The Asian Financial Crisis and the Washington Consensus

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Abstract

Since the 1980s, neoliberalism has been dominant in strategies for the development of countries in crisis. This is visible in the Washington-based institutions who have promoted neoliberalism in their adjustment programs, which are bound to the loans they provide. The neoliberal view contains several normative ideas about the economic design of a country. These ideas are translated into policy sets by particularly the IMF. In 1990, Williamson came up with the term the Washington Consensus to summarize the policy sets that all correspond with the neoliberal view. These policy sets are used as a benchmark for the adjustment programs of the IMF. However, the outcome of the adjustment programs has not always been desirable. Based on this undesired outcome, some scholars argue that the Washington Consensus is in decline. These scholars only incorporate countries in their analysis who accepted IMF support. But, the Washington Consensus can also be present in policy reforms without the IMF. Therefore, this thesis focusses on two countries that faced the same financial crisis, from which one accepted IMF support whereas the other did not. This country could therefore decide for itself what policy reforms were to be implemented. It seems that despite the refusal of the IMF, this country still implemented policy sets which correspond with the Washington Consensus. Therefore, the Washington Consensus is not in decline.

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The decline of the Washington Consensus

In the last decades, the world saw a shift in power. This shift contains a shift in both political and economic power; the Western hegemony is in decline and the East in becoming increasingly important. With this shift in power, there is an emergence of new non-Western economic and financial institutions. This emergence and the critique on the Western institutions from both the established powers as well as the emerging powers, both suggest the Western neoliberal-based economic and financial institutions are facing difficulties maintaining their original importance.[1] Thelen points out: “Since no one would argue that [these] systems are not changing in fundamental ways; how should we characterize the dynamics of change and weigh these against the forces of institutional reproduction?”.[2] The system of economic institutions is changing. Is this only a shift in power, or is there also a shift in norms? This thesis examines whether there is a shift in norms. One norm shift that is argued to be evident, is the decline of the Washington Consensus. In this bachelor thesis, I would like to gain more insight in the change of this norm and what the possible consequences could be of this change. This thesis tries to answer this question:

Do the responses to recent financial crises show that the Washington Consensus is in decline?

To be able to examine whether the Washington Consensus is in decline or not, this thesis investigates whether Indonesia’s and Malaysia’s responses to the Asian financial crisis show that the Washington Consensus is in decline. It is examined whether the two countries which faced similar financial difficulties imposed similar Washington Consensus-based policy reforms or not. One of these countries accepted IMF loans whereas the other did not. The IMF provided loans are well-known for its conditions. The loan receiving country should reform its economic and financial policies in order to receive financial help. The reforms are in line with the Washington Consensus.

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[1] Stuenkel, Oliver. *Post-Western World: How Emerging Powers Are Remaking Global Order*. (John Wiley & Sons, 2016).

[2] Thelen, Kathleen. *How institutions evolve: The political economy of skills in Germany, Britain, the United States, and Japan*. (Cambridge University Press, 2004). 3

The examination of a country who received IMF loans is done many times before. But many scholars who argue subsequently that the Washington Consensus is in decline, only focus on a country that followed the IMF policies or they misinterpret the term Washington Consensus.[3] Implicitly, these scholars assume that the Washington Consensus only expresses itself within the IMF and through the IMF policies. Since the outcome of those policy reforms were not always desirable, it is argued that the Washington Consensus is in decline. However, their view is too narrow. There are more ways to analyse the Washington Consensus. This thesis incorporates a country that refused IMF loans. This country is especially interesting as it can decide for itself what policy reforms are to be implemented. Two countries that faced the same financial crisis will be addressed. One of these countries is Indonesia. It did accept the IMF loans combined with the IMF policy prescriptions. The other country is Malaysia and it did not accept the IMF loans. Therefore, it could decide for itself what reforms were to be made. It will be concluded that this country did in fact imposed policy reforms which are in line with the Washington Consensus. This shows that the inclusion of countries who did not accept the IMF, shows that the Washington Consensus is not in decline.

[3] Williamson, John. "A short history of the Washington Consensus." *Law & Bus. Rev. Am.* 15 (2009): 20-23

Literature review

In 1990, John Williamson was to first person to mention the term 'the Washington Consensus'.[4] The term refers to the view on effective development strategies, as accepted by the Washington-based institutions being the International Monetary Fund (IMF), the World Bank and the US Treasury.[5] Ever since, the Washington Consensus has been the dominant approach in development strategies and it has been propagated by the IMF and the World Bank. The IMF did so by binding structural adjustment programs to its loans.

The structural adjustment programmes have two basic goals. One of these is the maintenance of long-term growth. The other is the facilitation of adjustment for creating balance of payments.[6] The distinction between these two goals becomes clear in determining which financial institution provides the structural adjustment loan. In general, the IMF will provide loans which contribute to ameliorating internal and external balance of payments. These loans therefore contain conditions on macroeconomic reform.[7] The World Bank will provide loans which support a free market. The logic behind this goal is that a free market will stimulate long-term economic growth.[8] The structural adjustment programmes follow the principles summarized in the Washington Consensus. However, the IMF is not the only manifestation of the Washington Consensus. A country can also implement Washington Consensus-based policies on its own. Therefore, this thesis takes into account a country that did not accept IMF loans with its conditions, to see if the country implemented Washington Consensus-based policy reforms despite the absence of the IMF.

The policies and principles of the so-called Washington Consensus all correspond with the norms of a neoliberal international economic order.[9] This order favoured commitment to free markets, private property and individual incentives, and a limited role for the government.[10] But it is important to note that these norms did not fully excluded government intervention in

[4] Williamson, John. "Latin American adjustment: how much has happened?." (1990).
[5] Williamson, John. "A short history of the Washington Consensus." *Law & Bus. Rev. Am.* 15 (2009): 7.
[6] Easterly, William. "What did structural adjustment adjust?: The association of policies and growth with repeated IMF and World Bank adjustment loans." *Journal of development economics* 76.1 (2005): 1-22.
[7] Lall, Sanjaya. "Structural adjustment and African industry." *World development* 23.12 (1995): 2019-2031.
[8] Lall, "Structural adjustment and African industry," 2019-2031
[7] Gore, Charles. "The rise and fall of the Washington Consensus as a paradigm for developing countries." *World development* 28:5 (2000): 789-804
[10] Gore, "The rise and fall of the Washington Consensus as a paradigm for developing countries," 789-804

the economy. Government intervention should be limited and liberalisation of external trade and free movement of capital should be provided. But, in cases of market failure, government intervention is legitimate.

The relevance of the Washington Consensus is increasing and the commitment of countries to the principles of the Washington Consensus has become increasingly important over time. The ongoing process of globalisation is the main driving force behind this trend. The focus here is on economic globalisation. Spinello defines economic globalisation as follows: “the integration of economic activities across borders, through markets.”.[11] From the 1990s onward, the world economy got more and more globalised. In this system, it has become crucial for countries to keep up with the open market, where all countries can compete with each other and where capital flows freely. If a country does not open up its economy for international trade, international production systems and external financial flows, a country will be cut off from this system. These three crucial characteristics of an economy are all included in the Washington Consensus. The aspects of the Washington Consensus can be summarised into three main ideas: macroeconomic discipline, market economy, and openness to the world.[12]

However, the importance of the Washington Consensus in development strategies should not be taken for granted. Its desirability seems to be declining due to what economists have learned from history; mainly because of the outcome of the reforms propagated by the Washington-based institutions. The outcome differed enormously among countries.[13] For instance, South-East Asia flourished by the new economic policies; economic growth and poverty reduction exceeded all expectations. But, on the contrary, countries in Latin America faced hardship. Argentina has had thirty adjustment loans from the IMF from 1980 to 1999.[14] But, despite the incredible number of loans and despite the restructuring programs, Argentina still faced hyperinflation and low growth rates.[15] An example like this, damages the desirability of Washington Consensus inspired reforms. Another factor is that not all scholars interpret the Washington Consensus as Williamson wanted. Those scholars, Williamson argues, interpret the term more general and then argue the Washington Consensus is in

[11] Spinello, Richard. *Global Capitalism, Culture, and Ethics*. (Routledge, 2014); 6
[12] Stiglitz, Joseph E. "Initiative for Policy Dialogue Working Paper Series." (2007). 1
[13] Zagha, Roberto, and Gobind T. Nankani. *Economic Growth in the 1990s: Learning from a Decade of Reform*. World Bank Publications, 2005.
[14] Easterly, “*What did structural adjustment adjust*?” 1-22
[15] Ibid: 5-22

decline. While, in reality, they are speaking of something different.[16] Therefore, this thesis focusses on the exact ten policy prescriptions as formulated by Williamson.

The question arises whether the Washington Consensus is still important in tackling financial crises or that it is in decline. Some scholars argue that the aforementioned negative outcome of the reforms implemented in Latin America, led to the need to review the Washington Consensus. Other scholars argue that the undesired outcome in Latin America came about due to external factors, rather than the failure of the Washington Consensus themselves. There are extremes to be taken into account when drafting a spectrum which comprehends the views on the Washington Consensus. On the one end, Rodrik argues nobody believes in the Washington Consensus anymore.[17] He quotes Nankani, the World Bank vice-president, who wrote that “there is no unique universal set of rules. We need to get away from formulae and the search for elusive best practices.”.[18] Also, Weisbrot argues that the IMF programs failed enormously in the Asian Crisis and concludes the Washington Consensus is in decline.[19] On the other end of the spectrum, Fischer argues that the IMF did in fact implement the right reforms in Asia.[20] He argues that the countries in Asia needed exactly what the IMF could provide them with. The Washington Consensus proved its importance in this case. Therefore, the Washington Consensus would not be in decline.

Rodrik, Weisbrot and Fischer assess the importance of the Washington Consensus and conclude whether or not the Washington Consensus is in decline.[21] These scholars base their conclusions on the undesired or desired outcome of the implemented policy reforms in Latin America and Asia.[22] However, these scholars performed their research using similar cases. Similar cases in the sense that all their cases were countries who accepted IMF loans and

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[16] Williamson, John. "A short history of the Washington Consensus." *Law & Bus. Rev. Am.* 15 (2009): 20-23
[17] Rodrik, Dani. "Goodbye Washington Consensus, hello Washington confusion?: A review of the World Bank's' Economic growth in the 1990s: Learning from a decade of reform'." *Panoeconomicus* 55.2 (2008): 973
[18] Ibid.; 974
[19] Weisbrot, Mark. "The IMF’s Lost Influence in the 21st Century and Its Implications." *Challenge* 59.4 (2016): 345-360.
[20] Fischer, Stanley. "In defense of the IMF: specialized tools for a specialized task." *Foreign Affairs* (1998): 103-106.
[21] Rodrik, “Goodbye Washington Consensus, hello Washington confusion?,” 973-974; Weisbrot, “The IMF’s Lost Influence in the 21st Century and Its Implications,” 345-360; Fischer, “In defense of the IMF,” 103-106
[22] Rodrik, “Goodbye Washington Consensus, hello Washington confusion?,” 973-974; Weisbrot, “The IMF’s Lost Influence in the 21st Century and Its Implications,” 345-360; Fischer, “In defense of the IMF,” 103-106

implemented IMF policies, which correspond with the Washington Consensus. Which they did out of obedience to the IMF.[23]

These scholars did not take into account whether countries who are not bound to these IMF conditions, also implement Washington Consensus-based policies. Therefore, they assume that the IMF and its adjustment programs are the only manifestation of the Washington Consensus. However, a country that did not accept the IMF loans, could still impose policies which are in line with the Washington Consensus. These countries should be the centre of an examination on the decline of the Washington Consensus. After all, if a country does not receive conditional aid from the IMF, it can choose for itself what policies are to be reformed. If the Washington Consensus is indeed in decline, it should be evident that such a country would not implement such policies. On the contrary, if a country still imposes reforms in line with the Washington Consensus, these principles would be translated into policy out of intrinsic motivation. In that situation, it could be stated that these principles are still quite important in responding to financial crises. Therefore, a country that responds to its crisis with Washington Consensus-based policies, despite the absence of the IMF, could implicate that the Washington Consensus is not in decline. This specific question requires more research. Therefore, there is a 'gap' in the literature on this topic. If this gap shows that the Washington Consensus is not in a decline, then a more nuanced view would be appropriate. With this thesis, I try to provide new insights on this gap in the literature.

[23] Rodrik, “Goodbye Washington Consensus, hello Washington confusion?,” 973-974; Weisbrot, “The IMF’s Lost Influence in the 21st Century and Its Implications,” 345-360;

Conceptualization and Methodology

This section covers the definitions of the main concepts used in this thesis. The concepts need a narrow definition to make sure what is to be taken into account and what is not to be taken into account when discussing those concepts. After the concepts are clearly defined, the methodology will be described. When this is clear, the cases that are used in the analysis will be defined. Also, the cases need justification for the choice for the two cases and for the elimination of other possible cases.

The Washington Consensus

As this thesis focusses on the Washington Consensus, this concept should be defined. Gore states that the Washington Consensus recommends that governments should reform their policies to pursue macroeconomic stability by controlling inflation and reducing fiscal deficits; open their economies to the rest of the world through trade and capital account liberalization; and liberalize domestic product and factor markets through privatization and deregulation.[24] "Propagated through the stabilization and structural adjustment policies of the IMF and the World Bank, this has been the dominant approach to development form the early 1980s to the present".[25] The Washington Consensus describes ten policy areas. The original paper of Williamson provides policy prescriptions for all the policy areas mentioned.[26] The ten policy areas are as follows:[27]

1. Fiscal discipline.

Broadly taken, this policy prescription implies that large and sustained fiscal deficits are a primary source of macroeconomic disruption, which can result in balance of payments problems. Fiscal balance should be provided by the government.[28] If the government does not

[24] Gore, "The rise and fall of the Washington Consensus as a paradigm for developing countries," 789-804
[25] Ibid: 789
[26] Williamson, John. "Latin American adjustment: how much has happened?." (1990).
[27] Williamson, John. "What should the World Bank think about the Washington Consensus?." *The World Bank Research Observer* 15.2 (2000): 251-264.
[28] Ocampo, Jose Antonio. "Beyond the Washington consensus: what do we mean?." *Journal of Post Keynesian Economics* 27.2 (2004): 300-304.

match public expenditures with the budget the government has, fiscal balance would end up in troubles.[29]

2. A redirection of public expenditure priorities towards fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.

The general idea of cutting expenditures instead of increasing tax revenues, does not highlight the composition of the public expenditures; only that they should be minimalized. The underlying logic of this policy prescription is that public expenditures should be directed towards the fields or sectors where a country benefits most from. Williamson argues that education and health have the character of investment in human capital and investment in consumption.[30] In these public financial lows, there should be a stress on expenditures which support the disadvantaged. Considering these characters of the two sectors, these two sectors should receive the biggest part of public expenditures.[31]

3. Tax reform (to lower marginal rates and broaden the tax base).

As mentioned before, expenditure reduction is seen as the primary source of fixing fiscal deficit. The other source of fixing fiscal deficit is the tax revenues received by a country. However, the Washington Consensus does formulate an accepted view on tax revenues. “The tax base should be broad and marginal tax rates should be moderate”.[32]

4. Interest rate liberalization.

This principle has two aspects; the first is that interest rates should be market-determined.[33] The objective of this policy prescription is that it should be avoided that people themselves determine the allocation of resources, based on arbitrary criteria. The second principle is that interest rates should always be positive in order to keep the money in the country. [34] A negative interest rate would encourage people to invest or save their money elsewhere.

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[29] Williamson, "Latin American adjustment: how much has happened?," 2-4
[30] Ibid: 4-5
[31] Ibid: 4-5
[32] Ibid: 5
[33] Ibid: 5-6
[34] Ibid: 5-6

5. A competitive exchange rate.

Exchange rates are of high importance for the potential economic growth of a country.[35] Just like interest rates, these should also be market-determined. The idea behind a competitive exchange rate is that it can promote the export growth of a developing country. “[This] is the first element of an outward-oriented economic policy, where balance of payments constraint is overcome primarily by export growth rather than by import substitution”.[36]

6. Trade liberalization.

This policy prescription is the second element of an outward oriented economic policy. Protecting the domestic industries of a country is seen as a threat to the domestic economy. It would be advantageous for a country to open up its economy by giving access to imports. There are two aspects of opening up an economy that should be taken care of with cautiousness. The first aspect concerns developing countries that cannot compete with other countries. They might take advantage of protecting their economies temporary. The second aspect concerns timing. If a country decides to open up in a very short period of time, it could face difficulties. The World Bank has its own timetable for opening up an economy. But Williamson argues that the timing should be dependent on the resilience of the balance of payment.[37]

7. Liberalization of FDI inflows.

This policy prescription argues that the opposite of liberalised foreign direct investment is least favourable. When FDI is restricted, a country might miss needed capital, skills and know-how which are necessary for the domestic market as well as for the export market.[38] The importance for the domestic and export market is partly due to its positive impact on the productivity of firms.[39]

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[35] Berg, Andrew, and Yanliang Miao. "The real exchange rate and growth revisited: The Washington Consensus strikes back?." (2010). 3-5
[36] Williamson, "Latin American adjustment: how much has happened?," 6
[37] Ibid: 7
[38] Ibid: 7
[39] Ocampo, Jose Antonio. "Beyond the Washington consensus: what do we mean?," 297

8. Privatization.

In order to relieve the government's expenditures, governments should sell government-owned enterprises. In the short run, the government would receive money through the sale of the enterprises. In the long run, the government would not have to pay for investments in the enterprise.[40] Furthermore, a privatised company is seen as more efficient since its board and employers will benefit from higher profits. If they do not benefit, they do not have an incentive to be innovative and efficient. Also, a government-owned enterprise can count on the government when it faces financial difficulties. A privatised company on the contrary, does not receive subsidies which can prevent the company from going bankrupt.[41] Therefore, private enterprises will have more incentives to be competitive and efficient. Consequently, the productivity of enterprises rises.[42]

9. Deregulation (in the sense of abolishing barriers to entry and exit).

The latter policy prescription promotes competition within the market. The policy prescription of deregulation also promotes competition. The underlying logic is that a country which has a large web of regulation will intensify the risk of corruption. But deregulation will also stimulate smaller enterprises that will then have more space to grow. This is mostly due to the defensive character of deregulation since it contains barriers that protect privileged elites.[43]

10. Secure property rights.

Private property rights are a convenient defence system for those who have property. But it should also be noticed, that the improvement of the protection of private property will be convenient for the poor who find it difficult to protect their own property. Therefore, property rights should be secured.[44]

The ten policy prescriptions are summarized in the term the "Washington Consensus". The policies are appreciated in the neoliberal school. This school has been dominant mainly in the period 1970-1990 in development strategies.[45] The IMF bases its policy prescriptions on the

[40] Williamson, "Latin American adjustment: how much has happened?," 8
[41] Ibid: 8
[42] Ocampo, Jose Antonio. "Beyond the Washington consensus: what do we mean?," 297
[43] Williamson, "Latin American adjustment: how much has happened?," 8-9
[44] Ibid: 8
[45] Sheppard, Eric, and Helga Leitner. "Quo vadis neoliberalism? The remaking of global capitalist governance after the Washington Consensus." *Geoforum* 41.2 (2010): 185-186

Washington Consensus.[46] To find out whether the Washington Consensus is in decline or not, this thesis focusses on the responses to financial crises. Therefore, the next section will define the concept financial crisis more specifically.

Financial crisis

The two countries used in this thesis faced the same financial crisis. This is a relevant aspect since a financial crisis differs from an economic crisis. Some scholars define a financial crisis very narrow. Mishkin defines a financial crisis as a situation where outputs decline sharply because the financial system is unable to channel funds to those with the best investment opportunities.[47] Therefore, financial crises are merely a disruption to financial markets. Kindleberger and Minsky however, have a broader scope when defining financial crises.[48] They argue that a financial crisis "either involves sharp declines in asset prices, failures of both large financial and nonfinancial firms, deflations or disinflations, disruptions in foreign exchange markets, or some combination of all of these".[49] The situation of the Asian countries in 1997 is comparable with the latter definition. The countries faced exactly these issues. Due to its perfect fit, this definition will be used in this thesis.

Acceptance or refusal of IMF conditions

With acceptance of the IMF conditions is meant that the country was offered financial loans combined with conditions which consist of policy recommendations, and that the country accepted both the loans and the corresponding conditions.[50] These two always go hand in hand as the one cannot be accepted without the other. Malaysia received policy recommendations, but it did not want to implement these exact policies and therefore it

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[46] Öniş, Ziya, and Fikret Şenses. "Rethinking the Emerging Post-Washington Consensus." *Development and Change* 36.2 (2005): 263

[47] Mishkin, Frederic S. *Anatomy of a financial crisis*. No. w3934. (National Bureau of economic research, 1991) 1
[48] Ibid: 1-2
[49] Ibid: 2
[50] Teo, Leslie E., et al. *Financial Sector Crisis and Restructuring; Lessons from Asia: Lessons from Asia*. No. 188. (International Monetary Fund, 2000), 7

rejected the financial loans. Therefore, Malaysia refused the IMF.[51] Since Indonesia did accept the loans provided by the IMF and since Indonesia imposed the policy reforms as prescribed by the IMF, Indonesia accepted the IMF. This difference in acting in the financial crisis of both countries forms the dichotomy between the acceptance or refusal of the IMF.

Methodology

In order to examine whether the Washington Consensus is in decline or not, this thesis does a qualitative research by performing a case study. A qualitative research design is chosen as this provides the opportunity to do an in-depth analysis. There will be a within-case analysis as well as a comparison of a small number of cases.[52] These two aspects will provide knowledge of the individual cases, and afterwards these will show the differences and similarities between the two cases. The policy reforms that the two countries implemented will be examined. After these reforms are clear, it is to be seen whether the reforms correspond with the Washington Consensus policy prescriptions or not. To evaluate the implemented reforms, secondary literature is used as source in combination with primary sources produced by the IMF. This done as scientific literature is written on the policy reforms of the two countries and because the IMF provides primary information.

To provide context for these reforms, it is first roughly described how the financial crisis in both countries emerged. There are some general shocks which hit the whole region, but the severity of these shocks differs per country. Therefore, the crisis is examined for both countries separately. Second, it is described how the two countries reacted. The reaction will be examined through the policy reforms that were implemented by each country. The policy reforms implemented by Indonesia will be evaluated and then it will be argued that those reforms correspond with the Washington Consensus. Afterwards, the policy reforms of Malaysia will be evaluated. Since Malaysia could set up its own reforms, these could be different from Indonesia who got the reforms prescribed by the IMF. It is to be seen whether the reforms implemented by Malaysia also overlap with the Washington Consensus.

[51] Teo, Leslie E., et al. *Financial Sector Crisis and Restructuring*. 7
[52] George, Alexander L., and Andrew Bennett. *Case studies and theory development in the social sciences*. (Mit Press, 2005), 18

Case selection

George and Bennett argue that within-case analysis in combination with comparison between cases is a strong mean for drawing conclusions from case studies. Therefore, this thesis uses two cases; Indonesia and Malaysia.[53] Indonesia is selected since Indonesia accepted IMF whereas Malaysia did not. Both countries are selected with regard to the most-similar case comparison.[54] They faced the same financial crisis, with the same external shocks, in the same period of time, in the same region within the world.[55] Next to this similarity, it would be necessary to compare two countries that got affected by the crisis to a similar degree of severity. Among the countries that got hurt during the Asian Financial Crisis in 1997, Malaysia, Indonesia (and the Philippines) were affected the most.[56] There are more countries who got affected by the Asian Financial Crisis, but these were less similar in terms of economic situation or in regard to the IMF. Also, countries who faced different crises are not suitable for this research as this will create more differences. Due to the similarity between Indonesia and Malaysia, the main difference is the acceptance or refusal of the IMF. Therefore, this variable is isolated and can be examined. Thus, thanks to preliminary knowledge the cases could be selected so that they are most similar in their design. Therefore, the examination on the acceptance or refusal of the IMF is strong.

In the analysis and in the discussion, Indonesia is the benchmark since it received IMF loans and reformed its economic and financial policies in line with the Washington Consensus. Malaysia will show to what extend it implemented policies in line with the Washington Consensus, even when the IMF did not push for these reforms. If the policies Malaysia adopted diverge from the ideas of the Washington Consensus and if Malaysia did indeed overcome its financial crisis, then there is evidence that the Washington Consensus is not obligatory and not essential for overcoming a crisis. Therefore, the Washington Consensus

[53] George, Alexander L., and Andrew Bennett. *Case studies and theory development in the social sciences*. (Mit Press, 2005): 18
[54] Bennett, Andrew, and Colin Elman. "Case study methods in the international relations subfield." *Comparative Political Studies* 40.2 (2007): 174-175
[55] Bello, Walden. "The Asian financial crisis: causes, dynamics, prospects." *Journal of the Asia Pacific Economy* 4.1 (1999): 36.
[56] Bullard, Nicola, Walden Bello, and Kamal Mallhotra. "Taming the tigers: the IMF and the Asian crisis." *Third World Quarterly* 19.3 (1998): 513

would be in decline. On the contrary, Malaysia could have implemented reforms based on the Washington Consensus, despite the absence of the IMF. In this case, there will be evidence that a country chooses voluntary for Washington Consensus-based policy reforms. If Malaysia did overcome its financial crisis using the Washington Consensus as a benchmark, then the Malaysian response to its financial crisis will prove that the Washington Consensus is not in decline.

Analysis

Comparing Indonesia's and Malaysia's responses to their financial crises, demands some context. This section elaborates on the emergence of both crises to provide this context. It is argued how the Asian Financial Crisis in 1997 emerged in both countries and what the consequences of this crisis were for both countries. It will become evident how similar the situation was in both countries. After the elaboration on both crises, the responses to the crises in both countries will be explained. The absence of the IMF should indicate differences in these responses. If it is true that the Washington Consensus is in decline, Malaysia should show different policy reforms compared to Indonesia. However, it is argued that the measures taken in both countries do not defer at all.

Indonesia and the Asian Financial Crisis

Prior to the Asian Financial crisis of 1997, the ASEAN-5 countries, being Indonesia, Malaysia, Thailand, the Philippines and Singapore, all had an extraordinary good economic situation. For instance, the annual GDP growth in these five countries draw near eight percent during the last ten years. Furthermore, "during the 30 years preceding the crisis, per capita income levels had increased tenfold in Korea, fivefold in Thailand, and fourfold in Malaysia".[57] The high economic standards were not only advantageous for the inhabitants of the countries themselves, but also for the industrialized countries. Asia now formed a new market for multinationals and for countries' exports.[58]

The economic situation of the aforementioned Asian countries seemed quite stable and quite strong. The question arises, what went wrong? A large factor is the contagion of the crisis that emerged in Thailand after the Thai baht devaluated. Investors and creditors feared for what could go wrong and subsequently left the country. However, the increasing concerns were at place. Fischer sums up all the events prior to the crisis in three main points, which are applicable on all five countries.[59] First, the countries knew large external deficits and property

[57] Fischer, Stanley. "In defense of the IMF: specialized tools for a specialized task." *Foreign Affairs* (1998): 103
[58] Ibid: 103-104.
[59] Ibid: 103-104.

and 'stock market bubbles'.[60] Second, the maintenance of pegged exchange rate regimes remained for far too long. This led to an overvalued currency which encouraged external borrowing. A budget financed mainly with foreign money, makes a country vulnerable for external shocks. Eventually, this vulnerability became crucial. Third, the government was well known for its lax rules and attitude which led to the lack of financial oversight. Subsequently, the confidence in the government was low. These factors mentioned by Fischer, are all domestic problems which arose in the Asian countries, and in Indonesia in particular.[61] However, some external factors were also of high influence, creating even more pressure on the economies. Among these are the weakening economic growth numbers of Japan and Europe since the beginning of the 1990s. On top of this, the Japanese yen depreciated against the US dollar.[62] This caused a decrease in aggregated demand towards the Asian countries. This downsized their export numbers. Accompanied with this decrease in demand for products from the Asian countries, was the decline in the foreign direct investment towards the Asian countries due to the weakening economic situation of Japan and Europe.[63]

The factors mentioned above are of influence on all five countries and consist of both domestic as well as external factors. But it is to be noticed, that these factors would not be as devastating as they were, if the countries were not so fragile due to domestic issues. Nasution states that Indonesia had a weak financial system which made it very vulnerable to external shocks.[64] Also, the country invested in industries that needed subsidies and protection from the government. This caused high expenditures for the government. Which resulted in a lack of confidence in the government. The people assumed that the government was not able and not determined to implement reforms in macroeconomic policies.[65]

Except for Indonesia’s troubles with its macroeconomic policy, it also had a weak monetary policy which is disadvantageous for the country. The exchange rate policy consisted mainly of devaluating and speeding up depreciation of the rupiah. Indonesia made use of an intervention band to control the exchange rate.[66] The intervention band is an arbitrary determined space in which a currency is allowed to flow. If the currency exceeds this space, then the government intervenes. The underlying logic of these policies was that it should

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[60] Fischer, Stanley. "In defense of the IMF" 103-104.
[61] Ibid: 103-104.
[62] Nasution, Anwar. "The meltdown of the Indonesian economy in 1997-1998: Causes and responses." *Seoul Journal of Economics* 11.4 (1998): 450.
[63] Fischer, Stanley. "In defense of the IMF" 105.
[64] Nasution, “The meltdown of the Indonesian economy,” 447
[65] Ibid: 447-449
[66] Ibid: 453-455

stimulate the market forces in the domestic economy. However, in order to allow market forces to determine the exchange rate to a greater extend, Indonesia widened the intervention band. This allowed the rupiah to fluctuate more than before. Eventually, the rupiah devaluated extremely and that caused troubles for Indonesia.

To illustrate the severe situation of the Indonesian rupiah, it is here stated how the currency devaluated. Figure 1 shows how the Indonesian Rupiah devaluated against the US dollar. At the beginning of July 1997, the rupiah had an exchange rate of 2400 IDR (Indonesian Rupiah) to the US dollar. By August 13 this was 2682 IDR to the US dollar. By August 14, 1997, Indonesia completely abandoned the exchange rate intervention and the rupiah devaluated to 2755 IDR to the US dollar. By December, the rupiah was 17000 IDR to the US dollar.[67]

Exchange rate IDR per USD, Figure 1

Taken from "Indonesian Malaysian currencies hit 17 year lows". Financial Times, 2015. (www.ft.com/fastft/2015/07/27/indonesian-malaysian-currencies-hit-17-yr-lows/+&cd=11&hl=nl&ct=clnk&gl=nl).

This shocking devaluation brought about that the prices of imported products rose extremely. This had far reaching and severe consequences for the Indonesian economy. But also for the financial sector; capital flight was widely perceived and foreign banks were reluctant to

[67] Bullard, Nicola, Walden Bello, and Kamal Mallhotra. "Taming the tigers: the IMF and the Asian crisis." *Third World Quarterly* 19.3 (1998): 523-525

accept letters of credit from Indonesian banks. The foreign debt grew towards $140 billion by the end of December 1997.[68]

Indonesia got hit by the contagion of the crisis of the Thai baht. The country faced troubles with its macroeconomic policy and with its monetary policy. The extreme devaluation of the Rupiah caused hardship for the country. All factors together resulted in a financial crisis.

Malaysia and the Asian Financial crisis

Just like Indonesia, Malaysia had a strong economy prior to the crisis. Athukorala sums up the economic situation of Malaysia as an economy with high growth, low inflation, virtually full employment and low foreign debt.[69] However, this is not the complete picture; there were growing imbalances and weaknesses.[70]

It is to be noticed that Malaysia had gained a big amount of short-term capital which gave the country a big economic boost. But it also made the country vulnerable for external shocks. This inflow of short-term capital was possible thanks to the liberalized capital market Malaysia had, since the beginning of the 1990s.[71] The reliance on foreign capital inflows made the country dependent on its capital market. A reversal of these capital flows would blow up the economy. The severity of this reversal of capital flows would be harsh because Malaysian organisations mostly looked for funding from outside Malaysia. Thus, those capital flows came mostly from foreign banks.[72] The government knew the risk and imposed capital controls on short term flows in the beginning of 1994.[73]

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[68] Bullard, Nicola, Walden Bello, and Kamal Mallhotra. "Taming the tigers", 525-526
[69] Athukorala, Prema-Chandra. "The Malaysian economy during three crises." *Malaysia's Development Challenges: Graduating from the Middle* (2012): 88
[70] Radelet, Steven, and Jeffrey Sachs. *The onset of the East Asian financial crisis*. No. w6680. (National bureau of economic research, 1998), 23-25
[71] Athukorala, Prema-Chandra. "The Malaysian economy during three crises," 88-89
[72] Ang, James B., and Warwick J. McKibbin. "Financial liberalization, financial sector development and growth: evidence from Malaysia." *Journal of development economics* 84.1 (2007): 228
[73] Reinhart, Carmen, and Guillermo Calvo. "When capital inflows come to a sudden stop: consequences and policy options." (2000): 182

But this reliance on foreign capital became crucial when the Thai baht crashed. Investors in Indonesia and Malaysia feared for similar events in these two countries.[74] The two factors that hit the Malaysian economy hard are roughly the same factors that also hit Indonesia hard in the middle of the 1990s. The first factor concerns the exchange rate. The governments of Indonesia and Malaysia kept the exchange rates within a certain bandwidth. But by the beginning of 1997, the export numbers declined and the economic growth turned weak. The current account deficit was widening in both Malaysia and Indonesia. These factors together caused the currency to devaluate. As mentioned before, Thailand also faced a shock to its own currency not long before and the Thai government decided to let the Thai baht flow freely; the result was tremendous. But due to the intervention band in Malaysia, the currency was maintained at a certain value. When the exchange rates changed too much, the Malaysian government abandoned the intervention band and the ringgit was allowed to flow freely.[75] Investors started to fear a situation in Malaysia similar to the situation of Thailand. And due to Malaysia's reliance on foreign capital, investors in Malaysia, and

Exchange rate IDR & MYR per USD, Figure 2

Taken from "Plunging like it's 1998". The Economist, 2015, (http://www.economist.com/node/21660557/).

started to leave the country together with their investments –out of fear for a devaluation of the ringgit.[76] The result of this was that the currency was dumped at low prices and that, just like the Indonesian Rupiah, the Malaysian ringgit devaluated quickly. The Malaysian ringgit dropped with 38 percent where the Rupiah dropped with 82 percent.[77] This drop is visualized

[74] Bello, Walden. "The Asian financial crisis," 40-41.
[75] Ariff, Mohamed, and A. Khalid. "Liberalization and growth in Asia." *Books* (2005). 49
[76] Bello, Walden. "The Asian financial crisis," 40-41
[77] Ibid: 36

in figure 2. In order to stabilise the currency, the government decided to peg the currency to the US dollar.

The second factor concerns the fall of its stock market. The stock market in Malaysia fell in dollar terms by 73 percent and in Indonesia by 89 percent.[78] This caused big losses in the Malaysian private sector. Together with the falling exchange rates, the Malaysian private sector got into big trouble. Bello quotes a newspaper from Bangkok which stated: “[w]hen Southeast Asia jumped on the global bandwagon, it should have been prepared for the downs as well as the ups.” But the Southeast Asian countries relied for a large part on foreign investment and not so much on their domestic economy. This characteristic of both the Indonesian as well as the Malaysian economy, made both countries vulnerable. That vulnerability became critical when the capital flows reversed in the beginning of 1997. The result was a financial crisis which hit hard on both countries.

The policies that were implemented in order to get out of the crisis will be discussed in the next two chapters. First, the case of Indonesia will be described in terms of policy reforms. Second, the case of Malaysia will be described. Note that the big difference between the two countries is the presence or the absence of the IMF. Indonesia got loans from the IMF and implemented policies that came as conditions with the loans. Malaysia did not accept the IMF loans and implemented policies which were seen as necessary by the country itself.

Indonesia's responses to the Asian Financial crisis

The economic situation of Indonesia prior to the crisis was pretty good. However, due to the factors described before, investors and creditors got scared and the devaluation of the Thai baht confirmed their fear. Investors and creditors feared that other investors and creditors would move their capital to different countries due to the risky situation and they started to withdraw their money from Indonesia. Therefore, not the situation itself, but merely the expected behaviour of other investors and creditors, encouraged investors and creditors to move their money. This made the capital outflow a self-fulfilling prophecy.[79] After the Indonesian Rupiah was allowed by the government to flow freely, the Rupiah dropped to a

[78] Bello, Walden. "The Asian financial crisis," 36
[79] Sachs, Jeffrey. "The IMF and the Asian flu." *The American Prospect* 37 (1998): 16

historical low value. It was this moment where the government publicly announced its need for support from the IMF. Since the fear for a crisis by investors and creditors led to a large capital outflow, the IMF focussed on restoring market confidence. To achieve this, the adjustment program of the IMF contained an adjustment in the current account; it contained the objective to limit the decline in output growth and it contained plans to soften the impact of the exchange rate depreciation.[80]

The policy reforms introduced by Indonesia are for a large part formulated by the IMF. But before the IMF came into the picture, Indonesia gave the market a larger say in the exchange rate by widening the intervention band of the Indonesian Rupiah. Due to big fluctuations, Indonesia eventually decided to let the Rupiah flow freely to ensure a competitive exchange rate. The government, represented by President Suharto, seemed to be determined to help the country. MacIntyre argues how Suharto did the right thing for his country; "restrictions on foreign ownership of shares in companies listed on the Jakarta Stock Exchange were lifted, cuts in public spending and new taxes on luxury goods to preserve a stable fiscal position were outlined, a range of costly high-profile projects (…) were postponed, tariff cuts (..) were introduced, and the central bank signalled to move against a list of struggling banks."[81] Years after Suharto, in 2003, the government introduced the "Economic Policy Package in Conjunction with the Completion of the Government's Program with the IMF". One aspect of this policy package was the reform and the modernization of the tax system to create reliable revenues.[82] Cutting expenditures, reforming tax, ensuring fiscal balance, reducing tariffs for FDI, having a competitive exchange rate and deregulations are all mentioned in the Washington Consensus.

Much is written on the failure of the IMF reforms in Indonesia.[83] MacIntyre points out how exactly these failures came about; highlighting that the economic policies itself were not the biggest problem.[84] He argues that the political system of Indonesia had a big say in this failure. This political system is mostly known for its non-democratic values. On top of this, Suharto and his family were influential in the economy and in big enterprises which are important for

[80] Lane, Mr Timothy D., et al. *IMF-supported programs in Indonesia, Korea and Thailand*. No. 178. (International Monetary Fund, 1999), 4
[81] MacIntyre, Andrew. "Political institutions and the economic crisis in Thailand and Indonesia." *The politics of the Asian economic crisis* (1999): 161-162.
[82] Soesastro, Hadi, Haryo Aswicahyono, and Dionisius A. Narjoko. "Economic Reforms in Indonesia after the 1997/98 Economic Crisis." *conference on 'Microeconomic Foundations of Economic Performance in East Asia,'Manila*. (2006). 8
[83] Sachs, Jeffrey. "The IMF and the Asian flu." *The American Prospect* 37 (1998)
[84] MacIntyre, Andrew. "Political institutions and the economic crisis in Thailand and Indonesia," 143-162.

the economy of Indonesia. It turned out that Suharto gave many privileges to his family, even when this was against the policy reforms of the IMF.[85] This damaged the reputation of Indonesia as well as on the international level as the domestic level. Eventually, Suharto needed to resign. This political instability caused even more capital flight from the country and the Rupiah devaluated further. Indonesia's political system made reforms in the country difficult and it damaged investors' confidence. The results of this were harsh, as described above. It is therefore too short to state that the policy reforms itself were the biggest problem for Indonesia. This factor should be taken into consideration when stating that the IMF policy reforms have failed in Indonesia.[86]

Malaysia's responses to the Asian Financial crisis

Malaysia got more and more open to the rest of the world. This brought about that export-led growth became a big factor in their plan to overcome their financial crisis.[87] In order to sustain their export-led growth, it was important to make sure that capital outflow was as small as possible. In order to establish this, the Malaysian government imposed capital controls. On top of this, the currency would need to be stable in order to favour investors who wanted more assurance of their investments. To make the ringgit stable again, the government pegged the Malaysian ringgit to the US dollar. With the currency pegged to the dollar, cross dollar transactions and transactions between the two currencies became easier.[88] "Bolstered by the pegged exchange rate at an undervalued level, the [capital] controls provided a safeguard to policymakers and domestic market participants at a time of financial volatility."[89]

The capital controls comprehended policies which restricted portfolio investors to withdraw their funds from Malaysia for at least a period of one year. It also restricted exports and imports of ringgit banknotes. It prohibited the trade of the ringgit outside of Malaysia and

[85] MacIntyre, Andrew. "Political institutions and the economic crisis in Thailand and Indonesia.," 158-162.
[86] Ibid: 143-162
[87] Ariff, Mohamed, and A. Khalid. "Liberalization and growth in Asia." *Books* (2005). 8
[88] de Sausmarez, Nicolette. "Malaysia's response to the Asian financial crisis: Implications for tourism and sectoral crisis management." *Journal of Travel & Tourism Marketing* 15.4 (2004): 222; Dornbusch, Rudi. *Malaysia: was it different?* No. w8325. (National Bureau of Economic Research, 2001). 2-4
[89] Khatri, Meesook M,, et al. *Malaysia: From Crisis to Recovery*. No. 207. (International Monetary Fund, 2001), 8

fund transfers abroad became subject to approval.[90] There were some negative effects of the capital controls for Malaysia's access to international capital markets; but these were temporary. This is partly due to the fact that much capital had already left the country and that these measures came into place merely to prevent more capital from leaving the country. It is to be noted here, that the capital controls did not cover the complete economy including all sorts of capital flows. "The controls were selective and did not extend to payments for current international transactions or foreign direct investment."[91] The controls focussed on offshore ringgit transactions and on portfolio flows. Therefore, international trade and foreign direct investments remained unharmed. And above all, the capital controls were not imposed with the idea to keep them enacted forever.[92]

The use of capital controls was incorporated as a main point of the Bretton Woods system, but after the 1970s, this was mainly described as harmful.[93] This would be a fair ground to argue that Malaysia's policy diverges from the Washington Consensus.[94] However, it became clear with the case of Malaysia, that temporary capital controls can help a country overcome the risks of capital flows. With the capital controls put into place, Malaysia could easily adapt its macroeconomic policy without the need to worry about the possible outflow of capital.[95] One should see the action within the scope of Malaysia's bigger plan.

This view is supported by Kaplan and Rodrik, who argue that the use of capital controls might not be so bad when capital is leaving the country.[96] By the time the situation in Asia ameliorated, the controls were gradually eased to encourage new capital and portfolio inflows. This started in February 1998, which is only half a year after the enacting of the capital controls. Partly due to the lowering of the capital controls, Malaysia became more attractive for foreign investors. This resulted in an increase of portfolio investments by mid-1999. In 1998, Malaysia started to implement a more liberal policy next to the easing of the capital controls.[97] This liberal policy aimed at encouraging foreign direct investments.

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[90] Khatri, Meesook M,, et al. "*Malaysia: From Crisis to Recovery,*" 50
[91] Ibid: 54
[92] Ibid: 13-15
[93] Johnson, Simon, and Todd Mitton. "Cronyism and capital controls: evidence from Malaysia." *Journal of financial economics* 67.2 (2003): 352
[94] Khatri, Meesook M,, et al. "*Malaysia: From Crisis to Recovery,*" 52
[95] Abdelal, Rawi, and Laura Alfaro. "Capital and control: lessons from Malaysia." *Challenge* 46.4 (2003): 43-50.
[96] Kaplan, Ethan, and Dani Rodrik. *Did the Malaysian capital controls work?*. No. w8142. (National bureau of economic research, 2001), 31
[97] Khatri, Meesook M., et al. "*Malaysia: From Crisis to Recovery,*" 56

Next to the liberal policy which was aimed at encouraging foreign direct investments, Malaysia was a leading player in privatization policies.[98] More than a decade before the crisis of 1997, the Prime Minister and then Finance Minister spoke about the excessive amount of state intervention in the private sector. He introduced plans to change this. By 1991, the Privatization Master Plan was released. The underlying logic was that the privatization process would decrease the number of civil servants and would lower the public expenditures. Next to these practical reasons, there was also the logic of competition creation, since this measure would lead to more efficient enterprises.[99] In the same period, from the mid-1980s until the beginning of the 1990s, the government also decided to privatize parts of the education system; in particular the provision of higher education.[100]

Both the liberal policies to attract foreign direct investments and the privatization process, were possible to implement because the domestic economic situation was quite stable in Malaysia. This stability was for a large part due to the capital controls and the pegged exchange rate.[101] It can be stated that the imposition of the capital controls and the peg of the Ringgit to the US dollar were by definition against the principles of the Washington Consensus. But, cutting government expenditures, liberalizing FDI inflow, balancing fiscal deficit and privatizing the economy are all policies promoted by the Washington Consensus.

This section covered the context for this thesis. It is described how the Asian Financial Crisis emerged in Indonesia and Malaysia, and it is described how both countries reacted. Clearly, both countries implemented policy reforms in line with the Washington Consensus. The next section discusses these results and describes the differences that are found.

[98] Khatri, Meesook M,, et al. "*Malaysia: From Crisis to Recovery*," 84
[99] Gomez, Edmund Terence. "Privatization and public enterprise reform in the Asia‐ Pacific region: Privatized patronage: The economics and politics of privatization in Malaysia." *Journal of the Asia Pacific Economy* 2.2 (1997): 182-185.
[100] Lee, Molly NN. "Education and the state: Malaysia after the NEP." (1997). 32
[101] Khatri, Meesook M., et al. "*Malaysia: From Crisis to Recovery*," 50-70

Discussion

The analysis showed that Indonesia and Malaysia were in a similar economic situation prior to the Asian Financial Crisis in 1997. Both countries faced large external deficits since both countries financed their budget for a big part with foreign money.[105] This made both countries vulnerable for external shocks. Both countries experienced difficulties from the weakening economy in Europe and Japan, which downsized demand coming from these countries. Eventually, both countries also saw a rapid devaluation of their currencies. It is stated before that Indonesia was particularly vulnerable for external shocks, due to its weak financial system. Malaysia was also vulnerable, but not due to its financial system. Malaysia was mostly vulnerable as the country was highly dependent on short-term foreign capital.

Washington Consensus policy	***Indonesia***	***Malaysia***
Fiscal discipline	YES	YES
Cutting public expenditures	YES	YES
Tax reform	YES	YES*[102]
Interest rate liberalization	YES*	YES*
A competitive exchange rate	YES	NO
Trade liberalization	YES	NO
Liberalization of FDI inflow	YES	YES
Privatization	NO	YES
Deregulation	YES	YES*
Secure property rights	YES*[103]	YES*[104]

*This policy prescription was met before the crisis

Washington Consensus compared to Indonesia and Malaysia, Table 2

[102] Kamal, Salih. "The Malaysian Economy in the 1990s: Alternative Scenarios. Paper presented at the Tenth Economic Convention, *"The Malaysian Economy Beyond 1990: An International and Domestic Perspective"*. (Kuala Lumpur, 7-9 August 1989), **quoted in** Lee, Molly NN. "Education and the state: Malaysia after the NEP." (1997), 32.

[103] Real property rights are protected for decades. Intellectual property rights were weak but are now promoted with the launch of an anti-piracy taskforce in 2015; Export.gov. ‘’Indonesia - Protection of Property Rights.’’ *Indonesia Country Commercial Guide*. https://www.export.gov/article?id=Indonesia-protection-of-property-rights

[104] Global Economy, The. *Malaysia: property rights*. Taken from: http://www.theglobaleconomy.com/Malaysia/herit_property_rights/

[105] Ang, James B., and Warwick J. McKibbin. “Financial liberalization, sector development and growth: evidence from Malaysia.” *Journal of development economics.* 84.1 (2007): 228; Bullard, Nicola, Walden Bello, and Kamal Mallhotra. “Taming the tigers: the IMF and the Asian crisis.” *Third World Quarterly.* 19.3 (1998): 523-525

Table 1 summarizes what is found in the analysis. All the Washington Consensus policy prescriptions that are implemented in both countries are described in the analysis. But as table 1 shows, there are some differences in the implemented reforms between the two countries. First, Indonesia had an intervention band and eventually decided to abandon this band. On the contrary, Malaysia decided to peg its currency to the US dollar to create stability; therefore, Malaysia did not have a competitive exchange rate. Second, Indonesia reduced tariffs, where Malaysia imposed capital controls.[106] Although Malaysia has an export-based economy, and despite the selectivity of the capital controls, capital controls are to a certain degree against trade liberalization. Third, it is stated that Indonesia did not privatise its economy, as this is only realised to a very small degree.[107] Malaysia on the contrary, was very active in privatizing the economy, as is mentioned before.

Regarding the policy prescription on liberalizing interest rates, it is stated that both Malaysia and Indonesia did this before the crisis; Noy argues that both countries already had "liberalized financial markets a decade before the crisis hit" them.[108] Thus, both countries did not liberalize these after the crisis, but long before the crisis. As for deregulation, Malaysia deregulated mainly the financial sector; but also before the crisis.[109] Property rights have been protected in Malaysia for decades.[110] Indonesia has this secured to a limited degree; this differs per sector.[111] Thus, liberalizing the interest rates, deregulations and property rights are not incorporated in the analysis as this thesis focusses on the responses to the financial crisis and not the situation prior to the crisis.

Table 1 shows that the main difference between the countries, is the use of capital controls and the pegged exchange rate by Malaysia. The comparison provided in Table 1 shows that Indonesia and Malaysia implemented several policy reforms which correspond with the Washington Consensus, despite the difference in acceptance or refusal of the IMF.

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[106] Amiti, Mary, and Jozef Konings. "Trade liberalization, intermediate inputs and productivity: Evidence from Indonesia." (2005). 12-14

[107] Yonnedi, Efa. "Privatization, organizational change and performance: evidence from Indonesia." *Journal of Organizational Change Management* 23.5 (2010): 537-539

[108] Noy, Ilan. "Financial liberalization, prudential supervision, and the onset of banking crises." *Emerging Markets Review* 5.3 (2004): 348.

[109] Ahmad, Mahyudin. "The effect of financial deregulation on money demand in Malaysia." (2008). 405-406

[110] Global Economy, The. *Malaysia: property rights*. Taken from: http://www.theglobaleconomy.com/Malaysia/herit_property_rights/

[111] Export.gov. ‘’Indonesia - Protection of Property Rights.’’ *Indonesia Country Commercial Guide*. Taken from: https://www.export.gov/article?id=Indonesia-protection-of-property-rights

Conclusion

Many scholars state that the Washington Consensus is in decline.[112] These scholars analyse countries in crisis who accepted IMF support. It is then stated whether the outcome of the policy reforms as promoted by the IMF are desirable or undesirable. However, these scholars neglected countries who refused the IMF or they misinterpret the term Washington Consensus.[113] This thesis analyses countries that were in a financial crisis, but the two cases here were selected on the acceptance or refusal of the IMF. The concept the Washington Consensus is defined as the ten policy prescriptions summarized by Williamson.

The analysis showed that the two countries were to an extend similar. The difference comes in the recovery phase with the acceptance or refusal of the IMF. Indonesia asked for IMF support. They received loans and they implemented policy reforms as prescribed by the IMF. It became clear that these reforms are in line with the Washington Consensus. However, the outcome was not merely successful; Indonesia had a hard time overcoming the crisis. But as MacIntyre argued, there were more factors than just the policies itself which caused hardship for Indonesia.[114] Therefore, it is too narrow to argue that the policies itself have proven to be wrong.

The case of Malaysia showed a different path to recovery. It refused the IMF, it imposed capital controls and it installed a pegged exchange rate. Both actions suggest that Malaysia is far from a liberalised country that operates in favour of the Washington Consensus. However, after looking at the bigger recovery plan of Malaysia, it becomes clear that this view should be revisited. Both measures served as stabilisers for the country, in order to make policy reforms in macroeconomic and monetary policies possible. After and during the stabilisation

[112] Babb, S. (2013). The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor. *Review of International Political Economy*, *20*(2), 279-282; Beeson, Mark, and Iyanatul Islam. "Neo-liberalism and East Asia: Resisting the Washington Consensus." *The Journal of Development Studies* 41.2 (2005): 198; Grugel, Jean, Pia Riggirozzi, and B. E. N. Thirkell-White. "Beyond the Washington Consensus? Asia and Latin America in search of more autonomous development." *International Affairs* 84.3 (2008): 499-500; Öniş, Ziya, and Fikret Şenses. "Rethinking the Emerging Post-Washington Consensus." *Development and Change* 36.2 (2005): 265-271; Rodrik, Dani. "Goodbye Washington consensus, hello Washington confusion? A review of the World Bank's economic growth in the 1990s: learning from a decade of reform." *Journal of Economic literature* 44.4 (2006): 973-987; Sheppard, Eric, and Helga Leitner. "Quo vadis neoliberalism? The remaking of global capitalist governance after the Washington Consensus." *Geoforum* 41.2 (2010): 186-187; Stiglitz, Joseph E. "More instruments and broader goals: moving toward the Post-Washington consensus." *Wider perspectives on global development*. Palgrave Macmillan UK, 2005. 16-48

[113] Williamson, John. "A short history of the Washington Consensus." *Law & Bus. Rev. Am.* 15 (2009): 20-23

[114] MacIntyre, Andrew. "Political institutions and the economic crisis in Thailand and Indonesia.,"

of the economy using capital controls and a pegged exchange rate, Malaysia did in fact impose policy reforms which are in line with the Washington Consensus. “Although Malaysia has not been subject to IMF conditionalities in return for receiving credit facilities, since December 1997, it has adopted similar contractionary policies.”[115] As Malaysia was not subject to IMF conditionalities, the country had to choose itself what reforms seemed desirable. Malaysia’s choice to incorporate liberalizing policies, show that it finds these policies desirable. Therefore, it has chosen these reforms out of intrinsic motivation. This motivation is highlighted in the speech of Singapore’s Minister of Finance at a dinner for Russell 20-20: “In the post-crisis East Asia's pro-business environment, I am sure that investors like yourselves will find abundant investment opportunities. There is now a wide range of local industries that foreigners can buy into.”[116] Here, the desirability of an outward-oriented economy is once more stressed. Above all, Malaysia saw economic growth after the implementation of the policy reforms. [117] Therefore, the Washington Consensus policy prescriptions proved their importance and Malaysia proves that the Washington Consensus is not in decline.

The world today is known for a shift in power from the West to the East. Scholars investigate whether this shift in power also indicates a shift in norms. This thesis focussed on the possible change in norms, by examining whether the Washington Consensus is in decline. Although Malaysia combined the Washington Consensus with its two diverging policies, it is evident that the policy reforms Malaysia implemented correspond with the Washington Consensus. The recovery processes after financial crises, in Indonesia with the IMF and in Malaysia without the IMF, have proven that this norm is still relevant. It also becomes clear that the IMF is not the only manifestation of the Washington Consensus. Countries can impose Washington Consensus-based reforms by themselves. Malaysia proved this feature of the Washington Consensus and it also proved that the policy prescriptions of the Washington Consensus can work; therefore, this ‘Western’ norm is still important.

The Washington Consensus was important in development strategies.[118] But if the norm is in decline, it would be undesirable to incorporate it in development strategies again. However, it

[115] Jomo, Kwame Sundaram. "Malaysian débâcle: whose fault?." *Cambridge Journal of Economics* 22.6 (1998): 708

[116] Singapore Government Media Release. *Speech by Singapore Minister of Finance*. Taken from: http://www.nas.gov.sg/archivesonline/speeches/view-html?filename=2000102004.htm

[117] Ghin, Yin Leow. "A reexamination of the role of exports in Malaysia's economic growth: after Asian financial crisis, 1970-2000." *International Journal of Management Studies (IJMS)* 11 (2004): 98-99

[118] Williamson, John. "A short history of the Washington Consensus." *Law & Bus. Rev. Am.* 15 (2009): 7

is now evident that these policy prescriptions can still be helpful for countries that are facing hardship. This proves that the picture about the Washington Consensus as provided by the literature, is more nuanced. For instance, Malaysia made use of these policy prescriptions, but it combined these with measures that were necessary for the country. Therefore, the Washington Consensus can be of high importance in development strategies. But, it is important to take notice of the specific situation. Policies that diverge from the Washington Consensus might be necessary to implement in order to make Washington Consensus-based policy reforms successful. As the Washington Consensus is broadly used by both countries in the recovery process after the Asian Financial Crisis, the responses to the Asian Financial Crisis show that the Washington Consensus is not in decline.

This thesis focused on the implementation of certain policies in response to the Asian Financial Crisis in 1997. It is not included if the targets of these policies are actually met in the long run. There was merely attention for the policy reforms themselves. Also, there is not much attention paid to the exact reason why the IMF policies did not work directly for Indonesia. It is noticed that the political system of Indonesia has been a dominant factor. But it is still uncertain to what degree this factor explains the difficulties. Domestic politics have not been addressed enough to be able to make conclusions here; although, this would be relevant. So, the question why it does work for one country but not for another, is still to be answered.

Malaysia imposed capital controls in order to stabilize the country. In this stable period, it was able to implement several Washington Consensus-based reforms. Therefore, the capital controls can be seen as legitimate. However, it is not addressed what the long-term consequences might be of these capital controls. Malaysia has now made a reputation for itself, as being the country that imposed capital controls. Prospective investors and creditors might fear for a repeat of the history. Therefore, they might be unwilling to invest in Malaysia. Though, if this would be the case, it would be another argument to state that the Washington Consensus is not in decline, since the capital controls are highly condemned by the Washington-based institutions. A negative impact of these capital controls then, would confirm the condemnation as expressed by the Washington-based institutions. But with the information provided in this thesis, conclusions cannot be made here. Further research has to be done on the long-term consequences of Malaysia's capital controls.

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