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**PUBLIC SECTOR REFORM  
IN THE ASIA-PACIFIC**

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## *Abstract*

The world recessionary period of the 1980's forced many governments to re-evaluate their economic management strategies. Today, existing strategies are being supplanted by a belief that economic growth is best achieved by less government intervention in the economy. This paper examines public sector reforms in Indonesia, Malaysia and New Zealand, three Asia-Pacific trading partners. While descriptive in nature, the researchers believe that the contribution of this research is its socio-cultural and historical accounts of these changes, as well as its Asia/Pacific focus.

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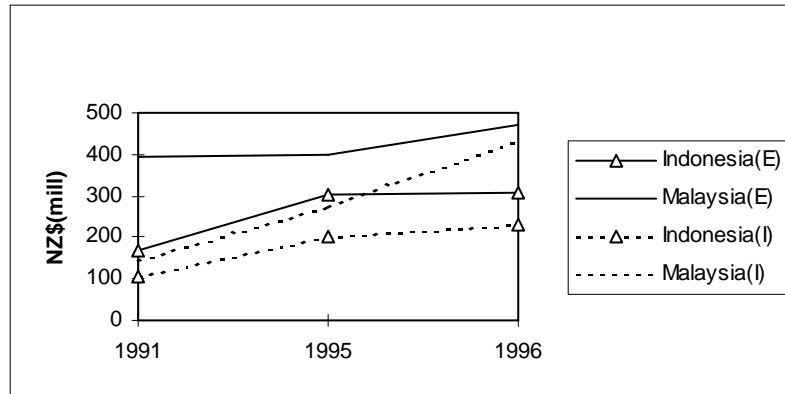
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# 1. Introduction

Since the early to mid 1980's, governments in many countries have done an about-turn in their thinking regarding the role of the government in the economy. In the past the guiding economic conviction in many nations was Keynesian in nature, based on notions of government control and intervention. This extended to government ownership and operation of strategic assets such as telecommunications, power generation, rail and air transport, and supply of water. Today, however, it is common to find governments trying to disengage from what is now regarded, by many, as a paternalistic role. To varying degrees, we are now seeing significant public sector restructuring involving decreased public ownership, and structural and procedural transformations through privatisation, corporatisation, downsizing and debureaucratisation. The prevailing economic wisdom is now more neo-classical in nature, with the role of the government minimised and the "invisible hand of the market" now expected, to a much greater extent, to guide economies in a more efficient and effective manner.

Most studies of public sector reform have focused on this - how to achieve efficiencies at the firm or general economy level. More recently, there has also been attention to the impact of public sector reform on groups other than shareholders (De Castro, Meyer, Strong and Uhlenbruck, 1996). This work, nevertheless, has predominantly been in-country and has given little consideration to socio-cultural factors that may have influenced these changes or this impact on management. This study will address these issues in relation to Indonesia, Malaysia and New Zealand. The former two nations were selected because both exports and imports to and from them and New Zealand have increased, because it is believed that cultural differences may influence the nature of reform practices, and because, while New Zealand conducted most of its reforms in the 1980s, the other two countries are only now facing the need for urgent restructuring. It is that hoped that this discussion will encourage others to question whether reform practices are internationally transferable, and to examine the interface between national reform agendas and what needs to occur at an organisation level.



**Figure 1**  
**New Zealand Trade with Indonesia and Malaysia**  
 (Source: Statistics NZ 1997)

In the following sections a background to government reforms and the meaning of associated terms is provided. A taxonomy of national economic policy strategies is then presented and discussed, followed by a brief historical account of reforms in Indonesia, Malaysia and New Zealand. The espoused rationales behind these developments are then considered, before an overview of the similarities and differences between reform practices in the three nations is outlined. The paper concludes by examining the managerial implications of government reforms, suggesting that these need to support higher level government strategies, as well as the gap that may exist between current management skills, knowledge and culture and those which are required to achieve national objectives.

## **2. Background**

Public sector reform adopts many guises, and the degree and pace of these reforms differ substantially. Most government reforms, however, have some mix of corporatisation, deregulation, privatisation, restructuring and debureaucratisation. The use of terminology relating to government reform practices, however, is diverse and fragmented. For example, changes can be considered from an individual organisational viewpoint, or from an industry or national perspective. For this reason it is often difficult to make direct comparisons between studies and to articulate clearly what reforms have actually been adopted, especially when comparing across national boundaries. Haley and Tan (1996) have also noted that research

into what has happened in many developing nations in South-East Asia is often beset by an informational black-hole which places constraints on analysis.

Perry and Rainey (1988) have suggested that state-owned enterprises (SOEs) can be classified on a public-private continuum. Politically controlled and funded organisations (government agencies) lie at one end, while at the other are market-controlled government corporations financed by capital markets. Reform of the public sector can also be thought of in relation to the degree of change that occurs. This can be considered on the basis of shareholder changes, changes to employment relationship processes, and decreases in staffing and administration.

For the purposes of this paper, privatisation refers to those goods and services, previously financed and provided by government, that have become financed, fully or partially, by the private sector. Corporatisation refers to cases where government retains ownership of an organisation but adopts a private sector business philosophy, such as managerial accountability and management contracts. Deregulation involves the reduction or elimination of government rules that regulate an industry or economic activity, for example, tariffs.

Reform is not an easy task for any government, either politically or practically. Vested interests that prospered under old frameworks are not likely to welcome such changes - for new orthodoxies are typically quite different to what constituents have grown to expect. Other factors are also prompting governments to undertake public sector restructuring, for example, costly and cumbersome organisations which are unresponsive to local needs. As a recent OECD report stated, some countries have spent up to 63 percent of GDP in their public sector alone (OECD, 1996b). MacIntyre and Jayasuriya (1995) made a similar observation<sup>1</sup> The world recessionary period of the 1980's provided this impetus for change in many countries, while others are only now addressing this issue following the Asian financial crisis. Thus, around the world in the past decade, in widely differing geographic areas and societies, governments have been forced to re-examine the way they have managed their economies. Exactly how governments have responded to the challenges in their environment is discussed in the next section.

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<sup>1</sup> It is interesting to note that the Economist in its recent "Survey of the World Economy" (1997:ff70), maintains that, notwithstanding the large amount of restructuring that has taken place in the OECD, government spending as a percentage of GDP has actually increased in most member countries.

### **3. Governance Strategies**

After the industrial revolution in Britain and America businesses and governments worked closely together to encourage economic growth. Cronyism and dubious deals between the two, however, became rife and were only overthrown after the 1929 economic crash (Saludo, 1998).

Both governments then set about ensuring transparency and fairness in their economic and commercial management practices, as well as building a legislative framework to support these initiatives. Two further events, The Great Depression and World War II, then shook both nations. Their response was to increase the role of the state in the economy to provide social and economic aid to their citizens, as well as to increase national development plans. This situation continued up until the 1980s, reaching a stage where some governments were spending a very large proportion of their GDP in this area. Further events and environmental changes in the 1980s, including oil price shocks and increasing globalisation of economies, forced another rethink of government actions (World Development Report, 1997). In response, countries like New Zealand and Britain took steps to decrease government involvement in their economies, placing greater emphasis on accountability and competitiveness in local markets.

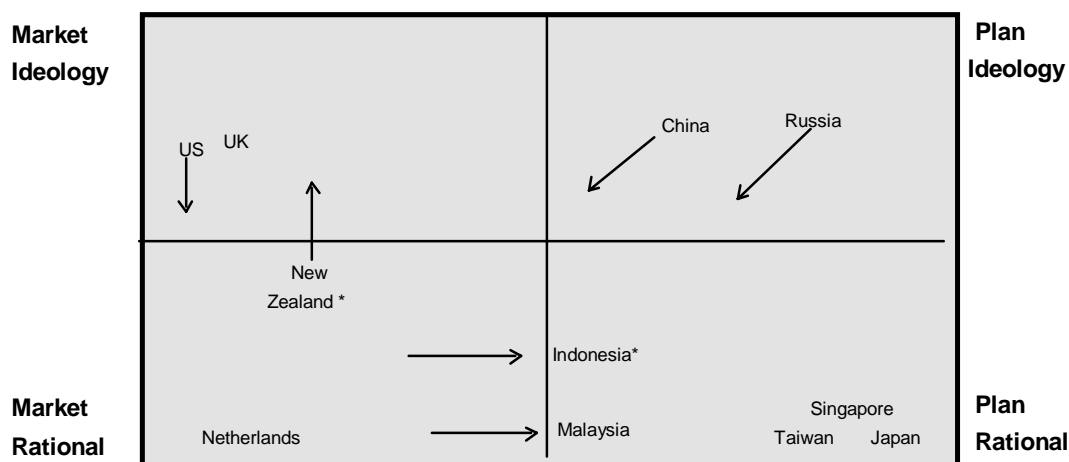
Governments in nations such as Malaysia and Indonesia have been facing similar challenges. Their environments and histories, nevertheless, are quite different. Years of colonial rule only came to an end in the late 1940s to mid 1950s and both countries, while finally independent, were left with little of the necessary infrastructure, capital or industries that were required for healthy economic growth. With memories of imperialism still clear in their minds, they turned to business associates and other connections to provide resources to kickstart their economies, in much the same way as Britain and America did after the industrial revolution (Saludo, 1998).

Huge infrastructure projects and industry development initiatives were undertaken. The close links fostered between government and other sections in these societies brought considerable benefits to both, at a time when industrial nations were faring less well. Many world economists hailed this situation as a new Asian economic model, one containing the values of deference to authority and collective enterprise that are common in such collectivist cultures. Over time, however, there was mounting concern about the practices of the Indonesian and Malaysian governments, with allegations of mismanagement, corruption and cronyism increasingly heard. Both governments had taken measures to become more internationally competitive and to industrialise their economies in the 1980s with some



considerable success, still major problems resulting from their strategic and management policies were not given serious consideration until 1997, following the crisis in Asian currencies and stockmarkets (Chandler, 1997).

The economic management practices of industrialised nations were conceptualised in 1968 by Dahrendorf, as either Market or Plan Rational. Market Rational economies were identified as European-type economies that had a smooth-functioning market, that allocated benefits to the greatest number of people, rather than the government. Plan Rational governments were considered to be those where the state regulated, directed and encouraged companies to act to help achieve national goals. These included centrally-planned Socialist countries like Russia. Henderson (1994) extended Dahrendorf’s conceptualisation of governance philosophies advocating two additional rationales, Market Ideological and Planned Ideological, as well as redefining the original categories.



**Figure 2**  
**Conceptual Framework of National Economic Policies**

(Source: adapted from Henderson, 1994. \*\* These countries added by authors)

Dahrendorf’s original Plan Rational category, containing countries such as the old USSR, was redefined as Plan Ideological while a new category, Market Ideological, was added. Henderson (1994) justified this extension and modification to the model because of the changing economic circumstances of many nations. The New Right governments that had emerged in the OECD were characterised as Market Ideological because of their return to competitive capitalism and their increasingly hands-off approach to the market. The economic

and political changes in Socialist nations saw them moving from Plan Ideological and shifting toward a Market Rational approach. This latter category included nations like the Netherlands, whose government "legislates the parameters in which private companies operate. (but). investment, production and distributional decisions are the preserve of private companies and their actions, if disciplined at all, are disciplined by the market," (Henderson, 1994, 87). States in the Plan Rational category were considered to be those that undertook government-led transformations but pursued capitalist, rather than Socialist, philosophies. Many Asian nations were identified in this category.

New Zealand was not considered in Henderson's economic framework, nevertheless, it appears to have moved from a Market Rational style of governance prior to 1984, to a Market Ideological stance. The views of architects of the reforms of this time such as Roger Douglas, a former Minister of Finance,<sup>2</sup> conform well to these descriptions. Malaysia, according to Henderson, had shifted from Market to Plan Rational. We have also placed Indonesia in this position. This decision is supported by the fact that Indonesia and Malaysia have well-defined and publicised long-term plans and, furthermore, that the Malaysian government, and until very recently Indonesia, appear to have no intention of relinquishing overall stewardship of their economies unlike New Zealand.

It was Henderson's (1994) belief that the best performing economies, Asian Tigers, could be characterised as Plan Rational. The USA and UK economies were considered among the worst performing Western economies at the time and Henderson had little faith in Market Ideological societies. Much has happened in Asia since the end of 1997, however, and little of it positive. One could argue that despite Henderson's beliefs, a Plan Rational philosophy was not the problem, rather it was how economic strategies were implemented or because of outside interference. In the former explanation, too much inappropriate or corrupt private speculation and debt, as well as a lack of accountability could be to blame. On the other hand, as Dr Mahathir has frequently argued, foreign speculators could have initiated the Malaysian crisis. Whatever the cause, Asian states hit by the recent crisis have shown few signs of recovery. This has forced nations, such as Indonesia, Thailand and Korea, to agree to IMF demands for strict restructuring programmes in order to gain access to monetary bailouts, although in some cases the IMF appears to have softened their demands. These restructuring

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<sup>2</sup> Sir Roger Douglas sets out his views in two books - see Douglas, 1980 and 1993. The ideological stance and approach of the last four governments of New Zealand are well described by Jane Kelsey (Kelsey, 1995).

programmes, required by the IMF, follow a typical New Right formula. They would see these Asian economies moving more toward a Market Ideological stance. Malaysia is in a slightly better position, having tackled the flight of capital and currency depreciation itself but it is by no means out of the woods (Hiebert, 1998). They may yet need to rethink their economic strategies and how these are implemented.

Two important issues need to be raised here. The first relates to the model itself and then there is the question of economic governance styles. Henderson's model does provide a useful snapshot of global economic policies and room to illustrate movement. The manner in which it classifies countries, however, is very open to interpretation. Further, and perhaps more importantly, Henderson asserts a Plan Rational style of governance is most successful and Market Ideological least so. Recent economic events challenge Henderson's assertion about the superiority of a Plan Rational approach, although, it could be argued that the worst hit Asian countries' problems are not so much the result of government philosophies and strategies but rather their appropriation, to varying degrees, by private individuals and families and their corrupt use of power. The implications of this are that "standard" economic philosophies and policies may be agreed on but are subject to the integrity of officials, and adapted to the needs and characteristics of different cultures, including practices such as nepotism, as well as macro-environmental trends. It is therefore possible to speculate that the problems that recently emerged in Asia were not "caused" by a Plan Rational philosophy, but rather how this was adapted to local customs, abusive practices, and, of course, global economic events. What is further open to question is whether the IMF should impose an economic governance model which may work in, say, the USA, onto an entirely different culture without appropriate adaptation. If governance models were allocated by compatibility with local culture and history rather than economic "one best way" thinking, then Plan Rational models would appear to be more suitable for collectivist societies like Malaysia and Indonesia. Recent negotiations between Indonesia and the IMF indicate they may be prepared to accommodate some degree of local considerations.

In the next sections a more detailed background to public sector reform practices in Indonesia, Malaysia and New Zealand are given. The socio-cultural, political, and historical differences and similarities between these three trading partners are then highlighted, along with their economic philosophies.

## 4. Indonesia

In 1949 Indonesia gained independence from the Dutch, after nearly five centuries of colonisation. Initially, the country adopted a parliamentary system of democracy, ruling with a coalition of parties. With some 24 parties competing for power, however, the country soon became highly unstable (Oberon, 1996). In 1957 Sukarno, the nation's first President, was forced to declare martial law to resolve mounting social and economic instability. In 1959 a system of 'guided democracy' was introduced and in 1960 an Eight Year Plan adopted, to achieve self-sufficiency in necessities and 'self-sustained growth' (Hill, 1996).

Sukarno's rule was to last until 1965. It was characterised by strong nationalistic and interventionist policies, as well as state-led industrialisation (MacIntyre and Jayasuriya, 1995). The military, who had assisted Sukarno's rise to power, continued to play a significant role in the Indonesian economy through their special position (*dwifungsi*) in parliament and other non-military areas of the economy. This included the management of previously Dutch-owned companies (nationalised at independence) and the control of newly-formed public companies, financed by heavy overseas borrowing and revenue from Indonesia's rich oilfields. These policies, however, proved disastrous. Mismanagement and corruption were endemic, resulting in poor productivity and a decrease in export earnings. The government compounded this situation by continuing to support poor performers and Indonesia slipped further into the economic doldrums. Economic commentators of the time considered the country a "basket case" and its economic problems as serious as many of the least developed countries (Hill, 1996: 1).

In 1965 Sukarno's "Old Order" was overthrown by the military, led by General Suharto. The military continued their dual role in the management and the protection of the nation under the new president, as they do today. The first priority of the 'New Order' government was to rescue the Indonesian economy from collapse. Inflation was running at an annual rate of over 600 percent, the country had massive foreign debt, and unemployment was widespread (Sjahrir and Brown, 1995). A series of five year development plans, known by the acronym REPELITA were put in place. At first these rehabilitation plans, developed by a group of local and overseas advisers, were quite liberal. They recommended more outward-looking and market-oriented policies. This led to the removal of preferential treatment for state

organisations, a renegotiation of foreign debt, encouragement of the private sector, and liberalisation of trade (MacIntyre and Jayasuriya, 1995).

The worst of Indonesia's economic problems were beginning to improve by the 1970's when a political backlash against foreign involvement in the economy, nationalistic riots, and a surge in revenue from an oil boom pressured Suharto to adopt a less liberal approach, especially at the micro-economic level. While the private sector was not discouraged, the government set about state-based industrialisation again, tightening its foreign trade and investment policies (MacIntyre and Jayasuriya, 1995). There were heavy investments in Pertamina (oil), Krakatau Steel, mining, cement, fertiliser, and paper plants, palm oil estates, banks and public utilities (Oberon, 1996). The government continued these protectionist and expansionist policies until the negative world oil shocks of the 1980's.

By this time public service expenditure in Indonesia had become a real financial burden (CIPE, 1991) – caused by too many employees, corruption, inefficiencies, and cronyism (Halligan and Turner, 1995). A downturn in oil prices, one of the country's major revenue earners, between 1982 and 1986, magnified the situation. This forced the government to take action. In 1983 deregulation and debureaucratisation of the public sector, and trade reforms were begun. These brought immediate benefits encouraging exports, foreign investment, international aid and efficiencies in the public sector. Not long after, another series of national plans were implemented (Repelita V, 1989-1994) which focused on administrative reform. These changes included better management controls, job analysis, improved leadership, simplification of procedures, the design of management information systems, and a greater emphasis on local government autonomy (Oberon, 1996). Jomo (1997) has noted that while the government's reformatory intentions were admirable, these were frequently undermined by the politically influential, thus compromising the good that could have been done.

Debureaucratisation did help improve the speed of decision-making in state enterprises. By 1995 corruption had been reduced (CIPE, 1991; Halligan and Turner, 1995) and red tape processes significantly streamlined. Haque (cited Jomo, 1997) also noted that the attitudes of bureaucrats toward private businesses had definitely improved. According to Indonesian Central Bureau Statistics, however, state sector employment continued to expand (4,044,703 in 1995) and government involvement in the economy was still high, at 15 percent of GDP in 1995, mainly because of their ownership of some 178 SOEs (Oberon, 1996). Further

privatisation and a zero growth plan were introduced about this time (Halligan and Turner, 1995). This included the appointment of a special team of officials with the responsibility of floating 166 state enterprises. In 1994 PT Indosat (a satellite communications company) was privatised, followed by PT Tambang Timah in 1995 then a quarter of PT Telkom. Bank Negara was privatised in 1996 and PT Jasa Marga (a toll road company) in 1997. PT Aneka Tambang (mining) and Krakatau Steel were also prepared for sale. Other organisations including PT Semen Gresik, a cement-maker and PT Indosat were listed on the stock exchange. The government took other measures, appointing a Ministry and Minister of State Administrative Reforms, and running anti-corruption seminars to deal with local corruption which was considered, by the Berlin-based company Transparency International, to be one of the worst examples in the world (Reyes, 1998).

Not all of those organisations identified as suitable targets for privatisation were spun-off, however. This was due to their poor financial performance and for political reasons (Oberon, 1996). There were also fears that Chinese Indonesians would purchase ex-state companies. Prior to 1997 Chinese Indonesians constituted just three percent of the population but held more than 70 percent of commercial capital (Vatikiotis, 1998). Despite reform plans then, government changes were less than successful. As the BPK (the Supreme Audit Agency) revealed, more than Rp210.41 billion was lost by state companies, ministries and banks in 1997, and an extra Rp38.24 billion by local government (Jakarta Post, June 26, 1997, 1). The government had developed reformist policies but these were ignored or failed to address the capability of management to carry them out. For example, budgets and reporting requirements were overlooked, there was still overstaffing, and there were a multiple of managerial objectives (Jomo, 1997). Those in the government's old guard and powerful people close to the President additionally undermined reform attempts (CIPE, 1991: 2). Toward the mid 1990's these issues were compounded by growing internal signs of dissatisfaction with the leadership, and calls for more reform and an end to corrupt practices by many internal groups.

Notwithstanding the above comments, public sector reform and economic development in Indonesia have been praised by leading world economists (Hill, 1996). According to a 1994 U.S. Department of Commerce report, economic growth has been steady, the private sector has played a more important role in the economy, and it has become more diversified. Indonesia's economic performance in the past 30 years has been characterised as "a remarkable transformation" (Hill, 1996: 3). One of the government's most significant

achievements was the alleviation of poverty in Indonesia. In 1970 some 70 percent of Indonesians were estimated to be living below the poverty line. In 1990 this had dropped to 15 percent (Vatikiotis, 1998).

As the Indonesian economy diversified into manufacturing, however, the wealth created was distributed into fewer and fewer hands. The lack of a strong legal structure in Indonesia allowed this to occur and, with no checks on the power of the President, family members and associates increasingly abused their positions (Vatikiotis, 1998). Public indignation, however, also increased. This was brought to a head in 1997 by the Asian financial crisis which began in Thailand and soon spread to nearby nations. The credit crisis pushed up inflation, caused bankruptcies and unemployment, and made imports inaccessible to the average citizen. The removal of price controls on staple goods and oil was the last straw for Indonesians. Student protests increased around the country reaching a peak in May, 1998. Professional, religious and academic groups joined protests calling for 'reformasi' and leadership change. These were not always peaceful, with more than 700 deaths and 3000 buildings damaged in riots in Jakarta, the capital, alone. Riots and widespread damage were also felt in Medan and other major centres.

On May 21, 1998, a day after the National Awakening Day that commemorates the birth of Indonesian nationalism, a beleaguered Suharto finally resigned. This was a reluctant decision, forced by a disintegrating power base and after the military had informed Suharto they could no longer guarantee security (Vatikiotis, 1998). Vice-President Habibie, a former confidante of the former president, was then appointed as a transitional president, despite strong opposition from many who thought this meant the old guard were still in control. The economy is now the nation's biggest problem, although the IMF has provided some short-term financial relief. The future of Indonesia is now dependent on a peaceful lead-up to the 1999 elections and on how officials deal with their devastated economy. The latter is "expected to contract 10% this year, unemployment is already estimated at 14 million, or 15% of the workforce, and inflation is running at 60% ", (McBeth, Vatikiotis, and Cohen, 1998, 16).

## 5. Malaysia

Malaysia gained independence from the British in 1957, nearly eight years after Indonesia. The first Prime Minister, Tunku Abdul Rahman, headed a coalition party representing indigenous Malays (Bumiputras), Indians and Chinese, and fostering essentially free-market policies as the British colonials had done. They maintained this approach until the 1970s, although there was intervention to promote rural development and protect import-substitution industries, natural resource processing and manufacturing (World Bank, 1995: 134). Of the three coalition groups, Bumiputras had a greater proportion of political power because of their numbers and geographic spread. In 1969, however, race riots shook the country. These were triggered by the dissatisfaction of indigenous groups about their economic position. Following this unrest, the government introduced a New Economic Policy (NEP) to provide Bumiputras with more economic opportunities. The aim was to increase their involvement in the economy to 30 percent by 1990 (Campos and Esfahani, 1996). As part of this policy public organisations were developed to "either compete directly with private enterprise or to hold share capital in trust for Bumiputras", (Lim, 1995: 111). The economic success of the NEP has been questioned by some observers (see Rimmer, 1996: 33) but it is clear that the overriding objective of the government after the riots, was not so much economic development as national unity and stability (Jayasankaran, 1993:285) and the redistribution and balancing of wealth (Jomo, 1997).

Malaysia's economy, which derived around 15 percent of its total export revenue from oil and related products, grew substantially in the 1970's, as did the government's investment in state enterprises. When oil shocks hit the country some ten years later the government responded by launching a state-owned heavy industries sector, under the Heavy Industries Corporation of Malaysia (Somogyi, 1991). The corporation invested in oil refineries, cement and automotive plants, sponge iron plants, a solid steel rolling mill, a methanol and ammonia-urea plant, a pulp and paper plant, and a petrochemical complex (Lim, 1995). The economy continued to decline, however, and public enterprises failed to deliver. The government then turned to the private sector for growth, offering tax incentives and encouraging them to develop the country's infrastructure (Somogyi, 1991). At the same time it initiated public sector reforms.

The worldwide recession of the 1980's, that followed the oil shocks, had forced the Malaysian government to address the poor performance of state organisations (Ministry of Finance,



Malaysia, 1992). Dr. Mahathir Mohamad, the fourth Prime Minister, began this process by reducing the budgets of poorly performing state organisations, and by downsizing others (Campos and Esfahani, 1996). Privatisation also began, starting with Malaysia Airline Systems (MAS) and Malaysia International Shipping Corporation Berhad (MISC). Other state assets were leased out, managers were placed on contract, there were management buy-outs and corporatisation began. The Prime Minister, however, made it clear that the country's new direction would involve close co-operation between private sector and government. This partnership was named "Malaysia Inc". The government also took care to ensure that state employees would not be materially harmed by loss of work benefits or their jobs during these changes (Nankani, 1990). This was policy rather than legally enshrined, however, sometimes problems occurred as new owners attempted to maximise profits by cutting staff. From 1993 the government also required all local companies with more than 50 employees to contribute to a Human Resource Development Fund (HRDF) to assist with workforce training (Jomo, 1997). The OECD Development Centre praised these steps, finding that out of six developing countries only Indonesia and Malaysia had "...managed to adjust without any apparent adverse impact on the poor" (World Development, 1991: 1505). All of these Malaysian strategies were part of a wider set of medium and long term plans designed to take the country into the new millennium. They included Vision 2020, which was launched in 1991 with the objective of making the country a world-class economy by that date. This and other government initiatives continue to be well promoted in national media and broadly understood by most Malaysians.

Boom time in Malaysia came to an abrupt end in 1997, however, when the region was hit by a financial crisis. Dr Mahathir immediately castigated overseas speculators and bankers, blaming them for the situation (Hiebert, 1998). This refrain continued into 1998, with some analysts worrying that the good that had been done in the country could soon be undone. (Average income had gone from about \$300 to \$5000 per person before the crisis). A year after the first impacts of the crisis, the Prime Minister announced Malaysia was in the grips of a recession, with -1.8 percent growth recorded for the first quarter of the year (Spaeth, 1998). Now that growth has all but disappeared, some of the cracks in government privatisation schemes are starting to emerge into full view. For example there have been major government bailors of privatised companies, as well as complaints about the awarding of private contracts and the selling of Sows to the Prime Minister's family (Jayasankaran, 1998). However, unlike Indonesia, Thailand and Korea, Malaysia has not yet had to call on the IMF for help.

## 6. New Zealand

New Zealand has been a self-governing country since 1907. Before this it was a British colony for 67 years. Since independence, it has operated as a unicameral parliamentary democracy, with the Queen as head of State and elections every three years. Prior to 1984 it had a strong state welfare system, with care for all of its citizens. Labour and National, the two main parties, traditionally competed for power, with National gaining office more often. In 1996, however, a new proportional representative voting system was introduced to the country, giving smaller political parties greater power. The first election under this new voting system brought in a coalition government, comprising National and a small centre right party, New Zealand First.

The New Zealand (NZ) economy has always been dependent on agricultural and horticultural trade. During the 1950s and 1960s produce went mainly to the United Kingdom, and NZ had full employment, with an average of 4 percent GDP growth per annum. In fact, in the 50's NZ had the third highest standard of living in the world (Evert, 1996). In the 1960s, however, the United Kingdom joined the EEC and increased their trade to the region, while at the same time decreasing New Zealand imports. New Zealand export revenues dropped considerably, resulting in economic instability. The government reacted by increasing overseas borrowing (Douglas, 1988) but problems continued to mount and revenues dropped further (NZ Treasury, 1996). Again the government borrowed, investing in a series of "Think Big" initiatives designed to make New Zealand more self-sufficient in fuel, as well as continuing to protect domestic industries through subsidies, import restrictions and tax breaks for exporters.

In 1979 NZ was rocked by the second world oil price shock. This situation was compounded by a continuing fall in export revenue, mainly for commodities which constituted a large proportion of New Zealand exports (NZ Treasury, 1996), and a public sector that, by 1984, was soaking up about 39 percent of GDP (Ball, 1992). In that same year parliamentary elections were won by Labour. They inherited a deteriorating economy, allegedly in a critical state, and immediately began comprehensive economic reform. These were led by the Minister of Finance, Roger Douglas, who by his own admission did not intend giving the public the opportunity to oppose reforms; "the Labour Party seldom gained office, and when they did, rarely held it for more than one term" (Douglas, 1993). Thus, the government acted swiftly overhauling the public sector; as part of a broader economic programme of tighter monetary

and fiscal policies. Trade was freed up and sectoral deregulation began. The government passed the State-Owned Enterprises Act (1986), giving SOE Chief Executives complete autonomy (NZ Treasury, 1996) and the State Sector Act (1988) was introduced. These included contractual agreements for many Chief Executives, senior managers and directors, as well as annual performance agreements with the government (Ball, 1992). Restructuring, privatisation, corporatisation and downsizing of the public sector were carried out in earnest. For example, the NZ Post Office was corporatised, and NZ Rail and Telecom privatised. The reforms also reduced public sector employment, 27 percent of total employment in 1987, to 20 percent in 1994 (OECD, 1996a). As it turned out, the Labour Government won the next election, holding power for a total of six years, in which time further change was introduced.

A change in the New Zealand government in 1990 did not deflect this process, despite the fact that the two major political parties had traditionally adopted different policies when in power. Instead "the quest for expenditure cuts was intensified" (Boston et. al., 1996: 6). In 1991 the Employment Contracts Act was passed, aimed at deregulating the tightly controlled labour market. There was very little opposition from the once powerful union movement and by this stage the public were reeling. As an OECD report recently stated, NZ had gone through more reforms and liberalisation, and in a shorter period of time, than any other OECD member (Evert, 1996).

Public sector reform in NZ has been judged by some as successful (Douglas, 1988; Boston et. al., 1996; Evert, 1996; Evans et al, 1996). Most of the positive evaluations have been by economists or those evaluating the changes from a purely economic perspective. Reduced government involvement in the economy, it is argued, improved economic growth. This assessment, however, is not universal. Many local commentators have been highly critical of reforms in their areas. Kelsey (1995), in her seminal criticism, explored the social implications of reforms and found them severely lacking. Dalziel (1997: 12) also delivered a stinging rebuttal to those with positive views of the reforms. "...there is no clear-cut improvement in New Zealand's growth performance, overseas debt was higher in 1995 than 1984, and substantial income sacrifices between 1988 and 1993 doubled the number of households in poverty. The NZ-USA per capita income ratio remains lower than in 1984." Furthermore, while government involvement in the economy has fallen since 1984, overall government expenditure as a percentage of total GDP fell very little until 1992. This was partly the result of increased government unemployment payouts - a result of public sector layoffs and the

closure of uncompetitive private companies. Today, the potential for further reform in the NZ public sector is unclear. Boston et al (1996) has observed that the mood of the NZ people means further reforms are unlikely to be supported. Early signs indicate, however, that despite pre-1996 election promises privatisation and deregulation of the economy will probably continue, albeit at a slower pace.

## **7. Parallels and Discrepancies**

State sector reforms were initiated in New Zealand, Indonesia and Malaysia to improve economic efficiency and to promote growth. This was to be achieved by varying degrees of decreased government involvement by economic diversification and deregulating different sectors to make them more internationally competitive. The most significant impetus for reform in all three countries was first delivered by the world oil shocks of the 1970s and 1980s and the ensuing deteriorating terms of trade. Prior to the mid 1980s Indonesia, Malaysia and NZ all had large state sectors that were widely viewed as inefficient. All governments were also reliant on revenue from overseas commodity trading, and had a relatively small private sector and manufacturing base. When macro-environmental factors beyond their control caused falls in export revenues they were forced to react. In New Zealand the pace of reforms was rapid, with a heavy social burden. In Malaysia and Indonesia, however, reforms were encouraged but at a slower pace and without the large employee lay-offs experienced in NZ. When the financial crisis hit Asia in 1997, however, Indonesia was forced to intensify economic and political reforms because of IMF loan conditions and mounting internal pressures. In Malaysia the scene is currently uncertain. Most analysts, however, predict the government will be forced to take tougher measures.

There are other differences in the processes and characteristics of state reforms in the three nations. New Zealand's public sector reforms have primarily been facilitated through new legislation, such as the State Owned Enterprise Act (1986), as well as the removal of restrictive practices. These measures have been enforced and have become part of the NZ workplace environment. In Malaysia and Indonesia, especially the latter, however, policies and regulations have been put in place but they have frequently been undermined by the politically influential and weak legal structure, and, therefore, have had limited success. These

problems have been compounded by weak management who have often lacked the necessary capabilities to do the job (Jomo, 1997).

Election cycles and their characteristics have affected all three governments' reform decisions. NZ has a three yearly democratic election cycle, with a real possibility of a change of government at these times. This situation, and the country's strong legal infrastructure, has meant successive NZ governments have been quick to push through changes. In Malaysia and Indonesia, a preference for guided democracy has meant leaders have stayed in power for long periods, despite five-yearly elections. They have, therefore, been able to pursue their own agendas with less concern that other political parties will interfere with their policies.

Governance in these countries can be extended into the social domain. In New Zealand, the government went ahead with radical reforms, acknowledging it would be a painful period for New Zealanders. The unemployed, it was hoped would, once re-trained, be soaked up by economic growth after the reforms or would be provided with a basic living allowance while unemployed. In fact, in June 1984 when these changes began, unemployment was 65,055. In June 1992 it peaked at 215,539, falling to 162,581 in June 1997 (Statistics New Zealand, 1997).

Krishnan (1995), Easton (1996) and Stephens et al (1995) maintained that absolute poverty in New Zealand rose sharply from 1984 to 1993. Up until 1997 both Malaysia and Indonesia managed to undertake public sector reforms without the severe social dislocation and pain experienced in New Zealand. Both countries have in fact been praised for their considerate approach (World Development, 1991). The fallout from the Asian crisis is likely to change this, however, as already unemployment has risen significantly in Indonesia.

Socio-cultural factors have also influenced reform practices. For example, Malaysia and Indonesia have a small Chinese population which has significant private ownership. In the past this has caused tension and has influenced the direction and pace of reforms, including government actions to support indigenous (bumiputera and pribumi) representation in government and commerce. The New Zealand government has been addressing some of the concerns of its indigenous people (Maori) but this has been outside the mainstream public and private sectors, and has not been enshrined in reform related legislation. The group-oriented cultures of Malaysia and Indonesia may have also influenced the reform process. Deference and respect for authority, paternalism, and a value of group needs over that of the individual, have all possibly supported the strongly centralised governance strategies of both Asian

nations. Some commentators believe that these characteristics have allowed both leaders to stay in power and continue their policies, despite growing criticism (Vatikiotis, 1998).

In sum, all three governments undertook reform of their public sectors following the oil shocks of the 1980s. The steps that were initially undertaken, however, did little to aid failing state assets. Big state-funded projects fared little better. Eventually, steps were taken to revive these flagging economies by refocussing and restructuring state organisations to help turn them around. Whether the reforms were successful, however, depends on whether one adopts a social or economic perspective. As Le Heron and Park (1995:179) suggested,

“The processes [*of industrialisation*] may or may not be primarily economic in character. This conception has major consequences for the interpretation of industrialisation processes in the Asian Pacific Rim. Instead of regarding a priori, that there is a single or unchanging or unmodifiable model of industrialisation, the form and nature of mid-late twentieth century industrialisation is seen as beginning in and constructed from the historical and geographic circumstances of different nation states.”

This study has also suggested there are differences in the way reforms have been carried out and the philosophies behind these changes. Easton (1994) has characterised economic reform in New Zealand as 'the blitzkrieg approach', for it has an underlying belief in the ability of the market to deliver economic growth without government interference. The two Asian countries, however, have to date followed a less radical path in their search for economic transformation (MacMurray, 1993). Jomo (1997) has observed that countries like Indonesia and Malaysia, while recognising the need for more open economies, have pursued initiatives more in line with a philosophy of imperfect competition. Guided liberalisation and internationalisation policies were, therefore, followed to foster local industrialisation, as well as to avoid the excessive competition of open-market economies.

## **8. Managerial Implications**

Thus far, we have focused predominantly on the economic aspects of restructuring. Now we turn briefly to the practical implications of state sector reforms for Organisational management. Many economic analysts and commentators have been quick to call for the reduced role of the state, the need for anti-corruption measures and the need to overhaul many

state projects, especially recently in Asia, including Malaysia and Indonesia. What does this mean, however, for senior managers in government organisations who have been given the task of overseeing these changes?

Managers of commercial organisations develop different skills and experiences to their counterparts in government. The primary requirement for public sector managers to be a “good employer” and to be able to provide “the best possible service” is very different to the requirements placed on private sector managers. The latter must achieve these things within a certain budget, be accountable for outcomes and profit, as well as have employee remuneration tied to performance. In New Zealand there has been a dual strategy to meet this problem. First, when public organisations were corporatised then privatised, senior levels of management were replaced by managers from the commercial sector. Secondly, middle and front-line managers received intensive training in various aspects of commercial management, such as strategic planning and marketing. This was achieved via customised simulated strategy games and block courses. In most instances, middle and lower level public organisation managers were also prepared for the major changes required in a commercial environment through the intermediate process of corporatisation that led to privatisation. In New Zealand the transition appears to have been effected relatively smoothly, although not without difficulty. Most public sector managers in organisations such as Telecom and the Post Office were technically focused. Their mission was to ensure technical excellence in their organisations; however, as private sector managers their focus has now had to widen to include commercial criteria and exigencies - technical excellence constrained and balanced by the need to meet new commercial bottom lines. It is a tribute to their quality as managers and to the training they received that most have been able to adapt their technical skills to this new environment, under the guidance of a senior manager brought in from the commercial sector.

Overall, there is little information about management capabilities in Indonesia and Malaysia. In general, both appear to have underestimated the extent to which employees would require specific skills and training to carry out reforms (Jomo, 1997). Historically as well, policies to redistribute wealth and the characteristics of colonial governments have all contributed to the weakness of government management. For example, from the 1970’s the Malaysian government developed positive discrimination policies to rebalance the social and economic benefits of growth, to increase Bumiputra representation in government and commerce. This has sometimes meant the most able applicants have not been appointed to key positions.

Malaysia was also left with a British Civil Service legacy which discouraged specialisation and, as a result, did not provide employees with an opportunity to consolidate and develop competencies in any one area (Jomo, 1997). In Indonesia, government attempts to reform the public sector have been ignored by many managers. For example, budgets and reporting requirements have not been complied with (Bhattacharya and Pangestu, in Jomo, 1997). The government also raised salaries across the board by between 34% to 73% in an effort to motivate their staff but this was an 'across the board' step and not aligned with performance (Jakarta Post, July 8, 1997). Any positive effects of this move, furthermore, were mitigated by the weakness of the Indonesian legal system and the politically powerful positions of some officials (Jomo, 1997).

Exactly what constitutes an effective state sector is situation specific, dependent on the backgrounds and needs of each country. The most basic ingredients of successful economic reform, however, are a sound legal infrastructure, effective macro-economic policies, environmental protection, and investment in social frameworks. In terms of government organisations and their management, there also needs to be a way to ensure employee actions follow new directives (World Development Bank Report, 1997). Transparency, accountability, honesty and professionalism should all be encouraged by performance incentives. At this stage, however, what is needed in countries hit by the recent financial crisis is a fuller understanding of the gap between current government employee management capabilities and those that are needed in the future. This especially applies to countries like Indonesia and Malaysia. What seems clear, furthermore, is that although there are some broad generic reform principles which may be applied in any country, there is no fixed recipe or formula for success. Each nation's restructuring process has to accommodate local custom, culture and history, something organisations like the IMF are now only gradually awakening to.

Finally, the research reported in this paper was an exploratory and descriptive study. Every possible step was taken to collect relevant data so that a comparison of Indonesia, Malaysia and New Zealand reforms could be made. There was difficulty, however, in accessing detailed restructuring data pertaining to the latter two countries - information that would have helped give greater depth to this study. As Haley and Tan (1996) have noted though, information is often difficult to access in South-East Asia. This limitation should be taken into consideration



when making inferences from this study. The researchers would welcome any contact with academics in Indonesia and Malaysia in this regard.

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