined by a number of rear-guard actions, involving launching several costly investment projects and extending liquidity support to a number of crony banks (Haggard 2000: 134). At the level of diagnosis and remedy, there was an incongruity in the response by the Suharto administration. This allowed a number of other “derivations”, elucidated by both members of the elite and protesters, to gain currency. A common refrain among protesters during the near-daily rallies against the government in 1998 was “bring Suharto, bring Suharto”, marking a clear argument laying blame for the economic and political turmoil at the feet of the President (CNN 1998a). Muslim leader Abdurrahman Wahid called for Suharto’s resignation and pled with Indonesians to cease their hostility towards the Chinese community. His open opposition to the government encouraged students to continue their protests, for which there was growing support. A 53 year old farmer, Ansuwolo, discussed with reporters his efforts to dissuade his son, a Yogyakarta policeman, from beating up protesters (Far East Economic Review 1998: 21-24). Ansuwolo then declared that many of his neighbours were also supporting the students as they watched scenes of the demonstrations broadcast on the nightly television news.

The increasing intensity of the protests, and mounting public support for them, caused some of Suharto’s staunchest allies to begin questioning his leadership (Freedman 2004: 239). Suharto’s culpability came to be a prominent feature among the stance of elites. House Speaker Harmoko publicly offered Suharto three options on 18 May 1998: reshuffle his candidate, resign or face a special session of Parliament in which he may be impeached. Things would go from bad to worse for Suharto, as all 14 Economic Ministers resigned under pressure from leaders Akbar Tanjung and Ginandjar Kartasasmita on 20 May. When Suharto asked Habibie to convince the Ministers to rescind their resignations, he instead asked for their support. Therefore, Suharto’s inability to develop a coherent and persuasive “derivation” about the cause of the crisis and reform needed provided the opportunity for rival arguments to gain support, especially those calling for his ouster.

Malaysia

Sharma (2003b: 225) argues that Mahathir’s immediate response to the AFC was to find scapegoats. Before a World Bank-IMF annual meeting in September 1997, he declared currency trading to be “unnecessary, unproductive and totally immoral”, and hence should be “made illegal” (New York Times 1997). A few days later, he even suggested that an



international Jewish financial conspiracy was trying to cripple his predominantly Muslim country. Behind this inflammatory and anti-Semitic rhetoric, Mahathir was not simply looking for scapegoats but constructing his “derivation” blaming international speculators; an attempt to direct attention away from the weakness of the Malaysian financial system and by proxy his autocratic rule. This cohered with his broader critique of Western liberalism, headlined by a “Buy British Last” campaign (Jones 2000: 103). Indeed, Mahathir was relatively successful at this. Thirkell-White (2005: 174) assesses that Mahathir articulated a relatively coherent and plausible critique of the IMF, where capital markets had to be regulated due to their lack of commitment and responsibility. At a minimum, this argumentation had a clear attribution of responsibility for the economic turmoil.

Despite this, counter “derivations” gained momentum in the aftermath of the crisis, prominent among them those criticising the system of patronage. After the UMNO meeting that expelled Anwar, Mahathir was pelted with used drinking cups, an unprecedented act of defiance towards a Prime Minister (Funston 1999: 172). Anwar was also not immediately detained, giving him the opportunity to tour the country and give popular public lectures on topics such as justice and the prevalence of cronyism. Emphasising that he had been pressing for reform within UMNO and highlighting his leadership in developing affordable housing, Anwar became a focus for popular frustrations with the government (Weiss 1999: 427). After leading a massive rally in Kuala Lumpur on 20 September 1998, he was finally detained under the Internal Security Act. In response, crowds of protesters shouted “*reformasi*” (reform) and “justice for Anwar” (CNN 1998b). Even as there seemed to be an upswell in support for Anwar, both locally and internationally through supporters like Al Gore, Mahathir’s power was never genuinely threatened (Freedman 2004: 245). The creation of a new political party, the *Parti Keadilan Rakyat* (PKR) led by Anwar’s wife Wan Azizah, did not pose a serious challenge to the ruling apparatus.

South Korea

By acknowledging and even embracing the economic turmoil as a crisis, Kim Dae Jung was able to mobilise a strong collective response from the people through a “derivation” emphasising national history and pride. The Tripartite Commission of 1998 argued that reforms provided scope for a second economic leap: “if we cooperate and share the hardships resulting from these difficult times, we believe that we can overcome the upcoming



challenges and create another Miracle on the Han River.” Kim called upon the people to participate in a joint effort to overcome the economic crisis by maintaining a diligent and frugal lifestyle. This rhetoric struck a chord with the Korean people, who donated a staggering US\$2 billion in gold to replenish central bank reserves (Thirkell-White 2005: 123). Despite the economic woe, South Korea rallied with remarkable support for their new President (Hoon Jaung 2002: 242). More than 70% believed that Kim Dae Jung was doing “very well” in early 1998, though his support gradually dipped over the course of his term. This adds a level of complexity that Hay’s does not, where narratives need not be constructed for simply the political blame game, but be embraced in “derivations” aimed at mobilising financial and political support.



The Involvement of the IMF

For Freedman (2004), as well as Keohane and Milner (1996), one can no longer approach domestic politics without an understanding of the global economy and the links between domestic and international issues. This trend towards internationalisation is embodied by organisations such as the IMF and OECD, with the former prominent in responding to the AFC. Established in the belief that international financial markets are intrinsically volatile and require outside support, the IMF has moved to centre stage as financial crises have become more common in the post-World War II period (Eichengreen 1999: 20-21). This presents a difficulty in employing the theoretical framework of traditional “elite” theory, which focuses on domestic actors.

Emergency lending agreements were signed with Indonesia in November 1997 (US\$35 billion) and Korea in December 1997 (US\$57 billion). Aimed at restoring financial market confidence, they included a:

- ⇒ Package of loans to the central bank and government to aid their repayment efforts
- ⇒ Macroeconomic framework based on budget balance or surplus
- ⇒ Programme of drastic financial sector restructuring based on the immediate closure of several financial institutions and increasing of financial sector supervision
- ⇒ Other “good governance” measures aimed at increasing transparency and competitiveness

Rather than inspiring confidence, these policies seem to have accelerated currency flight. Given the IMF’s role as an “international fire brigade”, its arrival “gives all the confidence of seeing an ambulance outside one’s door” (Eichengreen 1999: 20; Radelet et.al 1998: 61). The authority of a ruling class can be undermined not merely by internal dissent, as emphasised by Mosca and Michels, but by international actors as well. The key mechanism for the IMF’s authority is the principle of conditionality, where financing can only be provided if the member country’s authorities commit to necessary policy changes and reforms (Sharma 2003a: 46).

I present two dimensions of IMF intervention during the AFC, demonstrating how traditional “elite” theory can be adapted to account for international actors. On the level of diagnosing the crisis, the IMF heightened fears by declaring that the crisis was primarily caused by deep problems in financial systems, rather than a self-fulfilling panic among



creditors (Eichengreen 1999: 24). From the perspective of crisis “construction”, the Fund created “derivations” both on a general “Asian” level and country specific ones through their programmes and statements. Moreover, the IMF’s proposed solutions at times deepened elite divisions, especially between Anwar and Mahathir, as well as between Indonesian technocrats and Suharto’s inner circle.

Indonesia

As with the other countries, the IMF interpreted the Indonesian crisis in terms of banking sector vulnerabilities combined with a collapse of market confidence. Specific to Indonesia, market confidence problems were driven by a climate of poor governance and lack of competitiveness in the economy (Thirkell-White 2005: 136). This exemplified the IMF’s ability to construct “derivations” that undermined the authority of Suharto’s regime. Under increasing pressure to counter Indonesian corruption, the IMF proceeded to launch a direct challenge to the patronage endemic in Suharto’s regime. This was evident even in the aftermath of Suharto’s resignation. The fourth IMF programme in July 1998 aimed to review and dismantle government contract offered through networks of corruption, collusion and nepotism (Nasution 2000: 44). Further, IMF “derivations” on the crisis compounded a schism within Suharto’s administration. For instance, in mid-September 1997, Finance Minister Marie Muhammed announced a package of measures including fiscal retrenchment, removal of import tariffs on 150 items and the removal of 49% domestic equity requirements for listed companies. Behind the scenes, the technocrats had argued for a more extensive programme, closer to the IMF’s “derivation”, but Suharto had rejected it, raising concerns among Indonesian insiders that he was more eager to take advice from his children (Thirkell-White 2005: 138).

Malaysia

Although Malaysia did not sign an agreement with the IMF, its spectre loomed large on how they responded to the crisis. Its policy “derivation” was very much present, such that Anwar and his advisers saw little alternative to an IMF-style reform of Malaysia’s economy, with political reform its necessary corollary (Jones 2000: 110). Subsequent international support for Anwar and his programme modelled on the IMF’s exacerbated tensions between



the two⁸. The Western media openly encouraged Anwar's succession with its portrayal of Mahathir as outmoded and inadequate to the challenge of responding to the crisis (Gomez and Jomo 1997: 200). In the aftermath of Anwar's ouster, the government sought to rally the population around an alleged international threat to "re-colonise" Malaysia", thereby justifying currency controls, heightened when Soros called for Mahathir's ouster (Funston 1999: 174).

South Korea

The rise and fall of Kim Young Sam's government is intimately linked with international organisations. Korea's entry into the OECD in December 1996 was publicised as the symbol of the nation's economic "arrival", but its subsequent reliance on IMF assistance was widely regarded as a national shame that effectively ended the government (Jeong 2003: 43). The Korea-specific features of the IMF programme concentrated on *chaebol* reform, including the limitation of scope for owners to control large numbers of companies and an increase in transparency. These reforms were popular with large sections of the Korean population (Thirkell-White 2005: 112). Though Kim Dae Jung was initially critical of the IMF, the Fund's attribution of blame to the *chaebol* legitimised his own "derivation."

⁸ Though the the economic differences between Mahathir and Anwar should not be overstated (Funston 1999)



Conclusion – New Alliances, Same Old Story?

In 2018, a 92-year-old Mahathir returned to politics and defeated his former protégé, the incumbent Najib Razak, to become Prime Minister of Malaysia for a second time. What was even more stunning about Mahathir's political revival was his unlikely alliance with Anwar's wife Wan Azizah, who founded the PKR after Mahathir had put her husband in jail. Indeed, Mahathir's campaign promise was to obtain a pardon for Anwar if his *Pakatan Harapan* Alliance won, and eventually hand power to his former deputy. While heralded as "the people's victory" (Kee 2018), it is telling that it took one of the most paradigmatic figures in UMNO's history to finally end the party's vice like grip on power. It also demonstrates the enduring importance of elite unity, where relations between Najib and Mahathir had decayed to the extent that the latter joined the opposition, a group in which he was long a vilified figure. Furthermore, Mahathir's incredible partnership with Anwar demonstrates the complexity, compromises and dynamism of alliances that traditional "elite" theory captures.

Elements of traditional "elite" theory served as the theoretical foundation to analyse the politics of the AFC. *Before the crisis*, I detailed attempts by elite actors to develop a "hereditary caste" in Indonesia, Malaysia and South Korea, while highlighting both elite cooperation and competition amidst the context of evolving "social forces." *During the crisis* eschewed Pareto's circulation of elites and instead looked at the conflict between the "aristocratic" and "democratic tendency" during the AFC. Drawing on Michels, the dangers of elite fragmentation were evident in all three countries. Moreover, I analysed leadership change (or lack thereof) in light of the struggle between the "democratic" and "aristocratic" tendency. The third section argued for how Pareto's concept of "derivations" offers a pathway to thinking about the socio-linguistic *construction of crisis*, and in particular how political leaders employed them.

The question is thus whether the analysis employed in this dissertation is only applicable to Asia, or even just Indonesia, Malaysia and South Korea. Yet, such an assessment leaves the door open to regional stereotypes, both positive variants such as "miracle Asia" or critical "crony capitalism" narratives. Instead, I suggest that there are multiple avenues for analysis drawing on traditional "elite" theory. As demonstrated in the section on the IMF's involvement in the AFC, research need not be constrained by religiously



following all the arguments of the traditional “elite” theorists, but adapted and adjusted. “Manias, panics and crashes” are an enduring feature of modern capitalist financial systems, suggesting potential research on both past and future financial crises (Kindelberger et.al 2005). Since the foundations of the modern monetary system are irreducibly political, a politically grounded analysis of financial crisis, which traditional “elite” theory provides, is essential (Tooze 2018: 33).

In particular, a fruitful area of research is the European anti-austerity movement, which could serve as a case study of Mosca and Michels’ arguments on crowd psychology. For Mosca (1939: 411), support is secured by pointing out “with exaggerations of course, the selfishness, the stupidity, the material enjoyments of the rich and powerful... and promising to satisfy a common and widespread sense of roughhewn justice.” Similarly, Michels (1962: 64) describes how the crowd is “always subject to suggestion” and easily influenced by popular orators. As noted by Kriesi and Pappas (2015: 192-194), Greek populists such as ANEL leader Panos Kammenos have been able to produce a populist party virtually from scratch, while SYRIZA’s rhetoric has been couched in battle terms against the “German order” in Europe. With a multitude of parties offering contrasting interpretations on the anti-austerity “crisis”, more dimensions of Pareto’s “derivations” can be explored.

Through the case study of the AFC, this dissertation demonstrates the analytical potential of drawing on arguments of traditional “elite” theorists, and I hope that more work can be done in this way.



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