

RECOVERY IN ASIA: There for the Taking

for the

JETRO International Symposium

Presented by

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Jakarta, March 2000

It is a pleasure to be with you here today to discuss whether the current recovery in Asia can be sustained. Certainly economic analysts today are generally optimistic that the worst of the crisis is over and that Asians can now get back to the business of improving the lives of our people. While I believe that this is so, I also believe that the region's recovery is fragile and that more needs to be done to solidify its foundations.

One of the most important lessons that I believe we are learning from this crisis is exactly how resilient our economies have become. Despite having been hit by massive devaluations and the near or actual collapse of our financial systems in 1997 and 1998, our economies are back growing again. This is a testament to the effort of both the private sector and the government to build an economic system that can withstand strong external and internal shocks. It is also a tribute to the economic policies that have been put in place over the past two and a half years.

That having been said, it is also clear to me that there is a fair amount of heterogeneity among our economic situations. This is particularly true when comparing Indonesia to the other economies in the region. The economic crisis hit us harder and has lasted longer. This was partly due to the social and political turmoil that we went through during the crisis, but it was also due to the impact of the particular weakness of our banking system and corporate governance.

During the rest of these remarks, I will examine the question of whether the recovery that we are beginning to see is sustainable primarily from the perspective of my country, Indonesia. In part this is because I know the situation there the best, but it is also because we have suffered the most during the crisis. If the recovery is sustainable in Indonesia, I believe that it should be real everywhere in the region. As you can tell from the title of my remarks, I believe that we are in a position to enter a strong period of recovery, but we must not stumble as we work to resolve the issues that remain to be tackled before our economies can return to paths of strong growth.

In preparing the materials for this meeting, I realized that one's view on the current economic situation depends heavily on the perspective that is brought to the analysis. For those of us who struggled with the economic crisis that began in 1997 and continued for much of the following two years, the situation at the beginning of 2000 is very good. But others who do not bring this perspective to their analysis might come to a less favorable conclusion.

The Macroeconomic Picture

Where does the region stand today? Clearly our economies have begun to turn themselves around. In that respect, 1999 was an important year for the countries that were

significantly affected by the Asian economic crisis. It saw a return to growth throughout the region. Real GDP in Korea grew by an astounding 9%. Real Thai GDP grew by approximately 4%. Real Indonesian GDP, which fell the furthest in 1998, rose by a marginal 0.2%. The latter number, however, is a bit misleading. The Indonesian economy did not hit bottom until mid-1998. Thus GDP in the first quarter of 1998 was still quite high compared to the levels that have prevailed since then. For this reason, the annual growth rate for calendar year 1999 is quite low. However, we expect growth for the twelve months ending March 2000 will be around 2%. This is still lower than in other countries in the region and it leads one to ask why this should be so. Clearly, Indonesia had the worst economic contraction, with real GDP falling by 13% in 1998 while the declines in real GDP for the other countries in the region were generally well below double figures. Combine Indonesia's depression with a banking collapse that was much larger than experienced elsewhere in the region and substantial social and political upheaval, and you have the recipe for slow recovery.

But slow recovery does not mean no recovery. As we have seen, GDP has begun to turn around. The same is true for other macroeconomic indicators. The most significant achievement of macroeconomic policy during 1999 was the stabilization of the rupiah. During most of 1998, the rupiah exchange rate against the dollar was highly volatile, starting the year at around 5000 rupiah per dollar and depreciating as far as 17,000 rupiah per dollar. At its nadir, the rupiah had lost approximately 85% of its value. While it did not stay at such very low levels for long, the currency did remain weaker than 10,000 rupiah per dollar for more than four months of 1998. Fortunately, by October 1998 the change to the Habibie government and the improved credibility of economic policy allowed the rupiah to strengthen to around 8000 rupiah per dollar and the currency has stayed in a range of around 7000 to 9000 rupiah per dollar for the past seventeen months.

Compared to the depreciation of currencies in the rest of the region, the nominal depreciation of the rupiah has been enormous. The Thai baht, the Malaysian ringgit and the Philippine peso lost about 30% of their value. The South Korean won lost about 20% of its value while the Indonesian rupiah lost about 65% of its value. The more significant devaluation of the rupiah was associated with much higher inflation. Between June 1997 and December 1999, inflation in Indonesia was over 90% while inflation in Thailand, Malaysia, and Korea was closer to 10% and inflation in the Philippines was nearly 20%.

These figures on inflation suggest that the rupiah may have found its level at around 7000 rupiah per dollar. Since the start of the crisis, the rupiah's real exchange rate against a market basket of major world currencies, which takes into account the high level of inflation that we have experienced compared to other countries, has depreciated by around 35%. While part of this was needed to offset a fairly significant real appreciation in the mid-1990s, the devaluation has made our industries quite competitive again in world markets. This is true even in comparison to other countries in the region. For the most part, the other countries that were affected by the crisis experienced depreciations of around 20% in their real effective exchange rate since mid-1997. Thus exchange rate movements during the crisis improved the competitiveness of Indonesia both in general and against our neighbors. However, given that there were concerns that our exchange rate had become overvalued before the crisis, it is important for Indonesia to avoid taking steps that would substantially strengthen the real effective exchange rate.

Another major macroeconomic achievement in 1999 was the taming of inflation. In September of 1998, twelve-month inflation peaked at 82%, in great part due to very rapid increases in the price of food items over the preceding six months. Of particular importance among the food commodities was rice, our staple grain, the price of which rose by more than 120% from the end of May to the end of September. Fortunately, in response to the tight monetary policy that the government was able to implement early in the previous (Habibie)

Government and the return of confidence in the rupiah that the government ultimately engendered, inflation began to come under control in October of 1998 and by the end of 1999, inflation for the calendar year had been reduced to 2%. Maintaining our rate of inflation at this low level over the next few years will be difficult, if not impossible. A major unfinished part of our agenda is addressing the fiscal problem created by subsidies on oil products, though not gasoline, and electricity. Adjusting these and other administered prices to something closer to world levels will put pressure on inflation. At the same time, there is a need to raise salaries of our civil service who have seen the purchasing power of their salaries diminish substantially during the crisis. This too will put pressure on prices. That being said, we still expect that we will be able to keep inflation below 5% to 7% for the foreseeable future.

As noted above, another positive indicator in 1999 has been real GDP. Even with the onset of the crisis, GDP rose by 4.7% in 1997. It was not until the first two quarters of 1998 that the crisis significantly lowered real GDP: in the second quarter of 1998, which included the period of significant social unrest in May, real GDP fell by 15% compared to the same quarter in 1997. However, as you can see in the Graph 3, real GDP has now been rising for four straight quarters. During the year 2000, we expect growth to be more rapid, probably around 4%. It is important to note, though, that even if we achieve five percent annual growth over the next few years, it will take until at least 2003 for GDP per capita to recover to its pre-crisis level in real rupiah terms.

There have also been significant improvements in trade in recent months. One of the puzzling aspects of the macroeconomic data from the crisis has been Indonesia's export performance. Part of the story that is not too puzzling is the increase in non-oil exports in 1997 and even early 1998. It was only after the political and civil unrest of May 1998 that exports collapsed. While some attribute this to a lack of trade finance, I believe that the timing is more consistent with a decision by buyers to avoid purchasing from Indonesian sources after the unrest of May 1998 combined with a subsequent decision to await the outcome of our elections last year before restarting purchases. For these reasons, non-oil exports fell by 13% over the first six months of 1999 compared to the same period in 1998. Since August of 1999, we have seen a recovery in exports, with exports from August through December of 1999 being 15% higher than the same period in 1998, though still 3% lower than the same period in 1997. This has been in part due to a stabilization of export prices, but it has also been due to an increase in export volumes. Unfortunately, as we will see below, the export performance of other countries in the region has been much better than in Indonesia.

Interpreting the trade data in the region has been made particularly difficult during this period by the substantial decline in prices for traded goods. The decline in commodity prices is reasonably well known. According to the World Bank, prices for commodities exported by developing countries, other than oil, fell by 30% between June 1997 and June 1999. But prices for other goods fell as well. A detailed study of the changes in the prices for Indonesian exports has found that the average price of all non-oil products exported by Indonesia fell by 25% between the second quarter of 1997 and the second quarter of 1999. Prices of mining and mineral products fell the furthest, dropping by 34%, while prices for manufactured goods fell by 23%. Taking into account this decline in prices, export volumes in Indonesia rose by 24% for the two years ending in June 1999, with manufactured goods exports rising by 31% over that period.

Moreover, falling prices in late 1997 and early 1998 made the expansion of real export volumes at the beginning of the crisis much larger than suggested by the value data. This suggests that the depreciation in the real exchange rate that occurred during the crisis had the expected effect of increasing exports, despite the fact that nominally measured export values fell over the entire crisis period. For instance, real manufactured exports for the first quarter of 1998 were 37% higher than those for the same period in 1997. This can be compared to a real growth

rate of around 12% when comparing the second quarter of 1997 to the second quarter of 1996. Thus, it is clear that the initial devaluation had the large expected impact on Indonesian exports. It was only after the riots, when purchasing managers of importing firms became concerned over the reliability of Indonesia as a source of supply, that export growth faltered. All of this suggests that our economic intuition is correct: A depreciation of the real exchange rate encourages exports. However, this can be undercut if social and political conditions are not conducive to growth.

These findings are consistent with price trends reported in other countries. The Bank of Thailand reports export price indices each quarter. These data suggest that the price of Thai exports fell by a similar amount during the crisis. In part, this is good news. It suggests that our assumption that traded goods prices are similar in all countries is true. But from the Indonesian perspective, it makes our increase in real exports less impressive. If, as it seems is the case, other countries in the region experienced price shocks similar to those felt in Indonesia, then their export performance is also better than the data on export values suggest and Indonesia's export performance still trails the export performance of the other countries in the region by a significant margin.

Indonesia's export performance was much better than Thailand, Korea, and Malaysia in the period immediately preceding the crisis and comparable or better than the performance of the other countries until around mid-1998. It was only after mid-1998 that Indonesia began to lag the rest of the region. This supports my view that what has separated Indonesia from the rest of the region has been social and political unrest and uncertainty that hit our economy hard in mid-1998.

These graphs also point out the exemplary performance of the Philippines over this period. While its export growth was slowed by the crisis, at no point did it suffer from a nominal decline in export values. Indeed, its performance has been very strong throughout the period. Part of this was certainly due to the fact that the Philippines had some of the lowest export levels in the region prior to the crisis, but it also reflects the success of the Philippines in attracting foreign investment, particularly in electronics, just prior to and during the crisis.

Of particular importance for Indonesia has been the improvement in the level of exports of manufactured goods. Since July of last year, manufactured goods exports have recovered to or exceeded their pre-crisis levels. This occurred despite a decline in prices for many of these goods until late in 1999.

Other more specific indicators also point to the beginnings of a recovery. For instance, automobile sales, which collapsed with the onset of the crisis have showed impressive gains in 1999 and should continue to grow into this year. However, even if the more optimistic projections come true, car sales this year will be less than half their annual level prior to the crisis. A similar story can be told for motorcycle sales.

Economic Challenges

I have spent a fair bit of my time reviewing the macroeconomic news that has recently come out of Indonesia. I believe that it points to an economy that is growing and that can continue to grow for some time to come, if the social and political situation remain stable and prudent economic policies are followed. However, there are still some significant problem areas in the Indonesian economy. The most troubling item in the macroeconomic picture is the level of imports. Imports collapsed after the beginning of the crisis. The fact that imports collapsed is not surprising. In fact, that is exactly what economics would predict should happen as the rupiah is devalued. However, the size of the collapse is very troubling for an economy that has become so integrated into the global economy. During calendar year 1999, non-oil imports averaged

approximately \$1.7 billion per month. One has to go back to 1990 to find a year with average imports below this level.

This collapse in imports has come from both intermediate and capital goods. The decline in intermediate goods imports actually began well before the crisis. This is a subject that has not been commented upon extensively. In part it may simply reflect a statistical anomaly created by our statistical office in its treatment of imports into export processing areas. I will not dwell upon this point, but it is the case that the statistical office does not include imports into export zones in the import statistics, though it includes exports from those zones in our export data. As these export zones rapidly grew in importance beginning in the mid-1990s, part of the decline in intermediate good imports may be attributable to movement of export oriented business into those zones. Whatever the cause of the initial decline in intermediate imports, we experienced a precipitous decline in such imports at the end of 1997. Thus intermediate imports in 1998 were 36% lower than in 1997. Fortunately, though, once they fell in 1998, intermediate imports stabilized rapidly.

Unfortunately, the story behind capital good imports is more troubling. Those imports also fell sharply at the end of 1997. For much of 1998, we thought that these imports had stabilized at about 36% below their level for 1997. Then the data for 1999 began to become available and we realized that capital goods imports were continuing to fall. Over the last six months for which we have data, capital goods imports are 66% below the level that prevailed in 1997 for the same period. Worse yet, capital goods imports over most of that period had fallen to levels not seen since 1990. It is hard to imagine that any sort of long-run recovery can be sustained if these imports do not recover substantially.

The situation in other countries in the region is less troubling in this area. Imports of capital goods in Thailand fell by “only” around 43% during the crisis. This puts the import level back to that attained in 1994, before the Thai construction boom that contributed strongly to the crisis and created an unusually high level of demand for imported inputs. Clearly this level of imports is less troubling in terms of the longer-term prospects for Thailand, particularly as the decline in capital good imports was similar to the decline in total imports.

Driving the decline in capital good imports in Indonesia, as well as in Thailand has been a collapse of investment. In Indonesia, this is partly due to the problems in our banking system, which have still not been resolved, and to the bankruptcy of much of corporate Indonesia. Bank restructuring and corporate refinancing are two critical issues that the current government must resolve. Until that happens there is little likelihood that domestic investment will recover.

However the investment problem in Indonesia is not purely domestic. It is also a problem of foreign investment which utterly collapsed during the crisis. Prior to 1994, foreign investment approvals in Indonesia averaged somewhat more than \$8 billion a year. From 1995 through 1997, investment approvals, exclusive of petroleum refineries which were never constructed, averaged nearly \$28 billion a year. In 1998, approvals fell back to \$8.5 billion and in the first six months of 1999 approvals were only \$1.9 billion. Clearly, Indonesia is no longer receiving significant amounts of foreign investment. This is not news, but it illustrates the need to revitalize this part of the formula that had led to Indonesia’s impressive long-term growth record.

Contributing to our poor investment record is the weakness of our legal system. One of the problems that we have faced as we have tried to resolve our banking and corporate debt problems has been the perception that our judicial system cannot fairly enforce our laws. For instance, early in the crisis we adopted a revised bankruptcy law that was designed to speed the restructuring process. As we began to try to use the new law, it became clear that the judiciary was not able to implement the new law effectively. The new government recognizes this

weakness and is committed to taking the steps needed to reform the judiciary as quickly as possible.

The data that I have described suggest that Indonesia and the rest of the region are poised to recover. As I stated in the title of this paper, recovery is there for the taking. The question is whether we will be able to create an environment that will allow the beginnings of the recovery to continue. In a moment I will turn to the social and political issues that are particularly a problem in Indonesia, but there are many economic issues that remain to be solved for the region as a whole.

In Indonesia, the most significant problems relate to the financial sector, particularly the interrelated problems of corporate debt restructuring and the restarting of bank lending. While in many countries in the region, we are beginning to see the revitalization of the corporate bond market, Indonesia lags behind, primarily because we have not been able to break the gridlock of corporate debt. We have taken a number of steps to address this problem. Recently we have removed the impediment that kept our bank restructuring authority from approving haircuts for debtors. Given the size of the portfolio of that agency, its inability to offer haircuts was a major problem. We have also taken steps through the Jakarta Initiative Task Force to strengthen the effort that helps to facilitate deals between debtors and creditors. It is hoped that these steps, combined with the improvement in the overall economic climate will result in more corporate debt restructurings.

It is hoped that ending the corporate debt gridlock will enable the banking system to begin to issue new debt. Right now our banks have over Rp100 trillion or approximately US\$ 15 billion tied up in deposits at the central bank that could be used to finance loans to the private sector. Getting that liquidity back into circulation must be one of our principle goals in the near term.

Another significant issue in Indonesia which is of lesser importance elsewhere, I suspect, is fiscal sustainability. The legacy of the economic crisis has been a significant drain on fiscal resources in the form of capitalized bank restructuring costs, mushrooming subsidies for fuels and electricity, expanded costs for social safety net and social security programs, and a need to resolve a repressed wage structure for the civil service. All of these issues threaten fiscal sustainability during a time when tax revenues are very low due to the collapse of much of the economy. While the beginning of the economic recovery should improve tax collections and the recent increase in oil prices has been helpful in terms of raising revenues, we need to develop a concrete medium-term fiscal program that will ensure that our budget deficit is contained and that our reliance on foreign financing of our budget deficit is eliminated.

An important stopgap measure in this latter regard which also should contribute directly to economic recovery is the sale of assets currently held by the bank restructuring agency. It is clear that most governments have a weak record at running businesses and Indonesia's government is no different than other governments in this respect. Unfortunately, the economic crisis has left the government, through the bank restructuring agency, in control of vast segments of the economy. This must change, first to help pay off the cost of the bank recapitalization program, but also to increase the overall productivity of the economy. This would seem to be non-controversial, but the real problem is that it is likely that the buyers of many of these assets, if they are put up to tender, will be foreign individuals or corporations. We have already experienced one incident where employees of a bank that was being taken over by a foreign bank rejected the new management and forced the bank restructuring agency to take back control of the bank. This cannot continue. It is imperative that we find ways to make the sale of these assets to the highest bidder acceptable to the community.

Social and Political Challenges and Responses

Up until now, I have focused on more purely economic issues. However, the state of the economy has been and will continue to be dependent on the resolution of the political and social instability that has ravaged Indonesia over much of the past three years. I will now turn to a discussion of these factors.

In the many articles written about the economic crisis that has afflicted much of Asia over the past two and a half years, one often reads that the crisis has been most severe in Indonesia. That is certainly true. However, as late as the end of 1997, few would have guessed that this would have been the case. I still remember the very early days of the trouble in Thailand when IMF and World Bank officials would meet with the press and say that Indonesia's "fundamentals" were sound. We all now know that they weren't, but it seems to me that they weren't that much worse than those of the other countries of the region.

As I have noted before, I believe that what has distinguished Indonesia from the rest of the countries in the region has been the social and political turmoil that accompanied the crisis and that continues to this day. For over thirty years, the government of President Soeharto had held tightly to the reigns of power. While concerns were often expressed over the means by which control was maintained, the prosperity that the New Order Government was able to bring to the country made many people willing to ignore the excesses in some areas. With the beginning of the economic crisis it became clear to many that the compact between the government and the citizens had been broken. This led to calls for a greater level of participation in political life by people all over the country. Students took to the streets to demand greater democracy.

At the same time, the weakness of the economy strengthened the voices of those who had objected to the many excesses of the previous government. The rampant collusion, corruption, and nepotism that reigned during the boom years became unacceptable and unsustainable. This led to further calls for a new and clean government.

All of these feelings opened the door for the reformasi movement in Indonesia which ultimately led to the downfall of President Soeharto. Unfortunately, the process that led to his resignation was violent and involved significant loss of life and property as well as unspeakable acts against some of our citizens. Even more unfortunately, after the downfall of the Soeharto Government, social unrest has continued to rear its ugly head. The civil disobedience of the reform movement has been seen as justification for some citizens to take the law into their own hands in other matters. We need to develop ways of channeling the dynamic forces of democracy into more productive directions and to ensure that justice is meted out for all concerned. But this will take substantial institutional reforms, particularly in the area of democratization. This is a task that we are addressing in our current hearings on our constitution. One of our primary goals is to redefine our state institutions to give greater voice to the aspirations of the people and to ensure that every citizen has an improved opportunity to seek redress of his or her grievances, both against the government and our fellow citizens, through transparent and fair official procedures. Only in this way can we be sure that the legitimate concerns of the people for justice will be channeled into actions that will strengthen the country and the rule of law.

Today among the most serious threats to the recovery in Indonesia are political and social. The people of Aceh and Riau have called for a referendum on independence for their provinces. Groups in Irian Jaya and South Sulawesi are also seeking to separate from the rest of the country. In many ways, these movements are merely the expression of desires for greater autonomy long suppressed by the government of President Soeharto. The two succeeding

governments have been seeking to address these concerns through a process of decentralization of authority and by returning to local government more of the value of their natural resources.

The even more serious threat to the integrity of the country comes from the violence that has plagued many areas of the country, but that has been particularly serious in Ambon, Ternate, and Halmahera, an area that we refer to as the Maluku Islands. This communal violence challenges the government's ability to maintain order and, given its religious overtones, threatens to spread beyond these areas, as demonstrated by the outbreak of violence on the island of Lombok. The government is working with the people of the regions to address these problems, but given that the violence is not focused on specific issues, it presents more difficult problems than in other areas.

There is no magic formula for seizing the opportunities for recovery that now present themselves. Instead, there is a need to continue the prudent economic policies and the moves to reform the economic system that made the recovery that we have experienced to-date possible.

For the region as a whole, the most important task is to get the engine of investment working again. In part, this requires that the banking system get back into the business of making loans. This will require countries like Indonesia to complete the process of bank restructuring. But just as importantly, in Indonesia and in other countries, this means continued efforts to move forward with corporate debt restructuring. Without some resolution of the corporate debt problem, further investment will be difficult at best. Particularly in Indonesia, there is a need for us to get productive assets that are currently held by our bank restructuring agency back into the hands of the private sector and continue the process of reducing the role of the government in production through the further privatization of currently state-owned enterprises. Another issue that is particularly relevant in Indonesia, but is also important in other countries is the reform of our economic and legal system. If new loans and investments are to be made in a transparent manner, then there needs to be a transparent system by which disputes can be fairly settled. This is an area where many of the countries in the region need improvement. Finally, we must work to resolve the difficult social and political problems that we face.

Necessary Economic Policy Responses

These actions are no small order. But they are our immediate problems. Over the longer term, we need to move forward with governance reform, both in government and in our corporations. We must begin the process of catching up with the needed investments in infrastructure that were delayed during the crisis. We must reform our educational systems so that five to ten years from now we do not face a skills crisis that will hamper our development. We must look after our environment so that our growth is sustainable. And we have to work to ensure that the benefits of growth are reasonably shared so that public support for pro-growth policies can be maintained.

What we cannot control is the external environment. Most of the countries in the region are now facing an export boom. This has contributed strongly to growth everywhere but Indonesia and we hope to be caught up in it soon as well. However, this boom has been fueled primarily by the United States and its phenomenal growth record of the past few years. This cannot last forever. Exports to Japan and Europe need to take off to compensate for possible declines in US demand. If this does not happen, then our recovery may be quite short. There is also a need to examine the nature of the global financial system and whether steps need to be taken to improve its operations. In my view, as long as capital is highly mobile, small economies will always be at risk of abrupt shifts in sentiment. Flexible exchange rates can minimize the damage somewhat by making the risks to investors clearer. But it may be necessary to look into

ways to minimize the volatility of capital flows. I hope that Indonesia has taken one step in that direction by making it clear that the government will not bail out private borrowers in this crisis. But the international financial institutions have to make it clear that they will expect the private sector to participate in the resolution of future crises, particularly where fluctuations of private capital flows contributed to the problem.

Every day, the market for the attention of companies seeking to invest in developing countries becomes more crowded. For a long time the primary competition was between Southeast Asia and Latin America. But now countries in Central Europe, the Middle East, and even Africa are becoming viable platforms for investment by multinational countries. We cannot delay in our efforts to promote investment. For this reason, Indonesia is now preparing a substantial revision of our laws on foreign and domestic investment that will create a single law that will provide equal treatment to all investors and will clarify the rights and obligations of all investors. At the same time, we are seeking alternative means for dispute resolution that will provide sufficient legal certainty for investors while we are reforming our judiciary. We are also taking steps to further liberalize our trade and tax regime so as to be more transparent and development friendly. Through these steps we hope to meet the challenge of the new market for investment and regain our place as one of the best homes for investment in the world.

Recently, a new external challenge has appeared on the investment horizon: the “New Economy.” This term is often used as an easy way of referring to high-tech companies, particularly those involved with the internet. Our concerns are similar to those being raised in some circles in the industrialized countries: there are indications that the “New Economy” is reducing the credit available to more mundane companies. Developing countries like Indonesia need large numbers of jobs for low-skilled workers. “New Economy” companies do not generally employ large numbers of such persons. The siphoning off of large sums of world capital into internet and other startup companies may ultimately make it more difficult for existing non-high tech companies to obtain the resources necessary for expansion overseas. If this occurs, it may be difficult for a country like Indonesia to garner the investment that is necessary to generate the jobs that are needed to employ large numbers of people and to seriously begin the process of lowering poverty.

In closing, I would like to mention the role of the international financial institutions. It is important to recognize the critical role that they and the international community in general have played in helping to alleviate the crisis. It is easy today to forget the important role that the IMF and others played in the early days of the crisis by mobilizing the support programs that stemmed the fall of the currencies in the crisis countries. Without those programs, the immediate impact of the crisis on our economies would have been much larger. But the involvement of the IFIs and our development partners did not end with the mobilization of first and second lines of defense. Since that time we have worked together to develop and implement the policies that have facilitated the recovery that we are now experiencing. Clearly there have been mistakes along the way on both sides. But the assistance of the IFIs and our development partners, both technical and financial, has been crucial for our success.

Conclusion

As the title of this paper suggests, I believe that we can sustain the recovery in the region. With reasonable economic policies and a commitment to developing the new social and political institutions that our people demand, we can create the basis for long-term growth. This is particularly true for Indonesia. The fundamental advantages that made Indonesia a magnet for foreign investment in the early- and mid-1990s still remain. We have a strong natural resource base. With recovery, we have a large and growing domestic market. With the implementation of

AFTA, investors in Indonesia have preferred access to the other ASEAN economies. We have a large and trainable workforce and, after the devaluation, relatively low wages. All of these factors argue for Indonesia as a key place for investment in Southeast Asia. The transition that the country is now passing through has been difficult, but I believe that it is creating an opportunity for the benefits of development to be shared more broadly which will build stronger support for economic policies that promote investment. Investment in emerging markets is generally not for the timid. But throughout the region, and particularly in Indonesia, the time is ripe for investors with foresight to return.