GLOBALISATION, THE ECONOMIC CRISIS, AND SMALL ENTERPRISES IN MAKASSAR, INDONESIA: FOCUSING ON THE LOCAL DIMENSIONS

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ABSTRACT

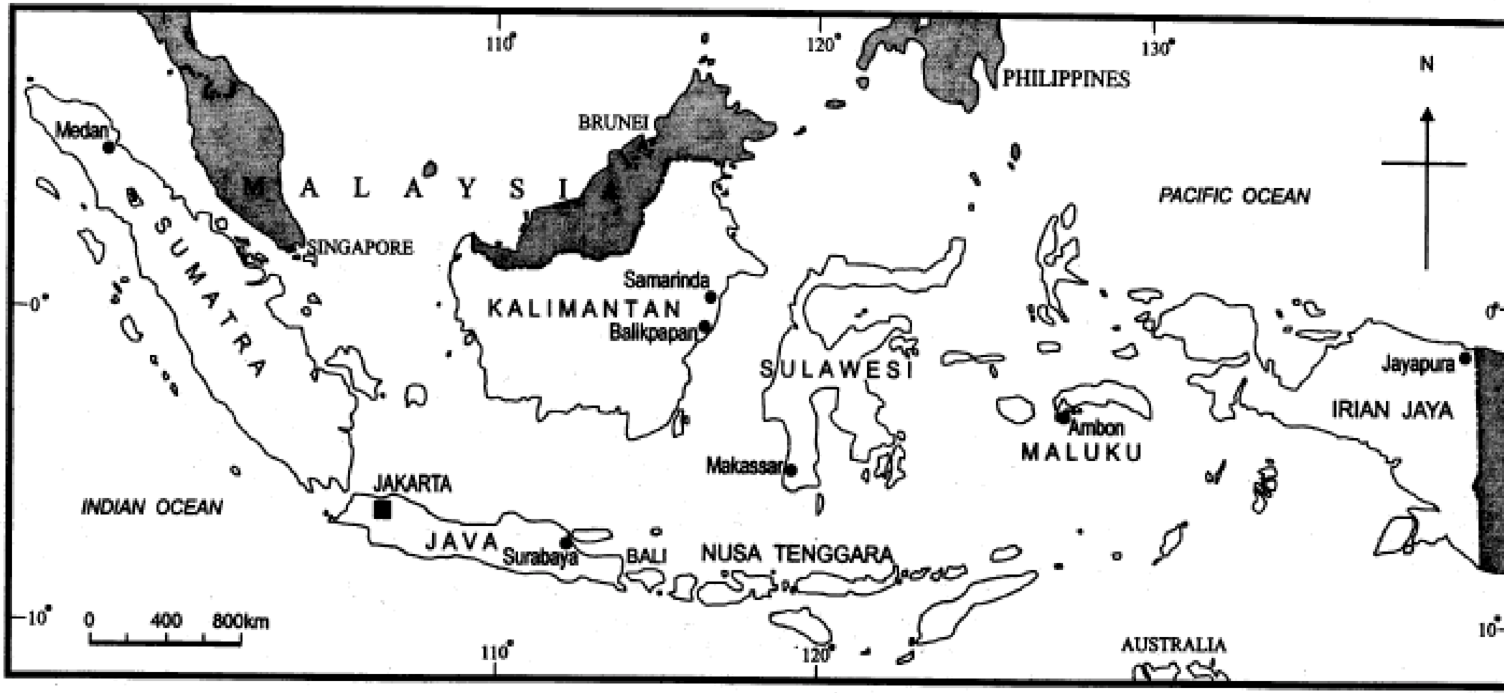
It has been suggested that the economic crisis in Southeast Asia had a severe effect on small scale enterprises in the region. In this paper, I interpret the different consequences of this economic crisis (*krismon*) for small enterprises in the city of Makassar, Sulawesi, in the light of current globalisation debates. It is argued that for the majority of small enterprises, there have not been significant changes because of the relative isolation of Sulawesi within the Indonesian and global economies. However, for other small enterprises, there have been two significant changes indirectly linked to wider globalisation influences, because of the importance of conspicuous consumption amongst local cultural groups. In turn, this leads to an evaluation of both the strength of globalisation tendencies in the city, and the important influence of local cultural traits on the ways in which members of the local economy have responded to change.

INTRODUCTION

The *krismon* (economic crisis) that hit Indonesia in 1997-98 has been linked to a number of broader factors that were operating at the regional and international scales (Kelly & Olds, 1999). Until now, much of the literature written on the crisis in Indonesia has been on the macro-economic and macro-political outcomes. A search through media articles (e.g. *The Guardian*, *The Jakarta Post*, *Asiaweek*, and *Far Eastern Economic Review*), web site searches (e.g. Nourial Roubini's, the Asiahouse server, the Van Zorge Report, and Joyo's listserve), and academic writing (e.g. Arndt & Hill, 1999; Forrester, 1999; Hill, 1999; New Zealand Asia Institute, 1999; Schwarz, 1999) reveals few articles *not* on the macro or national scale. Although brief case studies of individual or family responses have been recorded, these have tended to relate to either widespread suffering amongst the poor, or general urban/rural differences. Yet it is reasonable to assume that different segments of society may have been impacted upon, and responded to, the crisis in a variety of ways. This paper looks at one such segment of Indonesian society, that of small scale enterprises in the city of Makassar, Sulawesi, in the context of an outer island location (Figure 1). It examines the impacts of the economic crisis on the enterprises, whilst highlighting the links between them at the local level and with international and global economic events.

In the context of an investigation of small scale enterprise reactions to the economic crisis, this paper explores in conceptual terms the relationship between globalisation and

Singapore Journal of Tropical Geography, 21(3), 2000, 336-354



Source: Adapted from De Koninck (1994:3).

Figure 1. Makassar in the Indonesian context.

more localised forces. The paper then moves to an examination of the situation for small enterprises in Makassar before the crisis in order to explain how their organisation and their attempts at economic growth were influenced more by their local environment than by events occurring at a global level. An exploration is then undertaken of the broader impacts of the economic crisis on small enterprises throughout Indonesia, and in particular on small enterprises in Makassar. This investigation reveals that whilst some of the latter have been influenced by recent globalisation tendencies, these have been modified in the city by a number of local factors, such as cultural traits including social status and conspicuous consumption, and by the particular way in which the local economy operates.

This paper is based on fieldwork in Makassar during 1996 and 1997, as well as a return visit to Makassar in January 1999. Fieldwork during the first period included 100 in-depth questionnaire interviews with small enterprise owners, 200 semi-structured interviews with other small enterprise owners, and key informant interviews. The small enterprises were divided into five product categories defined by the Department of Industry and Trade for all enterprises, namely clothing and textiles, handicrafts, food, metals, and building materials and chemicals. For the 100 in-depth questionnaires, 20 small scale entrepreneurs from each of these product categories were interviewed. For the 200 semi-structured interviews, 40 small scale entrepreneurs from each were interviewed. During the second research period, a random sample of the small enterprises originally interviewed were revisited, as well as a number of the former key informants.

GLOBALISATION

Within an increasing volume of literature about globalisation, there are also growing debates concerning the diversity of meanings attached to the term (see Kelly, 1999; Sum, 1999 for recent critiques of these debates). At one level, globalisation, as “the space of flows” (Sum, 1999:129) has been associated with the accelerated movement of people, images, information, finance, production and technology, the strategies of multinational corporations, and political mobilisation, all on levels transcending the nation state (Slater, 1998). Here, with a focus on small scale enterprise organisation and economic growth, it is the globalisation of production and financial strategies that is of major concern.

During the last 30 to 40 years, a notable global redistribution of industrial production has occurred, two key factors being the increasing dominance of MNCs and the geographical relocation of labour intensive production (Clairmonte & Cavanagh, 1983; Dicken, 1993). Newly industrialised economies (NIEs), for instance in Southeast Asia, historically perceived as being in the periphery of global production, have become major focal points for change in labour intensive manufacturing (Douglass, forthcoming).[1] In Java, Indonesia, such MNCs have been important in supporting employment as well as rapid economic growth through the encouragement of international business linkages. However, as will be seen in the case of Makassar, many of these developments have not reached the outer islands of Indonesia to the same extent.

In contrast to many past perspectives examining small enterprises, a globalisation approach considers regions in terms of their place in a broader and more encompassing environment. As such, small enterprises have

[1]Here, I am referring to both the “first generation” NIEs of Hong Kong, Singapore, South Korea and Taiwan (Schlossstein, 1991), and the “second generation” NIEs, or “ASEAN Four” including Indonesia, Malaysia, Thailand and the Philippines (Douglass, 1992; Dixon & Drakakis-Smith, 1993). Although since mid-1997, these countries have experienced severely reduced levels of economic growth, the NIE still stands as a concept (*The Economist*, 7 March 1998).

typically been generalised as having roles either as subcontractors or petty producers, whilst continuing to undertake the reproduction of the poorer sectors of the community (Aeroe, 1992; Lipietz, 1993). Thus, it can be argued that globalisation lends itself to interpretations that tend to hide local processes occurring during broader global changes. On this point, Lipietz (1993:12) argued that a globalisation approach deals "too lightly with the irreducible specific characteristics of local society, of the role of the local state, of the nature of links and local social arrangements". Instead it must be emphasised that the processes of globalisation are generating "many unusual new effects at the local, regional and international levels of operation" (Luke, 1994:620).

As a consequence, conceptualisations of global change and the role of small enterprises within the global environment are now coming under close scrutiny as more locally-based studies are undertaken. Globalisation is indeed a diverse and complex process, qualities intensified in subtle ways by local contextual differences. This point is well made by Mittelman (1995:273) who argued that "although globalisation is frequently characterised as a homogenising force, it fuses with local conditions in diverse ways, thereby generating, not eroding, striking differences among social functions". Furthermore, it has been suggested that there is a need to "rethink globalisation and therefore to rework the relationships it establishes" (Kelly, 1999:386; also see Peck & Tickell, 1994; Jessop, 1999). As such, I stress here the immediate need to recognise and incorporate local *social* and *cultural* relationships in any study concerning global and local economic processes.

With this last contention in mind, I turn now to examine the composition of small enterprises in Makassar, the nature of linkages with which the enterprises operate, the specific characteristics of the local society, and the role of the local state. These are the very characteristics that, according to Lipietz (1993), have been dealt with too lightly by globalisation approaches.

BEFORE THE ECONOMIC CRISIS: SMALL ENTERPRISES IN MAKASSAR

Generally speaking, in 1996-97, *before* the Southeast Asian economic crisis, survivalism was very much the common feature among small scale entrepreneurs in the urban economy of Makassar. I define "survivalism" as referring to people's preoccupation with immediate economic and social survival. Survivalism is characterised more by "treading water" than socio-economic advancement (Turner, 1998). The overriding impression was one of small scale entrepreneurs trying to "get by" rather than managing progressive and growing enterprises. The enterprises studied were concentrated in sections of the market where there was significant over-representation and often severe competition caused, to a large extent, by ease of entry and operation. Such market sections included clothing, chair making, as well as gold and silver jewellery makers. The enterprises and the ethnicity of their operators are detailed in Table 1. Of these enterprises, 16 per cent were operated by women, predominantly in the clothing and leather, and food categories.

Very few statistics regarding the cultural groups in the South Sulawesi region are available. In 1989 there were reported to be approximately 3.2 million Bugis, 1.5 million Makassar, 400,000 Mandar and 550,000 Tanatoraja people in the region (Millar, 1989), as well as migrants from other Indonesian regions and Chinese. Information regarding the ethnic composition of Makassar's population was unavailable from accessible census data, reflecting the political sensitivity surrounding such questions (Drake, 1989). The last census to enumerate the population by ethnic group was the 1930 Census of the Netherland East Indies (Lineton, 1975).

TABLE 1. PRODUCT CATEGORIES BY ETHNICITY OF ENTERPRISE OWNER

ETHNICITY	FOOD	CLOTHES	BUILDING MATERIALS	HANDI-CRAFTS	METAL	TOTAL
Chinese	5	1	5	1	12	24
Bugis	9	45	22	40	18	134
Makassar	14	10	20	11	23	78
Bugis & Makassar mix	3		2	2	3	10
Kalimantan		2	1	2		5
Irian Jaya	1					1
Tator	3	1	5	2	3	14
Java	24		2		1	27
Mandar		1	2	1		4
Sumatra	1		1			2
Nusa Tenggara			1			1
TOTAL	60	60	61	59	60	300

Note: Sampling was undertaken to gain as close to 60 questionnaires from each category as possible.

When the small scale entrepreneurs were asked what factors prevented their enterprises achieving all that they might hope for, a number of principal constraints were identified. Among these were capital/funding, competition, uncertainty about the future, a cost-price squeeze between the costs of inputs and the price of finished products, limited worker skills, limited technology and equipment, shortages or undependable supplies of raw materials, limited market promotion, and an inconsistent market. Although these would appear to be basic economic factors, behind many was the influence of aspects of the city's socio-political structure that in turn helped to explain why many small scale entrepreneurs were still preoccupied with survivalism.

The production and marketing links that the small-scale enterprises had outside of Makassar were fairly limited. In terms of gaining such raw materials as foodstuffs, timber, and precious metals, sources were largely confined to Sulawesi and the other Eastern Indonesian islands. Eastern Indonesia is defined to include the islands of Sulawesi, the Nusa Tenggaras, Maluku and Irian Jaya. In Indonesia, it is often referred to as *Kawasan Timor Indonesia* [the eastern region of Indonesia] (Barlow, 1996). Gold was usually obtained from Manado in North Sulawesi, Kalimantan or Irian Jaya, whilst silver was obtained from Kendari in East Sulawesi and wood often came from Kalimantan. People often came to Makassar to sell gold, attracted there by the city's positive reputation for the quality of gold sold in shops. The entrepreneurs relied generally upon Java for such processed items as cloth and basic metal goods, which were gained via shops and middle-people in Makassar. In terms of marketing, wood products, clothes, and metal products were often sold through middle-people to shops in other towns and *kampung* (villages) near Makassar. While such links were sometimes just with traders in those areas, they were more often through extended family connections or *kampung* relationships. Internationally, there were very few direct links, with only five of the three hundred entrepreneurs interviewed having trading links outside the country, as detailed in Table 2.

TABLE 2. DESTINATION OF THE FINISHED PRODUCTS OF SMALL ENTERPRISES IN MAKASSAR

DESTINATION OF FINISHED PRODUCTS	GROUP A[1]	GROUP B[2]
Enterprises that sold goods overseas as well as within Indonesia	3	2
Enterprises that sold goods to other islands in Indonesia, as well as in Sulawesi	9	14
Enterprises that sold goods within Sulawesi only	19	7
Enterprises that sold goods in South Sulawesi only	69	28
Enterprises that sold *some* of their goods in Makassar	100	200
Enterprises that sold their goods *only* in Makassar	46	156

Note: Some enterprises had more than one destination for their goods.
[1]Group A = 100 in-depth questionnaire interviews.
[2]Group B = 200-semi-structured interviews.

The organisational characteristics exhibited by a number of the small scale enterprises in Makassar included the employment of casual and flexible labour, networking along kinship and cultural lines, and clustering. However, rudimentary technology, poor accounting records, basic production organisation, and a limited capacity for innovation restrained their economic growth that was also stifled by bureaucratic structures, riddled with corruption, and hindering access to credit and training. These constraints to growth are discussed briefly here as they highlight why local factors were inhibiting economic growth amongst the enterprises more significantly than global influences before the economic crisis.

(1) *Elementary technologies and a lack of innovation*: The small enterprises were awash with basic technologies that were time consuming, labour intensive, and frequently dangerous. Their operating circumstances also often bestowed a limited capacity for innovation. Within the Bugis and Makassar small enterprises studied, innovation in the production process occurred very slowly, and could perhaps best be seen as a generational change. During my interviews, Bugis and Makassar entrepreneurs reported that it was not considered correct for workers to suggest ideas to their boss, who was considered the most intelligent person in the enterprise (see also Millar, 1989). This highlights the importance of the local cultural context to the operations of some of the enterprises. Innovation, if it was there at all for them, came from outside. For example, local Chinese suppliers of gold were slowly introducing new gold jewellery designs from Java to Bugis goldsmiths.

(2) *Poor accounting records*: Another problem hindering the development of the enterprises was that very few kept accounting records. Thus it was not easy for owners to estimate the requirements for their enterprise on more than a day to day or week to week basis, and stocks of raw materials were commonly only kept for short time periods. Therefore, enterprise owners could not attempt to overcome fluctuations in raw material prices by maintaining stocks. This hindered their capability to save for such larger items as new technology or

equipment, and constrained their ability to gain a bank loan, as evidence of book keeping records was always required.

(3) *Conspicuous consumption*: Another barrier to development from within the small enterprises was the heightened importance of social status amongst the local Bugis and Makassar communities. As a consequence, a significant portion of the profits from their enterprises went into conspicuous consumption, rather than being reinvested back into the enterprise as capital (see Pelras, 1996; Brenner, 1998). It has been suggested that such consumption is more significant for the Bugis and Makassar than for such other ethnic groups as the Toraja and Chinese in the city. The role of local cultural characteristics in the performance of small enterprises in the city was clearly evident in the comments of a Bugis Muslim key informant. He argued that many small enterprises owned by Bugis Muslim people did not improve because of the significant prestige that the owners believed was connected with going on the *Haj* (pilgrimage to Mecca) many times, rather than just the once expected of them. Thus, if they had gained extra capital, sometimes even through a loan acquired on the basis that it was for enterprise development, it would be used for the pilgrimage instead.

(4) *Bureaucracy and corruption*: The bureaucracy in Indonesia is a formidable challenge for anyone having to deal with the civil service or banking sector. Hidden "extra costs" (bribes, under the table payments, promises of services that must be upheld at a later date, and so on) are expected at all levels within these sectors, and cost time and money for small scale entrepreneurs. The latter have to deal with these hidden costs when applying for licences, wanting to undertake training, or applying for credit from banks.

Many small enterprises were operating without a site or business licence. For enterprise owners, these were expensive documents that had to be obtained every five years from different locations in the city. There were no perceived immediate, or delayed, benefits in having such licences, the prices of which tended to depend on the official's mood. As many small enterprises were therefore operating "illegally", it was common for officials from the Department of Industry and Trade or the City Council to walk around districts known to house many small enterprises and ask to see permits. Only when the hassles from officials became too frequent, did many small enterprise owners decide they must try to obtain a licence. The city's socio-political structure was thus impacting directly on the ability of many small enterprises to achieve economic growth.

(5) *Access to credit*: Small enterprise owners required these licences before they could borrow money from the bank. This was just the first hurdle for those needing funds from sources outside the family and, not surprisingly, the majority of entrepreneurs interviewed said they would go instead to family to borrow money. Banks, as many informants stated, needed collateral and demanded that repayments were made on time. This was useless for small enterprises making goods with seasonal variations, such as many food sellers (profits are low during *Ramadan*, the Muslim fasting month) and for some during the rainy season (ice cream producers). Others, such as Muslim clothes tailors and *songkok* (national hat for men) makers, made their highest profits during *Ramadan*, in preparation for *Idul Fitri*, the celebration at the end of the month. Interest rates were also a barrier, with the average 20 per cent per annum charged by banks being much too high for the average small enterprise.

The above factors draw attention to the importance of local level practices and regulations, and local cultural traits and traditions to the organisation and structure of small enterprises in the city. In sum, many small enterprise owners were merely trying to survive on a day to day basis with relatively few direct contacts with actors outside the local economy. Raw materials were sometimes gained from Java, although usually through local middle-people and retailers. Goods were marketed beyond the city, but usually still within Eastern Indonesia and often through family connections. At this stage, it was the characteristics of the entrepreneurs' own operations and attitudes and the immediate local socio-political environment rather than global changes that appeared to be hindering the enterprises' growth. So, given that this was the position in 1996-97, what then were the impacts of the economic crisis on these small enterprises?

KRISMON: THE ECONOMIC CRISIS

The economic crisis that hit Southeast Asia in 1997 has been blamed on an array of factors, among them: "Overvalued currencies. Speculators. Hot Money. Cronyism. Excessive investments in property and stocks. Financial liberalization without safeguards. Take your pick" (*Asiaweek*, 17 July 1998:38). Initially, in early 1997, the Thai Government failed to deliver on a promise to buy the bad property loans of financial institutions. This, in turn, prompted foreign creditors to call in loans to Thai banks and businesses. The financial meltdown accelerated with a rush to gain hard currency, and the *baht* was devalued (Hill, 1999).

The initial effects of the economic crisis on Indonesia appeared to be quite mild - people expressing the view that the country was not similar to Thailand for a number of reasons. For example, it was argued that Indonesia's political system was more stable, that the financial sector had been liberalised earlier, and that the current account deficit was lower (Hill, 1998). Nonetheless, as speculation rose, the financial meltdown spread and Indonesia, along with Thailand and South Korea, was forced to approach the International Monetary Fund (IMF) to ask for loans and recovery programmes (*The Economist*, 7 March 1998; Tambunan, 2000).

By the beginning of 1998, the situation of the Indonesian economy was dire. On 6 January, President Suharto announced the 1998 Budget, which reneged on IMF pledges and contained unrealistic targets for growth, inflation and exchange rates (Hill, 1998). In reaction, the *rupiah* fell as low as Rp.10,000 to US$1 over the next week. On 21 January, Suharto confirmed he would stand for President for a seventh five-year term and on 10 March he was re-elected President, with B.J. Habibie as his Vice-President.

On 21 May, after a series of politically motivated protests that turned into a ghastly looting and raping spree mostly targeting ethnic Chinese due to their perceived high relative wealth, Suharto resigned, finally bowing to pressure and advice from a number of members of Parliament and past vice-presidents. Habibie was sworn in as the new President on the same day (*Asiaweek*, 17 July 1998; 24 July 1998; Hill, 1999; Kingsbury, 1998).

During 1998, the Indonesian economy collapsed and was estimated to have shrunk by 14 per cent. Foreign and domestic investors fled, highlighting the fact that "global capital is notorious for its capacity to quickly abandon locales where political instability and turbulence are high" (Douglass, forthcoming), and bankruptcy hit hundreds of corporations. The banking system nearly ground to a halt, very little lending occurred, and dozens of banks became insolvent. For the fiscal year 1999-2000, the government predicted zero growth, although private sector analysts forecasted that the economy would actually contract in 1999 by an additional three to four per cent (Radelet, 1999). At the same time, it was reported in May 1998 by the Department of Manpower that the level of unemployment had reached 20 million in 1998 and that the figure could rise by another two million by the end of 1999 (Agence France Presse, 4 May, 1999). Curiously, in August 1999, Habibie stated that unemployment stood at 6.1 million (Agence France Presse, 16 August 1999).

The long term impacts of the economic crisis on small scale enterprises in Indonesia have yet to be determined. Indeed, even estimates concerning the number of Indonesians living in poverty vary significantly. Hill (1999:41) suggested that the most accurate estimate of poverty incidence in 1998 was 13.8 per cent. This was a rise from 11 per cent, as calculated by the Indonesian Central Bureau of Statistics in 1996. This section of society included many small scale entrepreneurs, a large proportion of whom were already close to the official poverty line before the economic crisis (Healy & Tesoro, 1998). Despite these circumstances, in late July 1998, President Habibie's prevailing opinion was that "the experience of developed nations shows that in a depression, small and medium-sized companies become the backbone of the economy" (*The Straits Times*, 29 July 1998).

Habibie admitted that the economic strategies pursued by Suharto had had failings and that the favours enjoyed by the biggest business people had been unfair. He continued to proclaim that efforts to encourage small businesses had been hampered by the disproportionate power of large enterprises, and that the efforts to partner small and large enterprises had failed because there had not been the legal certainty necessary to give the small enterprises protection. Habibie then announced that the government would work to ensure that small enterprises gained the attention they deserved (*The Straits Times*, 29 July 1998). However, few programmes or policies putting this into practice were implemented. The Ministry of Industry and Trade did launch a Technical Assistance and Training Programme to help small and medium-scale companies in July 1999 (*The Jakarta Post*, 31 July 1999). Meanwhile, a newly established financial institution, "*PT Permodalan Nasional Madani*"(PNM), began operations in August 1999 with initial funds of Rp300 million for small enterprise credit schemes. Nonetheless, this scheme has been criticised as a further example of the inconsistencies of the Suharto and Habibie governments' credit policies for small scale enterprises, starting new schemes rather than supporting and developing similar schemes already in operation (*Indonesian Observer*, 20 July 1999; Wanandi, 1999).

Abdurrahman Wahid was elected President in October 1999. Since then, a handful of plans and policy statements concerning small scale enterprises, as part of wider Government economic initiatives, has been announced. Following the "National Workshop on Small and Medium Enterprise Development" held in Jakarta in December 1999, an Inter-Ministerial Task Force was established by the government to prepare a strategy to assist small and medium enterprises (SMEs). The Workshop recommended that:

> the strategy include greater coordination in SME support schemes; further deregulation to reduce SME business costs; more effective financial intermediation; improved business and technical services; and more informed policy-making through improved consultation with stakeholders (Asian Development Bank, 1999:1).

In January 2000, the Indonesian government released a document "Government of Indonesia and Bank Indonesia Memorandum of Economic and Financial Policies Medium-Term Strategy and Policies for 1999-2000 and 2000" primarily to obtain further loans from the International Monetary Fund. This document included a commitment to empower small and medium sized enterprises, and to increase private sector support for small enterprises (*The Jakarta Post*, 22 January 2000). In a related move, the Asian Development Bank reported in March 2000 that it was granting a US$200 million loan to Indonesia to liberalise and deregulate industry, and to increase opportunities for small and medium-sized enterprises (McIndoe, 2000). As to the success of such programmes, the jury is still out.

UNEVEN IMPACTS OF THE CRISIS

The impacts of the crisis were unevenly felt across Indonesia, with Java "suffering the overwhelming impact of job losses and rising poverty" (Forrester, 1999:4). Newspaper reports recorded political and economic upheavals with dramatic and immediate consequences for the daily lives of small scale entrepreneurs in Java. Ethnic tension and direct conflict destroyed thousands of such enterprises, physically as well as economically, whilst many of the psychological impacts have yet to be recognised (*The Guardian*, 14 May 1998; 18 May 1998).

With the predominance of Indonesian manufacturing located on Java, many workers displaced from such companies because of the economic crisis entered the small enterprise sector in an attempt to eke out an existence, leading to declining incomes, and increased competition for existing small enterprises (Ahmed, 1999; Hill, 1998). Compounding these problems was that, whereas in past economic downturns in the urban arena, a common response for workers and small-scale entrepreneurs would have been to return to the rural areas, in this situation the rural sector, too, was hit by the economic downturn as well as by widespread drought. Thus, a traditional "shock absorber" of urban economic downturn could not be as absorbent as in the past (Nasution, personal communication[2], 9 September 1998; Forrester, 1999). Indeed, it was reported in *The Economist* (25 April 1998) that although in early 1998 the Indonesian Government cut train fares for those making the annual trip back to home villages from Jakarta for *Idul Fitri*, and then raised them for the return journey, many still returned to the capital because of food shortages in the villages. Yet whilst such impacts were recorded on Java, what were the outcomes for small enterprises elsewhere in the Indonesian archipelago?

In a search for an answer to this question, a return visit was made to Makassar in January 1999 to ascertain whether the reports of impacts on small enterprises throughout Indonesia, accurately conveyed what was actually happening in Makassar too. Here, whilst making an initial attempt to assess the impacts, the story becomes increasingly complex.

Makassar small enterprises: The story for the majority

For the majority of small scale entrepreneurs interviewed in Makassar, there did not appear to have been a significant change in the operations or profit levels of their enterprises as a direct result of the economic crisis. Instead, it was stated repeatedly that the barriers to growth that entrepreneurs faced were still those that I had come across in my initial interviews in 1996-97 (Chamber of Commerce official, personal communication, 14 January 1999; various small scale entrepreneurs, personal communication, 13-22 January 1999). As discussed earlier in this paper, these barriers included rudimentary technology, poor accounting records, basic production organisation, and limited innovation from within the enterprises, and bureaucratic structures, full of corruption and hindering access to credit and training from outside the enterprises.

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[2]A. Nasution, Professor of Economics, University of Indonesia, Jakarta, Conference Discussion on 9 September 1998, 'Indonesia after Suharto', New Zealand Asia Institute Conference, Auckland, 9-10 September 1998.

One explanation for the continuing importance of these barriers, rather than new ones directly related to the economic crisis, is that the outer islands of Indonesia were not as directly impacted upon by the economic crisis as was Java. This is because Java is far more fully integrated into the global economy through production and financial flows. Indeed, Eastern Indonesia's isolation is emphasised by Hill (1993:22) who commented before the crisis:

> Indonesia's major regional challenge is no longer rural poverty in Java, as it was portrayed in the 1960s, but the increasingly bypassed areas of Eastern Indonesia. It is unlikely that these provinces will attract much industry in the next decade or two, apart from a limited amount of simple resource-based processing, based on timber, fisheries and some food and cash crops.

Despite Indonesia's previous rapid economic growth, the country has continued to contain wide regional disparities, Eastern Indonesia being the poorest national region. It has been suggested that this region might be thought of as a "peripheral economic zone, *vis-à-vis* the western major islands of Java and Sumatra" (Japan International Co-operation Agency, 1996:3-6). This is largely due to a Java/Outer Island dichotomy that broadly relates to a manufacturing/resource extraction dichotomy. Historically, the development of manufacturing and industry in Indonesia has been concentrated on Java. During the 1980s and the 1990s, this trend continued with around 78 per cent of medium and large scale firms located on Java, and a pronounced concentration surrounding Jakarta (Forbes, 1986; Manning, 1998). Manufacturing has brought benefits to Java, Bali, and Sumatra in terms of infrastructure, and correspondingly these areas have tended to receive the most new private investment, while Eastern Indonesia languishes (Schwarz, 1999). According to Azis (1996:75):

> Eastern Indonesia is, in general, less developed in terms of output and almost all production factors except its vast area and richness in natural resources. The insufficiency of infra-structure and the lack of a critical pool of skilled labour are frequently identified as important factors hindering further growth of the region.

With 14 per cent of the total Indonesian population, Eastern Indonesia received less than eight per cent of foreign and domestic investment between 1970 and 1990 (Sondakh, 1996). Clearly, as Forbes (1986:128) noted, "the net gains from foreign investment…have flowed disproportionately to the Jakarta and West Java core, compounding the spatial unevenness of Indonesian economic development". Yet in the aftermath of the economic crisis, the fact that Sulawesi had been bypassed by industrialisation meant that the island had also been sheltered from many of the direct impacts of the economic crisis that hit Java's modern economic sectors, such as construction, manufacturing, and financial services. On Sulawesi, there simply was not the rapid growth in unemployment related to the closure of factories and retailers reported on Java (Forrester, 1999).

An official at the South Sulawesi Chamber of Commerce (personal communication, 14 January 1999) supported these statements. He observed that the economic situation in Makassar had not been as bad as elsewhere in Indonesia, and Makassar´s small scale enterprises had not been affected as much as those on Java. Other key informants in the city confirmed this statement, stating that Sulawesi as a whole had not been affected as badly as Java by the *krismon* (local businessperson, personal communication, 14 January 1999; local small enterprise worker, personal communication, 13 January 1999). Indeed, as stated in the *Far Eastern Economic Review* (April 1999), "South Sulawesi's economy is relatively vibrant compared with Java's" (Cohen & Murphy, 1999:27). Therefore, when examining production and financial flows, it can be said that Holm and Sorensen's statement that "the process of globalization... is uneven in its intensity and geographical scope, in both the international and domestic spheres" rings true in the Indonesian context (quoted in Slater, 1998:651; see also Douglass, forthcoming).

The story for the minority

> From afar it can sometimes seem that the effects of the crisis are homogeneous and all-pervasive… And yet it is clear that not only are the differences between countries highly significant in mapping out the effects of the crisis but that even within regions of countries there are some industries and some people who have been much more severely affected than others. Indeed, there are people who are doing very well. While some unevenness of impact is predictable, there have also been some surprises (Rigg, 1998:12).

Other small enterprises in the city experienced contrasting changes due to the economic crisis. For some, the struggle to survive intensified, as in the case of goldsmiths because the price of raw materials they used was directly dependent on the U.S. dollar. Food enterprises also experienced increased inputs costs. In sharp contrast to these was a range of small scale enterprises in the city that, in fact, recorded an improvement in economic status due to new demands by local communities. The small enterprise types that experienced the most significant changes directly relating to the economic crisis are detailed below.

(1) *Goldsmiths*: Goldsmiths were directly and adversely affected by the economic crisis as a result of the massive devaluation of the *rupiah*, since the price of gold was dependent upon the U.S. dollar. The small-scale goldsmiths interviewed in January 1999 complained that it was difficult to estimate profits and hence make future plans for their enterprises because the price of gold had risen so much, as well as fluctuating daily (goldsmiths, personal communication, 18 January 1999). Nonetheless, although some entrepreneurs had had to lay workers off, this was not a uniform response and other goldsmiths had been able to retain workers, using some of their capital savings instead in the meantime to keep the enterprises operational (goldsmith, personal communication, 19 January 1999).

Some Bugis goldsmith workers, however, had returned to their *kampung* if they owned land there. When asked what then happened to people working the land for these usually absent landowners, it was frequently stated that such workers would be made redundant, but they would continue to stay in the *kampung* as the *sistem kekeluargaan* (family system) would mean that no one went hungry (local business person, personal communication, 11 January 1999; former small scale entrepreneur, personal communication, 14 January 1999; also see Turner, 1998). There was thus a "safety net" for workers in the villages, not a new phenomenon created by the economic crisis, but a traditional coping system in Indonesia, and one that in South Sulawesi had yet to be fractured significantly by modernisation (cf. Breman, 1999; Rigg, 1998). At the same time, this lack of modernisation again meant that the numbers of people returning to villages was not nearly as large as on Java, or indeed as recorded in Thailand (Rigg, 1998).

(2) *Food enterprises*: In Indonesia in general, the rising prices of numerous staple goods, many due to exchange rate shifts, resulted in a range of raw materials for small enterprises, such as cotton, wheat flour, cooking oil, and sugar, becoming too expensive for entrepreneurs to purchase. For example, as reported in *The Jakarta Post* (18 August 1998), "the 300 per cent price increase of wheat flour

> since early this year has left most small and medium bakers on the brink of collapse”. Similarly, in the same edition it was predicted that “the recent increase in the wheat flour price would force most medium and small-scale noodle producers to shut their business because they could not afford to buy raw materials anymore” (*The Jakarta Post*, 18 August 1998). Hence, sales and profits had declined rapidly (Williams, personal communication,[3] 9 September 1998).

In Makassar, the price of noodles from the local markets increased from Rp.3,000 per kg to Rp.8,000 per kg; whilst *daging bakso* (meat ball soup) rose from Rp.6,000 per kg to Rp.15,000 per kg. Farmers had faced increased prices for such inputs as imported fertilisers, and prices had therefore risen for local produce in markets throughout the city and local *kampung*. Nonetheless, an important survival strategy, put in place amongst a number of small scale food enterprises in Makassar, was to avoid passing on increased costs to customers and hence face reduced demand. To do this, many small-scale entrepreneurs reduced the quantity of a dish of prepared food such as *bakso* rather than increase the price (small scale entrepreneur, personal communication, 9 January 1999; Setiawan, 1999). For example, *bakso* (meat ball soup) usually had four or five meatballs in it, but after the crisis this was reduced to two or three.

Some surprises...

Small enterprises impacted upon by the economic crisis did not all record negative outcomes however. One of the major impacts of the economic crisis for a number of them in Makassar was an increase in demand for goods from Central Sulawesi farmers involved in export crop production. The devaluation of the *rupiah* meant that many export crops became more competitive on the world market (Dicken & Yeung, 1999; Hill, 1999). Cocoa, coffee, and clove farmers who were linked into exporting chains all saw dramatic price increases for their goods during 1998 as the *rupiah* continued to weaken against the US dollar. The Donggala Regency in Central Sulawesi is one of the main cacao bean exporting regions in Indonesia. Before the economic crisis, a kilogram of cacao sold for Rp.3000, whereas when the *rupiah* was at its lowest, the farmers gained more than Rp.20,000 per kilogram from middle-people in Makassar. This had settled back to an average price at the beginning of 1999 of Rp.16,000 (small scale entrepreneur, personal communication, 9 January 1999; Ibrahim, 1999).

The increase in the farmers’ purchasing power was so dramatic that at one stage the Toyota car dealership in Makassar ran out of stock, as did two motorbike showrooms in the Central Sulawesi town of Parigi (former small scale entrepreneur, personal communication, 11 January 1999; Ibrahim, 1999). This increased purchasing power directly impacted upon a range of small enterprises in Makassar from whom farmers bought new goods. Of the small enterprises, furniture makers and tailors were two groups significantly affected by the increased demand for their products. Central Sulawesi farmers, with increased profits and, therefore, more discretionary income, were demanding such “luxury” items as upholstered sofas and dining table sets from the small enterprises in Makassar. Likewise, Central Market, a major clothes and accessories retailing site with a number of stalls linked through middle-people to small scale enterprises, looked as busy as ever in January 1999, with many clothes being bundled into large parcels to be sent north to Central Sulawesi.

There were concerns, however, that just as small scale entrepreneurs had a tendency in good times to put profits into conspicuous consumption rather than into savings, such

[3] L. Williams, Jakarta correspondent, *Sydney Morning Herald*, Conference Discussion, ‘Indonesia after Suharto’, New Zealand Asia Institute Conference, Auckland, 9-10 September 1998.

farmers were also spending on immediate consumer goods rather than saving money for the improvement of their farms (former small scale entrepreneur, personal communication, 11 January 1999). As it was stated in *The Jakarta Post* (28 January 1999) "the villagers have been in constant party mode, making the circuit of wedding, circumcision and housewarming parties".

The flip side of the demand coin was local people who had bought imported products in the past, partly for the associated social status these brought, but because of the devaluation of the *rupiah* and subsequent rises in the prices of imported goods, they had begun to look elsewhere for goods. Small-scale furniture producers, therefore, do not appear to have been exposed to negative impacts relating to the economic crisis both because of the changes affecting the income of Central Sulawesi farmers and also because of increased demand from local consumers. Local middle class residents who, in the past, had wanted to buy imported goods, had in 1999 changed consumption patterns and were buying from small scale enterprises instead.

The increased costs of imports to Indonesia following the devaluation of the *rupiah* also meant that many small enterprises based on recycling also experienced a boom. The prices for such new goods as auto supplies and components had risen dramatically because they were imported and, in response, the demand for recycled components had increased (Sarwono, 1999). Similarly, an enterprise making window seals and mats from used tyres had experienced rising demand (small scale entrepreneur, personal communication, 8 January 1999).

Conspicuous consumption

One of the factors behind the increase in demand from the Central Sulawesi farmers, as well as from many local city residents for products from small enterprises in Makassar, was the importance of social status and the closely linked issue of conspicuous consumption amongst the Bugis and Makassar middle class. These groups were buying many goods from small enterprises that were not immediate needs, but were seen locally as "luxury" items, such as sofas, dining tables, new clothes, clothing accessories, and *songkok* (although the small enterprises were also being approached increasingly as a source of essential goods).

The Bugis and Makassar make up two of the four major cultural groups – the Bugis, the Makassar, the Mandar and the Toraja – that inhabit South Sulawesi (Pelras, 1996). The Bugis and Makassar, who together constitute the majority of the population of Makassar and South Sulawesi, share many common cultural characteristics. These include "the adoption of Islam and its institutions; a strongly developed market orientation and a mix of economic activities; a bilateral kinship system; [and] a flourishing literary tradition" (Lineton, 1975:10). Bugis people, especially, are considered to be generally competitive and status-conscious, and social relations are strongly hierarchical. Within society, individuals compete to achieve higher social status whilst, at the same time, guarding the privileges they have gained from their ascribed status (Millar, 1989). The point is well made by Pelras (1996:4):

> The cohesion of their society is based largely on the existence of a system of pervasive and interlocking clienteles; and yet most of them have a strong sense of their individuality. Bugis society is one of the most complex and apparently rigidly hierarchical of any in Insulindia; and yet competition for office or wealth ranks high among their motivations.

The Bugis have maintained a reputation of being aggressively competitive, perhaps because of their struggle for political hegemony, rivalry for social status, and avoidance of *siri* (loss of honour and dignity) (Morrell, 1996). Competition, including that in business, does not result in the destruction of the social order but, rather, connects with "the need to establish or maintain one's rightful place in that order, or to address the necessity to restore one's *siri*" (Morrell, 1996:9). Competition is an essential part of Bugis society because of its strongly hierarchical nature: the Bugis find it difficult to coexist as equals. This is certainly the case during social interaction when it is necessary to know who should defer to whom. Hence, the Bugis compete to resolve the matter and create new social hierarchies (Millar, 1989).

Achievement and public presentation are inherently linked as means by which one's social status is indicated. Social status for Bugis depends as much on what other people "make of them" as it does on their own self-esteem, as well as strong ties to their descent history (Lineton, 1975; Millar, 1989). Accordingly, a researcher working at *Pusat Pengembangan Usaha Kecil Kawasan Timur Indonesia,* (Centre for Development of Small Enterprises, East Indonesia) reported that the effectiveness of loans given to Bugis- or Makassar-owned small enterprises was linked to numerous problems associated with the high levels of conspicuous consumption amongst entrepreneurs. Loan money was often being used to buy cars, televisions, stereos, and so on, instead of being invested in enterprises.

I argue that one of the reasons that some of the city's small enterprises experienced increased demand during the economic crisis was due to this conspicuous consumption for, despite the economic crisis, the desire to maintain social status remained strong throughout the Bugis and Makassar communities. As a result, a significant proportion of the Central Sulawesi farmers' profits were channelled into conspicuous consumption, rather than reinvested into farms as capital. Also, within the local Makassar city communities, consumers who had previously purchased goods elsewhere turned to small-scale enterprises for non-essential items due to increased import prices. Hence the direct impact of local cultural practices on the economy of many small-scale enterprises in the city, modified the influence on them of the economic crisis that had engulfed Indonesia.

THE ECONOMIC CRISIS THROUGH THE LENS OF THE "LOCAL"

It can be argued that globalisation "has been 'the' route to economic triumph, but also the root of economic crisis" (Kelly & Olds, 1999:2). As was seen in the above discussion, however, because Sulawesi was not directly part of the modernisation drive in Indonesia to nearly the same extent as the inner islands, globalisation tendencies, through the expansion of the modern sector, had not affected the island to the same extent.

The majority of small enterprises in Makassar continued with little change throughout the economic crisis, many surviving on a day to day basis, much as they had in the past. In other words, they did not suffer additional negative effects emerging from the crisis. It was continuing constraints internal to their enterprises, yet linked to the local context, including a basic production organisation and a limited capacity for innovation, that were of immediate concern to the entrepreneurs. The local socio-political environment in which they were operating, including bureaucratic structures riddled with corruption and hindering access to credit and training, had also continued to restrict the growth of these enterprises.

Whilst this accurately portrays the situation of the majority of the enterprises, two impacts of the economic crisis on other small enterprises in the city flowed from the devaluation of the *rupiah*. One was that, for the first time, some Makassar small enterprises became linked into the global economy through increased demand for goods from nearby primary commodity farmers who benefited favourably from rising prices for their exports. The second impact of the crisis on small enterprises was through increased demand from local consumers turning to small scale enterprises for goods and services, whereas in the past they preferred imported goods because of their association with increased social status. Demand arising from conspicuous consumption, an important factor for Bugis and Makassar cultures, had therefore come from two contrasting sources, the Central Sulawesi farmers and the local middle class.

This study has shown that small scale enterprises in Makassar represent an example of the interface between contemporary global and local processes. Yet, "though it invades local contexts of action, globalisation does not destroy them; instead, new forms of local resistance and local expression emerge, reinforcing the interconnectedness of the local and global" (Yeung, 1998:292). The case of small scale enterprises in Makassar points to the importance of bringing *local* social and cultural processes into the equation when looking at the mechanisms at work that link small enterprises to global production and financial structures. From the evidence in this study, it is clear that local cultural traits, expressed in terms of social status and conspicuous consumption, were factors that had begun to link a number of small scale enterprises in Makassar to the global economy, through the regional crisis that overwhelmed Indonesia's economy.

Culture is a vital element in the formation and modification of social structures in the Makassar realm and impacts directly on the lives of the small entrepreneurs in the city. It does so in a way that emphasises Guinness's (1994:300) claim that "the persisting strength of ethnicity in urban settings, even among the 'modern' urban middle class, reflects the continuing importance of a local focus for ever-changing expressions of identity [in Indonesia]". Attempts to examine the impacts of the economic crisis in Indonesia without undertaking a serious, rather than cursory, examination of local ethnic formations, culture, and social relations will result in a picture devoid of the daily reality for millions of people. The globalisation literature, and authors working within that sphere, can give us an understanding of the macro-economic and macro-political processes at work, but to gain a fuller understanding of the impacts of the economic crisis on everyday life, it is imperative that a detailed examination of the *local* domain be incorporated.

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